ASX ANNOUNCEMENT
1 March 2018

HALF YEAR FINANCIAL REPORT

Please find attached Otto Energy Limited's (ASX : OEL) Half-Year Financial Report to 31 December 2017.

A copy of this announcement can be viewed on the Company's website www.ottoenergy.com under the heading "News & Reports".

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OTTO ENERGY LIMITED

ABN: 56 107 555 046

Half-year financial report

31 December 2017

CONTENTS

CORPORATE DIRECTORY

Directors	Mr John Jetter – Non-Executive Chairman Mr Matthew Allen – Managing Director and Chief Executive Officer Mr Ian Macliver – Non-Executive Director Mr Ian Boserio – Non-Executive Director
Company Secretary	Mr David Rich
Key Executives	Mr Matthew Allen – Managing Director and Chief Executive Officer Mr Paul Senycia – Vice President Exploration and New Ventures Mr David Rich – Chief Financial Officer and Company Secretary
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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

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 2017 (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 John Jetter
Mr Matthew Allen
Mr Ian Macliver
Mr Ian Boserio

Company Secretary

Mr David Rich

Review and results of operations

Consolidated net loss from operations after income tax for the half-year was $8.3 million (2016: net loss of $2.6 million). The significant items in the result were exploration expenditure of $3.7 million (2016: $0.6 million) with the exploration well at ST 224 being the main component, finance costs of $2.9 million (2016: Nil) with the main component being the movement in the fair value of the embedded derivative component of the convertible note (which was in the money at period end) and general and administration costs of $1.7 million (2016: $2.0 million).

Appraisal/Development
During the six months to 31 December 2017 substantial progress was made on the Company's key SM 71 development project in the shallow offshore Gulf of Mexico. In particular:

- Construction of the SM 71 F Platform was completed in Galvaston, the platform was transported to site by barge, installed over the SM 71 F1 well and secured with pilings;
- the 4" oil line and 6" gas line connections were completed;
- SM 71 F2 exploration/appraisal well was drilled intersecting four high quality oil bearing sands with an estimated combined net oil pay with a true vertical thickness of 190 feet (58 metres). The SM 71 F2 well is currently being completed for production in the B65 Sand;
- Since year end the SM 71 F3 development well logged 175 feet net true vertical thickness (TVT) of oil pay in the D5 Sand. The F3 intersection of the D5 extends the oil column down dip by an additional 150 feet. The F3 well will be completed for production in the D5 sand;
- In addition to the J1, B55 and B65 zones, the F3 well also intersected 12 feet TVT net oil pay in the C10 which is productive in other parts of the salt dome but, to date, not productive at SM 71. Pre-drill mapping did indicate that the F3 well would be at the very updip edge of the C10 in this well bore and this result sets up a further opportunity to be exploited in future well bores;
- The F2 and F3 well results are expected to significantly increase 1P & 2P reserves for SM 71 at the next reserves review; and
- First production from SM 71 F1, F2 and F3 wells is expected in March 2018.

Exploration

Louisiana, Gulf of Mexico

South Marsh Island 71 – The B65 exploration target in the SM 71 F2 well was a discovery and the well will be completed for production in the B65 sand. The results are expected to significantly increase 1P & 2P reserves for SM 71 at the next reserves review.

Bivouac Peak – The operator advised that survey and permit work on the Bivouac Peak prospect continued during the period with a goal of beginning drilling operations in the second half of calendar year 2018.

South Timbalier 224 – In July 2017 Otto secured a farm-in to the ST 224 licence in the Gulf of Mexico shelf area. Drilling of a large, amplitude supported, high CGR (condensate gas ratio) gas condensate exploration prospect located in the prolific Bul. 1 trend commenced in late October 2017. In mid-December 2017 Otto indicated that the well had been drilled to a total measured depth of 10,900 feet (3,322 metres). The target sand interval was intersected close to prognosis, however based on log observations the sand is considered to be water bearing. The well has subsequently been plugged and abandoned.

Alaska

The operator of the Company's Alaska North Slope acreage continued to mature high impact exploration prospects for the 2018/19 northern winter drilling campaign. Opportunities which have the ability to test multiple play types and contain large volumetric upside will be given preference.

As part of its ongoing acreage management strategy the joint venture elected to relinquish 12 peripheral lease blocks during the quarter, which on the basis of detailed review of 3D seismic data are considered to be unprospective.

Capital Raising

During the period Otto raised a total of A$12 million through a placement and a Share Purchase Plan at A$0.035 per share. The placement was heavily oversubscribed with strong support from new institutional and sophisticated investors. A$8.3 million of the shares were issued on 1 November 2017 and the balance of A$0.2 million of the new placement shares were issued to Directors on 1 December 2017 following approval at the Annual General Meeting on 29 November 2017.

The Share Purchase Plan also closed well ahead of expectations with applications of A$6.2 million. After carefully considering the funding requirements of Otto and the desire of shareholders to participate in the offer, the Board accepted A$3.5 million of the applications and the shares were issued on 27 November 2017.

The Company's placement capacity under Listing Rules 7.1 and 7.1A was restored by shareholders at the Annual General Meeting on 29 November 2017.

Significant events after the balance date

Since 31 December 2017 the following material events have occurred in relation to the SM 71 oil development in the Gulf of Mexico (Otto 50% working interest):

SM 71

In an ASX release dated 29 January 2018 the Company advised that the SM 71 F3 well was drilled to a final total depth of 7,717 feet Measured Depth ("MD") on 26 January 2018. Hydrocarbons in five discrete intervals were measured using both Log While Drilling (LWD) gamma ray and resistivity tools and wireline Triple Combo porosity tools.

The primary target in the F3 well was the D5 Sand which logged 211 measured depth feet of oil pay (175 feet TVT net oil pay) as determined by open hole logs. While only 70 feet away from the previously drilled SM 71 F2 well, the D5 Sand was 45 TVT feet thicker in the F3 and exhibits excellent rock properties with porosities in the 32% range. With the base of the D5 Sand in the F3 well 150 feet below the base of D5 Sand in the F2 well, the D5 Sand oil column has been further extended downdip. This means the total oil column proven by the three D5 wells is an astounding 1,160 feet. The F3 well will be the second take point in the D5 Sand reservoir at SM 71. The SM 71 F1 well drilled in 2016 will be the other D5 producer and contains 91 feet TVT net oil pay in an updip position.

With the additional penetration of the D5 Sand in the F3 well, the operator has re-evaluated pay counts in the F2 well based on bed geometry and well bore angle. This has resulted in an increase in TVT oil pay thickness in the F2 well from the previously reported 117 feet TVT net oil pay to 132 feet TVT net oil pay. These net pay counts will result in a reserve upgrade for the D5 Sand in the Company's next reserve report.

Because of the northerly well bore trajectory of the F3 well, only the very updip portions of the three other oil sands were penetrated. The J1, B55 and B65 Sands each logged approximately 5 feet TVT net oil pay in the F3 well, consistent with pre-drill expectations. The data points of these three sands will serve to delineate the size of each reservoir for future reserve determinations.

In addition to the J1, B55 and B65 zones, the F3 well also intersected 12 feet TVT net oil pay in the C10 which is productive in other parts of the salt dome but, to date, not productive at SM 71. Pre-drill mapping did indicate that the F3 well would be at the very updip edge of the C10 in this well bore and this result sets up a further opportunity to be exploited in future well bores.

The F3 well marked the end of the drilling campaign which commenced early in December 2017. Operations are in progress to complete the F1, F2 and F3 wells for production utilizing modern sand control techniques common to the Gulf of Mexico to optimize production rates and longevity. Concurrently, final piping and instrumentation work on the SM 71 F platform is nearing completion. Production start-up is targeted for March 2018.

No other matters or circumstances have arisen since 31 December 2017 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 5 of this report.

This report is made in accordance with a resolution of Directors.

I Macliver

Mr I Macliver
Director

28 February 2018

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DECLARATION OF INDEPENDENCE BY JARRAD PRUE TO THE DIRECTORS OF OTTO ENERGY LIMITED

As lead auditor for the review of Otto Energy Limited for the half-year ended 31 December 2017, 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.

Jarrad Prue

Director

BDO Audit (WA) Pty Ltd

Perth, 28 February 2018

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the half-year ended 31 December 2017

	Note	31/12/2017 US$'000	31/12/2016 US$'000
Revenue and other income		117	58
Profit on disposal of property, plant and equipment		-	2
Exploration expenditure	5	(3,711)	(614)
Finance costs	6	(2,899)	-
Administration and other expenses		(1,744)	(2,033)
Loss before income tax		**(8,237)**	**(2,587)**
Income tax expense		(102)	(51)
Loss after income tax for the period		**(8,339)**	**(2,638)**
Other comprehensive income that may be recycled to profit or loss			
Total other comprehensive income		-	-
Total comprehensive loss for the period		**(8,339)**	**(2,638)**
Earnings per share			
Basic loss per share (US cents)		(0.65)	(0.22)
Diluted loss per share (US cents)		(0.65)	(0.22)

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 2017

	Note	31/12/2017 US$'000	30/06/2017 US$'000
Current assets			
Cash and cash equivalents		15,024	12,199
Trade and other receivables		95	116
Other assets		423	384
Total current assets		**15,542**	**12,699**
Non-current assets			
Oil and gas properties	7	16,061	6,272
Property, plant and equipment		11	28
Other assets		325	475
Total non-current assets		**16,397**	**6,775**
Total assets		**31,939**	**19,474**
Current liabilities			
Trade and other payables		2,952	1,611
Income tax payable		1	-
Provisions		195	317
Total current liabilities		**3,148**	**1,928**
Non-current liabilities			
Interest bearing loans and borrowings	8	10,057	-
Provisions		938	241
Total non-current liabilities		**10,995**	**241**
Total liabilities		**14,143**	**2,169**
Net assets		**17,796**	**17,305**
Equity			
Contributed equity	9	90,704	81,895
Reserves		13,758	13,737
Accumulated losses		(86,666)	(78,327)
Total equity		**17,796**	**17,305**

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 2017

	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 2016	81,895	9,474	4,188	(73,080)	22,477
Loss for the period	-	-	-	(2,638)	(2,638)
Other comprehensive income	-	-	-	-	-
Total comprehensive loss for the period	-	-	-	(2,638)	(2,638)
Transactions with owners in their capacity as owners:					
Equity benefits issued to employees	-	104	-	-	104
Balance at 31 December 2016	81,895	9,578	4,188	(75,718)	19,943
Balance at 1 July 2017	81,895	9,549	4,188	(78,327)	17,305
Loss for the period	-	-	-	(8,339)	(8,339)
Other comprehensive income	-	-	-	-	-
Total comprehensive loss for the period	-	-	-	(8,339)	(8,339)
Transactions with owners in their capacity as owners:					
Issue of shares (net of costs)	8,809	-	-	-	8,809
Equity benefits issued to employees	-	21	-	-	21
Balance at 31 December 2017	90,704	9,570	4,188	(86,666)	17,796

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 2017

	31/12/2017 US$'000	31/12/2016 US$'000
Cash flows from operating activities		
Payments to suppliers and employees	(2,031)	(1,922)
Payments for exploration and evaluation	(3,411)	(265)
Interest received	94	47
Other income	22	11
Net cash outflow used in operating activities	**(5,326)**	**(2,129)**
Cash flows from investing activities		
Payments for property, plant and equipment	-	(4)
Proceeds from sale of property, plant and equipment	-	2
Payments for development and evaluation	(8,414)	(1,045)
Bond for development asset	(150)	(175)
Net cash outflow used in investing activities	**(8,564)**	**(1,222)**
Cash flows from financing activities		
Proceeds from issue of shares	9,166	-
Transaction costs relating to issue of shares	(336)	-
Proceeds from issue of convertible notes	8,200	-
Transaction costs relating to issue of convertible notes	(309)	-
Net cash inflow from financing activities	**16,721**	**-**
Net increase/(decrease) in cash and cash equivalents	2,831	(3,351)
Cash and cash equivalents at the beginning of the half-year	12,199	20,309
Effects of exchange rate changes on cash	(6)	(6)
Cash and cash equivalents at the end of the half-year	**15,024**	**16,952**

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

1. Corporate information

The half-year consolidated financial report of the Group for the six months ended 31 December 2017 was authorised for issue in accordance with a resolution of the Directors on 28 February 2018.

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 2017 which are available at www.ottoenergy.com.

2. Basis of preparation

The half-year consolidated financial report for the six months ended 31 December 2017 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 2017 which is available at www.ottoenergy.com.

3. Changes to the Group's accounting policies

The accounting policies adopted in the preparation of the half-year consolidated financial report are consistent with those followed in the preparation of the Group's financial report for the year ended 30 June 2017.

A number of new or amended standards became applicable for the current reporting period, however, the Group did not have to change its accounting policies or make retrospective adjustments as a result of adopting these standards. There may be some changes to the disclosures in the Group's financial report for the year ended 30 June 2018 as a consequence of these amendments.

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), Alaska (USA) and Unallocated. Discrete financial information about each of these operating segments is reported to the executive management team on at least a monthly basis.

The prior year half-year financial statements included Australia as a reportable segment. However Australia, as the corporate headquarters, does not have operations or earn revenue and therefore is not considered an operating segment. The prior half-year comparatives have been restated to reflect the 2017 reportable segments.

4. Segment information (continued)

The segment information for the reportable segments for the half-year ended 31 December 2017 and 31 December 2016 is as follows:

31 December 2017	**Gulf of Mexico (USA)**	**Alaska (USA)**	**Unallocated**	**Consolidated**
	US$'000	US$'000	US$'000	US$'000
Revenue and other income	5	-	112	117
Exploration expenditure	(3,501)	(97)	(113)	(3,711)
Finance costs	(12)	-	(2,887)	(2,899)
Administration and other expenses	(384)	(11)	(1,349)	(1,744)
Loss before income tax	**(3,892)**	**(108)**	**(4,237)**	**(8,237)**
Income tax expense	-	-	(102)	(102)
Loss after income tax for the period	**(3,892)**	**(108)**	**(4,339)**	**(8,339)**
Total non-current assets	16,386	-	11	16,397
Total assets	19,403	-	12,536	31,939
Total liabilities	2,579	56	11,508	14,143

31 December 2016	**Gulf of Mexico (USA)**	**Alaska (USA)**	**Unallocated**	**Consolidated**
	US$'000	US$'000	US$'000	US$'000
Revenue and other income	-	-	58	58
Profit on disposal of property, plant and equipment	-	-	2	2
Exploration expenditure	(189)	(76)	(349)	(614)
Administration and other expenses	(151)	-	(1,882)	(2,033)
Loss before income tax	**(340)**	**(76)**	**(2,171)**	**(2,587)**
Income tax expense	-	-	(51)	(51)
Loss after income tax for the period	**(340)**	**(76)**	**(2,222)**	**(2,638)**
30 June 2017				
Total non-current assets	6,447	-	328	6,775
Total assets	6,447	7	13,020	19,474
Total liabilities	1,225	10	934	2,169

	31/12/17 US$'000	31/12/16 US$'000
5. Exploration expenditure		
Exploration expenditure – Gulf of Mexico - Louisiana	3,501	189
Exploration expenditure – Alaska North Slope	97	76
Exploration expenditure – Other	113	349
	3,711	614
6. Other expenses		
Finance costs		
Interest on convertible note – refer Note 8	536	-
Accretion of effective interest on convertible note – refer Note 8	155	-
Fair value adjustment on embedded derivative element of convertible note – refer Note 8	2,082	-
Amortisation of borrowing costs	114	-
Accretion of decommissioning fund	12	-
	2,899	-

	31/12/17 US$'000	30/06/17 US$'000
7. Oil and gas properties		
Development and evaluation assets		
At cost		
Balance at beginning of period	6,272	2,717
Expenditure for the period	9,789	3,555
Balance at end of period	16,061	6,272

All capitalised development and evaluation costs as at 31 December 2017 relate to the SM 71 oil development in the Gulf of Mexico (including provision for decommissioning).

8. Interest bearing loans and borrowings – non current

Convertible note debt host liability – at cost	7,228	-
Convertible note embedded derivative – at fair value	2,829	-
	10,057	-

On 2 August 2017 the Company issued $8.2 million secured convertible notes (the 'Notes') to Molton Holdings Limited, a major Otto shareholder ($8.0 million) and Mr John Jetter, Otto's Chairman ($0.2 million). The key terms of the Notes are as follows:

- 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.

8. Interest bearing loans and borrowings – non current (continued)

- Interest payments: Interest accrues until interest payments commence on the date 60 days after First Oil[1], 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 are 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: a) any 30 June, 30 September, 31 December and 31 March after the first anniversary of the issue date; b) receipt of a redemption notice; and c) the maturity date, in accordance with the following conversion ratio:

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

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

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

- Redemption: The Company may elect to redeem convertible notes on: a) any 30 June, 30 September, 31 December and 31 March after the first anniversary of the issue date; b) the maturity date; and c) receipt of a takeover offer (including by scheme of arrangement).

- Success fee: Paid 30 days after the maturity date, subject to Cumulative Oil Production[2] 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 30 June 2019 from SM 71 (bbls)	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

- 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.

[1] 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.
[2] The number of barrels of oil produced from SM 71 as reported to the Bureau of Ocean Energy Management.

8. Interest bearing loans and borrowings – non current (continued)

For accounting purposes, the Notes have two elements: a debt host liability component and an embedded derivative component. On initial recognition, the fair value of the embedded derivative component is calculated first and the residual value is assigned to the debt host component. No gain or loss is recognised on inception.

The debt host liability component is subsequently carried at amortised cost whereby the initial carrying value of the liability is accreted to the principal amount over the life of the Note. The accretion is recognised as a finance cost together with the interest expense (refer Note 6).

The fair value of the embedded derivative is determined each balance date using the Black Scholes model and any changes in fair value are recorded in profit or loss. On the date of issue of the Notes, the fair value of the embedded derivative liability was determined to be $0.747 million using a Black Scholes valuation based on the time to expiry, the Company's current share price of A$0.028, risk free interest rate of 1.8% and assuming 68% volatility. The fair value of the embedded derivative liability at 31 December 2017 was determined to be $2.829 million using a Black Scholes valuation based on the time to expiry, the Company's current share price of A$0.056 (note this is above the conversion price of A$0.055), risk free interest rate of 2.0% and assuming 68% volatility. The change in fair value of $2.082 million has been recognised as a finance cost (refer Note 6).

9. Contributed equity

a) Share capital

	31/12/17 Number	30/06/17 Number	31/12/17 US$'000	30/06/17 US$'000
Balance at beginning of period	1,186,298,324	1,181,908,323	81,895	81,895
Issue of shares	343,000,166	-	9,166	-
Share issue costs	-	-	(357)	-
Shares issued on exercise of performance rights	-	4,390,001	-	-
Balance at end of period	1,529,298,490	1,186,298,324	90,704	81,895

236,857,143 shares were issued on 1 November 2017 pursuant to Tranche 1 of a placement to investors at A$0.035 per share, raising A$8.3 million.

100,000,166 shares were issued on 27 November 2017 pursuant to a Share Purchase Plan at A$0.035 per share, raising A$3.5 million.

Following approval at the Annual General Meeting on 29 November 2017, 6,142,857 shares were issued to directors on 1 December 2017 pursuant to Tranche 2 of a placement to investors at A$0.035 per share raising A$0.2 million.

10. Share-based payments

On 29 November 2017, the Group issued 14,187,000 performance rights to directors and employees. The fair value at grant date was estimated using the Hoadley hybrid ESOS – single share price target model.

10.Share-based payments (continued)

The following table lists inputs to the model used for the rights issued during the half-year ended 31 December 2017:

Total Return on Shareholders (TSR) based performance rights:

Measurement/Vesting date	29 November 2018	29 November 2019	29 November 2020
Grant date	29 November 2017	29 November 2017	29 November 2017
Expiry date	29 November 2022	29 November 2022	29 November 2022
Number of rights:			
Mr J Jetter	344,333	344,333	344,334
Mr M Allen	1,309,000	1,309,000	1,309,000
Mr I Macliver	234,333	234,333	234,334
Mr I Boserio	206,667	206,667	206,666
Mr P Senycia	1,050,000	1,050,000	1,050,000
Mr D Rich	826,667	826,667	826,666
Employees other than key management personnel	758,000	758,000	758,000
Total number of rights	4,729,000	4,729,000	4,729,000
Share price at grant date - A$	0.039	0.039	0.039
Deemed commencement hurdle price at date of grant - A$	0.042	0.042	0.042
Expected volatility	20%	20%	20%
Risk free rate	2.09%	2.09%	2.09%
Fair value - A$	0.026	0.020	0.015
Total value - A$	122,954	94,580	70,935

The expected price volatility is based on the 30 day volume weighted average price (VWAP) which is the applicable volatility measure for the rights.

For the half-year ended 31 December 2017, the Group recognised share-based payments expense of $20,657 in the Consolidated Statement of Profit or Loss and Other Comprehensive Income (31 December 2016: $104,397).

11. Contingent liabilities

Pangani PSA

In 2016 the Joint Venture applied to relinquish the Pangani PSA in Tanzania without conducting further work. The regulator is processing this request and final Government agreement to terminate the PSA is expected to be imminent. The Pangani PSA contains a minimum work commitment to drill 1 exploration well with a minimum spend of US$3,000,000 (OEL share). A thorough technical analysis of Pangani data showed no structures of commercial interest and the PSA is expected to be terminated without the need for further activity. There have been no other changes since 30 June 2017.

Convertible note success fee

There is a success fee payable in respect of the convertible note based on cumulative SM 71 oil production to 30 June 2019 (refer Note 8). Production is expected to commence in March 2018. Until production commences and rates can be established the likelihood of a fee being payable cannot be reliably estimated. The maximum amount of success fee payable is $1,025,000.

12. Commitments

	31/12/17 US$'000	31/12/16 US$'000
Exploration expenditure contracted for at the reporting date but not recognised as liabilities are as follows:		
Not later than one year	2,600	3,000
Later than one year but not later than five years	-	2,600
	2,600	5,600
Capital expenditure contracted for at the reporting date but not recognised as liabilities are as follows:		
Not later than one year	8,612	2,922
	8,612	2,922
Commitments for minimum lease payments in relation to non-cancellable leases are payable as follows:		
Not later than one year	98	161
Later than one year but not later than five years	-	267
	98	428

13. Related parties

There have been no changes to related parties other than:

- $0.2 million secured convertible notes issued to Mr John Jetter on 2 August 2017 (refer Note 8);
- 6,142,857 shares issued to directors on 1 December 2017 pursuant to Tranche 2 of a placement to investors at A$0.035 per share raising A$0.2 million (refer Note 9); and
- 11,913,000 performance rights issued to directors and executives on 29 November 2017 (refer Note 10).

14. Events after the reporting period

Since 31 December 2017 the following material events have occurred in relation to the SM 71 oil development in the Gulf of Mexico (Otto 50% working interest):

SM 71

In an ASX release dated 29 January 2018 the Company advised that the SM 71 F3 well was drilled to a final total depth of 7,717 feet Measured Depth ("MD") on 26 January 2018. Hydrocarbons in five discrete intervals were measured using both Log While Drilling (LWD) gamma ray and resistivity tools and wireline Triple Combo porosity tools.

The primary target in the F3 well was the D5 Sand which logged 211 measured depth feet of oil pay (175 feet TVT net oil pay) as determined by open hole logs. While only 70 feet away from the previously drilled SM 71 F2 well, the D5 Sand was 45 TVT feet thicker in the F3 and exhibits excellent rock properties with porosities in the 32% range. With the base of the D5 Sand in the F3 well 150 feet below the base of D5 Sand in the F2 well, the D5 Sand oil column has been further extended downdip. This means the total oil column proven by the three D5 wells is an astounding 1,160 feet. The F3 well will be the second take point in the D5 Sand reservoir at SM 71. The SM 71 F1 well drilled in 2016 will be the other D5 producer and contains 91 feet TVT net oil pay in an updip position.

14. Events after the reporting period (continued)

With the additional penetration of the D5 Sand in the F3 well, the operator has re-evaluated pay counts in the F2 well based on bed geometry and well bore angle. This has resulted in an increase in TVT oil pay thickness in the F2 well from the previously reported 117 feet TVT net oil pay to 132 feet TVT net oil pay. These net pay counts will result in a reserve upgrade for the D5 Sand in the Company's next reserve report.

Because of the northerly well bore trajectory of the F3 well, only the very updip portions of the three other oil sands were penetrated. The J1, B55 and B65 Sands each logged approximately 5 feet TVT net oil pay in the F3 well, consistent with pre-drill expectations. The data points of these three sands will serve to delineate the size of each reservoir for future reserve determinations.

In addition to the J1, B55 and B65 zones, the F3 well also intersected 12 feet TVT net oil pay in the C10 which is productive in other parts of the salt dome but, to date, not productive at SM 71. Pre-drill mapping did indicate that the F3 well would be at the very updip edge of the C10 in this well bore and this result sets up a further opportunity to be exploited in future well bores.

The F3 well marked the end of the drilling campaign which commenced early in December 2017. Operations are in progress to complete the F1, F2 and F3 wells for production utilizing modern sand control techniques common to the Gulf of Mexico to optimize production rates and longevity. Concurrently, final piping and instrumentation work on the SM 71 F platform is nearing completion. Production start-up is targeted for March 2018.

No other matters or circumstances have arisen since 31 December 2017 that would have a material impact on the Group's operations.

DIRECTORS' DECLARATION

For the half-year ended 31 December 2017

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 2017 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 2017 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

Mr I Macliver
Director
28 February 2018

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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 2017, 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 then ended, and notes comprising a statement of 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 half-year financial report of the Group is not 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 2017 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*.

Directors' responsibility for the Half-Year 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 is free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, 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 2017 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*. As the auditor of the Group, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001,* which has been given to the directors of the Group, would be in the same terms if given to the directors as at the time of this auditor's review report.

BDO Audit (WA) Pty Ltd

BDO
J Prue

Jarrad Prue

Director

Perth, 28 February 2018