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BYRON ENERGY LIMITED

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ABN 88 113 436 141

Half year report for the half-year ended 31 December 2016

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ABN 88 113 436 141

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DIRECTORS' REPORT

The directors of Byron Energy Limited ("Byron" or the "Company") submit herewith the financial report of Byron Energy Limited and its subsidiaries ("the consolidated entity" or "Group") for the half-year ended 31 December 2016.

Directors

The following persons were directors of Byron Energy Limited during the half year ended 31 December 2016 and up to the date of this report (in office for the entire period unless otherwise stated):

Douglas G. Battersby

Maynard V. Smith

Prent H. Kallenberger

Charles J. Sands

Paul A. Young

William R. Sack

Principal activities

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

Operating Result

The loss for the consolidated entity after income tax for the half-year ended 31 December 2016 was US$1,848,816 (31 December 2015: US$1,101,266 loss).

The current period's loss for the consolidated entity after income tax was US$747,550 higher than the previous financial half-year ended 31 December 2015 of US$1,101,266, mainly due to higher impairment expenses, increased share based payments and legal costs associated with the SMI 71 Joint Venture with Otto Energy Limited ("Otto"), the Metgasco Limited ("Metgasco") Convertible Note and the Bivouac Peak Participation agreements with Otto and Metgasco.

Financial Position

At 31 December 2016, the consolidated entity had total assets of US$8,832,291 and total liabilities of US$873,558 resulting in net assets of US$7,958,733 (31 December 2015: US$30,509,335). The decrease of US$22,550,602 in net assets is due mainly to the 30 June 2016 impairment charge to the SMI 6 block that was relinquished in August 2016.

At 31 December 2016, the consolidated entity held cash and cash equivalents of US$1,830,089 (31 December 2015: US$2,757,245).

Issued capital

During the half year ended 31 December 2016, the Company issued 42,390,784 fully paid ordinary shares at an issue price of A$0.13 per share, raising a total of US$4,155,829 (A$5,510,802) before equity raising costs.

During the half year ended 31 December 2016, the Company issued, 9,500,000 share options with an exercise amount of A$0.25 and an expiry date of 31 December 2019 to directors, staff and contractors. The Company also issued, 10,000,000 share options with an exercise of $A0.25 and an expiry date of 21 July 2019 to Metgasco as part of a funding agreement, announced on 22 July 2016.

The Company did not receive any applications or consideration for the conversion of options during the period and 36,995,984 share options with an exercise price of A$0.50 expired unexercised on 31 December 2016.

The Company's issued capital as at 31 December 2016 comprised:-

	Issued	Quoted	Unquoted
Shares (ASX:BYE)	277,447,162	277,447,162	-
Options	23,150,000	Nil	23,150,000

Dividend

No dividends in respect of the current half year ended 31 December 2016 have been paid, declared or recommended for payment.

Review of Operations

Corporate

Otto and Metgasco participation in Bivouac Peak

Otto
As announced on 7 July 2016, Otto exercised its right to have an option to earn a 45% working interest in Byron's Bivouac Peak leases by agreeing to pay a disproportionate share of drilling costs of the first well on the leases and reimbursing a portion of Byron's past costs.

Metgasco
As announced on 28 July 2016, Metgasco exercised its right to have an option to earn a 10% working interest in Byron's Bivouac Peak leases by agreeing to pay a disproportionate share of drilling costs of the first well on the leases and reimbursing a portion of Byron's past costs.

Placements

On 11 August 2016, Byron announced an A$5.5 million placement ("Placement").

The Placement consists of 42,390,784 fully paid new ordinary shares to be issued at A$0.13 per share to raise A$5.5 million (before issue costs). The Placement shares comprised:-

- an unconditional placement in August 2016 of 36,916,167 shares that raise approximately A$4.8 million utilising the Company's existing Listing Rule 7.1 and LR 7.1A placement capacities, and

- a conditional placement in December of 5,474,617 shares that raised approximately A$0.7 million comprising subscriptions from Byron directors (and their associates).

The Conditional Placement was approved by shareholders at the Annual General Meeting ("AGM") of Byron's shareholders, held on 24 November 2016.

Metgasco Convertible Note

On 22 July 2016, the Company announced that it had executed a Convertible Note Deed and a General Security Deed with Metgasco under which, inter alia, Metgasco will subscribe for a 3 year Convertible Note to be issued by Byron of up to A$8.0 million.

The Convertible Note is secured by a General Security Deed over Byron's assets, a Negative Pledge from Byron and a registered interest over Byron's share of SM 70/71 leases. The entire A$8.0 million was drawn down on 20 January 2017 and the majority of the funds will be used to finance Byron's 50% share of the SM 71 development.

As part of the funding agreement with Metgasco, Byron agreed to:-
(a) issue 10 million unlisted options to Metgasco with an exercise price of A$0.25c with a three year term,
(b) grant Metgasco a priority right for up to 10% participation in any issuances of ordinary or preferred equity, or options, by the Company during the term of the Convertible Note,
(c) grant Metgasco the right to farm in to Byron's Bivouac Peak prospect for a 10% working interest (out of Byron's 45% working interest with Otto Energy Limited having acquired an option to earn a 45% working interest out of Byron's existing 90% working interest). If Metgasco exercises its option, it will pay 10% of Byron's past costs and 13.33% of the cost of drilling the first well. Should Metgasco exercise its option, Byron and Metgasco will enter into farm-out agreements customary for a transaction of this type, and
(d) grant Metgasco the opportunity to farm into future Byron projects, should Byron decide to farmout a project, during the term of the Convertible Note, subject to Byron's existing obligations to Otto under the Participation Agreement between Byron and Otto, as announced to the ASX on 11 December 2015.

Review of Operations (continued)

The issue of the Convertible Note and the Options to Metgasco under the transaction was approved by Byron shareholders for the purposes of Chapter 7 of the ASX Listing Rules at an EGM held on 12 September 2016.

Issue of new share options
On 22 September 2016, Byron announced the issue of 10 million share options with an exercise of $A0.25 and an expiry date of 21 July 2019 to Metgasco as part of a Convertible Note agreement.

On 1 December 2016, Byron announced the issue of 9.5 million unlisted options to directors, staff and contractors of the Company, exercisable at an exercise price of A$0.25 per share on or after issue at any time on or before 31 December 2019. Shareholders approved the issue of these share options at an AGM held on 24 November 2016.

Exploration and Development

South Marsh Island 70/71 Salt Dome Project
As previously reported in May 2016, the Company operated and drilled the Byron SM 71 #1 well which logged 151 feet of true vertical thickness hydrocarbons in four sands. An independent reserve assessment of the well indicates a total of 2.271 million barrels of oil equivalent net to Byron across all zones on a 2P basis. The primary target, the D5 Sand, exhibits similar high quality reservoir qualities to analogous producing D5 wells on the adjacent blocks and is the focus of the planned future development of SM 71. Byron plans to initially complete the SM 71 #1 well in the D5 Sand with expectations of recording initial flow rates similar to those recorded on SM 72 and SM 73 blocks. After completion of the SM 71 #1 well there is potential to drill up to four additional development wells subject to permitting and funding.

During the half year ended 31 December 2016, Byron was in negotiations with an offset operator to transport produced oil and associated gas from an unmanned platform to a facility 5 miles to the east of SM 71 for final separation and sales into existing sales pipelines.

As announced on 23 January 2017, following extensive engineering due diligence, Byron is instead proposing to proceed with the installation of a fully manned, Byron operated facility rather than a non-operated satellite platform. The due diligence on the unmanned option identified that limitations on oil production from Byron's well and future wells would have been necessary because some facets of the existing infrastructure would limit associated gas production. Additional previously unknown costs were also identified in oil and gas metering and future water handling capacities.

Byron is working with its consulting structural engineers on a redesign of the existing tripod jacket and decks to accommodate a fully manned facility. The Byron operated facility will have the capability of separating oil and gas with subsequent metered production going into existing sales pipelines on the SM 71 block. The tripod will be capable of holding up to 6 wells to provide for future identified development wells in all zones identified by the SM 71 #1 well.

The proposed manned structure will have the capacity to produce 4,500 Bopd and 5.0 Mmcfpd of gas. Access to adjacent oil and gas sales trunk lines is available on SM 71 and those lines will be utilized for oil and gas sales once production commences.

The incremental cost of the manned facility utilising the platform previously acquired by Byron is currently estimated at US$ 3.0 million net to Byron. Significant progress has already been made on the refurbishment of the jacket section of the platform and following completion of engineering design work, construction work on the deck portions will begin.

The manned facility is considered a significantly more attractive economic option than the unmanned option because of the ability to handle higher oil and gas production rates and accelerate the development of the oil discovery as additional wells are drilled. Additionally, Byron will have total control over all aspects of production, safety and environmental aspects and will not rely on any third-party facilities or pipelines other than existing sales trunk pipelines.

Byron's joint venture partner in SM 71, Otto, has indicated its in principle support for the manned facility, subject to receiving Byron's final proposed authority for expenditure and development plan. The final development plan is subject to joint venture approval.

Byron expects to have all necessary permits filed with the BOEM and the BSEE before the end of February 2017 with subsequent approval time ranging up to 120 days. Assuming submission of permits in February and approvals within 120 days, production would be expected to commence in the latter part of December quarter of 2017.

Review of Operations (continued)

South Marsh Island 70/71 Salt Dome Project (continued)

During the half year period, Byron completed an inversion processing project with WesternGeco over SM 71. Prior to drilling the SM 71 #1 well, Byron undertook full waveform inversion processing in 2015. Post drill analysis showed an excellent correlation of hydrocarbon to inversion anomalies. A new suite of logs was acquired in the SM 71 #1 well including critical Shear Wave Sonic data. WesternGeco now has a new inversion processing tool available that uses the full Zoeppritz equations to relate lithology to seismic response and achieve higher resolution. Under Byron's oversight, WesternGeco has processed the seismic data using the new log suite and the new inversion algorithm which is now being interpreted by Byron. This dataset will provide a higher resolution product which will be used to design future wellbores in the development phase and shows promising results defining the D5 Sand extent and delineating future B65 Sand targets.

South Marsh Island Block 6 Salt Dome Project

As announced on 26 August 2016, in light of Byron's significant success at SM 71 and prevailing low oil and gas prices, Byron decided to focus its resources on development of SM 71 and relinquished the SM 6 lease.

Under current BOEM regulations, Byron has until the middle of August 2017 to plug and abandon the two wellbores and remove the temporary caisson that holds the wells. The permits to plug the wellbores are approved, but Byron is waiting on the permit to remove the caisson. Byron, through its wholly owned subsidiary Byron Energy Inc., held a 100% working interest and an 81.25% net revenue interest in SM 6 and is the operator of the block. In December 2015, Byron had farmed out a 50% working interest to Otto. Otto did not earn an interest in the SM 6 lease because earning depth was not achieved in the SM6 #2 wellbore. Consequently, Otto is only responsible for a portion of the plugging liability associated with the SM6 #2 well. Byron is responsible for all other abandonment liabilities on SM 6.

Eugene Island 63/76 Salt Dome Project
No exploration activity was undertaken on EI 63/76 during the half year.

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

Grand Isle 95
Byron elected to not renew the Grand Isle 95 ("GI 95") lease for the fifth and final year of a five year lease term. Consequently, GI 95 was relinquished at the end of September 2016. GI 95 is a dry gas project, and Byron's decision not to renew the lease for the final year of the lease term is due to continuing low gas prices, the Company's focus on development of SM 71 and plans to drill the Bivouac Peak Prospect. The impairment charge was accrued in the year ended 30 June 2016 loss and therefore does not impact the current half year period results.

Bivouac Peak Leases
Bivouac Peak comprises an onshore/marshland lease, acquired from private landowners, over approximately 2,500 contiguous acres (9.7 square kilometres) along the southern Louisiana Gulf Coast inboard of Byron's existing shallow water projects in the Federal Outer Continental Shelf leasing areas.

Byron's Bivouac Peak 90% Working Interest is subject to a promoted farm-in by both Otto and Metgasco.

Otto acquired an option in July 2016 to earn a 45% working interest in Bivouac Peak and Metgasco acquired their option in September 2016, to earn a 10% working interest.

Subsequently, both companies have reimbursed Byron for past costs and currently have an option to earn a working interest, in the Bivouac Peak lease by electing to participate in the initial well and paying their disproportionate share of drilling costs and drilling to a specified earning depth. If both companies elect to participate, and upon earning, Byron's working and net revenue interest would be reduced proportionately.

During the December 2016 quarter, Byron initiated survey and planning work related to the permitting process for the first Bivouac Peak well.

Properties

As at 31 December 2016, Byron's portfolio of properties, all in the shallow waters of the Gulf of Mexico, and coastal marshlands of Louisiana, USA comprised:-

Properties	Operator	Interest WI/NRI (%)*	Lease Expiry Date	Lease Area (Km^2)
South Marsh Island				
Block 6**	Byron	100.00/81.25	Relinquished	20.23
Block 70##	Byron	50.00/40.625	July 2017	22.13
Block 71##	Byron	50.00/40.625	July 2017	12.16
Eugene Island				
Block 18	Byron	100.00/78.75	April 2020	2.18
Block 63	Byron	100.00/81.25	May 2018	20.23
Block 76	Byron	100.00/81.25	May 2018	20.23
Transition Zone (coastal marshlands Louisiana)				
Bivouac Peak Leases##	Byron	90.00/67.05	September 2018	9.70

** Working Interest ("WI") and Net Revenue Interest ("NRI").The WI and NRI percentages in respect to SM 70 and SM 71 are post the Otto Energy Limited ("Otto") earn-in. The WI and NRI for and Bivouac Peak are before Otto and Metgasco Limited ("Metgasco") earn any WI and NRI.*

*** On 26 August 2016, Byron announced that after an extensive study of various development scenarios, it had decided to relinquish the lease and the Bureau of Ocean Energy Management accepted Byron's voluntary relinquishment of the SM 6 lease. Because the SM 6 #2 well failed to reach the base of the G 20 Sand Byron's partner, Otto, did not earn an interest in the SM 6 lease. Consequently, Otto is only responsible for a portion of the plugging liability associated with the SM6 #2 well. Byron is responsible for all other abandonment liabilities on SM 6. Under current BOEM regulations, Byron has until mid -August 2017 to plug and abandon the two wellbores and remove the temporary caisson that holds the wells.*

Otto has earned a 50% working interest in Byron's SM 70/71 leases. Consequently, Byron's interest in these leases has reduced to 50%/40.625% respectively. Both Otto and Metgasco have acquired an option to earn a 45% and 10% working interest respectively in Byron's Bivouac Peak leases. If both Otto and Metgasco earn into the Bivouac Peak project, Byron's working interest and net revenue interest will reduced to 35% and 26.075% respectively.

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 8.

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

On behalf of the Directors

D. G. Battersby
Chairman

10 March 2017

Deloitte.

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

10 March 2017

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 2016, 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

Alison Brown

Alison Brown
Partner
Chartered Accountants

BYRON ENERGY LIMITED
ABN 88 113 436 141

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE HALF-YEAR ENDED 31 DECEMBER 2016

	Consolidated	
	31 December 2016 US$	**31 December 2015 US$**
Corporate and administration costs	(724,690)	(687,090)
Share based payments	(350,474)	(20,193)
Impairment expense	(53,498)	-
Depreciation / amortisation of property, plant & equipment	(8,091)	(9,417)
Other expenses	(703,432)	(357,700)
Earnings before interest and tax (EBIT)	**(1,840,185)**	**(1,074,400)**
Financial income	10,923	30,272
Financial expense	(19,554)	(57,138)
Loss before tax	**(1,848,816)**	**(1,101,266)**
Income tax expense	-	-
Loss for the half-year attributable to owners of parent	**(1,848,816)**	**(1,101,266)**
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	(5,266)	(37,133)
Total comprehensive loss for the half-year attributable to owners of parent	**(1,854,082)**	**(1,138,399)**
Earnings per share		
Basic earnings / (loss) cents per share	(0.71)	(0.57)
Diluted earnings / (loss) cents per share	(0.71)	(0.57)

The accompanying notes form part of these condensed financial statements.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2016

	Note	Consolidated 31 December 2016 US$	30 June 2016 US$
Assets			
Current assets			
Cash and cash equivalents		1,830,089	883,398
Trade and other receivables		32,442	26,997
Other financial assets		168,373	-
Other		619,533	816,392
Total current assets		**2,650,437**	**1,726,787**
Non-current assets			
Other		475,000	475,325
Other financial assets		277,032	-
Exploration and evaluation assets	2	5,384,143	4,834,429
Property, plant and equipment		41,356	47,181
Other intangible assets		4,323	6,940
Total non-current assets		**6,181,854**	**5,363,875**
Total assets		**8,832,291**	**7,090,662**
Liabilities			
Current liabilities			
Trade and other payables		233,940	1,327,912
Provisions		522,462	524,914
Total current liabilities		**756,402**	**1.852,826**
Non-current liabilities			
Provisions		117,156	115,950
Total non-current liabilities		**117,156**	**115,950**
Total liabilities		**873,558**	**1,968,776**
Net assets		**7,958,733**	**5,121,886**
Equity			
Issued capital	3	77,993,786	74,040,848
Foreign currency translation reserve		(149,033)	(143,767)
Share option reserve		3,236,093	2,498,102
Accumulated losses		(73,122,113)	(71,273,297)
Total equity		**7,958,733**	**5,121,886**

The accompanying notes form part of these condensed financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE HALF-YEAR ENDED 31 DECEMBER 2016

Consolidated entity	Ordinary share capital US$	Share option reserve US$	Foreign currency translation reserve US$	Accumulated losses US$	Total US$
Balance at 1 July 2015	**69,598,257**	**2,359,051**	**(171,376)**	**(40,329,054)**	**31,456,878**
Loss for the half year	-	-	-	(1,101,266)	(1,101,266)
Exchange differences arising on translation of the parent entity	-	-	(37,133)	-	(37,133)
Total comprehensive loss for the half year	-	-	(37,133)	(1,101,266)	(1,138,399)
The issue of 900,000 shares under a placement at A$0.25 per share	170,663	-	-	-	170,663
Recognition of share-based payments	-	20,193	-	-	20,193
Balance at 31 December 2015	**69,768,920**	**2,379,244**	**(208,509)**	**(41,430,320)**	**30,509,335**
Balance at 1 July 2016	**74,040,848**	**2,498,102**	**(143,767)**	**(71,273,297)**	**5,121,886**
Loss for the half year	-	-	-	(1,848,816)	(1,848,816)
Exchange differences arising on translation of the parent entity	-	-	(5,266)	-	(5,266)
Total comprehensive loss for the half year	-	-	(5,266)	(1,848,816)	(1,854,082)
The issue of 36,916,167 shares under a placement at A$0.13 per share	3,628,601	-	-	-	3,628,601
The issue of 5,474,617 shares under a placement at A$0.13 per share	527,228	-	-	-	527,228
Recognition of share-based payments	-	737,991	-	-	737,991
Equity raising costs	(202,891)	-	-	-	(202,891)
Balance at 31 December 2016	**77,993,786**	**3,236,093**	**(149,033)**	**(73,122,113)**	**7,958,733**

The accompanying notes form part of these condensed financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE HALF-YEAR ENDED 31 DECEMBER 2016

	Consolidated	
	31 December 2016 US$	31 December 2015 US$
Cash flows from operating activities		
Payments to suppliers and employees	(1,372,529)	(1,351,161)
Interest paid	(19,527)	(56,455)
Interest received	738	4,092
Net cash flows used in operating activities	**(1,391,318)**	**(1,403,524)**
Cash flows from investing activities		
Payments for exploration and evaluation	(1,613,772)	(1,908,190)
Payments for property, plant and equipment	-	(4,201)
Net cash flows generated used in investing activities	**(1,613,772)**	**(1,912,391)**
Cash flows from financing activities		
Proceeds from issues of ordinary shares	4,155,828	170,663
Payment of equity raising and transaction costs	(202,891)	(28,090)
Net cash flows from financing activities	**3,952,937**	**142,573**
Net increase/(decrease) in cash and cash equivalents held	**947,847**	**(3,173,342)**
Cash and cash equivalents at the beginning of the period	**883,398**	**5,970,070**
Effect of exchange rate changes on the balance of cash held in foreign currencies	(1,156)	(39,483)
Cash and cash equivalents at the end of the period	**1,830,089**	**2,757,245**

The accompanying notes form part of these condensed financial statements.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2016

Note **Contents**

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 2016 annual financial report for the financial year ended 30 June 2016, 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 2015-1 Amendments to Australian Accounting Standards - Annual Improvements to Australian Accounting Standards 2012-2014 Cycle
2. AASB 2015-2 Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101
3. AASB 2014-4 Amendments to Australian Accounting Standards - Clarification of Acceptable Methods of Depreciation and Amortisation
4. AAASB 2014-3 Amendments to Australian Accounting Standards – Accounting for Acquisitions of Interests in Joint Operations

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 Note 2, Exploration and evaluation assets.

1. Summary of significant accounting policies (continued)

Going Concern

The financial statements have been prepared on the going concern basis, 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 2016, the consolidated entity incurred a loss after tax of US$ 1.8m (2015: US$ 1.1m), had negative net cash flows from operating activities of US$ 1.4m (2015: US$ 1.4m) and negative net cash flows from investing activities of US$ 1.6m (2015: US$ 1.9m). As at 31 December 2016, the consolidated entity had net current assets of US$ 1.9 million and net assets of US$ 8.0 million including US$ 5.4 million of exploration and evaluation assets and no production income.

Notwithstanding the above, the Directors consider that they have a reasonable basis to prepare the financial statements on the going concern basis having regard to the following:

- On 20 January 2017, Metgasco subscribed for the full A$ 8.0 million Convertible Note; and
- The consolidated entity plans to develop its SM 71 oil discovery in 2017 and aims to commence production in December 2017, subject to obtaining the necessary permits.

The consolidated entity has prepared a cash flow forecast which indicates that it will not have sufficient cash inflows to meet its ongoing planned expenditures through to 31 March 2018. 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; or

(iii) 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.

On the basis that the consolidated entity is able to achieve one or more of the factors listed above, the cash flow forecast prepared by management demonstrates that the consolidated entity will have 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 2016 US$	Consolidated 30 June 2016 US$
2. Exploration and evaluation assets		
Costs carried forward in respect of areas in the exploration and/or evaluation phase at cost	5,384,143	4,834,429
Reconciliation of movements:-		
Carry amount at the beginning of the period	4,834,429	27,407,054
Additions at cost	603,212	6,026,644
Impairment expense	(53,498)	(28,599,269)
Carrying amount at the end of the financial half-year	5,384,143	4,834,429

In accordance with the Company's accounting policies, the Company performs its impairment testing bi-annually. Notwithstanding the continuing low oil prices during the half year ended 31 December 2016, the Company's assessment was that no impairment to the Exploration and evaluation assets is required as at 31 December 2016.

3. Issued capital

(a) Movement for period	31 December 2016 Number	31 December 2016 US$	30 June 2016 Number	30 June 2016 US$
Fully paid ordinary shares	277,447,162	77,993,786	235,056,378	74,040,848

Movements in ordinary share capital for the period:-

	Number	US$
Balance as at 1 July 2016	235,056,378	74,040,848
The issue of 36,916,167 shares under a placement at A$0.13 per share	36,916,167	3,628,601
The issue of 5,474,617 shares under a placement at A$0.13 per share	5,474,617	527,228
Equity raising costs		(202,891)
Balance as at 31 December 2016	277,447,162	77,993,786

(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 2016, the issued capital of the Company comprised 277,447,162 ordinary shares and all shares are quoted on the ASX.

3. Issued capital (continued)

(c) Share options

Options over ordinary shares

As at 31 December 2016, there were 23,150,000 unissued ordinary shares in respect of which the following options were outstanding:

Expiry date	Number	Securities	Exercise price
31 December 2019	9,500,000	Unlisted options	A$0.25
21 July 2019	10,000,000	Unlisted options	A$0.25
30 September 2018	1,950,000	Unlisted options	A$0.25
30 September 2017	1,700,000	Unlisted options	A$0.65
Total	23,150,000		

During the half-year ended 31 December 2016, 19,500,000 share options were issued with an exercise amount of A$0.25 with 10,000,000 options expiring on 21 July 2019 and 9,500,000 options expiring on 31 December 2019. No share options were converted into ordinary fully paid shares during the period and 36,995,984 share options with an exercise price of A$0.50 expired on 31 December 2016.

4. Borrowings and financing facility

On 22 July 2016, Byron and Metgasco Limited (ASX:MEL) announced they had entered into a 3-year agreement to issue up to A$ 8 million in Convertible Notes ("Convertible Note"), repayable over the course of the agreement. The relevant financing terms of the agreement are listed below and a full list of the terms can be found in the Company's ASX release dated 22 July 2016.

i. Security: the Convertible Note will be secured by a General Deed of Security and Priority (over Byron's assets), a Negative Pledge from Byron and a registered interest over Byron's share of SM 70/71 leases;
ii. Use of Funds: Development of production assets at SM70/71, associated purposes and general working capital;
iii. Drawdown: Facility to be drawn down within six months of establishment (undrawn funds at six months are deducted from the available facility limit);
iv. Interest only for first twelve months from establishment on drawn funds then amortising in eight equal instalments over balance of term;
v. Facility Fee: 2.5% of Face Value (A$ $200,000), payable on first drawdown under the Facility;
vi. Line Fee: 2% , payable quarterly in advance, for the first six months of the facility on the Face Value and then, thereafter, on the drawn (outstanding) balance under the Convertible Note;
vii. Coupon: on drawn funds at 12% pa, payable quarterly in arrears;
viii. Conversion: convertible at Metgasco's election after eighteen months from initial drawdown with one week's notice at a 10% discount to the then prevailing 30 day volume weighted average price ("VWAP") of Byron;
ix. Repayment: Repayable early by Byron with one month's notice (a) at any time after 90 days from initial drawdown until expiry of 18 months from initial drawdown at 115% of principal outstanding (along with any accrued interest and line fee), and (b) at any time after 18 months from initial drawdown at 105% of principal outstanding (along with any accrued interest and line fee);

Subsequent to the end of the half year, Metgasco subscribed for the full A$ 8.0 million in Convertible Notes. The Convertible Notes will be repayable over the remainder of the term of the agreement (that is, by 21 July 2019).

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 2016.

(b). Production facilities commitment

The Group has no exploration lease commitments at the end of the half-year ended 31 December 2016 as the leasing arrangements of the Gulf of Mexico blocks do not require firm work programme commitments. The Group does have a financial commitment as at balance date for part of the production facilities expenditure for the SM 71 development as detailed below.

	Consolidated	
	31 December 2016 US$	**31 December 2015 US$**
Commitment for production facilities expenditure		
Not longer than 1 year	1,143,091	-

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:-

	31 Dec 2016 (half year)	30 June 2016 (full year)	31 Dec 2015 (half year)
Spot rate	0.7236	0.7426	0.7306
Average rate for the period	0.7546	0.7283	0.7232

8. Contingent liabilities

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

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.

10. Related party

The following related party transactions were continued or entered into during the half year ended 31 December 2016:-

(a) During the period, the Company entered into unsecured loans, bearing interest at 10% per annum, with two of the Company's directors, for a total drawdown of A$750,000. The loans were repaid in cash on 1st December 2016. The individual directors' transactions and balances under these loans were:-

- Veruse Pty Ltd, a company controlled by Mr Douglas Battersby, provided an unsecured loan of A$650,000 to the Company; and interest charges of A$22,616 were paid in the half year to 31 December 2016; and

- Clapsy Pty Ltd, a company controlled by Mr Paul Young, provided an unsecured loan of A$100,000 to the Company; and interest charges of A$3,260 were paid in the half year to 31 December 2016.

(b) Following approval by shareholders at the Company's Annual General Meeting held on 24 November 2016, the following fully paid ordinary shares in the Company were issued for cash at an issue price of A$0.13 per share:-

- 2,000,000 fully paid ordinary shares in the Company issued to Mr Douglas Battersby and/or his associates, a director of the Company; and
- 3,474,617 fully paid ordinary shares in the Company issued to Mr Paul Young and/or his associates, a director of the Company.

(c) Following approval by shareholders at the Company's Annual General Meeting held on 24 November 2016. The following directors and key management personnel were issued with share options in Byron Energy Limited, exercisable at an exercise price of A$0.25 per share on or after issue at any time on or before 31 December 2019:-

- Mr Maynard Smith, a director of the Company, was issued with 2,500,00 share options;

- Mr Prent Kallenberger, a director of the Company, and his associates were issued with 2,500,00 share options;

- Mr William (Bill) Sack, a director of the Company, was issued with 2,500,00 share options; and

- Mr Nick Filipovic, the Company Secretary and CFO, was issued with 1,000,000 share options.

11. Events subsequent to balance date

Subsequent to the end of the half year ended 31 December 2016, the following events occurred:

(1). On 20 January 2017, Metgasco subscribed for the full $A8.0 million Convertible Note.

(2). On 23 January 2017, Byron announced that the SM 71 project development is now planned to utilise a manned Byron operated platform, rather than an outside operated unmanned facility, which will provide operational control and allow higher production rates upon commencement of production. The proposed manned structure will have the capacity to produce 4,500 barrels of oil per day and 5.0 Mmcf gas per day. Access to adjacent oil and gas sales trunk lines is available on SM 71 and those lines will be utilized for oil and gas sales once production commences.

The incremental cost of the manned facility utilising the platform previously acquired by Byron is currently estimated at US$ 3.0 million net to Byron.

Byron's joint venture partner in SM 71, Otto Energy Limited, has indicated its in principle support for the manned facility, subject to receiving Byron's final proposed authority for expenditure and development plan. The final development plan is subject to JV approval.

DIRECTORS' DECLARATION

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

a) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable; and

b) the attached financial statements and notes thereto are in accordance with the *Corporations Act 2001*, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the consolidated entity.

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

On behalf of the Directors

D. G. Battersby
Chairman

10 March 2017

Deloitte.

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

We have reviewed the accompanying half-year financial report of Byron Energy Limited, which comprises the condensed consolidated statement of financial position as at 31 December 2016, 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 9 to 20.

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 2016 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.

Deloitte.

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 2016 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*.

Material Uncertainty to Going Concern

We draw attention to Note 1 in the financial report, which indicates that the consolidated entity incurred a net loss of US$1,848,816 and had negative net cash flows from operating activities of US$1,391,318 and negative net cash flows from investing activities of US$1,613,772 for the half year ended 31 December 2016. These conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt about the ability of the consolidated entity to continue as a going concern. Our conclusion is not modified in respect of this matter.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Alison Brown

Alison Brown
Partner
Chartered Accountants
Melbourne, 10 March 2017

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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Auditors

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