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BYRONENERGY LIMITED

Shareholders Letter →

26 October 2017



Dear Shareholder,

In this year's annual report we included a message to shareholders from our CEO, Maynard Smith.

Maynard clearly articulates Byron's operating methodology and strategy in the shallow water of the Gulf of Mexico and the transitional zone comprising the northernmost shallow waters of the Louisiana State Waters, and onshore coastal Louisiana. He reviews our use of technology with the SM 71 oil discovery and also outlines the growth potential of our exciting portfolio of ready to drill prospects.

As many shareholders have elected not receive a hard copy of our annual report, we are mailing out a copy of Maynard's letter.

A handwritten signature in blue ink, appearing to read "Doug Battersby".

Doug Battersby
Chairman

Level 4 480 Collins Street
Melbourne VIC 3000

ABN 88 113 436 141

T 03 8610 6583

F 03 8610 6334

E info@byronenergy.com.au

byronenergy.com.au

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Dear Shareholder,

Recently, I had the opportunity to travel and meet with a number of existing and potential shareholders. Each conversation revolved around the unique opportunity that Byron Energy represents as an investment. Reflecting on those discussions, three things come to mind that make Byron such a dynamic company: our use of technology, the advantage we have by being an operator and the exciting platform for growth that lies ahead.

Byron has always been a company focused on generating value and growth, driven by earth science. The principals of Byron are seasoned, experienced geologists and geophysicists who together, have created and drilled many successful prospects in the Gulf of Mexico. That in and of itself may not set us apart, but over the years our team has always embraced new technology as it becomes available in the marketplace. Some members of our team were among the first to use computerized workstations to interpret 3D seismic data, others were parts of teams that studied the Gulf in regional detail and set the stage for new discoveries in new trends within the basin. Together, there is little we have not seen on the GOM shelf.

At Byron, we embraced a new 3D seismic processing technique called Reverse Time Migration (RTM), a processing algorithm geared at enhancing the imaging of complex geologic settings like salt domes. In fact, the use of RTM is the basis for where Byron finds itself today. Embracing new technology early can have its challenges as we experienced at SM6, but a cohesive team working together who are judicious in their efforts can understand the limitations and refine the technology and then enhance its application.

A good example is Byron's South Marsh Island 71 #1 well (now known as the SM 71 F1 well). This well, drilled in 2016, logged hydrocarbons directly under an old oil pool developed with what was state of the art drilling technology in the early 1990's; horizontal wellbores. Early 3D datasets from the 1990's suggested to operators of that time, that the bright reflector we now know as the productive D5 Sand, had been tested by up-dip wells. Byron's RTM data showed something different and it took several months of detailed subsurface work to become comfortable with the complex stratigraphy and geophysical imaging presented by the RTM data.

As other D5 Sand producing wellbores were evaluated and compared to our prospect, we became convinced that the D5 Sand reflector had not yet been tested and in fact had pinched out down dip of those wet wells, in a manner analogous to the 22 million-barrel D5 Sand pool that lies just east of SM 71. Pushing forward despite the decline in oil prices, we attracted a partner who recognized and appreciated the exceptional technical effort, and was willing to participate on a promoted basis and joined Byron in drilling the SM 71 #1 well. As you know, the SM 71 #1 well was successful and initial oil production is expected in late January 2018.

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Our second well at SM 71, the F2, will not only give Byron a second D5 Sand take point, it will also test a prospect mapped on our proprietary full-waveform inversion processing. This dataset has delineated a trap associated with the B65 Sand and comparisons to other B65 Sand pools are favourable. If successful, the B65 Sand will add significant reserves to the SM 71 project.

Without the integrated business strategy to license our own 3D data and devote the resources and knowledge to reprocess this data, then generate prospective opportunities and advance them to the drill stage, Byron may not have discovered the productive D5 Sand at SM 71.

Because our RTM dataset covers 15 blocks around the South Marsh Island 73 field, we began looking at the 350+ wells drilled within our dataset. Thanks to a third-party database we license, any one of us at Byron can pull up well logs, production history and virtually any piece of public information available on any well or any block in the GOM and integrate it in to our interpretation. As we continued to work our data, new prospective areas were identified and refined. In fact, three weeks prior to that sale, we licensed additional RTM data, expanded our area of coverage and rolled up our sleeves. Byron submitted four bids at OCS Sale 247 in March. That lease sale effort produced three exciting new leases for Byron in the SM 71 area that have added 28.3 million barrels and 296 bcf of gas to our portfolio on a gross Prospective Resource basis. These blocks provide us with several opportunities to expand on what we have learned at SM 71 and provide our shareholders exposure to future drilling opportunities and growth.

Our Bivouac Peak project is the outgrowth of merging the corners of existing 3D seismic datasets which provided us with the ability to map an exciting opportunity involving a geologic trend one of our team members has had great success with. Without the detailed effort involved in this work and the "local" knowledge that comes with time and experience, Bivouac Peak may have been overlooked for many years. We intend to drill Bivouac Peak in 2018 and have initiated the permit process.

As a small company, the decision to become an operator was not one we made lightly. Having been operators at other GOM companies, we knew what we were taking on. A great deal of time and effort is involved with regulatory matters, permitting, safety and environmental responsibility, designing and drilling wells and ultimately, the day to day issues that come with managing production.

But with that responsibility comes control, a valuable asset in the energy industry. This is reflected in determining the priority of projects, the timing of drilling, making the real-time decisions that come while drilling wells and ultimately control the pace of development. As operator, we make day to day decisions on development scenarios, platform design and oversee the construction process. It is also our responsibility to work closely with our partners and ensure that they are provided with the proper information to make informed decisions and approve proposals within the prescribed time frames.

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With this comes a large responsibility to our shareholders and partners. This is a responsibility we take very seriously every day. The benefits of operating deliver a value to shareholders that outweigh the alternative as a non-operator.

So, what does this all mean for our shareholders?

Our June 30, 2017 reserve report published in late September, clearly shows the potential for growth that Byron now controls. We have and will continue to benefit from leveraging our knowledge and portfolio into joint venture relationships where Byron reduces risk dollar exposure and partners pay a disproportionate share of drilling costs and reimburse us for past costs to earn an interest in the project we choose to bring forward, all the while maintaining the ability to pursue projects at 100% interest for maximum growth should the opportunity warrant it. We continue to entertain inquiries from other GOM companies about projects we may be looking for partners on. This is one of the benefits of both generating prospects and controlling acreage. As operator, we can pursue prospects as they mature, and manage our prospect portfolio and choose the order of drilling to suit our needs and protect our capital.

But we are not distracted from the task of bringing SM 71 on line and each day we move closer to installing the platform, drilling the F2 well and we look forward to completing our wells. We understand that the cashflow from this project is the real platform for growth, one that allows us to continue to leverage our capital, find new opportunities and execute on those projects and our business plan.

To those new shareholders I met, I want to welcome you on board and to our existing shareholders who have continued to support us over the years, I want to say thank you. Rest assured the Byron team will continue to do the work you have come to expect and support. Our work is far from complete and the journey that lies before us promises many adventures.



Maynard Smith
CEO

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Melbourne VIC 3000

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Tripod platform structure for the Byron operated SM 71 field, currently in Galveston, TX to be installed at SM 71.

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Helipad for the Byron operated SM 71 platform currently in Galveston, TX expected to be installed at SM 71.

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