ANNUAL REPORT

for the year ended 30 June 2014

BYRONENERGY LIMITED

ABN 88 113 436 141

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

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MELBOURNE VIC 3000
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Principal Office (USA)

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LAFAYETTE LA 70508

Legal Adviser

Piper Alderman
Level 23
Governor Macquarie Tower
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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
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SYDNEY NSW 2000
Tel: 1300 737 760
Fax: 1300 653 459

BYRONENERGY LIMITED

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CHAIRMAN'S LETTER

Dear Shareholder,

On behalf of your Directors, I am pleased to present Byron Energy Limited's 2014 Annual Report.

The past year has been active and eventful for Byron Energy Limited ("Byron" or the "Company") with key events including:-

- the drilling of the Company's first well since listing in May 2013. The Byron Energy SM 6 #1 well was drilled adjacent to a salt dome on South Marsh Island Block 6, in the shallow water of the Gulf of Mexico ("GOM");
- the completion of Anisotropic Reverse Time Migration ("ARTM") seismic processing over two of the Company's salt dome projects; and commencement a full wave form inversion over one of the Company's salt dome projects;
- the acquisition of three new leases at the Central GOM March 2014 Lease Sale; and
- the addition of another very senior and highly successful explorationist/executive to the Byron management team.

In May 2014 Byron spudded the Byron Energy SM 6 #1 well ("SM 6 #1"), located in South Marsh Island Block 6 ("SM 6"). Due to mechanical difficulties with this wellbore and the subsequent bypass well, Byron Energy SM 6 #1 BPO1, Byron drilled a second bypass well, Byron Energy SM 6 #1 BP02 ("SM 6 #1 BP02"). Based on the net hydrocarbon pay intersected in two of the F series Sands by SM 6 #1 BP02, the SMI 6 project is expected to be commercial, at today's oil and gas prices.

Due to serious mechanical problems with the drilling rig's top drive, the Company had to suspend operations on the SM 6 #1 BP02 well and leave it in a condition that allows completion in the F 30 and F 40 Sands in the future. The well was unable to be drilled down to the G, H and I sands which were the principal pre-drill targets. However, because of the potential for numerous pay sands in this prospect, it was always intended that Byron would produce these sands from multiple wellbores. It is therefore the Company's current intention to come back to SMI 6 and drill a second well to test the G, H and I sands utilising the existing caisson that was driven for the SM 6 #1.

As a result of cost overruns associated with drilling of SM 6 #1 and the two related bypass wells, Byron completed an equity raising of $A 8.4 million ($US 7.8 million equivalent) through two separate placements, at $A0.65 per share, in June and July 2014. The placements were strongly supported by Byron's major shareholders and represent a vote of confidence in the Company's strategy in the Gulf of Mexico. In addition, the Company raised the equivalent of $US 1.9 million by way of convertible loans from directors, which were subsequently converted into shares following shareholder approval, also at $A0.65 per share, and a further $US 2.6 million in unsecured loans from directors and several other founding shareholders. This further increases the already substantial financial investment in the Company by the directors and demonstrates their commitment to its continued success.

Whilst the drilling problems and cost overruns with SM 6 #1 and the two related bypass wells have been disappointing and frustrating, the well results and the technical information obtained during drilling should reduce future operational drilling risks and will be integrated into the drilling plan for our next well on SM 6.

During the year Byron entered into agreements, with WesternGeo, to process already licensed 3D seismic data through ARTM over several of Byron's salt dome projects. The use of ARTM provided the groundwork to map potential sub salt and salt flank prospects around the salt domes. This work has resulted in two new salt dome projects, South Marsh Island 70/71 and Eugene Island 63/76, being advanced to drill ready status.

Also during the year Byron contracted WesternGeo to undertake a full waveform inversion over the South Marsh Island 70/71 dome. This geophysical technique should be helpful in reducing some of the risk associated with the productive sands as they pinchout against the dome. This work will be completed by the end of October 2014.

Byron has actively managed its portfolio of leases, in the shallow water of the GOM, relinquishing leases which were either at or near lease expiry, were viewed as being predominantly gas prone or considered un-prospective based on thorough review of seismic data. As a result of this strategy, Byron relinquished nine leases during the year and acquired three new leases. The leases relinquished contained mostly conventional gas prone plays. The three leases we added were acquired at the Central GOM Lease Sale 213 held in New Orleans on March 13, 2014. These three leases, Grand Isle blocks 63/72/73 ("GI 63/72/72"), cover a salt dome which has previously produced a total of 827,000 barrels of oil and 12 billion cubic feet of gas from eight wells from 1968 to 2009. The GI 63/72/73 project will need to be subjected to ARTM 3D seismic processing before its full potential can be assessed.

Subsequent to year end the Company released its reserves, as at 30 June 2014, prepared by Collarini Associates, an independent reservoir engineer based in Houston. This is the first year that the Company has reported its reserves in line with the classification and reporting requirements of the Petroleum Resources Management System ("SPE-PRMS") as required by Australian Securities Exchange ("ASX") Listing Rule 5 – Additional Reporting on Mining and Oil & Gas Production and Exploration Activities. As reported to the ASX, on 11 September 2014, four of the Company's existing projects, including SM 6, have undeveloped oil and gas reserves assigned to them. Undeveloped proved and probable reserves, net to Byron, are 4.8 million barrels of oil and 70.1 billion cubic feet of gas. A reserves summary is included in the Review of Operations.

With three salt dome projects ready to drill, South Marsh Island 6, South Marsh Island 70/71 and Eugene Island 63/76, Byron is well placed for another active year, subject to funding.

The next well to be drilled by the Company will be the Byron Energy SM 6 #2 well ("SM 6 #2") on the SM 6 block which is expected to spud during the first quarter of 2015, subject to securing a drilling rig and funding.

I remain confident the Board and management team have the capability to successfully execute the Company's strategy in the Gulf of Mexico.

Finally, I would like to extend my thanks to all Byron staff, contractors and shareholders for their continued support over the last 12 months. I also welcome the recent addition of Bill Sack to our US based team. Bill is a very experienced and successful oil and gas executive who will add significantly to our capacity to identify, acquire, drill and develop prospects for Byron in the Gulf of Mexico.

Doug Battersby
Chairman

REVIEW OF OPERATIONS

Introduction

Byron Energy Limited ("the consolidated entity" or "Group"), being Byron Energy Limited ("Byron" or the "Company") and its subsidiaries is focused on oil and gas exploration in the shallow water of the Gulf of Mexico, United States ("GOM").

The GOM is viewed by Byron as an attractive area to focus on:-

- favourable economics associated with accessible and extensive infrastructure network,
- shallow water projects are relatively low cost,
- reservoirs are generally high rate/high recovery due to high quality sands,
- proposed wells target multiple stacked hydrocarbon objectives,
- each projects usually has multiple prospects, and
- amenable to utilisation of advanced geophysical technology.

Byron has seven projects across 15 leases with a 100% working interest in each lease. With 100% ownership and operatorship Byron is able to control timing of project, optimise use of capital and retain flexibility to farm-out equity in the project. Six of these projects are around or on salt domes with Grand Isle 95 being the only conventional non-salt dome project.

The experienced and committed team at Byron have a proven track record of drilling successful wells and creating wealth particularly through the use of high-tech leading edge technology such as high frequency Reverse Time Migration seismic. Byron is also applying Full Wave Inversion technology where appropriate to produce 3D seismic attributes at the reservoir level.

Byron actively manages its portfolio of leases mainly through participation in the GOM lease sales conducted by the Federal Government through the Bureau of Ocean Energy Management ("BOEM").

As at 1 July 2013, Byron held 22 blocks in the shallow waters of the GOM with a 100% working interest in each block. During the year Byron relinquished nine blocks and acquired three new blocks at the Central GOM Lease Sale 231 held in March 2014. The leases relinquished during the year were mainly gas prone projects with lease expiry having been reached or imminent. The 3 new leases acquired were Grand Isle Block 63/72/73, which cover a salt dome which has previously produced a total of 827,000 barrels of oil and 12 billion cubic feet of gas over the period 1968 to 2009. The turnover in leases is consistent with Byron's current strategy of focusing its efforts on salt dome projects, especially with oil potential, in the shallow waters of the GOM.

REVIEW OF OPERATIONS (CONT'D)

Properties

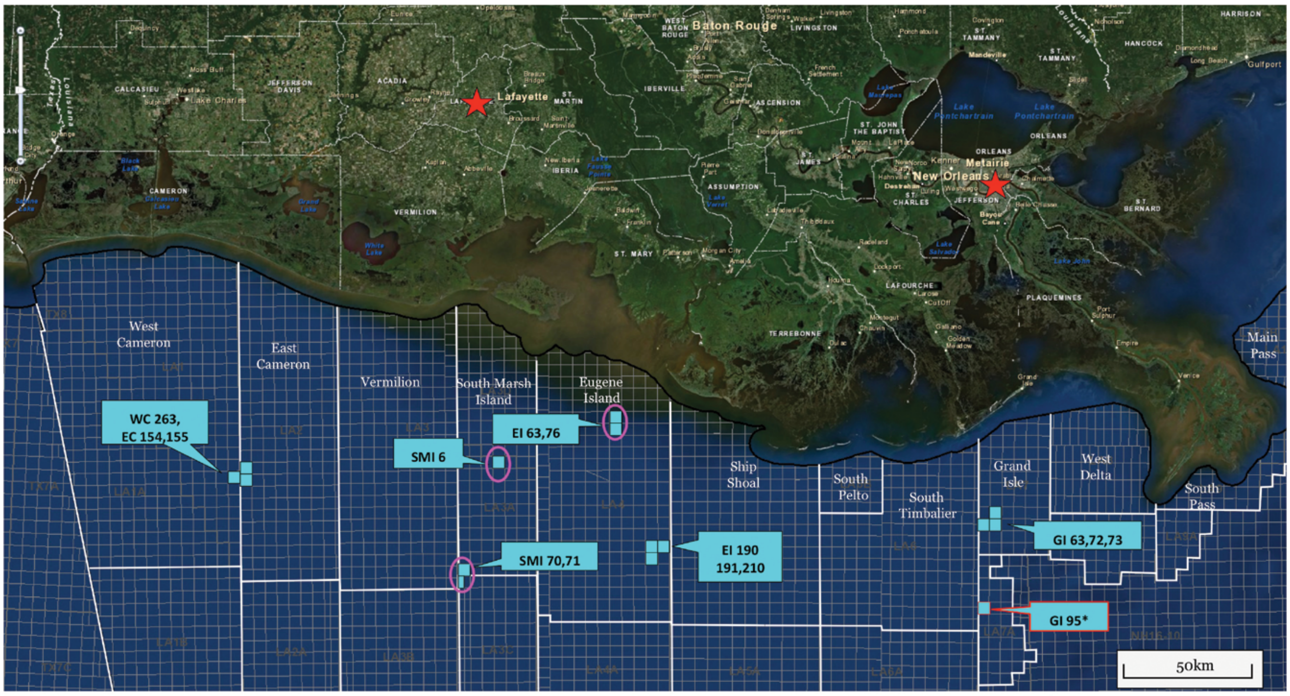
At 30 June 2014 Byron's areas of interest, 100% owned and operated by Byron, in the shallow water of the GOM, offshore Louisiana, comprise 16 blocks (reduced to 15 blocks in July 2014), all of which are currently undeveloped and are summarised below.

Properties	Operator*	Interest WI/NRI** (%)	Lease Area (Km^2)	Comments
South Marsh Island				
Block 6	Byron	100.00/81.25	20.23	Included in the 30 June 2014 reserves report
Block 70	Byron	100.00/81.25	22.13	Included in the 30 June 2014 reserves report
Block 71	Byron	100.00/81.25	12.16	Included in the 30 June 2014 reserves report
West Cameron				
Block 263	Byron	100.00/81.25	20.23	Early stage of evaluation; not included in this report
East Cameron				
Block 154	Byron	100.00/81.25	20.23	Early stage of evaluation; not included in in the 30 June 2014 reserves report
Block 155	Byron	100.00/81.25	20.23	Early stage of evaluation; not included in in the 30 June 2014 reserves report
Block 190	Byron	100.00/81.25	20.23	Relinquished in July 2014
Eugene Island				
Block 190	Byron	100.00/81.25	20.23	Early stage of evaluation; not included in in the 30 June 2014 reserves report
Block 191	Byron	100.00/81.25	20.23	Early stage of evaluation; not included in in the 30 June 2014 reserves report
Block 210	Byron	100.00/81.25	20.23	Early stage of evaluation; not included in in the 30 June 2014 reserves report
Block 63	Byron	100.00/81.25	20.23	Included in the 30 June 2014 reserves report
Block 76	Byron	100.00/81.25	20.23	Included in the 30 June 2014 reserves report
Grand Isle				
Block 95	Byron	100.00/79.75	18.37	Included in the 30 June 2014 reserves report
Block 63	Byron	100.00/81.25	20.23	Early stage of evaluation; not included in in the 30 June 2014 reserves report
Block 72	Byron	100.00/81.25	20.23	Early stage of evaluation; not included in in the 30 June 2014 reserves report
Block 73	Byron	100.00/81.25	20.23	Early stage of evaluation; not included in in the 30 June 2014 reserves report

** Through a wholly owned subsidiary, Byron Energy Inc*
*** Working Interest ("WI") and Net Revenue Interest ("NRI")*

REVIEW OF OPERATIONS (CONT'D)

Byron Energy - GOM Leases



100 % Byron Leasehold
15 Leases, 7 Projects

*GI 95 is the only conventional non salt dome project

Salt Dome Projects

1. South Marsh Island Block 6

South Marsh Island Block 6 ("SM 6") is located offshore Louisiana, 216 kilometres (134 miles) south west of New Orleans, Louisiana in approximately 20 metres (65 feet) of water. SM 6 is located on the western flanks of a large pierecement salt dome. The face of the salt dome dips to the east forming an overhang, which most likely prevented the accurate imaging of prospects with older seismic datasets. SM 6 has been productive in the past from eleven discrete, hydrocarbon-bearing sandstone reservoirs, which are primarily trapped in three-way structural closures bound either by salt, faults or stratigraphic thinning on their up-dip edge, these reservoirs are Pliocene age to Upper Miocene age sands from 2,184 metres (7,166 feet) to 3,094 meters (10,162 feet) true vertical depth.

In May 2014 Byron spudded the Byron Energy SM 6 #1 ("SM 6 #1") well, located in SM 6. Due to mechanical difficulties with this wellbore and the subsequent bypass well Byron Energy SM 6 #1 BPO1 ("SM 6 #1 BP01") Byron drilled a second bypass well, Byron Energy SM 6 #1 BP02 ("SM 6 #1 BP02").

REVIEW OF OPERATIONS (CONT'D)

Electric logs in SM 6 #1 BP02 resulted in net hydrocarbon pay being identified in the F 30 Sand and the F 40 Sand prior to the running and cementing 5½ inch intermediate casing at 7,861 feet (2,396 metres) measured depth ("MD") and 7,752 feet (2,363 metres) true vertical depth ("TVD").

In July 2014 Byron announced the results of electric logs, based on memory log data retrieved from the Log While Drilling ("LWD") tool, run to a depth of 7,600 feet (2,316 metres) measured depth in the SM 6 #1 BP02 well (see ASX releases dated 16 and 18 July 2014), advising that:-

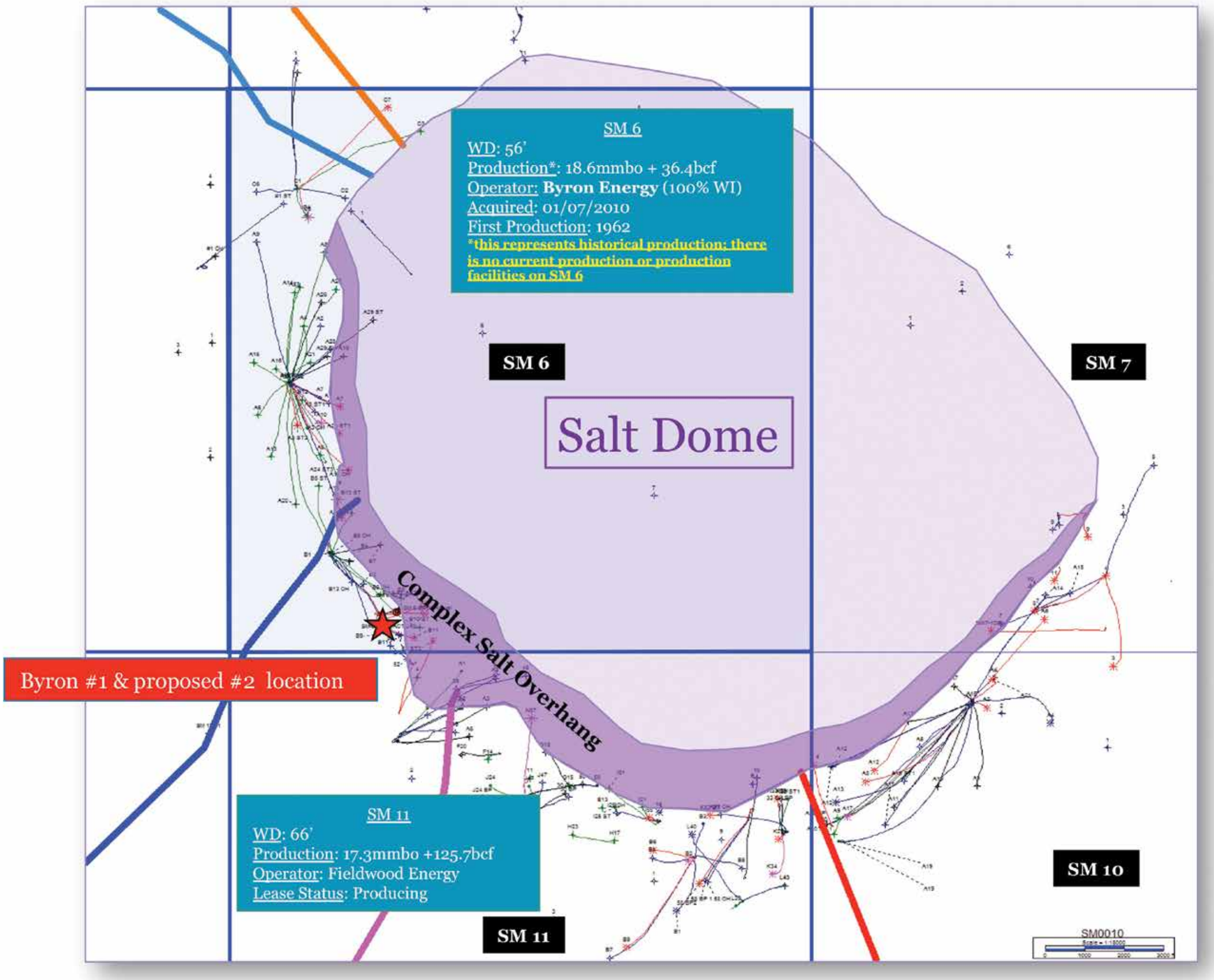
- There are several thin hydrocarbon bearing F 30 Sand lobes over an 84 foot (26 metre) gross interval between 7,110 to 7,194 feet (2,167 to 2,193 metres) MD and 7,053 to 7,131 feet (2,150 to 2,174 metres) TVD. The total net hydrocarbon saturated sand thickness is 18 feet (6 metres) MD and 17 feet (5 metres) TVD over the interval. Similar to the F 40 Sand, GC Tracer data, a Weatherford proprietary gas analysis technique, indicates the hydrocarbon is a light condensate. The F 30 Sand in the SM6 #1 BP02 well is 475 feet (145 metres) updip from the oil water contact observed in the nearby Humble SM 6 B3 well ("Humble B3") drilled in 1964. The F 30 Sand was not produced in the Humble B3 well. Typically, the F 30 Sand has an average sand thickness of 75 feet (23 metres) in the nearby downdip wells;
- In addition, the LWD memory log data indicates the F 40 Sand has 85 feet (26 metres) MD net hydrocarbon pay and 82 feet (25 metres) TVD over the interval 7,430 to 7,550 feet (2,265 to 2,301 metres) MD and 7,351 to 7,462 feet (2,241 to 2,274 metres) TVD. The two sand lobes in the F40 Sand are very high quality and exhibit good, clean porosity. The F 40 Sand thickness in the SM6 #1 BP02 well is 30 feet (9 metres) greater than the nearby downdip wells;
- Based on the net pay intersected in the F Sands by SM 6 #1 BP02 well, the SMI 6 project is expected to be commercial, at today's oil and gas prices, with development anticipated over the next year.

On 28 July 2014 Byron announced that due to serious technical problems with the drilling rig's top drive, which were unlikely to be resolved, the Company had to suspend operations on the well and leave it in a condition that allows completion in the F 30 and F 40 Sands in the future. Significantly the well was not drilled deep enough to evaluate the highly prospective G, H and I series of sands. However, because of the potential for numerous pay sands in this prospect, it was always intended that multiple wellbores would be required to be drilled to produce all of the sands.

Byron intends to drill a second well into the G, H and I sands at SM 6 utilising the existing caisson used for the SM 6 #1 well, during the March 2015 quarter subject to funding. Byron already has an approved Exploration Plan ("EP") for SM 6 from the Bureau of Ocean Energy Management ("BOEM") but will need to obtain a permit to drill the second well from the Bureau of Safety and Environmental Enforcement ("BSEE").

SM 6 contains undeveloped oil and gas reserves. A reserves summary, prepared in line with the SPE-PRMS, as required by ASX Listing Rule 5 – Additional Reporting on Mining and Oil & Gas Production and Exploration Activities, is included in this Review of Operations.

SMI 6 Location Map



2. South Marsh Island Block 70/71

South Marsh Island Block 70/71 ("SM 70/71") covers a salt dome which has previously produced oil from sands above 7,500 feet true vertical depth. While there is no current production from SM 70/71, the dome has in the past produced approximately 75 million barrels commencing in 1963.

In February, 2014 the Company entered into an agreement with WesternGeco for geoscience services on two of the Company's leased salt dome projects, including SM 70/71. WesternGeco, through its Schlumberger PetroTechnical Services team utilized full waveform inversion techniques on 3D ARTM data already licensed by the Company to create acoustic impedance volumes leading to lithofacies, porosity and water/hydrocarbon saturation prediction. The goal of this work was to define reservoir geometries and extents of previously producing sands which could lead to drilling on acreage controlled by the Company.

REVIEW OF OPERATIONS (CONT'D)

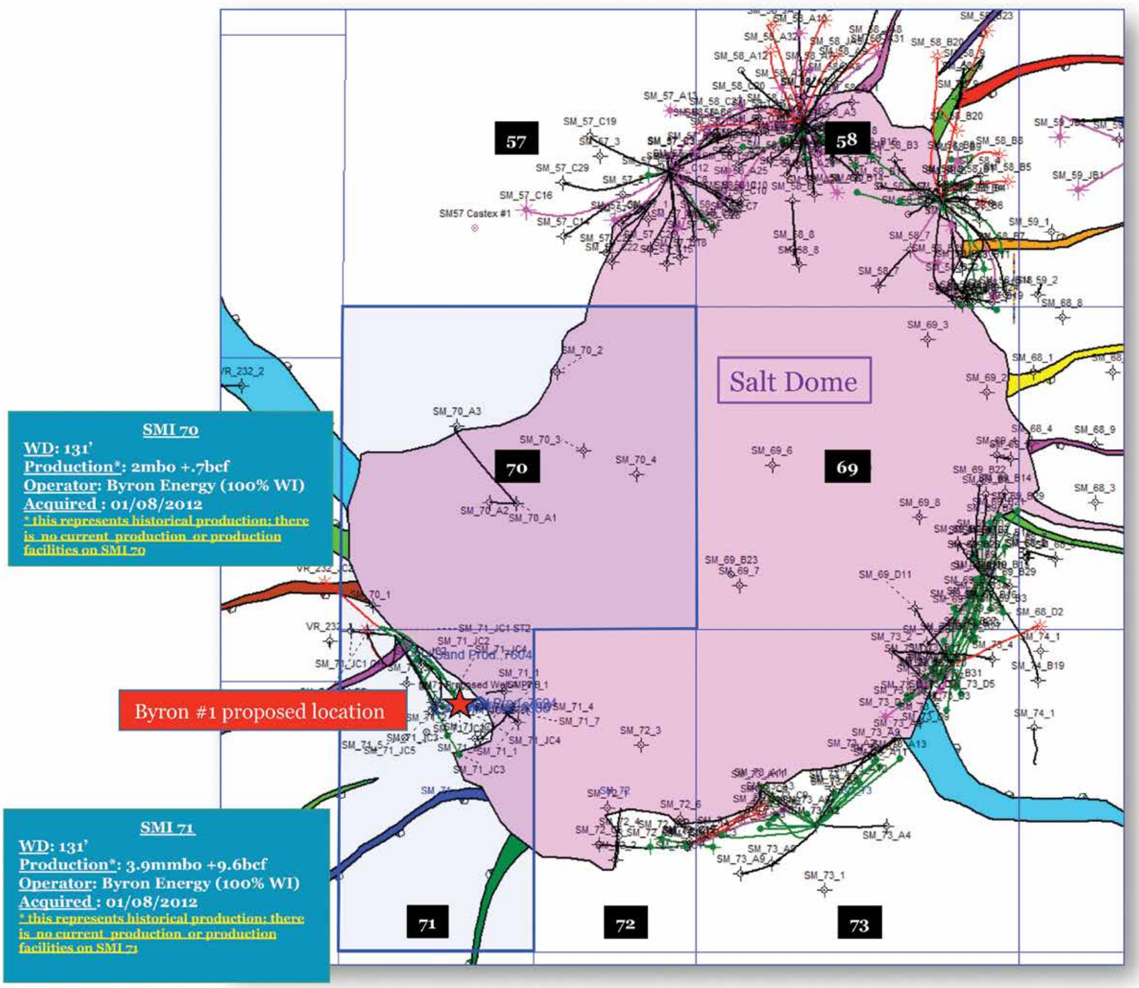
Final ARTM seismic data was received from WesternGeco in March 2014. This provided the groundwork to map potential sub salt and salt flank prospects around the salt dome resulting in undeveloped oil and gas reserves being attributed to the SM 70/71 salt dome project.

Until very recently the standard use of ARTM has been largely confined to the deep water areas of the Gulf of Mexico (and elsewhere such as offshore Brazil) where sub salt plays occur and the very high drilling and development costs can easily justify the higher cost of ARTM.

Byron intends to drill SM70/71 #1 well, during the first half of 2015, subject to funding. Prior to drilling, Byron will need to have an EP for SM 70/71 approved by the BOEM and will also require to a permit to drill from the BSEE.

SM 70/71 contains undeveloped oil and gas reserves. A reserves summary, prepared in line with the SPE-PRMS, as required by ÄSX Listing Rule 5 – Additional Reporting on Mining and Oil & Gas Production and Exploration Activities, is included in this Review of Operations.

SM 70/71 Location Map



REVIEW OF OPERATIONS (CONT'D)

3. Eugene Island Block 63/76

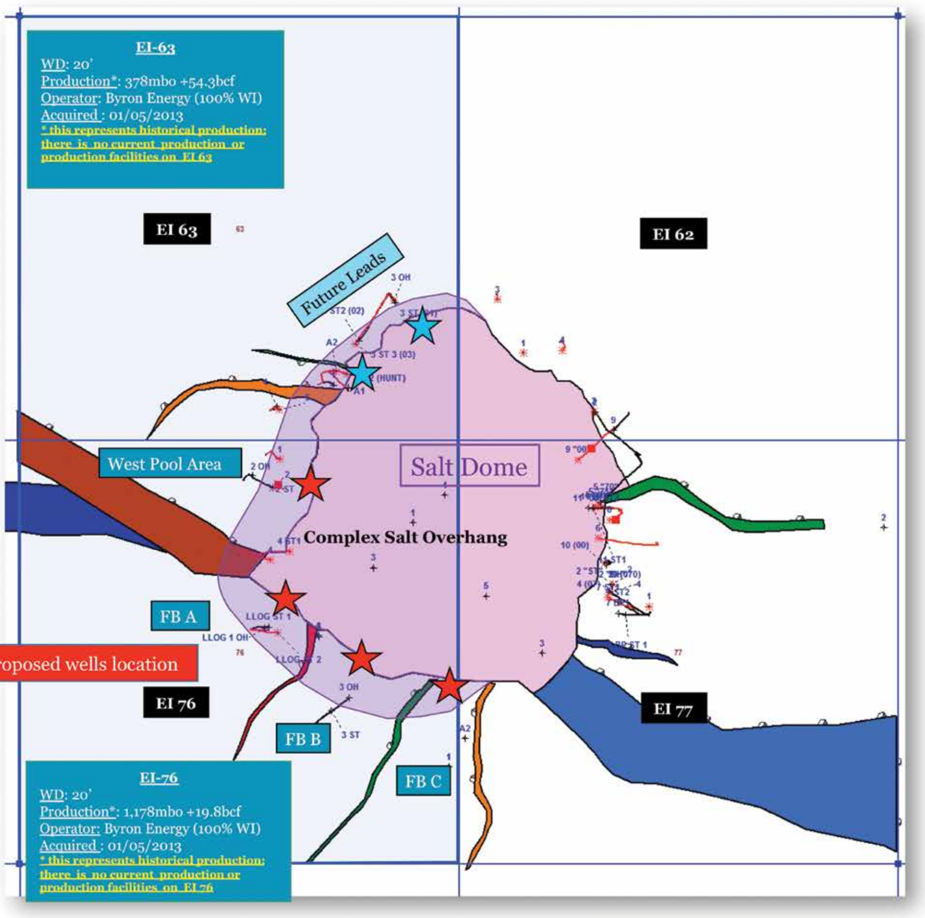
Eugene Island Block 63/76 ("EI 63/76") has a salt overhang around the entire dome which makes it an ideal candidate for ARTM processing. This dome has been a prolific oil and gas producer in the past beginning in 1967 with total production of 6.5 million barrels of oil and 361 billion cubic feet of gas from 13 pay sands. There is currently no production from EI 63/76.

WesternGeco also performed ARTM reprocessing on 3D data already licensed by the Company over EI 63/76. The objective of the reprocessing was to provide an improved depth image of sediments and salt body around the EI 63 salt dome to allow the Company to delineate hydrocarbon prospects on its EI 63 and EI 76 leases. The results of this processing project contributed to elevation of this project to drillable status with undeveloped probable oil and gas reserves attributed to the project.

EI 63/76 is ready for drilling subject to permitting.

EI 63/76 contains undeveloped oil and gas reserves. A reserves summary, prepared in line with the SPE-PRMS, as required by ASX Listing Rule 5 – Additional Reporting on Mining and Oil & Gas Production and Exploration Activities, is included in this Review of Operations.

EI 63/76 Location Map



REVIEW OF OPERATIONS (CONT'D)

4. Other salt dome projects

Byron's other salt dome projects comprise:-

Grand Isle 63/72/73 – these leases were acquired on March 19, 2014 at the BOEM central GOM Lease Sale 231 and cover a salt dome which has previously produced a total of 827,000 barrels of oil and 12 billion cubic feet of gas over the period 1968 to 2009. Byron expects to have Reverse Time Migration 3D seismic processing on these blocks within the next 12 months.

East Cameron 154/155/190 and West Cameron 263 – these blocks are over salt dome structures and may be amenable to enhanced seismic reprocessing techniques.

Eugene Island 190/191/210 – these blocks are over salt dome structures. FairfieldNodal is processing 3D seismic data previously licensed by the Company through ARTM.

Conventional projects

Grand Isle 95 – Grand Isle 95 is a conventional gas prospect with significant undeveloped gas reserves and prospective resources. GI 95 contains undeveloped oil and gas reserves. A reserves summary, prepared in line with the SPE-PRMS is included in this Review of Operations.

Reserves

The independent reserves estimates were prepared by Collarini Associates ("Collarini"), based in Houston, Texas, USA, in line with the classification and reporting requirements of the Petroleum Resources Management System ("SPE-PRMS") as now required by Australian Securities Exchange Listing Rule 5

As at 30 June 2014 Byron has 16 blocks in the shallow waters of the Gulf of Mexico. At this stage reserves and/or prospective resources have been attributed to four projects, covering six leases, comprising SM 6, SM 70/71 ("SM 71"), EI 63/76 ("EI 76") and GI 95. The remaining leases cover projects at an early stage of exploration and have not had any reserves or prospective resources assigned to them.

The undeveloped reserves, net to Byron, for each of SM 6, SM 71, EI 76 and GI 95 and in aggregate are shown in the table below:-

REVIEW OF OPERATIONS (CONT'D)

Byron Energy Limited Reserves (Net to Byron)			
Reserve Class 30 June 2014	Oil MBBL*	Gas MMCF*	MBOE (6:1)*
SM 6 (Undeveloped)			
Proved (1P)	**1,193**	**13,908**	**3,511**
Probable Reserves	1,797	3,368	2,358
Proved and Probable (2P)	**2,990**	**17,276**	**5,869**
Possible Reserves#	1,344	-3,944	687
Proved, Probable & Possible (3P)	**4,334**	**13,332**	**6,556**
SM 71 (Undeveloped)			
Proved (1P)	**664**	**358**	**724**
Probable Reserves	257	139	280
Proved and Probable (2P)	**921**	**497**	**1,004**
Possible Reserves	475	256	518
Proved, Probable & Possible (3P)	**1,396**	**753**	**1,522**
EI 76 (Undeveloped)			
Proved (1P)	**0**	**0**	**0**
Probable Reserves	706	1,141	896
Proved and Probable (2P)	**706**	**1,141**	**896**
Possible Reserves	261	421	331
Proved, Probable & Possible (3P)	**967**	**1,562**	**1,227**
GI 95 (Undeveloped)			
Proved (1P)	**26**	**12,939**	**2,183**
Probable Reserves	147	38,248	6,521
Proved and Probable (2P)	**173**	**51,187**	**8,704**
Possible Reserves	52	22,467	3,797
Proved, Probable & Possible (3P)	**225**	**73,654**	**12,501**
Grand Total (Undeveloped)			
Proved (1P)	**1,883**	**27,205**	**6,418**
Probable Reserves	2,907	42,896	10,055
Proved and Probable (2P)	**4,790**	**70,101**	**16,473**
Possible Reserves	2,132	19,200	5,333
Proved, Probable & Possible (3P)	**6,922**	**89,301**	**21,806**

 # Possible gas reserves are negative because two reservoirs that are treated as gas bearing for the proved and probable cases are treated as oil bearing for the possible case. This results in a reduction in total gas reserves with an increase in total oil reserves. The reductions in gas reserves for the possible cases appear as a negative value.

** MBBL = thousand barrels; MMCF = million cubic feet; MBOE = thousand barrels of oil equivalent ("BOE") with a BOE determined using a ratio of 6,000 cubic feet of natural gas to one barrel of oil – 6:1 conversion ratio is based on an energy equivalency conversion method and does not represent value equivalency.*

REVIEW OF OPERATIONS (CONT'D)

In addition to the reserves, the combined best case un-risked prospective resources for each of SM 6, SMI 71, EI 76 and GI 95 and in aggregate are shown in in the table below.

Byron Energy Limited Prospective Resources (net to Byron)			
Best Estimate Unrisked 30 June 2014	**Oil MBBL**	**Gas MMCF**	**MBOE (6:1)**
SM 6			
Total Prospective Resource	7,205	118,396	26,938
SM 71			
Total Prospective Resource	1,661	746	1,785
EI 76			
Total Prospective Resource	2,583	114,894	21,732
GI 95			
Total Prospective Resource	304	40,456	7,047
Grand Total			
Total Prospective Resource*	**11,753**	**274,492**	**57,502**

** The estimated quantities of petroleum that may potentially be recovered by the application of a future development project(s) relate to undiscovered accumulations. These estimates have both an associated risk of discovery and a risk of development. Further exploration appraisal and evaluation is required to determine the existence of a significant quantity of potentially moveable hydrocarbons.*

Reserves and Resources Methodology

The deterministic method has been used to compile Reserves and Resource estimates. The aggregate 1P may be a very conservative estimate and the aggregate 3P may be a very optimistic estimate due to the portfolio effects of arithmetic summation. Prospective Resources have not been adjusted for risk using the chance of discovery.

Reserves and Resources Governance

As this is the first report prepared pursuant to ASX Listing Rule 5, the Company is presently reviewing the reserves and resources governance arrangements and internal controls to be put into place in respect to reserve reporting including the frequency and scope of these reviews.

As this is the first report prepared pursuant to ASX Listing Rule 5, a comparison to last year's oil and gas reserves pursuant to ASX Listing Rule 5.39.3 is not applicable.

Competent Persons Statement

The information in this report that relates to oil and gas reserves and resources was compiled by technical employees of independent consultants Collarini and Associates, under the supervision of Mr Mitch Reece BSc PE. Mr Reece is the President of Collarini and Associates and is a registered professional engineer in the State of Texas and a member of the Society of Petroleum Evaluation Engineers (SPEE), Society of Petroleum Engineers (SPE), and American Petroleum Institute (API). The reserves and resources included in this report have been prepared using definitions and guidelines consistent with the 2007 Society of Petroleum Engineers (SPE)/World Petroleum Council (WPC)/American Association of Petroleum Geologists (AAPG)/Society of Petroleum Evaluation Engineers (SPEE) Petroleum Resources Management System (PRMS). The reserves and resources information reported in this Statement are based on, and fairly represents, information and supporting documentation prepared by, or under the supervision of, Mr Reece. Mr Reece is qualified in accordance with the requirements of ASX Listing Rule 5.41 and consents to the inclusion of the information in this report of the matters based on this information in the form and context in which it appears.

FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2014

BYRON ENERGY LIMITED

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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 2014.

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

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 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. He 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.

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DIRECTORS' REPORT (CONT'D)

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 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. He 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.
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 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.

DIRECTORS' REPORT (CONT'D)

Charles J. Sands Non-Executive Director Appointed 18th March 2013	Charles has been a non-executive director of Byron Energy (Australia) Pty Ltd until 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. Mr Sands 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 the co-founder and an executive director of Baron Partners Limited, a well-established corporate advisory business, and has been in merchant banking in Australia for more than 25 years. He has extensive experience in the provision of corporate advice to a wide range of 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 an Associate of the Institute of Chartered Accountants in England and Wales and a Fellow of the Australian Institute of Company Directors. Mr Young is currently Chairman of the Audit and Risk Management Committee. **Other current directorships of listed companies:** - Ambition Group Limited - Tidewater Investments Limited **Former directorships of listed companies in last three years** - GB Energy Limited (until July 2011) - Thomas & Coffey Limited (until June 2013)

Company Secretary

Nick Filipovic

Appointed 18th March 2013

Nick is a qualified accountant (FCPA) with over thirty 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 Byron Energy (Australia) Pty Ltd merged with Trojan Equity Limited to create Byron Energy Limited.

DIRECTORS' REPORT (CONT'D)

Principal activities

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

Consolidated results

The loss for the consolidated entity after income tax was US$7,305,087 (2013: US$3,820,053 loss).

Review of Operations

Corporate review

During the financial year, the Company issued 9,916,847 fully paid ordinary shares by way of a placement at an issue price of $A0.65 per share raising a total of US$6,022,452 (A$6,445,951).

In addition, 384,100 share options were converted to ordinary shares at A$0.50 per share, raising US$175,278 (A$192,050) in additional equity.

Following completion of the above transactions, the Company's issued capital on 30 June 2014 comprised:-

	Issued	Quoted	Unquoted	Escrowed*
Shares (ASX:BYE)	138,270,794	118,820,276	19,450,518	19,450,518
Options	36,995,984	Nil	36,995,984**	13,687,083

** escrowed for 24 months from official quotation i.e. until 30 May 2015.*
***includes escrowed options of 13,687,083.*

Financial Review

The Group recorded a net loss of US$7,305,087 for the year ended 30 June 2014, compared to a net loss of US$3,820,053 for the year ended 30 June 2013. The increase is mainly due to a charge of US$5,108,285 (2013 nil) for the impairment of oil and gas properties. The impairment charge covers ten leases, over six separate projects, relinquished during the year or subsequent to balance date due to lease expiry, imminent expiry or the Group deciding, following a thorough review of seismic, that the lease was no longer considered prospective.

At 30 June 2014, the consolidated entity had total assets of US$28,169,660 (2013: US$23,722,321) and total liabilities of US$6,176,980 (2013: US$583,995) resulting in net assets of US$21,992,680 (2013: US$23,138,326).

At 30 June 2014, the consolidated entity held cash and cash equivalents of US$7,232,585 (2013: US$14,989,226) of which US$6,369,503 (2013: US$12,740,893) were denominated in United States dollars and US$863,082 (2013: US$2,248,333) were denominated in Australian dollars. The consolidated entity had borrowings, in the form of unsecured loans from the directors, convertible to equity, of US$942,000 as at 30 June 2014 (2013: nil).

DIRECTORS' REPORT (CONT'D)

Exploration expenditure for the year ended 30 June 2014 was US$17,510,685, US$13,985,177 above the comparable period last year. The 2014 year includes the cost of drilling the Byron Energy SM 6 #1 well and the Byron Energy SM 6 #1 BP01 by pass well, as a result of mechanical problems with the original well bore, as well as seismic acquisition / processing and acquisition of new GOM leases.

Summary of shares and options on issue

At 30 June 2014, the Company had 138,270,794 ordinary shares and 36,995,684 options. Details of the options are as follows:

Issuing entity	Number of shares under option	Class of shares	Exercise price	Expiry date
Byron Energy Limited	36,995,984	Ordinary	A$0.50	31 December 2016

During the financial year, 10,300,947 shares were issued, of which 9,916,847 was through a placement in June 2014 at $A0.65 per share and 384,100 shares as a result of the exercise of options. Subsequent to 30 June 2014, through to the date of this report, no options had been exercised. In July 2014, the Company placed a further 2,876,923 ordinary shares at A$0.65 per share.

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	Expiry date
D. G. Battersby	18,892,971	6,397,876	$A0.50	31 December 2016
M. V. Smith	15,300,688	5,956,111	$A0.50	31 December 2016
P. H. Kallenberger	1,250,000	3,450,000	$A0.50	31 December 2016
C. J. Sands	9,397,336	1,953,574	$A0.50	31 December 2016
P. A. Young	1,070,000	171,200	$A0.50	31 December 2016
N. Filipovic	524,788	3,037,000	$A0.50	31 December 2016

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

DIRECTORS' REPORT (CONT'D)

Significant changes in the state of affairs

During the financial year, significant changes in the state of affairs of the consolidated entity were as follows:-

(i) drilling of Byron Energy SM 6 #1 well followed by two related bypass wells, Byron Energy SM 6 #1 BP01 and Byron Energy SM 6 #1 BP02, as a result of mechanical problems;

(ii) acquisition of 3 new leases in the shallow waters of the Gulf of Mexico, offshore Louisiana, comprising Grand Isle blocks 63/72/73;

(iii) relinquishment or expiry of 9 leases, comprising West Cameron blocks 475/490/491, West Cameron blocks 469/472/473, West Delta block 49, Ship Shoal block 180 and Vermillion block 200;

(iv) execution of an agreement with FairfieldNodal to license 3D seismic data over two of Byron's salt dome projects with one of the projects, the Eugene Island blocks 190/191/210, to be processed through Anisotropic Reverse Time Migration ("ARTM");

(v) execution of an agreement with WesternGeco for geoscience services whereby the Eugene Island 63/76 Salt Dome Project would undergo ARTM reprocessing on 3D data already licensed by the Company and the South Marsh Island 70/71 Salt Dome Project would be subjected to full waveform inversion techniques on 3D ARTM data;

(vi) completion of a share placement for the issue of 9,916,847 fully paid ordinary shares at an issue price of $A0.65 per share raising a total of US$6,022,452 (A$6,445,951); and

(vii) execution of an unsecured convertible loan facility of A$2,000,000 (US$1,884,000) with three of the directors of the Company, half of which was drawn down in June 2014; the loan can be converted to equity at the option of the lenders or the Company at A$0.65 per ordinary share, subject to prior approval at a meeting of shareholders.

Apart from those changes above, there were no other significant changes in the state of affairs of the consolidated entity during the financial year.

Significant events after the balance date

There has been no matter or circumstance since 30 June 2014 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) the drilling of Byron Energy SM 6 #1 well and the two related bypass wells, Byron Energy SM 6 #1 BP01 and Byron Energy SM 6 #1 BP02 was completed in July 2014 with the rig released on 31 July 2014;

(ii) electric logs run in the Byron Energy SM 6 #1 BP02 indicated two separate net hydrocarbon pay zones in the F Sands;

(iii) due to serious problems with the drilling rig's top drive, drilling operations of the Byron Energy SM 6 #1 BP02 bypass well were suspended, in late July 2014, leaving the well in a condition that allows completion in the F Sands at a future date;

(iv) completion of a share placement for the issue of 2,876,923 fully paid ordinary shares at an issue price of $A0.65 per share raising a total of A$1,870,000;

(v) execution of an unsecured loan facility with four of the Company's directors and several others, equivalent to US$2,544,000 (comprising A$1,400,000 and US$1,225,000) repayable in cash by 1 July 2015;

DIRECTORS' REPORT (CONT'D)

(vi) at an extraordinary general meeting of shareholders held on 8 September 2014, the shareholders approved:

- the conversion of $A2.0 million convertible loan from three directors to the Company, half of which was drawn-down during the financial year and the balance subsequent to year end, into 3,076,923 ordinary shares in the Company at A$0.65 per share, the same price as the issue price under the share placement completed on 26 June 2014;
- the issue of 154,000 fully paid ordinary shares in the Company, at an issue price of A$0.65 per share to Clapsy Pty Ltd, a company controlled by Mr Paul Young, a director of the Company;
- the placement of (a) 9,916,847 Fully Paid Ordinary Shares at A$0.65 per shares completed on 26 June 2014, and (b) the placement of 2,876,923 fully paid ordinary shares at A$0.65 per share, completed on 11 July 2014;
- the issue, under Listing Rule 7.1, of up to 15,000,000 fully paid ordinary shares within 3 months of the date of approval, without using up any of the 15% capacity; and

(vii) released an independent reserves and prospective resources estimate, as at 30 June 2014, prepared by Collarini and Associates in accordance with the reporting requirements of the Petroleum Resources Management System (SPE-PRMS) as required by ASX Listing Rule 5 – *Additional Reporting on Mining and Oil & Gas Production and Exploration Activities.*

Future developments

It is expected that the consolidated entity will continue its oil and gas exploration and development activities in the shallow 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.

Dividend

No dividends in respect of the current financial year have been paid, declared or recommended for payment (2013: 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.

DIRECTORS' REPORT (CONT'D)

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.

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.

The number of directors' meetings held during the year was nine Board meetings and five Audit and Risk Management Committee meetings. The numbers of meetings attended by each director were as follows:

	Board of directors		Audit and Risk Management Committee	
Directors	**Entitled to attend**	**Attended**	**Entitled to attend**	**Attended**
Douglas G. Battersby	9	9	-	-
Maynard V. Smith	9	9	-	-
Prent H. Kallenberger	9	9	-	-
Charles J. Sands	9	9	5	5
Paul A. Young	9	8	5	5

DIRECTORS' REPORT (CONT'D)

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 2014. 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

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.

DIRECTORS' REPORT (CONT'D)

REMUNERATION REPORT – AUDITED (CONT'D)

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 2010	30 June 2011	30 June 2012	30 June 2013	30 June 2014
	US$	US$	US$	US$	US$
Revenue	4,495,957	1,445,436	1,399,158	231,926	-
Net profit & (loss) before tax	(4,046,924)	(5,102,644)	(10,604,840)	(3,820,053)	(7,305,087)
Net profit & (loss) after tax	(4,185,752)	(5,106,898)	(10,604,840)	(3,820,053)	(7,305,087)
Share price at start of year	N/A	N/A	N/A	N/A	$A0.405
Share price at end of year	N/A	N/A	N/A	$A0.405	$A0.70
Basic earnings per share*	N/A	N/A	(US$0.13)	(US$0.035)	(US$0.057)
Diluted earnings per share*	N/A	N/A	(US$0.13)	(US$0.035)	(US$0.057)

** Only the 2012 year has been included for comparative purposes and adjusted to reflect the 2013 acquisition, where 2.5 Byron Energy Limited shares was issued for every 1 Byron Energy (Australia) Pty Ltd share to Byron Energy (Australia) Pty Ltd shareholders and 2.5 options over Byron Energy Limited shares were issued for every 1 option over Byron Energy (Australia) Pty Ltd shares at the date of acquisition.*

(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).

DIRECTORS' REPORT (CONT'D)

REMUNERATION REPORT – AUDITED (CONT'D)

(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) and the CFO/Company Secretary (Nick Filipovic) are detailed below.

Fixed remuneration for executive directors and key management personnel

Maynard Smith

The Company has 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.

Prent Kallenberger

The Company has entered into a service 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.

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$300,00 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.

B. Remuneration of directors and key management personnel

Options

No share options were issued to directors and other key management personnel during the year (2013: 2,050,000 options as detailed below). No options lapsed, nor were any 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:

Grantee	Number	Grant date	Expiry date	Exercise Price	Fair value at grant date	Vesting date
C J Sands	450,000	24 May 2013	31 Dec 2016	A$0.50	A$0.0846	24 May 2013
P Kallenberger	1,000,000	24 May 2013	31 Dec 2016	A$0.50	A$0.0846	24 May 2013
N. Filipovic	600,000	24 May 2013	31 Dec 2016	A$0.50	A$0.0846	24 May 2013

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

	Short term employee benefits				Post employment benefits	Share-based payments	
	Salaries & fees	Short term cash incentive	Other Benefits	Service Agreements	Superannuation	Options	TOTAL
	US$	US$	US$	US$	US$	US$	US$
2014 Directors							
D. G. Battersby	-	-	-	73,496	-	-	**73,496**
M. V. Smith	-	-	-	220,488	-	-	**220,488**
P. H. Kallenberger	350,000	-	19,505	-	-	-	**369,505**
C. J. Sands	36,748	-	-	-	-	-	**36,748**
P. A. Young	36,748	-	-	-	3,399	-	**40,147**
Key management personnel							
N. Filipovic*	275,610	-	-	-	25,494	-	**301,104**
	699,106	**-**	**19,505**	**293,984**	**28,893**	**-**	**1,041,488**

** The expected increase in the cost of accumulated annual leave and long service leave during the reporting period as a result of the charge in the unused entitlements is US$14,134 (2013: US$41,374) for N Filipovic.*

DIRECTORS' REPORT (CONT'D)

REMUNERATION REPORT – AUDITED (CONT'D)

	Short term employee benefits				Post employment benefits	Share-based payments	
	Salaries & fees	Short term cash incentive	Other Benefits	Service Agreements	Superannuat-ion	Options	TOTAL
	US$	US$	US$	US$	US$	US$	US$
2013 Directors							
D. G. Battersby	-	-	-	111,474	-	-	**111,474**
M. V. Smith	-	-	-	246,504	-	-	**246,504**
P. H. Kallenberger	350,000	-	18,970	-	-	86,856	**455,826**
C. J. Sands	16,819	-	-	-	-	39,085	**55,904**
P. A. Young	11,819	-	-	-	1,063	-	**12,882**
Key management personnel							
N. Filipovic*	308,129	-	-	-	27,732	52,114	**387,975**
	686,767	**-**	**18,970**	**357,978**	**28,795**	**178,055**	**1,270,565**

Bonuses

No bonuses were granted during the financial year ended 30 June 2014 (2013: nil).

Other transactions with key management personnel of the Group

Veruse Pty Ltd, a company controlled by Mr Douglas Battersby, a director of the Company has provided an unsecured convertible loan to the Company at a fixed interest rate of 7.5% per annum. The loan can be converted to equity at either party's option at A$0.65 per ordinary share, subject to prior approval by shareholders. Interest accrued and payable on this loan for the year ended 30 June 2014 was US$2,323. The principal loan balance outstanding at 30 June 2014 was US$942,000 (2013: nil).

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:

DIRECTORS' REPORT (CONT'D)

REMUNERATION REPORT – AUDITED (CONT'D)

Ordinary Shares

Director / Key Management Personnel	Balance at 1st July 2013	Granted as compensation	Received on exercise of options	Disposals/ Other	Balance at 30 June 2014
	Number	Number	Number	Number	Number
D. G. Battersby	18,892,971	-	-	-	18,892,971
M. V. Smith	15,350,688	-	-	(50,000)	15,300,688
P. H. Kallenberger	1,250,000	-	-	-	1,250,000
C. J. Sands	17,070,790	-	-	(7,673,454)	9,397,336
P. A. Young	1,070,000	-	-	-	1,070,000
N. Filipovic	1,161,250	-	-	(636,462)	524,788

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 at 1st July 2013	Granted as compensation	Exercise of options	Disposals/ Other	Balance at 30 June 2014
	Number	Number	Number	Number	Number
D. G. Battersby	6,397,876	-	-	-	6,397,876
M. V. Smith	5,956,111	-	-	-	5,956,111
P. H. Kallenberger	3,450,000	-	-	-	3,450,000
C. J. Sands	3,181,327	-	-	(1,227,753)	1,953,574
P. A. Young	171,200	-	-	-	171,200
N. Filipovic	3,037,000	-	-	-	3,037,000

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

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

D. G. Battersby
Chairman

26 September 2014

AUDITOR'S INDEPENDENCE DECLARATION

Deloitte.

Deloitte Touche Tohmatsu
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The Board of Directors
Byron Energy Limited
Level 4, 480 Collins Street
Melbourne VIC 3000

26 September 2014

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 2014, 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

DELOITTE TOUCHE TOHMATSU

C Bryan
Partner

For personal use only

CONSOLIDATED STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014

		Consolidated	
	Note	2014	2013
		US$	US$
Oil and gas revenue		-	231,926
Cost of sales	2	-	(317,879)
Gross loss		**-**	**(85,953)**
Corporate and administration costs		(1,507,630)	(1,249,212)
Loss on divestment of oil and gas properties		-	(258,377)
Impairment expense		(5,108,285)	-
Share based payments		-	(1,019,510)
Depreciation / amortisation of property, plant & equipment		(21,369)	(22,331)
Other expenses		(704,663)	(1,179,267)
Earnings before interest and tax (EBIT)	3	**(7,341,947)**	**(3,814,650)**
Financial income	4	47,425	27,756
Financial expense	4	(10,565)	(33,159)
Loss before tax		**(7,305,087)**	**(3,820,053)**
Income tax expense	5	-	-
Loss for the year from continuing operations		**(7,305,087)**	**(3,820,053)**
Other comprehensive income, net of income tax			
Items that may subsequently be reclassified to profit and loss			
Exchange differences on translating the parent entity group		4,877	(294,144)
Total comprehensive loss for the year		**(7,300,210)**	**(4,114,197)**
Earnings per share			
Basic (cents per share)	6	(5.7)	(3.5)
Diluted (cents per share)	6	(5.7)	(3.5)

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT 30 JUNE 2014

		Consolidated	
	Note	2014 US$	2013 US$
Assets			
Current assets			
Cash and cash equivalents	20(b)	7,232,585	14,989,226
Trade and other receivables	7	14,388	366,862
Other	8	341,212	201,310
Total current assets		**7,588,185**	**15,557,398**
Non-current assets			
Other	8	8,191	15,966
Exploration and evaluation assets	9	20,500,370	8,097,970
Property, plant and equipment	10	70,206	40,855
Other intangible assets	11	2,708	10,132
Total non-current assets		**20,581,475**	**8,164,923**
Total assets		**28,169,660**	**23,722,321**
Liabilities			
Current liabilities			
Trade and other payables	12	5,071,267	443,963
Provisions	13	123,623	108,515
Borrowings	14	942,000	-
Total current liabilities		**6,136,890**	**552,478**
Non-current liabilities			
Provisions	13	40,090	31,517
Total non-current liabilities		**40,090**	**31,517**
Total liabilities		**6,176,980**	**583,995**
Net assets		**21,992,680**	**23,138,326**
Equity			
Issued capital	15	56,124,868	49,970,304
Foreign currency translation reserve	16	(146,097)	(150,974)
Share option reserve	16	2,104,108	2,104,108
Accumulated losses		(36,090,199)	(28,785,112)
Total equity		**21,992,680**	**23,138,326**

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014

Consolidated entity	Ordinary share capital US$	Share option reserve US$	Foreign currency translation reserve US$	Accumulated losses US$	Total US$
Balance at 1 July 2012	**33,855,590**	**1,878,283**	**143,170**	**(24,965,059)**	**10,911,984**
Loss for the year	-	-	-	(3,820,053)	(3,820,053)
Exchange differences arising on translation of the parent entity	-	-	(294,144)	-	(294,144)
Total comprehensive loss for the year	-	-	(294,144)	(3,820,053)	(4,114,197)
Value of the consideration transferred to existing shareholders in Byron Energy Limited upon reverse asset acquisition transaction	3,017,649	-	-	-	3,017,649
The issue of 20,577,375 shares under a prospectus for the Placement Offer	7,972,498	-	-	-	7,972,498
The issue of 15,577,374 shares under a prospectus for the Entitlement Offer	6,035,298	-	-	-	6,035,298
Equity raising and transaction costs	(910,731)	-	-	-	(910,731)
Recognition of share-based payments for the issue of 2,600,000 options under a prospectus to directors, executives and consultants	-	225,825	-	-	225,825
Balance at 30 June 2013	**49,970,304**	**2,104,108**	**(150,974)**	**(28,785,112)**	**23,138,326**
Balance at 1 July 2013	**49,970,304**	**2,104,108**	**(150,974)**	**(28,785,112)**	**23,138,326**
Loss for the year	-	-	-	(7,305,087)	(7,305,087)
Exchange differences arising on translation of the parent entity	-	-	4,877	-	4,877
Total comprehensive loss for the year	-	-	4,877	(7,305,087)	(7,300,210)
Shares issued upon the exercise of shares options at $A0.50 per share option	175,278	-	-	-	175,278
The issue of 9,916,847 shares under a placement at $A0.65 per share	6,022,452	-	-	-	6,022,452
Equity raising costs	(43,166)	-	-	-	(43,166)
Balance at 30 June 2014	**56,124,868**	**2,104,108**	**(146,097)**	**(36,090,199)**	**21,992,680**

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014

		Consolidated	
	Note	2014 US$	2013 US$
Cash flows from operating activities			
Receipts from customers		-	434,734
Payments to suppliers and employees		(1,958,017)	(2,807,307)
Interest paid		-	(26,706)
Interest received		47,425	27,756
Net cash flows used in operating activities	20(a)	**(1,910,592)**	**(2,371,523)**
Cash flows from investing activities			
Payments for exploration and evaluation		(12,891,126)	(3,049,694)
Proceeds from the divestment of oil and gas properties		-	4,087,464
Payments for intangible assets		(238)	(475)
Payments for property, plant and equipment		(42,965)	(9,589)
Net cash flows generated by/(used in) investing activities		**(12,934,329)**	**1,027,706**
Cash flows from financing activities			
Proceeds from issues of ordinary shares		6,197,730	14,007,796
Payment of equity raising and transaction costs		(43,166)	(910,731)
Proceeds from borrowings from related parties		933,700	850,350
Net cash acquired on reverse asset acquisition	19	-	1,953,736
Repayment of borrowings to related parties		-	(856,803)
Net cash flows from financing activities		**7,088,264**	**15,044,348**
Net increase/(decrease) in cash and cash equivalents held		**(7,756,657)**	**13,700,531**
Cash and cash equivalents at the beginning of the year		**14,989,226**	**1,600,851**
Effect of exchange rate changes on the balance of cash held in foreign currencies		16	(312,156)
Cash and cash equivalents at the end of the year	20(b)	**7,232,585**	**14,989,226**

The accompanying notes form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014

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NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014 (CONT'D)

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 equivalents to International Financial Reporting Standards ('A-IFRS'). Compliance with A-IFRS ensures that the financial statements and notes of the Group comply with International Financial Reporting Standards ('IFRS').

The financial statements were authorised for issue by the directors on 26th September 2014.

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

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 ("AASB") that are relevant to their operations and effective for the current financial year.

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

Standard/Interpretation	
1.	AASB 10 'Consolidated Financial Statements' and AASB 2011-7 'Amendments to Australian Accounting Standards arising from the consolidation and Joint Arrangements standards' 2011-7
2.	AASB 11 'Joint Arrangements' and AASB 2011- 7 'Amendments to Australian Accounting Standards arising from the consolidation and Joint Arrangements standards'
3.	AASB 12 'Disclosure of Interests in Other Entities' and AASB 2011-7 'Amendments to Australian Accounting Standards arising from the consolidation and Joint Arrangements standards'
4.	AASB 127 'Separate Financial Statements' (2011) and AASB 2011-7 'Amendments to Australian Accounting Standards arising from the consolidation and Joint Arrangements standards'
5.	AASB 128 'Investments in Associates and Joint Ventures' (2011) and AASB 2011-7 'Amendments to Australian Accounting Standards arising from the consolidation and Joint Arrangements standards'
6.	AASB 13 'Fair Value Measurement' and AASB 2011-8 'Amendments to Australian Accounting Standards arising from AASB 13'
7.	AASB 2011-4 'Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements'
8.	AASB 2012-5 'Amendments to Australian Accounting Standards arising from Annual Improvements 2009–2011 Cycle'
9.	AASB 2012-10 'Amendments to Australian Accounting Standards – Transition Guidance and Other Amendments'
10.	AASB 119 'Employee Benefits (2011) and AASB 2011-10 'Amendments to Australian Accounting Standards arising from AASB 119 (2011)'

The adoption of all new and revised Standards and Interpretations has not resulted in any changes to the Group's accounting policies and has no effect on the amounts reported for the current or prior financial years.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014 (CONT'D)

Standards and Interpretations issued not yet effective – AASB Interpretations

At the date of authorisation of the financial statements, the Standards and Interpretations listed below 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
AASB 9 'Financial Instruments' and relevant amending standards*	1 January 2018	30 June 2019
AASB 1031 'Materiality' (2013)	1 January 2014	30 June 2015
AASB 2012-3 'Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities'	1 January 2014	30 June 2015
AASB 2013-3 'Amendments to AASB 136 – Recoverable Amount Disclosures for Non-Financial Assets'	1 January 2014	30 June 2015
AASB 2013-9 'Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments'	1 January 2014	30 June 2015
AASB 2014-1 'Amendments to Australian Accounting Standards' - Part A: 'Annual Improvements 2010–2012 and 2011–2013 Cycles' - Part C: 'Materiality'	1 January 2014	30 June 2015
AASB 2014-1 'Amendments to Australian Accounting Standards' Part E 'Financial Instruments'	1 January 2015	30 June 2016

** The AASB has issued the following versions of AASB 9 and the relevant amending standards:*

(i) AASB 9 'Financial Instruments' (December 2009), AASB 2009-11 'Amendments to Australian Accounting Standards arising from AASB 9', AASB 2012-6 'Amendments to Australian Accounting Standards – Mandatory Effective Date of AASB 9 and Transition Disclosures'

(ii) AASB 9 'Financial Instruments' (December 2010), AASB 2010-7 'Amendments to Australian Accounting Standards arising from AASB 9 (December 2010)', AASB 2012-6 'Amendments to Australian Accounting Standards – Mandatory Effective Date of AASB 9 and Transition Disclosure'

(iii) In December 2013 the AASB issued AASB 2013-9 'Amendment to Australian Accounting Standards –Conceptual Framework, Materiality and Financial Instruments', Part C – Financial Instruments. This amending standard has amended the mandatory effective date of AASB 9 to 1 January 2017. For annual reporting periods beginning before 1 January 2017, an entity may early adopt either AASB 9 (December 2009) or AASB 9 (December 2010) and the relevant amending standards.

(iv) In June 2014 the AASB issued AASB 2014-1 'Amendment to Australian Accounting Standards', Part E – Financial Instruments. This amending standard has amended the mandatory effective date of AASB 9 to 1 January 2018. For annual reporting periods beginning before 1 January 2018, an entity may early adopt either AASB 9 (December 2009) or AASB 9 (December 2010) and the relevant amending standards

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014 (CONT'D)

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 listed below were also in issue but not yet effective, although Australian equivalent Standards and Interpretations have not yet been issued.

Standard/Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
AASB 2014-3 'Amendments to Australian Accounting Standards – Accounting for Acquisitions of Interests in Joint Operations	1 January 2016	30 June 2017
AASB 2014-4 'Amendments to Australian Accounting Standards – Clarification of Acceptable Methods of Depreciation and Amortisation'	1 January 2016	30 June 2017
Narrow-scope amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures (2011)	1 January 2016	30 June 2017
IFRS 9 Financial Instruments	1 January 2018	30 June 2019

The directors anticipate that the adoption of these Standards and Interpretations will have no material financial impact on the financial statements of the Group.

These Standards and Interpretations will be first applied in the financial report of the Group that relates to the annual reporting period beginning after the effective date of each pronouncement.

Basis of preparation

The financial report has been prepared on the basis of historical cost, except for certain non-current assets and financial instruments that are measured at revalued amounts or fair values, as explained in the accounting policies below. 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 (b) Exploration and evaluation expenditure and 1 (e) Impairment.

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014 (CONT'D)

Going Concern

The financial statements have been prepared on the basis of a going concern, which contemplates the continuity of normal business activities and the realisation of assets and settlement of liabilities in the ordinary course of business.

For the year ended 30 June 2014, the consolidated entity incurred a loss after tax of US$ 7.3m (2013: US$ 3.8m), including the write-off of exploration and evaluation assets of US$ 5.1m, had negative net cash flows from operating activities of US$ 1.9m (2013: US$ 2.4m) and at 30 June 2014 had net current assets of US$ 2.4m excluding unsecured convertible loans of US$ 0.9m which were converted to equity subsequent to year end. At year end the consolidated entity reported net assets of US$ 22.0m (2013: US$ 23.1m).

The consolidated entity currently does not have any production income and in order to continue as a going concern, is therefore reliant on:-

(i) raising additional equity capital or debt funding;

(ii) receiving the proceeds from either the full or partial sale of its oil and gas leases;

(iii) initiating farm-out arrangements of its oil and gas leases; or

(iv) a combination of the above

where existing cash reserves are insufficient to fund the consolidated entity's forecast exploration and development plan and corporate operating costs.

Additionally, at 30 June 2014 the consolidated entity has recognised a liability of US$ 4.5m in relation to expenses pertaining to the drilling of Byron Energy SM 6 #1 and two related bypass wells located in the South Marsh Island Block 6 ("SM 6"). Subsequent to year end Byron Energy Inc, a wholly owned subsidiary of Byron Energy Limited and operator of the SM 6 block, initiated legal proceedings against two contractors who provided services in relation to the drilling of the SMI6 wells and is withholding payment of amounts owed to the two contractors of approximately US$ 4.1m. The total amount of the damages claimed is still being quantified but the quantum is expected to significantly exceed the amounts invoiced by the suppliers.

Since the end of the financial year, the directors have taken a number of steps to ensure the Company and the consolidated entity can continue to fund their operations and further explore and develop the consolidated entity's oil and gas properties. These steps comprise:-

- completed a share placement on 11 July 2014 for the issue of 2,876,923 fully paid ordinary shares at an issue price of $A0.65 per share raising a total of A$1,870,000;
- executed an unsecured loan facility bearing interest at 10% pa, in late July 2014, with four of the Company's directors and several other shareholders, equivalent to US$2,544,000 (comprising A$1,400,000 and US$1,225,000) repayable in cash on 1 July 2015;
- held an extraordinary general meeting of shareholders on 8 September 2014, where the shareholders:-

(a) approved the conversion of $A2.0 m convertible loan (half of which was drawn down at year end and the balance subsequent to year end) from three directors to equity at A$0.65 per share;

(b) approved the issue of 154,000 fully paid ordinary shares in the Company at an issue price of A$0.65 per share to Clapsy Pty Ltd (a company controlled by Mr Paul Young);

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014 (CONT'D)

(c) ratified the issue and allotment of 9,916,847 shares issued on 26 June 2014 and 2,876,923 shares issued on 11 July 2014, allowing the Company to retain the flexibility to issue up to 15% of its issued capital, if required, in the next twelve months without the need to obtain prior shareholder approval; and

(d) approved the ability to issue, under Listing Rule 7.1, up to 15,000,000 fully paid ordinary shares within 3 months of the date of approval, without using up any of the 15% capacity.

While the Company has a demonstrable track record of raising funds which historically has been strongly supported by its directors and major shareholders the ability of the Company and the consolidated entity to continue as going concerns for the coming year is dependent on one or more of the following:-

(i) the Company's ability to raise additional equity capital;

(ii) the Company's ability to secure additional debt funding if required;

(iii) the Company's ability to realise its interests in oil and gas leases or secure farm-out arrangements for the consolidated entity's oil and gas leases if required;

(iv) the successful resolution of the legal proceedings in relation to the disputed amounts with certain suppliers involved with the drilling of the SMI 6 wells; and

(v) the successful refinance or extension of the current loan facility of $US 2.5m that expires on 1 July 2015.

Cash flow forecasts prepared by management demonstrate that the Company and the consolidated entity have sufficient funds to meet their commitments over the next twelve months based on the above factors and for that reason the financial statements have been prepared on the basis that the Company and the consolidated entity are going concerns.

In the event that the Company and the Consolidated Entity are unsuccessful in the matters set out above, there is material uncertainty whether the Company and the Consolidated entity will continue as going concerns and therefore whether they will realise their assets and discharge their liabilities in the normal course of business and at the amounts stated in the financial report.

This financial report does not include any adjustments relating to the recoverability and classification of recorded asset amounts or to the amounts and classification of liabilities that might be necessary should the Company and the Consolidated Entity not continue as going concerns.

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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014 (CONT'D)

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.

Transactions eliminated on consolidation

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation. In the separate financial statements of the Company, intra-group transactions ('common control transactions') are generally accounted for by reference to the existing (consolidated) book value of the items. Where the transaction value of common control transactions differ from their consolidated book value, the difference is recognised as a contribution by or distribution to equity participants by the transacting entities.

(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.

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, 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014 (CONT'D)

(c) Reserves

Foreign Currency Translation Reserve

Foreign currency exchange differences relating to the translation of AUD, 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 staff 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(n).

(d) 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.

(e) 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 pre tax discounted 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014 (CONT'D)

Reversals of impairment

Impairment losses are reversed when there is an indication that the impairment loss may no longer exist and there has been a change in the estimated 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 deprecation or amortisation, if no impairment loss had been recognised.

(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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014 (CONT'D)

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 functional amounts required to settle these future obligations are recognised in the profit and loss.

All borrowing costs are recognised in profit and loss in the period in which they are incurred, except for well drilling insurance premium financing costs that are capitalised as part of the well expenditure.

(g) Revenue recognition

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

Sale of oil and gas

Hydrocarbon revenues are recognised when the actual physical quantity has been provided or allocated to a purchaser pursuant to a contract. Revenue from oil and gas sales is measured at the fair value of the consideration receivable.

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.

(h) 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014 (CONT'D)

(i) 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 and have a maturity of three months or less at the date of acquisition.

(j) Financial assets

Investments are initially measured at fair value, net of transaction costs except for those financial assets classified as at fair value through profit or loss which are initially measured at fair value.

Subsequent to initial recognition, investments in subsidiaries are measured at cost in the Company's financial statements.

Other financial assets are classified into the following specified categories if applicable: financial assets 'at fair value through profit or loss' and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

Loans and receivables

Trade receivables, loans, and other 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.

Interest income is recognised by applying the effective interest rate.

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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014 (CONT'D)

(k) 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.

(l) 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	2.5 to 10 years
Intangible assets - software	2.5 to 3 years

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014 (CONT'D)

(m) 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.

(n) Share based payments

Equity settled share based payments with 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 with a corresponding increase in equity at grant date where the share based payment arrangements vest immediately.

(o) 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.

(p) Payables

Trade payables and other accounts payable are recognised when the consolidated entity becomes obliged to make future payments resulting from the purchase of goods and services.

(q) Receivables

Trade receivables and other receivables are recorded at amounts due, less any allowance for doubtful debts.

(r) Issued capital

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014 (CONT'D)

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.

(s) Financial liabilities

The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments. The fair value of current borrowings approximates the carrying amount, as the impact of discounting is not significant due to the very short term nature of the unsecured borrowing.

	Consolidated	
	2014 US$	2013 US$
2. COST OF SALES		
Production costs	-	176,738
Amortisation of oil and gas properties	-	141,141
	-	317,879
3. LOSS FOR THE YEAR		
Loss for the year has been arrived at after charging the following items of expense		
Professional and consulting costs	504,454	769,948
Insurance	102,155	360,674
Operating lease rental expense	142,622	88,740
Employee benefits expense		
Other employee benefits	807,181	867,080
Share based payments (*also included in share base payments total below)	-	*147,655
Defined contribution superannuation	32,310	36,958
	839,491	1,051,693
Share based payments		
Share options issued to directors, key management personnel and consultants	-	*225,825
Stock exchange listing expense (in accordance with AASB 2)	-	793,685
	-	1,019,510

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014 (CONT'D)

	Consolidated	
	2014	2013
	US$	US$

4. FINANCIAL INCOME AND EXPENSES

	2014 US$	2013 US$
Financial Income		
Interest income	47,425	27,756
	47,425	27,756
Financial Expense		
Interest expense paid to others	-	4,483
Interest expense accrued to a related party	2,265	22,223
Foreign exchange loss on $A denominated loan	8,300	6,453
	10,565	33,159

5. INCOME TAX

	2014 US$	2013 US$
Income tax recognised in profit and loss	-	-

The prima facie income tax expense / (benefit) on pre tax accounting loss reconciles to the income tax expense / (benefit) in the financial statements as follows:

	2014 US$	2013 US$
Loss from continuing operations	(7,305,087)	(3,820,053)
Income tax benefit calculated at 30%	(2,191,526)	(1,146,016)
Expenditure not allowable for income tax purposes	3,994	1,592
Non tax deductible share based payments expense	-	67,748
Non tax deductible loss on reverse asset acquisition	-	238,106
Effect of different tax rates of subsidiaries operating in other jurisdictions	(353,284)	(88,480)
Non tax deductible foreign exchange adjustments	(80,527)	107,494
Unused tax losses & tax offsets not recognised as deferred tax assets	2,621,343	819,556
Income tax expense / (benefit) on continuing operations	-	-

Deferred tax assets not recognised

Deferred tax assets not recognised comprises temporary differences attributable to:

	2014 US$	2013 US$
Australian tax losses	1,755,382	1,486,956
USA tax losses	14,638,415	7,492,443
Temporary differences	(5,002,794)	(252,119)
Total deferred tax assets not recognised	11,391,003	8,727,280

Byron Energy Limited and its 100% owned Australian subsidiary, Byron Energy (Australia) Pty Ltd have not formed a tax consolidated group as at 30 June 2014.

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014 (CONT'D)

The potential deferred tax asset will only be obtained 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.

6. EARNINGS PER SHARE

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

	Consolidated	
	2014 US$	2013 US$
Net loss for the year	(7,305,087)	(3,820,053)
Basic loss per share	(0.057)	(0.035)
Diluted loss per share	(0.057)	(0.035)
Weighted average number of ordinary shares	128,234,172	108,599,135
Weighted average number of diluted options outstanding	-	-
Weighted average number of ordinary shares used in the calculation of diluted earnings per share	128,234,712	108,599,135
Anti-dilutive options on issue not used in the dilutive earnings per share calculation	36,995,984	37,380,084

Options Outstanding

There is no dilution of shares due to 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.

7. TRADE AND OTHER RECEIVABLES

	2014 US$	2013 US$
GST receivable	14,388	76,546
Other receivables - ABN withholding credits	-	290,316
	14,388	366,862

No receivable amounts were past due or impaired at 30 June 2014 (2013: nil)

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014 (CONT'D)

	Consolidated	
	2014	2013
	US$	US$

8. OTHER ASSETS

Current		
Prepayments	75,936	83,944
Security Deposits	265,276	117,366
	341,212	201,310
Non Current		
Prepayments	8,191	15,966

9. EXPLORATION AND EVALUATION ASSETS

Costs carried forward in respect of areas in the exploration and/or evaluation phase at cost:	20,500,370	8,097,970
Reconciliation of movements:-		
Carry amount at the beginning of the financial year	8,097,970	4,691,380
Additions at cost	17,510,685	3,525,508
Impairment expense	(5,108,285)	-
Divestment of working interests	-	(118,918)
Carrying amount at the end of the financial year	20,500,370	8,097,970

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 ten leases, over six separate projects, relinquished during the year or subsequent to balance date due to lease expiry, imminent expiry or the Group deciding, following a thorough review of seismic, that the lease was no longer considered prospective.

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014 (CONT'D)

10. PROPERTY, PLANT AND EQUIPMENT

	Consolidated 2014 US$	Consolidated 2013 US$
Buildings at cost	13,760	13,549
Accumulated depreciation	(2,769)	(2,388)
	10,991	11,161
Reconciliation of movements:-		
Carry amount at the beginning of the financial year	11,161	12,635
Depreciation for year	(335)	(375)
Foreign currency translation movements	165	(1,099)
Carrying amount at the end of the financial year	10,991	11,161
Plant and equipment at cost	125,739	113,135
Accumulated depreciation	(66,524)	(83,441)
	59,215	29,694
Reconciliation of movements:-		
Carry amount at the beginning of the financial year	29,694	31,864
Additions at cost	42,965	9,589
Depreciation for year	(13,400)	(11,267)
Foreign currency translation movements	(44)	(492)
Carrying amount at the end of the financial year	59,215	29,694
Total property, plant and equipment	70,206	40,855

11. OTHER INTANGIBLE ASSETS

	Consolidated 2014 US$	Consolidated 2013 US$
Other intangible (software) assets at cost	49,742	49,255
Accumulated amortisation	(47,034)	(39,123)
	2,708	10,132
Reconciliation of movements:-		
Carry amount at the beginning of the financial year	10,132	21,129
Additions at cost	238	475
Amortisation for year	(7,634)	(10,689)
Foreign currency translation movements	(28)	(783)
Carrying amount at the end of the financial year	2,708	10,132

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NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014 (CONT'D)

	Consolidated	
	2014	2013
	US$	US$
12. TRADE AND OTHER PAYABLES		
Current		
Trade payables	128,920	37,718
Accrued interest payable to a related party	2,323	-
Other payables and accrued expenses	4,940,024	406,245
	5,071,267	443,963

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) other operating creditors are non-interest bearing and have an average term of 30 days
(iii) for the 2014 year only, the other payables total includes an interest bearing amount, see Note 29 (c)

13. PROVISIONS

	2014 US$	2013 US$
Current provision		
Accumulated employee entitlements	123,623	108,515
Non-current		
Accumulated employee entitlements	40,090	31,517

14. BORROWINGS

	2014 US$	2013 US$
Current unsecured		
Convertible loan from a related party	942,000	-

On 18 June 2014 the Company secured short term funding by way of an unsecured convertible loan ("the Loan") of A$1,000,000.00 bearing interest at 7.5% per annum from Veruse Pty Ltd ("the Lender"), a company controlled by Mr Douglas Battersby, a director of the Company.

The Loan is to be repaid by the Company on or before 31 December 2014 unless it is converted into shares of the Company ("Shares") before the Loan is due for repayment. The Lender has an option to convert the Loan to Shares by 30 September 2014, subject to shareholder approval. If the Lender does not exercise its option to convert the Loan into Shares, the Company may then elect to repay the Loan through conversion of the Loan into Shares by 3 October 2014, subject to shareholder approval. In the event the Lender exercises its conversion option the conversion price is the same price as the capital raising undertaken by the Company after 12 June 2014. In the event the Company exercises its conversion option the conversion price is the 30-day volume weighted average price of the Company's shares, up to and inclusive of the day immediately prior to the date on which the Borrower conversion notice is given.

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014 (CONT'D)

Subsequent to balance date, on 6 August 2104, the Company received a conversion notice form the Lender to convert the Loan to shares in the Company, subject to shareholder approval, at $A0.65 per share, the same price as the issue price under the placement completed on 26 June 2014.

On 8 September 2014 the Company's shareholders, at an Extraordinary General Meeting approved the conversion of the Loan into Shares.

This financial instrument is not measured at fair value in the balance sheet as at 30 June 2014. Due to the short term nature of the Loan, the fair value of interest bearing liabilities is not materially different from the carrying value.

15. ISSUED CAPITAL

	Consolidated	
	2014 US$	2013 US$
(a) Issued and paid up capital	56,124,868	49,970,304

Fully paid ordinary shares carry one vote per share and carry the right to dividends

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.

	2014		2013	
	Number	US$	Number	US$
(b) Movement				
Fully paid ordinary shares				
Balance at beginning of the financial year	127,969,847	49,970,304	33,610,562	33,855,590
Shares issued				
- Shares issued upon the exercise of shares options at @$A0.50 cents per share option	384,100	175,278	-	-
- Shares issued under the June 2014 placement @$A0.65 cents per share	9,916,847	6,022,452	-	-
- Elimination of existing shares in Byron Energy (Australia) Pty Ltd	-	-	(33,610,562)	-
- Existing shares in Byron Energy Limited (formerly Trojan Equity Limited)	-	-	7,788,687	-
- Issue of Byron Energy Limited shares on acquisition of Byron Energy (Australia) Pty Ltd	-	-	84,026,411	*3,017,649
- Shares issued under the Placement Offer	-	-	20,577,375	7,972,498
- Shares issued under the Entitlement Offer	-	-	15,577,374	6,035,298
- Equity raising costs	-	(43,166)	-	(910,731)
Balance at end of financial year	138,270,794	56,124,868	127,969,847	49,970,304

*measured by reference to the fair value of the accounting acquiree (Byron Energy Limited):

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014 (CONT'D)

120,181,160 new ordinary shares were issued under a prospectus dated 2 April 2013 comprising:-

(i) Entitlement Offer - 15,577,374 shares issued to shareholders of Byron Energy Limited on the basis of 2 new shares for every share held

(ii) Placement Offer - 20,577,375 shares issued to investors identified by directors

(iii) Acquisition Offer - 84,026,411 shares issued to Byron Energy (Australia) Pty Ltd shareholders to acquire Byron Energy (Australia) Pty Ltd.

(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 138,270,794 ordinary shares (2013: 127,969,847) of which 118,820,276 shares (2013: 108,519,329) are quoted on the ASX and 19,450,518 ordinary shares are escrowed until 30 May 2015.

(d) Share options

Options over ordinary shares

At the end of the financial year, there were 36,995,984 (2013: 37,380,084) unissued ordinary shares in respect of which the following options were outstanding:

Expiry date	Number	Securities	Escrow period expiry	Exercise price
31 December 2016	23,308,901	Unlisted options	Nil	A$0.50
31 December 2016	13,687,083	Unlisted options	30 May 2015	A$0.50
Total	36,995,984			

No options (2013: 37,380,084) were issued during the financial year. All the options are unlisted and 13,687,083 are escrowed until 30 May 2015. During the financial year, 384,100 options were exercised and nil were exercised in the 2013 financial year.

16. RESERVES

	Consolidated	
	2014 US$	2013 US$
Foreign currency translation reserve		
Balance at beginning of financial year	(150,974)	143,170
Currency translation movements for the year	4,877	(294,144)
Balance at end of financial year	(146,097)	(150,974)

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014 (CONT'D)

	Consolidated	
	2014 US$	2013 US$
Share option reserve		
Balance at beginning of financial year	2,104,108	1,878,283
2,600,000 options issued were subject to shareholders' approval	-	225,825
Balance at end of financial year	2,104,108	2,104,108

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

17. FRANKING CREDITS

There are no franking credits available for distribution (2013: nil).

18. EXPENDITURE COMMITMENTS

The Group has expenditure commitments at the end of the financial year for non cancellable operating lease office rental payments, seismic reprocessing and the drilling of the SM 6 #1 BP02 bypass well. These obligations are not provided for in the financial statements.

	2014 US$	2013 US$
(a) Commitments for office lease rental payments		
Not longer than 1 year	145,337	144,893
Between 1 and 5 years	124,247	199,000
	269,584	343,893
(b) Commitments for the seismic reprocessing expenditure		
Not longer than 1 year	156,800	-
(c) Commitments for the drilling of the SM 6 #1 BP02 bypass well expenditure		
Not longer than 1 year	7,952,000	-

(d) 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014 (CONT'D)

19. REVERSE ASSET ACQUISITION

On 24 May 2013, Byron Energy Limited acquired 100% of the issued capital of Byron Energy (Australia) Pty Ltd. When Byron Energy Limited (the legal parent) acquired Byron Energy (Australia) Pty Ltd (the legal subsidiary), the acquisition was accounted for using the principles of reverse asset acquisition accounting under AASB 3 Business Combinations since the substance of the transaction is that the existing shareholders of Byron Energy (Australia) Pty Ltd have effectively obtained control of Byron Energy Limited. Accordingly Byron Energy (Australia) Pty Ltd is the accounting acquirer, and Byron Energy Limited is the accounting acquiree.

Under the principles of reverse asset acquisition accounting, the consolidated financial report is issued under the name of the legal parent (Byron Energy Limited) but are a continuation of the consolidated financial statements of the legal subsidiary Byron Energy (Australia) Pty Ltd and its controlled entities, with the assets and liabilities of the legal subsidiaries being recognised and measured at their pre-combination carrying amounts rather than their fair values. The assets and liabilities of the accounting acquiree Byron Energy Limited was measured at fair value at the date of acquisition.

The basis of the merger was that Byron Energy (Australia) Pty Ltd shareholders would receive 2.5 Byron Energy Limited shares and 0.40 Byron Energy Limited unlisted options (exercisable at A$0.50 with expiry date of 31 December 2016) for every Byron Energy (Australia) Pty Ltd share and option owned by them, resulting in the issue of 84,026,411 shares and 13,444,235 options in Byron Energy Limited; and each Byron Energy (Australia) Pty Ltd option holder received 2.5 share options in Byron Energy Limited resulting in the issue of 11,812,500 share options.

The consolidated entity has recognised the fair values of identifiable assets and liabilities of Byron Energy Limited based on the information available as at the date of acquisition as follows:

	Recognised on acquisition US$
Cash and cash equivalents	1,953,736
Debtors	303,557
	2,257,293
Creditors and accruals	33,329
	33,329
Fair value of identifiable net assets	2,223,964
Deemed stock exchange listing expense under AASB 2	793,685
	3,017,649
Cost of the combination:	
Fair value of issued equity instruments of acquiree before business combination	3,017,649
	3,017,649

The acquisition cost of the business is deemed to have been incurred by the legal subsidiary (the acquirer for accounting purposes) in the form of equity instruments issued to owners of the legal parent (the acquiree for accounting purposes). However, due to the fact that the fair value of the equity instruments of the legal subsidiary (Byron Energy (Australia) Pty Ltd) was not clearly evident at the date at which the control was passed, the alternative method (per AASB 3, paragraph B20), where the cost of the business combination was determined as the total fair value of all the issued equity instruments of the legal parent (Byron Energy Limited) immediately prior to the business combination was used.

The acquisition cost incurred of US$793,685 was due to the actual fair value of issued equity instruments of the acquiree at the date of the reverse asset acquisition being higher than the estimated fair value of identifiable net assets.

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014 (CONT'D)

20. CASH FLOW RECONCILIATION

(a) Reconciliation of loss from ordinary activities after tax to net cash flows from operations

	Consolidated 2014 US$	Consolidated 2013 US$
Loss for the year	(7,305,087)	(3,820,053)
Non cash flows in operating result:-		
Depreciation, amortisation and property, plant and equipment written off	21,369	163,472
Impairment expense	5,108,285	-
Loss on divestment of oil and gas properties, net of related legal fees paid	-	218,005
Equity settled share based payments	-	225,825
Net foreign exchange loss	8,300	6,453
Deemed stock exchange listing expense under AASB 2	-	793,685
Foreign exchange differences arising on translation of the parent entity group	2,361	21,725
	(2,164,772)	(2,390,888)
Movements in working capital		
(Increase)/decrease in assets:-		
Trade and other receivables	358,336	202,808
Other assets	(130,772)	216,813
Increase/(decrease) in liabilities:-		
Trade and other payables	5,124	(446,840)
Provisions	21,492	46,584
Net cash used in operating activities	(1,910,592)	(2,371,523)

(b) Reconciliation of cash

	2014 US$	2013 US$
Cash and cash equivalents comprise:		
Cash and bank balances	7,232,585	14,989,226

(c) Financing facility

The Group has no available 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014 (CONT'D)

21. CONTROLLED ENTITIES

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

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

22. 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:-

	2014	2013
Spot rate at 30 June	0.9420	0.9275
Average rate for year	0.9187	1.0271

23. CONTINGENT LIABILITIES AND CONTINGENT ASSETS

(a) One of the Group's USA subsidiaries, Byron Energy Inc ("BE Inc") is required to provide bonding or security for the benefit of the USA regulatory authorities in relation to its obligations to pay lease rentals and royalties, the plugging and abandonment of oil and gas wells and the removal of related facilities. Accordingly, BE Inc has surety bonds issued through a surety company to secure those obligations for its operated interests. As of 30 June 2014, BE Inc was contingently liable for its Gulf of Mexico operated block areas and interests of US$550,000 (2013: US$400,000).

(b) Byron Energy (Australia) Pty Ltd has agreed to provide a guarantee of the obligations of BE Inc (the seller) under the Purchase and Sale Agreement between Northstar Offshore Group, LLC (the buyer) entered into on 8 November 2012 in relation to the sale of BE Inc's interest in Eugene Island 183/184 and other non operated interests.

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014 (CONT'D)

24. SHARE-BASED PAYMENTS

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

	Consolidated	
	2014 US$	2013 US$
Details of share-based payments		
Fair value of options granted to directors and key management personnel	-	178,055
Fair value of options granted to consultants and others for services rendered	-	47,770
Expense arising from share-based payments paid as remuneration	-	225,825

Director and key management personnel equity share options

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

Grantee	Number	Grant date	Vesting date	Expiry date	Exercise price	Fair value at grant date
P Kallenberger	1,000,000	24 May 2013	24 May 2013	31 Dec 2016	$A0.50	A$0.0846
C Sands	450,000	24 May 2013	24 May 2013	31 Dec 2016	$A0.50	A$0.0846
N Filipovic	600,000	24 May 2013	24 May 2013	31 Dec 2016	$A0.50	A$0.0846

Weighted average remaining contractual life

The share options outstanding at the end of the financial year had a remaining contractual life of 916 days (2013: 1,281 days).

Movements in share-based payments options

No share options were issued, nor any exercised during the financial year and the total fair value of the share options granted during the previous financial year was US$225,825. There are no Employee Share Option plans in place.

	2014		2013	
	Number	Exercise price	Number	Exercise price
Balance at beginning of year	2,600,000		-	
Granted during the year	-		2,600,000	A$0.50c
Expired during the year	-		-	
Exercised during the year	-		-	
Balance at end of year	2,600,000		2,600,000	
Exercisable at end of year	2,600,000	A$0.50c	2,600,000	A$0.50c

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014 (CONT'D)

25. EMPLOYEE BENEFITS AND SUPERANNUATION COMMITMENTS

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

26. AUDITORS' REMUNERATION

	Consolidated 2014 US$	Consolidated 2013 US$
Amounts received or due and receivable by Deloitte Touche Tohmatsu		
Audit or review of the financial statements of the Group	45,751	39,697
Non audit services: Investigating accountants reports	-	46,014
	45,751	85,711

27. KEY MANAGEMENT PERSONNEL COMPENSATION

Total aggregate remuneration of directors and key management personnel

	Short term employee benefits				Post employment benefits	Share-based payments	
	Salaries and fees US$	Short term cash incentive US$	Other Benefits US$	Service Agreements US$	Superannuation US$	Options US$	Total US$
Year 2014	699,106	-	19,505	293,984	28,893	-	**1,041,488**
Year 2013	686,767	-	18,970	357,978	28,795	178,055	**1,270,565**

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014 (CONT'D)

28. RELATED PARTY TRANSACTIONS

	Consolidated	
	2014 US$	2013 US$
Loans from related parties		
Convertible Loan	942,000	-

Veruse Pty Ltd, a company controlled by Mr Douglas Battersby, a director of the Company, has provided a loan at a fixed interest rate of 7.5% per annum. The loan is unsecured and can be converted to equity at either party's option at A$0.65 per ordinary share, subject to prior approval at a meeting of shareholders. Interest accrued and payable on this loan as at 30 June 2014 was US$2,323.

29. FINANCIAL INSTRUMENTS

The consolidated entity's financial instruments consist mainly of cash and cash equivalents, trade and other receivables and trade, security deposits and other payables. 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.

	Consolidated	
Categories of financial instruments	2014 US$	2013 US$
Financial assets		
Cash and cash equivalents	7,232,585	14,989,226
Trade and other receivables	14,388	366,862
Security deposits	265,276	117,366
	7,512,249	15,473,454
Financial liabilities		
Trade and other payables	5,071,267	373,963
Unsecured loan from a related party	942,000	-
	6,013,267	373,963

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014 (CONT'D)

(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). borrowings from a related party.

During the 2014 financial year, no dividends were paid (2013: 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 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.

(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 financial assets.

Consolidated financial assets	Weighted average effective interest rate	Less than 1 month	1-3 months	3 months to 1 year	1-5 years
	%	US$	US$	US$	US$
2014					
Non-interest bearing		-	14,388	265,276	-
Variable interest rate instruments	0.64%	7,232,585	-	-	-
Fixed interest rate instruments		-	-	-	-
2013					
Non-interest bearing		-	366,862	117,366	-
Variable interest rate instruments	1.35%	14,989,226	-	-	-
Fixed interest rate instruments		-	-	-	-

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014 (CONT'D)

The following table details the Group's remaining contractual maturity for its financial liabilities.

Consolidated financial assets	Weighted average effective interest rate	Less than 1 month	1-3 months	3 months to 1 year	1-5 years
	%	US$	US$	US$	US$
2014					
Non-interest bearing	-	4,957,482	-	-	-
Variable interest rate instruments	-	-	-	-	-
Fixed interest rate instruments	5.0%	-	113,785	-	-
Convertible loan	7.5%	-	-	*942,000	-
2013					
Non-interest bearing	-	373,963	-	-	-
Variable interest rate instruments	-	-	-	-	-
Fixed interest rate instruments	-	-	-	-	-

(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:

(i) *the loan from a related party is unsecured and can be converted to equity at either party's option at A$0.65 per ordinary share, subject to prior approval at a meeting of shareholders. This financial instrument is not measured at fair value in the balance sheet as at 30 June 2014, due to the short-term nature of the current borrowing, the carrying amount of the loan is assumed to approximate its fair value;

(ii) holdings in unlisted shares are measured at cost less any impairments. The directors consider that no other measure could be used reliably; and

(iii) other financial assets and financial liabilities are determined in accordance with generally accepted pricing models.

(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 2014, the Group had a financing facility of A$2,000,000, of which A$1,000,000 had been drawn down at the end of the financial year. The interest rate payable of funds drawn down under this facility is fixed at 7.5% per annum.

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014 (CONT'D)

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 loss would decrease by US$55,555 or increase by US$55,555 (2013: increase by US$41,475 or decrease by US$41,475). 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 US dollars and Australian dollars.

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

Fluctuations in the Australian dollar / US 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 US dollars, with the exception of Australian dollar denominated equity funding, surplus funds are primarily held in US 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	
Consolidated	2014 $	2013 $	2014 $	2013 $
USA currency denominated	6,626,565	12,850,134	4,939,681	206,280
Australian currency denominated	940,217	2,828,377	1,139,687	180,790

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.

	Australian dollar impact on loss	
Consolidated	2014 US$	2013 US$
Equity	169,264	173,476

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014 (CONT'D)

30. 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 and development; and one geographical segment, the United States of America.

The geographical locations of the Group's non-current assets are United States of America US$20,544,241 (2013: US$ 8,124,030) and Australia US$37,234 (2013: US$40,893).

31. PARENT ENTITY INFORMATION

Financial position	2014 US$	2013 US$
Assets		
Current assets	8,363,751	1,578,012
Non-current assets	46,433,890	46,434,019
Total assets	**54,797,641**	**48,012,031**
Liabilities		
Current liabilities	1,015,750	47,759
Non-current liabilities	-	-
Total liabilities	**1,015,750**	**47,759**
Net assets	**53,781,891**	**47,964,272**
Equity		
Issued capital	55,461,125	49,306,560
Accumulated losses	(1,269,347)	(855,538)
Reserves	(409,887)	(486,750)
Total Equity	**53,781,891**	**47,964,272**

Financial performance	2014 US$	2013 US$
Profit (loss) for the year	(413,809)	(382,739)
Other comprehensive income	76,863	(685,118)
Total comprehensive income for the financial year	**(336,946)**	**(1,067,857)**

Expenditure commitments

The parent entity has no expenditure commitments at the end of the 2014 financial year (2013: nil).

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014 (CONT'D)

Guarantees

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

Contingent liabilities

The parent entity had no contingent liabilities at 30 June 2014 (2013: nil).

31. SUBSEQUENT EVENTS

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

(i) the drilling of Byron Energy SM 6 #1 well and the two related bypass wells, Byron Energy SM 6 #1 BP01 and Byron Energy SM 6 #1 BP02 was completed in July 2014 with the rig released on 31 July 2014;

(ii) electric logs run in the Byron Energy SM 6 #1 BP02 indicated two separate net hydrocarbon pay zones in the F Sands;

(iii) due to serious problems with the drilling rig's top drive, drilling operations of the Byron Energy SM 6 #1 BP02 bypass well were suspended, in late July 2014, leaving the well in a condition that allows completion in the F Sands at a future date;

(iv) completion of a share placement for the issue of 2,876,923 fully paid ordinary shares at an issue price of $A0.65 per share raising a total of A$1,870,000;

(v) execution of an unsecured loan facility with four of the Company's directors and several others, equivalent to US$2,544,000 (comprising A$1,400,000 and US$1,225,000) repayable in cash by 1 July 2015;

(vi) at an extraordinary general meeting of shareholders held on 8 September 2014, the shareholders approved:

- the conversion of $A 2.0 million convertible loan from three directors to the Company, half of which was drawn-down during the financial year and the balance subsequent to year end, into 3,076,923 ordinary shares in the Company at A$0.65 per share, the same price as the issue price under the share placement completed on 26 June 2014;
- the issue of 154,000 fully paid ordinary shares in the Company, at an issue price of A$0.65 per share to Clapsy Pty Ltd, a company controlled by Mr Paul Young, a director of the Company;
- the placement of (a) 9,916,847 Fully Paid Ordinary Shares at A$0.65 per shares completed on 26 June 2014, and (b) the placement of 2,876,923 fully paid ordinary shares at A$0.65 per share, completed on 11 July 2014;
- the issue, under Listing Rule 7.1, of up to 15,000,000 fully paid ordinary shares within 3 months of the date of approval, without using up any of the 15% capacity; and

(vii) released an independent reserves and prospective resources estimate, as at 30 June 2014, prepared by Collarini and Associates in accordance with the reporting requirements of the Petroleum Resources Management System (SPE-PRMS) as required by ASX Listing Rule 5 – *Additional Reporting on Mining and Oil & Gas Production and Exploration Activities.*

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.

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

26 September 2014

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial report, of Byron Energy Limited, which comprises the statement of financial position as at 30 June 2014, the statement of profit and loss and other comprehensive income, the statement of cash flows and the statement of changes in equity for the year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year as set out on pages 30 to 67.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that consolidated financial statements comply with International Financial Reporting Standards.

Auditor's Responsibility

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

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

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

INDEPENDENT AUDITOR'S REPORT (CONT'D)

Auditor's Independence Declaration

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

Opinion

In our opinion:

(a) the financial report of Byron Energy Limited is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2014 and of its performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

(b) the consolidated financial statements also comply with International Financial Reporting Standards as disclosed in Note 1.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 23 to 28 of the directors' report for the year ended 30 June 2014. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001.* Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion the Remuneration Report of Byron Energy Limited for the year ended 30 June 2014, complies with section 300A of the *Corporations Act 2001.*

Emphasis of Matter

Without modifying our opinion, we draw attention to Note 1 in the financial report which indicates that the consolidated entity incurred a net loss of $7,305,087, had negative cash flows from operating activities of $1,910,592 for the year ended 30 June 2014. These conditions, along with other matters set forth in Note 1, indicate the existence of a material uncertainty which may cast significant doubt about the Company's and Consolidated Entity's ability to continue as going concerns and therefore, the Company and Consolidated Entity may be unable to realise their assets and discharge their liabilities in the normal course of business.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Craig Bryan
Partner
Chartered Accountants
Melbourne, 26 September 2014

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CORPORATE GOVERNANCE STATEMENT FOR THE YEAR ENDED 30 JUNE 2014

The Board of Directors of Byron Energy Limited ("the Company" or "Byron") is responsible for the corporate governance of the Company. The Board guides and monitors the business and affairs of the Company on behalf of the shareholders by whom they are elected and to whom they are accountable.

Compliance with Corporate Governance Codes

Byron Energy Limited is a listed Company on the Australian Securities Exchange ("ASX"). On 27 March 2014, the ASX Corporate Governance Council released its 3rd edition of the Corporate Governance Principles and Recommendations which came into effect from 1 July 2014.

Byron, being an entity with a 30 June balance date will be expected to measure its governance practices against the recommendations in the third edition commencing with the financial year ending 30 June 2015. Consequently, the Board has assessed the Company's practice against the requirements of the 2nd edition of the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations and outlines its assessment below:

Principle 1 - Lay solid foundations for management and oversight

Recommendation 1.1 – Companies should establish the functions reserved to the Board and those delegated to senior executives and disclose those functions reserved to the Board and those delegated to senior executives and disclose those functions.

Recommendation 1.2 – Companies should disclose the process for evaluating the performance of senior executives

Recommendation 1.3 – Companies should provide information indicated in the Guidelines to reporting on Principle 1

The Board has a Corporate Governance Charter which defines the role of the Board and management. The Company's Corporate Governance Charter is reviewed annually and available on the Company's website: www.byronenergy.com.au.

The latest Corporate Governance Charter was reviewed and approved by the Board on 25 June 2014.

The primary functions and responsibilities of the Board are to:

- chart strategy and set financial targets,
- monitor the implementation and execution of strategy and performance against financial targets,
- appoint and oversee the performance of executive management, and generally to take and fulfil an effective leadership role in relation to the Company,
- approving and monitoring the progress of major capital expenditure, capital management and acquisitions & divestitures;
- oversight of the Company including its control and accountability systems, and
- review and oversight the operation of systems of risk management and internal compliance and control, codes of ethics and conduct, and legal and regulatory compliance.

The performance of senior executives is constantly reviewed by the Board as part of the ordinary course of meetings of directors.

The Company complies with Recommendation 1.1, Recommendation 1.2 and Recommendation 1.3 of the Guidelines.

CORPORATE GOVERNANCE STATEMENT FOR THE YEAR ENDED 30 JUNE 2014 (CONT'D)

Principle 2 - Structure the Board to add value

Recommendation 2.1 – *A majority of the Board should be independent directors*

Recommendation 2.2 – *The Chair should be an independent director*

Recommendation 2.3 – *The roles of Chair and Chief Executive Officer should not be exercised by the same individual*

Recommendation 2.4 – *The Board should establish a nomination committee*

Recommendation 2.5 – *Companies should disclose the process for evaluating the performance of the Board, committees and individual directors*

Recommendation 2.6 – *Companies should provide the information indicated in the Guide to reporting on Principle 2*

The Company's Corporate Governance Charter requires:

- the Board to comprise a minimum of three directors,
- at least half of the Board must be non-executive directors, and
- the Chairman must be a non-executive director.

The current Board comprises five directors being three non-executive directors and two executive directors. None of the directors is considered by the Board to be independent, based on the criteria in the Guidelines. Consequently, the Company does not comply with Recommendation 2.1 and Recommendation 2.2 of the Guidelines.

The Company complies with Recommendation 2.3 as the roles of Chair and Chief Executive are not exercised by the same individual.

The Company also does not comply with Recommendation 2.4 to the extent that it has not established a nominations committee.

The performance of all the directors is reviewed by the Chairman each year. The performance of the Chairman is reviewed and assessed each year by the other directors. The Chairman determines the evaluation criteria and process.

Having regard to the size, current ownership structure of the Company and the nature of its activities, the directors believe that the current composition of the Board is appropriate as it adds value by ensuring there is a broad range of experience, expertise, skills, qualifications, and contacts which are deemed relevant to the business of the Company.

To ensure that independent judgment is achieved and maintained in respect of its decision-making processes, the Board has adopted a number of measures which include the following:

- each director has the right to seek independent legal or other professional advice at the Company's expense, and
- any director having a conflict of interest in relation to a particular item of business must declare their interest and not vote on that item of business and excuse themselves from the Board meeting if required by the Board before commencement of discussion on the topic.

The Board also considers it more efficient for the selection and appointment of directors to be considered by the Board itself. The Board may also engage an external consultant where appropriate to identify and assess suitable candidates who meet the Board's selection criteria.

These issues will be reassessed by the Board on a regular basis.

CORPORATE GOVERNANCE STATEMENT FOR THE YEAR ENDED 30 JUNE 2014 (CONT'D)

Principle 3 - Promote ethical and responsible decision making

Recommendation 3.1 – *Companies should establish a code of conduct and disclose the code or a summary of the code as to:*

- the practices necessary to maintain confidence in the Company's integrity
- the practices necessary to take into account their legal obligations and the reasonable expectations of their shareholders
- the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.

Recommendation 3.2 – *Companies should establish a policy concerning diversity and disclose the policy or a summary of that policy. The policy should include requirements for the board to establish measurable objectives for achieving gender diversity for the board to assess annually both the objectives and progress in achieving them.*

Recommendation 3.3 – *Companies should disclose in each annual report the measurable objectives for achieving gender diversity set by the board in accordance with the diversity policy and progress towards achieving them.*

Recommendation 3.4 – *Companies should disclose in each annual report the proportion of women employees in the whole organisation, women in senior executive positions and women on the board.*

Recommendation 3.5 – *Companies should provide the information indicated in the Guide to reporting on Principle 3.*

The Board has adopted a detailed Code of Ethics and Values (as part of its Corporate Governance Charter) and a Securities Trading Policy. Both are published on the Company's website, www.byronenergy.com.au. The purpose of these codes is to guide Directors in the performance of their duties and to define the circumstances in which both the directors and management, and their respective associates, are permitted to deal in securities.

Both codes have been designed with a view to ensuring the highest ethical and professional standards, as well as compliance with legal obligations, and therefore compliance with the Guidelines.

Due to the size of the Company and small number of employees a separate formal diversity policy has not been adopted. Consequently, the Company does not comply with Recommendation 3.2 and Recommendation 3.3.

The Company does not discriminate on the basis of age, ethnicity or gender in any employment matters and when a position becomes vacant the Company seeks to employ the best candidates available for the position.

The Company has no full time female employees. The Company currently has no women in senior executive positions or women on the Board. It should be noted that the Company has only three full time employees. The Board fully supports the gender diversity concept and is committed to establishing measurable objectives for achieving gender diversity as the business expands.

Principle 4 - Safeguard integrity in financial reporting

Recommendation 4.1 – *The Board should establish an audit committee*

Recommendation 4.2 – *The audit committee should be structured so that it: (i) consists only of non-executive directors, (ii) consists of a majority of independent directors; (iii) is chaired by an independent chair, who is not the Chair of the Board; and (iv) has at least three members*

Recommendation 4.3 – *The audit committee should have a formal charter*

Recommendation 4.4 – *Companies should provide the information indicated in the Guide to reporting on Principle 4*

The Company has an Audit and Risk Management Committee which is governed by its own charter.

CORPORATE GOVERNANCE STATEMENT FOR THE YEAR ENDED 30 JUNE 2014 (CONT'D)

Part of the Committee's responsibilities includes:

- advising the Board on the establishment and maintenance of a framework of internal control and appropriate ethical standards for the management of the Company,
- provision of additional assurance regarding the quality and reliability of financial information prepared for use by the Board in determining policies or for inclusion in the financial report, and
- reviewing the risk management framework and policies within the Company and monitoring their implementation.

The Company's Audit and Risk Management Committee comprises two non-executive directors, Paul Young (Chairman) and Charles Sands. To that extent the Company complies with recommendation 4.2 (i).

In light of the size and scale of its operations as well as the composition of the Board and the nature of its activities, the Company is not able to comply with:

- Recommendation 4.2 (ii) and Recommendation 4.2 (iii), as neither Paul Young (Chairman) nor Charles Sands are deemed independent based on the criteria in the Guidelines, and
- Recommendation 4.2 (iv), as the committee only has two members.

The Board believes that given the size of the Company, the Committee will adequately fulfil its intended role. Nevertheless, it will reassess its ability to do this on a regular basis. The Company may consider appointing further independent directors in the future at which time it may reconsider the composition of the Audit and Risk Management Committee.

Principle 5 - Make timely and balanced disclosure

Recommendation 5.1 – Companies should put in place mechanisms designed to ensure compliance with the ASX Listing Rule disclosure requirements and to ensure accountability at a senior executive level for that compliance and disclose those policies or a summary of those policies.

Recommendation 5.2 – Companies should provide the information indicated in the Guide to reporting on Principle 5

Policies and procedures for compliance with ASX Listing Rules are included in the Corporate Governance Charter. The Board and Company Secretary are responsible for ensuring that the Company complies with the continuous disclosure requirements in the ASX listing rules and overseeing and co-ordinating information disclosure to the ASX. The Board believes that the Company's practice on disclosure is consistent with the Guidelines.

Principle 6 - Respect the rights of shareholders

Recommendation 6.1 – Companies should design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose their policy or a summary of that policy.

Recommendation 6.2 – Companies should provide the information indicated in the Guide to reporting on Principle 6

The Board and Company Secretary are responsible for the communications strategy with the Company's shareholders.

In line with ASX's continuous disclosure requirements, the Company keeps its shareholders informed through regular reports including the annual reports, half yearly reports, quarterly reports and specific ASX releases covering material developments and other price sensitive information. Shareholders are encouraged to attend and participate at general meetings. The Company's auditors attend the annual general meetings and are available to answer shareholders' questions. The directors believe that the Company's policies comply with the Guidelines in relation to the rights of shareholders.

CORPORATE GOVERNANCE STATEMENT FOR THE YEAR ENDED 30 JUNE 2014 (CONT'D)

Principle 7 - Recognise and manage risks

Recommendation 7.1 – Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies.

Recommendation 7.2 – The Board should require management to design and implement the risk management and internal control system to manage the Company's material business risks and report to it on whether those risk managed effectively. The Board should disclose that management has reported to it as to the effectiveness of the Company's management of its material business risks.

Recommendation 7.3 – Companies should disclose whether it has received assurance from the Chief Executive Officer and Chief Financial Officer that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and that the system is operating effectively in all material respects in relation to financial reporting risks.

Recommendation 7.4 – Companies should provide the information indicated in the Guide to reporting on Principle 7

The issue of risk management is formalised in the Corporate Governance Charter (which directors believe complies with the Guidelines in relation to risk management) and the charter for the Audit and Risk Management Committee is reviewed by the Board annually. The Board and the Audit and Risk Management Committee constantly seek to identify, monitor and mitigate risk.

The Board believes that the current risk management and internal control systems are adequate given the size of the Company and the nature of its activities.

The Board has received a statement from the Chief Executive Officer and Chief Financial Officer that the declaration provided in accordance with section 295A of the Corporations Act 2001 is founded on a sound system of risk management and internal control and that the system is operating efficiently and effectively in all material respects in relation to the financial reporting risks.

The Board believes that the Company complies with the Guidelines in this regard.

Principle 8 - Remunerate fairly and responsibly

Recommendation 8.1 – The Board should establish a remuneration committee

Recommendation 8.2 – The remuneration committee should be structured so that it:

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

Recommendation 8.3 – Companies should clearly distinguish the structure of non-executive directors' remuneration from that of executive directors and senior executives.

Recommendation 8.4 – The Company should provide the information indicated in the Guide to reporting on Principle 8

In light of the size of the Company and composition of the Board, the Board has not established a remuneration committee and therefore the Company does not comply with Recommendation 8.1 and Recommendation 8.2. Any matters pertaining to remuneration issues, should they arise, will be considered by the full Board.

The Board will from time to time review the merits of establishing a separate remuneration committee.

Details of remuneration of directors during the year are disclosed in the Remuneration Report contained in the Directors' Report.

ASX ADDITIONAL INFORMATION

Additional information required by the Australian Securities Exchange Ltd Listing Rules and not disclosed elsewhere in this report is as follows. The information is current as at 30 September 2014.

Use of funds at time of re-instatement to official quotation

The Company used its cash and assets in a form readily convertible to cash that it had at the time of re-instatement to official quotation in a way consistent with its business objectives.

Distribution of Equity Securities

As at 30 September 2014 the Company had a total of 144,378,640 Ordinary Shares on issue and 36,995,984 Options on issue comprising:

Quoted Ordinary Shares

124,928,122 fully paid Ordinary Shares are held by 782 shareholders. All issued ordinary shares carry one vote per share without restriction. Every member at a meeting of shareholders shall have one vote and up on a poll each share shall have one vote.

Unquoted Options on issue

36,995,984 options are held by 324 option holders. All the options are exercisable on or before 31 December 2016 at an exercise price of $A0.50 cents each. There are no voting rights attached to these options.

Escrowed Securities

As at 30 September 2014 the Company had restricted securities as follows:

- 19,450,518 escrowed Ordinary Shares (these shares carry one vote per share without restriction)
- 13,687,083 escrowed options.

The number of shareholders, by size of holding and the total number of shares on issue:

Size of holding	No. of holders	No. of shares
1 – 1,000	102	42,274
1,001 – 5,000	178	512,424
5,001 – 10,000	118	928,526
10,001 – 100,000	235	8,856,843
100,001 and over	160	134,038,573
Total Holders	**793**	**144,378,640**

The number of shareholders holding less than a marketable parcel of quoted ordinary shares is 52 with a combined total of 6,030 securities.

ASX ADDITIONAL INFORMATION (CONT'D)

The number of option-holders, by size of holding and the total number of options on issue:

Size of holding	No. of holders	No. of shares
1 – 1,000	16	9,586
1,001 – 5,000	82	226,313
5,001 – 10,000	35	295,033
10,001 – 100,000	139	5,790,596
100,001 and over	52	30,674,456
Total Holders	**324**	**36,995,984**

Substantial Shareholders

Set out below are the names of the substantial holders and the number of equity securities held by those substantial holders (including those equity securities held by their associates), as disclosed in the substantial shareholding notices given to the Company:

	Name of holder	No. of ordinary shares held	Percentage of issued capital
1.	Douglas Battersby (and associates)	21,662,202	15.00%
2.	Maynard Smith (and associates)	15,454,182	10.70%
3.	Charles Sands (and associates)	9,551,182	6.62%
4.	Cameron Richard Pty Ltd (and associates)	7,452,419	5.28%

ASX ADDITIONAL INFORMATION (CONT'D)

20 Largest Equity Security Holders

	Ordinary shares (including escrowed shares)	Number	Percentage
1.	Veruse Pty Limited	14,155,404	9.80%
2.	Geogeny Pty Limited	9,380,711	6.50%
3.	Mr Charles Sands	7,926,182	5.49%
4.	Cameron Richard Pty Ltd <LPS PL No 5 Exec B/Plan A/C>	7,554,356	5.23%
5.	Merrill Lynch (Australia) Nominees Pty Limited	6,679,510	4.63%
6.	Mr John Sands	5,998,181	4.15%
7.	Mr Douglas Geoffrey Battersby & Ms Alison Rosemary Battersby & Mr Ewan Battersby <Veruse Employees S/Fund A/C>	4,631,798	3.21%
8.	Linwierik Super Pty Ltd <Linton Super Fund A/C>	4,000,000	2.77%
9.	Smithley Super Pty Ltd <Smith Super Fund A/C>	3,575,000	2.48%
10.	Geogeny Pty Limited <M & V Smith Super Fund A/C>	3,373,823	2.34%
11.	Cockleshells Aust Pty Ltd <Cockleshells Super Fund A/C>	2,986,448	2.07%
12.	Citicorp Nominees Pty Limited	2,270,344	1.57%
13.	Allegro Capital Nomonees Pty Ltd <Allegro Capital Account>	1,719,853	1.19%
14.	Tintern (VIC) Pty Ltd <A & P Miller Family A/C>	1,675,535	1.16%
15.	Ms Vicki Smith	1,625,000	1.13%
16.	Mr James T Robson	1,560,958	1.08%
17.	Singular Energy Pty Ltd <Singular Pet Fund A/C>	1,505,616	1.04%
18.	Chatterton Pty Ltd <The Chatterton A/C>	1,425,000	0.99%
19.	Mr Prent Kallenberger & Mrs Molly Kallenberger	1,250,000	0.87%
20.	Discovery Investments Pty Ltd	1,112,635	0.77%
Total ordinary shares held by top 20 Shareholders		**84,406,354**	**58.47%**
Ordinary shares held by other Shareholders		**59,972,286**	**41.53%**
Total issued ordinary shares (including escrowed shares)		**144,378,640**	**100.00%**

ASX ADDITIONAL INFORMATION (CONT'D)

	Options (including escrowed options)	Number	Percentage
1.	Mr Douglas Geoffrey Battersby & Ms Alison Rosemary Battersby & Mr Ewan Battersby <Veruse Employees S/Fund A/C>	3,116,088	8.42%
2.	Veruse Pty limited	2,821,788	7.63%
3.	Mr Maynard Smith & Mrs Vicki Smith <Superannuation Fund A/C>	2,500,000	6.76%
4.	Geogeny Pty Limited	2,476,299	6.69%
5.	Mr Prent Kallenberger & Mrs Molly Kallenberger	2,300,000	6.22%
6.	Mr Charles Sands	1,693,574	4.58%
7.	Mr Nick Filipovic	1,600,000	4.33%
8.	Ms Jane Marina Filipovic	1,250,000	3.38%
9.	Mr Prent Kallenberger	1,000,000	2.70%
10.	Mr John Sands	959,710	2.59%
11.	Rocket Science Pty Ltd <The Trojan Capital Fund A/C>	905,600	2.45%
12.	Allegro Capital Nomonees Pty Ltd <Allegro Capital Account>	754,033	2.04%
13.	Mr William Reifers <WH&PK Reifers Revocable A/C>	700,554	1.89%
14.	Geogeny Pty Limited <M & V Smith Super Fund A/C>	539,812	1.46%
15.	Singular Energy Pty Ltd <Singular Pet Fund A/C>	500,000	1.35%
16.	Mr Francisco Javier Munoz	418,000	1.13%
17.	Cameron Richard Pty Ltd <LPS PL No 5 Exec B/Plan A/C>	400,000	1.08%
18.	Cockleshells Aust Pty Ltd <Cockleshells Super Fund A/C>	366,937	0.99%
19.	McBratney Services Pty Ltd <McBratney Twelfth Ave A/C>	352,000	0.95%
20.	JH Nominees Pty Ltd <Harry Family Super Fund>	351,000	0.95%
Total options held by top 20 option-holders		**25,005,395**	**67.59%**
Options held by other option-holders		**11,990,589**	**32.41%**
Total issued options (including escrowed options)		**36,995,984**	**100.00%**

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