9 October 2019

Our Goal and How to Measure It

Dear Fellow Shareholder

There's no doubt that we live in an increasingly complex and demanding world, and for corporations, this translates into ever more regulations, compliance issues, and a general requirement to be more in tune with society's views of what constitutes good corporate governance and citizenship.

Perhaps, for this reason, some corporations have many goals that are not necessarily consistent with the best interests of their shareholders and which can often result in costly distractions. Some companies seek to influence society, while others are primarily managed for the benefit of a few employees or shareholders.

The management at Byron takes its corporate responsibilities, particularly as an operator in the Gulf of Mexico, very seriously and always meets or exceeds all environmental and operational government regulations. By way of example, the Company recently received a rare commendation letter from the Bureau of Ocean Energy Management praising the performance of the SM71 field operations group upon the conclusion of their annual safety and compliance inspection.

Beyond this, Byron's principal objective is to provide its shareholders with the best return possible on the capital that we have all invested. This year I thought it would be appropriate and timely to discuss Byron management's principal goals and strategies employed to help achieve this core objective.

One of the most critical and often hardest decisions management is required to make, is to correctly assess the risk/reward equation on every prospect that we generate before drilling. This assessment is an essential part of the decision making process at Byron as it is both the project operator and originator of all of its prospects.

At Bivouac Peak, for example, the Company assessed the geological risk as a one in three chance of success and farmed out over two-thirds of the cost of this well. With the SM74 D14 well, we assessed that there was a drilling risk associated with the play, along with a reasonably high level of geological risk due to the prospect's depth and location in a high-pressure section. With this in mind, Byron sought a farmin partner to take on 40% of the cost of the well in return for a 30% Working Interest (WI). In hindsight, I'm comfortable with the level of exposure that Byron retained in each of these wells. While we always plan and hope for a successful outcome, drilling successful oil and gas wells is never a certainty, and risk management is a critical part of the business.

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At SM58, we took a different approach and decided to retain a 100% WI in the block. Initially, we evaluated SM58 using our 2013 Reverse Time Migration (RTM) seismic data, which indicated that several high-quality undrilled opportunities remained in the lease. Unfortunately, SM58 was owned by another company which rejected Byron's multiple offers to farmin to the block. Nearly a year after our initial approach, Byron had the necessary funds to make a US$4.25 million dollar cash offer, which was subsequently accepted earlier this year, emphasising the value of patience in this industry.

At the time of the cash offer, SM58 had less than 200,000 barrels of proved producing reserves, and our offer was attractive enough to convince the previous owner to part with the block. Our latest 2018 RTM seismic data re-confirmed our original 2013 interpretation as well as indicating the presence of additional low risk, high reward opportunities on the block. This more recent interpretation gave Byron the added confidence to retain a 100% WI in the lease and drill the successful and very important SM58 011 well. The decision to maintain a 100% in this project has proved transformational for the Company and will be the foundation for Byron's continued growth into the future. The significance of this decision is further underscored by the booking of 14 million barrels of oil and over 40 billion cubic feet of gas ("BCF") 2P reserves with a Net Present Worth (NPW@ 10% pre-tax) of over A$500 million, at today's exchange rate, on the SM58 lease. Work is currently underway to refurbish and ultimately install the G platform, which was purchased earlier this year in anticipation of a successful result in the SM58 011 well. The Company estimates the total cost of this work, including pipeline installation, at US$24.5 million, which it currently intends to finance through an appropriate debt facility.

All of these decisions are directly related to the goal that we at Byron have set for ourselves. Some companies focus on short term goals often associated with production rates and overall volumes. However, Byron concentrates primarily on the cost of production, as in the long term, that is the surest way to profitability. You only have to look at the plight of the shale oil companies to understand the folly of focusing on volume alone.

Oil versus gas content is also a a key consideration for Byron. The standard industry "Barrels of Oil Equivalent" (BOE) measurement is 6 BCF of gas is the energy equivalent of 1 million barrels of oil. However, in the current economic environment in the Gulf of Mexico, it takes at least 20 BCF of gas to be revenue equivalent to 1 million barrels of oil, making BOE a measurement which can often be misleading to investors.

In the current oil and gas price environment, Byron is primarily focused on projects with high oil content. The Company will only consider gas projects if the assessed potential gas opportunity exceeds 50 BCF and is producible from a maximum of two or three wells.

At Byron, we focus solely on the shallow water shelf of the Gulf of Mexico, with its extensive and readily accessible infrastructure, very low operating costs, and premium-priced oil. We also focus on reserves that have a low finding, development, and production (FD&P) cost, which is the crucial component in determining profitability. At SM71, our FD&P cost to date is a very low US$14/barrel. We expect the FD&P cost at SM58 will be even lower, primarily due to its more substantial reserves.

Balancing debt, speed of development, and the need to raise equity capital from the market is often senior management's greatest challenge, particularly in the early growth stages of a small Exploration & Production (E&P) company like Byron. This balance is critical to maximise shareholder return.

The senior management at Byron has a long and proven track record of striking the necessary balance between debt and equity, with the goal always being to benefit the shareholder. Byron management is very focused on share price, not just because we are personally large shareholders, but also because our core management philosophy, has always been to maximise shareholder return.

Having witnessed the damage caused to other small E&P companies by excessive debt, it is not hard to conclude that sometimes it's better to reduce activity to preserve capital, minimise debt and forgo excessive, dilutive capital raises from the share market. Having said this, management still considers taking on an appropriate and conservative level of debt at the right time as a useful tool in accelerating growth while minimising shareholder dilution. The Company is currently pursuing several potentially significant debt-related facilities to augment its cash flow and to provide the necessary funds to develop the SM58 field and allow Byron to execute its ambitious drilling program.

Keeping the above principles in mind, we can now clearly state our Company's ultimate goal, which is to maximise shareholder returns in the minimum amount of time. This goal is measured by one number, and that is simply our share price. Byron is a results-driven company, and based on the timeline below, within 18 months, the Company should be producing somewhere between 7,000 and 10,000 barrels of oil per day, net to Byron, after installing the SM58 facility and having drilled and completed at least five development wells. This production, combined with our substantial prospect inventory, which has over 25 high-quality undrilled prospects remaining on our 100% owned acreage, should drive Byron's share price higher well into the future.

While the market will ultimately determine the share price of our Company, I would be personally disappointed if the share price was not well over one dollar within eighteen months. This share price is an ambitious goal but one by which our shareholders can measure management performance, in the near to medium term.

In closing, I wish to thank all of our loyal shareholders for the patience and support you have given the Company over the last few years. You can rest assured that the management at Byron will continue to work diligently to make decisions which it considers to be in the best interest of all shareholders to deliver on this ambitious goal.

Maynard Smith
CEO
Byron Energy Limited

Byron Projected Activity Time-Line*