

Quarterly REPORT



THREE MONTHS ENDED 30 SEPTEMBER 2014

QUARTERLY HIGHLIGHTS

Corporate:

- Otto has announced a planned divestment of the Galoc Production Company WLL, the holder of Otto's 33% interest in the Galoc oil field, for US\$101.4 million, subject to shareholder approval.

Production:

- Galoc production averaged 7,780 bbls per day for the quarter
- Sales revenue of US\$22.232 million realised.
- Two cargos delivered during the quarter.

Exploration:

- Tanzania – finalised acquisition of the 200km 2D seismic program over the Moshi Basin in the Pangani licence and commenced acquisition of 430 km of new 2D seismic in the Kilombero Basin in the Kilosa-Kilombero licence.
- Philippines SC55 – submitted request for 12 month extension to Sub-Phase 4 to the Philippine Department of Energy. Long lead item acquisition in progress for the Hawkeye-1 exploration well.
- Philippines SC55 – Farm out process continuing; Otto is seeking to introduce a new partner into the joint venture to participate in drilling of the Hawkeye-1 exploration well.

PRODUCTION & FINANCIAL SUMMARY

		Sep 2014 Quarter	Mar 2014 Quarter	Change %
Production (net to Otto)	bbl	236,208	251,864	(6.21%)
Liftings (net to Otto)	bbl	218,831	320,054	(31.62)%
Revenue	US\$m	22.232	21.676	2.57%
Closing Cash Position	US\$m	31.182	7.735	303.13%
Closing Debt Position	US\$m	-	-	0%
Expenditure	US\$m	9.80	8.93	9.74%

SIX-MONTH OUTLOOK

- Subject to shareholder approval, complete the divestment of the Galoc Production Company WLL and transition to Risco Energy.
- Complete 430 km 2D seismic acquisition in Kilosa-Kilombero licence in Tanzania and commence planning for drilling in 2015.
- Acquire long lead items and commence rig selection for the Hawkeye-1 exploration well.
- Continue farm-out campaign for SC55 prior to drilling the Hawkeye exploration well.
- Focus on business growth in East Africa region along the prolific rift valley trend.

PRODUCTION ASSETS**SERVICE CONTRACT 14C – GALOC OIL FIELD**

Location: Palawan Basin, Philippines
Area: 163 km²
Otto's Interest: 33% - Operator Otto Energy Group

Production

Production operations continued through the quarter.

Production averaged 7,780 bbls per day during the quarter. Production post Galoc Phase II commissioning in December 2013 remains in line with pre-start-up expectations. Production tests continued through the quarter to optimise production settings in the field.

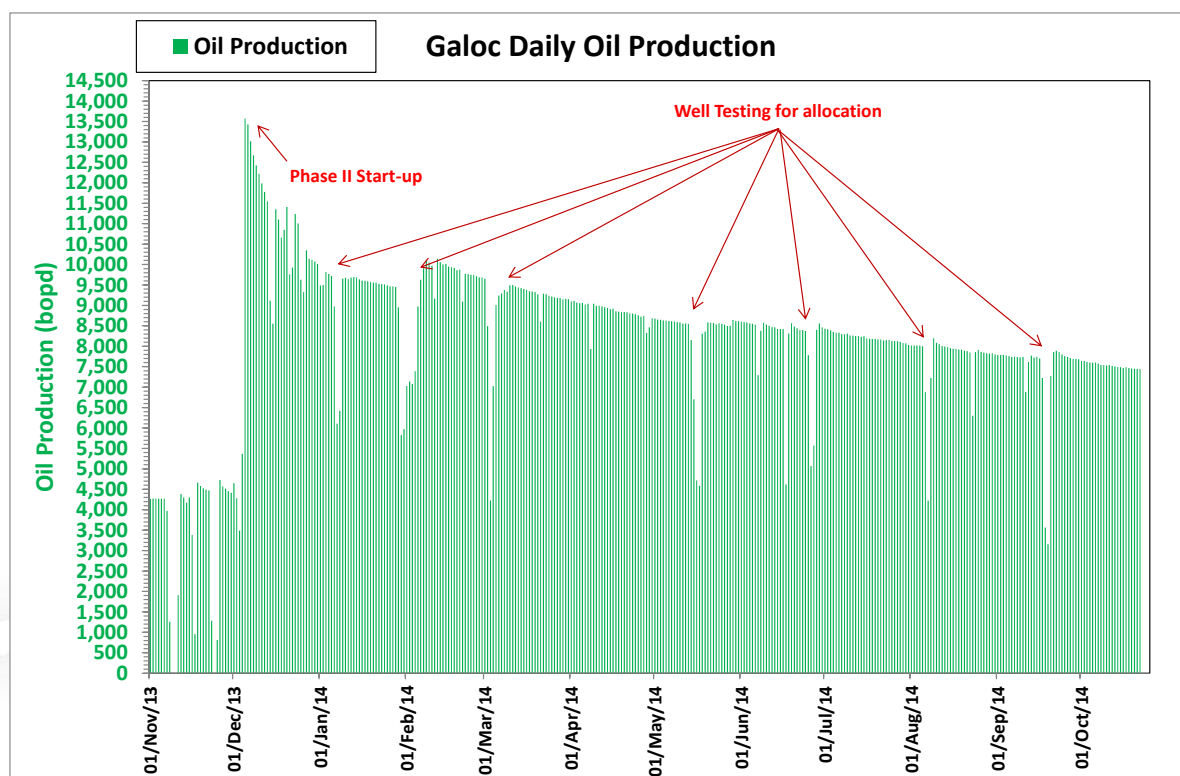
Cargo 40 was lifted on 6 August 2014 with 339,484 bbls sold at US\$107.54 per bbl.

Cargo 41 was lifted on 17 September 2014 with 323,639 bbls sold at US\$97.27 per bbl.

Liftings were sold to South Korean and Brunei refineries.

Cargo 42 is expected to be lifted in November 2014 and Cargo 43 is expected to be lifted in late December 2014.

	Production (bbls)		Liftings (bbls)	
	Gross	Otto Net	Gross	Otto Net
4 th Qtr 2013	550,671	181,721	304,665	100,539
1 st Qtr 2014	825,162	272,303	859,488	283,631
2 nd Qtr 2014	763,225	251,864	969,862	320,054
3 rd Qtr 2014	715,783	236,208	663,123	218,831



EXPLORATION ASSETS**SERVICE CONTRACT 55**

Location:	Offshore Palawan, Philippines
Area:	9,880 km ²
Otto's Interest:	93.18% - Operator Otto Energy Group

Otto executed binding agreements with BHP Billiton Philippines Inc. (BHPBP) to terminate the farm-out agreement between the two parties in respect of Service Contract 55 (SC55), offshore the Philippines. Under the agreements, BHPBP re-assigned a 60% working interest to Otto, taking Otto's working interest to 93.18%. The reassignment was approved by the Philippines Department of Energy (DOE) on 14 March 2014.

The key terms of the agreements are:

- Otto re-assigned BHPBP's 60% working interest;
- BHPBP paid US\$3.0m to Otto; and
- BHPBP will pay a further US\$24.5m to Otto upon drilling the first exploration well in SC55.

Otto has access to all 3D seismic data acquired in the permit to date and has resumed as operator. Otto has lodged a Sub-Phase 4 work program and budget with the DOE which includes the drilling of the Hawkeye-1 well. Otto has also submitted a request for a 12-month extension to Sub-Phase 4 to the Philippine Department of Energy.

Otto is several months into a farm-out process to introduce a new joint venture partner to participate in the drilling of the Hawkeye-1 exploration well. Otto is targeting suitably qualified partners with deepwater experience to join the exploration program and two suitable companies with SE Asia operations are undertaking technical due diligence reviews of the available data.

Otto is also working with a number of non-operator partners to take between 30-40% working interest and participate in the drilling of the Hawkeye-1 exploration well. In this situation, Otto will operate the drilling of the Hawkeye-1 exploration well.

Otto has commenced drilling planning preparations, including well design, planning studies and procurement reviews. Importantly, Otto has also invited expressions of interest from drilling rig owners to determine availability of drilling units to ensure Hawkeye-1 is drilled within the required timeframe. Long lead item acquisition is in progress for the Hawkeye-1 exploration well.

SC55 contains a number of distinct exploration play types that provide material opportunities, including: the carbonate gas/condensate trend that has the potential for an oil charge; and turbidite clastic prospects.

The Hawkeye prospect was identified on 2D seismic originally acquired by Otto in 2007 and further defined with the 600 km² 3D seismic acquisition in late 2009. Hawkeye contains:

- 'Best Estimate' STOIP of ~ 480 MMbbl of oil; and
- 'Best Estimate' Net Prospective Resource of 89 MMbbl of oil.

The Cinco prospect was identified as part of the 2010 1,800 km² 3D seismic program undertaken by BHPB that focused on a trend of carbonate prospects and leads. Cinco is analogous to the Malampaya producing gas/condensate field, which is located 400 kms north east of the permit. Cinco contains

- 'Best Estimate' GIIP of 2.4 Tcf; and
- 'Best Estimate' Net Prospective Resource of 1.3 Tcf of gas and 45 MMbbl of associated condensate (Condensate Gas Ratio 35 bbls/MMcf), assuming 93.18% working interest for Otto and excluding Government Share.

EXPLORATION ASSETS (CONTINUED)**KILOSA-KILOMBERO AND PANGANI**

Location:	Onshore, Tanzania
Area:	~34,000 km ²
Otto's Interest:	50% - Operator Swala Oil and Gas (Tanzania) Plc

The Joint Venture entered Years 3 and 4 of the Pangani and Kilosa-Kilombero Production Sharing Agreements involving a commitment to drill one exploration well in each contract area before February 2016 and the acquisition of additional seismic data to allow optimal well positioning.

Kilosa-Kilombero Permit

A total of 123km of 2D seismic has been acquired over the Kilosa basin and a total of 137km of 2D seismic over the Kidatu basin. In the Kidatu basin, results indicate the presence of large-scale structures along the edges of the basin, together with a major intra-basin high identified on dip and strike lines. The structure may be as large as 30 to 60 square kilometres.

A total of 110km of 2D seismic has been acquired over the Kilombero basin. Results suggest the presence of a Neogene-age basin with a maximum depth to basement in excess of 3,000m. The age of the sediments recorded (based on low seismic velocities) appears to be similar to that of sediments observed in the now proven oil basins of Lokichar (Kenya) and Lake Albert (Uganda), where Africa Oil (TSX.V:AOI) and Tullow Oil (LSE: TLE) have had significant success.

Dip lines across the basin suggest the presence of both structural traps and traps against the main basin-bounding fault with possible Direct Hydrocarbon Indicators (DHIs or 'Flat Spots') observed at several levels at the crest.

A program to acquire up to 430 km of additional 2D seismic data across the Kilombero basin will be undertaken during Q4 2014. The focus of the program will be:

1. To provide additional lines across the "Kito" prospect that may become a drillable target.
2. To cover other portions of the basin which according to the initial 2013 seismic data and earlier remote sensing data have the potential to contain additional leads and prospects

In late 2013 Otto's partner Swala Oil & Gas (Tanzania) Plc announced results from a prospective resource assessment over the "Kito" prospect in the Kilosa-Kilombero Licence in Tanzania indicating:

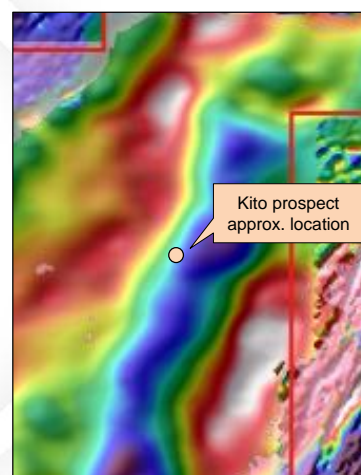
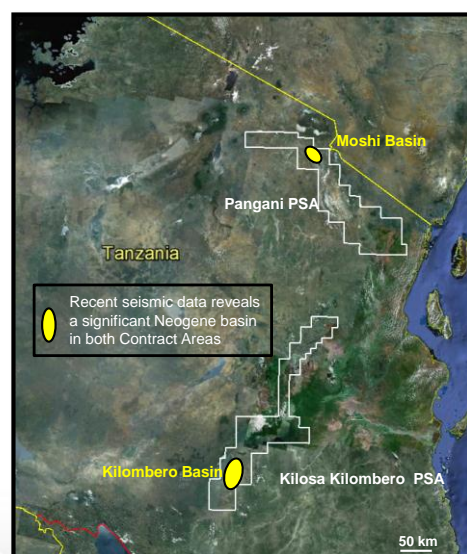
- Net Prospective Resource of between 19.2 MMbbls and 169.6 MMbbls to Otto
- Best Estimate Prospective Resource of 60.4 MMbbls.

Pangani Permit

A total of 200 km of 2D seismic has been acquired over the Mvungwe and Moshi basins.

The results from the survey show that the Moshi basin in the north of the permit appears to be a basin with sedimentary fill of probable Neogene age. Further evidence from the seismic survey suggests that the basin is fault-bounded, some 25km wide, and with basin fill to between 2,000 and 3,000m depth.

During Q3 2014, a further 200 km of 2D seismic data was acquired across the Moshi basin area. The focus of this survey is to better understand the geometry of the basin and firm up structures for drilling during 2015.



EXPLORATION ASSETS (CONTINUED)**SERVICE CONTRACT 73**

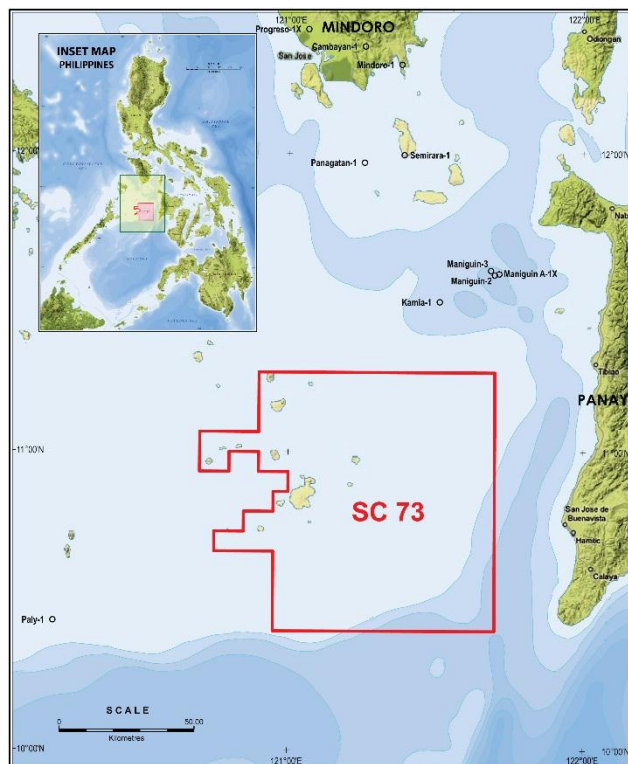
Location: Offshore Mindoro-Cuyo, Philippines
Area: 8,440 km²
Otto's Interest: 100% - Operator Otto Energy Group

Otto has commenced reprocessing of a focussed subset of existing seismic data in the block with a minimum financial commitment of US\$0.5 million over an initial period of 18 months.

Service Contract 73 is an offshore block located in the southern part of the Mindoro Basin – Cuyo Platform, an offshore continental rift basin. It covers 8,440 km² and water depths range from 100 to 1,300 metres. There is 3,000 kilometres of existing 2D seismic data within and adjacent to the block.

The petroleum play types in the permit include reef build-ups, fault blocks and anticlines. The reservoir intervals are Early Miocene to Pliocene carbonates and Early to Late Miocene carbonates and clastics. Source rocks are coaly and organic-rich claystones of Eocene to Middle Miocene. Middle Miocene carbonates and clastics provide the seal for the system.

Oil was previously discovered and an Extended Production Test conducted in 1994 at the Maniguin wells, located 50 kilometres north of the permit. Oil seepages in the Mindoro Island region confirm the presence of an active petroleum system in the area.



CORPORATE**DIVESTMENT OF GALOC PRODUCTION COMPANY WLL**

On 22nd of September 2014, Otto announced it had executed a sale and purchase agreement (SPA) to divest 100% of the shares in the Galoc Production Company WLL (GPC), the holder of Otto's 33% interest in the Galoc oil field located in Service Contract 14C (Galoc Interest), to Risco Energy Investments (Philippines) Pte Ltd (Risco), a Singapore-based energy investment company.

Under the SPA, Risco has agreed to pay Otto US\$101.4 million as at 1 July 2014. Risco has already paid a US\$10.14 million deposit and will assume all production rights and liabilities associated with the Galoc Interest (including abandonment costs) with effect from 1 July 2014.

Completion of the transaction is conditional on Otto shareholder approval. For reasons of good governance, the Otto Board has decided the meeting materials will include a report from an independent expert on the divestment of the Galoc Interest.

The shareholder Extraordinary General Meeting is scheduled to be held in the second week of December 2014 to seek shareholder approval for the completion of the divestment of GPC. The notice of meeting will be issued in early November 2014.

It is likely that a separate Extraordinary General Meeting of shareholders will be required to approve the proposed capital return of A\$0.06 per share following receipt of an Australian Taxation Office ruling to confirm the treatment of the capital return to shareholders and final determination by Directors.

CASH OUTFLOWS

Otto's free cash reserve at the end of the quarter was US\$31.182 million (June: US\$7.735 million).

Historic and expected cash outflows in the coming quarter are shown below:

	Dec 14 Qtr US\$m Forecast	Sep 14 Qtr US\$m Actual	Jun 14 Qtr US\$m Actual	Mar 14 Qtr US\$m Actual	Dec 13 Qtr US\$m Actual
Philippines					
SC 14C					
Production	5.91	5.50	5.93	5.80	5.20
Development	-	-	-	4.11	13.48
Exploration	0.07	0.09	-	-	-
SC 51	-	-	-	-	1.24
SC 55	0.11	-	0.02	0.14	-
SC 69	-	-	-	-	0.09
SC 73	0.36	0.10	0.10	-	0.14
Tanzania	3.90	2.01	0.68	0.25	2.62
Administration	1.67	2.10	2.20	2.90	1.83
Total	12.02	9.80	8.93	13.20	24.60

CORPORATE (CONTINUED)**SHAREHOLDERS**

Otto's issued capital as at 30 September 2014:

	Number
Fully paid ordinary shares	1,151,290,071
Unlisted Options ¹	9,250,000
Performance Rights	12,500,000

¹ Exercisable between 11.13 and 12.0 cents per share with expiration dates from October 2014 to December 2016.

Otto's Top 20 Holders as at 21 October 2014:

TOP 20 SHAREHOLDERS AS AT 21 OCTOBER 2014

Rank	Name	Units	% of Units
1	SANTO HOLDING AG	241,910,757	21.00%
2	MOLTON HOLDINGS LIMITED	241,910,757	21.00%
3	ACORN CAPITAL LIMITED	89,955,571	7.81%
4	CITICORP NOMINEES PTY LIMITED <CWLTH BANK OFF SUPER A/C>	36,235,164	3.15%
5	JP MORGAN NOMINEES AUSTRALIA LIMITED <CASH INCOME A/C>	28,365,413	2.46%
6	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	19,312,856	1.68%
7	JOHN JETTER (CONSOLIDATED RELEVANT INTEREST)	19,089,175	1.66%
8	RICK CRABB (CONSOLIDATED RELEVANT INTEREST)	17,495,052	1.52%
9	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	16,305,051	1.42%
10	DBS VICKERS SECURITIES (SINGAPORE) PTE LTD	14,020,833	1.22%
11	CITICORP NOMINEES PTY LIMITED	12,801,550	1.11%
12	PAN PACIFIC PETROLEUM NL	11,680,340	1.01%
13	ESCOT FINANCE LTD	8,150,000	0.71%
14	NAVIGATOR AUSTRALIA LTD	7,998,778	0.69%
15	FORSYTH BARR CUSTODIANS LTD <FORSYTH BARR LTD-NOMINEE A/C>	6,603,286	0.57%
16	MR MATTHEW GERARD ALLEN	6,000,000	0.52%
17	MR GREGOR MCNAB	5,500,000	0.48%
18	ICON HOLDINGS PTY LTD	4,941,091	0.43%
19	IAN MACLIVER (CONSOLIDATED RELEVANT INTEREST)	4,549,721	0.40%
20	NATIONAL NOMINEES LIMITED	4,112,593	0.36%
TOTAL TOP 20 SHAREHOLDERS		796,937,988	69.19%
TOTAL REMAINING SHAREHOLDERS		354,852,083	30.81%
TOTAL SHARES ON ISSUE		1,151,790,071	100.0%

OTTO AT A GLANCE

- ASX-listed oil and gas company with a strategy to grow its oil and gas business across exploration, development and production
- Focused on South East Asia and onshore East Africa
- Operator of the producing Galoc oil field in the Philippines
- Opportunity rich with substantial exploration prospects and leads

DIRECTORS

Chairman:

Rick Crabb

Non-Executive Directors:

Ian Boserio

Ian Macliver

John Jetter

Rufino Bomasang

OFFICERS

Chief Executive Officer:

Matthew Allen

Chief Financial Officer:

Craig Hasson

Chief Legal Counsel and Company Secretary:

Scott Blenkinsop

CONTACTS

ASX Code: OEL

32 Delhi Street
West Perth WA 6005 Australia

E: info@ottoenergy.com

P: +61 8 6467 8800

F: +61 8 6467 8801

MEDIA

MAGNUS Investor Relations + Corporate Communication

Matthew Gerber

E: mgerber@magnus.net.au

P: +61 2 8999 1010

John Gardner

E: jgardner@magnus.net.au

P: +61 8 6160 4900

Definitions

- (1) "\$m" means USD millions of dollars
- (2) "bbl" means barrel
- (3) "bbls" means barrels

Persons compiling information about hydrocarbons

The reserve and contingent resource information in this report is based on information compiled by Mr Mark Pogson MSc (DIC), PhD (Physical Chemistry), BSc (Chemistry and Geochemistry), who has consented to the inclusion of such information in this report in the form and context in which it appears. Mr Pogson consultant to the Company, with more than 25 years relevant experience in the petroleum industry and is a member of The Society of Petroleum Engineers (SPE).

Reserves and Contingent resources have been estimated using both probabilistic and deterministic methods. Otto is not aware of any new information or data that materially affects the assumptions and technical parameters underpinning the estimates of reserves and contingent resources and the relevant market announcements referenced continue to apply and have not materially changed.

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, 01/05/2013

Name of entity

Otto Energy Ltd

ABN

56 107 555 046

Quarter ended ("current quarter")

30 September 2014

Consolidated statement of cash flows

Cash flows related to operating activities		Current quarter \$US'000	Year to date (12 months) \$US'000
1.1	Receipts from product sales and related debtors	22,232	22,232
1.2	Payments for		
	(a) exploration & evaluation	(2,190)	(2,190)
	(b) development	-	-
	(c) production	(5,495)	(5,495)
	(d) administration	(2,110)	(2,110)
1.3	Dividends received	-	-
1.4	Interest and other items of a similar nature received	10	10
1.5	Interest and other costs of finance paid	(3)	(3)
1.6	Income taxes paid	-	-
1.7	Other	754	754
Net Operating Cash Flows		13,198	13,198
Cash flows related to investing activities			
1.8	Payment for purchases of:		
	(a) prospects	-	-
	(b) equity investments	-	-
	(c) other fixed assets	-	-
1.9	Proceeds from sale of:		
	(a) prospects	-	-
	(b) equity investments	-	-
	(c) deposit from sale of subsidiary	10,140	10,140
1.10	Loans to other entities	-	-
1.11	Loans repaid by other entities	165	165
1.12	Other (provide details if material)	-	-
Net investing cash flows		10,305	10,305

+ See chapter 19 for defined terms.

Appendix 5B

Mining exploration entity and oil and gas exploration entity quarterly report

1.13	Total operating and investing cash flows (brought forward)	23,503	23,503
Cash flows related to financing activities			
1.14	Proceeds from issues of shares, options, etc.	-	-
1.15	Proceeds from sale of forfeited shares	-	-
1.16	Proceeds from borrowings	-	-
1.17	Repayment of borrowings	-	-
1.18	Dividends paid	-	-
1.19	Other (provide details if material)	-	-
	Net financing cash flows	-	-
	Net increase (decrease) in cash held	23,503	23,503
1.20	Cash at beginning of quarter/year to date	7,735	7,735
1.21	Exchange rate adjustments to item 1.20	(56)	(56)
1.22	Cash at end of quarter	31,182	31,182

Payments to directors of the entity, associates of the directors, related entities of the entity and associates of the related entities

		Current quarter \$US'000
1.23	Aggregate amount of payments to the parties included in item 1.2	108
1.24	Aggregate amount of loans to the parties included in item 1.10	-

1.25 Explanation necessary for an understanding of the transactions

Payment of Directors Fees 108

Non-cash financing and investing activities

2.1 Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows

Nil

2.2 Details of outlays made by other entities to establish or increase their share in projects in which the reporting entity has an interest

Nil

Financing facilities available

Add notes as necessary for an understanding of the position.

	Amount available \$US'000	Amount used \$US'000
3.1	Loan facilities	-
3.2	Credit standby arrangements	-

+ See chapter 19 for defined terms.

Estimated cash outflows for next quarter

	\$US'000
4.1 Exploration and evaluation	4,443
4.2 Development	-
4.3 Production	5,905
4.4 Administration	1,673
Total	12,021

Reconciliation of cash

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.	Current quarter \$US'000	Previous quarter \$US'000
5.1 Cash on hand and at bank	31,182	7,735
5.2 Deposits at call	-	-
5.3 Bank overdraft	-	-
5.4 Other (Term Deposit)	-	-
Total: cash at end of quarter (item 1.22)	31,182	7,735

Changes in interests in mining tenements and petroleum tenements

	Tenement reference and location	Nature of interest (note (2))	Interest at beginning of quarter	Interest at end of quarter
6.1	Interests in mining tenements and petroleum tenements relinquished, reduced or lapsed			
6.2	Interests in mining tenements and petroleum tenements acquired or increased			

Issued and quoted securities at end of current quarter

+ See chapter 19 for defined terms.

Appendix 5B

Mining exploration entity and oil and gas exploration entity quarterly report

Description includes rate of interest and any redemption or conversion rights together with prices and dates.

		Total number	Number quoted	Issue price per security (see note 3) (cents)	Amount paid up per security (see note 3) (cents)
7.1	Preference securities (description)	Nil	Nil		
7.2	Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions	Nil	Nil		
7.3	*Ordinary securities	1,151,790,071	1,151,790,071		
7.4	Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs	Nil Nil	Nil Nil	Nil	Nil
7.5	*Convertible debt securities (description)	Nil	Nil		
7.6	Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted	Nil	Nil		
7.7	Options (description and conversion factor)	9,250,000 Unlisted Options	Nil	750,000 Exercise Price \$0.12	On or before 13 October 2014
				500,000 Exercise Price \$0.12	On or before 5 January 2015
				8,000,000 Exercise Price \$0.1113	On or before 2 December 2016

+ See chapter 19 for defined terms.

Appendix 5B

Mining exploration entity and oil and gas exploration entity quarterly report

		12,500,000 Unlisted Performance Rights	Nil	4,000,000 Performance Rights	On or before 31 December 2014
				8,500,000 Performance Rights	On or before 1 April 2016
7.8	Issued during quarter	Nil	Nil	Nil	Nil
7.9	Exercised during quarter	Nil	Nil	Nil	Nil
7.10	Expired during quarter	Nil	Nil	Nil	Nil
		Nil	Nil	Nil	Nil
7.11	Debentures <i>(totals only)</i>	Nil	Nil		
7.12	Unsecured notes <i>(totals only)</i>	Nil	Nil		

Compliance statement

- 1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act or other standards acceptable to ASX (see note 5).
- 2 This statement does give a true and fair view of the matters disclosed.

Matthew Allen
Chief Executive Officer
27 October 2014

+ See chapter 19 for defined terms.

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 wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.
- 2 The "Nature of interest" (items 6.1 and 6.2) includes options in respect of interests in mining tenements and petroleum tenements acquired, exercised or lapsed during the reporting period. If the entity is involved in a joint venture agreement and there are conditions precedent which will change its percentage interest in a mining tenement or petroleum tenement, it should disclose the change of percentage interest and conditions precedent in the list required for items 6.1 and 6.2.
- 3 **Issued and quoted securities** The issue price and amount paid up is not required in items 7.1 and 7.3 for fully paid securities.
- 4 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.
- 5 **Accounting Standards** ASX will accept, for example, the use of International Financial Reporting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.

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