



Financial Report
For the year ended
30 June 2018

TABLE OF CONTENTS

	PAGE(S)
DIRECTORS' REPORT	2 – 25
AUDITOR'S INDEPENDENT DECLARATION	26
CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME	27
CONSOLIDATED STATEMENT OF FINANCIAL POSITION	28
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY	29
CONSOLIDATED STATEMENT OF CASH FLOWS	30
NOTES TO THE FINANCIAL STATEMENTS	31 – 57
DIRECTORS' DECLARATION	58
INDEPENDENT AUDITOR'S REPORT	59 – 62
CORPORATE DIRECTORY	63

BYRON ENERGY LIMITED

Directors' Report

DIRECTORS' REPORT

Your directors submit herewith their report together with the Financial Report of Byron Energy Limited ("the consolidated entity" or "Group"), being Byron Energy Limited ("Byron" or the "Company") and its subsidiaries, for the financial year ended 30 June 2018.

Directors

The names and details of the Company's directors in office during the financial year and until the date of this report are as follows:

Douglas G. Battersby

Maynard V. Smith

Prent H. Kallenberger

Charles J. Sands

Paul A. Young

William R. Sack

All directors have held office for the whole year unless otherwise stated.

Names, qualifications, experience and special responsibilities:

Douglas G. Battersby
Non-Executive Chairman
Appointed 18th March
2013

Doug is a petroleum geologist with over forty years' technical and managerial experience in the Australian and international oil and gas industry.

Doug co-founded two ASX listed companies (Eastern Star Gas Limited, which was taken over by Santos Limited in November 2011, and SAPEX Limited, which was taken over by Linc Energy Limited in October 2008), and two private oil and gas exploration/development companies, Darcy Energy Limited, which was sold to I B Daiwa Corporation in 2005, and Byron Energy (Australia) Pty Ltd where he was Executive Chairman until May 2013 when Byron Energy (Australia) Pty Ltd merged with Trojan Equity Limited to create Byron Energy Limited. Between 1990 and 1999 Doug was Technical Director at Petsec Energy Limited, an ASX listed operator in the shallow waters of the Gulf of Mexico with production reaching 100 MMcf per day of gas and 9,000 barrels of oil per day in 1997.

Doug holds a Master of Science degree in Petroleum Geology and Geochemistry from Melbourne University.

Other current directorships of listed companies

None.

Former directorships of listed companies in last three years

None.

Maynard V. Smith
Executive Director and
Chief Executive Officer
Appointed 18th March
2013

Maynard is a geophysicist with over thirty years' technical and managerial experience in the oil and gas industry with a particular focus on the Gulf of Mexico.

Maynard co-founded Darcy Energy Limited, sold to I B Daiwa Corporation in 2005, and Byron Energy (Australia) Pty Ltd where he has been Chief Executive until May 2013 when Byron Energy (Australia) Pty Ltd merged with Trojan Equity Limited to create Byron Energy Limited. Prior to that, Maynard was Chief Operating Officer with Petsec Energy Limited (1989-2000). In the late 1970s and early 1980s Maynard held senior exploration positions with Tenneco Oil Company, based in Bakersfield, California.

Maynard holds a Bachelor of Science degree in Geophysics from California State University at San Diego.

Other current directorships of listed companies

None.

Former directorships of listed companies in last three years

None.

BYRON ENERGY LIMITED

Directors' Report

Prent H. Kallenberger
Executive Director and
Chief Operating Officer
Appointed 18th March
2013

Prent is a geoscientist with over thirty years' experience in the oil and gas industry with extensive exploration and development experience in the Gulf of Mexico, having generated prospects which have led to the drilling of over 125 wells in the Gulf of Mexico and California. He was Vice President of Exploration with Byron Energy (Australia) Pty Ltd until May 2013 when Byron Energy (Australia) Pty Ltd merged with Trojan Equity Limited to create Byron Energy Limited.

Between 2000 and 2006, Prent was Vice President of Exploration with Petsec Energy Inc, where he was responsible for a team of seven people and generated projects leading to the drilling of ten successful wells in 12 attempts in the shallow waters of the Gulf of Mexico. These wells produced 32 Bcf and 1.5 MMBbls of oil. Between 1992 and 1998 Prent was Geophysical Manager with Petsec Energy Inc, a wholly owned subsidiary of Petsec Energy Limited. He holds a Bachelor of Science degree in Geology from Boise State University and Master of Science degree in Geophysics from Colorado School of Mines.

Other current directorships of listed companies

None.

Former directorships of listed companies in last three years

None.

Charles J. Sands
Non-Executive Director
Appointed 18th March
2013

Charles was a non-executive director of Byron Energy (Australia) Pty Ltd until May 2013 when Byron Energy (Australia) Pty Ltd merged with Trojan Equity Limited to create Byron Energy Limited. Charles was also a director of Darcy Energy Limited.

Charles has over thirty years' of broad based business and management experience in the USA and is President of A. Santini Storage Company of New Jersey Inc, enabling him to advise on the general business operating environment and practices in the USA. He holds a Bachelor of Science degree from Monmouth University.

Charles is currently a member of the Audit and Risk Management Committee.

Other current directorships of listed companies

None.

Former directorships of listed companies in last three years

None.

Paul A. Young
Non-Executive Director
Appointed 18th March
2013

Paul is a Managing Director of Henslow Corporate and country head for Oaklins, a global mid-market corporate advisory firm. He has been in merchant banking for more than 30 years. He has extensive experience in the provision of corporate advice to a wide range of Australian and international listed and unlisted companies including restructurings, capital raisings, initial public offerings and mergers and acquisitions.

Paul is an Honours Graduate in Economics (University of Cambridge) and has an Advanced Diploma in Corporate Finance. He is a Fellow of the Institute of Chartered Accountants in England and Wales and a Fellow of the Australian Institute of Company Directors.

Paul is currently Chairman of the Audit and Risk Management Committee.

Other current directorships of listed companies

- Ambition Group Limited
- Opus Group Limited

Former directorships of listed companies in last three years

None.

BYRON ENERGY LIMITED

Directors' Report

William R. Sack
Executive Director
Appointed 3rd October
2014

Bill is an explorationist with 28 years' experience in the Gulf of Mexico region in both technical and executive roles. He was appointed to the Board of Directors on 3 October 2014.

Bill's qualifications comprise BSc. Earth Sci./Physics, MSc. Geology and an MBA. He was co-founder/Managing Partner of Aurora Exploration, LLC ("Aurora") a private entity focused on generating and drilling Gulf of Mexico exploration opportunities that has drilled more than 80 wells with a success rate in excess of 80%, and under his leadership has created substantial growth and monetised investments via multiple corporate level asset sales.

Other current directorships of listed companies

None.

Former directorships of listed companies in last three years

None.

Summary of shares and options on issue

At 30 June 2018, the Company had 684,987,034 ordinary shares and 51,800,000 options on issue. Details of the options are as follows:

Issuing entity	Number of shares under option	Class of shares	Exercise price	Expiry date
Byron Energy Limited	9,500,000	Ordinary	A\$0.25	31 December 2019
Byron Energy Limited	10,000,000	Ordinary	A\$0.25	21 July 2019
Byron Energy Limited	1,950,000	Ordinary	A\$0.25	30 September 2018
Byron Energy Limited	28,350,000	Ordinary	A\$0.12	31 December 2021
Byron Energy Limited	2,000,000	Ordinary	A\$0.16	31 December 2021

During the financial year, 407,539,872 ordinary fully paid shares were issued at A\$0.07 per share to existing and new shareholders and to the directors and/or their associates, as approved by shareholders, raising a total of US\$22,337,260 (A\$28,527,791) before equity raising costs.

Also during the financial year, the Company issued 30,350,000 share options to executive directors, staff and consultants of which 28,350,000 are exercisable at A\$0.12 per security and 2,000,000 at A\$0.16 per security any time before 31 December 2021.

The Company did not receive any applications or consideration for the conversion of options during the year and 1,700,000 share options with an exercise price of A\$0.65 expired on 30 September 2017. No share options were exercised subsequent to 30 June 2018, through to the date of this report.

Shareholdings of directors and other key management personnel

The interests of each director and other key management personnel, directly and indirectly, in the shares and options of Byron Energy Limited at the date of this report are as follows:

Director / Key Management Personnel	Ordinary shares	Options over ordinary shares	Exercise price	Option expiry date
D. G. Battersby	48,123,203	-	-	-
M. V. Smith	32,313,583	2,500,000	\$A0.25	31 December 2019
M. V. Smith	-	6,300,000	\$A0.12	31 December 2021
P. H. Kallenberger	1,732,223	2,500,000	\$A0.25	31 December 2019
P. H. Kallenberger	-	6,300,000	\$A0.12	31 December 2021
C. J. Sands	19,765,997	-	-	-
P. A. Young	18,655,931	-	-	-
W. R. Sack	1,900,000	1,700,000	\$A0.25	30 September 2018
W. R. Sack	-	2,500,000	\$A0.25	31 December 2019
W. R. Sack	-	6,300,000	\$A0.12	31 December 2021
N. Filipovic	584,788	1,000,000	\$A0.25	31 December 2019
N. Filipovic	-	3,780,000	\$A0.12	31 December 2021

BYRON ENERGY LIMITED

Directors' Report

Summary of shares and options on issue (continued)

During the financial year, 22,680,000 share options were granted to directors or key management personnel of the Company after shareholder approval:

Director / Key Management Personnel	Number of options granted	Issuing entity	Number of ordinary shares under option
M. V. Smith	6,300,000	Byron Energy Limited	6,300,000
P. H. Kallenberger	6,300,000	Byron Energy Limited	6,300,000
W. R. Sack	6,300,000	Byron Energy Limited	6,300,000
N. Filipovic	3,780,000	Byron Energy Limited	3,780,000

No shares were issued or granted to directors or key management personnel.

Company Secretary

Nick Filipovic

Appointed 18th March 2013.

Nick is a qualified accountant with over thirty five years' experience in the financial services and natural resources industries, including oil and gas, where he has held a range of senior financial and commercial management positions. He was the Chief Financial Officer and Company Secretary of Byron Energy (Australia) Pty Ltd until May 2013 when Byron Energy (Australia) Pty Ltd merged with Trojan Equity Limited to create Byron Energy Limited.

Principal activities

The principal activities of the consolidated entity during the financial year were oil and gas exploration, development and production in the shallow waters and the transition zone (offshore Louisiana) in the Gulf of Mexico ("GOM"), USA.

Consolidated results

The profit for the consolidated entity after income tax was US\$1,298,968 (2017: US\$5,357,583 loss).

Review of Operations

Financial Review

The Group recorded a net profit of US\$1,298,968 for the year ended 30 June 2018, compared to a net loss of US\$5,357,583 for the year ended 30 June 2017, primarily due to the commencement of oil and gas production from the Byron operated South Marsh Island ("SM71") lease in late March 2018.

For the year ended 30 June 2018 Byron's share of net revenue, after transport costs and royalties, was US\$9,544,507 while cost of sales were US\$1,807,414.

At 30 June 2018, the consolidated entity had total assets of US\$40,236,652 (2017: US\$13,919,656) and total liabilities of US\$11,730,029 (2017: US\$9,592,243) resulting in net assets of US\$28,506,623 (2017: US\$4,327,413), an increase of US\$24,179,210 mainly due to the development expenditure incurred on SM71 financed by equity issued during the year.

At 30 June 2018, the consolidated entity held cash and cash equivalents of US\$2,256,958 (2017: US\$3,395,501) of which US\$1,959,529 (2017: US\$3,221,110) were denominated in United States dollars and US\$297,429 (2017: US\$174,391) were denominated in Australian dollars. The consolidated entity has an A\$5,000,000 (2017: A\$8,000,000) secured convertible note to Metgasco Limited ("Metgasco") and loans from directors of US\$1,384,332 (2017: \$nil).

Corporate review

Placements and SPP

On 14 August 2017, Byron announced an A\$26.5 million Placement ("Placement") conditional on shareholder approval. The Placement was approved by shareholders at an Extraordinary General Meeting ("EGM") of Byron's shareholders, held on 18 September 2017 and the shares were allotted on 27 September 2017. The Placement consisted of 378,970,262 fully paid new ordinary shares issued at A\$0.07 per share raising approximately A\$26.5 million (before issue costs).

The Company also announced on 14 August 2017, a Share Purchase Plan ("SPP") to raise approximately A\$2.0 million on the same terms as the Placement. The SPP was fully subscribed and 28,569,610 fully paid shares were issued on 28 September 2017.

BYRON ENERGY LIMITED

Directors' Report

Issue of new share options

On 18 August 2017, Byron announced, subject to shareholder approval, the issue of 28.35 million unlisted options to executive directors, staff and contractors of the Company, exercisable at an exercise price of A\$0.12 per security on or after issue at any time on or before 31 December 2021. Shareholders approved the issue of these share options at an EGM held on 18 September 2017 and the options were allotted on 28 September 2017.

On 20 December 2017, Byron announced the allotment of 2.0 million unlisted options to a newly appointed executive of the Company, exercisable at A\$0.16 per security on or after issue at any time on or before 31 December 2021.

Issued capital

As at 30 June 2018, Byron's issued capital comprised:-

Securities	Total issued	Quoted	Unquoted
Shares (ASX:BYE)	684,987,034	684,987,034	Nil
Options	51,800,000	Nil	51,800,000
Convertible Notes	5,000,000	Nil	5,000,000

Convertible Notes Outstanding

Balance at 30 June 2017	Total redeemed during year ended 30 June 2018	Balance 30 June 2018
8,000,000 @ A\$1	3,000,000 @ A\$1	5,000,000 @ A\$1

8,000,000 @ A\$1.00 secured convertible notes (unquoted), were issued to Metgasco Limited in January 2017. The convertible notes are convertible at the election of the note holder (i) between 20 July 2018 and 21 July 2019; or (ii) on the occurrence of a change of control, at a price which is a 10% discount to the 30 day VWAP. The convertible notes are repayable in A\$1.0 million quarterly instalments over 2 years commencing in October 2017.

Developed Oil and Gas properties – SM71

Byron owns SM71, a lease in the South Marsh Island Block 73 ("SM73") field. The SM 73 field encompasses nine Outer Continental Shelf ("OCS") lease blocks (81 square miles) which overlie a large piercement salt dome. The salt dome is responsible for providing the trapping mechanism for production in all portions of the SM 73 field. The SM 73 field is productive from discrete hydrocarbon-bearing sandstone reservoirs which are primarily trapped in three-way structural closures bound either by salt or stratigraphic thinning, on their updip edge. These reservoirs are Pleistocene to Pliocene age sands ranging in depth from 5,000 feet to 8,800 feet Total Vertical Depth ("TVD"). The majority of the field production has come from depths less than 7,500 feet in high quality sandstone reservoirs.

Byron is the designated operator of SM71 and owns a 50% Working Interest ("WI") and a 40.625% Net Revenue Interest ("NRI") in the block, with Otto Energy Limited group holding an equivalent WI and NRI in the block. Water depth in the area is approximately 137 feet.

The 2017/18 year was active and successful for Byron culminating in successful oil and gas production from the Byron operated SM71 platform, commencing in late March 2018.

SM71 Platform and Pipelines

In November 2017, Byron successfully completed the installation of the jacket and decks comprising the SM71 F Platform.

Operations to lay the 500 feet 4-inch oil and 7,000 feet 6-inch gas pipelines were also completed during October 2017. Each pipeline was initially laid and buried to within tie-in distance to Byron's SM71 F platform location and their respective sales lines. Final tie-in work at the platform end and sales lines was completed in December 2017.

SM71 Byron F2 Appraisal Well

The Ensco 68 jack-up rig spudded the Byron operated OCS G-34266 #F-2 well ("F2") on SM71, in early December 2017.

The SM71 F2 appraisal well encountered four discrete hydrocarbon bearing sands, including the B65 and D5 sands.

In early January 2018, 7 5/8 inch casing was run before temporarily suspending the F2 well for a short period while the F3 well was drilled, before completing the F2 well for production.

BYRON ENERGY LIMITED

Directors' Report

SM71 Byron F3 Development Well

Given the high quality and thickness of the D5 Sand encountered in the F2 well, Byron exercised its right to drill a second well under the then existing Ensco drilling contract, it was decided to drill OCS G-34266 F-3 well ("F3"), rather than release the rig.

The F3 well was designed to intersect the D5 Sand very near the point that the F2 well intersected the D5 Sand. The F3 well was drilled to provide a second take point in the D5 Sand reservoir in addition to the up dip F1 well, which was drilled in 2016. The F3 well spudded on 9 January 2018 USA Central Daylight Time ("USCDT").

On 29 January 2018, Byron announced that the F3 well was drilled to a final total depth of 7,717 feet Measured Depth ("MD"). After logging the well with open hole triple combo logging tools on 27 January 2018, operations to run 7 5/8" casing to total depth prior to temporary suspension for completion in the D5 Sand commenced. Hydrocarbons in five discrete intervals were measured using both Log While Drilling (LWD) gamma ray and resistivity tools and wireline Triple Combo porosity tools.

The primary target in the F3 well was the D5 Sand which logged 211 measured depth feet of oil pay (174 feet Total Vertical Thickness ("TVT") net oil pay) as determined by open hole logs. While only 70 feet away from the previously drilled SM71 F2 well, the D5 Sand was 45 TVT feet thicker in the F3 and exhibited excellent rock properties with porosities in the 32% range. With the base of the D5 Sand in the F3 well 150 feet below the base of D5 Sand in the F2 well, the D5 Sand oil column has been further extended downdip.

Because of the northerly well bore trajectory of the F3 well, only the very updip portions of the three other oil sands were penetrated. The J1, B55 and B65 Sands each logged approximately 5 feet TVT net oil pay in the F3 well, consistent with pre-drill expectations. The data points of these three sands will serve to help delineate the size of each reservoir for future reserve determinations.

In addition to the J1, B55 and B65 zones, the F3 well also intersected 12 feet TVT net oil pay in the C10 sand which is productive in other parts of the dome but, to date, not productive at SM71.

SM71 F1, F2 and F3 Well Completions

During the March 2018 quarter Byron completed the F1, F2 and F3 wells for production.

The SM71 OCS G-34266 #F-1 well ("F1") well was drilled to a depth of 7,477 feet measured depth in April of 2016 and logged a total of 151 feet of TVT net hydrocarbons in four discrete sands. The primary target in the F1 well was the D5 Sand, a prolific oil producing sand in other portions of the SM73 salt dome field. The F1 well logged 91 feet TVT net oil pay in the D5 Sand and Byron committed to construction of a manned tripod production facility on that basis.

A 70-foot measured depth interval of the D5 Sand in the F1 well was perforated on 16 February, 2018 and sand control measures were pumped across the interval on 18 February, 2018. After rigging down the pumping equipment, 2 7/8" production tubing was run in the well

After completion of the F1 well, the Ensco 68 drilling rig skidded to position over the SM71 F2 well and the B65 Sand was completed with sand control measures similar to the F1 well. These sand control measures are designed to improve the production rate and to minimize reservoir pressure drawdown, resulting in better performance and longevity.

After completion of the F2 well the Ensco 68 drilling skidded into position over the SM71 F3 well and completion operations in the D5 Sand began. A 184-foot interval of the D5 Sand was perforated and hydraulic sand control measures were pumped into the formation.

On 29 March 2018, the final 290-foot-long portion of the collapsed completion assembly was successfully and completely removed from the SM71 F3 wellbore during fishing operations. The F3 well was then completed for production from the D5 Sand reservoir where over 200 feet of MD oil pay (174 feet true vertical depth thickness) was logged during drilling in January 2018.

SM71 Production

Production from the Byron operated SM71 F platform began on 23 March 2018 when the SM71 F1 and F2 wells were opened to sales. The SM71 F3 began production on 6 April 2018.

BYRON ENERGY LIMITED

Directors' Report

For the year ended 30 June 2018, production from SM71 is shown in the table below.

Production/Sales	For the year ended 30 June 2018	For the year ended 30 June 2017
Gross production		
Oil (bbls)	348,581	Nil
Gas (mmbtu)	300,430	Nil
Byron share of Gross Production (50% working interest)		
Oil (bbls)	174,291	Nil
Gas (mmbtu)	150,215	Nil
Net production (BYE share 40.625% net of royalty)		
Oil (bbls)	141,611	Nil
Gas (mmbtu)	122,050	Nil

The Company's production for the June 2018 quarter was affected by the shut in of the third-party oil pipeline. Crimson Gulf, LLC, the operator of the oil pipeline that carries SM71 oil to market, undertook maintenance on sections of the oil pipeline commencing on 19 April 2018 which lasted 4 days. As a result Byron's SM71 wells were offline during that time and resumed production on 22 April 2018 USCDT.

In May 2018, Byron conducted Flowing Bottom Hole Pressure/Shutin Bottom Hole Pressure ("FBHP/SBHP") tests on the SM 71 F1, F2 and F3 wells to further evaluate well performance. Based on final analysis of the FBHP/SBHP survey data, the following conclusions were drawn for each reservoir.

The FBHP/SBHP survey data indicated that the F1 and F3 well intersections of the D5 Sand are entirely consistent with the Company's pre-drill mapping and expectations. The SM71 F1 and F3 wells, are performing to expectations and overall production rates will be largely unaffected by the shut in of the F2 well.

The B65 Sand (F2 well) production data, along with pressure data indicates an estimated trap size of 3 acres, whereas the targeted seismic anomaly size was 175 acres. This provides strong evidence that the B65 Sand intersected by F2 is isolated from the main B65 Sand target area. The F2 well was recently shut in to analyse the pressure build-up of the well and was brought back online on 2 July 2018 USCDT. After flowing for approximately 8 hours, the F2 well ceased production of hydrocarbons and was shut in.

As reported previously, the SM71 F2 well has two remaining hydrocarbon bearing zones, the B55 and J1 Sands. The Company will initially perforate the B55 Sand and verify that economic flow rates can be achieved. When the B55 Sand ultimately ceases production, the J1 Sand would be recompleted before the Company will propose redrilling the well to the main B65 Sand area. Due to equipment availability, the initial B55 Sand recompletion work is expected to take place prior to the end of 31 December 2018.

The B65 Sand is one of many focus areas of the recently announced seismic processing project Byron is undertaking with Schlumberger's subsidiary WesternGeco (as discussed below under SM71 Project Area 3D Seismic Processing Project) to help determine the placement of future wells.

Exploration and Evaluation Assets

Lease Sale 249 and Lease Sale 250

During the year ended 30 June 2018, Byron participated in two Gulf of Mexico, Outer Continental Shelf ("OCS") lease sales conducted by the Bureau of Ocean Energy Management ("BOEM"), the Gulf of Mexico, OCS Lease Sale 249 ("Lease Sale 249") held on 16 August, 2017 and the Gulf of Mexico, OCS Lease Sale 250 ("Lease Sale 250") held on 21 March 2018, both held in New Orleans, Louisiana.

Byron was awarded Grand Island 95 ("GI 95"), the sole block bid by the Company at Lease Sale 249.

BYRON ENERGY LIMITED

Directors' Report

Byron also bid on and was subsequently awarded seven blocks at Lease Sale 250, comprising Vermilion blocks 232 & 251, South Marsh Island 70 and Eugene Island blocks 62, 63, 76 and 77. The prospects identified in these seven blocks, in and around salt domes, were generated by interpretation of the Company's high quality RTM and Inversion processed 3D seismic data.

The BOEM reduced the OCS royalty rate from 18.75% to 12.5% for shallow water blocks starting with Lease Sale 249.

The seven blocks acquired at Lease Sale 250 are briefly described below.

SM 71 Project Area

South Marsh Island blocks 57, 59 & 74

The BOEM awarded Byron three leases comprising South Marsh Island Area Block 57 ("SM57"), South Marsh Island Area Block 59 ("SM59") and South Marsh Island Area South Addition Block 74 ("SM74") at the Central Gulf of Mexico, OCS Lease Sale 247 held on 22 March, 2017 in New Orleans, Louisiana.

The SM 57/59/74 blocks increased Byron's footprint near Byron's existing SM71 oil project in the greater SM 73 Field. The associated prospects and resulting leases were generated by the interpretation of Byron's high quality Reverse Time Migration ("RTM") and Inversion processed 3D seismic data set.

Planning and technical work was advanced during the March and June 2018 quarters, focused on the SM74 Block.

Vermilion blocks 232, 251 and SM 70

In June 2018 the BOEM awarded Byron Vermilion 232 ("VR232"), Vermilion 251 ("VR251"), and South Marsh Island 70 ("SM70") blocks bid for at Lease Sale 250.

The VR232 prospect could be tested from the Byron operated SM71 F platform, but there are currently no plans to drill VR232 until production levels at the platform allow it to be produced efficiently in the event of success. In addition, the Company has identified two other higher risk/higher reward exploration prospects on VR232 which require further geophysical evaluation before a drilling decision is made.

Pursuant to the Participation Agreement, effective 1 December 2015, between Byron Energy Inc, and Otto Energy (Louisiana) LLC ("Otto"), a wholly owned subsidiary of Otto Energy Limited, Otto elected to participate in the acquisition of VR232 for a 50% WI. Under that agreement, Otto must pay an amount equal to a gross one hundred thirty-three percent (133%) of Otto's fifty percent (50%) interest share of acquisition costs, which includes the dry hole cost of the initial test well, plus a gross fifty percent (50%) of other past costs paid by Byron. In electing to participate in VR232, each company will own a 50% WI and a 43.75% NRI in the block. Upon election to participate in VR232, Otto has no further rights to participate in any blocks or projects, including SM 74, under the December 2015 Participation Agreement.

Byron has identified several higher risk exploratory leads on both VR251 and SM70. These leads will be evaluated once Byron completes its SM71 project area seismic reprocessing work in late 2018 (see SM71 Project Area 3D Seismic Processing Project below).

SM71 Project Area 3D Seismic Processing Project

During the June 2018 quarter, Byron executed an agreement with WesternGeco, a Schlumberger subsidiary, to add additional licensed 3D seismic data to its in-house data inventory and to perform new, high effort seismic data processing over the SM71 project area in the Gulf of Mexico. Byron will increase its contiguous 3D seismic data coverage in the SM71 project area to a total of 172 square miles (445 square kilometres) or 22 OCS lease blocks of high-quality 3D seismic.

Given the success of its SM71 wells, Byron decided to expand its coverage of both RTM data and inversion processing and take advantage of new processing algorithms offered by WesternGeco for both products.

Additional processing deliverables will include RTM and Kirchhoff based Common Depth Point ("CDP") angle gathers and offset stacks for Amplitude Verses Offset ("AVO") analysis and a new suite of seismic inversion products to aid in reservoir characterization and understanding.

The processing portion of the project began in June 2018 and is expected to take about 6 months to complete.

Bivouac Peak Prospect Area

The Bivouac Peak Prospect Area is located in the highly productive transitional zone comprising the northernmost shallow waters of the Louisiana State Waters, and onshore coastal Louisiana.

BYRON ENERGY LIMITED

Directors' Report

Byron is the operator of the Bivouac Peak Prospect area, through its wholly owned subsidiary Byron Energy Inc. The Bivouac Peak Prospect Area comprises onshore/marshland leases from:-

- (a) private landowners over approximately 2,400 contiguous acres (9.7 square kilometres); and
- (b) two peripheral, non-core tracts adjoining the Bivouac Peak private landowners lease leased from the Louisiana State.

In June 2018 Byron proposed and Otto Energy Limited ("Otto"), Metgasco Limited ("Metgasco"), and NOLA Oil and Gas Ventures LLC ("NOLA") have all elected to participate in the Weiss-Adler et. al. No. 1 well to be drilled to a depth of 18,294 ft MD/18,000 ft TVD to test the Bivouac Peak East Prospect.

As part of finalisation of the commitment to drill, the participation interests have been restructured. Byron Energy Inc, a wholly owned subsidiary of the Company, remains as the operator with a 43% working interest. The balance of the working interest is held by Otto 40%, Metgasco 10%, and NOLA 7%.

The initial test well is designed to test the Bivouac Peak East Prospect. The Bivouac Peak Prospect area comprises two prospects, the Bivouac Peak East Prospect and the Deep Prospect. Although the prospects are independent, success at the East Prospect would provide positive seismic calibration potentially reducing risk at the Deep Prospect as well.

By electing to participate in the initial test well both Otto and Metgasco have agreed to pay their previously agreed disproportionate share of the first US\$10.0 million of drilling costs for drilling of the initial test well to earn into the prospect, and their proportionate WI share of costs thereafter.

Drilling operation on the Weiss-Adler et. al. No. 1 well began in the second half of August 2018.

Eugene Island blocks 62, 63, 76 and 77

In June 2018 the BOEM awarded Byron, Eugene Island blocks 62, 63, 76 and 77 ("EI 62, 63, 76 and 77") blocks, bid on at Lease Sale 250.

With the recently reduced royalty rates in place for new GOM shelf leases, Byron will now receive an 87.5 % NRI (previously 81.25%) for its 100% WI in blocks EI 62, 63, 76 and 77.

The Eugene Island 63 and 76 leases were previously held by the Company before being relinquished in January 2018.

EI 62, 63, 76 and 77 were designated as the Eugene Island 77 Field in the 1960's and have produced 362 billion cubic feet of gas and 6.5 million barrels of oil from sands trapped by the Eugene Island 77 salt dome. Initial production from the field began in 1957. There is no production on these blocks currently.

In 2014, Byron undertook proprietary RTM seismic utilising WesternGeco (a Schlumberger group company) over the entire Eugene Island 77 Field. Byron has identified a number of exploration and exploitation opportunities using the RTM seismic data. Many of these prospects are in an updip position to previous oil and gas production and are considered to be low to moderate risk drilling opportunities.

Grand Isle 95

In September 2017, Byron was advised by the BOEM that its bid for GI 95, at Lease Sale 249 was deemed acceptable by the BOEM and the lease was awarded to Byron.

With revised Federal Government royalty rates in place for new leases in the Gulf of Mexico shelf blocks, Byron has a 100% WI and an 87.50 % NRI in GI 95.

GI 95, previously held by Byron before being relinquished in August of 2016, is located in US Federal waters, approximately 100 miles (161 kilometres) southeast of New Orleans, Louisiana, at a water depth of approximately 201 feet (61 metres).

The Company took the opportunity to bid again for the lease, which contains large gas reserves and resources, at a modest cost with no work commitments.

No exploration activity was undertaken on the GI 95 gas project during the reporting period.

BYRON ENERGY LIMITED

Directors' Report

Eugene Island 18

No exploration activity was undertaken on EI 18 during the half year.

South Marsh Island Block 6 Salt Dome Project

As announced on 26 August 2016, in light of Byron's significant success at SM71 and prevailing low oil and gas prices, Byron decided to focus its resources on development of SM71 and relinquished the SM 6 lease.

Having earlier obtained permits to plug the two wellbores and remove the caisson on SM 6, removal commenced in late August 2017. Otto was responsible for a portion of the plugging liability associated with the SM 6 #2 well. Byron was responsible for all other abandonment liabilities on SM 6. Work to remove the wellbores and caisson was successfully completed in mid-September 2017.

Properties

As at 30 June 2018, Byron's portfolio of oil and gas properties, all in the shallow waters of the Gulf of Mexico, and coastal marshlands of Louisiana, USA comprised:-

Properties	Operator	Interest WI/NRI (%)	Lease Expiry Date	Lease Area (Km ²)
South Marsh Island				
Block 71	Byron	50.00/40.625	Production	12.16
Block 57	Byron	100.00/81.25	June 2022	21.98
Block 59	Byron	100.00/81.25	June 2022	20.23
Block 74	Byron	100.00/81.25	June 2022	20.23
Block 70	Byron	100.00/87.50	June 2023	22.13
Vermillion				
Block 232	Byron	50.00/43.75	June 2023	18.32
Block 251	Byron	100.00/87.50	June 2023	18.17
Eugene Island				
Block 18	Byron	100.00/78.75	April 2020	2.18
Block 62	Byron	100.00/87.50	June 2023	20.23
Block 63	Byron	100.00/87.50	June 2023	20.23
Block 76	Byron	100.00/87.50	June 2023	20.23
Block 77	Byron	100.00/87.50	June 2023	20.23
Grand Isle				
Block 95	Byron	100.00/87.50	September 2022	18.37
Transition Zone (Coastal Marshlands, Louisiana)				
Bivouac Peak Private Landowner Leases**	Byron	93.00/69.285	September 2019	9.70
Bivouac Peak State Lease number 21778**	Byron	100.00/76.00	January 2021	0.81
Bivouac Peak State Lease number 21779**	Byron	100.00/72.50	January 2021	0.53

* Metgasco Limited ("Metgasco") has exercised its option to earn a 30% Working Interest ("WI") and 24.375% Net Revenue Interest ("NRI") in SM 74. Metgasco has elected to participate to earn a thirty percent (30%) WI in the SM74 lease and the SM74 D-14 well by paying 40% of the cost of the well to casing point and 40% of the cost of the leasehold acquisition. Metgasco will also reimburse the Company for 30% of certain other acquisition expenses

** Both Otto Energy Limited ("Otto") and Metgasco Limited ("Metgasco") have exercised their options to earn a 40% and 10% working interest, respectively, in Byron's Bivouac Peak Landowner Leases and State Leases. If both Otto and Metgasco earn into the Bivouac Peak project, Byron's working interest and net revenue interest will reduced to 43% and 32.035% respectively. Otto and Metgasco will earn a 40% and 10% working interest respectively by paying a disproportionate share of the costs of the initial test well to reach the earning depth or up to a cap of US\$10.0 million (gross cost), whichever occurs first, after which Otto and Metgasco will revert back to paying 40% and 10% of all future costs.

BYRON ENERGY LIMITED

Directors' Report

Review of Strategy, Principal Risks and Uncertainties Facing the Company

Strategy

Since inception Byron has focused on the shallow waters and transition zone (offshore Louisiana) of the OCS in the GOM. The directors believe that the shallow waters and transition zone (offshore Louisiana) of the GOM offer significant advantages to Byron, as the GOM:-

- is a prolific producer of oil and gas;
- has significant proved and unproved reserves of low cost oil and gas as well as significant potential for further hydrocarbon discoveries;
- has extensive, established and accessible oil and gas exploration, development and production infrastructure;
- offers a short development cycle and rapid payback;
- has modern 3D seismic coverage, suitable for improved imaging, over fields and prospects, available for purchase from third party providers; advanced seismic processing techniques have allowed the industry to better distinguish hydrocarbon traps and identify previously unknown prospects;
- has a well-established and stable administration with one landowner for the shallow waters, BOEM; and
- the GOM shallow waters have regular lease sales conducted by BOEM with 5,000 acre blocks available, generally to the highest bidder, to lease for 5 years at US\$7 per acre per annum.

Byron is well positioned to exploit the competitive advantages of the GOM as the Company has:

- an experienced team of oil and gas exploration, development and production personnel with a successful track record in the GOM, with significant experience utilising advanced seismic image processing techniques, including reverse time migration, in Byron's area of focus;
- a producing and cash generating asset, SM 71;
- an inventory of relatively low risk, ready to drill prospects, including several prospects with significant oil potential; and
- the capacity to grow its asset portfolio in the shallow waters and transition zone of the GOM.

Byron's strategy in the GOM comprises three key elements:

- to identify highly prospective oil and gas plays, aided by leading edge seismic technology such as RTM, which is particularly effective in the shallow waters of the GOM;
- to secure the leases, usually on a 100% or majority working interest basis primarily through the annual Federal Government lease sale process in the GOM; and
- Byron will either drill-test the play as operator holding a 100% working interest or seek to farm out up to 50% of its WI to a non-operator or another operator with a proven track record of drilling and producing wells in the GOM, retaining a 40-50% WI in the block.

Principal Risks and Uncertainties

The key areas of risk, uncertainty and material issues facing the Company in executing its strategy and delivering on its targets are described below.

Risks relating to the Company's Industry, Business and Financial Condition

There are a number of risks which may impact on the operating and financial performance of the Company and therefore, on the value of its shares. Some of these risks can be mitigated by the Company's systems and internal controls, but many are outside of the control of the Company and the Board. There can be no guarantee that the Company will achieve its stated objectives or that any forward-looking statements will eventuate.

In addition to risks and uncertainties in the ordinary course of business that are common to all businesses, important factors that are specific to the Company and the oil and gas industry could materially impact the Company's future performance and results of operations. Below is a list of known material risk factors that should be reviewed when considering buying or selling Byron's shares. These are not all the risks the Company faces and other factors currently considered immaterial or unknown may impact future operations.

BYRON ENERGY LIMITED

Directors' Report

Oil and natural gas price risk

The Company's revenues, profitability and future growth depend significantly on crude oil and natural gas prices. Oil and natural gas prices are volatile and low prices could have a material adverse impact on cash flow and on Byron's business. Among the factors that can cause these fluctuations are: (i) changes in global supply and demand for oil and natural gas, (ii) the ability of the members of the Organization of Petroleum Exporting Countries to agree to and maintain oil price and production controls, (iii) the price and volume of imports into the USA of foreign oil and natural gas, (iv) political and economic conditions, including embargoes, in oil-producing countries or affecting other oil-producing activity (v) the level of global oil and gas exploration and production activity, (vi) weather conditions, (vii) technological advances affecting energy consumption, (ix) USA domestic and foreign governmental regulations and taxes, (x) proximity and capacity of oil and gas pipelines and other transportation facilities, (xi) the price and availability of competitors' supplies of oil and gas in captive market areas, (xii) the introduction, price and availability of alternative forms of fuel to replace or compete with oil and natural gas, (xiii) import and export regulations for LNG and/or refined products derived from oil and gas production from the USA, (xiv) speculation in the price of commodities in the commodity futures market, (xv) the availability of drilling rigs and completion equipment; and the overall economic environment.

Financing risk

Byron's business plan, which includes participation in seismic data purchases, lease acquisitions and the drilling of exploration and development prospects, has required and is expected to continue to require capital expenditures. Byron may require additional financing to fund its planned growth. This additional financing may be in the form of equity, debt or a combination thereof. Byron may also obtain capital by farming out part of its working interest in one or more of its oil and gas properties. Byron's ability to raise additional capital will depend on the results of its operations and the status of various capital and industry markets at the time it seeks such capital. Accordingly, additional financing may not be available on acceptable terms, if at all. In the event additional capital resources are unavailable, Byron may be required to curtail its exploration and development activities. It is difficult to quantify the amount of financing Byron may need to fund its planned growth in the longer term. The amount of funding Byron may need in the future depends on various factors, including but not limited to; (i) the Company's financial condition, and (ii) the success or otherwise of its exploration and development programme. Further, the availability of such funding may depend on various factors, including but not limited to, the liquidity of the Company's shares at the time the Company seeks to raise funds and the prevailing and forecast market price of oil and natural gas. If Byron raises additional funds through the issue of equity securities, this may dilute the holdings of existing Shareholders. If Byron obtains additional capital by farming out part of its working interest in one or more of its oil and gas properties, the Company's share of reserves, future production and therefore oil and/or and gas revenues, if any, from those properties will be reduced.

Third party pipelines and operators risk

Byron may from time to time, depend on third party platforms and pipelines that provide processing and delivery options from its facilities. As these platforms and pipelines are not owned or operated by Byron, their continued operation is not within Byron's control. Revenues in the future may be adversely affected if Byron's ability to process and transport oil or natural gas through those platforms and pipelines is impaired. If any of these platform operators ceases to operate their processing equipment, Byron may be required to shut in the associated wells, construct additional facilities or assume additional liability to re-establish production.

Oil and gas reserves estimation risk

There are numerous uncertainties in estimating crude oil and natural gas reserves and their value, including many factors that are beyond the control of the Company. It requires interpretations of available technical data and various assumptions, including assumptions relating to economic factors. Any significant inaccuracies in these interpretations or assumptions could materially affect the estimated quantities of reserves. In order to prepare these estimates, Byron's independent third-party petroleum engineers must project production rates and timing of development expenditures as well as analyze available geological, geophysical, production and engineering data, and the extent, quality and reliability of this data can vary. The process also requires economic assumptions relating to matters such as natural gas and oil prices, drilling and operating expenses, capital expenditures, taxes and availability of funds. Actual future production, natural gas and oil prices, revenues, taxes, development expenditures, operating expenses and quantities of recoverable natural gas and oil reserves most likely will vary from our estimates. Any significant variance could materially affect the estimated quantities and pre-tax net present value of reserves. In addition, estimates of proved reserves may be adjusted to reflect production history, results of exploration and development, prevailing natural gas and oil prices and other factors, many of which are beyond the Company's control and may prove to be incorrect over time. As a result, estimates may require substantial upward or downward revisions if subsequent drilling, testing and production reveal different results. Furthermore, some of the producing wells included in the Company's reserve report have produced for a relatively short period of time. Accordingly, some of the Company's reserve estimates are not based on a multi-year production decline curve and are calculated using a reservoir simulation model together with volumetric analysis. Any downward adjustment could indicate lower future production and thus adversely affect the Company's financial condition, future prospects and market value.

BYRON ENERGY LIMITED

Directors' Report

Oil and gas reserves depletion risk

Byron's future oil and natural gas production depends on its success in finding or acquiring new reserves. If Byron fails to replace reserves, its level of production and cash flows will be adversely impacted. Production from oil and natural gas properties decline as reserves are depleted, with the rate of decline depending on reservoir characteristics. Byron's total proved reserves will decline as reserves are produced unless it can conduct other successful exploration and development activities or acquire properties containing proved reserves, or both.

Further, all of Byron's proved reserves are proved developed producing or behind pipe. Accordingly, Byron does not have significant opportunities to increase production from its existing proved reserves. Byron's ability to make the necessary capital investment to maintain or expand its asset base of oil and natural gas reserves would be impaired to the extent cash flow from operations is reduced and external sources of capital become limited or unavailable. Byron may not be successful in exploring for, developing or acquiring additional reserves. If Byron is not successful, its future production and revenues will be adversely affected.

Oil and gas drilling risk

Drilling for crude oil, natural gas and natural gas liquids are high risk activities with many uncertainties that could adversely affect the Company's business, financial condition or results of operations.

The drilling and operating activities are subject to many risks, including the risk that we will not discover commercially productive reservoirs. Drilling for crude oil, natural gas and natural gas liquids can be unprofitable, not only from dry holes, but from productive wells that do not produce sufficient revenues to return a profit. In addition, Byron's drilling and producing operations may be curtailed, delayed or cancelled as a result of other factors, including, unusual or unexpected geological formations and miscalculations; pressures; fires; explosions and blowouts; pipe or cement failures; environmental hazards; such as natural gas leaks; oil spills; pipeline and tank ruptures; encountering naturally occurring radioactive materials and unauthorized discharges of toxic gases, brine, well stimulation and completion fluids, or other pollutants into the surface and subsurface environment; loss of drilling fluid circulation; title problems; facility or equipment malfunctions; unexpected operational events; shortages of skilled personnel; shortages or delivery delays of equipment and services; compliance with environmental and other regulatory requirements; natural disasters; and adverse weather conditions.

Any of these risks can cause substantial losses, including personal injury or loss of life; severe damage to or destruction of property, natural resources and equipment, pollution, environmental contamination, clean-up responsibilities, loss of wells, repairs to resume operations; and regulatory fines or penalties.

Operating risk

The oil and natural gas business, including production activities, involves a variety of operating risks, including: blowouts, fires and explosions; surface cratering; uncontrollable flows of underground natural gas, oil or formation water; natural disasters; pipe and cement failures; casing collapses; stuck drilling and service tools; reservoir compaction; abnormal pressure formation; environmental hazards such as natural gas leaks, oil spills, pipeline and tank ruptures or unauthorized discharges of brine, toxic gases or well fluids; capacity constraints, equipment malfunctions and other problems at third-party operated platforms, pipelines and gas processing plants over which Byron has no control; repeated shut-ins of Byron's well bores could significantly damage the Company's well bores; required workovers of existing wells that may not be successful.

If any of the above events occur, Byron could incur substantial losses as a result of injury or loss of life; reservoir damage; severe damage to and destruction of property or equipment; pollution and other environmental and natural resources damage; restoration, decommissioning or clean-up responsibilities; regulatory investigations and penalties; suspension of our operations or repairs necessary to resume operations

Offshore operations are subject to a variety of operating risks peculiar to the marine environment, such as capsizing and collisions. In addition, offshore operations, and in some instances operations along the Gulf Coast, are subject to damage or loss from hurricanes or other adverse weather conditions. These conditions can cause substantial damage to facilities and interrupt production. As a result, the Company could incur substantial liabilities that could reduce the funds available for exploration, development or leasehold acquisitions, or result in loss of properties.

If Byron was to experience any of these problems, it could affect well bores, platforms, gathering systems and processing facilities, any one of which could adversely affect its ability to conduct operations. In accordance with customary industry practices, Byron maintains insurance against some, but not all, of these risks. Losses could occur for uninsurable or uninsured risks or in amounts in excess of existing insurance coverage. The Company may not be able to maintain adequate insurance in the future at rates we consider reasonable, and particular types of coverage may not be available. An event that is not fully covered by insurance could have a material adverse effect on the Company's financial position and results of operations.

BYRON ENERGY LIMITED

Directors' Report

Execution risk (drilling and operating programmes)

Shortages or increases in the cost of drilling rigs, equipment, supplies or personnel could delay or adversely affect Byron's operations which could have a material adverse effect on its business, financial condition and results. Where Byron is the operator it assumes additional responsibilities and risks. As the designated operator, Byron, under the BOEM regulations, will be required to post bonds for exploration and development activities as well as for production activities and future decommissioning obligations. There is the risk that the Company may not be able to obtain sufficient bonding and may have to collateralise obligations with cash. If the Company was unable to provide such bonds, it would not be able to proceed with its operating plans. In addition, as the designated operator Byron will have to demonstrate the required oil spill financial responsibility ("OSFR") under the Oil Pollution Act of 1990. The OSFR is based on worst case oil-spill discharge volume. Byron expects to demonstrate OSFR requirement through the purchase of OSFR insurance coverage, a method of demonstrating OSFR acceptable to the BOEM. If the Company was unable to demonstrate OSFR as required by the BOEM, it would not be able to proceed with its operating plans.

Geographic concentration risk

The geographic concentration of Byron's properties in the shallow waters and transition zone (offshore Louisiana) in the GOM means that some or all of the properties could be affected by the same event should the Gulf of Mexico experience severe weather, delays or decreases in production, changes in the status of pipelines, delays in the availability of transport and changes in the regulatory environment.

Because all of the Company's properties could experience the same condition at the same time, these conditions could have a relatively greater impact on results of operations than they might have on other operators who have properties over a wider geographic area.

Climate change risk

Climate change continues to attract considerable public, governmental and scientific attention. As a result, numerous proposals have been made and could continue to be made at the international, national, regional and state levels of government to monitor and limit emissions of greenhouse gases. Consequently, legislation and regulatory programs to reduce emissions of greenhouse gases could have an adverse effect on the Company's business, financial condition and results of operations. Finally, it should be noted that some scientists have concluded that increasing concentrations of greenhouse gases in the Earth's atmosphere may produce climate changes that have significant physical effects, such as increased frequency and severity of storms, droughts, and floods and other climatic events. Offshore operations are particularly at risk from severe climatic events. If any such effects were to occur, they could have an adverse effect on the Company's financial condition and results of operations.

Competition risk

Competition in the oil and natural gas industry is intense which may make it more difficult for Byron to acquire further properties, market oil and gas and secure trained personnel. There is also competition for capital available for investment, particularly since alternative forms of energy have become more prominent. Most competitors possess and employ financial, technical and personnel resources substantially greater than those available to Byron. As a result increased costs of capital could have an adverse effect on Byron's business.

Regulatory Risk

Byron's oil and gas operations in the Gulf of Mexico, USA are subject to regulation at the US federal, state and local level and some of the laws, rules and regulations that govern operations carry substantial penalties for non-compliance. Rules and regulations affecting the oil and gas industry are under constant review for amendment or expansion. In addition to possible increased costs, the imposition of increased regulatory based procedures may result in delays in being able to initiate or complete drilling programmes.

Environmental risk

The natural gas and oil business involves a variety of operating risks, including but not limited to (i) blowouts, fires and explosions, (ii) surface cratering, (iii) uncontrollable flows of underground natural gas, oil or formation water and natural disasters. If any of the above events occur, Byron could incur losses as a result of injury or loss of life, reservoir damage, damage to and destruction of property or equipment, pollution and other environmental damage, clean-up responsibilities and regulatory investigations and penalties.

The operation of our future oil and gas properties will be subject to numerous federal, state and local laws and regulations governing the discharge of materials into the environment or otherwise relating to environmental protection.

Failure to comply with these laws and regulations may result in the assessment of administrative, civil and criminal fines and penalties and the imposition of injunctive relief. Accidental releases or spills may occur in the course of the operations of our properties, and we cannot assure you that we will not incur significant costs and liabilities as a result of such releases or spills, including any third party claims for damage to property, natural resources or persons.

BYRON ENERGY LIMITED

Directors' Report

Among the environmental laws and regulations that could have a material impact on the oil and natural gas exploration and production industry and the Company's business are the following: Waste Discharges, Air Emissions and Climate Change, Oil Pollution Act, National Environmental Policy Act, Worker Safety, Safe Drinking Water Act, Offshore Drilling, Hazardous Substances and Wastes and Protected and Endangered Species

Key management risk

To a large extent, the Company depends on the services of its senior management. The loss of the services of any of the senior management team, could have a negative impact on the Company's operations. Byron does not maintain or plan to obtain for the benefit of the Company any insurance against the loss of any of these individuals.

Oil and gas transport and processing risk

All of Byron's oil and natural gas is transported through gathering systems, pipelines and processing plants. Transportation capacity on gathering system pipelines and platforms is occasionally limited and at times unavailable due to repairs or improvements being made to these facilities or due to capacity being utilized by other natural gas or oil shippers that may have priority transportation agreements. If the gathering systems, processing plants, platforms or Byron's transportation capacity is materially restricted or is unavailable in the future, the Company's ability to market its oil and/or natural gas could be impaired and cash flow from the affected properties could be reduced, which could have a material adverse effect on its financial condition and results of operations. Further, repeated shut-ins of Byron's wells could result in damage to its well bores that would impair its ability to produce from these wells and could result in additional wells being required to produce existing reserves.

Exchange rate risk

The functional currency of Byron is Australian dollars and the functional currency of its United States based subsidiaries is United States dollars. Byron has historically presented its financial statements in United States dollars, as the United States dollar is viewed as the best measure of performance for Byron because oil and gas, the dominant sources of revenue, are priced in United States dollars and its oil and gas operations are located in the United States with costs incurred in United States dollars.

As all Byron's operating assets are in the United States, the Company's presentation currency, the currency in which it reports its financial results, will be United States dollars. Accordingly, an Australian dollar investment in the Company is exposed to fluctuations between the Australian dollar and the United States dollar exchange rate. In particular, as most of the Company's capital and operating expenses will be in United States dollars any appreciation/depreciation in the Australian dollar against the United States dollar will effectively decrease/increase the quantum of those costs for Shareholders. In addition the Company's revenue is derived from United States dollar oil and gas sales. Any appreciation/depreciation of the Australian dollar against the United States dollar will effectively reduce/increase the value of that revenue for Shareholders.

Adverse exchange rate variations between the Australian dollar and the United States dollar may impact upon cash balances held in Australian dollars. Since most of Byron's operations are conducted in United States dollars, Byron generally maintains a substantial portion of its cash balances in United States dollar accounts. From time to time the Company may have substantial cash deposits in Australian dollar accounts. Until these funds are converted into United States dollars, the United States dollar value of the deposits will change as the exchange rate between the two currencies fluctuates.

The Company does not currently have in place any foreign exchange hedging arrangements. However, foreign exchange hedging strategies will be reviewed by the Company from time to time, implementation of any strategy will depend, inter alia, upon the foreign exchange hedging options available to the Company from time to time, the cash cost of entering into hedging transactions and the Company's capacity to pay for such costs.

Other risks

There are a number of other risks which may impact on the operating and financial performance of the Company, including but not limited to:-

Seismic risk

3D seismic data and visualization techniques only assist geoscientists and geologists in identifying subsurface structures and hydrocarbon indicators. They do not allow the interpreter to know if hydrocarbons are present or producible economically.

Lease termination risk

The failure to timely effect all lease related payments could cause the leases to be terminated by the BOEM.

Profitability and impairment write-downs risk

Byron may incur non cash impairment charges in the future, which could have a material adverse effect on its results of operations for the periods in which such charges are taken.

BYRON ENERGY LIMITED

Directors' Report

Working interest partners' risk

If partners are not able to fund their share of costs, it could result in the delay or cancellation of future projects, resulting in a reduction of Byron's reserves and production, which could have a materially adverse effect on its financial condition and results of operations.

Bonding risk

As an operator, Byron is required to post surety bonds of US\$200,000 per lease for exploration and US\$500,000 per lease for developmental activities as part of its general bonding requirements, as well as the posting of additional supplemental bonds to cover, among other things, decommissioning obligations. A failure by an operator to post required supplemental bonding or other financial assurances required by the BOEM could result in the BOEM assessing monetary penalties or requiring any operations on an operator's federal lease to be suspended or cancelled or otherwise subject an operator to monetary penalties. Any one or more such actions imposed onus could materially adversely affect Byron's financial condition and results of operations.

Asset retirement obligations (AROs) risk

Byron is required to record a liability for the present value of AROs to plug and abandon inactive, non-producing wells, to remove inactive or damaged platforms, facilities and equipment and to restore land and seabed when production finishes. Estimating future costs is uncertain because most obligations are many years in the future, regulatory requirements will change and technologies are evolving which may make it more expensive to meet these obligations.

Insurance risk

In accordance with industry practice Byron maintains insurance against some, but not all, of the operating risks to which its business is exposed. Byron will not be insured against all potential risks and liabilities. Future insurance coverage for the oil and gas industry could increase in cost and may include higher deductibles or retentions. In addition, some forms of insurance may become unavailable in the future or unavailable on terms that are economically acceptable.

Cyber security risk

The oil and gas industry is increasingly dependent on digital technologies to conduct certain exploration, development, production, processing and distribution activities. The industry faces various security threats, including cyber-security threats. Cyber-security attacks in particular are increasing. Although to date Byron has not experienced any material losses related to cyber-security attacks, it may suffer such losses in the future. If any of these events were to materialize, they could lead to losses of intellectual property and other sensitive information essential to the company's business and could have a material adverse effect on its business prospects, reputation and financial position.

Share market investment risk

The Company's shares are quoted on the ASX, where their price may rise or fall. The shares carry no guarantee in respect of profitability, dividends or return of capital, or the price at which they may trade on the ASX. The value of the shares will be subject to the market and hence a range of factors outside of the control of the Company and the Directors and officers of the Company. Returns from an investment in the shares may also depend on general share market conditions, as well as the performance of the Company.

Historically, the stock market has experienced significant price and volume fluctuations. Stock market volatility and volatility in commodity prices has had a significant impact on the market price of securities issued by many companies, including companies in the oil and gas industry. The changes frequently appear to occur without regard to the operating performance of the affected companies. Hence, the price of the Company's shares could fluctuate based upon factors that have little or nothing to do with Byron, and these fluctuations could materially reduce its share price.

The Company's board of directors presently intends to retain all of our earnings for the expansion of the business; therefore, there are no plans to pay regular dividends. Any payment of future dividends will be at the discretion of the board of directors and will depend on, among other things, earnings, financial condition, capital requirements, level of indebtedness, and other considerations that the board of directors deems relevant.

Future sales or the availability for sale of substantial amounts of the Company's shares in the public market could adversely affect the prevailing market price of Byron's shares and could impair its ability to raise capital through future issues of equity securities.

BYRON ENERGY LIMITED

Directors' Report

Significant events after the balance date

There has been no matter or circumstance since 30 June 2018 which has significantly affected or may significantly affect the operations of the consolidated entity, the results of those operations or the state of affairs of the consolidated entity in subsequent financial years other than those described below:-

- (i) On 9 July, 2018 Byron announced to the ASX that, Otto Energy Limited, Metgasco Limited and NOLA Oil and Gas Ventures LLC have all elected to participate in the Byron operated Weiss-Adler et. al. No. 1 well to be drilled to a depth of 18,294 feet MD/18,000 feet TVD to test the Bivouac Peak East Prospect;
- (ii) On 19 July, 2018 Byron announced to the ASX that it was finalising documentation to allow the SM74 prospect to be drilled from the adjacent existing SM 73 D platform and that it has farmed out a 30% working interest on standard industry terms;
- (iii) On 6 August, 2018 Byron announced to the ASX the SM71 reserves and prospective resources, as at 30 June 2018, as independently assessed by Collarini Associates;
- (iv) On 16 August 2018, Byron announced to the ASX that it was the high bidder on Main Pass 293, 305 and 306 leases at the Gulf of Mexico OCS Lease Sale 251, held on 15 August 2018; and
- (v) On 19 September 2018, the Company released its annual reserves and resources report as of 30 June 2018.

Future developments

It is expected that the consolidated entity will continue its oil and gas exploration, development and production activities in the shallow and transition zone waters of the Gulf of Mexico, USA.

Further information regarding likely developments are not included in this report. As the Company is listed on the Australian Securities Exchange ("ASX"), it is subject to the continuous disclosure requirements of the ASX Listing Rules which require immediate disclosure to the market of information that is likely to have a material effect on the price or value of Byron Energy Limited's securities.

Dividends

No dividends in respect of the current financial year have been paid, declared or recommended for payment (2017: nil).

Environmental regulation

The consolidated entity's operations are not regulated by any significant environmental regulation under a law of the Commonwealth or of any State or Territory of Australia. The consolidated entity's oil and gas exploration activities are subject to significant environmental regulation under United States of America Federal and State legislation.

The Directors are not aware of any breach of environmental compliance requirements relating to the consolidated entity's activities during the year.

Non-audit services

Deloitte Touche Tohmatsu did not provide non-audit services to the Company during the financial year.

Auditor independence declaration

A copy of the auditor's independence declaration under s.307C of the *Corporation Act 2001* in relation to the audit of the full year is included in this report.

Indemnification and insurance of officers and auditors

During the financial year the Company paid an insurance premium in respect of Directors' and Officers' liability for the current directors and officers including the company secretary. Under the terms of the policy the premium amount, coverage and other terms of the policy have been agreed to be confidential and not to be disclosed.

The Company has not otherwise, during or since the financial year, except to the extent permitted by law, indemnified or agreed to indemnify an officer or auditor of the Company or of any related body corporate against a liability incurred as such an officer or auditor.

Significant changes in the state of affairs

During the financial year, there were no significant changes in the state of affairs of the consolidated entity, other than those set out in the Review of Operations.

BYRON ENERGY LIMITED

Directors' Report

Directors' meetings

The charter for the Audit and Risk Management Committee was adopted on 12 July 2007 and most recently amended on 25 June 2014. The current members of the committee consist of Paul Young (Chairman) and Charles Sands.

During the year there was seven Board meetings and four Audit and Risk Management Committee meetings held. The numbers of meetings attended by each director were as follows:

Directors	Board of directors		Audit and Risk Management Committee	
	Entitled to attend	Attended	Entitled to attend	Attended
Douglas G. Battersby	4	4	-	-
Maynard V. Smith	4	4	-	-
Prent H. Kallenberger	4	4	-	-
Charles J. Sands	4	2	4	4
Paul A. Young	4	3	4	4
William R. Sack	4	3	-	-

REMUNERATION REPORT – AUDITED

This remuneration report, which forms part of the directors' report, sets out information about the remuneration of the Group's directors and other key management personnel for the financial year ended 30 June 2018. The prescribed details for each person covered by this report are detailed below.

Details of directors and other key management personnel

Directors and other key management personnel of the Company during and since the end of the financial year are as follows

Directors

Douglas G. Battersby
Maynard V. Smith
Prent H. Kallenberger
Charles J. Sands
Paul A. Young
William R. Sack

Key management personnel

Nick Filipovic – Chief Financial Officer and Company Secretary

The remuneration report is set out below under the following main headings:-

- A. Principles and agreements; and
- B. Remuneration of directors and other key management personnel

A. Principles and agreements

Remuneration levels are set to attract and retain appropriately qualified and experienced directors and executives. The board is responsible for remuneration policies and practices. The board may seek independent advice on remuneration policies and practices, including compensation packages and terms of employment.

The directors' and key management personnel remuneration levels are not directly dependent upon the Company or consolidated entity's performance or any other performance conditions.

Directors' remuneration is inclusive of committee fees.

BYRON ENERGY LIMITED

Directors' Report

REMUNERATION REPORT – AUDITED (CONTINUED)

Additional information

The Corporations Act requires disclosure of the Company's remuneration policy to contain a discussion of the Company's earnings and performance and the effect of the Company's performance on shareholder wealth in the reporting period and the four previous financial years. The table below provides a five year financial summary.

	30 June 2014	30 June 2015	30 June 2016	30 June 2017	30 June 2018
	<u>US\$</u>	<u>US\$</u>	<u>US\$</u>	<u>US\$</u>	<u>US\$</u>
Revenue (net of royalties)	-	-	-	-	9,544,507
Net profit (loss) before tax	(7,305,087)	(4,238,855)	(30,944,243)	(5,357,583)	1,298,968
Net profit (loss) after tax	(7,305,087)	(4,238,855)	(30,944,243)	(5,357,583)	1,298,968
Share price at start of year	A\$0.405	A\$0.70	A\$0.23	A\$0.15	A\$0.095
Share price at end of year	A\$0.70	A\$0.23	A\$0.15	A\$0.095	A\$0.355
Basic earnings per share	(US\$0.057)	(US\$0.029)	(US\$0.147)	(US\$0.02)	US\$0.0022
Diluted earnings per share	(US\$0.057)	(US\$0.029)	(US\$0.147)	(US\$0.02)	US\$0.0022

(i) Non-executive directors

The ASX Listing Rules provide that the aggregate remuneration of non-executive directors shall be determined from time to time by a general meeting of shareholders. The latest determination was at the extraordinary general meeting held on 22 April 2013 when shareholders approved an aggregate remuneration of A\$300,000 per annum.

The amount of aggregate remuneration sought to be approved by shareholders and the fee structure is reviewed annually.

The Chairman, Douglas Battersby, is paid an annual non-executive director's fee of A\$80,000, paid pro-rata on a quarterly basis, as well as costs relating to performance of duties as a director.

Non-executive directors, Charles Sands and Paul Young, are paid an annual non-executive director's fee of A\$40,000 each, paid pro-rata on a quarterly basis, as well as costs relating to performance of duties as a director.

There are no termination or retirement benefits for non-executive directors (other than statutory superannuation where applicable).

(ii) Executive directors and key management personnel

Remuneration levels of executive directors and key management personnel are set to attract and retain appropriately qualified and experienced directors and executives. This involves assessing the appropriateness of the nature and amount of remuneration on a periodic basis by reference to market conditions, length of service and particular experience of the individual concerned.

Remuneration packages may include a mix of fixed and variable remuneration, short and long term performance based incentives. The remuneration packages are reviewed annually by the board as required.

Remuneration and other terms of employment of the Chief Executive Officer (Maynard Smith), Executive Director and Chief Operating Officer (Prent Kallenberger), Executive Director (William Sack) and the CFO/Company Secretary (Nick Filipovic) are detailed below.

BYRON ENERGY LIMITED

Directors' Report

REMUNERATION REPORT – AUDITED (CONTINUED)

Fixed remuneration for executive directors and key management personnel

Maynard Smith

The Company entered into a service agreement with Maynard Smith via a company of which Mr Smith is a director. Mr Smith's contract is for a period of two years at an annual rate of A\$240,000 plus reasonable and justifiable business expenses commencing on 24 May 2013 with an automatic extension for a further one year unless the parties elect to terminate the contract at the end of two years. The contract is further terminable by either party "for cause" immediately on notice and otherwise "without cause" on 120 days' notice. As announced to the ASX on 30 May 2016, Mr Smith agreed to extend his contract with the Company for a further six months until 24 November 2016. Effective 1 April 2015, Mr Smith's service agreement fee was reduced by one third to A\$160,000 per annum plus reasonable and justifiable business expenses. Since 24 November 2016, Mr Smith has continued in his role as CEO on a service fee of A\$160,000 per annum plus reasonable and justifiable business expenses. On 15 September 2017, the Company announced that Mr Smith had entered into a new service agreement, for 3 years commencing on 15 September 2017. Under the new service agreement Mr Smith's service fee will continue at the current rate of A\$160,000 per annum in fixed service fees and will be reviewed after production at SM 71 commences. In addition, Mr Smith will be eligible to participate in the Company's short and long term incentive scheme as determined by the Board from time to time.

On 26 June 2018 the Company announced that the annual service fee payable in respect of Mr Smith's services has been increased from A\$160,000 to A\$550,000 (excluding GST) per annum, effective 1 July 2018. All other terms and conditions of the service agreement remain unchanged.

Prent Kallenberger

The Company entered into an employment agreement with Prent Kallenberger. Mr Kallenberger's contract is for a period of two years, at annual rate of US\$350,000 plus medical insurance and reasonable and justifiable business expenses commencing on 24 May 2013 with an automatic extension for a further one year unless the parties elect to terminate the contract at the end of two years. The contract is further terminable by the Company "for cause" immediately on notice and otherwise "without cause" on 90 days' notice. As announced to the ASX on 30 May 2016, Mr Kallenberger agreed to extend his contract with the Company for a further six months until 24 November 2016. Effective 1 April 2015, Mr Kallenberger's service agreement remuneration was reduced by one third to US\$234,000 per annum plus medical insurance and reasonable and justifiable business expenses. Since 24 November 2016 Mr Kallenberger has continued in his role with remuneration at a rate of US\$234,000 per annum plus medical insurance and reasonable and justifiable business expenses. On 15 September 2017, the Company announced that Mr Kallenberger had entered into a new service agreement, for 3 years commencing on 15 September 2017. Under the new service agreement, Mr Kallenberger's remuneration will be reinstated to its former level of US\$350,000 per annum in fixed remuneration plus medical insurance. In addition, Mr Kallenberger will be eligible to participate in the Company's short and long term incentive scheme as determined by the Board from time to time.

William Sack

The Company entered into an employment agreement with William Sack. Mr Sack's contract is for a period of two years, at annual rate of US\$350,000 plus medical insurance and reasonable and justifiable business expenses commencing on 3 October 2014 with an automatic extension for a further one year unless the parties elect to terminate the contract at the end of two years. The contract is further terminable by the Company "for cause" immediately on notice and otherwise "without cause" on 90 days' notice. Effective 1 April 2015, Mr Sack's service agreement remuneration was reduced by one third to US\$234,000 per annum plus medical insurance and reasonable and justifiable business expenses. On 15 September 2017, the Company announced that Mr Sack had entered into a new service agreement for 3 years commencing on 15 September 2017. Under the new service agreement, Mr Sack's remuneration will be reinstated to its former level of US\$350,000 per annum in fixed remuneration plus medical insurance. In addition, Mr Sack will be eligible to participate in the Company's short and long term incentive scheme as determined by the Board from time to time.

Nick Filipovic

The Company has entered into a formal letter agreement with Nick Filipovic. Under Mr Filipovic's letter of engagement, he is entitled to a gross salary of A\$300,000 per annum plus superannuation at the statutory rate. Byron may terminate Mr Filipovic's employment at any time by giving 90 days' notice or in case of serious misconduct employment may be terminated without notice. Should Mr Filipovic resign from Byron he will need to give 90 days' notice. Effective 1 April 2015, Mr Filipovic's remuneration was reduced by one third and to A\$200,000 per annum, plus superannuation at the statutory rate. Commencing on 1 October 2017, Mr Filipovic's remuneration under his letter of engagement was reinstated to its former level of A\$300,000 per annum plus superannuation at statutory rate.

BYRON ENERGY LIMITED

Directors' Report

REMUNERATION REPORT – AUDITED (CONTINUED)

B. Remuneration of directors and key management personnel

Options

The executive directors were granted 6,300,000 share options each, following shareholder approval at the EGM held on 18 September 2018, in consideration for entering into new 3 year service agreements and in recognition of a successful discovery at SM 71, new lease acquisitions and completion of a successful fund raising. The exercise price of the share options of A\$ 0.12 cents was a premium of 71% over the share price at the time of the announcement of the option issue. The Board considers the number of share options granted to the executive directors is commensurate with their value to the Company and the potential for them to increase shareholder value. In addition, 3,780,000 share options were granted to the CFO and Company Secretary, in recognition of his contribution to the Company, which the Board considers to be commensurate with his value to the Company and the potential for him to increase shareholder value. No options were exercised during the financial year. There are no Employee Share Option plans in place.

At the end of the financial year, the following share-based payment arrangements were in existence:

<u>Grantee</u>	<u>Number</u>	<u>Grant date</u>	<u>Vesting date</u>	<u>Expiry date</u>	<u>Exercise price</u>	<u>Fair value at grant date</u>
M. Smith	2,500,000	24 Nov 2016	24 Nov 2016	31 Dec 2019	\$A0.25	A\$0.0489
M. Smith	6,300,000	18 Sept 2017	18 Sept 2017	31 Dec 2021	\$A0.12	A\$0.0555
P. Kallenberger	2,500,000	24 Nov 2016	24 Nov 2016	31 Dec 2019	\$A0.25	A\$0.0489
P. Kallenberger	6,300,000	18 Sept 2017	18 Sept 2017	31 Dec 2021	\$A0.12	A\$0.0555
W. Sack	2,500,000	24 Nov 2016	24 Nov 2016	31 Dec 2019	\$A0.25	A\$0.0489
W. Sack	1,700,000	15 Feb 2016	15 Feb 2016	30 Sept 2018	\$A0.25	A\$0.0959
W. Sack	6,300,000	18 Sept 2017	18 Sept 2017	31 Dec 2021	\$A0.12	A\$0.0555
N. Filipovic	1,000,000	24 Nov 2016	24 Nov 2016	31 Dec 2019	\$A0.25	A\$0.0489
N. Filipovic	3,780,000	18 Sept 2017	18 Sept 2017	31 Dec 2021	\$A0.12	A\$0.0555

These options are transferrable and not quoted. They may be exercised at any time after vesting date.

The following table summarises the value of remuneration options granted during the year. Other than the value of options granted in the table below, there were no other directors and other key management personnel options granted or exercised during the year.

<u>Grantees</u>	<u>Value of options granted in US\$*</u>
Mr M. V. Smith	270,921
Mr P. Kallenberger	270,921
Mr W. R. Sack	270,921
Mr N. Filipovic	162,552

*The value of the options granted to a director as part of their remuneration is calculated as at the grant date in accordance with AASB 2 using a binomial pricing model.

Other transactions with key management personnel of the Group

During the year, the Company entered into unsecured loan agreements, bearing interest at 10% per annum, with three of the Company's directors, for a total drawdown of US\$1,000,000 and A\$520,000. The loans were outstanding on 30 June 2018 and due for repayment in October 2018. The individual directors' transactions and balances for these loans were:-

- Veruse Pty Ltd, a company controlled by Mr Douglas Battersby, provided an unsecured loan of A\$520,000 to the Company; and interest charges of A\$7,693 have been accrued as at 30 June 2018;
- Geogeny Pty Ltd, a company controlled by Mr Maynard Smith, provided an unsecured loan of US\$500,000 to the Company; and interest charges of US\$9,178 have been accrued as at 30 June 2018; and.
- Charles Sands, provided an unsecured loan of US\$500,000 to the Company; and interest charges of US\$8,384 (net of withholding taxes) have been accrued as at 30 June 2018.

BYRON ENERGY LIMITED
Directors' Report

REMUNERATION REPORT – AUDITED (CONTINUED)

	<u>Short term employee benefits</u>				<u>Post employment benefits</u>	<u>Share-based payments</u>	
	Salaries & fees	Short term cash incentive	Other Benefits	Service Agreements	Super-annuation	100% vested share options	Total
	US\$	US\$	US\$	US\$	US\$	US\$	US\$
2018							
Directors							
D. G. Battersby	-	-	-	62,024	-	-	62,024
M. S. Smith	-	-	-	124,048	-	270,921	394,969
P. H. Kallenberger	321,000	-	27,786	-	-	270,921	619,707
C. J. Sands	31,012	-	-	-	-	-	31,012
P. A. Young	31,012	-	-	-	2,946	-	33,958
W. R. Sack	321,000	-	24,400	-	-	270,921	616,321
Key management personnel							
N. Filipovic	213,208	-	-	-	20,255	162,552	396,015
	917,232	-	52,186	186,072	23,201	975,315	2,154,006

	<u>Short term employee benefits</u>				<u>Post employment benefits</u>	<u>Share-based payments</u>	
	Salaries & fees	Short term cash incentive	Other Benefits	Service Agreements	Super-annuation	100% vested share options	Total
	US\$	US\$	US\$	US\$	US\$	US\$	US\$
2017							
Directors							
D. G. Battersby	-	-	-	60,360	-	-	60,360
M. S. Smith	-	-	-	120,720	-	92,218	212,938
P. H. Kallenberger	243,667	-	26,805	-	-	92,218	362,690
C. J. Sands	30,180	-	-	-	-	-	30,180
P. A. Young	30,180	-	-	-	2,867	-	33,047
W. R. Sack	243,667	-	19,000	-	-	92,218	354,885
Key management personnel							
N. Filipovic	150,900	-	-	-	14,336	36,887	202,123
	698,594	-	45,805	181,080	17,203	313,541	1,256,223

Bonuses

No bonuses were granted during the financial year ended 30 June 2018 (2017: nil).

BYRON ENERGY LIMITED

Directors' Report

REMUNERATION REPORT – AUDITED (CONTINUED)

Additional Information - key management personnel equity and share option holdings

The interests of each director and other key management personnel (directly and indirectly), in the shares and options of Byron Energy Limited are as follows:

Ordinary Shares

Director / Key Management Personnel	Balance on 1 July 2017 <u>Number</u>	Granted as compensation <u>Number</u>	Received on exercise of options <u>Number</u>	Placement of shares* <u>Number</u>	Balance on 30 June 2018 <u>Number</u>
D. G. Battersby	30,123,203	-	-	18,000,000	48,123,203
M. V. Smith	18,027,868	-	-	14,285,715	32,313,583
P. H. Kallenberger	1,732,223	-	-	-	1,732,223
C. J. Sands	11,865,997	-	-	7,900,000	19,765,997
P. A. Young	9,926,617	-	-	8,729,014	18,655,631
W. R. Sack	700,000	-	-	1,200,000	1,900,000
N. Filipovic	584,788	-	-	-	584,788

*Subscriptions for new shares via a placement.

During the financial year, no shares were granted to directors or other key management personnel of the Company.

Share options over ordinary shares

Director / Key Management Personnel	Balance on 1 July 2017 <u>Number</u>	Granted as compensation <u>Number</u>	Exercise of options <u>Number</u>	Expired <u>Number</u>	Balance on 30 June 2018 <u>Number</u>
M. V. Smith	2,500,000	6,300,000	-	-	8,800,000
P. H. Kallenberger	2,500,000	6,300,000	-	-	8,800,000
W. R. Sack	5,900,000	6,300,000	-	(1,700,000)	10,500,000
N. Filipovic	1,000,000	3,780,000	-	-	4,780,000

During the financial year, Messers Smith, Kallenberger and Sack were each granted 6,300,000 share options and the Nick Filipovic was granted 3,780,000 share options. All share options granted were approved at a Company EGM.

End of Remuneration Report.

BYRON ENERGY LIMITED
Directors' Report

This Directors' Report is signed in accordance with a resolution of directors made pursuant to s.298(2) of the Corporations Act 2001.

On behalf of the directors

A handwritten signature in dark ink, appearing to read 'D. G. Battersby', with a long horizontal flourish extending to the right.

D. G. Battersby
Chairman

25 September 2018

25 September 2018

The Board of Directors
Byron Energy Limited
Level 4, 480 Collins Street
MELBOURNE VIC 3000

Dear Board Members

Byron Energy Limited

In accordance with section 307C of the *Corporations Act 2001*, I am pleased to provide the following declaration of independence to the directors of Byron Energy Limited.

As lead audit partner for the audit of the financial statements of Byron Energy Limited for the financial year ended 30 June 2018, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- (ii) any applicable code of professional conduct in relation to the audit.

Yours sincerely



DELOITTE TOUCHE TOHMATSU



Craig Bryan
Partner

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee, and its network of member firms, each of which is a legally separate and independent entity. Please see www.deloitte.com/au/about for a detailed description of the legal structure of Deloitte Touche Tohmatsu Limited and its member firms.

The entity named herein is a legally separate and independent entity. In providing this document, the author only acts in the named capacity and does not act in any other capacity. Nothing in this document, nor any related attachments or communications or services, have any capacity to bind any other entity under the 'Deloitte' network of member firms (including those operating in Australia).

Liability limited by a scheme approved under Professional Standards Legislation.

Member of Deloitte Touche Tohmatsu Limited

BYRON ENERGY LIMITED

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

		Consolidated	
	Note	2018 US\$	2017 US\$
Continuing operations			
Revenues from sale of oil and gas		11,743,399	-
Royalty expense		(2,198,892)	-
Cost of sales	2	(1,807,414)	-
Gross profit		7,737,093	-
Recoupment of operator overheads		251,084	
Corporate and administration costs		(1,671,486)	(1,503,082)
Impairment expense		(1,746,863)	(1,241,717)
Share based payments		(1,441,662)	(754,493)
Depreciation / amortisation of property, plant & equipment		(20,710)	(15,957)
Other expenses		(751,881)	(1,220,724)
Earnings before interest and tax (EBIT)	2	2,355,575	(4,735,973)
Financial income	3	15,425	12,398
Financial expense	3	(1,072,032)	(634,008)
Profit before tax		1,298,968	(5,357,583)
Income tax expense	4	-	-
Profit for the year from continuing operations		1,298,968	(5,357,583)
Other comprehensive income, net of income tax			
<i>Items that may subsequently be reclassified to profit and loss</i>			
Exchange differences on translating the parent entity group		135,435	(144,321)
Total comprehensive profit for the year		1,434,403	(5,501,904)
Earnings per share			
Basic (cents per share)	5	0.22	(2.0)
Diluted (cents per share)	5	0.22	(2.0)

The accompanying notes form part of these financial statements.

BYRON ENERGY LIMITED
CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT 30 JUNE 2018

		Consolidated	
	Note	2018	2017
		US\$	US\$
Assets			
Current assets			
Cash and cash equivalents	18(b)	2,256,958	3,395,501
Trade and other receivables	6	6,208,427	1,026,142
Other	7	<u>855,215</u>	<u>665,930</u>
Total current assets		<u>9,320,600</u>	<u>5,087,573</u>
Non-current assets			
Other	7	732,062	475,289
Exploration and evaluation assets	8(a)	3,937,828	2,421,473
Oil and gas properties	8(b)	26,174,962	5,896,622
Property, plant and equipment	9	39,118	36,921
Other intangible assets	10	<u>32,082</u>	<u>1,778</u>
Total non-current assets		<u>30,916,052</u>	<u>8,832,083</u>
Total assets		<u>40,236,652</u>	<u>13,919,656</u>
Liabilities			
Current liabilities			
Trade and other payables	11	4,956,559	2,329,884
Provisions	12	131,112	828,601
Borrowings	13	<u>4,750,992</u>	<u>2,307,600</u>
Total current liabilities		<u>9,838,663</u>	<u>5,466,085</u>
Non-current liabilities			
Provisions	12	1,184,180	127,758
Borrowings	13	<u>707,186</u>	<u>3,998,400</u>
Total non-current liabilities		<u>1,891,366</u>	<u>4,126,158</u>
Total liabilities		<u>11,730,029</u>	<u>9,592,243</u>
Net assets		<u>28,506,623</u>	<u>4,327,413</u>
Equity			
Issued capital	14	99,296,931	77,993,786
Foreign currency translation reserve	15	(152,653)	(288,088)
Share option reserve	15	4,694,257	3,252,595
Accumulated losses		<u>(75,331,912)</u>	<u>(76,630,880)</u>
Total equity		<u>28,506,623</u>	<u>4,327,413</u>

The accompanying notes form part of these financial statements.

BYRON ENERGY LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

	Ordinary share capital US\$	Share option reserve US\$	Foreign currency translation reserve US\$	Accumulated losses US\$	Total US\$
Consolidated entity					
Balance at 1 July 2016	74,040,848	2,498,102	(143,767)	(71,273,297)	5,121,886
Loss for the year	-	-	-	(5,357,583)	(5,357,583)
Exchange differences arising on translation of the parent entity	-	-	(144,321)	-	(144,321)
Total comprehensive loss for the year	-	-	(144,321)	(5,357,583)	(5,501,904)
The issue of 36,916,167 shares under a placement at A\$0.13 per share	3,628,601	-	-	-	3,628,601
The issue of 5,474,617 shares under a placement at A\$0.13 per share	527,228	-	-	-	527,228
Recognition of share-based payments	-	754,493	-	-	754,493
Equity raising costs	(202,891)	-	-	-	(202,891)
Balance at 30 June 2017	77,993,786	3,252,595	(288,088)	(76,630,880)	4,327,413
Balance at 1 July 2017	77,993,786	3,252,595	(288,088)	(76,630,880)	4,327,413
Profit for the year	-	-	-	1,298,968	1,298,968
Exchange differences arising on translation of the parent entity	-	-	135,435	-	135,435
Total comprehensive profit for the year	-	-	135,435	1,298,968	1,434,403
The issue of 378,970,262 shares under a placement at A\$0.07 per share	20,771,360	-	-	-	20,771,360
The issue of 28,569,610 shares under a SPP at A\$0.07 per share	1,565,900	-	-	-	1,565,900
Recognition of share-based payments	-	1,441,662	-	-	1,441,662
Equity raising costs	(1,034,115)	-	-	-	(1,034,115)
Balance at 30 June 2018	99,296,931	4,694,257	(152,653)	(75,331,912)	28,506,623

The accompanying notes form part of these financial statements.

BYRON ENERGY LIMITED

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

	Note	Consolidated 2018 US\$	2017 US\$
Cash flows from operating activities			
Receipts from customers		7,746,143	-
Payments to suppliers and employees		(4,326,903)	(2,777,225)
Interest paid		(803,503)	(327,630)
Interest received		8,717	2,213
Net cash flows from (used in) operating activities	18(a)	2,624,454	(3,102,642)
Cash flows from investing activities			
Payments for development of oil and gas properties		(20,769,582)	-
Payments for exploration and evaluation assets		(3,278,167)	(4,353,697)
Payments for property, plant and equipment		(53,600)	-
Net cash flows used in investing activities		(24,101,349)	(4,353,697)
Cash flows from financing activities			
Proceeds from issues of ordinary shares		22,337,260	4,155,828
Payment of equity raising costs		(1,034,115)	(202,891)
Redemption of convertible notes		(2,342,900)	-
Proceeds from borrowings		1,390,676	6,010,400
Net cash flows from financing activities		20,350,921	9,963,337
Net increase (decrease) in cash and cash equivalents held		(1,125,974)	2,506,998
Cash and cash equivalents at the beginning of the year		3,395,501	883,398
Effect of exchange rate changes on the balance of cash held in foreign currencies		(12,569)	5,105
Cash and cash equivalents at the end of the year	18(b)	2,256,958	3,395,501

The accompanying notes form part of these financial statements.

BYRON ENERGY LIMITED
Notes to the Financial Statements

**NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR
ENDED 30 JUNE 2018**

Note Contents

1. Summary of significant accounting policies
2. Profit for the year
3. Financial income and expenses
4. Income tax
5. Earnings per share
6. Trade and other receivables
7. Other assets
8. (a). Exploration and evaluation assets (b). Oil and gas properties
9. Property, plant and equipment
10. Other intangible assets
11. Trade and other payables
12. Provisions
13. Borrowings
14. Issued capital
15. Reserves
16. Franking credits
17. Expenditure commitments
18. Cash flow reconciliation
19. Controlled entities
20. Foreign currency translation
21. Contingent liabilities
22. Share-based payments
23. Employee benefits and superannuation commitments
24. Auditors' remuneration
25. Key management personnel compensation
26. Related party transactions
27. Financial instruments
28. Segment information
29. Parent entity information
30. Operating lease arrangements
31. Interests in joint operations
32. Subsequent events

BYRON ENERGY LIMITED

Notes to the Financial Statements

1. Summary of significant accounting policies

Statement of compliance

These financial statements are general purpose financial statements which have been prepared in accordance with the Corporations Act 2001, Accounting Standards and Interpretations, and comply with other requirements of the law.

The financial statements comprise of the consolidated financial statements of the Group. For the purposes of preparing the consolidated financial statements, the Company is a for-profit entity.

Accounting Standards include Australian Accounting Standards. Compliance with Australian Accounting Standards ensures that the financial statements and notes of the Company and Group comply with International Financial Reporting Standards ('IFRS').

The financial statements were authorised for issue by the directors on 25 September 2018.

The following significant policies have been adopted in the preparation and presentation of the financial statements:

Basis of preparation

The financial report has been prepared on the basis of historical cost. Historical cost is based on the fair values of the consideration given in exchange for goods and services. 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. All amounts are presented in United States of America dollars, unless otherwise noted.

Critical accounting judgments and key sources of estimation uncertainty

The preparation of the consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expense. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods effected.

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in Notes 1 (c) Oil and gas properties (amortisation based upon estimates of proved and probable reserves), 1 (d) Impairment and 1 (n) Provisions (site restoration).

Adoption of new and revised Accounting Standards

The Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to their operations and effective for the current year

New and revised Standards and amendments thereof and Interpretations effective for the current year that are relevant to the Group include:

Standard/Interpretation

AASB 1048 'Interpretation of Standards'

AASB 2016-2 'Disclosure Initiative: Amendments to AASB 107'

AASB 2016-1 'Recognition of Deferred Tax Assets for Unrealised Losses'

AASB 2017-2 'Further annual improvements 2014 - 2016'

AASB 15 'Revenue from Contracts with Customers, AASB 2014-5 Amendments to Australian Accounting Standards arising from AASB 15, AASB 2015-8 Effective date of AASB 15, AASB 2016-3 Clarifications to AASB 15'

The adoption of all new and revised Standards and Interpretations has not resulted in any changes to the Groups accounting policies and has no effect on the amounts reported for the current year.

BYRON ENERGY LIMITED

Notes to the Financial Statements

1. Summary of significant accounting policies (continued)

Standards and Interpretations in issue not yet adopted

At the date of authorisation of the financial statements, the Standards and Interpretations relevant to the Group that were in issue but not yet effective are listed below.

The consolidated entity does not expect a material impact on its consolidated financial statements resulting from the application of the following standards.

Standard/Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
AASB 9 'Financial Instruments' 2014	1 January 2018	30 June 2019
AASB 2016-5 Classification and Measurement of Share-based Payment Transactions	1 January 2018	30 June 2019
AASB 2018-1 Amendments to Australian Accounting Standards – Annual Improvements 2015–2017 Cycle	1 January 2019	30 June 2019
AASB 16 'Leases'	1 January 2019	30 June 2020

Standards and Interpretations issued not yet effective – IASB and IFRIC Interpretations

At the date of authorisation of the financial statements, the following IASB Standards and IFRIC Interpretations (for which Australian equivalent Standards and Interpretations have not yet been issued) were in issue but not yet effective:

Standard/Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
Amendments to References to the Conceptual Framework in IFRS Standards	1 January 2020	30 June 2021

BYRON ENERGY LIMITED

Notes to the Financial Statements

1. Summary of significant accounting policies (continued)

The following significant accounting policies have been adopted in the preparation and presentation of the financial report:

(a) Basis of consolidation

Subsidiaries

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (referred to as 'the consolidated entity' or 'the Group' in these financial statements). Control is achieved where the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the consolidated entity.

Joint operating arrangements

Joint operating arrangements are those legal entities over whose activities the consolidated entity has joint control, established by contractual agreement. The interest of the consolidated entity in unincorporated joint operating arrangements are brought to account by recognising in its financial statements, its respective share of the assets it controls, the liabilities and the expenses it incurs and its share of income that it earns from the sale of goods or services by the joint operating arrangements.

Transactions eliminated on consolidation

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

(b) Exploration and evaluation expenditure

Exploration and evaluation costs, including the costs of acquiring leases, are intangible assets capitalised as exploration and evaluation assets on an area of interest basis. Costs incurred before the consolidated entity has obtained the legal rights to explore an area are recognised in the income statement.

Exploration and evaluation assets are only recognised if the rights of the area of interest are current and either:-

- (i) the expenditures are expected to be recouped through successful development and exploitation of the area of interest; or alternatively, by its sale; or
- (ii) activities in the area of interest have not, at the reporting date, reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operations in, or in relation to, the area of interest are continuing.

Exploration and evaluation assets are initially measured at cost and include acquisition of rights to explore, lease rental payments, seismic and other expenditure to provide legal tenure of the area of interest.

When an area of interest is abandoned or the directors decide that it is not commercial, any capitalised costs in respect of that area are written off in the financial period the decision is made.

Exploration and evaluation assets are assessed for impairment if:-

- (i) sufficient data exists to determine technical feasibility and commercial viability, and
- (ii) facts and circumstances suggest that the carrying amount exceeds the recoverable amount.

BYRON ENERGY LIMITED

Notes to the Financial Statements

1. Summary of significant accounting policies (continued) / Exploration and evaluation expenditure (continued)

For the purposes of impairment testing, exploration and evaluation assets are allocated to cash-generating units to which the exploration activity relates. The cash generating unit shall not be larger than the area of interest.

Once the technical feasibility and commercial viability of the extraction of oil and gas reserves relating to a prospect are demonstrable and development is proceeding, exploration and evaluation assets attributable to that prospect are first tested for impairment and then reclassified assets to oil and gas assets.

All other exploration and evaluation costs are expensed as incurred.

(c) Oil and gas properties

The cost of oil and gas producing assets include acquisition and capitalised development costs that are directly attributable to the accessing and production of the proved and probable oil and gas reserves.

In addition, costs include:-

- (i) the initial estimate at the time of installation or acquisition and during the period of use, when relevant of the costs of dismantling and removing the items and restoring the site on which they are located, and
- (ii) changes in the measurement of existing liabilities recognised for these costs resulting from changes in the timing or outflow of resources required to settle the obligation or from changes in the discount rate.

Amortisation

When an oil and gas asset commences commercial production, all acquisition and/or costs carried forward will be amortised on a units of production of basis over the remaining proved and probable recoverable reserves ("2P"). The remaining 2P reserves are measured by external independent petroleum engineers.

Changes in factors that affect amortisation calculations do not give rise to prior financial period adjustments and are dealt with on a prospective basis.

(d) Impairment

The carrying amounts of the company's and the consolidated entity's non-financial assets, except exploration and evaluation expenditure, are reviewed each balance date or when there is an indication of an impairment loss, to determine whether they are in excess of their recoverable amount. An impairment loss is recognised whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount.

Calculation of the recoverable amount

The recoverable amount of an asset is the greater of its fair value less cost to sell and value in use. In assessing the value in use, the estimated future cash flows are discounted to their present value using a post-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss. Refer to note 8 for further details.

Reversals of impairment

Impairment losses are reversed when there has been a change in the estimates used to determine recoverable amounts.

An impairment loss is reversed only to the extent that the asset's carrying value does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(e) Leased assets

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and benefits of ownership to the lessee. All other leases are classified as operating leases. Operating lease payments are recognised as an expense on a straight line basis over the lease term.

BYRON ENERGY LIMITED

Notes to the Financial Statements

1. Summary of significant accounting policies (continued)

(f) Foreign currency

Functional and presentation currency

Items included in the financial statements of each of the consolidated entity's subsidiaries are measured using the currency of the primary economic environment in which the subsidiaries operate ("the functional currency"). The functional currency of the Company is Australian dollars (A\$) and the functional currency of the Company's overseas subsidiaries is United States dollars (US\$).

The financial statements are presented in United States dollars. The consolidated entity believes the US dollar is the best measure of performance for the Group because oil and gas, the consolidated entity's dominant sources of revenue are priced in US\$ and the consolidated entity's main operations are based in the USA with costs incurred in US\$.

Prior to consolidation, the results and financial position of each entity within the consolidated entity are translated from the functional currency into the consolidated entity's presentation currency as follows:-

- asset and liabilities of the non US\$ denominated balance sheet are translated at the closing rate at the date of that balance sheet;
- income and expenses for the non US\$ denominated income statement is translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case the income and expenses are translated at the dates of the transactions);
- components of equity are translated at the historical rates; and
- all resulting exchange differences are recognised as a separate component of equity.

Foreign currency transactions and balances

Foreign currency transactions are translated into the functional currency at the exchange rates prevailing at the date of the transaction. Monetary asset and liabilities denominated in foreign currencies at the balance sheet date are translated to the respective functional currency at the foreign exchange rate at that date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities are recognised in the statement of comprehensive income.

Non-monetary asset and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Foreign exchange gains and losses arising from a monetary item receivable from or payable to a foreign operation, the settlement of which is neither nor likely in the foreseeable future, are considered to form part of the net investment in a foreign operation are recognised directly in equity in the foreign currency translation reserve.

Interest bearing loans and borrowings repayable in fixed currency denominations

Interest bearing loans and borrowings are initially measured at fair value, net of transaction costs. As some of the loans from shareholders are legally repayable in non-functional or non United States currency denominations, any unrealised foreign currency exchange gains and losses emanating from the recognition of the amounts required to settle these future obligations are recognised in the profit and loss.

(g) Cash and cash equivalents

Cash comprises cash on hand and deposits held at call with financial institutions. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash, which are subject to an insignificant risk of changes in value.

(h) Share based payments

Equity settled share based payments with directors, employees and others providing similar services are measured at the fair value of the equity instrument at the grant date. Fair value is measured by use of an appropriate model. A share based payment expense is recognised in profit and loss with a corresponding increase in equity at grant date where the share based payment arrangements vest immediately.

BYRON ENERGY LIMITED

Notes to the Financial Statements

1 Summary of significant accounting policies (continued)

(i) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable.

Sale of oil and gas revenue

Revenue associated with the sale of crude oil, natural gas, condensate and natural gas liquids (“NGLs”) owned by the Company is recognized when title is transferred from the Company to its customers under short-term contracts (less than 12 months). Revenue is measured at the fair value of the consideration received or receivable. Revenue from the sale of crude oil, natural gas, condensate and NGLs is recognised when all of the following conditions have been satisfied:

- Byron has transferred the significant risks and rewards of ownership of the goods to the buyer;
- Byron retains no continuing managerial involvement to the degree usually associated with ownership or effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to Byron; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

The Company recognises oil, natural gas and NGL revenues based on its share of the quantities of production, solely owned or under joint ownership, sold to purchasers under short term contracts at market prices.

Interest revenue

Interest revenue is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset’s net carrying amount.

(j) Income tax

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affect neither accounting nor taxable profit/loss, and differences relating to investments in subsidiaries to the extent that they will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at each balance sheet date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

BYRON ENERGY LIMITED

Notes to the Financial Statements

1 Summary of significant accounting policies (continued)

(k) Financial assets

Investments are initially measured at fair value, net of transaction costs. Subsequent to initial recognition, investments in subsidiaries are measured at cost in the Company's financial statements.

Receivables

Receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest method less impairment.

Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired where there is objective evidence that as a result of one or more events that occurred after the initial recognition of the financial asset the estimated future cash flows of the investment have been impacted.

(l) Employee benefits

A liability is recognised for benefits accruing to employees in respect of wages and salaries, annual leave and long service leave when it is probable that settlement will be required and they are capable of being measured reliably.

Liabilities recognised in respect of employee benefits expected to be settled within 12 months, are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Liabilities recognised in respect of employee benefits which are not expected to be settled within 12 months are measured as the present value of the estimated future cash outflows to be made by the consolidated entity in respect of services provided by employees up to reporting date.

Defined contribution plans

Contributions to defined contribution superannuation plans are expensed when employees have rendered service entitling them to the contributions.

(m) Property, plant and equipment (including software)

Buildings held for use in the production or supply of goods or services, or for administrative purposes, are carried in the statement of financial position at cost, less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Plant and equipment are stated at cost less accumulated depreciation and impairment. Construction in progress is stated at cost. Cost includes expenditure that is directly attributable to the acquisition or construction of the item. In the event that settlement of all or part of the purchase consideration is deferred, cost is determined by discounting the amounts payable in the future to their present value as at the date of acquisition.

Depreciation is provided on property, plant and equipment, including freehold buildings but excluding land. Depreciation is calculated on a straight-line basis so as to write off the net cost or other revalued amount of each asset over its expected useful life to its estimated residual value. The estimated useful lives, residual values and depreciation method are reviewed at the end of each annual reporting period, with the effect of any changes recognised on a prospective basis.

The gain or loss arising on disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

The following useful lives are used in the calculation of depreciation:-

Buildings	40 years
Plant and equipment	4 to 10 years
Intangible assets - software	3 years

BYRON ENERGY LIMITED

Notes to the Financial Statements

1 Summary of significant accounting policies (continued)

(n) Provisions

Provisions are recognised when the consolidated entity has a present obligation (legal or constructive) as a result of a past event, it is probable that the consolidated entity will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cashflows estimated to settle the present obligation, its carrying amount is the present value of those cashflows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Site restoration and rehabilitation of oil and gas properties

Provisions made for environmental rehabilitation are recognised where there is a present obligation as a result of exploration, development or production activities having been undertaken and it is probable that an outflow of economic benefits will be required to settle the obligation, and the amount of the provision can be measured reliably. The estimated future obligations include the cost of removing the facilities, abandoning the well(s) and restoring the affected areas. The provision for future restoration is the best estimate of the present value of the expenditure required to settle the obligation at the reporting date, based on current legal requirements and technology. Future restoration costs are reviewed annually; and any changes are reflected in the present value of the restoration provision at the end of the reporting period. The amount of the provision for future restoration costs relating to exploration and producing activities is capitalised as a cost of these activities. The provisions are determined by discounting the expected future cashflows at a pre tax rate that reflects the time value of money. The unwinding of discounting on the provision is recognised as a finance cost rather than being capitalised into the cost of the related asset.

(o) Financial liabilities

Financial liabilities

Financial liabilities, including borrowings and trade and other payables, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Borrowing, finance and interest costs

Borrowing, finance and interest costs comprise interest payable on borrowings calculated using the effective interest rate method, loans transactions costs, lease finance charges, amortisation of discounts or premiums related to the borrowings and the unwinding of discounts on the rehabilitation provisions.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

(p) Issued capital

Issued and paid up capital is recognised at the fair value of the consideration received by the Company.

Transaction costs on the issue of equity instruments

Transaction costs arising on the issue of equity instruments are recognised directly in equity as a reduction of the proceeds of the equity instrument to which the costs relate. Transaction costs are costs that are incurred directly in connection with the issue of those equity instruments and which would not have been incurred had those instruments not been issued.

BYRON ENERGY LIMITED

Notes to the Financial Statements

1 Summary of significant accounting policies (continued)

(q) Reserves

Foreign Currency Translation Reserve

Foreign currency exchange differences relating to the translation of Australian dollars, being the functional currency of the parent entity group into the presentational currency of US dollars for the consolidated entity are brought to account by entries made directly to the foreign currency translation reserve.

Share Option Reserve

The share option reserve arises on the grant of share options to directors, staff, consultants and other service providers to the Group. Amounts are transferred out of the reserve and into issued capital when the options are exercised. Further information about share based payments is made in Note 1(h).

(r) Goods and services tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax ("GST"), except:-

- (i) where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or
- (ii) for receivables and payables which are recognised inclusive of GST.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables.

Cash flows are included in the cash flow statement on a gross basis. The GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the taxation authority is classified as operating cash flows.

BYRON ENERGY LIMITED
Notes to the Financial Statements

	Consolidated	
	2018	2017
	US\$	US\$
2. Profit for the year		
Profit for the year has been arrived at after charging the following items of expense		
<u>Cost of sales</u>		
Lease operating costs	943,506	-
Amortisation of oil and gas properties	863,908	-
	<u>1,807,414</u>	<u>-</u>
Professional and consulting costs	505,616	882,010
Insurance	74,572	58,918
Office lease rental expense	139,217	138,869
<u>Employee benefits expense</u>		
Other employee benefits	1,175,479	824,639
Share based payments (share options issued to executives, staff and consultants)	981,096	324,607
Defined contribution superannuation expense	29,026	22,005
	<u>2,185,601</u>	<u>1,171,251</u>
3. Financial income and expenses		
<u>Financial Income</u>		
Interest income	8,717	2,213
Foreign exchange gain on A\$ denominated loans	6,708	10,185
	<u>15,425</u>	<u>12,398</u>
<u>Financial Expense</u>		
Interest expense	1,046,926	608,494
Unwinding of discount on rehabilitation of oil and gas properties	-	5,990
Interest expense paid or accrued on loans from related parties	25,106	19,524
	<u>1,072,032</u>	<u>634,008</u>

BYRON ENERGY LIMITED
Notes to the Financial Statements

	Consolidated	
	2018	2017
	US\$	US\$
4. Income tax		
Income tax recognised in profit and loss	-	-
The income tax expense / (benefit) for the year can be reconciled to the accounting profit / (loss) as follows:		
Profit / (loss) before tax from continuing operations	1,298,968	(5,357,583)
Income tax expense / (benefit) calculated at 27.5% (2017: 30.0%)	357,216	(1,607,275)
Effect of expenses that are not deductible in determining taxable profit	472,398	241,038
Effect of different tax rates of subsidiaries operating in other jurisdictions	53,558	(304,845)
Effect of unused tax losses and tax offsets not recognised as deferred tax assets	(883,172)	1,671,082
Income tax expense / (benefit) on continuing operations	<u>-</u>	<u>-</u>

Deferred tax assets not recognised

Deferred tax assets not recognised comprises temporary differences and tax losses attributable to:

Australian tax losses	2,570,669	2,409,883
USA tax losses	27,948,337	22,946,390
Temporary differences	(6,113,146)	(294,296)
Total deferred tax assets not recognised	<u>24,405,860</u>	<u>25,061,977</u>

The potential deferred tax asset will only be recognised if:

- (i) the consolidated entity derives future assessable income of a nature and amount sufficient to enable the benefits to be realised, in the jurisdiction in which the losses were incurred;
- (ii) the consolidated entity continues to comply with conditions for tax deductibility imposed by law; and
- (iii) no changes in tax legislation adversely affect the ability of the consolidated entity to realise the tax benefits.

Byron Energy Limited and its 100% owned Australian subsidiary, Byron Energy (Australia) Pty Ltd formed a tax consolidated group effective from 1 July 2013.

5. Earnings per share

The following reflects the profit / (loss) and share data used in calculating basic and diluted earnings per share:

Net profit / (loss) for the year	1,298,968	(5,357,583)
Basic profit / (loss) per share	0.0022	(0.02)
Diluted profit / (loss) per share	<u>0.0022</u>	<u>(0.02)</u>
Weighted average number of ordinary shares	585,536,025	269,675,754
Shares deemed to be issued for no consideration in respect of share options	10,657,622	-
Weighted average number of ordinary shares used in the calculation of diluted earnings per share	<u>596,193,647</u>	<u>269,675,754</u>
Anti-dilutive options on issue not used in the dilutive earnings per share calculation	<u>21,450,000</u>	<u>23,150,000</u>

Options Outstanding

There is partial dilution of shares due to some options issued or outstanding as the potential ordinary shares are anti-dilutive in accordance with AASB 133, paragraph 41 and are therefore not included in the calculation of diluted earnings per share.

BYRON ENERGY LIMITED
Notes to the Financial Statements

Consolidated
2018 **2017**
US\$ **US\$**

6. Trade and other receivables

Oil and gas sales receivables	3,997,256	-
Joint operating arrangements and other receivables	2,196,263	1,013,528
GST receivable	14,908	12,614
	<u>6,208,427</u>	<u>1,026,142</u>

Sales and other debtors are non-interest bearing and are settled within 30 days.

7. Other assets

Current

Prepayments	848,770	102,160
Security deposits	6,445	563,770
	<u>855,215</u>	<u>665,930</u>

Non-Current

Prepayments	-	289
Security deposits	732,062	475,000
	<u>732,062</u>	<u>475,289</u>

8 (a). Exploration and evaluation assets

Costs carried forward in respect of areas in the exploration and/or evaluation phase at cost:

<u>3,937,828</u>	<u>2,421,473</u>
------------------	------------------

Reconciliation of movements:-

Carrying amount at the beginning of the financial year	2,421,473	4,834,429
Additions at cost	3,263,218	1,129,019
Amounts transferred to oil and gas properties	-	(2,300,258)
Impairment expense	(1,746,863)	(1,241,717)
Carrying amount at the end of the financial year	<u>3,937,828</u>	<u>2,421,473</u>

Ultimate recovery of deferred exploration and evaluation costs is dependent upon success in exploration and evaluation or the full or partial sale (including farm-out) of the exploration interests.

The impairment charge covers three leases, one was relinquished in the prior year of which residual restoration costs were incurred in the current year and two other leases were relinquished.

8 (b). Oil and gas properties

Costs carried forward in respect of areas in the oil and gas properties at cost:	<u>26,174,962</u>	<u>5,896,622</u>
--	-------------------	------------------

Reconciliation of movements:-

Carrying amount at the beginning of the financial year	5,896,622	-
Additions at cost	20,846,775	3,300,504
Additions for site restoration	295,473	295,860
Amounts transferred from exploration and evaluation assets	-	2,300,258
Amortisation of oil and gas properties included in cost of sales	(863,908)	-
Carrying amount at the end of the financial year	<u>26,174,962</u>	<u>5,896,622</u>

BYRON ENERGY LIMITED

Notes to the Financial Statements

8 (b). Oil and gas properties (continued)

Recoverable amount

The estimated recoverable amount of all cash generating units in the development or production phase is determined by discounting the estimated future cash flows to their present value using a post-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the assets. The consolidated entity utilises future cash flows as estimated by independent petroleum engineers for this assessment. The key assumptions used include: (i) estimated future production based on proved and probable reserves (2P reserves), (ii) hydrocarbon prices that the consolidated entity estimates to be reasonable, taking into account historical prices, current prices, and prices used in making its exploration and development decisions, and (iii) future operating and development costs as estimated by the Company and reviewed for reasonableness by the independent petroleum engineers.

The estimated recoverable amount of Byron's oil and gas properties is sensitive to a change in estimated recoverable reserves, oil and gas prices, discount rates and cost estimates.

	Consolidated	
	2018	2017
	US\$	US\$
9. Property, plant and equipment		
Buildings at cost	10,797	11,237
Accumulated depreciation	(3,254)	(3,106)
	<u>7,543</u>	<u>8,131</u>
<i>Reconciliation of movements:-</i>		
Carry amount at the beginning of the financial year	8,131	8,121
Depreciation for year	(283)	(275)
Foreign currency translation movements	(305)	285
Carrying amount at the end of the financial year	<u>7,543</u>	<u>8,131</u>
 Plant and equipment at cost	 117,208	 105,625
Accumulated depreciation	(85,633)	(76,835)
	<u>31,575</u>	<u>28,790</u>
<i>Reconciliation of movements:-</i>		
Carry amount at the beginning of the financial year	28,790	39,060
Additions at cost	12,600	-
Depreciation for year	(9,730)	(10,517)
Foreign currency translation movements	(85)	247
Carrying amount at the end of the financial year	<u>31,575</u>	<u>28,790</u>
 Total property, plant and equipment	 <u>39,118</u>	 <u>36,921</u>
 10. Other intangible assets		
Capitalised software costs at cost	102,594	62,112
Accumulated amortisation	(70,512)	(60,334)
	<u>32,082</u>	<u>1,778</u>
<i>Reconciliation of movements:-</i>		
Carry amount at the beginning of the financial year	1,778	6,940
Additions at cost	41,000	-
Amortisation for year	(10,696)	(5,162)
Carrying amount at the end of the financial year	<u>32,082</u>	<u>1,778</u>

BYRON ENERGY LIMITED
Notes to the Financial Statements

Consolidated	
2018	2017
US\$	US\$

11. Trade and other payables

Current

Trade payables	3,131,736	2,011,622
Oil and gas royalties payable	747,833	-
Accrued interest payable on loans from related parties	23,248	-
Insurance premium financing (interest bearing)	1,029,289	276,038
Other payables	24,453	42,224
	<u>4,956,559</u>	<u>2,329,884</u>

Terms and conditions relating to the above financial instruments:

- (i) trade creditors are non-interest bearing and are usually settled on 30 day terms
- (ii) some of the other payables are non-interest bearing and have an average term of 30 days
- (iii) the insurance premium financing bears an average 4.39% fixed interest rate, please see Note 27 (c)

12. Provisions

Current

Accumulated employee entitlements	131,112	87,741
Site restoration SM6	-	740,860
	<u>131,112</u>	<u>828,601</u>

Non-current

Accumulated employee entitlements	61,716	41,897
Site restoration SM71	1,122,464	85,861
	<u>1,184,180</u>	<u>127,758</u>

Site restoration provisions

Reconciliation of movements:-

Carrying amount at the beginning of the financial year	826,721	524,871
Site restoration work undertaken on SM6	(740,860)	-
Unwinding of discount SM6	-	5,990
Additions to SM71 site restoration	1,036,603	295,860
Carrying amount at the end of the financial year	<u>1,122,464</u>	<u>826,721</u>

Provisions are recognised for the Group's restoration obligations at SM71. The estimation of future costs associated with the abandonment and restoration requires the use of estimated costs in future periods that, in some cases, will not be incurred until a number of years into the future. Such cost estimates could be subject to revisions in subsequent years due to regulatory requirements, technological advances and other factors that are difficult to predict. Likewise the appropriate future discount rates used in the calculation are subject to change according to the risks inherent in the liability. The measurement and recognition criteria relating to restoration obligations is described in Note 1 (n).

BYRON ENERGY LIMITED

Notes to the Financial Statements

	Consolidated	
	2018	2017
	US\$	US\$
13. Borrowings		
<u>Current unsecured*</u>		
Loans from related parties	1,384,332	-
<u>Current secured**</u>		
Convertible note – debt liability	2,956,400	2,307,600
Convertible note – derivative liability	410,260	-
Total current borrowings	<u>4,750,992</u>	<u>2,307,600</u>
<u>Non-Current secured**</u>		
Convertible note – debt liability	707,186	3,578,944
Convertible note – derivative liability	-	419,456
Total non-current borrowings	<u>707,186</u>	<u>3,998,400</u>

*During the June 2018 quarter, three of the Company directors made unsecured short term advances to the Company at an interest of 10% per annum. The advances and accrued interest are scheduled for repayment in October 2018. For more details, please refer to the Related Party Transactions note.

**On 22 July 2016, Byron and Metgasco Limited (ASX:MEL) entered into a 3-year agreement to issue up to A\$ 8 million in Convertible Notes (“Convertible Note”), repayable over the course of the agreement. The key financing terms of the agreement are listed below:

- i. Security: the Convertible Note is secured by a General Deed of Security and Priority (over Byron’s assets), a Negative Pledge from Byron and a registered interest over Byron’s share of SM 70/71 leases;
- ii. Interest only for first twelve months from establishment on drawn funds then amortising in eight equal instalments over balance of term;
- iii. Facility Fee: 2.5% of Face Value (A\$ \$200,000), payable on first drawdown under the Facility;
- iv. Line Fee: 2%, payable quarterly in advance, for the first six months of the facility on the Face Value and then, thereafter, on the drawn (outstanding) balance under the Convertible Note;
- v. Coupon: on drawn funds at 12% pa, payable quarterly in arrears;
- vi. Conversion: convertible at Metgasco’s election after eighteen months from initial drawdown with one week’s notice at a 10% discount to the then prevailing 30 day volume weighted average price (“VWAP”) of Byron;
- vii. Repayment: Repayable early by Byron with one month’s notice (a) at any time after 90 days from initial drawdown until expiry of 18 months from initial drawdown at 115% of principal outstanding (along with any accrued interest and line fee), and (b) at any time after 18 months from initial drawdown at 105% of principal outstanding (along with any accrued interest and line fee).

On 20 January 2017, Metgasco subscribed for the full 8.0 million @ A\$1.00 convertible notes (unquoted). The convertible notes are repayable over the remainder of the term of the agreement (that is, by 21 July 2019).

The net proceeds received from the issue of the convertible notes have been split between the financial liability element and an embedded derivative component, representing the residual attributable to the option to convert the financial liability into equity of the Company. The liability component is measured at amortised cost. The net debt liability is amortised by the effective interest rate of 20.90% over the term of the notes and the derivative liability is expensed over the life of the convertible notes.

14. Issued capital

(a) Issued and paid up capital	<u>99,296,931</u>	<u>77,993,786</u>
---------------------------------------	-------------------	-------------------

Changes to the then Corporations Law abolished the authorised capital and par value concept in relation to share capital from 1 July 1998. Therefore, the Company does not have a limited amount of authorised capital and issued shares do not have a par value.

BYRON ENERGY LIMITED
Notes to the Financial Statements

14. Issued capital (continued)

(b) Movement	2018		2017	
	<u>Number</u>	<u>US\$</u>	<u>Number</u>	<u>US\$</u>
Fully paid ordinary shares				
Balance at beginning of the financial year	277,447,162	77,993,786	235,056,378	74,040,848
<u>Shares issued</u>				
The issue of 378,970,262 shares under a placement at A\$0.07 per share	378,970,262	20,771,360		
The issue of 28,569,610 shares under a SPP at A\$0.07 per share	28,569,610	1,565,900		
 The issue of 36,916,167 shares under a placement at A\$0.13 per share			36,916,167	3,628,601
The issue of 5,474,617 shares under a placement at A\$0.13 per share			5,474,617	527,228
Equity raising costs	-	(1,034,115)	-	(202,891)
Balance at end of financial year	684,987,034	99,296,931	277,447,162	77,993,786

(c) Terms and conditions of contributed equity

Ordinary shares

Ordinary shares have the right to receive dividends as declared and, in the event of winding up of the Company, to participate in the proceeds from the sale of all surplus assets in proportion to the number of and amounts paid up on shares held. Ordinary shares entitle their holder to one vote, either in person or by proxy, at a meeting of the Company.

The issued capital of the Company comprises 684,987,034 ordinary shares (2017: 277,447,162). All of the shares are quoted on the ASX.

(d) Share options

Options over ordinary shares

At the end of the financial year, there were 51,800,000 (2017: 23,150,000) unissued ordinary shares in respect of which the following options were outstanding:

<u>Expiry date</u>	<u>Number</u>	<u>Securities</u>	<u>Exercise price</u>
31 December 2019	9,500,000	Unlisted options	A\$0.25
21 July 2019	10,000,000	Unlisted options	A\$0.25
30 September 2018	1,950,000	Unlisted options	A\$0.25
31 December 2021	28,350,000	Unlisted options	A\$0.12
31 December 2021	2,000,000	Unlisted options	A\$0.16
Total	51,800,000		

During the financial year, 28,350,000 share options were issued with an exercise amount of A\$0.12 and a further 2,000,000 share options with an exercise price of A\$0.16 cents were issued; all options issued in the 2018 year will expire on 31 December 2021. No share options were converted into ordinary fully paid shares during the year and 1,700,000 share options with an exercise price of A\$0.65 expired on 30 September 2017.

BYRON ENERGY LIMITED
Notes to the Financial Statements

Consolidated

2018 **2017**
US\$ **US\$**

15. Reserves

Foreign currency translation reserve

Balance at beginning of financial year	(288,088)	(143,767)
Currency translation movements for the year	135,435	(144,321)
Balance at end of financial year	<u>(152,653)</u>	<u>(288,088)</u>

The reserve arises out of the translation of A\$, being the functional currency of the parent entity group into the consolidated entity presentation currency of US\$.

Share option reserve

Balance at beginning of financial year	3,252,595	2,498,102
28,350,000 options issued to directors, staff and consultants as approved by shareholders and 2,000,000 options issued to a staff member	1,441,662	-
10,000,000 options issued to Metgasco Limited as approved by shareholders	-	404,066
9,500,000 options issued to directors, staff and consultants as approved by shareholders	-	350,427
Balance at end of financial year	<u>4,694,257</u>	<u>3,252,595</u>

The reserve arises on the grant of share options to directors, key management personnel, consultants and other third parties as equity-based payments.

16. Franking credits

There are no franking credits available for distribution (2017: nil).

17. Expenditure commitments

The Group has expenditure commitments at the end of the financial year for non-cancellable operating lease office rental payments. These obligations are not provided for in the financial statements.

(a) Commitments for office lease rental payments

Not longer than 1 year	108,930	104,338
Between 1 and 5 years	22,377	109,647
	<u>131,307</u>	<u>213,985</u>

(b) Exploration lease expenditure commitments

The Group has no exploration lease commitments at the end of the financial year as the leasing arrangements of the Gulf of Mexico blocks do not require firm work programme commitments.

(c) Seismic expenditure commitments

The Group has a financial commitment as at balance date for seismic expenditure over the greater SM71 project area.

Commitments for seismic expenditure

Not longer than 1 year	<u>595,000</u>	<u>-</u>
------------------------	----------------	----------

BYRON ENERGY LIMITED
Notes to the Financial Statements

Consolidated	
2018	2017
US\$	US\$

18. Cash flow reconciliation

(a) Reconciliation of profit / (loss) from ordinary activities after tax to net cashflows from operations

Profit / (loss) for the year	1,298,968	(5,357,583)
<i>Non cash flows in operating result:-</i>		
Amortisation oil and gas properties	863,908	-
Depreciation and amortisation of property, plant and equipment	20,710	15,957
Impairment expense	1,746,863	1,241,717
Equity settled share based payments	1,441,662	754,493
Net foreign exchange (gain) / loss on A\$ loans	(6,708)	(10,185)
Unwinding of discount on rehabilitation of oil and gas properties	-	5,990
Reversal of equity raising charges	-	19,571
Foreign exchange differences arising on translation of the parent entity group	253,519	160,594
	5,618,922	(3,169,446)

Movements in working capital

(Increase)/decrease in assets:-

Trade and other receivables	(4,000,043)	(4,220)
Other assets	(340,046)	152,436

Increase/(decrease) in liabilities:-

Trade and other payables	1,277,358	(90,902)
Provisions	68,263	9,490

Net cash from / (used in) operating activities	2,624,454	(3,102,642)
---	------------------	--------------------

(b) Reconciliation of cash

Cash and cash equivalents comprise:

Cash and bank balances	2,256,958	3,395,501
------------------------	-----------	-----------

(c) Financing facility

The Group had no finance facilities at balance date.

(d) Non-cash financing and investing activities

There were no non-cash financing or investing activities during the financial year.

19. Controlled entities

The following entities are controlled by Byron Energy Limited and they have been consolidated into the financial statements for the consolidated entity:-

<u>Name</u>	<u>Country of domicile</u>	<u>Class of share</u>	<u>Percentage beneficially owned</u>
Byron Energy (Australia) Pty Ltd	Australia	Ordinary	100%
Byron Energy Inc	USA	Ordinary	100%
Byron Energy LLC	USA	Ordinary	100%

BYRON ENERGY LIMITED

Notes to the Financial Statements

20. Foreign currency translation

The exchange rate utilised in the translation of the parent entity group Australia dollar figures to United States of America dollars are as follow:-

	<u>2018</u>	<u>2017</u>
Spot rate at 30 June	0.7391	0.7692
Average rate for year	0.7753	0.7545

21. Contingent liabilities

The directors are of the opinion, that the recognition of a provision is not required in respect of the following matters, as it is not probable that a future sacrifice of economic benefits will be required or the amount is not capable of reliable measurement.

(a). Byron Energy Limited has guaranteed the performance of Byron Energy Inc, a wholly owned subsidiary, under the Participation Agreement dated 1st December 2015 between Byron Energy Inc and Otto Energy (Louisiana) LLC.

(b). BOEM Supplemental Bonds – As the operator of producing block SM71, Byron is required to post supplemental bonds to cover, among other things, decommissioning obligations of the SM71 lease. To date, BOEM has not yet made demands for financial assurances covering the Company's decommissioning obligations in relation to the SM71 F platform and pipelines.

Consolidated	
2018	2017
US\$	US\$

22. Share-based payments

Movements in share-based payments options

The aggregate share-based payments paid as remuneration for the financial year are set out below:

Details of share-based payments

Fair value of options granted to directors, staff and consultants	1,441,662	350,427
Expense arising from share-based payments paid as remuneration	<u>1,441,662</u>	<u>350,427</u>

No share options were exercised during the financial year. There are no Employee Share Option plans in place.

	<u>2018</u>	<u>2018</u>	<u>2017</u>	<u>2017</u>
	<u>Number</u>	<u>Exercise price</u>	<u>Number</u>	<u>Exercise price</u>
Balance at beginning of year	13,150,000		6,250,000	
Granted during the year	28,350,000	A\$0.12c	9,500,000	A\$0.25c
Granted during the year	2,000,000	A\$0.16c		
Expired during the year	(1,700,000)		(2,600,000)	
Exercised during the year	-		-	
Balance at end of year	<u>41,800,000</u>		<u>13,150,000</u>	
Exercisable at end of year	1,950,000	A\$0.25c	1,950,000	A\$0.25c
Exercisable at end of year	9,500,000	A\$0.25c	9,500,000	A\$0.25c
Exercisable at end of year	28,350,000	A\$0.12c		
Exercisable at end of year	2,000,000	A\$0.16c		

Weighted average remaining contractual life

The 1,950,000 share options of A\$0.25 have an expiry of 92 days (2017: 457 days) remaining and the 9,500,000 share options of A\$0.25 have 549 days (2017: 914 days) remaining. Both tranches of the 28,350,000 and 2,000,000 share options have an expiry of 1,280 days remaining.

BYRON ENERGY LIMITED

Notes to the Financial Statements

22. Share-based payments (continued)

Director and key management personnel equity share options

Share-based payment options held at the end of the reporting year were as follows:

<u>Grantee</u>	<u>Number</u>	<u>Grant date</u>	<u>Vesting date</u>	<u>Expiry date</u>	<u>Exercise price</u>	<u>Fair value at grant date</u>
M. Smith	2,500,000	24 Nov 2016	24 Nov 2016	31 Dec 2019	\$A0.25	A\$0.0489
M. Smith	6,300,000	18 Sept 2017	18 Sept 2017	31 Dec 2021	\$A0.12	A\$0.0555
P. Kallenberger	2,500,000	24 Nov 2016	24 Nov 2016	31 Dec 2019	\$A0.25	A\$0.0489
P. Kallenberger	6,300,000	18 Sept 2017	18 Sept 2017	31 Dec 2021	\$A0.12	A\$0.0555
W. Sack	2,500,000	24 Nov 2016	24 Nov 2016	31 Dec 2019	\$A0.25	A\$0.0489
W. Sack	1,700,000	15 Feb 2016	15 Feb 2016	30 Sept 2018	\$A0.25	A\$0.0959
W. Sack	6,300,000	18 Sept 2017	18 Sept 2017	31 Dec 2021	\$A0.12	A\$0.0555
N. Filipovic	1,000,000	24 Nov 2016	24 Nov 2016	31 Dec 2019	\$A0.25	A\$0.0489
N. Filipovic	3,780,000	18 Sept 2017	18 Sept 2017	31 Dec 2021	\$A0.12	A\$0.0555

Calculation of the fair value of equity share options issued

The total fair value of all share options granted and issued during the financial year was US\$1,441,662. Options were priced using the Binominal Option Pricing model and calculated by an independent external consultant entity.

Inputs into the model

	28,350,000 share options granted to directors, staff and consultants on 18 September 2017	2,000,000 share options were issued to a staff member on 20 December 2017
Closing share price prior to valuation	A\$0.09	A\$0.195
Exercise price	A\$0.12	A\$0.16
Expected volatility	90.3%	101.8%
Option life	4.3 years	4.0 years
Risk-free interest rate	2.30%	2.26%

23. Employee benefits and superannuation commitments

The consolidated entity contributes in accordance with the Australian Government superannuation guarantee legislation.

	Consolidated	
	2018	2017
	US\$	US\$

24. Auditors' remuneration

Amounts received or due and receivable by Deloitte Touche Tohmatsu:

Audit or review of the financial statements of the Group	51,271	39,831
	<u>57,271</u>	<u>39,831</u>

The auditors did not receive any other benefits

25. Key management personnel compensation

Total aggregate remuneration of directors and key management personnel.

	<u>Short term employee benefits</u>				<u>Post employment benefits</u>	<u>Share-based payments</u>	
	Salaries and fees US\$	Short term cash incentive US\$	Other benefits US\$	Service agreements US\$	Superannuation US\$	Share options US\$	Total US\$
Year 2018	917,232	-	52,186	186,072	23,201	975,315	2,154,006
Year 2017	698,594	-	45,805	181,080	17,203	313,541	1,256,223

More detailed information on remuneration and retirement benefits of directors is disclosed in the Remuneration Report.

BYRON ENERGY LIMITED

Notes to the Financial Statements

26. Related party transactions

The following related party transactions were entered into during the financial year ended 30 June 2018:-

- (a) Following approval by shareholders at an Extraordinary General Meeting (“EGM”) held on 18 September 2017, the following fully paid ordinary shares in the Company were issued for cash at an issue price of A\$0.07 per share:-
- 18,000,000 fully paid ordinary shares in the Company issued to Mr Douglas Battersby a director of the Company, and/or his associates;
 - 14,285,715 fully paid ordinary shares in the Company issued to Mr Maynard Smith a director of the Company, and/or his associates;
 - 8,729,014 fully paid ordinary shares in the Company issued to Mr Paul Young a director of the Company, and/or his associates;
 - 7,900,000 fully paid ordinary shares in the Company issued to Mr Charles Sands a director of the Company, and/or his associates; and
 - 1,200,000 fully paid ordinary shares in the Company issued to Mr William (Bill) Sack, a director of the Company, and/or his associates.
- (b) Following approval by shareholders an EGM held on 18 September 2017, the following directors and key management personnel were issued with share options in Byron Energy Limited, exercisable at an exercise price of A\$0.12 per share on or after issue at any time on or before 31 December 2021:-
- Mr Maynard Smith a director of the Company, and/or his associates, were issued with 6,300,00 share options;
 - Mr Prent Kallenberger a director of the Company, and/or his associates were issued with 6,300,00 share options;
 - Mr William (Bill) Sack a director of the Company, and/or his associates were issued with 6,300,00 share options; and
 - Mr Nick Filipovic the Company Secretary and CFO, and/or his associates were issued with 3,780,000 share options.
- (c) Corporate advisory services at normal commercial rates totalling A\$338,915 were provided by Henslow Corporate, of which Paul Young is an executive director and shareholder. There was no outstanding amounts payable at 30 June 2018.
- (d) During the year, the Company entered into unsecured loan agreements, bearing interest at 10% per annum, with three of the Company’s directors, for a total drawdown of US\$1,000,000 and A\$520,000. The loans were outstanding on 30 June 2018 and due for repayment in October 2018. The individual directors’ transactions and balances for these loans were:-
- Veruse Pty Ltd, a company controlled by Mr Douglas Battersby, provided an unsecured loan of A\$520,000 to the Company; and interest charges of A\$7,693 have been accrued as at 30 June 2018;
 - Geogeny Pty Ltd, a company controlled by Mr Maynard Smith, provided an unsecured loan of US\$500,000 to the Company; and interest charges of US\$9,178 have been accrued as at 30 June 2018; and.
 - Charles Sands, provided an unsecured loan of US\$500,000 to the Company; and interest charges of US\$8,384 (net of withholding taxes) have been accrued as at 30 June 2018.

BYRON ENERGY LIMITED

Notes to the Financial Statements

27. Financial instruments

The consolidated entity's financial instruments consist mainly of cash and cash equivalents, trade and other receivables, security deposits, trade and other payables and secured borrowings. The main risks the consolidated entity is exposed to through its financial instruments are interest rate risk, foreign currency risk, liquidity risk and credit risk.

This note presents information about the consolidated entity's exposure to each of the above risks and processes for measuring and managing the risks and the management of capital.

Categories of financial instruments	Consolidated	
	2018 US\$	2017 US\$
Financial assets at fair value		
Cash and cash equivalents	2,256,958	3,395,501
Trade and other receivables	6,208,427	1,026,142
Bonds and security deposits	738,507	1,038,770
	<u>9,203,892</u>	<u>5,460,413</u>
Financial liabilities at fair value		
Trade and other payables	3,927,270	2,053,846
Insurance premium financing	1,029,289	276,038
Loans from related parties	1,384,332	-
Convertible note liabilities	3,663,586	5,886,544
	<u>10,004,477</u>	<u>8,216,428</u>

(a) Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders. The Group's capital structure consists of: (i) equity comprising issued capital, reserves and accumulated losses and (ii) as required, unsecured borrowings from related parties and shareholders.

During the 2018 financial year, no dividends were paid (2017: nil).

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

(b) Credit risk exposure

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of only dealing with creditworthy counterparties as a means of mitigating the risk of financial loss from defaults.

The Group has a material credit exposure to the party that purchases its oil production from the SM71 lease. There are no risk mitigation strategies in place, however the purchasing company is a large global energy corporation, so the risk of financial default is considered low. Apart from this credit risk exposure, the Group does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The credit risk on liquid funds is limited as the counterparties are banks with high credit ratings assigned by international credit rating agencies.

The carrying amount of financial assets recorded in the financial statements, net of any allowances for losses, represent the Group's maximum exposure to credit risk

BYRON ENERGY LIMITED
Notes to the Financial Statements

27. Financial instruments (continued)

(c) Liquidity risk management

The Group manages liquidity risk by maintaining adequate cash reserves and if required, standby credit facilities to meet commitments when they fall due. Management continuously monitors cash forecasts to manage liquidity risk.

Liquidity, credit and interest risk tables

The following table details the Group's remaining contractual maturity for its non-derivate financial assets.

Consolidated financial assets	Weighted average effective interest rate	Less than 1 month	1 month to 3 months	3 months to 12 months	1-5 years
	%	US\$	US\$	US\$	US\$
2018					
Non-interest bearing	-	6,193,520	14,907	6,445	732,062
Variable interest rate instruments	0.14%	2,256,958	-	-	-
2017					
Non-interest bearing	-	1,026,142	-	556,708	482,062
Variable interest rate instruments	0.13%	3,395,501	-	-	-

The table below details the Group's remaining contractual maturities for its non-derivative financial liabilities. The following are future contractual cash payments of financial liabilities, including estimated interest payments

Consolidated financial liabilities	Weighted average effective interest rate	Less than 1 month	1 month to 3 months	3 months to 12 months	1-5 years
	%	US\$	US\$	US\$	US\$
2018					
Non-interest bearing	-	3,904,022	-	23,248	-
Fixed interest rate instruments	4.39%	154,160	308,321	566,808	-
Related party liabilities	10.00%	-	-	1,384,332	-
Convertible note liabilities	20.90%	739,100	-	2,217,300	707,186
2017					
Non-interest bearing	-	2,053,846	-	-	-
Fixed interest rate instruments	3.42%	69,009	138,020	69,009	-
Convertible note liabilities	20.90%	-	-	2,872,962	4,465,206

(d) Fair values

The directors consider that the carrying amounts of financial assets and financial liabilities recorded at cost less any accumulated impairments in the financial statements approximates their fair values.

The fair values of financial assets and financial liabilities are determined as follows:

- holdings in unlisted shares are measured at cost less any impairments. The directors consider that no other measure could be used reliably; and
- other financial assets and financial liabilities are determined in accordance with generally accepted pricing models.

BYRON ENERGY LIMITED

Notes to the Financial Statements

27. Financial instruments (continued)

(e) Interest rate risk management

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's cash and cash equivalents with a floating interest rate. The Group is not currently engaged in any hedging or derivative transactions to manage interest rate risk. This risk is managed through the use of cash flow forecasts supplemented by sensitivity analysis.

As at 30 June 2018, the Group had no loans outstanding with a variable interest rate; the convertible notes, insurance premium funding and related party loans, all have applicable fixed interest rates.

Interest rate sensitivity analysis

A sensitivity analysis have been determined based on the exposure to interest rates at reporting date with the stipulated change taking place at the beginning of the financial year and held constant throughout the reporting period.

At reporting date, if interest rates had been 50 basis points higher or lower and all other variables were held constant, the Group's net profit would increase by US\$14,131 (2017: US\$10,697) for an increase of 50 basis points, conversely a decrease of 50 basis points would result in a decrease of US\$14,131 (2017: US\$10,697) to the net profit. This is mainly due to the Group's exposure to variable interest rates on cash and cash equivalents.

(f) Foreign currency risk management

The Group incurs costs in USA dollars and Australian dollars.

The Group holds the majority of liquid funds in USA dollars.

Fluctuations in the Australian dollar / USA dollar exchange rate can impact the performance of the consolidated entity. The consolidated entity is not currently engaged in any hedging or derivative transactions to manage foreign currency risk. As cash inflows and cash outflows are predominately denominated in USA dollars, with the exception of Australian dollar denominated equity funding, surplus funds are primarily held in USA dollars.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are as follows.

	Monetary Assets		Monetary Liabilities	
	2018	2017	2018	2017
Consolidated	\$	\$	\$	\$
USA currency denominated	8,885,111	5,266,700	5,842,432	2,242,397
Australian currency denominated	431,311	251,836	5,631,234	7,766,551

The following table details the Group's sensitivity to a 10% increase and decrease in the US\$ against the A\$.

A positive number below indicates an increase in profit or equity where the US dollar strengthens 10% against the relevant currency. For a 10% weakening of the US dollar against the relevant currency, there would be a comparable negative impact on the profit or equity. The impact is mainly due to the Australian group of holding companies incurring and settling expenses and outgoings in Australian dollars.

Consolidated	Australian dollar impact on profit / loss	
	2018 US\$	2017 US\$
Profit or equity	92,138	378,063

28. Segment information

Management has determined based on the reports reviewed by the executive management group (the chief operating decision makers) and used to make strategic decisions, that the Group operates within one business segment of oil and gas exploration, development and production; and one geographical segment, the shallow waters of the Gulf of Mexico, United States of America.

The geographical locations of the Group's non-current assets are United States of America US\$30,905,960 (2017: US\$8,818,499) and Australia US\$10,092 (2017: US\$13,584).

BYRON ENERGY LIMITED
Notes to the Financial Statements

29. Parent entity information

	2018	2017
<u>Financial position</u>	US\$	US\$
Assets		
Current assets	311,361	184,512
Non-current assets	94,521,359	77,872,923
Total assets	94,832,720	78,057,435
Liabilities		
Current liabilities	4,814,420	2,358,754
Non-current liabilities	707,185	3,998,400
Total liabilities	5,521,605	6,357,154
Net assets	89,311,115	71,700,281
Equity		
Issued capital	98,633,188	77,330,043
Accumulated losses	(7,373,036)	(4,389,221)
Reserves	(1,949,037)	(1,240,541)
Total Equity	89,311,115	71,700,281
<u>Financial performance</u>		
Loss for the year	(2,983,815)	(1,827,804)
Other comprehensive income	(2,150,158)	821,508
Total comprehensive loss for the financial year	(5,133,973)	(1,006,296)

Expenditure commitments

The parent entity has no expenditure commitments at the end of the 2018 financial year (2017: nil).

Guarantees

There were no guarantees entered into during the year by the parent entity in relation to the debts of its subsidiaries.

Contingent liabilities

The parent entity had no contingent liabilities at 30 June 2018 (2017: nil).

30. Operating lease arrangements

Operating lease arrangements relate to the lease of a compressor on the SM71 F platform. The term is for a minimum 36 months with a 30 day notice period option to discontinue the arrangement beyond the 3 year period. These obligations are not provided for in the financial statements and the Group doesn't have a purchase option.

(a) Payments recognised as an expense

Net Byron minimum lease payments recognised as an expense	25,665	-
---	--------	---

(b) Minimum net future lease payments

Not longer than 1 year	54,206	-
Between 1 and 5 years	64,860	-
	<u>119,066</u>	<u>-</u>

BYRON ENERGY LIMITED

Notes to the Financial Statements

31. Interests in joint operations

As at 30 June 2018, Byron Energy Inc, a wholly owned subsidiary of the Company was a party, to the following joint operations:-

- SM71 Offshore Operating Agreement with Otto Energy (Louisiana) LLC covering all of Block 71, South Marsh Island Area, to explore, develop, produce and operate the lease. Byron Energy Inc is the designated operator of SM71 and owns a 50% Working Interest (“WI”) and a 40.625% Net Revenue Interest (“NRI”) in the block, with Otto Energy (Louisiana) LLC holding an equivalent WI and NRI in the block;
- Both Otto Energy (Gulf One) LLC and Metgasco Limited have exercised their options to earn a 40% and 10% WI, respectively, in Byron’s Bivouac Peak project. If both parties earn into the Bivouac Peak project, Byron’s WI and NRI will be reduced to 43% (from 93.00%) and 32.035% (from 69.285%) respectively. Byron is the operator; and.
- In June 2018, Byron announced that Otto Energy Limited exercised its right to acquire a 50% WI in Vermillion 232. Byron will retain a WI of 50.00% and NRI of 43.75% NRI. Byron is the operator.

Subsequent to 30 June 2018, Metgasco Limited exercised its option to earn a 30% WI and 30% NRI in South Marsh Island, block 74 (“SM74”).

If Metgasco Limited earns into SM74, Byron’s WI and NRI will be reduced to 70% (from 100.00%) and 56.875% (from 81.25%) respectively. Byron is the operator.

32. Subsequent events

Subsequent to the end of the financial year the following has occurred:-

- On 9 July, 2018 Byron announced to the ASX that, Otto Energy Limited, Metgasco Limited and NOLA Oil and Gas Ventures LLC have all elected to participate in the Byron operated Weiss-Adler et. al. No. 1 well to be drilled to a depth of 18,294 feet MD/18,000 feet TVD to test the Bivouac Peak East Prospect;
- On 19 July, 2018 Byron announced to the ASX that it was finalising documentation to allow the SM74 prospect to be drilled from the adjacent existing SM 73 D platform and that it has farmed out a 30% working interest on standard industry terms;
- On 6 August, 2018 Byron announced to the ASX the SM71 reserves and prospective resources, as at 30 June 2018, as independently assessed by Collarini Associates;
- On 16 August 2018, Byron announced to the ASX that it was the high bidder on Main Pass 293, 305 and 306 leases at the Gulf of Mexico OCS Lease Sale 251, held on 15 August 2018; and
- On 19 September 2018, the Company released its annual reserves and resources report as of 30 June 2018.

Except for the above, there have not been any other matters or circumstances occurring subsequent to the end of the financial year that have significantly affected, or may significantly affect the operations of the Group, the results of those operations, or the state of affairs of the company in future financial period.

BYRON ENERGY LIMITED

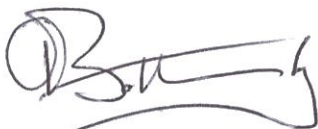
DIRECTORS' DECLARATION

The directors of Byron Energy Limited declare that in the opinion of the directors:

- a) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable;
- b) the attached financial statements are in compliance with International Financial Reporting Standards as stated in note 1 to the financial statements;
- c) the attached financial statements and notes thereto are in accordance with the Corporations Act 2001, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the consolidated entity; and
- d) the directors have been given the declarations required by section 295A of the Corporations Act 2001.

Signed in accordance with a resolution of the directors of Byron Energy Limited made pursuant to section 295(5) of the Corporations Act 2001.

On behalf of the directors



D. G. Battersby
Chairman

25 September 2018

Independent Auditor's Report to the members of Byron Energy Limited

Report on the Audit of the Financial Report

Opinion

We have audited the consolidated financial report of Byron Energy Limited (the "Company") and its subsidiaries (the "Group") which comprises the consolidated statement of financial position as at 30 June 2018, 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, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion the accompanying financial report of the Group, is in accordance with the Corporations Act 2001, including:

- (i) giving a true and fair view of the Group's financial position as at 30 June 2018 and of its financial performance for the year then ended; and
- (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be on the same terms if given to the directors as at the time of this auditor's report.

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matters	How the scope of our audit responded to the Key Audit Matters
<p>Accounting for the Metgasco convertible note</p> <p>In July 2016, management entered into a funding agreement with Metgasco Limited by the issue of a convertible note of \$A8 million to provide Byron Energy Limited with funding for the SM 71 project as disclosed in Note 13 of the financial statements.</p> <p>The accounting for the convertible note requires significant judgement to determine the appropriate accounting treatment, measurement and classification of all the elements of the agreement including:</p> <ul style="list-style-type: none"> • The measurement of the debt component of the note; and • The measurement of the derivative liability embedded in the note. <p>The measurement of these components are subject to certain assumptions including:</p> <ul style="list-style-type: none"> • The timing of funding drawdown under the note; • The discount rate used to present value the future payments under the terms of the note; and • The timing of conversion (if at all). 	<p>In conjunction with our valuation experts, our procedures included, but were not limited to:</p> <ul style="list-style-type: none"> • Obtaining an understanding of the key elements of the convertible note; • Assessing management's process to recognise and measure all liabilities arising from the contract; • Evaluating management's methodology and their documented basis for key assumptions used in their valuation model; • Challenging the key assumptions used in the valuation model as follows: <ul style="list-style-type: none"> ◦ estimating draw down funds and probabilities around the expected conversion dates; and ◦ assessing the appropriateness and accuracy of the inputs used to measure the embedded derivative. <p>Assessing the appropriateness of the disclosures in Note 13 to the financial statements.</p>
<p>Amortisation of Oil and Gas properties</p> <p>During the year then ended 30 June 2018 there was \$USD 0.9 million amortisation as disclosed in Note 8(b) of the financial report.</p> <p>When an oil and gas asset commences commercial production, all acquisition and/or costs carried forward will be amortised on a units of production of basis over the remaining proved and probable recoverable reserves. The remaining reserves are measured by external independent petroleum engineers.</p> <p>The measurement of this amortisation is subject to certain assumptions including:</p> <ul style="list-style-type: none"> • The level of future proved and probable recoverable reserves; and • The future capital expenditure required to access the reserves. 	<p>Our audit procedures included, but were not limited to:</p> <ul style="list-style-type: none"> • Assessing management's external expert report used to estimate the level of proven and probable oil and gas reserves and future development capital expenditure; • Assessing the competence and objectivity of management's expert to support assumptions used, • Testing the metered production usage in the current year per independent third party reporting; and • Testing on a sample basis the mathematical accuracy of the amortisation recognised. <p>We also assessed the appropriateness of the disclosures in Note 8 to the financial statements.</p>

Other Information

The directors are responsible for other information disclosed. The other information comprises the information included in the Group's annual report for the year ended 30 June 2018, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors 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 preparing the financial report, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the director's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with directors, we determine those matters that were of most significance in the audit of the financial report of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 19 to 24 of the Directors' Report for the year ended 30 June 2018.

In our opinion, the Remuneration Report of Byron Energy Limited, for the year ended 30 June 2018, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

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.


DELOITTE TOUCHE TOHMATSU



Craig Bryan
Partner
Chartered Accountants
Melbourne, 25 September 2018

BYRON ENERGY LIMITED

CORPORATE DIRECTORY

Directors

Doug Battersby	(Non Executive Chairman)
Maynard Smith	(Executive Director & CEO)
Prent Kallenberger	(Executive Director)
William Sack	(Executive Director)
Charles Sands	(Non-Executive)
Paul Young	(Non-Executive)

Chief Executive Officer

Maynard Smith

Chief Financial Officer and Company Secretary

Nick Filipovic

Registered and Principal Australian Office

Level 4
480 Collins Street
MELBOURNE VIC 3000

Principal Office (USA)

Suite 604
201 Rue Iberville
LAFAYETTE LA 70508

Legal Adviser

Piper Alderman
Level 23
Governor Macquarie Tower
1 Farrer Place
SYDNEY NSW 2000

Auditors

Deloitte Touche Tohmatsu
550 Bourke Street
MELBOURNE VIC 3000

Website

www.byronenergy.com.au

Home Stock Exchange

ASX Limited
20 Bridge Street
SYDNEY NSW 2000
ASX Code: BYE

Share Registry

Boardroom Pty Limited
Grosvenor Place, Level 12, 225 George Street
SYDNEY NSW 2000
Tel: 1300 737 760
Fax: 1300 653 459