H1 FY22 FINANCIAL RESULTS

Otto Energy Limited (ASX:OEL) (**Otto** or the **Company**) is pleased to provide its financial results for the half year ended 31 December 2021.

STRATEGIC DELIVERY

- Continued to advance the Company's strategic plan, built upon the following three pillars:

Pillar 1 – Base asset delivery excellence

- Base production from South Marsh 71 (**SM 71**) and Lightning continues to be at or above expectations.
- Green Canyon 21 "Bulleit" well (**GC 21**) producing intermittently from the MP Sand while awaiting a recompletion in the shallower DTR-10 Sand, expected in mid CY 2022. Recompletion costs are budgeted to be paid out of free cash flow.

- **Pillar 2 – Organic growth within existing base**
  - At SM 71, recompletion potential for the F2 well and re-entry potential for the temporarily abandoned F5 are being targeted for CY 2022, consistent with Otto's current planning and budget.
  - Resource progression at Lightning targeted for CY 2022, consistent with Otto's current planning and budget. Seismic data and mapping are ongoing to develop specific well proposals for Green #3 and #4.
- **Pillar 3 – Inorganic growth via opportunity capture to enhance value**
  - Successful sale of 11,000,000 shares of Pantheon Resources Plc (LSE: PANR) (**Pantheon**) stock in exchange for approximately US$10.5 million. The Company retains 3,272,592 Pantheon shares.
  - Successful discovery at Vick #1 well in Lavaca County, Texas, operated by Forza Operating, Inc. The well encountered 12 feet of net pay in the shallower Yegua formation, as expected. Completion operations are underway in the Yegua interval at approximately 5,450 feet TVD. First production from this well is being expected during Q1 2022.
  - Otto continues to evaluate prospects, assets and corporate entities with respect to whether a purchase and/or consolidation would be a good fit with its portfolio.

FINANCIAL DELIVERY

EARNINGS

- **Total WI revenue increased by 57%** to US$22.6 million (H1 FY21: US$14.4 million), due to an increase in crude oil, natural gas, and NGL prices during the current half year.
- **Net operating revenue increased by 62%** to US$18.1 million (H1 FY21: US$11.2 million).
- **Production decreased by 21%** to 2,431 boe/d at 59% liquids (H1 FY21: 3,068 boe/d at 55% liquids) due to normal production characteristics, combined with the operator of the Lightning field reducing flowrates in May 2021, and again in October 2021, in order to protect the reservoir.
- **EBITDAX and EBITDA increased by 299% and 255%, respectively**.
  - EBITDAX increased to US$17.2 million (H1 FY21: -US$8.6 million) while EBITDA increased to US$16.0 million (H1 FY21: -US$10.3 million) as a result of impairment charges for the previous period and a gain on investments for the current period.
- **Adjusted EBITDAX and Adjusted EBITDA increased by 73% and 100%, respectively**.
  - Adjusted EBITDAX increased to US13.6 million (H1 FY21: US$7.9 million) while Adjusted EBITDA increased to US$12.4 million (H1 FY21: US$6.2 million) as a result of higher revenues and lower exploration costs.
- **Net Income after taxes** of US$11.1 million (H1 FY21: -US$14.3 million).

CASH FLOWS

- Net operating cashflow (pre-exploration) of US$10.2 million (H1 FY21: US$8.3 million).
- Net operating cashflow (post exploration) of US$9.1 million (H1 FY21: US$4.6 million).
- Free cashflow (operating net investing) of US$19.7 million (H1 FY21: -US$2.3 million).
- Debt repayment of US$4.6 million during the half-year.

LIQUIDITY

- Balance date cash of US$26.2 million.
- Residual equity interest held in Pantheon valued at US$3.4 million as at 31 December 2021 (US$6.1 million as of 1 March 2022).[1]
- Debt at balance date of US$6.9 million.

OPERATIONS

[1] Based on prevailing PANR share price of 77.30 pence and a 1.33 US$ to GBP exchange rate as of 21 January 2022 and a PSNR share price of 139 pence and a 1.33 US$ to GBP exchange rate as of 1 March 2022.

	H1 FY22	H1 FY21	% change
Total Oil (Bbls)	231,234	268,580	-14%
Total Gas (Mcf)	1,096,649	1,528,190	-28%
Total NGLs (Bbls)	33,287	41,242	-19%
Total BOE	447,295	564,520	-21%
Total (Boe/d)	2,431	3,068	-21%
Percent Liquids (%)	59%	55%	8%
Total WI Revenue (US$MM)	$ 22.6	$ 14.4	57%
Avg oil price (US$/Bbl) *	$ 70.68	$ 38.06	86%
Avg gas price (US$/Mmbtu) *	$ 4.59	$ 2.33	97%
Avg NGL price (US$/Bbl)	$ 33.37	$ 12.78	161%
Avg WA price (US$/Boe) *	$ 50.58	$ 25.54	98%

*Average price does not consider the effects of hedges. If including hedges, the average realized oil price would be US$57.79 and US$42.07 for the Half-Year ended 31 December 2021 and 2020, respectively; the average realized gas price would be US$4.32 and US$2.33 for the Half-Year ended 31 December 2021 and 2020, respectively; and the average weighted average realized price would be US$43.22 and US$27.46 for the Half-Year ended 31 December 2021 and 2020, respectively.

COMMENT FROM EXECUTIVE CHAIRMAN AND CEO, MIKE UTSLER

"We are pleased to be presenting such a robust set of financial results for the half-year. Interim after-tax profit of US$11.1 million and free cash flow of US$19.7 million reflect the improved energy pricing environment and a commitment to our overall strategy framework. The Otto balance sheet is also strong. A net cash position of US$19.3 million positions us well to weather cyclical variation and take advantage of new drilling and/or development opportunities that offer clear risk-weighted value to our shareholders."

OTTO AT A GLANCE

Otto is an ASX-listed oil and gas exploration and production company focused on the Gulf of Mexico region. Otto currently has oil production from its SM 71 and GC 21 fields in the Gulf of Mexico and gas/condensate production from its Lightning asset in onshore Matagorda County, Texas. Cashflow from its producing assets underpins its strategy and financial stability.

DIRECTORS
Michael Utsler – Chairman & CEO
John Jetter – Non-Executive
Geoff Page – Non-Executive
Paul Senycia - Non-Executive

CHIEF FINANCIAL OFFICER
Sergio Castro

COMPANY SECRETARY
Kaitlin Smith (AE Administrative Services)

ASX Code: OEL

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Definitions

"bbl" = barrel
"bbls" = barrels
"bopd" = barrels of oil per day
"Mbbl" = thousand barrels
"Mscf" = 1000 standard cubic feet
"NGLs" = natural gas liquids
"MMscf" = million standard cubic feet
"Mmbtu" = million British thermal units
"Mboe" = thousand barrels of oil equivalent ("boe") with a boe determined using a ratio of 6,000 cubic feet of natural gas to one barrel of oil – 6:1 conversion ratio is based on an energy equivalency conversion method and does not represent value equivalency
"MMboe" = million barrels of oil equivalent ("boe") with a boe determined on the same basis as above
"NRI" means Net Revenue Interest
"WI" means Working Interest

This announcement is approved for release by the Board of Otto Energy Limited.

Appendix 1 - Reconciliation of non-IFRS financial information

Where indicated, this announcement also contains some non-IFRS financial information, including in the H1 FY22 Highlights. Below is a reconciliation of non-IFRS financial information to reviewed IFRS financial information. EBITDAX (earnings before interest, tax, depreciation, depletion, exploration, and evaluation), EBITDA (earnings before interest, tax, depreciation, and depletion), EBIT (earnings before interest and tax), and Adjusted EBITDAX and Adjusted EBITDA (EBITDAX and EBITDA, respectively, less non-cash items such as impairment, unrealized gain (loss) on derivatives, and unrealized gain on investments) are non IFRS measures that are presented to provide investors with further information and perspective on the overall financial performance and operations of the Company. The non-IFRS financial information is not reviewed, however the numbers have been extracted from the reviewed financial statements. The reviewed Half Year Financial Report accompanies this summary release and is available on the Otto Energy website at www.ottoenergy.com. Please refer to the reviewed financial statements for the IFRS information.

	US$(000)		$/Boe	
	H1 FY22	**H1 FY21**	**H1 FY21**	**H1 FY21**
Operating revenue, net of royalties	18,128	11,175	40.53	19.80
Gathering and production charges (opex)	(2,420)	(2,417)	(5.41)	(4.28)
Cash Operating Gross Profit	**15,708**	**8,758**	**35.12**	**15.51**
Loss on derivatives	(1,154)	(2,655)	(2.58)	(4.70)
Net admin costs (G&A) *	(2,791)	(1,828)	(6.24)	(3.24)
New ventures and business development costs	(239)	(89)	(0.53)	(0.16)
Gain on investments at fair value	5,714	-	12.77	-
Impairment losses	-	(12,850)	-	(22.76)
Other income	8	19	0.02	0.03
EBITDAX	**17,246**	**(8,645)**	**38.56**	**(15.31)**
Exploration expenditures	(1,220)	(1,685)	(2.73)	(2.98)
EBITDA	**16,026**	**(10,330)**	**35.83**	**(18.30)**
Amortisation of capitalised developments	(2,319)	(2,237)	(5.18)	(3.96)
Depreciation - admin	(104)	(143)	(0.23)	(0.25)
EBIT	**13,603**	**(12,710)**	**30.41**	**(22.51)**
Finance income/(costs)	(1,144)	(1,547)	(2.56)	(2.74)
Net income (loss) before tax	**12,459**	**(14,257)**	**27.85**	**(25.26)**
Tax	(1,344)	(10)	(3.00)	(0.02)
Net income (loss) after tax	**11,115**	**(14,267)**	**24.85**	**(25.27)**
* Net admin costs (G&A) includes:				
employee benefits	(2,358)	(1,257)	(5.27)	(2.23)
corporate costs	(498)	(587)	(1.11)	(1.04)
FX losses	65	16	0.15	0.03
Net admin costs (G&A)	**(2,791)**	**(1,828)**	**(6.24)**	**(3.24)**
Adjusted EBITDAX **	**13,578**	**7,862**	**30.36**	**13.93**
Adjusted EBITDA **	**12,358**	**6,177**	**27.63**	**10.94**

** Adjusted EBITDAX and Adjusted EBITDA are EBITDAX and EBITDA above, respectively, less non-cash items below

Non Cash Items				
Non-cash component of gain on investments	1,560	-	3.49	-
Non-cash component of loss on derivatives	2,108	(3,657)	4.71	(6.48)
Impairment losses	-	(12,850)	-	(22.76)
Non cash items	**3,668**	**(16,507)**	**8.20**	**(29.24)**
Reconciliation of net cash outflow from operating activities				
Operating cash flows from operating activities before exploration	10,218	8,290	22.84	14.69
Payments for exploration and evaluation	(1,072)	(3,694)	(2.40)	(6.54)
Net cash outflow from operating activities	**9,146**	**4,596**	**20.45**	**8.14**

OTTO ENERGY LIMITED

ABN: 56 107 555 046

Half-year financial report

31 December 2021

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CORPORATE DIRECTORY

Directors	Mr Michael Utsler – Executive Chairman, Chief Executive Officer and Managing Director Mr John Jetter – Non-Executive Director Mr Geoff Page – Non-Executive Director Mr Paul Senycia – Non-Executive Director
Company Secretary	Ms Kaitlin Smith
Key Executives	Mr Michael Utsler – Executive Chairman, Chief Executive Officer and Managing Director Mr Sergio Castro – Chief Financial Officer Mr Will Armstrong – Vice President Exploration and New Ventures Mr Philip Trajanovich – Commercial and Land Manager
Principal registered office in Australia	Ground Floor 70 Hindmarsh Square Adelaide SA 5000 Tel: + 61 8 6467 8800 Fax: + 61 8 6467 8801
Houston Office	Two Allen Center 1200 Smith Street Ste 1080 Houston Texas 77002 Tel: +1 713-893-8894
Share Registry	Link Market Services Limited Level 12 QV1 Building 250 St Georges Terrace Perth WA 6000 Tel: + 61 8 9211 6670 Fax: + 61 2 9287 0303
Auditors	BDO Audit (WA) Pty Ltd Level 9, Mia Yellagonga Tower 2 5 Spring Street Perth WA 6000 Tel: + 61 8 6382 4600 Fax: + 61 8 6382 4601
Securities Exchange Listing	Australian Securities Exchange Level 8, Exchange Plaza 2 The Esplanade Perth WA 6000 ASX Code: OEL
Website address	www.ottoenergy.com
ABN	56 107 555 046

DIRECTORS' REPORT

For the half-year ended 31 December 2021

The Directors present their report together with the consolidated financial statements of the Group comprising Otto Energy Limited (referred to as 'Otto' or the 'Company') and its subsidiaries for the half-year ended 31 December 2021 (the 'Group').

Directors

The Directors in office at any time during the half-year and until the date of this report are set out below. All Directors were in office for the entire period.

Mr Michael Utsler
Mr John Jetter
Mr Geoff Page
Mr Paul Senycia

Company Secretary

Ms Kaitlin Smith

Financial Position

As at 31 December 2021, the Company had total assets of US$68.7 million (June 2021: US$61.3 million) and total liabilities of US$17.6 million (June 2021: US$21.4 million), resulting in net assets of US$51.1 million (June 2021: US$39.9 million). Included in these amounts were cash of US$26.2 million (June 2021: US$11.1 million) and borrowings, net of transaction costs, of US$6.0 million (June 2021: US$10.1 million).

Production and Development

Summary Production Volumes Table (WI)

	H1 FY22	H1 FY21	% change
Total Oil (Bbls)	231,234	268,580	-14%
Total Gas (Mcf)	1,096,649	1,528,190	-28%
Total NGLs (Bbls)	33,287	41,242	-19%
Total BOE	447,295	564,520	-21%
Total (Boe/d)	2,431	3,068	-21%
Percent Liquids (%)	59%	55%	8%
Total WI Revenue (US$MM)	$ 22.6	$ 14.4	57%
Avg oil price (US$/Bbl) *	$ 70.68	$ 38.06	86%
Avg gas price (US$/Mmbtu) *	$ 4.59	$ 2.33	97%
Avg NGL price (US$/Bbl)	$ 33.37	$ 12.78	161%
Avg WA price (US$/Boe) *	$ 50.58	$ 25.54	98%

*Average price does not consider the effects of hedges. If including hedges, the average realized oil price would be US$57.79 and US$42.07 for the Half-Year ended 31 December 2021 and 2020, respectively; the average realized gas price would be US$4.32 and US$2.33 for the Half-Year ended 31 December 2021 and 2020, respectively; and the average weighted average realized price would be US$43.22 and US$27.46 for the Half-Year ended 31 December 2021 and 2020, respectively.

The decrease in production is mainly attributable to normal production characteristics, combined with the operator of the Lightning field reducing flowrates in May 2021, and again in October 2021, in order to protect the reservoir.

Operating Results

Consolidated net income from operations after income tax for the half-year ended 31 December 2021 was US$11.1 million (2020: net loss of US$14.3 million). This improvement was primarily driven by a non-cash impairment charge on Green Canyon 21 in the prior period, as well as current period higher sales revenues, higher gain on investments, lower exploration expenses, lower financing costs, and a lower loss on derivatives, partially offset by higher administrative expenses. Excluding the non-cash effects of impairment charges, derivatives, and the mark-to-market gain on the shares of PANR held, the Company would have realized pre-tax net income of US$9.0 million for the current half-year, compared to US$2.3 million for the previous half-year.

Net revenue for the current half-year was US$18.1 million (2020: US$11.2 million), an increase attributable to an 86% increase in crude oil prices, a 97% increase in natural gas prices, and a 161% increase in natural gas liquids prices, partially offset by a decrease in production due to normal production characteristics, combined with the operator of the Lightning field reducing flowrates in May 2021 and October 2021.

Gain on investments (net of transaction costs) for the current half-year was US$5.7 million (2020: nil), which was attributable to the shares of Pantheon Resources Plc (LSE: PANR) held by the Company. Of this amount approximately US$4.3 million was related to the gain on the sale of 11,000,000 shares, while US$1.4 million was the gain on the increase in value of the remaining 3,272,492 shares. See Pantheon Shareholding section below for additional information.

Exploration expenditures during the current half-year was US$1.2 million (2020: US$1.7 million), a decrease as a result of fewer exploratory prospects during the current half year.

Financing costs for the current half-year were US$1.1 million (2020: US$1.5 million), a decrease due to a lower outstanding balance of the Company's credit facility with Macquarie Bank which was established in November 2019.

Administrative expenses for the current half-year were US$3.1 million (2020: US$2.1 million), an increase associated with cost accruals associated with year-end administrative and restructuring costs.

Impairment charges for the current half-year were nil (2020: US$12.9 million). The prior year charge related to the Bulleit well at Green Canyon 21 (GC 21).

Commodity Price Risk Management

Loss on derivatives for the current half-year were US$1.2 million (2020: -US$2.7 million), as a result of market prices exceeding the Company's hedged prices during the period. As of 31 December 2021, Otto had a total hedge book of 167,939 barrels of oil hedged through September 2022 via swaps, at a weighted average LLS price of US$56.36.

Asset Level Summary Performance

Gulf of Mexico – South Marsh Island 71 (SM 71)

Production from the SM 71 F Platform in the Gulf of Mexico commenced in March 2018 with the F1 and F3 wells producing in the primary D5 Sand reservoir and the F2 well producing from the B55 Sand. Otto owns a 50% WI (40.63% NRI) in this field, with production for the half-year ended 31 December 2021 and 2020 as follows:

SM 71 Production Volumes		H1 FY22	H1 FY21	% change
WI	SM 71 – Oil (bbls)	198,942	219,608	-9%
	SM 71 – Gas (Mscf)	154,422	141,437	9%
	SM 71 – Total (Boe)	224,679	243,181	-8%
	SM 71 – Total (Boepd)	1,221	1,322	-8%
NRI	SM 71 – Oil (bbls)	161,640	178,432	-9%
	SM 71 – Gas (Mscf)	125,468	114,918	9%
	SM 71 – Total (Boe)	182,552	197,585	-8%
	SM 71 – Total (Boepd)	992	1,074	-8%

SM 71 Sales Revenue		H1 FY22	H1 FY21	% change
WI	SM 71 – Oil - $million	$ 14.0	$ 8.3	69%
	SM 71 – Oil - $ per bbl	$ 70.56	$ 37.85	86%
	SM 71 – Gas - $million	$ 0.9	$ 0.4	141%
	SM 71 – Gas – $ per MMbtu	$ 4.95	$ 2.30	115%
	SM 71 – Total – $million	$ 14.9	$ 8.7	72%
NRI	SM 71 – Total – $million	$ 12.1	$ 7.1	72%

Equivalent production volumes for the current half-year were below production volumes for the prior half-year due to normal production characteristics. Sales revenues increased as a result of the 86% increase in crude oil prices received and a 115% increase in natural gas prices received. Recompletion potential for the F2 well and re-entry potential for the temporarily abandoned F5 well remain under evaluation for FY2022. Production was approximately 1,299 Boe/d as of 31 December 2021.

Texas Gulf Coast – Lightning Field

The first well in the Lightning field, the Green #1, commenced production in May 2019, while the Green #2 began production in February 2020. Otto owns a 37.5% WI (28.2% NRI) in this field, with production for the half-year ended 31 December 2021 and 2020 as follows:

Lightning Production Volumes		H1 FY22	H1 FY21	% change
WI	Lightning – Oil (bbls)	30,369	43,569	-30%
	Lightning – Gas (Mscf)	932,147	1,363,379	-32%
	Lightning – NGLs (bbls)	32,737	40,391	-19%
	Lightning – Total (Boe)	218,464	311,190	-30%
	Lightning – Total (Boepd)	1,187	1,691	-30%
NRI	Lightning – Oil (bbls)	22,849	32,780	-30%
	Lightning – Gas (Mscf)	701,316	1,025,760	-32%
	Lightning – NGLs (bbls)	24,630	30,389	-19%
	Lightning – Total (Boe)	164,365	234,129	-30%
	Lightning – Total (Boepd)	893	1,272	-30%

Lightning Sales Revenue		H1 FY22	H1 FY21	% change
WI	Lightning – Oil - $million	$ 2.2	$ 1.7	29%
	Lightning – Oil - $ per bbl	$ 71.60	$ 38.83	84%
	Lightning – Gas - $million	$ 4.2	$ 3.2	31%
	Lightning – Gas – $ per MMbtu	$ 4.53	$ 2.32	95%
	Lightning – NGLs - $million	$ 1.1	$ 0.5	111%
	Lightning – NGLs – $ per bbl	$ 33.38	$ 12.84	160%
	Lightning – Total – $million	$ 7.5	$ 5.5	38%
NRI	Lightning – Total – $million	$ 5.7	$ 4.1	38%

Production volumes for the current half-year were lower than production volumes for the prior half-year due to normal production characteristics, combined with the operator of the Lightning field reducing flowrates in May 2021 and October 2021. Sales revenues for the current half-year were higher than sales revenues for the prior half-year due to an 84% increase in crude oil prices received, a 95% increase in natural gas prices received and a 160% increase in the price received for natural gas liquids.

Reinterpretation of the 3D seismic by the operator confirms that there are multiple levels of hydrocarbon pay in the Lightning field. While production is currently from the upper Tex Miss 1 zone, the lower Tex Miss 2/3 zone was tested in both wells while they were being drilled. The Tex Miss 2/3 zone appears to be aerially significantly larger and potentially thicker but indicates lower permeability. Future wells (i.e. Green #3 in FY2022) might test the ability to stimulate the Tex Miss 2/3 zone and unlock its significant upside potential.

Gulf of Mexico – Green Canyon 21

The "Bulleit" appraisal well located at GC 21 commenced production from the deeper MP sands on 15 October 2020 after experiencing multiple weather delays in reaching stabilized production rates. Otto owns a 16.67% WI (13.34% NRI) in this field, with production for the half-year ended 31 December 2021 and 2020 as follows:

GC 21 Production Volumes		H1 FY22	H1 FY21	% change
WI	GC 21 – Oil (bbls)	1,922	5,403	-64%
	GC 21 – Gas (Mscf)	10,079	23,374	-57%
	GC 21 – NGLs (bbls)	550	851	-35%
	GC 21 – Total (Boe)	4,152	10,150	-59%
	GC 21 – Total (Boepd)	23	55	-59%
NRI	GC 21 – Oil (bbls)	1,538	4,323	-64%
	GC 21 – Gas (Mscf)	8,063	18,699	-57%
	GC 21 – NGLs (bbls)	440	680	-35%
	GC 21 – Total (Boe)	3,322	8,120	-59%
	GC 21 – Total (Boepd)	18	44	-59%

GC 21 Sales Revenue		H1 FY22	H1 FY21	% change
WI	GC 21 – Oil - $million	$ 0.1	$ 0.2	-39%
	GC 21 – Oil - $ per bbl	$ 69.21	$ 40.09	73%
	GC 21 – Gas - $million	$ 0.1	$ 0.1	-17%
	GC 21 – Gas – $ per MMbtu	$ 4.62	$ 2.83	63%
	GC 21 – NGLs - $million	$ 0.02	$ 0.0	118%
	GC 21 – NGLs – $ per bbl	$ 32.37	$ 9.60	237%
	GC 21 – Total – $million	$ 0.2	$ 0.3	-30%
NRI	GC 21 – Total – $million	$ 0.2	$ 0.2	-30%

The Company has budgeted to recomplete the GC 21 well in the shallower DTR-10 Sand in Q3 2022 at a budgeted cost of US$35.5 million (US$5.9 million, net to Otto). These costs are budgeted to be paid out of existing free cash flow. This schedule is dependent upon rig arrival date, weather and deliverability, and timing of required materials. It is estimated that point-forward economics for the recompletion are highly positive and strongly value accretive.

Exploration

Eaves Prospect

The Vick #1 well, within the Eaves Prospect in Lavaca County, Texas, was spud on 9 December 2021 and reached 9,242' TVD on 22 December 2021. The well was logged and cored across multiple intervals, encountering a total of 12 feet of net pay in the shallower Yegua formation as expected. In the Wilcox sand targets, the well encountered 16 feet of net pay. The Wilcox was encountered across three separate sands as expected.

During completion operations, a completion attempt was initially made in the deeper Wilcox section, however the well has now been plugged back and is being completed in the shallower Yegua interval at approximately 5,450 feet TVD, with first production expected in Q1 CY 2022. Total costs to drill, complete and bring this well to production are expected to be approximately US$0.2 million, net to Otto.

Schindler Well

The Schindler #1 well in Colorado County, TX was spud on 14 October 2021 and reached 13,658' TVD on 3 December 2021. The well encountered 11 separate gas shows in the primary Wilcox objective, however triple combo wireline log evaluations indicated that the sands were too tight to be producible. The well has been plugged and abandoned with a total final cost of approximately US$0.9 million, net to Otto.

South Timbalier 48 Lease

Otto was notified as being the apparent high bid on the South Timbalier 48 (ST 48) at OCS Lease Sale 257 held in November 2021. Otto bid the minimum entry price of US$125,000 and was confirmed as the high bidder on ST 48. In January 2022, a United Sates federal judge invalidated the results of the lease sale and an appeal has now been lodged by the API (American Petroleum Institute). Otto is awaiting clarification on the ultimate status of the Lease Sale 257 and will inform the market as to the ultimate status of the lease sale.

Mosquito Bay West and Oyster Bayou South

On 2 March 2022, Otto announced that it had agreed to participate in two new exploration wells to be drilled in Q4 FY 2022, the Mosquito Bay West and Oyster Bayou South, both in Terrebonne Parish, Louisiana.

See Significant Events after Balance Sheet date for additional information.

Pantheon Shareholding (LSE:PANR)

On 21 October 2021, the Company announced that it had successfully sold 11,000,000 shares of Pantheon Resources Plc (LSE: PANR) (Pantheon) in exchange for approximately US$10.5 million. The Company continues to own 3,272,592 shares of PANR, valued at approximately US$3.4 million as at 31 December 2021, as well as a 0.5% of 8/8ths overriding royalty interest (ORRI) in any future production from the Talitha Unit in Alaska, which is operated by Pantheon.

Liquidity and Debt

Otto's cash on hand at 31 December 2021 was approximately US$26.2 million, inclusive of the PANR proceeds (June 2021: US$11.1 million).

On 2 November 2019, the Company entered a three-year senior secured US$55 million facility with Macquarie Bank Limited ("Macquarie") (the "Credit Facility"), secured by substantially all of the Company's oil and gas producing assets. The initial commitment under the Credit Facility is US$35 million (made up of US$25 million available under Tranche A1 and US$10 million available under Tranche A2), with an additional US$20 million subject to further credit approval from Macquarie, with an interest rate of LIBOR plus 8.0% per annum. Quarterly principal repayments commenced on 31 March 2020.

As of 31 December 2021, the Company had drawn US$25 million under Tranche A1 and had repaid US$18.1 million, resulting in a closing debt balance of US$6.9 million. Tranche A2 remains undrawn as of 31 December 2021. The Credit Facility currently matures on 4 November 2022 and is secured by substantially all of the Company's oil and gas producing assets. As of 31 December 2021, the Company was in compliance with all its financial covenants.

Option Issue

In addition to customary upfront fees payable to Macquarie, the Company issued to Macquarie 42.5 million options to subscribe for fully paid ordinary shares in the Company at an exercise price of A$0.08 to access Tranche A1. A further 42.5 million options will be issued on initial draw of Tranche A2 and will expire four years after issue date.

On 27 August 2021, the Company announced that it had issued 30,000,000 options to Foster Stockbroking Pty Ltd pursuant to the terms of an Equity Capital Markets Advisory Agreement. Of these, 20,000,000 options have an exercise price of $0.02 per option with an expiry date of 27 August 2024 and 10,000,000 options have an exercise price of $0.025 per option and an expiry date of 27 August 2024.

Significant Events after Balance Sheet Date

On 2 March 2022, Otto announced that it had agreed to participate in two new exploration wells to be drilled in Q4 FY 2022, the Mosquito Bay West and Oyster Bayou South, in state waters in Terrebonne Parish, Louisiana. The wells will both target a number of locally productive Miocene sands, with each well having a number of separate objective sands. In the event of success, production from both wells is set to be processed and transported to market through an existing production facility, based on pre-agreed terms and conditions.

The wells are to be drilled from a barge rig in approximately 9 feet of water with spudding of both wells expected during May 2022. The Mosquito Bay West well (30% Otto WI) is expected to cost Otto US$1.7 MM on a dry hole cost basis and the Oyster Bayou South well (30% Otto WI) is also expected to cost Otto US$1.7 MM on a dry hole cost basis. Both wells are to be funded from existing cash reserves.

No other matters or circumstances have arisen since 31 December 2021 that would have a material impact on the Group's operations.

Rounding of amounts

The Company is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191, and in accordance with that instrument, amounts in the consolidated financial statements and Directors' Report have been rounded off to the nearest thousand dollars, unless otherwise indicated.

Auditor's independence declaration

The auditor's independence declaration is included on page 9 of this report. This report is made in accordance with a resolution of Directors.

Mr Michael J. Utsler
Executive Chairman and Chief Executive Officer

14 March 2022

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DECLARATION OF INDEPENDENCE BY PHILLIP MURDOCH TO THE DIRECTORS OF OTTO ENERGY LIMITED

As lead auditor for the review of Otto Energy Limited for the half-year ended 31 December 2021,

I declare that, to the best of my knowledge and belief, there have been:

1. No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
2. No contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Otto Energy Limited and the entities it controlled during the period.

Phillip Murdoch

Director

BDO Audit (WA) Pty Ltd

Perth, 14 March 2022

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the half-year ended 31 December 2021

	Note	31/12/2021 US$'000	31/12/2020 US$'000
Operating revenue (net)	5	18,128	11,175
Cost of sales	6	(4,739)	(4,654)
Gross Profit		**13,389**	**6,521**
Other income	5	8	19
Exploration expenditure	7	(1,220)	(1,685)
Gain on investments at fair value		5,714	-
Finance costs	8	(1,144)	(1,547)
Losses on derivatives	13	(1,154)	(2,655)
Impairment losses		-	(12,850)
Administration and other expenses	8	(3,134)	(2,060)
Income/(loss) before income tax		**12,459**	**(14,257)**
Income tax expense	9	(1,344)	(10)
Income/(loss) after income tax for the period		**11,115**	**(14,267)**
Other comprehensive income that may be recycled to profit or loss			
Total other comprehensive income		-	-
Total comprehensive income/(loss) for the period		**11,115**	**(14,267)**
Earnings per share			
Basic income/(loss) per share (US cents)		0.23	(0.35)
Diluted income/(loss) per share (US cents)		0.23	(0.35)

The above consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

For the half-year ended 31 December 2021

	Note	31/12/2021 US$'000	30/06/2021 US$'000
Current assets			
Cash equivalents	10	20,815	5,720
Restricted cash	10	5,380	5,380
Trade and other receivables		3,512	3,884
Financial assets at fair value through profit or loss		3,424	8,129
Right-of-use assets		35	-
Other financial assets		282	437
Total current assets		**33,448**	**23,550**
Non-current assets			
Oil and gas properties	11	34,748	36,963
Right-of-use assets		-	242
Property, plant and equipment		177	201
Other financial assets		375	375
Total non-current assets		**35,300**	**37,781**
Total assets		**68,748**	**61,331**
Current liabilities			
Trade and other payables		2,938	1,675
Borrowings (net of transaction costs)	12	6,045	8,179
Derivative financial instruments	13	3,404	4,703
Lease liabilities		27	151
Provisions		97	22
Total current liabilities		**12,511**	**14,730**
Non-current liabilities			
Borrowings (net of transaction costs)	12	-	1,950
Derivative financial instruments	13	-	809
Lease liabilities		-	123
Provisions		5,131	3,820
Total non-current liabilities		**5,131**	**6,702**
Total liabilities		**17,642**	**21,432**
Net assets		**51,106**	**39,899**
Equity			
Contributed equity	14	133,223	133,223
Reserves	15	10,506	10,414
Accumulated losses		(92,623)	(103,738)
Total equity		**51,106**	**39,899**

The above consolidated statement of financial position should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the half-year ended 31 December 2021

	Contributed equity	Share-based payments reserve	Foreign currency translation reserve	Accumulated losses	Total
	US$000	US$000	US$000	US$000	US$000
Balance at 1 July 2020	133,242	10,509	4,188	(103,288)	44,651
Loss for the period	-	-	-	(14,267)	(14,267)
Other comprehensive income	-	-	-	-	-
Total comprehensive loss for the period	-	-	-	(14,267)	(14,267)
Transactions with owners in their capacity as owners:					
Issue of shares (net of costs) – refer note 14	(19)	-	-	-	(19)
Equity benefits issued to employees – refer note 15	-	(103)	-	-	(103)
Balance at 31 December 2020	133,223	10,406	4,188	(117,555)	30,262
Balance at 1 July 2021	133,223	10,414	-	(103,738)	39,899
Gain for the period	-	-	-	11,115	11,115
Other comprehensive income	-	-	-	-	-
Total comprehensive income for the period	-	-	-	11,115	11,115
Transactions with owners in their capacity as owners:					
Equity benefits issued to Advisors – refer note 15	-	86	-	-	86
Equity benefits issued to employees – refer note 15	-	6	-	-	6
Balance at 31 December 2021	133,223	10,506	-	(92,623)	51,106

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the half-year ended 31 December 2021

	31/12/2021 US$'000	31/12/2020 US$'000
Cash flows from operating activities		
Oil and gas sales (net of royalties)	18,493	10,715
Payments to suppliers and employees	(7,656)	(1,434)
Payments for exploration and evaluation	(1,072)	(3,694)
Interest received	8	1
Interest paid	(624)	(1,005)
Other income (expenses)	(3)	13
Net cash inflow from operating activities	**9,146**	**4,596**
Cash flows from investing activities		
Payments for property, plant and equipment	(104)	(97)
Payments for sale of investments	10,479	-
Net of payments/credits for development	174	(7,247)
Bond for development asset	-	468
Net cash inflow/(outflow) used in investing activities	**10,549**	**(6,876)**
Cash flows from financing activities		
Transaction costs relating to issue of shares	-	(19)
Repayment of borrowings	(4,600)	(4,600)
Net cash outflow from financing activities	**(4,600)**	**(4,619)**
Net increase/(decrease) in cash and cash equivalents	15,095	(6,899)
Cash and cash equivalents at the beginning of the half-year	11,100	16,551
Effects of exchange rate changes on cash	-	17
Cash and cash equivalents at the end of the half-year	**26,195**	**9,669**

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the half-year ended 31 December 2021

1. Corporate information

The half-year consolidated financial report of the Group for the six months ended 31 December 2021 was authorised for issue in accordance with a resolution of the Directors on 14 March 2022.

Otto Energy Limited is a company incorporated and domiciled in Australia whose shares are publicly traded. The principle activities of the Group are described in the consolidated financial statements of the Group for the year ended 30 June 2021 which are available at www.ottoenergy.com.

2. Basis of preparation

The half-year consolidated financial report for the six months ended 31 December 2021 has been prepared in accordance with AASB 134 Interim Financial Reporting.

The half-year consolidated financial report does not include all the information and disclosures required in the annual financial report, and should be read in conjunction with the Group's financial report for the year ended 30 June 2021 which is available at www.ottoenergy.com.

3. Changes to the Group's accounting policies

There are no new or amended standards adopted by Otto Energy Limited for the 31 December 2021 half-year consolidated financial report.

4. Segment information

The Group has identified its operating segments based on the internal management reports that are reviewed and used by the executive management team in assessing performance and in determining the allocation of resources. The operating segments identified by management are based on the geographical locations of the business which are as follows: Gulf of Mexico (USA) and Other. Discrete financial information about each of these operating segments is reported to the executive management team on at least a monthly basis. The segment information for the reportable segments for the half-year ended 31 December 2021 and comparable period is as follows:

31 December 2021	**Gulf of Mexico (USA)**	**Other**	**Consolidated**
	US$'000	US$'000	US$'000
Operating revenue	18,128	-	18,128
Cost of sales	(4,739)	-	(4,739)
Gross profit	**13,389**	**-**	**13,389**
Other income	8	-	8
Exploration expenditure	(1,220)	-	(1,220)
Gain on investments at fair value	-	5,714	5,714
Finance costs	(1,140)	(4)	(1,144)
Administration and other expenses	(2,666)	(468)	(3,134)
Gains/Losses on derivatives	(1,154)	-	(1,154)
Loss before income tax	**7,217**	**5,242**	**12,459**
Income tax expense	-	(1,344)	(1,344)
Profit after income tax for the period	**7,217**	**3,898**	**11,115**
31 December 2021			
Total non-current assets	35,297	3	35,300
Total assets	49,095	19,653	68,748
Total liabilities	15,932	1,710	17,642

4. Segment information (continued)

31 December 2020	**Gulf of Mexico (USA)**	**Other**	**Consolidated**
	US$'000	US$'000	US$'000
Operating revenue	11,175	-	11,175
Cost of sales	(4,654)	-	(4,654)
Gross profit	**6,521**	**-**	**6,521**
Other income	-	19	19
Exploration expenditure	(1,436)	(249)	(1,685)
Impairment losses	(12,850)	-	(12,850)
Finance costs	(1,547)	-	(1,547)
Administration and other expenses	(1,484)	(576)	(2,060)
Gains/Losses on derivatives	(2,655)	-	(2,655)
Loss before income tax	**(13,451)**	**(806)**	**(14,257)**
Income tax expense	-	(10)	(10)
Loss after income tax for the period	**(13,451)**	**(816)**	**(14,267)**
30 June 2021			
Total non-current assets	37,777	4	37,781
Total assets	47,350	13,981	61,331
Total liabilities	21,099	333	21,432

5. Revenue and other income

	31/12/2021	**31/12/2020**
	US$'000	US$'000
South Marsh 71 (SM 71) Sales[i]		
Oil Sales	14,033	8,312
Gas Sales	877	354
Total Sales	14,910	8,666
Less: Royalties[i]	(2,788)	(1,619)
SM 71 Operating Revenue (Net)	12,122	7,047
Lightning Sales[ii]		
Oil Sales	1,562	1,769
Gas Sales	3,108	1,773
Natural Gas Liquids Sales	1,179	338
Lightning Operating Revenue (Net)	5,849	3,880
GC 21 Sales[iii]		
Oil Sales	133	217
Gas Sales	41	71
Natural Gas Liquids Sales	20	12
Total Sales	194	300
Less: Royalties[iii]	(37)	(52)
GC 21 Operating Revenue (Net)	157	248
Total Operating Revenue (Net)	18,128	11,175

5. Revenue and other income (continued)

	31/12/2021 US$'000	31/12/2020 US$'000
Interest income(iv)	8	1
Other income	-	18
	8	19

(i) SM 71 operating revenue is shown net of royalty payments payable to the (USA) Office of Natural Resources Revenue. Royalty payments are 18.75% of revenue under the terms of the SM 71 lease.
(ii) Proceeds from the sale of oil and gas from the Lightning field are received net of royalty payments.
(iii) GC 21 operating revenue is shown net of royalty payments totalling 20%.
(iv) Interest income is recognised using the effective interest rate method.

Recognition and measurement
Revenue is recognised when or as the Group transfers control of goods or services to a customer at the amount to which the Group expects to be entitled. If the consideration promised includes a variable component, the Group estimates the expected consideration for the estimated impact of the variable component at the point of recognition and re-estimated at every reporting period.

Sale of oil & gas
Revenue from the sale of SM 71 oil & gas is recognised and measured in the accounting period in which the goods and/or services are provided based on the amount of the transaction price allocated to the performance obligations. The performance obligation is the supply of oil & gas over the contractual term; the units of supply represent a series of distinct goods that are substantially the same with the same pattern of transfer to the customer. The performance obligation is considered to be satisfied as the customer receives the supply through the pipeline, based on the units delivered. Hence revenue is recognised over time.

Revenue from Lightning oil sales is recognised upon transfer of the product to the purchaser's transportation mode, currently via truck for oil, and at the production facilities for gas which is the point that title passes. Hence revenue is recognized at a point in time.

Production from GC 21 travels from the well via subsea flowline to the Talos owned GC 18 platform where the production is processed and sent to separate oil and gas transportation pipelines. Revenue from the sale of GC-21 oil is recognized at the inlet to the Shell Boxer Pipeline where the sale takes place. Gas is transported through the Manta Ray and Nautilus pipeline systems delivering gas at the Enterprise owned Neptune gas plant where the gas is processed and NGLs extracted from the gas stream. Revenue is recognized separately at this point for NGLs and residue gas as each product is sold at this point, hence revenue is recognised at a point in time.

6. Cost of Sales

	31/12/2021 US$'000	31/12/2020 US$'000
Gathering and Production charges	2,420	2,417
Depreciation of capitalised developments	2,319	2,237
Total Cost of Sales	4,739	4,654

	31/12/2021 US$'000	31/12/2020 US$'000

7. Exploration expenditure

Exploration expenditure – Gulf of Mexico/Gulf Coast	1,220	1,436
Exploration expenditure – Alaska	-	249
	1,220	1,685

Recognition and measurement

Costs incurred in the exploration stages of specific areas of interest are expensed against profit or loss as incurred. All exploration expenditure, including general permit activity, geological and geophysical costs, new venture activity costs and drilling exploration wells, is expensed as incurred. The costs of acquiring interests in new exploration licences are expensed. Once an exploration discovery has been determined, evaluation and development expenditure from that point on is capitalised to the Consolidated Statement of Financial Position as oil and gas properties.

Exploration expenditure in relation to the Gulf of Mexico/Gulf Coast includes the exploration drilling of the Schindler ($0.9M) and Eaves ($0.2M) prospects.

	31/12/2021 US$'000	31/12/2020 US$'000

8. Other expenses

Finance costs		
Interest and commitment fees on borrowings	628	1,005
Interest expense leases	(14)	14
Amortisation of borrowing costs	516	516
Accretion of decommissioning fund	14	12
Total finance costs/(income)	1,144	1,547
Administration and other expenses		
Employee benefits expense		
Defined contribution superannuation	31	28
Share based payment expense	92	(104)
Other employee benefits expenses	2,235	1,333
Total employee benefits expense	2,358	1,257
Depreciation expense		
Right-of-use assets		
Right-of-use assets - buildings	70	70
Right-of-use assets – plant and equipment	-	21
Total depreciation expense right-of-use assets	70	91
Property, plant and equipment		
Furniture and equipment	34	52
	34	52
Total depreciation expense	104	143

8. Other expenses (continued)

	31/12/2021 US$'000	31/12/2020 US$'000
Other expenses		
Corporate and other costs (net of recharges)	498	587
Business development	239	89
Foreign currency (gains)/losses	(65)	(16)
Total other expenses	672	660
Total Administration and other expenses	3,134	2,060

9. Income tax

	31/12/2021 US$'000	31/12/2020 US$'000
Danish corporate income tax expense[i]	1,315	-
Other	29	10
Total income tax expense	1,344	10

[i]Income tax expense relates to the Danish mark to market corporate income tax incurred on the Pantheon shares held during the half year by Otto Energy Alaska LLC, a subsidiary of Otto Energy (Galoc Investment 1) ApS and Otto Energy (Galoc Investment 2) ApS.

10. Cash and cash equivalents

	31/12/2021 US$'000	30/06/2021 US$'000
Cash at bank	20,815	5,720
Restricted cash - Debt Service Reserve Account (DSRA)	5,380	5,380
Balance at end of period	26,195	11,100

On 2nd November 2019, the Company entered into a three-year senior secured US$55 million term debt facility (Facility) with Macquarie Bank Limited (Macquarie). Under the terms of the agreement a Debt Service Reserve Account (DSRA) is required with a balance at 31 December 2021 of at least $5,380,000. The DSRA may only be applied in reduction of the loan.

11. Oil and gas properties

	31/12/2021 US$'000	30/06/2021 US$'000
Producing and development assets		
At cost		
SM 71 balance at beginning of period	14,960	18,890
SM 71 expenditure for the period	-	70
SM 71 amortisation of assets	(1,751)	(4,000)
SM 71balance at end of period	13,209	14,960

11. Oil and gas properties (continued)

	31/12/2021 US$'000	30/06/2021 US$'000
Lightning balance at beginning of period	4,640	5,984
Lightning expenditure for the period	-	(42)
Lightning amortisation of assets	(488)	(1,302)
Lightning balance at end of period	4,152	4,640
GC 21 balance at beginning of period	17,363	14,919
GC 21 expenditure for the period	103	15,566
GC 21 impairment of assets	-	(12,850)
GC-21 amortisation of assets	(79)	(272)
GC 21 balance at end of period	17,387	17,363
Total oil and gas properties including decommissioning assets	34,748	36,963

Capitalised development and evaluation costs as at 31 December 2021 relate to the GC 21 oil development in the Gulf of Mexico (including provision for decommissioning).

Impairment

Assets are tested for impairment in line with AASB 136. Whenever events or changes in circumstances indicate that the carrying amount may not be recoverable, an impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value, which is a product of quantity of reserves, prices, and operating costs, less the cost to sell and value in use.

There were no impairment indicators identified at 31 December 2021.

12. Interest bearing loans and borrowings

Borrowings

	31/12/2021 US$'000	30/06/2021 US$'000
Current Secured		
Principal outstanding	6,900	9,200
Less: Facility transaction costs – at cost	(855)	(1,021)
Balance at the end of the period	6,045	8,179
Non - Current Secured		
Principal outstanding	-	2,300
Less: Facility transaction costs – at cost	-	(350)
Balance at the end of the period	-	1,950

12. Interest bearing loans and borrowings (continued)

On 2nd November 2019, the Company entered into a three-year senior secured US$55 million term debt facility (Facility) with Macquarie Bank Limited (Macquarie). The key terms of the facility were disclosed in the 30 June 2020 Annual Report.

At 31 December 2021, $25 million was drawn under the Facility. Under the Facility, Otto issued to Macquarie 42.5 million options to subscribe for fully paid ordinary shares in the Company . These options have vested and an expense of $528,000 was capitalised against borrowings and is amortised over the life of the facility. The fair value of the options was calculated using a Black-Scholes model.

Transaction costs are accounted for under the effective interest rate method. These costs are incremental costs that are directly attributable to the Facility and include Facility origination fees, legal fees and other costs relating to the establishment of the Facility. The balance of unamortised transaction costs (excluding the fair value of options issued) of $0.8 million is offset against the outstanding facility borrowings of $6.9 million. Total capitalised transaction costs relating to the facility agreement were $2.5 million (excluding fair value of options issued).

The facility agreement has certain financial covenants that the Company has to comply with. All such financial covenants have been complied with in accordance with the facility agreement.

13. Derivative financial instruments

	31/12/2021 US$'000	**30/06/2021** US$'000
Current		
Balance at the beginning of the period	4,703	(2,907)
Unrealised losses on oil and natural gas price fixed swaps	(1,299)	7,610
Current oil price fixed swaps – held at fair value through profit or loss	3,404	4,703
Non-Current		
Balance at the beginning of the period	809	(1,254)
Unrealised losses on oil and natural gas price fixed swaps	(809)	2,063
Non-current oil and natural gas price fixed swaps – held at fair value through profit or loss	-	809
Total derivative financial instrument liabilities	3,404	5,512

	31/12/2021 US$'000	**31/12/2020** US$'000
Realised gains/(losses) on oil and natural gas price fixed swaps	(3,262)	1,002
Unrealised gains/(losses) on oil and natural gas price fixed swaps	2,108	(3,657)
Total gain/(loss) on derivative financial instruments	(1,154)	(2,655)

Recognition and measurement

Derivatives are initially recognised at their fair value when the Group becomes a party to the contract and are subsequently measured at fair value through profit or loss. The Group has not adopted Hedge Accounting under AASB 9 *Financial Instruments*

14. Contributed equity

a) Share capital

	31/12/21 Number	**30/06/21** Number	**31/12/21** US$'000	**30/06/21** US$'000
Balance at beginning of period	4,795,009,773	4,795,009,773	133,223	133,242
Issue of shares (net of transaction costs)	-	-	-	(19)
Balance at end of period	4,795,009,773	4,795,009,773	133,223	133,223

15. Share-based payments

There were no performance rights issued to employees or directors for the half year ending 31 December 2021.

On 27 August 2021, the Company announced that it had issued 30,000,000 options to Foster Stockbroking Pty Ltd pursuant to the terms of an Equity Capital Markets Advisory Agreement. Of these, 20,000,000 options have an exercise price of $0.02 per option with an expiry date of 27 August 2024 and 10,000,000 options have an exercise price of $0.025 per option and an expiry date of 27 August 2024.

For the half year ended 31 December 2021, the Group recognised a share-based payments expense of $91,969 in the Consolidated Statement of Profit or Loss and Other Comprehensive Income (31 December 2020: profit $103,602).

16. Fair value measurement

a) Fair values

The following table shows the carrying amounts and fair values of financial assets, including their levels in the fair value hierarchy. It does not include fair value information for financial assets not measured at fair value if the carrying value is a reasonable approximation of fair value. The different valuation methods are called hierarchies and they are described below:

Financial assets measured at fair value		**31/12/2021** US$'000	**30/06/2021** US$'000
Financial assets at fair value through profit and loss[ii]	Level 1	3,424	8,129
Financial assets at fair value through profit and loss[i]	Level 2	-	-
Financial assets at fair value through profit and loss	Level 3	-	-
Total financial assets measured at fair value		3,424	8,129

Financial liabilities measured at fair value[i]		**31/12/2021** US$'000	**30/06/2021** US$'000
Derivative financial liabilities at fair value through profit and loss	Level 1	-	-
Derivative financial liabilities at fair value through profit and loss	Level 2	3,404	5,512
Derivative financial liabilities at fair value through profit and loss	Level 3	-	-
Total financial liabilities measured at fair value		3,404	5,512

16. Fair value measurement (continued)

(i) The fair value of the derivatives were determined based on a “mark to market” approach, calculated based on forward prices relative to contracted prices for contracts held as at 31 December 2021 as disclosed in note 12

(ii) The fair value of equity investments was determined based on a “mark to market” approach, calculated based on the closing price of PANR shares as at 31 December 2021.

Fair value hierarchy

Level 1 – the instrument has quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 – the fair values are measured using inputs (other than quoted prices) that are observable for the asset or liability either directly or indirectly; or

Level 3 – the fair values are measured using inputs for the assets or liability that are not based on observable market data.

Cash and cash equivalents, trade and other receivables, trade creditors, borrowings, other creditors and accruals have been excluded from the above analysis as their fair values are equal to the carrying values.

17. Contingent assets and liabilities

In January 2021, the Company announced the terms of sale of Borealis Alaska LLC to Pantheon Resources Plc. Borealis Alaska held a 10.8% working interest in each of the 16 leases in the Talitha unit in Alaska. Under the terms of the sale Otto retained an existing 0.5% of 8/8ths ORRI in any future production from the Talitha unit.

There are no contingent liabilities at balance date.

18. Commitments

Exploration expenditure contracted for at the reporting date but not recognised as liabilities are as follows:

	31/12/2021 US$’000	**31/12/2020** US$’000
Not later than one year	148	2,703
Later than one year but not later than five years	146	2,849
	294	5,552

Capital expenditure contracted for at the reporting date but not recognised as liabilities are as follows:

	31/12/2021 US$’000	**31/12/2020** US$’000
Not later than one year	5,853	4,836
	5,853	4,836

Capital expenditure commitments at reporting date relate to committed development costs on GC 21 Bulleit and Eaves. Commitments are disclosed net of the amount of GST recoverable from, or payable to, the tax authority.

19. Related parties

There are no related party transactions for the reporting period.

20. Events after the reporting period

On 2 March 2022, Otto announced that it had agreed to participate in two new exploration wells to be drilled in Q4 FY 2022, the Mosquito Bay West and Oyster Bayou South, in state waters in Terrebonne Parish, Louisiana. The wells will both target a number of locally productive Miocene sands, with each well having a number of separate objective sands. In the event of success, production from both wells is set to be processed and transported to market through an existing production facility, based on pre-agreed terms and conditions.

The wells are to be drilled from a barge rig in approximately 9 feet of water with spudding of both wells expected during May 2022. The Mosquito Bay West well (30% Otto WI) is expected to cost Otto US$1.7 MM on a dry hole cost basis and the Oyster Bayou South well (30% Otto WI) is also expected to cost Otto US$1.7 MM on a dry hole cost basis. Both wells are to be funded from existing cash reserves.

No other matters or circumstances have arisen since 31 December 2021 that would have a material impact on the Group's operations.

DIRECTORS' DECLARATION

For the half-year ended 31 December 2021

In accordance with a resolution of the Directors of Otto Energy Limited, I state that:

1. In the opinion of the Directors:
   a. the financial statements and notes of Otto Energy Limited for the half-year ended 31 December 2021 are in accordance with the *Corporations Act 2001,* including:
      (i) giving a true and fair view of the Group's financial position as at 31 December 2021 and of its performance for the half-year ended on that date; and
      (ii) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001.*
   b. There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

On behalf of the Board

Michael J Utsler

Mr M Utsler
Director
14 March 2022

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INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of Otto Energy Limited

Report on the Half-Year Financial Report

Conclusion

We have reviewed the half-year financial report of Otto Energy Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 31 December 2021, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the half-year ended on that date, a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the accompanying half-year financial report of the Group does not comply with the *Corporations Act 2001* including:

(i) Giving a true and fair view of the Group's financial position as at 31 December 2021 and of its financial performance for the half-year ended on that date; and

(ii) Complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001.*

Basis for conclusion

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*. Our responsibilities are further described in the *Auditor's Responsibilities for the Review of the Financial Report* section of our report. We are independent of the Company in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to the audit of the annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001* which has been given to the directors of the Company, would be the same terms if given to the directors as at the time of this auditor's review report.

Responsibility of the directors for the financial report

The directors of the Company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

Auditor's responsibility for the review of the financial report

Our responsibility is to express a conclusion on the half-year financial report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 31 December 2021 and its financial performance for the half-year ended on that date and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

BDO

Philip Murdoch

Director

Perth, 14 March 2022