

## OTTO TO RAISE US\$8.2MILLION VIA CONVERTIBLE NOTES ISSUE

- **US\$8.2 million to be raised via the issue of secured convertible notes with a conversion price of A\$0.055 per share**
- **Funds raised to be used to develop the SM-71 oil project located offshore Gulf of Mexico**
- **SM-71 remains on track for first oil production by the end of 2017**
- **Otto is pursuing new growth assets in the Gulf of Mexico to complement the existing SM-71 discovery**
- **Existing cash of US\$14 million available to execute growth strategy through exploration**

Otto Energy Limited (ASX:OEL) ('Otto' or the 'Company') is pleased to announce it has entered into binding agreements to raise US\$8.2 million via an issue of secured convertible notes ('Issue'). Terms have been agreed with Molton Holdings Limited, a major Otto shareholder, who will subscribe for convertible notes with an aggregate face value of US\$8 million and Mr John Jetter, Otto's Chairman, who will subscribe for convertible notes with an aggregate face value of US\$0.2 million. The Issue is subject to shareholder approval at a General Meeting to be held in July 2017.

Funds raised via the Issue will be used to develop Otto's oil project located in the South Marsh Island 71 license ('SM-71') offshore Gulf of Mexico. The construction of the SM-71 manned platform facility is already underway and current expectations are that the field will be in production by the end of 2017. Initial flow rates of 1500 to 2000 bopd (gross field production) are expected from the completion of the first development well. Please refer to Schedule 2 for further information on the SM-71 project.

The Issue has been agreed on very attractive terms, with a conversion price of A\$0.055 per share which represents an 89% premium to the 30 day VWAP (volume weighted average price), an interest rate of 14% and a success fee. Key terms of the convertible notes are set out at Schedule 1.

Otto's Managing Director, Matthew Allen, commented: *"We are very pleased that an existing major shareholder, Molton Holdings Limited, has agreed to financially support the SM-71 development in the Gulf of Mexico through to production. The issue of convertible notes with the conversion price set at a substantial premium to the current share price demonstrates the growth potential from the SM-71 development and future exploration."*

*With the SM-71 development funded, Otto can now utilize some of its existing cash reserves of US\$14 million for the next stage of growth through participating in exploration drilling of conventional new ventures in the Gulf of Mexico/onshore Louisiana and Alaska."*

## SCHEDULE 1 – KEY TERMS OF THE CONVERTIBLE NOTES

- Issue amount: 8.2 million convertible notes.
- Face value: US\$1 per convertible note.
- Conversion price: A\$0.055 per share.
- Interest rate: 14% per annum compounded monthly and paid semi-annually.
- Interest payments: Interest accrues until interest payments commence on the date 60 days after First Oil<sup>1</sup>, at which time any accrued interest will be payable in two equal instalments on the first and second interest payment dates.
- Maturity date: 30 June 2019.
- Security: The convertible notes will be secured via a share pledge covering the shares in Otto's subsidiaries which hold its Gulf of Mexico interests including the SM-71 project.
- Conversion: A Noteholder may elect to convert convertible notes on:
  - any 30 June, 30 September, 31 December and 31 March after the first anniversary of the issue date;
  - upon receipt of a Redemption Notice; and
  - the maturity date,

in accordance with the following conversion ratio:

$$\frac{\text{Number of convertible notes to be converted}}{\text{Bid exchange rate}} = \text{Australian dollar equivalent}$$

where the bid exchange rate means the US Dollar exchange rate published by the Reserve Bank of Australia, and

$$\frac{\text{Australian dollar equivalent}}{\text{Conversion price}} = \text{Number of conversion shares to be issued}$$

- Redemption: The Company may elect to redeem convertible notes on:
  - any 30 June, 30 September, 31 December and 31 March after the first anniversary of the issue date;
  - the maturity date; and
  - on receipt of a takeover offer (including by scheme of arrangement).
- Success fee: Paid 30 days after the maturity date, subject to Cumulative Oil Production<sup>2</sup> to the maturity date (inclusive) and calculated as per the table below. If a convertible note is redeemed or converted prior to the maturity date, the success fee payable in respect of the convertible note will be paid pro rata to the number of days the noteholder held it.

Cumulative Oil Production (100% field) to June 30 2019 from SM-71 (bbbls)	Less than 1,400,000	Greater than 1,399,999 and less than 1,500,000	Greater than 1,499,999 and less than 1,600,000	Greater than 1,599,999 and less than 1,700,000	Greater than 1,699,999 and less than 1,800,000	Greater than 1,799,999
Total Success Fee Amount payable per convertible note (US\$)	-	0.025	0.05	0.075	0.10	0.125

- Structuring fee: US\$200,000
- Transferability: A noteholder may transfer the convertible notes subject to notice and other conditions including in relation to transfers to direct competitors of the Company.
- Adjustments: The convertible notes are subject to customary adjustments for alterations to the capital of the Company.
- Default and termination rights: The convertible notes are subject to customary default and termination rights.
- Not quoted: The convertible notes will not be listed on ASX or any other securities exchange.

<sup>1</sup> The date on which there has been 30 continuous days of steady state production of hydrocarbons from the SM-71 project into the sales export pipeline.

<sup>2</sup> The number of barrels of oil produced from SM-71 as reported to the Bureau of Ocean Energy Management.

## SCHEDULE 2 - BACKGROUND ON SM-71 OIL PROJECT

### LOUISIANA/GULF OF MEXICO – SOUTH MARSH ISLAND 71

<b>Location:</b>	Offshore Gulf of Mexico
<b>Area:</b>	34.29 km <sup>2</sup>
<b>Otto's Interest:</b>	50.00%

Through the drilling of the SM-71 #1 well in April-May 2016, Otto earned a 50% participating interest (equal to a 40.625% revenue interest) in the license with net 2P recorded reserves of 2,271 Mboe to Otto. The SM-71 #1 well lies in a water depth of 131 feet.

Whilst drilling SM-71 #1 four separate hydrocarbon bearing sand intervals were intersected. A production liner has been cemented in the well and it now awaits completion and tie-in to production infrastructure. Otto expects that first production will be delivered in late Q4 2017. Additional follow-up opportunities around the SM-71 salt dome are being progressed.

During 2016 the joint venture procured a tripod platform which after modification will be used for the development of the discovered hydrocarbons from both the current and subsequent development wells.

The manned structure will have the capacity to produce up to 4,500 Bopd and 5.0 MMcfpd of gas. Access to oil and gas sales trunk lines are available within close proximity to the platform location and those lines will be utilized for oil and gas export once production commences.

At the Laredo onshore facility in Galveston, Texas jacket modifications are nearing completion and deck fit out and installation continue to schedule. All production train components have been ordered and are either already delivered to site or in fabrication at various vendors' facilities throughout Texas and south Louisiana. The platform is intended to be installed in the field area during early Q4 2017.

The joint venture plans to initially complete the SM-71 #1 well within the D5 Sand interval with expectations of recording initial flow rates between 1500 and 2000 bopd (gross field production). These flow rates are similar to those recorded from wells in the adjacent 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, some of which will target Prospective Resources in the B65 interval which has scope to significantly increase the present on block reserves base. Interpretation of post-drill seismic inversion data shows promising results defining the D5 sand extent and delineating the future B65 sand targets. The B65 sands contain a 2.3 MMboe Prospective Resource (net to Otto).

Otto's share of the total cost of the SM-71 development (one well) is expected to be in the order of US\$9.7 million through to completion of the first well at the end of 2017, of which Otto has already spent US\$1.7 million. Further development wells are estimated to cost in the order of US\$7 million per completed well (US\$3.5 million per well Otto share).

### Competent Persons Statement

The reserve and contingent resource information in this report in relation to SMI70/71 is based on information compiled by technical employees of independent consultants Collarini and Associates, under the supervision of Mr Mitch Reece BSc PE. Mr Reece is the President of Collarini and Associates and is a registered professional engineer in the State of Texas and a member of the Society of Petroleum Evaluation Engineers (SPEE), Society of Petroleum Engineers (SPE), and American Petroleum Institute (API). The reserves and resources included in this report have been prepared using definitions and guidelines consistent with the 2007 Society of Petroleum Engineers (SPE)/World Petroleum Council (WPC)/American Association of Petroleum Geologists (AAPG)/Society of Petroleum Evaluation Engineers (SPEE) Petroleum Resources Management System (PRMS). The reserves and resources information reported in this Statement are based on, and fairly represents, information and supporting documentation prepared by, or under the supervision of, Mr Reece. Mr Reece is qualified in accordance with the requirements of ASX Listing Rule 5.41 and consents to the inclusion of the information in this report of the matters based on this information in the form and context in which it appears.

### Prospective Resources

Prospective resource estimates in this report are prepared as at June 2016. The resource estimates have been prepared using the internationally recognised Petroleum Resources Management System to define resource classification and volumes. The resource estimates are in accordance with the standard definitions set out by the Society of Petroleum Engineers, further information on which is available at [www.spe.org](http://www.spe.org). The estimates are un-risked and have not been adjusted for both an associated chance of discovery and a chance of development. 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.

### Reserves cautionary statement

Oil and gas reserves and resource estimates are expressions of judgment based on knowledge, experience and industry practice. Estimates that were valid when originally calculated may alter significantly when new information or techniques become available. Additionally, by their very nature, reserve and resource estimates are imprecise and depend to some extent on interpretations, which may prove to be inaccurate. As further information becomes available through additional drilling and analysis, the estimates are likely to change. This may result in alterations to development and production plans which may, in turn, adversely impact the Company's operations. Reserves estimates and estimates of future net revenues are, by nature, forward looking statements and subject to the same risks as other forward looking estimates.

The estimated quantities of petroleum that may potentially be recovered by the application of future development projects relate to undiscovered accumulations. These estimates have both an associated risk of discovery and a risk of development. Further exploration appraisal and evaluation is required to determine the existence of a significant quantity of potentially moveable hydrocarbons.