

ASX ANNOUNCEMENT

31 July 2018

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OTTO FARMS INTO EIGHT WELL GULF COAST DRILLING PROGRAM WITH HILCORP AND ANNOUNCES EQUITY RAISING

- **Portfolio of eight, high probability of success, technically independent prospects, generated off new proprietary 3D seismic**
- **Large prospective resource provides material upside upon success through oil and gas production growth**
- **Highly experienced and privately owned US Gulf Coast operator Hilcorp Energy to execute drilling and development program**
- **Identified access to infrastructure ensures a rapid, low capex pathway from discovery to production upon success**
- **Attractive deal terms with potential for further opportunity beyond the initial eight wells**
- **Program complements Otto’s existing drilling campaign at Bivouac Peak in the GoM and Alaska North Slope, providing shareholders with exposure to 10 wells over the next 18 months**
- **Program funded with Placement and Underwritten Entitlement Offer to raise A\$20 million**

Otto Energy (“Otto”) (ASX: OEL) is pleased to announce that it has entered into a joint venture with Hilcorp Energy which will see it earn a 37.5% working interest in an eight well portfolio of prospects in the Onshore/Near Shore USA Gulf Coast (Gulf of Mexico). The wells will be drilled by Hilcorp, a highly experienced, privately-owned operator based in Houston, over the next 18 months.

The Company is undertaking a capital raising of approximately \$20 million via an institutional Placement and a fully-underwritten, accelerated non-renounceable Entitlement Offer to fund its US\$37.5 million share of the drilling program. The capital raising will complement cash on hand and future cash flows from Otto’s 50% owned SM 71 producing oil field in the Gulf of Mexico to fund Otto’s full exploration program over the next 18 months, including Bivouac Peak and Alaska.

Otto’s Managing Director, Matthew Allen, commented: *“This program provides an outstanding opportunity to execute our strategic objective of becoming a 5,000 boepd producer in the Gulf of Mexico by the end of 2020. It represents an exciting time for Otto shareholders, with the program complementing our near-term exploration campaigns at Bivouac Peak in the GoM and in Alaska.*

“The eight independent prospects announced today are in our geological and geographical sweet spot and provide a unique opportunity to substantially grow our Gulf of Mexico business in one transaction with an outstanding operator and partner in Hilcorp.”

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Details of the Agreement

Under a Joint Exploration and Development Agreement (JEDA) with Hilcorp Energy Otto has committed to an eight well drilling program with an estimated cost of US\$75 million (100%).

Otto will earn a 37.5% working interest by paying 50.0% of the costs of drilling and either setting casing or plugging and abandoning the well plus lease acquisition costs at each of the eight prospects. The estimated cost of the commitment to Otto is US\$37.5 million. US\$4 million will be paid immediately to cover initial land and other costs.

Well Cap - Otto has the option to discontinue participation in each prospect well if actual costs exceed the approved expenditure budget by 20%. If Otto elects to not continue, it will forfeit rights to that prospect. If Otto proceeds, costs from then on will be at working interest percentages.

Program Cap - Once Otto has incurred a total amount relating to the initial eight wells of US\$42.5m, it will have the option to elect (but not the obligation) to participate in the remaining undrilled prospects in the initial eight well program at working interest percentages. If Otto elects to not participate in any undrilled prospects, it will forfeit rights in those prospects.

Additional Upside

Should either the Tarpon or Mustang prospects be successful then Otto has ground floor rights (ie pays only its working interest) to participate in the nearby Damsel and Corsair/Hellcat opportunities. These wells are in addition to the eight wells.

Under the JEDA Otto has a right of first offer to a subsequent Gulf Coast program, if Hilcorp elect to offer such a program to third parties.

About Hilcorp Energy

Founded in 1989, Hilcorp is one of the largest privately held oil and natural gas companies in North America. Hilcorp specializes in reinvigorating legacy oil and gas fields across North America; including in the US Gulf Coast, Alaska and the Rockies and currently produces approximately 325,000 boepd. To put this into context, Australia's largest oil and gas company, Woodside, produces ~230,000 boepd.

Hilcorp has nearly 2,000 employees and has been consistently recognized for its strong culture, values and ethics both within the firm and in the communities in which it operates.

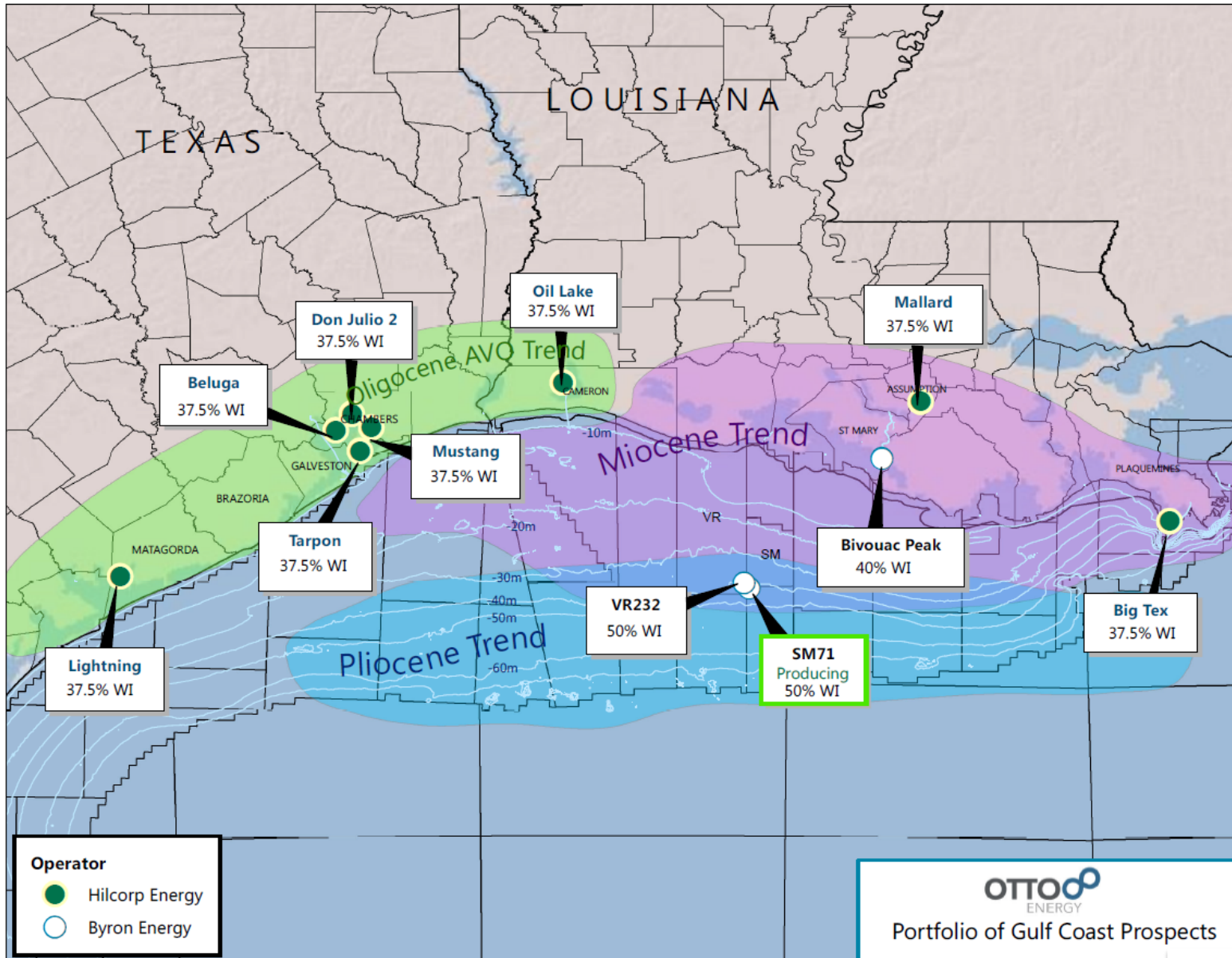
Otto is very pleased to be partnering with a Gulf Coast operator with proven capability to take exploration prospects into production.

Impact on Strategy

Otto has a clear strategy to grow production in the Gulf of Mexico to 5,000 boepd by the end of 2020. More specifically Otto's target area for new opportunities lies within the Pliocene, Miocene and Oligocene reservoir systems of the US Gulf of Mexico shelf and Gulf Coast where capital costs are manageable for Otto and the availability of infrastructure means the time from discovery to production is short. Otto is deploying its experienced technical team to find attractive, low risk drill opportunities in this area to provide high-margin oil and gas production growth.

This growth strategy is underpinned by the strong production and cashflow from Otto's 50% owned SM 71 oil field in the Gulf of Mexico shelf which is currently producing approximately 2,000 bopd Otto's share.

The Hilcorp eight well portfolio is a significant step toward the 5,000 boepd and puts Otto into partnership a large and well-respected operator in the region. In addition it offers further potential through follow-up drilling and a right of offer on further Hilcorp Gulf Coast farmouts.



Details of the Drilling Program

Information regarding the eight wells is set out below.

Prospect Name	Planned Spud Date	Target Depth (TVD), ft	Rig Type	Working Interest (WI)	Net Revenue Interest (NRI)	Stratigraphic Interval	County/Parish	Location
Big Tex	Sep-18	13,500	Barge	37.50%	29.51%	Tex	Plaquemines	Louisiana
Lightning	Oct-18	14,500	Land	37.50%	28.50%	Frio Tex Miss	Matagorda	Texas
Don Julio 2	Dec-18	11,500	Land	37.50%	28.50%	Oligocene	Chambers	Texas
Mustang	Jan-19	17,500	Land	37.50%	30.00%	Oligocene	Chambers	Texas
Beluga	May-19	13,000	Barge	37.50%	28.50%	Oligocene	Galveston Bay	Texas
Oil Lake	Jul-19	14,500	Land	37.50%	29.06%	Frio	Cameron	Louisiana
Tarpon	Jul-19	14,000	Barge	37.50%	29.06%	Oligocene	Galveston Bay	Texas
Mallard	Nov-19	11,000	Barge	37.50%	29.63%	Mid Miocene	Assumption	Louisiana

Prospective Resources

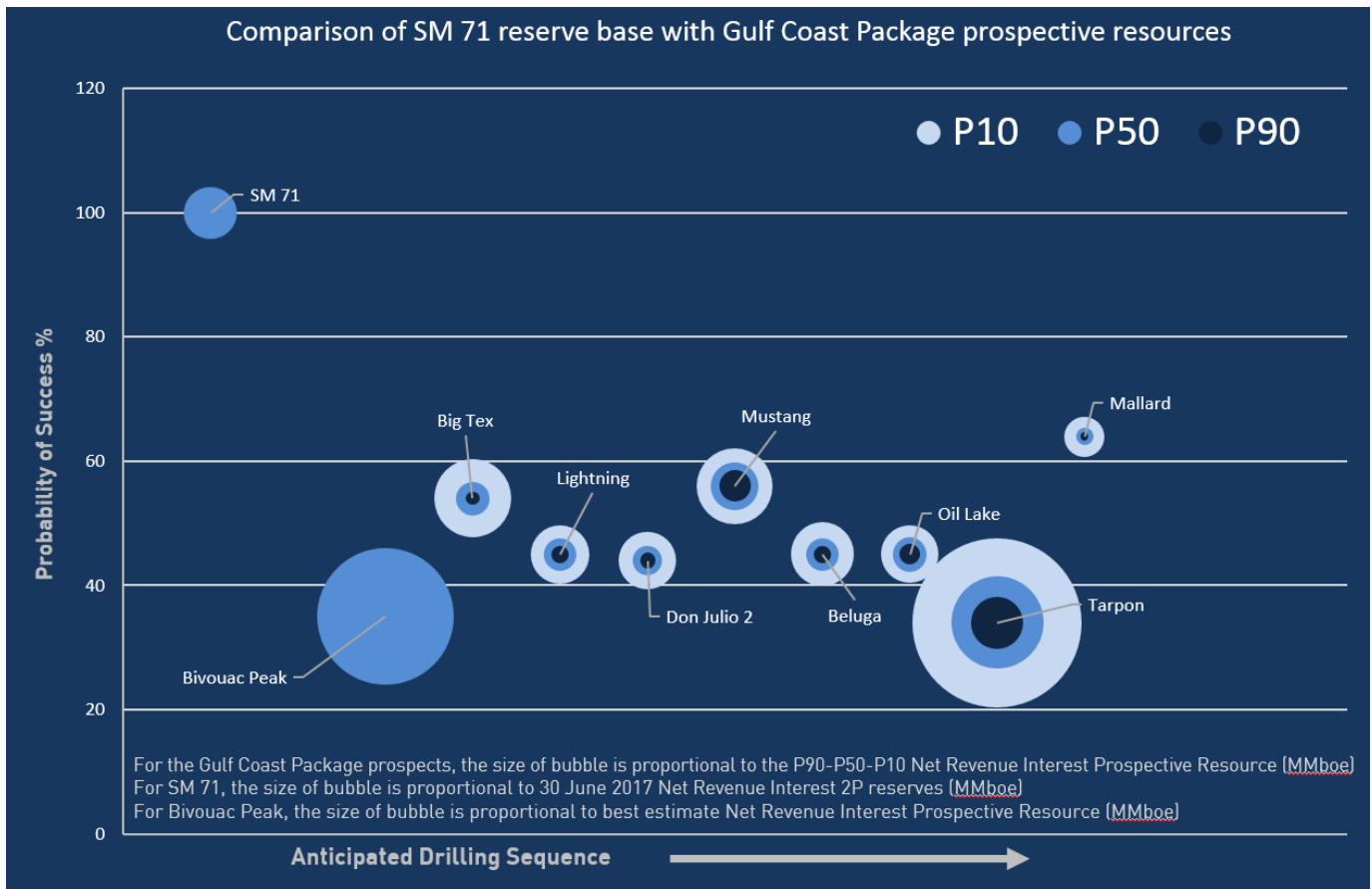
The range of prospective resources for each prospect is set out below.

Prospect Name	Working Interest	Net Revenue Interest	Probability of Success	Prospective Resources MMboe							
				100%				Otto Net Revenue Interest			
				P90	P50	Mean	P10	P90	P50	Mean	P10
Big Tex	37.50%	29.51%	54%	0.5	3.3	6.8	16.9	0.1	1.0	2.0	5.0
Lightning	37.50%	28.50%	45%	0.9	3.2	4.4	10.1	0.3	0.9	1.3	2.9
Don Julio 2	37.50%	28.50%	44%	0.7	2.5	4.0	9.6	0.2	0.7	1.1	2.7
Mustang	37.50%	30.00%	56%	2.9	6.7	8.5	16.8	0.8	1.9	2.6	4.8
Beluga	37.50%	28.50%	45%	0.8	2.9	4.7	11.2	0.2	0.9	1.3	3.4
Oil Lake	37.50%	29.06%	45%	1.2	3.3	4.4	9.3	0.3	1.0	1.3	2.7
Tarpon	37.50%	29.06%	34%	7.7	24.0	35.6	81.0	2.2	7.0	10.3	23.5
Mallard	37.50%	29.63%	64%	0.2	0.9	3.3	4.5	0.1	0.3	1.0	1.3

Prospective Resources Cautionary Statement

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 appraisal and evaluation is required to determine the existence of a significant quantity of potentially moveable hydrocarbons.

Below is a graphical representation showing how this portfolio fits with Otto’s existing assets.



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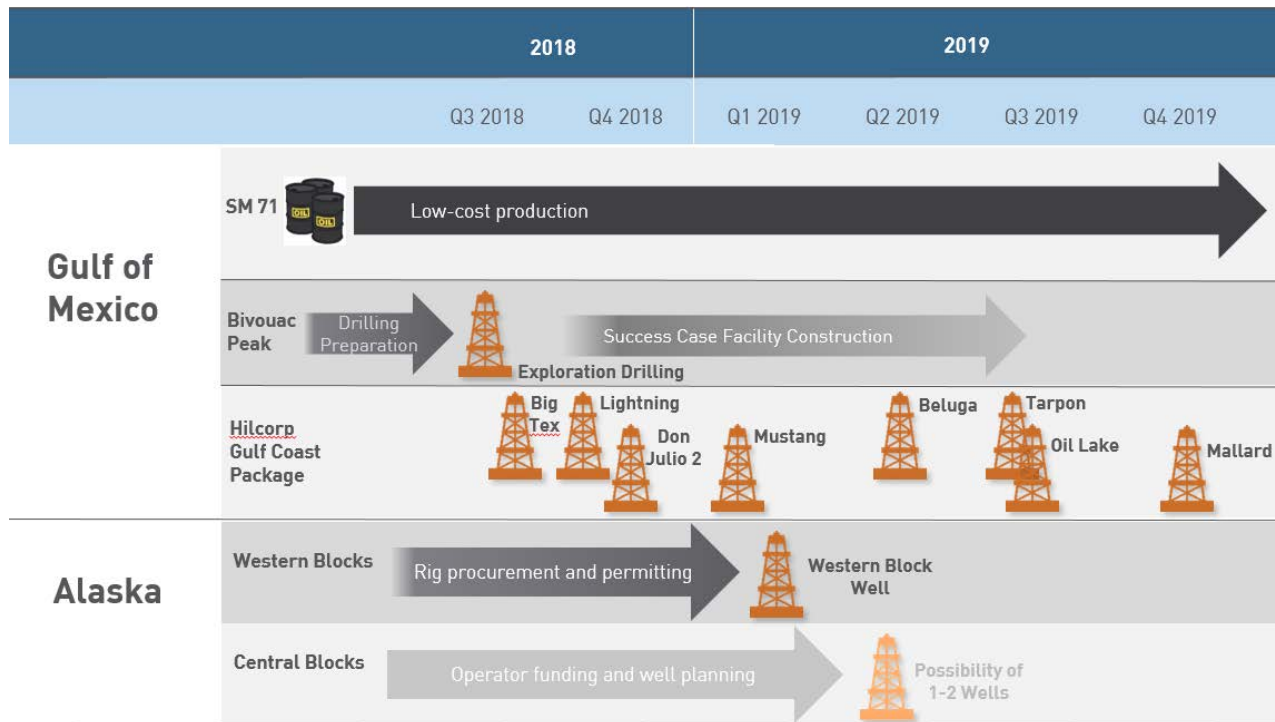
Risked Summary data - 8 Well Portfolio, Gross (8/8ths)

Portfolio-level risked information for the eight well portfolio is set out below. These are probabilistic additions of each prospect’s expectation curve, using a monte carlo approach. Refer to the Competent Person’s Statement for further information on these calculations.

Metric	P90	P50	P10
Volumes, MMBOE	4.63	19.86	64.59
Peak Production Rate, BOE/d	3,270	9,990	31,300
% Hydrocarbon Liquids per BOE	13%	28%	56%
Finding cost, US\$/BOE	\$13.62	\$3.18	\$0.98
Finding & Development cost, US\$/BOE	\$16.40	\$5.51	\$2.56

Pipeline of Opportunities

The schedule below sets out Otto’s full forward program including the Gulf Coast Package wells and the existing Bivouac Peak and Alaska wells.



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Funding of the Program

A capital raising of A\$20 million as set out below will complement cash on hand and future cash flows from Otto’s 50% owned SM 71 producing oil field in the Gulf of Mexico to fund Otto’s full exploration program over the next 18 months, including Bivouac Peak and Alaska

Placement

Otto has agreed to place approximately 339.6 million million shares at A\$0.059 per share to raise approximately A\$10 million.

Entitlement Offer

The Company also intends to offer existing shareholders the opportunity to subscribe for additional shares at A\$0.059 per share pursuant to a pro-rata accelerated non-renounceable Entitlement Offer to raise a further approximately A\$10 million (“Entitlement Offer”).

The Entitlement Offer has been fully underwritten by Morgans Corporate Limited (Morgans).

The Entitlement Offer is non-renounceable and entitlements will not be tradeable or otherwise transferrable.

Under the Entitlement Offer, shareholders will be able to subscribe for additional shares at A\$0.059 per share on the basis of one new shares for every nine shares held at the record date of Thursday 2 August 2018.

The offer price of A\$0.059 represents a:

- 7.8% discount to the last close of A\$0.064 on Monday 30 July 2018;
- 9.5% discount to the 30 day VWAP; and
- 6.5% discount to TERP.

Further information

Morgans Corporate Limited is acting as lead manager and underwriter to the entitlement offer with Allens acting as legal advisor.

Offer Timetable

An indicative Entitlement Offer timetable is set out below.

Timetable for Non-Renounceable Entitlement Offer	
Announcement of the Equity Raising	31 July 2018
Institutional Entitlement Offer and Bookbuild opens	31 July 2018
Institutional Entitlement Offer and Bookbuild closes	1 August 2018
Results of Institutional offer announced and trading halt lifted	2 August 2018
Shares trade ex-entitlement	2 August 2018
Record date for determining Eligible Shareholders	2 August 2018
Retail Entitlement Offer opens and Booklets despatched	7 August 2018
Settlement of New Shares issued under the Placement and Institutional Offer	9 August 2018
Allotment and normal trading of New Shares issued under the Placement and Institutional Entitlement Offer	10 August 2018
Retail Entitlement Offer closes	21 August 2018
Allotment of New Shares issued under the Retail Entitlement Offer	29 August 2018
Despatch of holding statements and normal trading of New Shares	30 August 2018

Dates and times in this release are indicative only and subject to change. The Company reserves the right, subject to the Corporations Act, ASX Listing Rules and other applicable laws, to vary the dates of the Entitlement Offer without prior notice, including extending the Entitlement Offer or accepting late applications, either generally or in particular cases, or to withdraw the Entitlement Offer without prior notice. The commencement of quotation of New Shares is subject to confirmation from ASX.

Further information about the Entitlement Offer, including its strategic and financial benefits, is in Otto's market release and Investor Presentation, lodged with the ASX today.

Competent Persons Statement

The information in this report that relates to oil and gas resources in relation to the Gulf Coast Package in the Gulf of Mexico was compiled by technical employees of Hilcorp Energy Company, the Operator of the Gulf Coast Package, and subsequently reviewed by Mr Paul Senycia BSc (Hons) (Mining Engineering), MAppSc (Exploration Geophysics), who has consented to the inclusion of such information in this report in the form and context in which it appears.

Mr Senycia is an employee of the Company, with more than 30 years relevant experience in the petroleum industry and is a member of The Society of Petroleum Engineers (SPE). The 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 resources information included in this report are based on, and fairly represents, information and supporting documentation reviewed by Mr Senycia. Mr Senycia 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

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. The prospective resource estimates have been prepared using the deterministic method. The prospective resources information in this document is reported according to the Company's economic interest in each of the resources and net of royalties. The prospective resources information in this document has been estimated using a 6:1 BOE conversion ratio for gas to oil; 6:1 conversion ratio is based on an energy equivalency conversion method and does not represent value equivalency. 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.

Prospective Resources Cautionary Statement

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 appraisal and evaluation is required to determine the existence of a significant quantity of potentially moveable hydrocarbons.

Prospective Resources Reporting Notes for the Gulf Coast Package prospects reported for the first time

- The prospective resources information is effective as at 30 June 2018 (Listing Rule (LR) 5.25.1).
- The prospective resources information has been estimated and is classified in accordance with SPE PRMS (Society of Petroleum Engineers Petroleum Resources Management System) (LR 5.25.2).
- The prospective resources information is reported according to the Company's economic interest in each of the resources and net of royalties (LR 5.25.5).
- The prospective resources information in this document has been estimated and prepared using the probabilistic method (LR 5.25.6).
- The prospective resources information in this document has been estimated using a 6:1 BOE conversion ratio for gas to oil; 6:1 conversion ratio is based on an energy equivalency conversion method and does not represent value equivalency (LR 5.25.7).
- Prospective resources are reported on a P10-P50-P90 basis (LR 5.28.1).
- For prospective resources, the estimated quantities of petroleum that may potentially be recovered by the application of a future development project(s) 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 (LR 5.28.2).
- The Gulf Coast Package prospects are under private leases. In respect to the prospective resources for the Gulf Coast Package prospects referred to on page 4, Otto will earn a 37.5% working interest in the leases which make up the prospect by paying 50% of the costs of drilling and setting casing or plugging and abandoning at each

prospect. Otto will be assigned the working interest following the setting of production casing or the plugging and abandoning of each well. (LR 5.35.1).

- The P10-P50-P90 and mean prospective resource volumes for the eight prospects were estimated using modern nearshore and onshore, relatively long offset 3D seismic data. Such data are standard in the oil and gas industry as a tool for identifying prospects and these data currently provide the industry's most accurate method of estimating prospective resource volumes and attendant risks. The parameters used in the acquisition and processing of the seismic surveys is commensurate with the industry standard for the Gulf Coast region. Exploration drilling will be required to assess these resources. (LR 5.35.2):
- The chance of discovery for each of the Gulf Coast Package prospects is set out on page 4. There is a risk that exploration will not result in sufficient volumes of oil and/or gas for a commercial development (LR 5.35.3).
- Prospective resources on page 4 are un-risked and have not been adjusted for an associated chance of discovery and a chance of development. Page 5 includes volumes which are the probabilistic addition of the risked prospective resource distributions. See below for further explanation (LR 5.35.4).

Notes on the calculation of the risked summary data for the Gulf Coast Package on page 5

Hilcorp has accumulated a massive proprietary regional Gulf Coast database comprising well drilling and production information from private and public sources. This database is used by Hilcorp in generating probabilistic estimates for future wells and programs where the data can be tailored to the specific parameters required for analysis such as depth, play type, etc.

Indicative finding and developments costs, indicative peak production rates and indicative gas versus oil percentages were calculated utilising the abovementioned regional database. From the regional database Hilcorp developed a series of expectation curves from which the P90-P50-P10 outcomes shown have been extracted. Otto has undertaken its own due diligence on these data and is satisfied that they represent a good estimate for the portfolio of opportunities to be drilled.

For each of the eight independent prospects, a probabilistic prospective resource was calculated using analogue offset well information and high-quality 3D seismic data. Each of the resultant prospective resource distributions were then merged probabilistically to provide a probabilistic estimate for the entire portfolio (eight prospects).

Probabilistic estimates for finding and development costs were also calculated for each individual prospect using analogue offset field information and taking into account the particular geometry and thickness of each prospect as estimated from high-quality 3D seismic data. As with the prospect volumes, these individual estimates were then probabilistically merged to provide a portfolio view.

The probabilistic additions above have been undertaken using a monte carlo approach to each prospect's expectation curve.

The percentage liquids content for each prospect is based on analogue offset well and field information.

Definitions

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| <ul style="list-style-type: none"> - "A\$" means Australian Dollars - "US\$" means United States dollars - "bbl" means barrel - "bbls" means barrels - "BOE" or boe means barrel of oil equivalent 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 - "boepd" means barrels of oil equivalent per day - "bopd" means barrels of oil per day - "Finding Cost" means the cost of finding a BOE including land and exploration costs. | <ul style="list-style-type: none"> - "Finding and Development Cost" means the cost of finding and developing a BOE includes the Finding Cost and development costs such as well completion and facilities. - "Mbbbl" means thousand barrels - "Mscf" means 1000 standard cubic feet - "Mboe" means thousand BOE - "MMscf" means million standard cubic feet - "MMboe" means million BOE - "Peak Production Rate" means the maximum steady state rate at which a well is expected to produce. - "WVAP" is the volume weighted average price. - "TERP" the theoretical ex - rights prices at which Otto Energy shares should trade immediately after the ex - date of the Entitlement Offer. |
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