



BYRON ENERGY LIMITED

ABN 88 113 436 141

Half year report for the half-year ended 31 December 2014

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BYRON ENERGY LIMITED ABN 88 113 436 141

Directors' Report

DIRECTORS' REPORT

The directors of Byron Energy Limited ("Byron" or the "Company") submit herewith the financial report of Byron Energy Limited and its subsidiaries ("the consolidated entity" or "Group") for the half-year ended 31 December 2014.

Directors

The following persons were directors of Byron Energy Limited during the half year ended 31 December 2014 and up to the date of this report (in office for the entire period unless otherwise stated):

Douglas G. Battersby

Maynard V. Smith

Prent H. Kallenberger

Charles J. Sands

Paul A. Young

William R. Sack (appointed 3rd October 2014)

Principal activities

The principal activities of the consolidated entity during the half year ended 31 December 2014 were the exploration, development and leasing of oil and gas properties in the shallow waters of the Gulf of Mexico ("GOM"), USA.

Operating Result

The loss for the consolidated entity after income tax for the half-year ended 31 December 2014 was US\$1,425,592 (31 December 2013: US\$4,948,556 loss).

The loss for the consolidated entity after income tax for the previous financial half-year ended 31 December 2013 of US\$4,948,556 was mainly due to the impairment of exploration and evaluation assets of \$US3,843,533..

Financial Position

At 31 December 2014, the consolidated entity had total assets of US\$29,127,850 and total liabilities of US\$2,877,863 resulting in net assets of US\$26,249,987 (June 30 2014: US\$21,992,680). The increase in net assets was primarily due to the drilling of the SM 6 #1 BP02 bypass well in July 2014.

At 31 December 2014, the consolidated entity held cash and cash equivalents of US\$2,150,050. The Group had available finance facilities provided by four of the Company's directors and several other shareholders at balance date of \$A1,400,000 and US\$1,225,000, of which, A\$700,000 and US\$612,500 had been drawn down as at 31 December 2014 (\$nil finance facilities as at 31 December 2013).

Review of Operations

The Group's key operational activities for the half-year ended 31 December 2014 comprised:

1. The Byron Energy SM 6 #1 ("SM 6 #1") spudded on Saturday, 24 May 2014 (USA Central Time). Two bypass wells, SM 6 #1 BP01 and SM 6 #1 BP02, were drilled in June and July 2014 from the original wellbore to overcome mechanical problems. As a result of the net pay intersected in the F Sands by the second bypass well, the SM 6 #1 BP02, Byron left the well in a condition that allows completion in the F 30 and F 40 Sands in the future. 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

During the December 2014 quarter, Byron progressed drilling plans for SM 6 #2 well, a follow up well to SM 6 #1 BP02 drilled during May-July 2014. It is the Company's current intention to return to SMI 6 and drill a second well into the G, H and I sands utilising the existing caisson that was driven for the SM 6 #1 well, subject to funding;

2. Work commenced on project planning for permitting and drilling of the first well on SM 70/71 prospect;

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Directors' Report

Review of Operations (continued)

3. As reported in the September and December 2014 ASX quarterly activity reports, Byron Energy Inc ("BEI"), a wholly owned subsidiary of Byron Energy Limited and operator of the SM 6 block, initiated legal proceedings in the USA federal courts against two contractors involved in the drilling of the SM6 wells, disputing certain amounts sought by the contractors and seeking damages from them. During the December 2014 quarter, the contractors responded to BEI's claims and lodged counter claims for disputed costs. In response, BEI disputed the amounts claimed and continued to pursue its claims. In February 2015, BEI and one of the contractors involved in the dispute and related litigation reached an out-of-court settlement. See "Notes to the Condensed Consolidated Financial Statements – Notes 1, 8 and 11 for additional and subsequent balance date event information;
4. The Anisotropic Reverse Time Migration ("ARTM") reprocessing on 3D data already licensed by the Company over Eugene Island 63/76 Salt Dome Project was completed during the September 2014 quarter with final ARTM becoming available in October 2014. The South Marsh Island 70/71 Salt Dome Project was subjected to 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 full wave inversion was completed during the September quarter and analysis of this data has confirmed the hydrocarbon prospectivity in both J sand and D5 target sands.

Issued capital

During the half year ended 31 December 2014, the Company issued 10,648,941 fully paid ordinary shares raising a total of US\$5,543,938 (A\$6,240,647) by way of:

- (a) a July 2014 placement of 2,876,923 ordinary shares at an issue price of \$A0.65 per share raising a total of US\$1,756,117 (A\$1,870,000).
- (b) a December 2014 placement of 4,541,095 ordinary shares at an issue price of \$A0.50 per share raising a total of US\$1,841,868 (A\$2,270,547).
- (c) Following approvals at an EGM held in September 2014:
 - (i) a placement of 154,000 ordinary shares to a related party at an issue price of \$A0.65 per share raising a total of US\$92,753 (A\$100,100); and
 - (ii) issue of 3,076,923 ordinary shares at an issue price of \$A0.65 per share to a related party, converting a US\$1,853,200 (A\$2,000,000) loan to equity.

During the half year ended 31 December 2014 the Company did not receive any applications or consideration for the conversion of options.

The Company's issued capital as at 31 December 2014 comprised:-

	Issued	Quoted	Unquoted	Escrowed*
Shares (ASX:BYE)	148,919,735	129,469,217	19,450,518	19,450,518
Options	38,695,984	Nil	38,695,984**	13,687,083

* escrowed from official quotation until 30 May 2015.

**includes escrowed options of 13,687,083.

Dividend

No dividends in respect of the current half year ended 31 December 2014 have been paid, declared or recommended for payment.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporation Act 2001*, is set out on page 5.

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Directors' Report

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

On behalf of the directors



D. G. Battersby
Chairman

6th March 2015

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

6 March 2015

Dear Board Members

Byron Energy Limited

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


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

Yours sincerely

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU


Craig Bryant
Partner
Chartered Accountants

**CONDENSED CONSOLIDATED STATEMENT OF PROFIT AND LOSS AND OTHER
 COMPREHENSIVE INCOME FOR THE HALF-YEAR ENDED 31 DECEMBER 2014**

Consolidated

	Note	31 December 2014 US\$	31 December 2013 US\$
Corporate and administration costs		(875,676)	(755,836)
Share based payments		(271,219)	-
Impairment expense		-	(3,843,533)
Depreciation / amortisation of property, plant & equipment		(9,947)	(10,145)
Other expenses		(285,053)	(364,708)
Earnings before interest and tax (EBIT)		(1,441,895)	(4,974,222)
Financial income		84,710	25,666
Financial expense		(68,407)	-
Loss before tax		(1,425,592)	(4,948,556)
Income tax expense		-	-
Loss for the half-year attributable to owners of parent		(1,425,592)	(4,948,556)
Other comprehensive income, net of income tax			
<i>Items that may subsequently be reclassified to profit and loss</i>			
Exchange differences on translating the parent entity group		23,686	(67,432)
Total comprehensive loss for the half-year attributable to owners of parent		(1,401,906)	(5,015,988)
Earnings per share			
Basic earnings / (loss) cents per share		(1.00)	(3.86)
Diluted earnings / (loss) cents per share		(1.00)	(3.86)

The accompanying notes form part of these condensed financial statements.

BYRON ENERGY LIMITED
ABN 88 113 436 141

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT
31 DECEMBER 2014**

		Consolidated	
	Note	31 December 2014	30 June 2014
		US\$	US\$
Assets			
Current assets			
Cash and cash equivalents		2,150,050	7,232,585
Trade and other receivables		32,456	14,388
Other		328,541	341,212
Total current assets		2,511,047	7,588,185
Non-current assets			
Other		3,610	8,191
Exploration and evaluation assets	2	26,532,397	20,500,370
Property, plant and equipment		65,859	70,206
Other intangible assets		14,937	2,708
Total non-current assets		26,616,803	20,581,475
Total assets		29,127,850	28,169,660
Liabilities			
Current liabilities			
Trade and other payables		1,524,767	5,071,267
Borrowings	4	1,186,640	942,000
Provisions		120,973	123,623
Total current liabilities		2,832,380	6,136,890
Non-current liabilities			
Provisions		45,483	40,090
Total non-current liabilities		45,483	40,090
Total liabilities		2,877,863	6,176,980
Net assets		26,249,987	21,992,680
Equity			
Issued capital	3	61,512,862	56,124,868
Foreign currency translation reserve		(122,411)	(146,097)
Share option reserve		2,375,327	2,104,108
Accumulated losses		(37,515,791)	(36,090,199)
Total equity		26,249,987	21,992,680

The accompanying notes form part of these condensed financial statements.

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE
HALF-YEAR ENDED 31 DECEMBER 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 2013	49,970,304	2,104,108	(150,974)	(28,785,112)	23,138,326
Loss for the half year	-	-	-	(4,948,556)	(4,948,556)
Exchange differences arising on translation of the parent entity	-	-	(67,432)	-	(67,432)
Total comprehensive loss for the half year	-	-	(67,432)	(4,948,556)	(5,015,988)
The issue of 155,160 shares upon the conversion of 155,160 A\$0.50 options	72,856	-	-	-	72,856
Balance at 31 December 2013	50,043,160	2,104,108	(218,406)	(33,733,668)	18,195,194
Balance at 1 July 2014	56,124,868	2,104,108	(146,097)	(36,090,199)	21,992,680
Loss for the half year	-	-	-	(1,425,592)	(1,425,592)
Exchange differences arising on translation of the parent entity	-	-	23,686	-	23,686
Total comprehensive loss for the half year	-	-	23,686	(1,425,592)	(1,401,906)
The issue of 2,876,923 shares under a placement at \$A0.65 per share	1,756,117	-	-	-	1,756,117
The issue of 154,000 shares under a placement approved by an EGM at \$A0.65 per share	92,753	-	-	-	92,753
The issue of 4,541,095 shares under a placement at \$A0.50 per share	1,841,868	-	-	-	1,841,868
Equity raising costs	(155,944)	-	-	-	(155,944)
The issue of 3,076,923 shares upon the conversion of loans approved by an EGM at \$A0.65 per share	1,853,200	-	-	-	1,853,200
Recognition of share-based payments following AGM approval for the issue of 1,700,000 options to an executive director	-	271,219	-	-	271,219
Balance at 31 December 2014	61,512,862	2,375,327	(122,411)	(37,515,791)	26,249,987

The accompanying notes form part of these condensed financial statements.

BYRON ENERGY LIMITED
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**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE
HALF-YEAR ENDED 31 DECEMBER 2014**

		Consolidated	
	Note	31 December 2014 US\$	31 December 2013 US\$
Cash flows from operating activities			
Payments to suppliers and employees		(1,022,831)	(1,042,904)
Interest paid		(27,894)	-
Interest received		6,480	25,666
Net cash flows used in operating activities		(1,044,245)	(1,017,238)
Cash flows from investing activities			
Payments for exploration and evaluation		(9,576,551)	(2,070,882)
Payments for property, plant and equipment		(21,223)	(24,137)
Net cash flows generated used in investing activities		(9,597,774)	(2,095,019)
Cash flows from financing activities			
Proceeds from issues of ordinary shares		5,543,938	-
Payment of equity raising and transaction costs		(149,146)	-
Proceeds from borrowings from related parties		2,197,350	-
Repayment of borrowings to related parties		(1,853,200)	-
Proceeds from issue of ordinary shares upon the conversion of share options		-	72,856
Net cash flows from financing activities		5,738,942	72,856
Net increase/(decrease) in cash and cash equivalents held		(4,903,077)	(3,039,401)
Cash and cash equivalents at the beginning of the period		7,232,585	14,989,226
Effect of exchange rate changes on the balance of cash held in foreign currencies		(179,458)	(65,349)
Cash and cash equivalents at the end of the period		2,150,050	11,884,476

The accompanying notes form part of these condensed financial statements.

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR
THE HALF-YEAR ENDED 31 DECEMBER 2014**

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BYRON ENERGY LIMITED

ABN 88 113 436 141

1. Significant accounting policies

Statement of compliance

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

Basis of preparation

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

The accounting policies and methods of computation adopted in the preparation of the half-year financial report are consistent with those adopted and disclosed in the company's 2014 annual financial report for the financial year ended 30 June 2014, except for the impact of the Standards and Interpretations described below. These accounting policies are consistent with Australian Accounting Standards and with International Financial Reporting Standards.

Adoption of new and revised Accounting Standards

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

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

Standard/Interpretation

1. AASB 1031 'Materiality' (2013)
2. AASB 2012-3 'Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities'
3. AASB 2013-3 'Amendments to AASB 136 – Recoverable Amount Disclosures for Non-Financial Assets'
4. AASB 2013-9 'Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments'
5. AASB 2014-1 'Amendments to Australian Accounting Standards'
- Part A: 'Annual Improvements 2010–2012 and 2011–2013 Cycles'

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

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 2, Exploration and evaluation assets and 8. Legal matters, contingent liabilities and contingent assets.

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 six months ended 31 December 2014, the consolidated entity incurred a loss after tax of US\$ 1.4 million (2013: US\$ 4.9 million), had negative net cash flows from operating activities of US\$ 1.0 million (2013: 1.0 million). At 31 December 2014, the consolidated entity had net current liabilities of US\$ 0.3 million notwithstanding net assets of US\$ 26.2 million.

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.

During the half year ended 31 December 2014 Byron Energy Inc ("BEI"), a wholly owned subsidiary of Byron Energy Limited and operator of the SM 6 block, initiated legal proceedings against the two contractors who provided services in relation to the drilling of the SM6 #1 well and related bypass wells and withheld payment of amounts claimed by the two contractors of approximately US\$4.6 million. Subsequently the two contractors responded to BEI's claims and lodged counter claims.

Subsequent to 31 December 2014 half year end BEI settled all disputed amounts with one of the contractors and the agreed sum payable is included within the balance of current liabilities in the Condensed Consolidated Statement of Financial Position as at 31 December 2014.

Legal proceedings are ongoing with the second contractor. BEI disputes the amounts claimed by this contractor and will vigorously pursue its claims in the US courts. BEI's claim for damages is still to be finalised, but is expected to exceed the amount of US\$1.6 million in disputed costs claimed by the contractor. At this time, it is unknown when these matters will be resolved because they are subject to this ongoing litigation process and therefore beyond the Company's control.

During and since the end of the half year ended 31 December 2014, 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 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 approved:-
 - the conversion of \$A2.0 million convertible loan from three directors to equity at A\$0.65 per share, completed on 9 September 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, completed on 9 September 2014; and
- at the general meeting of shareholders on 25 November 2014, where the shareholders approved:-
 - the ability to issue, under Listing Rule 7.1, up to 20,000,000 fully paid ordinary shares within 3 months of the date of approval, without using up any of the 15% capacity;
 - approval of an additional 10% placement capacity under Listing Rule 7.1A, (in addition to the Company's 15% annual placement capacity under ASX listing rule 7.1);
- completed a share placement on 24 December 2014 for the issue of 4,541,095 fully paid ordinary shares at an issue price of \$A0.50 per share raising a total of A\$ 2,270,548.

1. Summary of significant accounting policies (continued)

Going Concern (continued)

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 consolidated entity to continue as a going concern for the coming year is dependent on the Company's ability to raise additional funding by July 2015 with a minimum raising over the next 12 months of approximately US\$2.0 million. Raising of these funds could be achieved by one or a combination of the following:-

- (a) additional equity capital;
- (b) additional debt funding; and
- (c) either full or partial sale of the consolidated entity's oil and gas leases if required.

The minimum raising of approximately US\$2.0 million is dependent on:-

- the successful resolution of the current legal proceedings in relation to the disputed amounts with a certain supplier involved with the drilling of the SMI 6 wells; and
- the successful refinance or extension of the current loan facility of \$US1.2 million and \$A1.4 million that expires on 1 July 2015, of which US\$0.6 million and A\$0.7 million has been drawn down as at 31 December 2014 and the balance is forecast to be drawdown before expiry.

On the basis that the consolidated entity achieves successful outcomes in relation to the above matters, cash flow forecasts prepared by management assuming minimum cash burn to maintain its assets and manage corporate overheads, demonstrate that the consolidated entity has sufficient funds to meet its commitments over the next twelve months, and for that reason the financial statements have been prepared on the basis that the consolidated entity is a going concern.

In the event that the consolidated entity is unsuccessful in the matters set out above, there is material uncertainty whether the consolidated entity will continue as a going concern and therefore whether it will realise its assets and discharge its 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 consolidated entity not continue as a going concern.

Consolidated
31 December 2014 **30 June 2014**
US\$ **US\$**

2. Exploration and evaluation assets

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

26,532,397 20,500,370

Reconciliation of movements:-

Carry amount at the beginning of the period

20,500,370 8,097,970

Additions at cost

6,032,027 17,510,685

Impairment expense

- (5,108,285)

Carrying amount at the end of the financial half- year

26,532,397 20,500,370

In accordance with the Company's accounting policies, the Company performs its impairment testing bi-annually. Notwithstanding the significant decline in the oil prices during the half year ended 31 December 2014, the Group's assessment was that no impairment to the Exploration and evaluation assets is required as at 31 December 2014.

3. Issued capital

(a) Movement for period	31 December 2014		30 June 2014	
	Number	US\$	Number	US\$
Fully paid ordinary shares	148,919,735	61,512,862	138,270,794	56,124,868

Movements in ordinary share capital for the period:-

Balance as at 1 July 2014	138,270,794	56,124,868
The issue of 2,876,923 shares under a placement at \$A0.65 per share	2,876,923	1,756,117
The issue of 154,000 shares under a placement approved by an EGM at \$A0.65 per share	154,000	92,753
The issue of 4,541,095 shares under a placement at \$A0.50 per share	4,541,095	1,841,868
Equity raising costs	-	(155,944)
The issue of 3,076,923 shares upon the conversion of loans approved by an EGM at \$A0.65 per share	3,076,923	1,853,200
Balance as at 31 December 2014	<u>148,919,735</u>	<u>61,512,862</u>

(b) Terms and conditions of contributed equity

Ordinary shares

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

As at 31 December 2014, the issued capital of the Company comprised 148,919,735 ordinary shares of which 129,469,217 shares are quoted on the ASX and 19,450,518 ordinary shares are escrowed until 30 May 2015.

3. Issued capital (continued)

(c) Share options

Options over ordinary shares

As at 31 December 2014, there were 38,695,984 unissued ordinary shares in respect of which the following options were outstanding:

<u>Expiry date</u>	<u>Number</u>	<u>Securities</u>	<u>Escrow period expiry</u>	<u>Exercise price</u>
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
30 September 2017	1,700,000	Unlisted options	Nil	A\$0.65
Total	38,695,984			

During the half-year ended 31 December 2014, 1,700,000 new options convertible into ordinary fully paid shares at A\$0.65 per share were issued for \$nil consideration. No share options were converted into ordinary fully paid shares during the period.

4. Borrowings and financing facility

During the half-year, the Company entered into an unsecured loan facility, with four of the Company's directors and several other shareholders, comprising \$A 1,400,000 and US\$ 1,225,000 repayable in cash by 1 July 2015 of which A\$ 700,000 and US\$ 612,500 has been drawn down as at 31 December 2014 (\$nil financing facilities 31 December 2013).

5. Financial instruments

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

6. Expenditure commitments

(a). General expenditure commitments

The Group has no general expenditure commitments at the end of the period, except for non cancellable operating lease payments. These obligations are not materially different from those disclosed in the financial statements for the year ended 30 June 2014.

(b). Exploration drilling and seismic expenditure commitments

The Group has no exploration lease commitments at the end of the half-year ended 31 December 2014 as the leasing arrangements of the Gulf of Mexico blocks do not require firm work programme commitments. The Group doesn't have any financial commitments relating to the planned drilling of the next SM6 well, nor are there any ARTM seismic processing commitments as at 31 December 2014.

	Consolidated	
	31 December 2014 US\$	31 December 2013 US\$
Commitments for drilling and seismic expenditure		
Not longer than 1 year	-	2,858,600

7. Foreign currency translation

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

	<u>31 Dec 2014</u> <u>(half year)</u>	<u>30 June 2014</u> <u>(full year)</u>	<u>31 Dec 2013</u> <u>(half year)</u>
Spot rate	0.8202	0.9420	0.8948
Average rate for the period	0.8915	0.9187	0.9225

8. Legal matters, contingent liabilities and contingent assets

(a) During the September 2014 quarter, Byron Energy Inc ("BEI"), a wholly owned subsidiary of Byron Energy Limited and operator of the SM 6 block, initiated legal proceedings against the two contractors who provided services in relation to the drilling of the SM6 well #1 and related bypass wells, and is disputing certain amounts claimed sought by the contractors.

In the December 2014 quarter, the two contractors responded to BEI's claims and lodged counter claims for disputed costs totaling \$US 4.6 million. BEI disputed the amounts claimed and continued to pursue its claims in the US courts during the December 2014 quarter. Subsequent to 31 December 2014 half year end BEI settled all disputed amounts with one of the contractors and the settled sum has been included within current liabilities in the Condensed Consolidated Statement of Financial Position as at 31 December 2014.

Legal proceedings are ongoing with the second contractor. BEI disputes the amounts claimed by this contractor and will vigorously pursue its claims in the US courts. BEI's claim for damages is still to be finalised, but is expected to exceed the amount of US\$1.6 million in disputed costs claimed by the contractor. At this time, it is unknown when these matters will be resolved because they are subject to this ongoing litigation process and therefore beyond the Company's control.

(b) One of the Group's USA subsidiaries, BEI 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, BEI has surety bonds issued through a surety company to secure those obligations for its operated interests. As of 31 December 2014, BEI was contingently liable for its Gulf of Mexico operated block areas and interests of US\$550,000 (31 December 2013: US\$550,000).

(c) Byron Energy (Australia) Pty Ltd has agreed to provide a guarantee of the obligations of BEI (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 BEI's interest in Eugene Island 183/184 and other non operated interests.

9. 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 location of the Group's non-current assets at 31 December 2014 is USA US\$26,592,061 (31 December 2013: US\$6,226,725) and Australia US\$24,742 (31 December 2013: US\$38,541).

10. Related party

The following related party transactions were entered into during the half year ended 31 December 2014:-

- (a) In June 2014, Veruse Pty Ltd ("Veruse"), a company controlled by Mr Douglas Battersby, a director of the Company, entered into a loan agreement with the Company whereby Veruse agreed to lend the Company \$A1,800,000 at a fixed interest rate of 7.5% per annum convertible into equity at either party's option at A\$0.65 per ordinary share, subject to prior approval by shareholders. A\$1,000,000 was advanced to the Company in the previous financial year and an additional A\$800,000 was advanced to the Company in July 2014. Following approval by shareholders at an Extraordinary General Meeting ("EGM") held on 8th September 2014, the A\$1,800,000 loan was converted to equity;
- (b) In June 2014, Geogeny Pty Ltd ("Geogeny"), a company controlled by Mr Maynrd Smith, a director of the Company, entered into a loan agreement with the Company whereby Geogeny agreed to lend the Company \$A100,000 at a fixed interest rate of 7.5% per annum convertible into equity at either party's option at A\$0.65 per ordinary share, subject to prior approval by shareholders. A\$100,000 was advanced to the Company in July 2014. Following approval by shareholders at an EGM held on 8th September 2014, the A\$100,000 loan was converted to equity;
- (c) Mr Charles Sands, a director of the Company, entered into a loan agreement with the Company whereby Mr Sands agreed to lend the Company \$A100,000 at a fixed interest rate of 7.5% per annum convertible into equity at either party's option at A\$0.65 per ordinary share, subject to prior approval by shareholders. A\$100,000 was advanced to the Company in July 2014. Following approval by shareholders at an EGM held on 8th September 2014, the A\$100,000 loan was converted to equity;
- (d) Following approval by shareholders at an EGM held on 8th September 2014, 154,000 fully paid ordinary shares in the Company were issued for cash 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;
- (e) The Company entered into an unsecured loan facility, bearing interest at 10% pa, in July 2014, with four of the Company's directors and several other shareholders, comprising A\$1,400,000 and US\$1,225,000 repayable in cash on 1 July 2015. As at 31 December 2014, the individual directors' transactions and balances under this facility are:-
- Veruse Pty Ltd, a company controlled by Mr Douglas Battersby, provided an unsecured loan facility of \$A1,000,000 to the Company; of which \$A500,000 was drawn down during the half year ended 31 December 2014, and an interest charge of A\$17,378 was accrued to 31 December 2014 on the A\$500,000 loan balance;
 - Geogeny Pty Ltd, a company controlled by Mr Maynard Smith provided an unsecured loan facility of \$A400,000 to the Company of which \$A200,000 was drawn down during the half year ended 31 December 2014, and an interest charge of A\$7,063 was accrued to 31 December 2014 on the A\$200,000 loan balance;
 - Mr Charles Sands provided an unsecured loan facility of \$US\$500,000 to the Company of which US\$250,000 was drawn down during the half year ended 31 December 2014, and an interest charge of US\$7,772 was accrued to 31 December 2014 on the US\$250,000 loan balance;
 - Middle Fork Resources LLC, a company controlled by Mr Prent Kallenberger provided an unsecured loan facility of US\$75,000 to the Company with US\$37,500 drawn down during the half year ended 31 December 2014, and an interest charge of US\$1,313 was accrued to 31 December 2014 on the US\$37,500 loan balance.

10. Related Party (continued)

- (f) On 3 October 2014, Mr William Sack was appointed a director of the Company. At the same time Aurora Exploration, LLC a company controlled by Mr Sack entered into a one-year exploration option agreement ("Exploration Option Agreement") with Byron Energy Inc ("BEI"), a wholly owned subsidiary of the Company. Under the Exploration Option Agreement, BEI has an option to acquire specified exploration projects ("Prospects") from Aurora on the following terms:-

- payment of US\$187,500 upon execution of the Exploration Option Agreement;
- a further payment of up to a maximum of US\$187,500 upon submittal of a bid or lease proposal for the Prospects;
- acquisition of mutually agreed upon 3D seismic licenses to further evaluate the Prospects, at BEI's sole cost; and
- grant by BEI of a 2.5% overriding royalty interest to Aurora for Prospects, if any, acquired by BEI under the Exploration Option Agreement (to be formalized in recordable form if and when Prospects are granted to BEI following its election to pursue them).

- (g) Mr Sack was issued with 1,700,000 options in Byron Energy Limited exercisable at an exercise price of A\$0.65 per share on or after issue at any time on or before 30 September 2017, following approval at the Company's AGM held on 25 November 2014.

11. Events subsequent to balance date

Subsequent to the end of the half year ended 31 December 2014 the following events occurred:

- Byron Energy Inc, a wholly owned subsidiary of the Company settled all disputed amounts with one of the contractors involved in the legal proceedings described in Note 8(a).

DIRECTORS' DECLARATION

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

- a) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable; and
- b) the attached financial statements and notes thereto are in accordance with the Corporations Act 2001, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the consolidated entity.

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

On behalf of the directors



D. G. Battersby
Chairman

6th March 2015

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

We have reviewed the accompanying half-year financial report of Byron Energy Limited, which comprises the condensed consolidated statement of financial position as at 31 December 2014, and the condensed consolidated statement of profit and loss and other comprehensive income, the condensed consolidated statement of cash flows and the condensed consolidated statement of changes in equity for the half-year ended on that date, selected explanatory notes and, the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the end of the half-year as set out on pages 6 to 19.

Directors' Responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2014 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Byron Energy Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Auditor's Independence Declaration

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

Conclusion

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

- (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2014 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Emphasis of matter

Without modifying our conclusion, we draw attention to Note 1 in the financial report, which indicates that the Consolidated Entity incurred a net loss of \$1,425,592 and had negative cash flows from operating activities of \$1,044,245 for the period ended 31 December 2014. These conditions, along with other matters as set forth in Note 1, indicate the existence of a material uncertainty that may cast significant doubt about the Consolidated Entity's ability to continue as a going concern and therefore, the Consolidated Entity may be unable to realise its assets and discharge its liabilities in the normal course of business.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU



Craig Bryan
Partner
Chartered Accountants
Melbourne, 6 March 2015

BYRON ENERGY LIMITED
ABN 88 113 436 141

CORPORATE DIRECTORY

Directors

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

Chief Executive Officer

Maynard Smith

Chief Financial Officer and Company Secretary

Nick Filipovic

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Legal Adviser

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Auditors

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MELBOURNE VIC 3000

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SYDNEY NSW 2000
ASX Code: BYE

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