

23 January 2017

ASX Release

SM 71 Oil Development and Metgasco Funding Facility

Highlights

- The SM71 project development is now planned to utilize 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
- Byron Energy Limited ("Byron" or the "Company") (ASX: BYE) has drawn down an \$A8 million Convertible Note Facility under an agreement entered into with Metgasco Limited ("Metgasco") (ASX: MEL) in July 2016
- The proceeds from the Convertible Note issue will be used primarily for the development of Byron's SM 71 oil project

SM 71 Development

Byron owns two leases in the South Marsh Island Block 73 ("SM 73") Field: South Marsh Island blocks 70 ("SM 70") and 71 ("SM 71"). Byron is the designated operator of both blocks and owns a 50% Working Interest ("WI") and a 40.625% Net Revenue Interest ("NRI") in each block, with ASX listed **Otto Energy Limited ("Otto") (ASX:OEL)** holding an equivalent WI and NRI in each block. Water depth in the area is approximately 137 feet. Currently, there is no production from either block.

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.

Byron has previously reported that it was in negotiations with an offset operator to transport produced oil and associated gas from an unmanned platform to a facility five miles to the east of SM71 for final separation and sales into existing sales pipelines.

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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 six 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 JV approval.

Convertible Note

On 22 July 2016, Byron and Metgasco announced they had entered into a 3-year agreement to issue up to \$A8 million in Convertible Notes ("Convertible Note"), repayable over the course of the agreement.

Byron is pleased to advise that Metgasco has subscribed for a full \$A8.0 million Convertible Note. The Convertible Note will be repayable over the remainder of the term of the agreement (that is by 21 July 2019). The proceeds from the Convertible Note will be used primarily to advance development of the SM 71 oil project. The Convertible Note is 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. For the terms of the Convertible Note refer to Byron's ASX release dated 22 July 2016.

Proceeds from the Metgasco Convertible Note will allow Byron to substantially progress development, however additional funding will be required by mid-2017 for the project to be completed and production to commence during the latter part of the December 2017 quarter. The Company is currently exploring potential funding options.

CEO Comment

Maynard Smith, Byron's CEO, said: *"The change to a Byron operated production platform comes because of a thorough review of all options and will secure the already significant economic value of the SM 71 development. Given the ultimate potential size of this discovery, being in full control of all facilities and pipelines greatly enhances the value of SM 71 for Byron and its partner along with shareholders. The proceeds of the convertible note issue with Metgasco will be used mainly to further the development of the SM 71 oil project. SM 71 is a very exciting project with potential for an accelerated development plan by drilling additional wells to exploit expected pay zones as seen on our extensive, high quality geophysical database"*.

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*The reserves and resources referred to in this update were reported on 25 July 2016 (refer to the Company's ASX announcement dated 25 July 2016). Furthermore on 28 September 2016, the Company reported the impact of relinquishment of GI 95 on the Company's contingent and prospective resources (refer to the Company's ASX announcement dated 28 September 2016).