

22 July 2016

ASX Release
Metgasco Development Funding Agreement Signed

Highlights

- Byron Energy Limited ("Byron" or the "Company") (ASX: BYE) has entered into a binding funding agreement with Metgasco Limited ("Metgasco") (ASX: MEL).
- Byron and Metgasco have documented terms of a Convertible Note for \$A8 million, providing Byron with funding for SM 71 project development.
- As part of the agreement Byron will issue 10 million unlisted options to Metgasco with an exercise price of 25c with a three year term.
- Byron will grant Metgasco an option to acquire a 10% Working Interest in Byron's Bivouac Peak project in consideration for Metgasco funding a disproportionate share of the costs of the first well and reimbursing part of Byron's past costs.
- Metgasco will be granted an opportunity to participate in future Byron projects.

Transaction Terms

Byron Energy Limited ("Byron" or the "Company") (ASX: BYE) is pleased to announce that it has executed documentation for the previously announced Heads of Agreement ("HOA") with Metgasco Limited ("Metgasco") (ASX: MEL) (ASX announcement 9 June 2016).

The definitive documents have been completed pursuant to the terms agreed in the HOA executed by Byron and Metgasco, summarised below.

Convertible Note

Metgasco will subscribe for a 3 year Convertible Note ("Convertible Note" or "Facility") of up to A\$8 million ("Face Value") under the following terms:-

For personal use only

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- 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 (AUD \$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);
 - x. *Events of Default*: usual events of default including insolvency and material adverse change);
 - xi. *Review Rights*: on the occurrence of certain review events, including a material change to the board, or a material reduction in the shareholding of the Company's Chairman and CEO, Metgasco has certain review rights including increasing its security; and
 - xii. Metgasco to be granted the right to nominate one director to the Board of Byron in the case of certain specified material adverse credit events only.

10 Million Byron Options to be Issued to Metgasco

On closing, Byron will issue 10 million non-transferable unlisted options ("Options") to Metgasco with an exercise price of 25c and a three years expiry.

Priority Right for Metgasco in Future Equity Raisings

Byron will grant Metgasco a priority right (with a one week notice period) 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.

Option for Metgasco to Acquire a 10% Working Interest in Bivouac Peak

Byron will grant Metgasco the right (but Metgasco does not incur an obligation) 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.

Opportunity for Metgasco to Participate in Future Byron Projects

Byron will 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.

Conditionality and Approvals

The issue of the Convertible Note and the Options under the transaction is conditional on Byron shareholders approving the issue of options and convertible notes for the purposes of Chapter 7 of the Listing Rules. Byron is expecting to issue the notice of meeting in late July/early August.

CEO Comment

Maynard Smith, Byron's CEO, said: *"These agreements formalise a relationship between Byron and Metgasco which has developed over the last few months. Byron is very pleased with the Metgasco funding transaction which will be used mainly to fund the development of the SM 71 oil project, with our JV partner, Otto Energy Limited. We look forward to a mutually beneficial relationship with Metgasco."*

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