

# Quarterly Report for the Period Ended 31 December 2016

## Summary

- The SM71 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;

- In January 2017, Byron 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; and

- Under Byron's oversight, WesternGeco has processed previously acquired SM 71 seismic data using a 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.

<b>Name:</b>	Byron Energy Limited
<b>ASX code:</b>	BYE
<b>Shares on issue at 31 Dec 2016:</b>	277.5 million
<b>Quoted shares:</b>	277.5 million
<b>Options on issue (unquoted):</b>	23.2 million
<b>Cash at 31 Dec 2016</b>	US\$1.8 million
<b>Market Capitalisation at 31 Dec 2016</b>	A\$40.2 million (@A\$0.145 per share)

### Directors

Doug Battersby (Non-Executive Chairman)  
 Maynard Smith (Chief Executive Officer)  
 Prent Kallenberger (Chief Operating Officer)  
 Charles Sands (Non-Executive Director)  
 Paul Young (Non-Executive Director)  
 William Sack (Executive Director)

### Company Secretary and Chief Financial Officer

Nick Filipovic

### Contact Details

Level 4, 480 Collins Street  
 Melbourne Vic 3000  
 Telephone: +61 3 8610 6583  
 Email: [info@byronenergy.com.au](mailto:info@byronenergy.com.au)  
 Web: [www.byronenergy.com.au](http://www.byronenergy.com.au)

## Corporate

### Placement

During the December 2016 quarter, Byron completed a conditional placement of 5,474,617 shares ("Conditional Placement") to raise approximately A\$0.7 million comprising subscriptions from Doug Battersby and Paul Young, both Byron directors. The Conditional Placement was approved by shareholders at the Company's 2016 Annual General Meeting.

As previously reported, Messrs Battersby and Young, directors of the Company, entered into a loan agreement with the Company whereby they lent the Company A\$750,000, unsecured, at an interest rate of 10% per annum, repayable by 31 December 2016. These loans together with accrued interest were repaid in December 2016.

### Metgasco Convertible Note and SM 71 Development Funding

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.

Subsequent to the end of the quarter, Metgasco subscribed for the full \$A8.0 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).

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 Convertible Note will allow Byron to substantially progress the SM 71 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.

### Issued Capital

As at 31 December 2016, Byron's issued capital comprised:-

Securities	Total issued	Quoted	Unquoted
Shares (ASX:BYE)	277,447,162	277,447,162	Nil
Options	23,150,000	Nil	23,150,000

36,995,984 unlisted options, exercisable at \$A0.50 expired unexercised on 31 December 2016.

## Projects Update

### Salt Dome Projects

#### South Marsh Island 70/71

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.

## **Salt Dome Projects (cont)**

### **South Marsh Island 70/71 (cont)**

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 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 JV 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.

Byron also completed an inversion processing project with WesternGeco over SM 71 during the December quarter.

*\* The reserves and resources referred to in this report 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).*

## **Salt Dome Projects (cont)**

Prior to drilling the SM71 #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 SM71 #1 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**

South Marsh Island Block 6 ("SM 6") is located offshore Louisiana, in the shallow waters of the GOM, 216km southwest of New Orleans in approximately 65 feet (20 metres) of water. Byron owns a 100% working interest and an 81.25% net revenue interest in the block.

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 Energy Limited ("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 Blocks 63/76**

No exploration activity was undertaken on the Company's EI 63/76 salt dome project, during the quarter.

## **Non-salt dome projects**

### **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 ("OCS") leasing areas. The Bivouac Peak acquisition was announced on 5 November 2015 as a significant addition to Byron's position in the highly productive transitional zone comprising the northernmost shallow waters of the Federal Gulf Of Mexico Shelf, Louisiana State Waters, and onshore coastal Louisiana.

High quality 3D seismic data has been used to define gross prospective resource\* potential of 15,990 Mbo and 177,666 Mmcf on Byron's Bivouac Peak leases. An initial test well is planned at Bivouac Peak in 2017 which will expose the Company to 10,818 MBOE (net). Byron currently holds a 90% working Interest (67.05% Net Revenue Interest) at Bivouac Peak. For further information, in relation to the Bivouac Peak prospective resources, refer to the Company's ASX announcements dated 25 July 2016.

*\* The reserves and resources referred to in this report 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).*

## Non-Salt Dome Projects (cont.)

As previously announced, Byron's Bivouac Peak 90% Working Interest ("WI") is subject to a promoted farm-in by both Otto Energy Limited ("Otto") and Metgasco Limited ("Metgasco"). After Metgasco acquired an option, in September 2016, to earn a 10% working interest, both companies have reimbursed Byron for past costs and currently have an option to earn a working interest, Otto 45%WI and Metgasco 10%WI, 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.

### **Eugene Island Block 18**

Byron has a 100% working interest in Eugene Island Block 18 ("EI 18"), a non-salt dome project in 10 feet (3 metres) of water, approximately 50 miles (81 kilometres) south of Morgan City, Louisiana. No exploration activity was undertaken on EI 18 during the quarter.

## 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	Area (Km <sup>2</sup> )
South Marsh Island Block 6**	Byron	100.00/81.25	Relinquished	20.23
South Marsh Island Block 70##	Byron	50.00/40.625	July 2017	22.13
South Marsh Island Block 71##	Byron	50.00/40.625	July 2017	12.16
Eugene Island Block 18	Byron	100.00/78.75	April 2020	2.18
Eugene Island Block 63	Byron	100.00/81.25	May 2018	20.23
Eugene Island Block 76	Byron	100.00/81.25	May 2018	20.23
Transition Zone (Coastal marshlands Louisiana) Bivouac Peak ##	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.

## Appendix 5B

### Mining exploration entity and oil and gas exploration entity quarterly report

Introduced 01/07/96 Origin Appendix 8 Amended 01/07/97, 01/07/98, 30/09/01, 01/06/10, 17/12/10, 01/05/13, 01/09/16

**Name of entity**

Byron Energy Limited

**ABN**

88 113 436 141

**Quarter ended ("current quarter")**

31 December 2016

<b>Consolidated statement of cash flows</b>	<b>Current quarter \$US'000</b>	<b>Year to date (6.months) \$US'000</b>
<b>1. Cash flows from operating activities</b>		
1.1 Receipts from customers		
1.2 Payments for		
(a) exploration & evaluation	(560)	(1,950)
(b) development	(828)	(1,114)
(c) production	-	-
(d) staff costs	(300)	(590)
(e) administration and corporate costs	(310)	(678)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	1	1
1.5 Interest and other costs of finance paid	(50)	(80)
1.6 Income taxes paid	-	-
1.7 Research and development refunds	-	-
1.8 Other (provide details if material)		
- Refundable Security Deposits	-	175
- Advisory Fees	(50)	(165)
- Cash contributions from farminees / JV partners	934	1,391
<b>1.9 Net cash from / (used in) operating activities</b>	<b>(1,163)</b>	<b>(3,010)</b>
<b>2. Cash flows from investing activities</b>		
2.1 Payments to acquire:		
(a) property, plant and equipment	-	-
(b) tenements (see item 10)	-	-
(c) investments	-	-
(d) other non-current assets	-	-

+ See chapter 19 for defined terms  
1 September 2016

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**Appendix 5B**  
**Mining exploration entity and oil and gas exploration entity quarterly report**

<b>Consolidated statement of cash flows</b>		<b>Current quarter \$US'000</b>	<b>Year to date (6 months) \$US'000</b>
2.2	Proceeds from the disposal of:		
	(a) property, plant and equipment	-	-
	(b) tenements (see item 10)	-	-
	(c) investments	-	-
	(d) other non-current assets	-	-
2.3	Cash flows from loans to other entities	-	-
2.4	Dividends received (see note 3)	-	-
2.5	Other (provide details if material)	-	-
<b>2.6</b>	<b>Net cash from / (used in) investing activities</b>	<b>-</b>	<b>-</b>
<b>3.</b>	<b>Cash flows from financing activities</b>		
3.1	Proceeds from issues of shares	527	4,156
3.2	Proceeds from issue of convertible notes	-	-
3.3	Proceeds from exercise of share options	-	-
3.4	Transaction costs related to issues of shares, convertible notes or options	(15)	(203)
3.5	Proceeds from borrowings	-	-
3.6	Repayment of borrowings	(563)	-
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	-
3.9	Other (provide details if material)	-	-
<b>3.10</b>	<b>Net cash from / (used in) financing activities</b>	<b>(51)</b>	<b>3,953</b>
<b>4.</b>	<b>Net increase / (decrease) in cash and cash equivalents for the period</b>		
4.1	Cash and cash equivalents at beginning of period	3,045	883
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(1,163)	(3,010)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	-	-
4.4	Net cash from / (used in) financing activities (item 3.10 above)	(51)	3,953
4.5	Effect of movement in exchange rates on cash held	(1)	4
<b>4.6</b>	<b>Cash and cash equivalents at end of period</b>	<b>1,830</b>	<b>1,830</b>

## Mining exploration entity and oil and gas exploration entity quarterly report

<b>5. Reconciliation of cash and cash equivalents</b> at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	<b>Current quarter \$US'000</b>	<b>Previous quarter \$US'000</b>
5.1 Bank balances	1,830	3,045
5.2 Call deposits	-	-
5.3 Bank overdrafts	-	-
5.4 Other (provide details)	-	-
<b>5.5 Cash and cash equivalents at end of quarter (should equal item 4.6 above)</b>	<b>1,830</b>	<b>3,045</b>

<b>6. Payments to directors of the entity and their associates</b>	<b>Current quarter \$US'000</b>
6.1 Aggregate amount of payments to these parties included in item 1.2	205
6.2 Aggregate amount of cash flow from loans to these parties included in item 2.3	-
6.3 Include below any explanation necessary to understand the transactions included in items 6.1 and 6.2	

<b>7. Payments to related entities of the entity and their associates</b>	<b>Current quarter \$US'000</b>
7.1 Aggregate amount of payments to these parties included in item 1.2	-
7.2 Aggregate amount of cash flow from loans to these parties included in item 2.3	-
7.3 Include below any explanation necessary to understand the transactions included in items 7.1 and 7.2	

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**Appendix 5B**  
**Mining exploration entity and oil and gas exploration entity quarterly report**

<b>8. Financing facilities available</b> <i>Add notes as necessary for an understanding of the position</i>	<b>Total facility amount at quarter end \$A'000</b>	<b>Amount drawn at quarter end \$A'000</b>
8.1 Loan facilities*	8,000	\$Nil
8.2 Credit standby arrangements	-	-
8.3 Other (please specify)	-	-
8.4 Include below a description of each facility above, including the lender, interest rate and whether it is secured or unsecured. If any additional facilities have been entered into or are proposed to be entered into after quarter end, include details of those facilities as well.		

\* On 22 July 2016 Byron announced that definitive agreements had been signed with Metgasco Limited ("Metgasco") (ASX: MEL) to raise up to \$A8 million through an issue of a Convertible Note to Metgasco ("Metgasco Facility"), providing Byron with funding for SM 71 project development and general corporate purposes. As at 31 December 2016, Byron had not drawn down any amounts under the Metgasco Facility. However, the full \$A8 million was drawn down on 20<sup>th</sup> January 2017.

<b>9. Estimated cash outflows for next quarter</b>	<b>\$US'000</b>
9.1 Exploration and evaluation	50
9.2 Development	980
9.3 Production	-
9.4 Staff costs	280
9.5 Administration and corporate costs	315
9.6 Other (provide details if material)	-
<b>9.7 Total estimated cash outflows</b>	<b>1,625</b>

<b>10. Changes in tenements (items 2.1(b) and 2.2(b) above)</b>	<b>Tenement reference and location</b>	<b>Nature of interest</b>	<b>Interest at beginning of quarter</b>	<b>Interest at end of quarter</b>
10.1 Interests in mining tenements and petroleum tenements lapsed, relinquished or reduced				
10.2 Interests in mining tenements and petroleum tenements acquired or increased				

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**Compliance statement**

- 1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.
- 2 This statement gives a true and fair view of the matters disclosed.

Sign here:



(Company secretary)

Date: 30<sup>th</sup> January 2017.....

Print name: Nick Filipovic.

**Notes**

1. The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity that wishes to disclose additional information is encouraged to do so, in a note or notes included in or attached to this report.
2. If this quarterly report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, AASB 6: Exploration for and Evaluation of Mineral Resources and AASB 107: Statement of Cash Flows apply to this report. If this quarterly report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standards apply to this report.
3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.