

A sound strategy for growth



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Directors' Report

The directors of Byron Energy Limited ('Byron' or the 'Company') submit herewith the financial report of Byron Energy Limited and its subsidiaries ('the consolidated entity' or 'Group') for the half year ended 31 December 2019. In order to comply with the provisions of the *Corporations Act 2001*, the directors report as follows:

Directors

The following persons were directors of Byron Energy Limited during the half year ended 31 December 2019 and up to the date of this report (in office for the entire period unless otherwise stated):

Douglas G. Battersby

Maynard V. Smith

Prent H. Kallenberger

Charles J. Sands

Paul A. Young

William R. Sack

Principal activities

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

Operating result

Profit for the consolidated entity for the half year ended 31 December 2019 attributable to owners of the Company was US\$505,416 (31 December 2018: US\$7,588,142).

The reduction in profit for the half year is primarily due to lower net sales revenue, higher cost of sales, higher impairment charges and increased share-based payments expense.

For the half year ended 31 December 2019, Byron's share of net revenue (after transportation charges and royalties) was approximately US\$12,998,648 compared to US\$17,222,013 for the comparable period in 2018, mainly due to lower production as a result of compressor upgrade (requiring a partial shut-in of the wells) and expected natural field decline. Average realised oil and gas prices for the 2019 half year were also lower than the comparable period in 2018.

Cost of sales for the half year ended 31 December 2019 were US\$3,621,888 compared to US\$2,970,228 for the comparable period last year. The increase was due to higher amortisation charges for oil and gas properties and higher lease operating expenses, mainly due to inclusion of SM58 E1 well property acquired effective 1 January 2019.

Impairment and dry hole expenses were US\$5,138,613 in the December 2019 half year, compared to US\$3,466,140 in the December 2018 half year. The impairment charge for the 2019 half year reflects the write-off of drilling cost of the SM74 D14 well dry hole. The impairment charge for the previous half year reflects the write down to US\$ Nil of the Bivouac leases, following the unsuccessful drilling of Weiss Adler et.al #1 well, and the write down of the carrying value of the Eugene Island 18 lease, which was relinquished.

Share-based payment expenses in the December 2019 half year of US\$959,165 were above the share based payment expenses of US\$576,299 in the December 2018 half year. Share-based payment expenses in the December 2019 half year comprise expenses in relation to the interest free loans granted to executive directors, senior staff and contractors to be used solely for funding of conversion of 9,500,000 options over unissued shares in the Company expiring on 31 December 2019. Share-based payment expenses in the December 2018 half year comprise expenses in relation to granting of 9,500,000 options to executive directors, senior staff and contractors exercisable at A\$0.40 on or before 31 December 2021.

Financial position

At 31 December 2019, the consolidated entity had total assets of US\$80,848,098 (30 June 2019: US\$53,493,510) and total liabilities of US\$24,729,664 (30 June 2019: US\$16,781,752) resulting in net assets of US\$56,118,434 (30 June 2019: US\$36,711,758).

At 31 December 2019, the consolidated entity held cash and cash equivalents of US\$20,727,149 (30 June 2019: US\$6,783,320) and had borrowings of US\$14,269,078 million (30 June 2019: US\$5,747,990), of which US\$12,797,818 was US\$ denominated and the balance A\$ denominated.

Dividend

No dividends in respect of the current half year ended 31 December 2019 have been paid, declared or recommended for payment.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporation Act 2001, is set out on page 11.

Issued capital

During the half year ended 31 December 2019, the Company issued 104,036,861 fully paid ordinary shares, comprising:

- (a) 10,000,000 shares issued to Metgasco Limited ('Metgasco') following Metgasco's election to exercise 10,000,000 options at A\$0.25 per security;
- (b) 51,961,055 shares issued through a placement to institutional and sophisticated investors at A\$0.27 per share, raising approximately A\$14.0 million; and
- (c) 42,075,806 shares issued through a fully underwritten 1 for 18 pro-rata non-renounceable entitlement offer at A\$0.27 per share, raising approximately A\$11.4 million.

Directors' Report continued

The Company's issued capital as at 31 December 2019 comprised:

| Securities | Total issued | Quoted | Unquoted |
|------------------|--------------|--------------|-------------|
| Shares (ASX:BYE) | 799,410,278* | 799,410,278* | Nil |
| Options | 50,600,000* | Nil | 50,600,000* |

* 9,500,000 options exercised on or before 31 December 2019 and 9,500,000 shares issued on 7 January 2020 taking the number of issued shares up to 808,910,278 and issues (unlisted) options down to 41,100,000.

Borrowings

Crimson Midstream Promissory Note

In the December 2019 quarter, Byron signed a binding Secured Promissory Note ('Promissory Note') with Crimson Midstream Operating, LLC ('Crimson Midstream'), a portfolio company of The Carlyle Group, to borrow an initial amount of US\$15.0 million. The first tranche of US\$10.0 million under Promissory Note facility was drawn by the Byron group in December 2019, and the remaining US\$5.0 million was drawn in January 2020. The Promissory Note is secured over the SM71 and SM58 assets and guaranteed by the Company, bearing interest at a rate of 15% per annum, over a three year term, with the first year being interest only. For further details of the Promissory Note refer to the Company's ASX release dated 4 December 2019.

Loans from directors and shareholders

As at 30 June 2019, Byron had a short-term unsecured Loan Facility of US\$2.0 million and A\$3.1 million, equivalent to approximately US\$4.17 million at an exchange rate of A\$1 = US\$0.70 bearing interest at a rate of 10% per annum ('the Loan Facility'), with US\$3.2 million sourced from four of the Company's

directors (Messrs Battersby, Smith, Sands and Young) and the balance from two shareholders. Originally the Loan Facility was repayable on 30 November 2019. During the December 2019 half year five of the lenders agreed to extend the repayment date of the Loan Facility, with no changes to interest rate or security, from 30 November 2019 to 31 March 2021, with interest rate and other terms remaining unchanged, while the remaining lender for \$A1.0 million agreeing to extend the loan until 31 December 2019.

During the December 2019 half year, Byron established a second unsecured short-term Loan Facility of US\$2.0 million and A\$1.45 million, equivalent to approximately US\$3.0 million, at an exchange rate of A\$1 = US\$0.68, bearing interest at a rate of 10% per annum ('Loan Facility 2'), with US\$2.2 million sourced from four of the Company's directors (Messrs Battersby, Smith, Sands and Young). Loan Facility 2 was repayable in December 2019.

In December 2019, Byron repaid loans of US\$1.5 million and A\$2.45 million to directors and shareholders, with a further repayment of US\$0.5 million in January 2020.

As at 31 December 2019, Byron's loans comprised:

| Lender | US\$ | A\$ | US\$ equivalent (@A\$1=US\$0.7006) |
|-----------------------------|-------------------|------------------|---------------------------------------|
| Directors | 2,500,000 | 1,750,000 | 3,726,050 |
| Shareholders | - | 350,000 | 245,210 |
| Crimson Midstream | 10,000,000 | - | 10,000,000 |
| Insurance premiums financed | 297,818 | - | 297,818 |
| Total | 12,797,818 | 2,100,000 | 14,269,078 |

In January 2020, Byron drew down the remaining US\$5.0 million under the Crimson Midstream Promissory Note.

Hedging

As part of the Promissory Note issued to Crimson Midstream Byron agreed to an oil hedging program on approximately 50% of the Company's net SM71 proved producing forecast production, as of December 2019. This was implemented during December through a hedging counterparty, at a preferred customer rate.

As of 31 December 2019, Byron has hedged the following daily production volumes through a forward sale agreement:

| Daily volume (bopd) | Period | Fixed base price* |
|---------------------|--------------|-------------------|
| 400 | Jan-Mar 2020 | US\$52.70 |
| 670 | Apr-Dec 2020 | US\$54.78 |
| 450 | Jan-Dec 2021 | US\$52.86 |
| 400 | Jan-Dec 2022 | US\$52.70 |

* Realised prices will be adjusted upwards for Louisiana Light Sweet price differentials and downwards for deductions for transportation.

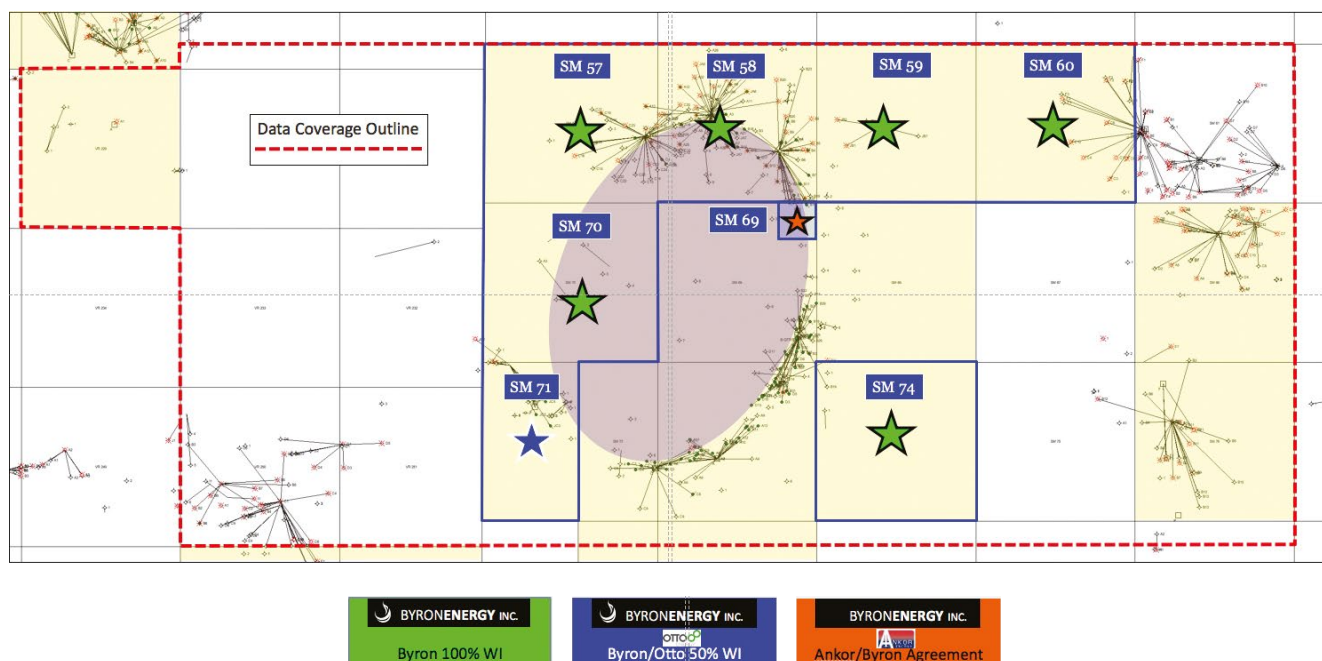
Review of operations

Salt dome projects

1. South Marsh Island 73 Salt Dome

Byron is the operator and 100% Working Interest ('WI') holder in a number of areas of interest around the South Marsh Island Block 73 ('SM73') field, comprising SM57/58/59/60/70 blocks, with an option to earn a 100% WI of the north east portion of South Marsh Island Block 69 ('SM69'), as shown below. Byron is also the operator of South Marsh Island Block 71 ('SM71') and South Marsh Island Block 74 ('SM74'), where it has less than a 100% Working Interest.

Byron Energy GOM South Marsh Island Leases and RTM Data Coverage Area



Directors' Report continued

South Marsh Island 71

Byron is the designed 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 ('Otto') group holding an equivalent WI and NRI in the block. Water depth in the area is approximately 137 feet. Oil and gas production from the Byron operated SM71 F platform began on 23 March 2018 from three wells.

(ii) SM71 production statistics

Byron's share of SM71 production for the half year ended 31 December 2019 is shown in the table below.

| | YTD 31 December 2019 | YTD 31 December 2018 |
|---|-------------------------|-------------------------|
| Production (sales) | | |
| Gross production | | |
| Oil (bbls) | 518,167 | 595,503 |
| Gas (mmbtu) | 609,286 | 1,030,634 |
| Byron share of gross production (50% WI) | | |
| Oil (bbls) | 259,308 | 297,751 |
| Gas (mmbtu) | 304,643 | 515,317 |
| Net production (Byron share 40.625% after royalty) | | |
| Oil (bbls) | 210,688 | 241,923 |
| Gas (mmbtu) | 247,522 | 418,695 |
| Sale revenue (accrual basis) US\$million | | |
| Net sales revenue (Byron share 40.625%; after royalty, transport, oil shrinkage and other applicable adjustments) | 12.5 | 17.3 |

Oil production for the December 2019 half year was below the volumes achieved for the previous corresponding half year due to partial shut-in of SM71 wells to facilitate the SM71 F platform compressor upgrade in December 2019 and expected natural field decline.

The planned compressor upgrade and installation at the South Marsh Island 71 F platform was successfully completed and all wells on the platform returned to normal production levels in mid-December 2019.

The compressor upgrade will allow the Company to manage the producing wells in a more consistent, stable manner as the wells will no longer be affected by normal fluctuations in sales line pressure caused by monthly pipeline maintenance operations. There are many benefits to stable production rates including more

(i) SM71 production

The F1 and F3 wells are producing in the primary D5 Sand reservoir and the F2 well is producing from the B55 Sand, a secondary exploration target.

As of 31 December 2019, the SM71 F facility has produced over 2.0 million barrels of oil (gross) since initial production began. The facility has also produced over 2.8 billion cubic feet of gas (gross).

accurate monthly sales nominations, more predictable operating costs and, with the increased ability to control production rates there will be overall better reservoir management which results in improved oil recovery.

Gas production for the December first half year was substantially lower than the corresponding period due to an anticipated gas to oil production ratio decline.

For the half year ended 31 December 2019, Byron's share of net revenue was approximately US\$12.5 million compared to US\$17.3 million for the comparable period in 2018, mainly due to lower average oil and gas prices realised and lower oil production, as a result of compressor upgrade requiring a partial shut-in of the wells and expected natural field decline.

During the half year ended 31 December 2019, Byron realised an average oil price after uplift for Louisiana Light Sweet price differentials and deductions for transportation, oil shrinkage and other applicable adjustments of US\$56.56 per bbl compared to US\$65.21 per bbl for the comparable period last year.

Byron realised an average price after transportation deductions of approximately US\$2.03 per mmbtu during the December 2019 half year compared to US\$3.17 per mmbtu for the December 2018 half year.

Lease operating expenses for SM71 for the half year ended 31 December 2019 were US\$1,189,151 compared to US\$1,346,191 for the comparable period in 2018.

(iii) SM71 F4 well

As reported on 25 November 2019, Otto declined to participate in the SM71 F4 well after being offered participation a second time. After re-evaluating the SM71 F4 well for geological and drilling risks versus potential rewards, Byron decided to drill the F4 well on a 100% Working Interest basis.

The SM71 Offshore Operating Agreement ('OOA') provides for participation in proposed operations by fewer than all parties, including the right for the non-participating party to revert to their Working Interest after the participating party has recouped, out of 100% of production, an amount of six hundred percent (600%) of all costs associated with drilling and completion, as outlined in Byron's ASX release of 2 October 2019.

The Enterprise Offshore Drilling 264 ('EOD 264') arrived on location, subsequent to 31 December 2019, to drill the SM71 F4 well from Byron's SM71 F platform. The F4 well spudded in January 2020.

On 13 February 2020, Byron announced that the SM71 F4 well had reached total depth of 8,130 Measured Depth ('MD'), 7,570 feet True Vertical Depth (TVD), with Log While Drilling logs showing 91 net feet of measured depth hydrocarbon in the D5 Upper Sand. Casing will be run, and the well expected to be completed later in February 2020. The SM71 F4 well tested and confirmed an accumulation of hydrocarbon that is stratigraphically separated from the main D5 Sand oil production where the SM71 F1 and F3 wells have combined to produce over two million barrels of oil with no formation water from the D5 Sand since production began on 23 March 2018.

Byron, through its wholly owned subsidiary Byron Energy Inc., is the operator of SM71 and currently has a 50% Working Interest and a 40.625% Net Revenue Interest in SM71. Otto holds the remaining Working Interest in SM71.

South Marsh Island 58

In early October 2019, Byron completed the drilling of SM58 G1 well (formerly SM58 011 BP01 well), which successfully tested Byron's Cutthroat Prospect, identified and evaluated using high-tech Reverse Time Migration (RTM), Vector Image Processing (VIP) and Full Waveform Inversion (FWI) 3D seismic processing.

The SM58 G1 well SM58 encountered a true vertical thickness net pay of 301 feet in the upper O Sands. Mud log data indicated a total hydrocarbon bearing interval thickness in the Lower O section of between 180 and 250 feet.

The SM58 G1 well was mudline suspended so that it ultimately can be completed and placed on production when the G platform is set later this year.

As reported on 17 October 2019, the Company's third-party reserve engineers, Collarini Associates ('Collarini') provided an estimate of the Prospective Resource for the Lower O Sand penetrated by the SM58 G1 well utilising all available mud log and mud gas isotube data. The Lower O Sand over the Cutthroat prospect was assigned 8.074 Mbbbls of oil and 10.2 Bcf of gas net to Byron.

An additional Lower O Sand prospect is now included in the resource update as the North Cutthroat prospect. The North Cutthroat Lower O Sand prospect is based on a high-quality seismic amplitude that lies upthrown to the main Lower O Sand prospect at Cutthroat. This prospect will be further evaluated with information gained from the drilling of the G2 well. The North Cutthroat Lower O Sand prospect has net to Byron a prospective resource of 2,624 Mbo of oil and 3.2 Bcf of gas.

Collarini's overall Prospective Resources for the Lower O Sand on SM58 are 10,698 Mbbbl and 14.0 Bcf of gas (net to Byron). With the inclusion of the Lower O Sand from the Cutthroat area discussed above, Byron's prospective resources for the SM58 have increased 2,065%.

For further information on SM58 reserves and prospective resources refer to the Company's ASX announcements on 19 September 2019 and 17 October 2019.

SM58 G production platform and development drilling

In May 2019 Byron purchased a production platform consisting of two decks, a jacket and production equipment from a private company for a total price of US\$1.0 million.

Construction work on the future SM58 G platform is ongoing in Abbeville, Louisiana and remains on schedule for installation in June 2020. Structural work to the jacket portion of the platform is in progress and painting and coating of the deck portion was completed in December 2019. The next construction phase will

Directors' Report continued

focus on interconnect piping. All production equipment is being refurbished and will be reinstalled along with instrumentation and electrical work over the next three months. When completed and installed, the SM58 G platform will be capable of handling 8,000 barrels of oil per day, 80 million cubic feet of natural gas per day and 8,000 barrels of water per day.

In January 2020, the Company has executed a drilling contract with Enterprise Offshore Drilling to utilise the EOD 264 mat jack-up rig to drill four new wells and complete all successful wells drilling during the program along with completion of the SM58 G1 well.

The focus of the second phase of Byron's 2020 drilling program will be the SM58 lease where three new wells will be drilled from the SM58 G platform once it is set. Initial operations when the rig is mobilised to SM58 G platform will be to complete the G1 well as an Upper O Sand producer before beginning to drill new wells. The first new well, the SM58 G2, will be drilled to retest the Lower

O Sand where strong oil shows were observed over a 150-250-foot section of the SM58 G1 wellbore in September of 2019 (refer to Byron's ASX release dated 30 September 2019 for details).

Additional new wells will also be drilled from the SM58 G platform to test the Upper and Lower O Sands defined in Byron's Steelhead Prospect and the Upper O Sand in the Brown Trout Prospect. The exact order of drilling will be determined in the next few months and the rig will also be used to complete all successful wells drilled at SM69 and SM58 under the contract. Byron's contract also provides the opportunity to add an optional well to the program should the Company choose to do so.

SM 58 production statistics – E1 well (operated by ANKOR)

Byron's SM58 E-1 well share of production for the half year ended 31 December 2019 is shown in the table below. Byron acquired the SM58 lease effective 1 January 2019.

| | YTD 31 December 2019 | YTD 31 December 2018 |
|---|-------------------------|-------------------------|
| Production (sales) E-1 well | | |
| Gross production | | |
| Oil (bbls) | 20,414 | n/a |
| Gas (mmbtu) | 4,506 | n/a |
| Byron share of gross production (53% WI) | | |
| Oil (bbls) | 10,820 | n/a |
| Gas (mmbtu) | 2,388 | n/a |
| Net production (Byron share 44.167% after royalty) | | |
| Oil (bbls) | 9,016 | n/a |
| Gas (mmbtu) | 1,990 | n/a |
| Sale revenue (accrual basis) US\$ million | | |
| Net sales revenue (Byron share 44.167%; after royalty, transport, oil shrinkage and other applicable adjustments) | 0.5 | n/a |

South Marsh Island 57 and 59

Byron currently holds a 100% WI and an 81.25% NRI in SM57/59. Water depth in the area is approximately 125 feet.

The SM57/59 blocks, as part of the larger SM71 project area, are also focus areas of the seismic processing project, which Byron undertook with Schlumberger's subsidiary WesternGeco to help evaluate potential future exploration drill sites.

South Marsh Island 69

In April 2019, Byron entered into a Joint Exploration Agreement and a related Production Handling Agreement with SM69 leaseholders to drill a SM69 E2 development well off the recently acquired E platform to earn interest in the north-east portion of the SM69 lease block. Byron and SM69 leaseholders have finalised a Joint Exploration Agreement for the proposed E2 well and the north-east ¼ of the north east ¼ of SM69.

By funding 100% of the well Byron will earn 100% WI and 80.33% NRI until E2 Project Payout, at which time and at the leaseholder's election, Byron's NRI will either adjust to 77.33% or the leaseholders can convert to a 30% WI and Byron's interest in the project would adjust to 70% WI with an unburdened 58.33% NRI.

The SM69 E2 well, the initial well to be drilled, under the drilling contract with Enterprise utilising the EOD 264 mat jack-up rig, will be drilled from SM69 E platform where Byron owns a 53% WI in one producing well, the SM58 E1. The SM69 E2 well will test six sands in a fault block adjacent to the fault block where the SM58 E1 well is currently producing from the K4 Sand. SM69 E2 well is expected to spud within the next 12 months, subject to rig availability.

If the SM69 E2 well is successful, first production from the E2 well is expected within three to six months.

South Marsh Island 60

Byron Energy Inc, a wholly owned subsidiary of the Company, acquired the South Marsh Island 60 lease ('SM60') at the Gulf of Mexico, Outer Continental Shelf ('OCS') Lease Sale 252 held in New Orleans, Louisiana on 20 March 2019.

From 1978 through 2006, nine wells completed for production on SM60 produced a combined total of 385 billion cubic feet of gas and 787,000 barrels of oil. SM60 lies within the area of Byron's RTM reprocessing project which was used to evaluate the prospect potential on the block.

South Marsh Island 70

Byron has a 100% WI and 87.5% NRI (royalty rate of 12.5%) South Marsh Island 70 ('SM70') at the Gulf of Mexico OCS Lease Sale 250 held on 21 March 2018 in New Orleans, Louisiana.

Byron has identified several higher risk exploratory leads on SM70. These leads are being evaluated following completion Byron's South Marsh Island project seismic reprocessing work in late 2018.

No material activity was undertaken on SM70 during the December 2019 half year.

Eugene Island blocks 62, 63, 76 and 77

Byron acquired Eugene Island blocks 62, 63, 76 and 77 ('EI62/63/76/77'), at Gulf of Mexico OCS Lease Sale 250 held on 21 March 2018 in New Orleans, Louisiana. Water depth in the area is approximately 20 feet.

Byron currently holds a 100% WI and an 87.5% NRI in EI62/63/76/77, reflecting the recently reduced Federal Government Royalty of 12.5% versus pre-2017 rate of 18.75%.

EI62/63/76/77 were designated as the Eugene Island 77 Field in the 1960's and has 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.

On the basis of proprietary RTM, undertaken by WesternGeco (a Schlumberger group company) in 2014 of 3D seismic data over the entire four block Eugene Island 77 Field, Byron acquired EI62/63/76/77 at the OCS Lease Sale 250. As a result of this detailed work Byron significantly upgraded the reserve potential of EI62/63/76/77.

In the September 2018 quarter, Byron began a reprocessing effort similar that undertaken on the SM71 project area with WesternGeco over all four Eugene Island blocks leased by the Company. Final deliverables were received during the June 2019 quarter. Analysis of the reprocessed data is continuing.

Drilling plans for EI77 have been paused, with SM58 being brought forward ahead of the EI77 field wells.

Directors' Report continued

Main Pass 293, 305 and 306

Byron currently holds a 100% WI and an 87.50% NRI in Main Pass 293, 305 and 306 ('MP306 field') acquired at the Gulf of Mexico, OCS Lease Sale 251 ('Lease Sale 251') held in New Orleans, Louisiana on 15 August 2018.

The three leases comprise the MP306 field as formerly designated by the Bureau of Ocean Energy Management ('BOEM'). The MP306 Field was discovered in 1969 and lies in approximately 200 feet of water. Total produced hydrocarbons from the field are 96 million barrels of oil and 107 Bcf of gas from 172 of the 249 total wells drilled. The field ceased production in late 2009 and the last well drilled on any of these blocks was in 2004. The production was from a number of sands ranging from a depth of 4,000 to 9,000 feet.

The structural complexity of the salt dome combined with the stratigraphic variation of the trapping sands and possible deeper stratigraphic targets makes this salt dome an ideal candidate for RTM seismic imaging, similar to Byron's operated SM71 salt dome project.

While no material activity was undertaken during the December 2019 half year, the Company will start, in the first half of 2020, scoping an RTM seismic imaging project over the MP306 field.

South Marsh Island 74

The Byron operated SM74 D14 well, the first test well on the South Marsh Island 74 ('SM74') block, spudded on 15 May 2019 and was plugged and abandoned in July 2019.

Because the first two primary objectives were wet and due to difficult hole conditions, it was decided not to drill deeper but to plug and abandon the hole. The well targeted three amplitude supported target sands prospective for oil and gas. The rig was released in July 2019, following completion of P&A operations.

Byron farmed-out a 30% Working Interest share of the SM74 prospect to Metgasco Limited ('Metgasco') on industry standard terms whereby Metgasco earned its interest by paying 40% of the US\$11.4 million initial well dry hole costs and Byron paying the remaining 60%. On 18 July 2019 Byron announced that agreement had been reached with Metgasco to limit Metgasco's financial exposure to the SM74 project. Byron capped Metgasco's additional costs for the drilling of SM74 D14 well at A\$1.75 million (in addition to US\$4.5 million previously contributed by Metgasco). Byron's share of SM74 D14 well cost was written off in the Company's 30 June 2019 financial statements.

Non-salt dome projects (Byron operated)

Grand Isle Block 95

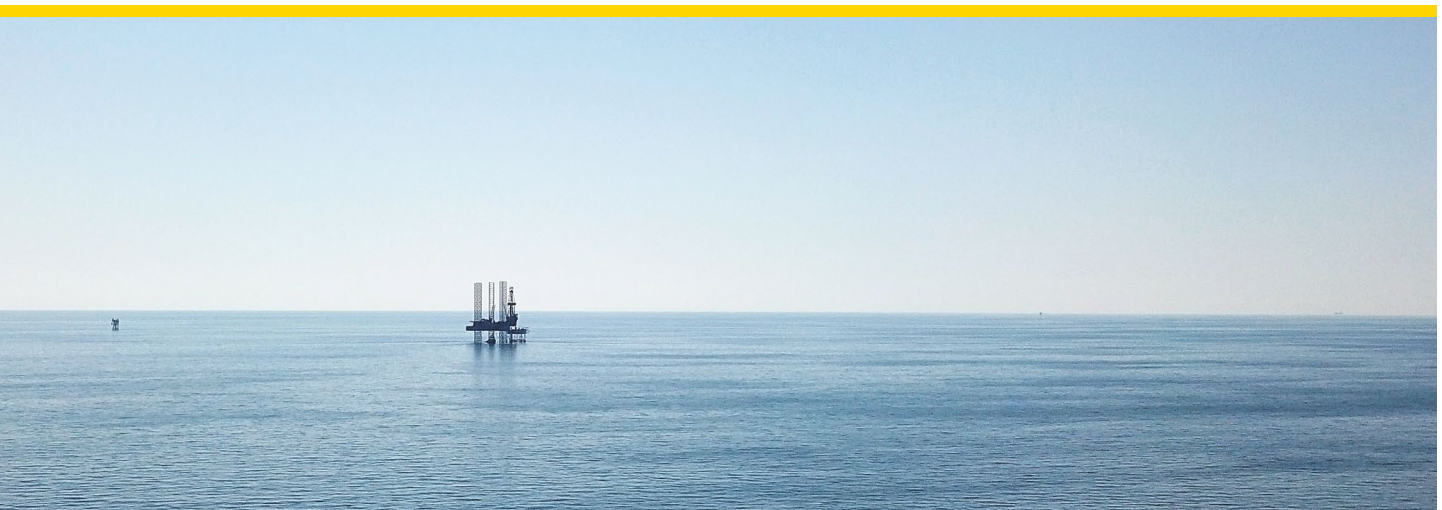
Grand Isle Block 95 ('GI95') is located in US Federal waters, approximately 100 miles southeast of New Orleans, Louisiana, at a water depth of approximately 201 feet. The Company has a 100% operated WI and an 87.5% NRI, reflecting the recently reduced Federal Government Royalty of 12.5% versus pre 2017 rate of 18.75%. Water depth in the area is approximately 197 feet.

Byron acquired the GI95 lease at Central Gulf of Mexico OCS Lease Sale 249 held on 16 August 2017 in New Orleans, Louisiana.

No material activity was undertaken on GI95 during the December 2019 half year.

Bivouac Peak leases

The Bivouac Peak state leases were relinquished in 2018 and the private leases were relinquished during the September quarter 2019.



Properties

As at 31 December 2019, Byron's portfolio of 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 60 | Byron | 100.00/87.50 | June 2024 | 20.23 |
| Block 58 (excluding E1 well) | Byron | 100.00/83.33 ^{**} | Production | 20.23 |
| Block 58 (E1 well in S ½ of SE ¼ of SE ¼ and associated production infrastructure in NE ¼ of NE ¼ of SM69) | Ankor | 53.00/44.16667 | | |
| SM69 (NE ¼ of NE ¼) | Byron | 100.00/77.33-80.33 | Production | 1.3 |
| Block 74 ^{***} | Byron | 100.00/81.25 | June 2022 | 20.23 |
| Block 70 | Byron | 100.00/87.50 | July 2023 | 22.13 |
| Eugene Island | | | | |
| 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 |
| Main Pass | | | | |
| Block 293 | Byron | 100.00/87.50 | October 2023 | 18.46 |
| Block 305 | Byron | 100.00/87.50 | October 2023 | 20.23 |
| Block 306 | Byron | 100.00/87.50 | October 2023 | 20.23 |
| Grand Isle | | | | |
| Block 95 | Byron | 100.00/87.50 | September 2022 | 18.37 |

^{*} Working Interest ('WI') and Net Revenue Interest ('NRI').

^{**} 100.00% WI to a depth of 13,639 feet TVD and 50% WI below 13,639 feet TVD.

^{***} Metgasco Limited ('Metgasco') paid 40% (US\$4.5 million), of the initially estimated drilling costs of SM74 D14 to earn a 30% WI in SM74. On 18 July 2019 Byron announced that agreement had been reached with Metgasco to limit Metgasco's financial exposure to the SM74 project. Byron capped Metgasco's additional costs for the drilling of SM74 D14 well at A\$1.75 million (in addition to US\$4.5 million already contributed by Metgasco).

Directors' Report continued

This report is signed in accordance with a resolution of the directors, made pursuant to section 306(3) of the *Corporations Act 2001*.

On behalf of the directors



D G Battersby

Chairman

5 March 2020

Auditor's Independence Declaration



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5 March 2020

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 review of the financial statements of Byron Energy Limited for the half-year ended 31 December 2019, 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 review; and
- (ii) any applicable code of professional conduct in relation to the review.

Yours sincerely

DELOITTE TOUCHE TOHMATSU

Craig Bryan
Partner
Chartered Accountants

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Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the Half Year Ended 31 December 2019

| | Note | Consolidated | |
|--|------|--------------------------|--------------------------|
| | | 31 December 2019 US\$ | 31 December 2018 US\$ |
| Continuing operations | | | |
| Revenues from sale of oil and gas | | 15,965,089 | 21,187,696 |
| Royalty expense | | (2,966,441) | (3,965,683) |
| Cost of sales | 2 | (3,621,888) | (2,970,228) |
| Gross profit | | 9,376,760 | 14,251,785 |
| Fair value adjustment on embedded derivative element of convertible note | | - | 241,222 |
| Recoupment of operator overheads | | 61,306 | 127,739 |
| Corporate and administration costs | | (1,111,137) | (1,640,571) |
| Share-based payments | | (959,165) | (576,299) |
| Impairment and dry hole expense | 6(a) | (5,138,613) | (3,466,140) |
| Depreciation/amortisation of property, plant and equipment | | (177,351) | (18,376) |
| Other expenses | | (1,063,564) | (1,027,607) |
| Financial income | | 6,288 | 12,056 |
| Financial expense | | (489,108) | (315,667) |
| Profit before tax | | 505,416 | 7,588,142 |
| Income tax expense | | - | - |
| Profit for the half year attributable to owners of parent | | 505,416 | 7,588,142 |
| Other comprehensive income/(losses), net of income tax | | | |
| <i>Items that may subsequently be reclassified to profit and loss</i> | | | |
| Exchange differences on translating the parent entity group | | (79,209) | 91,171 |
| Total comprehensive profit for the half year attributable to owners of parent | | 426,207 | 7,679,313 |
| Earnings per share | | | |
| Basic earnings cents per share | | 0.070 | 1.10 |
| Diluted earnings cents per share | | 0.068 | 1.08 |

The accompanying notes form part of these condensed financial statements.

Condensed Consolidated Statement of Financial Position

31 December 2019

| | Note | Consolidated | |
|--------------------------------------|------|--------------------------|----------------------|
| | | 31 December 2019 US\$ | 30 June 2019 US\$ |
| Assets | | | |
| Current assets | | | |
| Cash and cash equivalents | | 20,727,149 | 6,783,320 |
| Trade and other receivables | | 3,236,696 | 5,068,725 |
| Restricted cash and cash equivalents | | - | 4,377,250 |
| Other | | 489,579 | 1,633,986 |
| Total current assets | | 24,453,424 | 17,863,281 |
| Non-current assets | | | |
| Exploration and evaluation assets | 6(a) | 26,803,090 | 6,587,670 |
| Oil and gas properties | 6(b) | 26,008,293 | 27,192,032 |
| Other (refundable bonds) | | 1,925,000 | 1,488,177 |
| Right-of-use assets | 7 | 1,093,019 | - |
| Trade and other receivables | | 281,263 | - |
| Property, plant and equipment | | 45,504 | 50,162 |
| Other intangible assets | | 238,505 | 312,188 |
| Total non-current assets | | 56,394,674 | 35,630,229 |
| Total assets | | 80,848,098 | 53,493,510 |
| Liabilities | | | |
| Current liabilities | | | |
| Trade and other payables | | 5,673,316 | 8,925,339 |
| Provisions | | 131,318 | 124,361 |
| Lease liabilities | 7 | 305,695 | - |
| Borrowings | 8 | 1,214,485 | 5,747,990 |
| Total current liabilities | | 7,324,814 | 14,797,690 |

The accompanying notes form part of these condensed financial statements.

Condensed Consolidated Statement of Financial Position continued

31 December 2019

| | Note | Consolidated | |
|--------------------------------------|------|--------------------------|----------------------|
| | | 31 December 2019 US\$ | 30 June 2019 US\$ |
| Non-current liabilities | | | |
| Provisions | | 3,186,838 | 1,984,062 |
| Lease liabilities | 7 | 1,163,419 | - |
| Borrowings | 8 | 13,054,593 | - |
| Total non-current liabilities | | 17,404,850 | 1,984,062 |
| Total liabilities | | 24,729,664 | 16,781,752 |
| Net assets | | 56,118,434 | 36,711,758 |
| Equity | | | |
| Issued capital | 9 | 119,113,054 | 101,091,750 |
| Foreign currency translation reserve | | (210,675) | (131,466) |
| Share option reserve | | 6,323,563 | 5,364,398 |
| Accumulated losses | | (69,107,508) | (69,612,924) |
| Total equity | | 56,118,434 | 36,711,758 |

The accompanying notes form part of these condensed financial statements.

Condensed Consolidated Statement of Changes in Equity

For the Half Year Ended 31 December 2019

| Consolidated entity | Ordinary share capital US\$ | Share option reserve US\$ | Foreign currency translation reserve US\$ | Accumulated losses US\$ | Total US\$ |
|--|-----------------------------------|---------------------------------|---|-------------------------------|-------------------|
| Balance at 1 July 2018 | 99,296,931 | 4,694,257 | (152,653) | (75,331,912) | 28,506,623 |
| Profit for the half year | - | - | - | 7,588,142 | 7,588,142 |
| Exchange differences arising on translation of the parent entity | - | - | 91,171 | - | 91,171 |
| Total comprehensive loss for the half year | - | - | 91,171 | 7,588,142 | 7,679,313 |
| The issue of 3,766,479 shares at A\$0.2655 per share upon conversion of A\$1,000,000 convertible notes | 724,400 | - | - | - | 724,400 |
| The exercise of 1,950,000 share options at A\$0.25 per share | 344,419 | - | - | - | 344,419 |
| Recognition of share-based payments | - | 576,299 | - | - | 576,299 |
| Balance at 31 December 2018 | 100,365,750 | 5,270,556 | (61,482) | (67,743,770) | 37,831,054 |
| Balance at 1 July 2019 | 101,091,750 | 5,364,398 | (131,466) | (69,612,924) | 36,711,758 |
| Profit for the half year | - | - | - | 505,416 | 505,416 |
| Exchange differences arising on translation of the parent entity | - | - | (79,209) | - | (79,209) |
| Total comprehensive loss for the half year | - | - | (79,209) | 505,416 | 426,207 |
| The issue of 10,000,000 shares at A\$0.25 per share upon conversion of 10,000,000 share options | 1,742,000 | - | - | - | 1,742,000 |
| The placement of 51,961,055 shares at a subscription price of A\$0.27 cents per share | 9,483,932 | - | - | - | 9,483,932 |
| 42,075,806 shares were issued at A\$0.27 cents per share under an entitlement offer | 7,838,723 | - | - | - | 7,838,723 |
| Equity raising costs | (1,043,351) | - | - | - | (1,043,351) |
| Share based payments | - | 959,165 | - | - | 959,165 |
| Balance at 31 December 2019 | 119,113,054 | 6,323,563 | (210,675) | (69,107,508) | 56,118,434 |

The accompanying notes form part of these condensed financial statements.

Condensed Consolidated Statement of Cash Flows

For the Half Year Ended 31 December 2019

| | Consolidated | |
|---|-----------------------------|-----------------------------|
| | 31 December 2019 US\$ | 31 December 2018 US\$ |
| Cash flows from operating activities | | |
| Receipts from customers | 16,801,987 | 22,519,513 |
| Payments to suppliers, employees and government (royalties) | (6,642,603) | (8,982,582) |
| Interest paid | (472,581) | (270,073) |
| Interest received | 6,288 | 2,124 |
| Net cash flows from operating activities | 9,693,091 | 13,268,982 |
| Cash flows from investing activities | | |
| Payments for development of oil and gas properties | (365,993) | (1,366,771) |
| Payments for exploration, evaluation and development | (23,278,314) | (5,412,086) |
| Payments for other intangible assets | - | (141,245) |
| Payments for property, plant and equipment | (840) | (1,556) |
| Net cash flows used in investing activities | (23,645,147) | (6,921,658) |
| Cash flows from financing activities | | |
| Proceeds from issues of ordinary shares | 19,064,654 | 344,419 |
| Redemption of convertible notes | - | (1,460,100) |
| Proceeds from borrowings | 12,990,210 | - |
| Repayment of borrowings | (3,190,500) | (1,373,776) |
| Repayment of lease liabilities | (123,508) | - |
| Payment of equity raising costs | (852,261) | - |
| Net cash flows (used in)/from financing activities | 27,888,595 | (2,489,457) |
| Net increase in cash and cash equivalents held | 13,936,539 | 3,857,867 |
| Cash and cash equivalents at the beginning of the period | 6,783,320 | 2,256,958 |
| Effect of exchange rate changes on the balance of cash held in foreign currencies | 7,290 | (20,315) |
| Cash and cash equivalents at the end of the period | 20,727,149 | 6,094,510 |

The accompanying notes form part of these condensed financial statements.

Notes to the Condensed Consolidated Financial Statements

For the Half Year Ended 31 December 2019

1. Significant accounting policies
2. Cost of sales
3. Foreign currency translation
4. Contingent liabilities
5. Segment information
6. (a) Exploration and evaluation assets
(b) Oil and gas properties
7. Right-of-use asset and lease liabilities
8. Borrowings
9. Issued capital
10. Financial instruments
11. Expenditure commitments
12. Related party
13. Events subsequent to balance date

Notes to the Condensed Consolidated Financial Statements continued

For the Half Year Ended 31 December 2019

1. Significant accounting policies

Statement of compliance

The half year financial report is a general purpose financial report prepared in accordance with the *Corporations Act 2001* and AASB 134 Interim Financial Reporting. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 Interim Financial Reporting. The half year report does not include notes of the type normally included in an annual financial report and shall be read in conjunction with the most recent annual financial report.

Basis of preparation

The condensed consolidated financial statements have been prepared on the basis of historical cost. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in United States of America dollars (US\$), unless otherwise noted.

The accounting policies and methods of computation adopted in the preparation of the half year financial report are consistent with those adopted and disclosed in the company's 2019 annual financial report for the financial year ended 30 June 2019, except for the impact of the Standards and Interpretations described below. These accounting policies are consistent with Australian Accounting Standards and with International Financial Reporting Standards.

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 half year.

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

Standard/Interpretation

1. AASB 16 Leases

AASB 16 Leases was effective for financial years commencing on or after 1 July 2019. AASB 16 eliminates the classification of leases as either operating leases or finance leases for lessees as required by AASB 117 Leases and instead, introduces a single lessee accounting model. Applying that model, a lessee is required to recognise:

On initial application of AASB 16, for all leases, the entity has:

- (a) recognise right-of-use assets and lease liabilities in the statement of financial position, initially measured at the present value of the future lease payments;
- (b) recognise depreciation of right-of-use assets and interest on lease liabilities in the statement of profit or loss; and
- (c) separated the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within operating activities) in the cash flow statement.

The Group has elected to apply the modified retrospective approach for leases. For leases which were classified as operating leases under AASB 117, the Group has recognised right-of-use assets and lease liabilities as at the transition date (1 July 2019). The Group did not have any leases previously clarified as finance leases on the adoption date.

Specifically, under AASB 16, the Group has recognised a right-of-use asset and a corresponding lease liability in relation to the non-cancellable operating leases of the USA office premises and the compressor on the SM71 F platform. Upon transition as at 1 July 2019, a right-of-use asset was recognised at an amount equal to the corresponding lease liability with the Group recognising in a right-of-use asset and lease liability of US\$830,257 for an office rental lease. Upon installation of a compressor on the SM71 platform in December 2019, the Group recognised its respective 50% Working Interest share of a right-of-use asset US\$361,712 and an offsetting debtor of US\$361,712 representing the non-operator's share of lease liability.

Leases to explore for or use oil and natural gas are specifically excluded from AASB 16.

In the future, the Group will assess whether future contracts contain a lease, at inception of the contract. The Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. For these leases, the Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease

The lease liability is presented as a separate line with a corresponding right-of-use asset in the consolidated statement of financial position.

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 |
|---|--|---|
| a. AASB 2019-1 Amendments to Australian Accounting Standards – References to the Conceptual Framework in IFRS Standards | 1 January 2020 | 30 June 2021 |
| b. AASB 2018-7 Amendments to Australian Accounting Standards – Definition of Material | 1 January 2020 | 30 June 2021 |

Critical accounting judgements and key sources of estimation uncertainty

The preparation of the consolidated financial statements requires management to make judgements, 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 affected.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in Note 6. (a) Exploration and evaluation assets and (b) Oil and gas properties.

Another area of estimation uncertainty relates to the future cost to remove oil and gas production facilities, abandonment of wells 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.

2. Cost of sales

| | Consolidated | |
|--|--------------------------|--------------------------|
| | 31 December 2019 US\$ | 31 December 2018 US\$ |
| Cost of sales | | |
| Operating costs | 1,589,787 | 1,346,191 |
| Amortisation of oil and gas properties | 2,032,101 | 1,624,037 |
| | 3,621,888 | 2,970,228 |

Notes to the Condensed Consolidated Financial Statements continued

For the Half Year Ended 31 December 2019

3. 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 follows:

| | 31 December 2019 (half year) | 30 June 2019 (full year) | 31 December 2018 (half year) |
|-----------------------------|------------------------------------|--------------------------------|------------------------------------|
| Spot rate | 0.7006 | 0.7013 | 0.7058 |
| Average rate for the period | 0.6846 | 0.7156 | 0.7247 |

4. 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 1 December 2015 between Byron Energy Inc and Otto Energy (Louisiana) LLC.

(b) Byron Energy Limited has guaranteed the performance of Byron Energy Inc, a wholly owned subsidiary, under the Secured Promissory Note with Crimson Midstream Operating, LLC dated 3 December 2019.

(c) Supplemental bonding requirements by the BOEM

The BOEM requires that lessees demonstrate financial strength and reliability according to its regulations or provide acceptable financial assurances to satisfy lease obligations, including decommissioning activities on the OCS. As of the date of this report, the Company is in compliance with its financial assurance obligations to the BOEM and has no outstanding BOEM orders related to assurance obligations. Byron and other offshore Gulf of Mexico producers may in the ordinary course receive future demands for financial assurances from the BOEM as the BOEM continues to re-evaluate its requirements for financial assurances.

(d) Surety bond issuers' collateral requirements

The issuers of surety bonds in some cases have requested and received additional collateral related to surety bonds for exploration and development drilling and plugging and abandonment activities. Byron may be required to post collateral at any time pursuant to the terms of its agreement with sureties under its existing bonds, if they so demand at their discretion. As at 31 December 2019, Byron had collateral bond holdings of US\$2,325,000, of which US\$1,925,000 was cash collateralised.

(e) Other claims

Claims or contingencies may arise related to matters occurring prior to Byron's acquisition of properties or related to matters occurring subsequent to Byron's sale of properties. In certain cases, Byron has indemnified the sellers of properties it has acquired, and in other cases, it has indemnified the buyers of properties sold.

From time to time the Company may be involved in litigation arising out of the normal course of business. The Company is not involved in any litigation, the outcome of which would have a material effect on its consolidated financial position, results of operations or liquidity.

In addition, the Company and its oil and gas joint interest owners are subject to periodic audits of the joint interest accounts for leases which Byron operates and/or participates. As a result of these joint interest audits, amounts payable or receivable by the Company for costs incurred or revenue distributed by the operator or by the Company on a lease may be adjusted, resulting in adjustments to Byron's net costs or revenues and the related cash flows. When they occur, these adjustments are recorded in the current period, which generally is one or more years after the related cost or revenue was incurred or recognised by the joint account. Byron does not believe any such adjustments will be material.

5. Segment information

The Group determines operating segments based on the information that is internally provided to the executive management team. Using this 'management approach' segment information is on the same basis as information used for internal reporting purposes. As such, there are no significant classes of business, either singularly or in aggregate. The Group therefore operates within one business segment of oil and gas exploration, development and production and one geographical segment, the United States of America.

6. (a) Exploration and evaluation assets

| | Consolidated | |
|---|-----------------------------|-------------------------|
| | 31 December 2019 US\$ | 30 June 2019 US\$ |
| Costs carried forward in respect of areas in the exploration and/or evaluation phase at cost: | 26,803,090 | 6,587,670 |
| <i>Reconciliation of movements:</i> | | |
| Carry amount at the beginning of the financial year | 6,587,670 | 3,937,828 |
| Additions at cost | 24,154,033 | 14,956,165 |
| Acquisition of an exploration property | - | 609,632 |
| Additions for site restoration | 1,200,000 | - |
| Impairment/dry hole expense | (5,138,613) | (12,915,955) |
| Carrying amount at the end of the financial period/year | 26,803,090 | 6,587,670 |

The recoverability of the carrying amount of the exploration and evaluation assets is dependent on successful development and commercial exploitation, or alternatively, sale of the respective property. The balance of exploration and evaluation assets as of 31 December 2019, includes US\$21,932,749 in respect to SM58, primarily the cost of drilling SM58 G1 well during the December 2019 half year.

The impairment charge covers the write off of expenditure incurred in the drilling of the SM74 D14 well dry hole for the half year ended 31 December 2019.

6. (b) Oil and gas properties

| | Consolidated | |
|--|-----------------------------|-------------------------|
| | 31 December 2019 US\$ | 30 June 2019 US\$ |
| Costs carried forward in respect of areas in the oil and gas properties at cost: | 26,008,293 | 27,192,032 |
| <i>Reconciliation of movements:</i> | | |
| Carry amount at the beginning of the financial year | 27,192,032 | 26,174,962 |
| Additions at cost | 848,362 | 1,320,212 |
| Additions for site restoration | - | 203,152 |
| Acquisition of producing properties | - | 4,129,433 |
| Amortisation of oil and gas properties included in cost of sales | (2,032,101) | (4,635,727) |
| Carrying amount at the end of the financial period/year | 26,008,293 | 27,192,032 |

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 changes in the estimated recoverable reserves, oil and gas prices, discount rates and cost estimates or a combination of these inputs.

Notes to the Condensed Consolidated Financial Statements continued

For the Half Year Ended 31 December 2019

7. Right-of-use assets

| | Consolidated | |
|---|-----------------------------|-------------------------|
| | 31 December 2019 US\$ | 30 June 2019 US\$ |
| Office lease | | |
| Opening balance 1 July 2019 | 830,257 | - |
| Depreciation for 6 months | (92,251) | - |
| Carrying amount at the end of the financial period | 738,006 | - |
| Compressor lease | | |
| Opening balance 1 December 2019 | 361,712 | - |
| Depreciation for 1 month | (6,699) | - |
| Carrying amount at the end of the financial period | 355,013 | - |
| Total right-of-use assets | 1,093,019 | |
| Amounts recognised in profit and loss | | |
| Depreciation expense on right-of-use assets | 98,950 | - |
| Interest expense on lease liabilities | 44,527 | - |
| Expense relating to short-term leases | 68,398 | - |
| Lease liabilities | | |
| Not later than one year | 431,420 | - |
| Later than one year and not later than 5 years | 1,426,375 | - |
| Minimum lease payments | 1,857,795 | - |
| Less: Future finance charges | (388,681) | - |
| Provided for in the financial statement | 1,469,114 | - |
| Representing lease liabilities | | |
| Current | 305,695 | - |
| Non-current | 1,163,419 | - |
| | 1,469,114 | - |

8. Borrowings

| | Consolidated | |
|--|-----------------------------|-------------------------|
| | 31 December 2019 US\$ | 30 June 2019 US\$ |
| Current unsecured | | |
| Loans from directors and shareholders | 500,000 | 4,174,030 |
| Insurance premium financing (interest bearing) | 297,818 | 1,573,960 |
| Current secured | | |
| Promissory Note – debt liability | 416,667 | - |
| Total current borrowings | 1,214,485 | 5,747,990 |
| Non-current unsecured | | |
| Loans from directors and shareholders | 3,471,260 | - |
| Non-current secured | | |
| Promissory Note – debt liability | 9,583,333 | - |
| Total non-current borrowings | 13,054,593 | - |

Key terms of the Promissory note include: (i) facility amount US\$15 million; (ii) senior secured debt over the Company's SM71 & SM58 assets and guaranteed by the Company; (iii) interest rate of 15% p.a., over a 3-year term, with a first-year interest-only.

9. Issued capital

(a) Movement for period

| | 31 December 2019 | | 30 June 2019 | |
|---|--------------------|--------------------|--------------|-------------|
| | Number | US\$ | Number | US\$ |
| Fully paid ordinary shares | 799,410,278 | 119,113,054 | 695,373,417 | 101,091,750 |
| <i>Movements in ordinary share capital for the period:</i> | | | | |
| Balance as at 1 July 2019 | 695,373,417 | 101,091,750 | | |
| The issue of 10,000,000 shares at A\$0.25 per share upon conversion of 10,000,000 share options | 10,000,000 | 1,742,000 | | |
| The placement of 51,961,055 shares at a subscription price of A\$0.27 cents per share | 51,961,055 | 9,483,932 | | |
| 42,075,806 shares were issued at A\$0.27 cents per share under an Entitlement offer | 42,075,806 | 7,838,723 | | |
| Equity raising costs | - | (1,043,351) | | |
| Balance as at 31 December 2019 | 799,410,278 | 119,113,054 | | |

Notes to the Condensed Consolidated Financial Statements continued

For the Half Year Ended 31 December 2019

9. Issued capital continued

(b) 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.

As at 31 December 2019, the issued capital of the Company comprised 799,410,278 ordinary shares and all shares are quoted on the ASX.

(c) Share options

Options over ordinary shares

As at 31 December 2019, there were 41,100,000 issued unlisted options outstanding over ordinary shares comprising:

| Expiry date | Number | Securities | Exercise price |
|------------------|-------------------|------------------|----------------|
| 31 December 2021 | 28,350,000 | Unlisted options | A\$0.12 |
| 31 December 2021 | 2,000,000 | Unlisted options | A\$0.16 |
| 31 December 2021 | 9,500,000 | Unlisted options | A\$0.40 |
| 31 December 2021 | 1,250,000 | Unlisted options | A\$0.40 |
| Total | 41,100,000 | | |

During the half year ended 31 December 2019, no share options were issued. No share options lapsed in the half year and 10,000,000 share options with an expiry date of 21 July 2019 and exercise price of A\$0.25 were converted into fully paid ordinary shares. A further 9,500,000 share options with an expiry date of 31 December 2019 and exercise price of \$0.25 were also converted into fully paid shares, but not allotted until early January 2020.

10. Financial instruments

The directors consider the carrying amounts of financial assets and liabilities recognised in the consolidated financial statements to approximate their fair values.

11. Expenditure commitments

Except for as disclosed in Note 7, there has been no material change to the leasing or financing commitments disclosed in the financial statements for the year ended 30 June 2019.

The Group has no exploration lease commitments at the end of the half-year ended 31 December 2019 as the leasing arrangements for the Gulf of Mexico blocks do not require firm work programme commitments. The Group does have the following financial commitments as at 31 December 2019 in respect to oil and gas and exploration and evaluation assets.

| | Consolidated | |
|-------------------------------|-----------------------------|-----------------------------|
| | 31 December 2019 US\$ | 31 December 2018 US\$ |
| Expenditure commitment | | |
| Not longer than 1 year | 7,987,293 | 1,319,000 |

The expenditure commitments as at 31 December 2019 consist of commitments for (i) refurbishment of an oil and gas platform for SM58 and (ii) drilling rig

12. Related party

The following related party transactions were continued or entered into during the half year ended 31 December 2019:

- (a) In September 2019, the Company entered into unsecured loan agreements, bearing interest at 10% per annum, with four of the Company's directors, for a total drawdown of US\$1,500,000 and A\$1,100,000. The loans were repaid in December 2019 with applicable interest, except for the Geogeny Pty Ltd US\$500,000 loan, which was repaid in early January 2020. During the half year ended 31 December 2019, the Company made the following loan repayments and interest payments to related parties:
- Veruse Pty Ltd, a company controlled by Mr Douglas Battersby, a director of the Company, was repaid A\$750,000, plus interest of A\$20,959;
 - Geogeny Pty Ltd, a company controlled by Mr Maynard Smith, a director of the Company, was repaid US\$500,000, plus interest of US\$15,068 in early January 2020;
 - Poal Pty Limited, a company controlled by Mr Paul Young, a director of the Company, was repaid A\$175,000, plus interest of A\$5,034;
 - a related party of Mr Paul Young, a director of the Company, was repaid A\$175,000, plus interest of A\$5,034; and
 - Charles Sands, a director of the Company, was repaid US\$1,000,000, plus interest of US\$27,123 (net of withholding taxes).
- (b) In March 2019, the Company entered into unsecured loan agreements, bearing interest at 10% per annum, with four of the Company's directors, for a total drawdown of US\$2,000,000 and A\$1,750,000. The loans were due for repayment in November 2019, however the directors agreed to extend the loan repayment date to March 2021 and accrued interest to November 2019 was paid in December 2019. The individual directors' transactions and balances for these loans were:
- Veruse Pty Ltd, a company controlled by Mr Douglas Battersby, a director of the Company, provided an unsecured loan of A\$1,400,000 to the Company and interest paid to November 2019 was A\$94,356, plus A\$11,890 has been accrued as at 31 December 2019;
 - Clapsy Pty Ltd, a company controlled by Mr Paul Young, a director of the Company, provided an unsecured loan of A\$175,000 to the Company and interest paid to November 2019 was A\$11,890, plus A\$1,486 has been accrued as at 31 December 2019;
 - Poal Pty Ltd, a company controlled by Mr Paul Young, a director of the Company, provided an unsecured loan of A\$175,000 to the Company and interest paid to November 2019 was A\$11,890, plus A\$1,486 has been accrued as at 31 December 2019;
 - Geogeny Pty Ltd, a company controlled by Mr Maynard Smith, a director of the Company, provided an unsecured loan of US\$1,000,000 to the Company and interest paid to November 2019 was US\$67,397, plus US\$8,493 has been accrued as at 31 December 2019; and
 - Charles Sands, a director of the Company, provided an unsecured loan of US\$1,000,000 to the Company and interest paid to November 2019 was US\$60,904 (net of withholding taxes), plus US\$7,644 (net of withholding taxes) has been accrued as at 31 December 2019.
- (c) Corporate advisory services at normal commercial rates totalling A\$353,621 (2018: A\$Nil) including GST were provided by Henslow Pty Ltd, of which Paul Young is a managing director. These amounts were accrued and payable as at 31 December 2019 (2018: \$Nil).

13. Events subsequent to balance date

Subsequent to the end of the half year ended 31 December 2019, the following events occurred:

- (a) On 14 January 2020, Byron announced that it had drawn an additional US\$5 million under the US\$15 million Secured Promissory Note with Crimson Midstream Operating, LLC, a portfolio company of The Carlyle Group. This second tranche of US\$5 million is in addition to the initial US\$10.0 million draw in December 2019, bringing the total facility drawn down to date of US\$15 million.
- (b) On 28 January 2020, Byron announced the issue of 2,000,000 new fully paid ordinary shares at A\$0.27 each, the same as the issue price for the share placement completed by the Company on 21 November 2019, issued to Douglas Battersby and Paul Young, both non-executive directors, as approved by the Company's shareholders on 20 January 2020 at a general meeting of the Company.
- (c) On 7 January 2020 Byron announced the issue of 9,500,000 new shares to executive directors, senior staff and consultants following exercise of 9,500,000 unlisted options at A\$0.25 each; the Company provided three year interest free loans to the optionholders to fund the acquisition of the shares issued as a consequence of the exercise of options.
- (d) On 13 February 2020 Byron announced that the SM71 F4 well (Byron 100% Working Interest) had reached total depth of 8,130 feet (Measured Depth) and 'Log While Drilling' logs showed 91 net feet of measured depth hydrocarbon in the D5 Upper Sand with casing to be run, and the well completed for production during the second half of February 2020.

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; and
- (b) 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.

Signed in accordance with a resolution of the directors made pursuant to section 303(5) of the *Corporations Act 2001*.

On behalf of the directors



D G Battersby
Chairman

5 March 2020

Independent Auditor's Review Report



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Independent Auditor's Review Report to the Members of Byron Energy Limited

We have reviewed the accompanying half-year financial report of Byron Energy Limited, which comprises the condensed statement of financial position as at 31 December 2019, and the condensed statement of profit or loss and other comprehensive income, the condensed statement of cash flows and the condensed statement of changes in equity for the half-year ended on that date, selected explanatory notes and, the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the end of the half-year or from time to time during the half-year as set out on pages 12 to 26.

Directors' Responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation of the half-year 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 half-year financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2019 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Byron Energy Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

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Auditor's Independence Declaration

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

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Byron Energy Limited is not in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2019 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.



DELOITTE TOUCHE TOHMATSU



Craig Bryan
Partner
Chartered Accountants
Melbourne, 5 March 2020

Corporate Directory

Directors

Doug Battersby (Non-Executive Chairman)
Maynard Smith (Executive Director and CEO)
Prent Kallenberger (Executive Director and COO)
Charles Sands (Non-Executive)
Paul Young (Non-Executive)
Bill Sack (Executive Director)

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)

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425 Settlers Trace Boulevard
LAFAYETTE LA 70508

Website

www.byronenergy.com.au

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

Home stock exchange

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

Share registry

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Grosvenor Place
Level 12
225 George Street
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