# QUARTERLY REPORT

**THREE MONTHS ENDED 31 DECEMBER 2018**

## QUARTERLY HIGHLIGHTS FOR OTTO ENERGY LIMITED (ASX:OEL)

**PRODUCTION**

- Otto's oil and gas sales for the quarter totalled 135,537 bbls of oil and 291,296 Mscf of gas
- Otto received cash from sales of its share of oil and gas for the quarter of US$10.4 million before royalties and operating costs
- F2 well was successfully recompleted in the F55 sand

**EXPLORATION – LOUISIANA, GULF OF MEXICO:**

- Lightning – drilling of initial exploration well commenced. As at 24 January 2019 the well was drilling ahead at 12,023 feet TVD. The well is planned to be drilled to 15,500 ft MD/15,500 ft TVD.
- Big Tex well – despite encountering significant mudlog shows during drilling, was plugged and abandoned after encountering insufficient producible reservoir
- Bivouac Peak well drilled, plugged and abandoned

**EXPLORATION – ALASKA NORTH SLOPE:**

- Rig contract executed and key permit approvals received in preparation for drilling the exciting Winx-1 well in February 2019

**CORPORATE:**

- Closing cash balance of US$10.3 million (A$14.6 million)
- Received proceeds of US$ 10.4 million in the quarter from SM 71 sales (September, October, November production before royalties) which is US$ 8.5 million net of royalties
- Successfully amended key terms of convertible note, including option to extend term to 30 June 2020

## THREE-MONTH OUTLOOK

- Otto expects to continue to receive substantial cash flows from the sale of steady state production from its 50% owned SM 71 oil field in the Gulf of Mexico.
- Texas, Gulf Coast: Lightning to reach target interval.
- Texas, Gulf Coast: Don Julio 2 initial exploration well to commence drilling.
- Texas, Gulf Coast: Mustang initial exploration well to commence drilling
- Alaska: Drilling of the Winx-1 exploration well.
- Continue to identify and secure new business opportunities in the Gulf of Mexico.

# PRODUCTION, APPRAISAL AND DEVELOPMENT

## LOUISIANA/GULF OF MEXICO – SOUTH MARSH ISLAND 71 (SM 71)

**Location:** Offshore Gulf of Mexico
**Area:** 12.16 $km^2$
**Otto's Working Interest:** 50.00% with Byron Energy Inc. (Operator)

Otto owns a 50% Working Interest ("WI") and a 40.625% Net Revenue Interest ("NRI") in the South Marsh Island block 71 ("SM 71"), with Byron Energy Limited ("Byron") the operator, holding an equivalent WI and NRI. Water depth in the area is approximately 137 feet.

Oil and gas production from the SM 71 F platform began in late March 2018 from two wells with the third well coming on line in early April. The F1 and F3 wells are completed in the primary D5 Sand reservoir and the F2 well is completed in the B55 Sand.

The field has now produced over 1 million barrels of oil and reached payback of the initial exploration and development costs.

Since production began in March 2018, two wells completed in the D5 Sand (F1 and F3) have produced a total of approximately 945,000 barrels of oil and 1.3 billion cubic feet of natural gas (as of 31 December 2018). Based on comparisons to nearby D5 Sand oil wells on adjacent blocks on the SM 71 salt dome, the D5 reservoir is characterised by a combination drive mechanism with initial pressure depletion followed by primary water drive support. In late 2018, the updip F1 well had an increase in gas production. It is believed that this increase in gas production is a result of the initial pressure depletion. The gas rate now appears to be stabilizing which would be an indication of the expected water support.

Bottom hole pressure work was done in the F1 and F3 wells in May 2018 and again in December 2018. Observations from this work indicated signs of water support from the downdip aquifer in the SM 71 D5 Sand reservoir. Neither the F1 nor the F3 well is producing any water at the present time. Another observation from this work indicated signs of communication between the F1 and F3 wells within the D5 Sand reservoir as expected.

The SM 71 F2 well was recompleted to the B55 Sand in October 2018. Bottom hole pressure work was also done on the F2 well in December 2018. Observations from this work led to a modification of the well's gas lift system. Since then, the SM 71 F2 well has become more predictable and is now producing at a stable rate of 180 bbs per day on gas lift. This rate is in line with other B55 Sand producers on the salt dome and our pre-completion estimate. The F2 well will continue to be managed at appropriate production rates.

Additional downhole pressure surveys will be acquired in May of 2019.

Current production from wells in the field are approximately 2,800 bopd and 6,600 mscf per day.

Otto has recently acquired a modern, high quality 3D seismic data set over the SM 71 area and is preparing a field development plan incorporating field performance to date.

Work is ongoing to determine future drilling locations within the field area to maximise production and oil recovery throughout the field life.

**For the quarter ended 31 December 2018**

| Production Volumes | Prior Quarter | Current Quarter | % change | Comment |
|---|---|---|---|---|
| **Gross (100%)** | | | | |
| SM 71 – Oil (bbls) | 324,597 | 271,074 | -16% | Oil production for the December quarter was below that achieved for the September quarter mainly due to shut in of wells while bottom hole pressure surveys were conducted and expected natural decline. |
| SM 71 – Oil (bopd) | 3,528 | 2,946 | -16% | |
| SM 71 – Gas (Mscf) | 355,605 | 582,593 | 64% | |
| | | | | |
| **Otto WI Share (50%)** | | | | |
| SM 71 – Oil (bbls) | 162,298 | 135,537 | -16% | |
| SM 71 – Oil (bopd) | 1,764 | 1,473 | -16% | |
| SM 71 – Gas (Mscf) | 177,802 | 291,296 | 64% | |
| | | | | |
| **Otto NRI Share (40.625%)** | | | | |
| SM 71 – Oil (bbls) | 131,868 | 110,124 | -16% | |
| SM 71 – Oil (bopd) | 1,433 | 1,197 | -16% | |
| SM 71 – Gas (Mscf) | 144,464 | 236,678 | 64% | |

| Sales Revenue – Otto 50% WI share (before royalties) USD | Prior Quarter | Current Quarter | % change | Comment |
|---|---|---|---|---|
| | | | | |
| SM 71 – Oil - $'million | 11.17 | 8.25 | -26% | Reduction in oil price benchmarks over the quarter. |
| SM 71 – Oil - $ per bbl | 68.82 | 60.85 | -12% | |
| | | | | |
| SM 71 – Gas - $'000 | 615 | 1,208 | 97% | |
| SM 71 – Gas – $ per MMbtu | $3.17 | $3.81 | 20% | |

Notes

1. Otto sells its high quality Louisiana Light Sweet crude ("LLS") produced at SM 71 at premium to West Texas Intermediate ("WTI") based on current LLS versus WTI price differentials. Deductions are then applied for transportation, oil shrinkage, basic sediment & water (BS&W), and other applicable adjustments.

2. Gas revenues include NGLs. Average 1 Mscf = 1.09 MMbtu for the quarter for SM 71 production. The thermal content of SM 71 gas may vary over time.

# EXPLORATION

## LOUISIANA & TEXAS/GULF OF MEXICO – HILCORP PROGRAM

**Location:** Onshore/Near Shore Texas and Louisiana, Gulf of Mexico
**Otto's Working Interest:** 37.50% - Hilcorp Energy (62.50% and Operator)

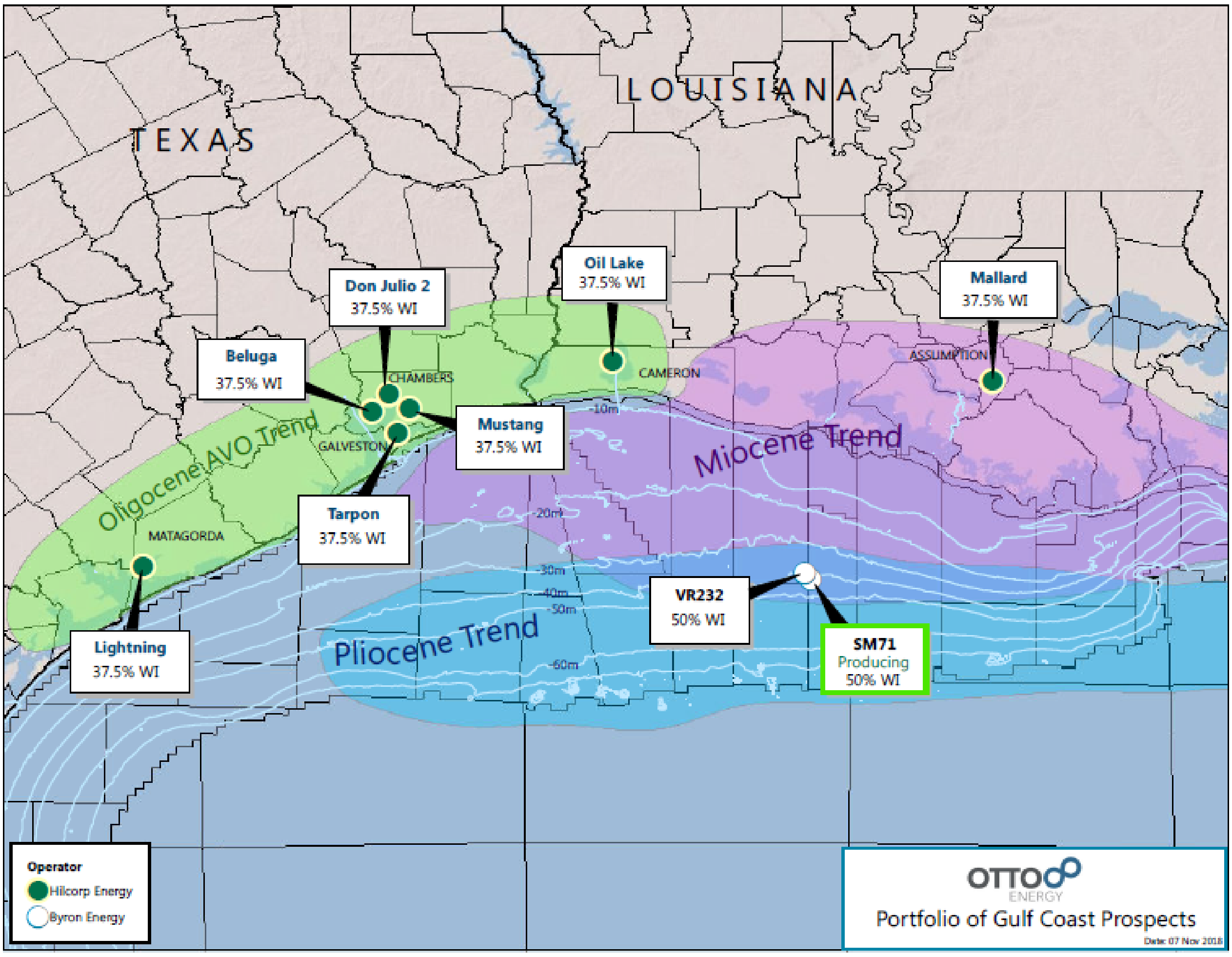
On 31 July 2018 Otto announced that it had entered into a joint venture with Hilcorp Energy which will see it earn a 37.5% working interest in an eight well portfolio of prospects in the Onshore/Near Shore USA Gulf Coast (Gulf of Mexico). The wells will be drilled by Hilcorp, a highly experienced, privately-owned operator based in Houston, over the next 12 - 15 months.

### Details of the Agreement

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

The first well on the program, Big Tex, has been drilled. The second well on the program, Lightning, is currently being drilled. Refer to the end of this section for details on the Lightning and Big Tex wells.

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.



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.

### Details of the Drilling Program

Information on the next seven wells as at the date of the farm in (31 July 2018) 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 |
|---|---|---|---|---|---|---|---|---|
| Lightning | Nov-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 the next seven prospects is set out below.

| Prospect Name | Working Interest | Net Revenue Interest | Probability of Success | Prospective Resources[1] MMboe | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | 100% | | | | Otto Net Revenue Interest | | | |
| | | | | P90 | P50 | Mean | P10 | P90 | P50 | Mean | P10 |
| 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.

**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 ASX release on 31 July 2018 for further information on these calculations.

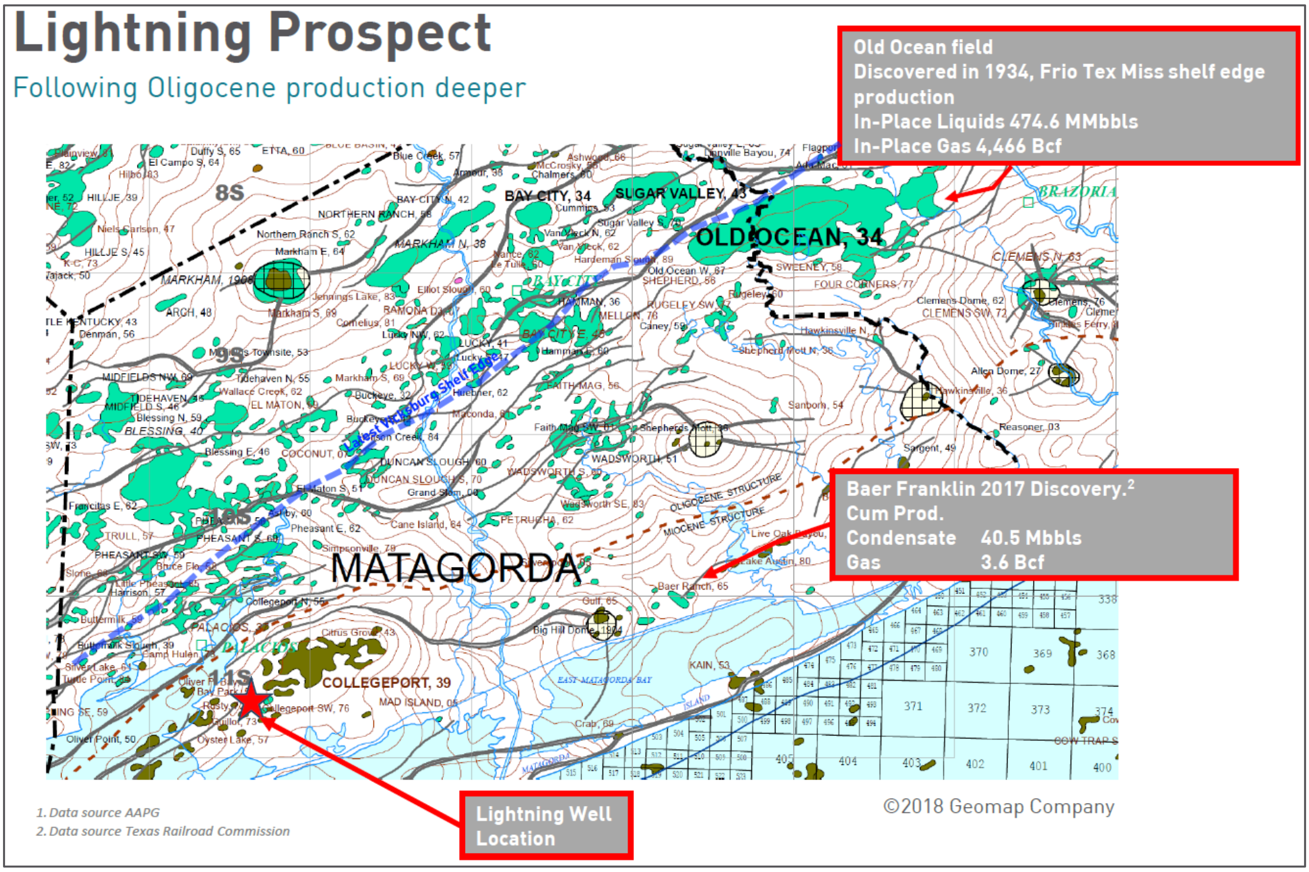
| Metric | P90 | P50 | P10 |
|---|---|---|---|
| Volumes, MMBOE | 4.63 | 19.86 | 64.59 |
| Peak Production Rate, BOE/d | 3,270 | 9,990 | 31,300 |
| % Hydrocarbon Liquids per BOE | 13% | 28% | 56% |
| Finding cost, US$/BOE | $13.62 | $3.18 | $0.98 |
| Finding & Development cost, US$/BOE | $16.40 | $5.51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

## Lightning Well

The initial exploration well on the Lightning prospect, Green #1 in Matagorda County Texas, commenced drilling on 3 December 2018 and as at 6am US Central Time on 24 January 2019 (US Central Standard Time) $9\frac{5}{8}$" casing had been successfully set and cemented at 11,580 feet (TVD) and the well was drilling ahead toward the primary target at 12,023 feet True Vertical Depth. The well is planned to be drilled to 15,500 ft MD/15,500 ft TVD.

**LIGHTNING PROSPECTIVE RESOURCES[1]**

| | GROSS | | | OTTO 37.5% WI | | | OTTO 28.50% NRI | | |
|---|---|---|---|---|---|---|---|---|---|
| Prospect | Oil (MMbbl) | Gas (Bscf) | MMBOE (6:1) | Oil (MMbbl) | Gas (Bscf) | MMBOE (6:1) | Oil (MMbbl) | Gas (Bscf) | MMBOE (6:1) |
| P90 | 0.03 | 5.32 | 0.92 | 0.01 | 2.00 | 0.34 | 0.01 | 1.52 | 0.26 |
| P50 | 0.19 | 17.97 | 3.19 | 0.07 | 6.74 | 1.19 | 0.05 | 5.12 | 0.91 |
| Mean | 0.36 | 25.22 | 4.57 | 0.14 | 9.46 | 1.71 | 0.10 | 7.19 | 1.30 |
| P10 | 0.93 | 54.80 | 10.06 | 0.35 | 20.55 | 3.77 | 0.27 | 15.62 | 2.87 |




## Big Tex Well

The initial exploration well on the Big Tex prospect, SL 192 PP 031, commenced on 28 August 2018 and reached a final total depth of 13,722ft MD (13,172ft TVD). A triple combo wireline logging suite was subsequently acquired over the target prospective Middle Miocene Tex W16 and Tex W18 Sand intervals as well as several sidewall cores. Petrophysical log evaluation indicated the presence of a number of hydrocarbon bearing zones, however insufficient producible reservoir was encountered to justify the additional cost of completing the well for production. The SL 192 PP 031 well was subsequently plugged and abandoned.

# EXPLORATION (Continued)

### LOUISIANA/GULF OF MEXICO – VERMILLION BLOCK 232 (VR 232)

**Location:** Offshore Gulf of Mexico
**Area:** 18.31 km$^2$
**Otto's Working Interest:** 50.00% - Byron Energy Inc. (Operator)

As reported on 19 June 2018, Byron Energy Inc, a wholly owned subsidiary of Byron Energy Limited was advised by the Bureau of Ocean Energy Management ("BOEM") that its bid for VR 232 was deemed acceptable by the BOEM and the lease was awarded to Byron. The lease is subject to a 12.5% Federal Government royalty.

VR 232 is adjacent to Otto's 50% owned SM 71 oil field and adds drilling opportunities which increase Otto's potential upside around the SM 71 facilities.

The Operator, Byron, has mapped a gas and gas condensate prospect on the block with in-house calculated gross prospective resource potential of 11 Bcf and 170,000 barrels. This prospect could be tested from Otto's SM 71 F platform. The Operator has also identified two other prospects in VR 232 which require further geophysical evaluation before a drilling decision is made.

Byron evaluated this blocks with the same high-quality Reverse Time Migrated 3D seismic data and Inversion processed seismic data used in the discovery of oil and gas at SM 71 in 2016. Upon transfer, Otto's working interest will be 50% and net revenue interest will be 43.75%.

Pursuant to the terms of a Participation Agreement, effective 1 December 2015, between Byron and Otto, Otto has elected to participate in VR 232 at a fifty percent (50%) working interest.

Under that agreement, Otto must pay an amount equal to a gross one hundred thirty-three percent (133%) of Otto's fifty percent (50%) interest share of the initial test well (dry hole costs) plus a gross fifty percent (50%) of other past costs paid by Byron. Otto has paid its promoted share of the lease acquisition costs.



### LOUISIANA/GULF OF MEXICO – BIVOUAC PEAK

**Location:** Inshore Gulf of Mexico
**Area:** 11.04 km$^2$
**Otto's Working Interest:** 40.00% - Byron Energy Inc. (Operator)

Drilling of the Weiss-Adler, et. al. No. 1 well by the Parker 77B rig commenced on 25 of August 2018.

The well was drilled to a depth of 17,766 feet MD and evaluated utilising quad combo wireline logging tools, tied to seismic using a synthetic generated from such data, and deemed uncommercial. The plug and abandonment operations were completed on 22 October 2018 and the Parker 77B rig released.

# EXPLORATION (Continued)

### ALASKA – WESTERN BLOCKS

**Location:** Onshore North Slope Alaska
**Area:** 92 km$^2$
**Otto's Interest:** 22.5% – Great Bear Petroleum Operating (Operator of record)

On 25 June 2018 Otto, along with 88 Energy Limited (ASX:88E) and Red Emperor Resources NL (ASX:RMP) (collectively the "Consortium Partners"), announced they had executed a binding term sheet agreement with Great Bear Petroleum Ventures II LLC ("Great Bear") to acquire the majority of Great Bear's working interest in four leases comprising the "Western Blocks" (ADL#s 391718, 391719, 319720 and 391721).

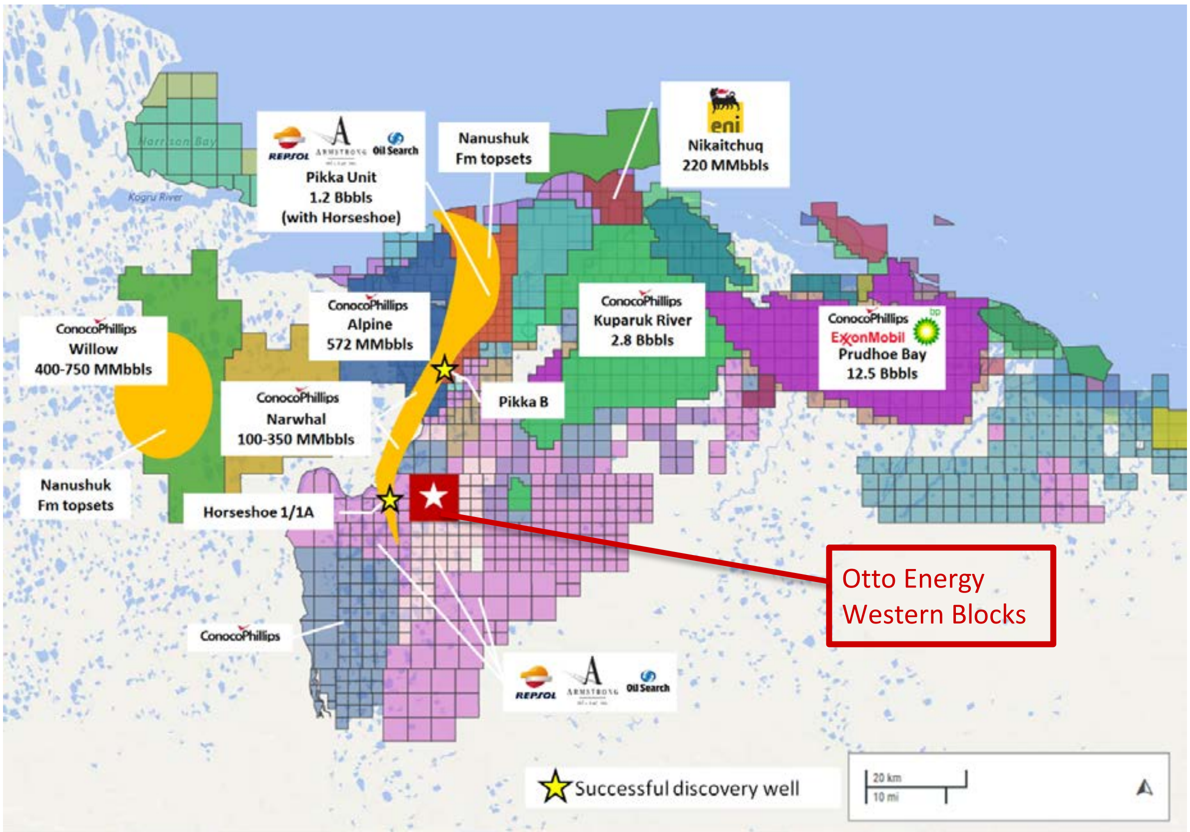
During the quarter the joint venture progressed activities in preparation for the spud of the Winx-1 well in mid-February 2019. The Permit to Drill was approved on 16 January 2019 and ice road construction is proceeding as planned.

The Winx Prospect is a 3D seismic defined oil prospect in the successful Nanushuk play fairway with a gross mean unrisked prospective resource of 400MMbbls (75MMbbls net to Otto). Refer to the ASX release of 25 June 2018 for further details.

Sitting immediately adjacent to one of the largest North American conventional oil discoveries made in recent times, the Winx-1 well will expose Otto's shareholders to a prospect of significant size with similar attributes.

<u>Prospective Resources Cautionary Statement</u>

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



# EXPLORATION (Continued)

## ALASKA – CENTRAL BLOCKS

**Location:** Onshore North Slope Alaska
**Area:** 1,163 $km^2$
**Otto's Interest:** 8%-10.8% – Great Bear Petroleum Operating (Operator)

Through its agreements with Great Bear Petroleum Operating ("Great Bear") in 2015, Otto has between an 8% and 10.8% working interest in 90 leases (covering 287,425 gross acres) held by Great Bear on the Alaskan North Slope ("Central Blocks").

Great Bear is a private exploration company focused exclusively on exploring and developing conventional and unconventional resources in this highly prospective basin. The leases are in a major play fairway south of the Prudhoe Bay and Kuparuk giant oil fields.

Great Bear has undertaken significant exploration work on the acreage since 2011 including:

- Acquisition and processing of approximately 2,970 km2 of 3D seismic data (1,170 km2 in 2016);
- Drilling of two unconventional stratigraphic test wells which cored three primary unconventional targets; and
- Drilling of a conventional exploration well (Alkaid-1) which specifically targeted a 3D defined Brookian reservoir. The Alkaid well results are under evaluation.

The extensive, modern 3D seismic coverage, existing well control and proximity to the all-weather Dalton Highway and Trans-Alaskan Pipeline System (TAPS) means the acreage is well positioned for exploration.

Existing 3D seismic has allowed development of an extensive prospect portfolio which includes at least 4 well locations.

Otto's exposure on the first two wells is limited to US$2.6m/well.

### Recent Activity

During the quarter Great Bear agreed to sell Great Bear Petroleum Ventures I LLC and Great Bear Petroleum Ventures II LLC (collectively: Great Bear) to Pantheon Resources plc (AIM:PANR).

They key assets of Great Bear are the leases referred to above as the Central Blocks. Pantheon has announced that it intends to:

- Undertake a flowtest of the Alkaid well commencing in the first quarter of 2019 (Otto has no interest in those leases)
- Participate in a carried 10% working interest in the Winx exploration well

Otto sees these developments as positive, providing the capacity for Great Bear to progress exploration activities in the Central Blocks that has been stalled awaiting a solution to Great Bear's funding issues since 2016.

# CORPORATE

### CASH FLOWS

Otto's cash on hand at the end of the quarter was US$10.3 million (September 2018: US$14.2 million). During the December quarter, Otto received US$10.4 million in cash flows from the sale of September, October and November 2018 production from its 50% owned SM 71 oil field in the Gulf of Mexico, before the payment of royalties. December month production cashflows of US$2.5 million (before royalties) have been received in January 2019.

### BOARD

During the quarter the Company advised that as part of the Company's transition of its operations to Houston, the role of Vice President – Exploration and New Ventures is now held solely by Will Armstrong based in Houston. Mr Paul Senycia, who was recently the Vice President – Exploration and New Ventures and an executive director, ceased his executive role on 31 December 2018 and took up the position of non-executive director from 1 January 2019.

As part of the terms of the transition, Mr Senycia maintains his performance rights under their existing terms and conditions.

### TANZANIA

In January 2019 Otto received US$300,000 from Swala. This is the first instalment of the US$800,000 plus interest owed to Otto by Swala under settlement and other commercial arrangements as set out in Otto's ASX release of 26 May 2017.

### CONVERTIBLE NOTES

On 17 December 2018 Otto advised that it has executed an amendment deed with the holders of the 8.2 million convertible notes ("Noteholders") whereby Otto has the option to extend the term of the 8 million notes held by Molton for a year to 30 June 2020.

In addition to the extension option, Noteholders have also agreed to a waiver of any restrictions on the use of existing cash balances and SM 71 proceeds through to 30 June 2019. This provides Otto with increased certainty and flexibility to fund its 2019 exploration program.

The above terms were conditional on either a waiver from the ASX of the need for shareholder approval (in accordance with Listing Rule 10.1), or shareholder approval, by 31 March 2019. On 24 January 2019 ASX issued the waiver and details can be found in the release on 25 January 2019.

An amendment fee of US$200,000 is payable and a further fee of up to US$200,000 is payable if the convertible note is extended beyond 30 June 2019.

### ANNUAL GENERAL MEETING

At the Company's Annual General Meeting, held on 15 November 2018, all resolutions, including the adoption of a new constitution, were passed on a show of hands.

# CORPORATE (Continued)

## SHAREHOLDERS

### Otto's issued capital as at 31 December 2018:

| Class | Number |
|---|---|
| **Fully paid ordinary shares** | 1, 875,254,612 |
| **Convertible Notes**[1] | 8,200,000 |
| **Options** | - |
| **Performance Rights** | 46,766,000 |

32,668,000 new performance rights were issued during the quarter to staff and directors as set out in the Appendix 3B released to ASX on 21 December 2018.

4,729,000 ordinary shares issued during the quarter as a result of the vesting of 4,729,000 performance rights on 29 November 2018.

### Otto's Top 20 Holders as at 31 December 2018:

| Rank | Name | Units | % of Units |
|---|---|---|---|
| 1 | Molton Holdings Limited | 305,859,697 | 16.31% |
| 2 | Perennial Value Management | 139,695,082 | 7.45% |
| 3 | Citicorp Nominees Pty Limited | 133,014,870 | 7.09% |
| 4 | BNP Paribas Nominees Pty Ltd <IB AU NOMS RETAILCLIENT DRP> | 68,230,131 | 3.64% |
| 5 | J P Morgan Nominees Australia Limited | 66,507,106 | 3.55% |
| 6 | National Nominees Limited | 46,881,346 | 2.50% |
| 7 | BNP Paribas Nominees Pty Ltd <AGENCY LENDING DRP A/C> | 42,930,109 | 2.29% |
| 8 | Safari Capital Pty Ltd | 25,157,138 | 1.34% |
| 9 | AMP Life Limited | 23,557,293 | 1.26% |
| 10 | John Jetter (Consolidated Relevant Interest) | 21,951,353 | 1.17% |
| 11 | Nero Resource Fund Pty Ltd | 20,949,153 | 1.12% |
| 12 | National Nominees Limited <DB A/C> | 19,738,970 | 1.05% |
| 13 | DBS Vickers Securities (Singapore) Pte Ltd | 14,020,833 | 0.75% |
| 14 | Ecapital Nominees Pty Ltd <ACCUMULATION A/C> | 12,000,000 | 0.64% |
| 15 | Merrill Lynch (Australia) Nominees Pty Limited | 10,654,267 | 0.57% |
| 16 | Mr Jamie Pherous <BLACK DUCK HOLDINGS A/C> | 10,000,000 | 0.53% |
| 17 | Mr Matthew Gerard Allen (Consolidated Relevant Interest) | 8,975,667 | 0.48% |
| 18 | Mr John Philip Daniels | 8,700,000 | 0.46% |
| 19 | Debuscey Pty Ltd | 8,501,292 | 0.45% |
| 20 | Sphinx Holdings Ltd | 8,386,587 | 0.45% |
| **Total Top 20 Shareholders** | | **995,710,894** | **53.10%** |
| Total Remaining Shareholders | | 879,543,718 | 46.90% |
| **Total Shares on Issue** | | **1,875,254,612** | **100.0%** |

1. *Convertible notes have a face value of US$1.00, are convertible at A$0.05484 and mature on 30 June 2019. Refer to the Notice of Meeting released to ASX on 23 June 2017 and the ASX release of 17 December 2018 for more details.*

## OTTO AT A GLANCE

- ASX-listed company with significant oil production in the Gulf of Mexico
- Drilling success in April 2016 and subsequent development saw Otto return to production in March 2018
- Growth to be delivered through the drilling of seven high-impact exploration wells in the Gulf of Mexico over the next year and a large prospect in Alaska in February 2019
- Focus on proven, prolific hydrocarbon basins with well-developed route to market
- Team have demonstrated delivery of shareholder value through oil and gas projects

### DIRECTORS

John Jetter - Non-Executive Chairman
Matthew Allen - Managing Director & CEO
Ian Boserio - Non-Executive
Ian Macliver - Non-Executive
Paul Senycia - Non-Executive

**Chief Financial Officer & Company Secretary:**
David Rich

ASX Code: OEL

### CONTACTS

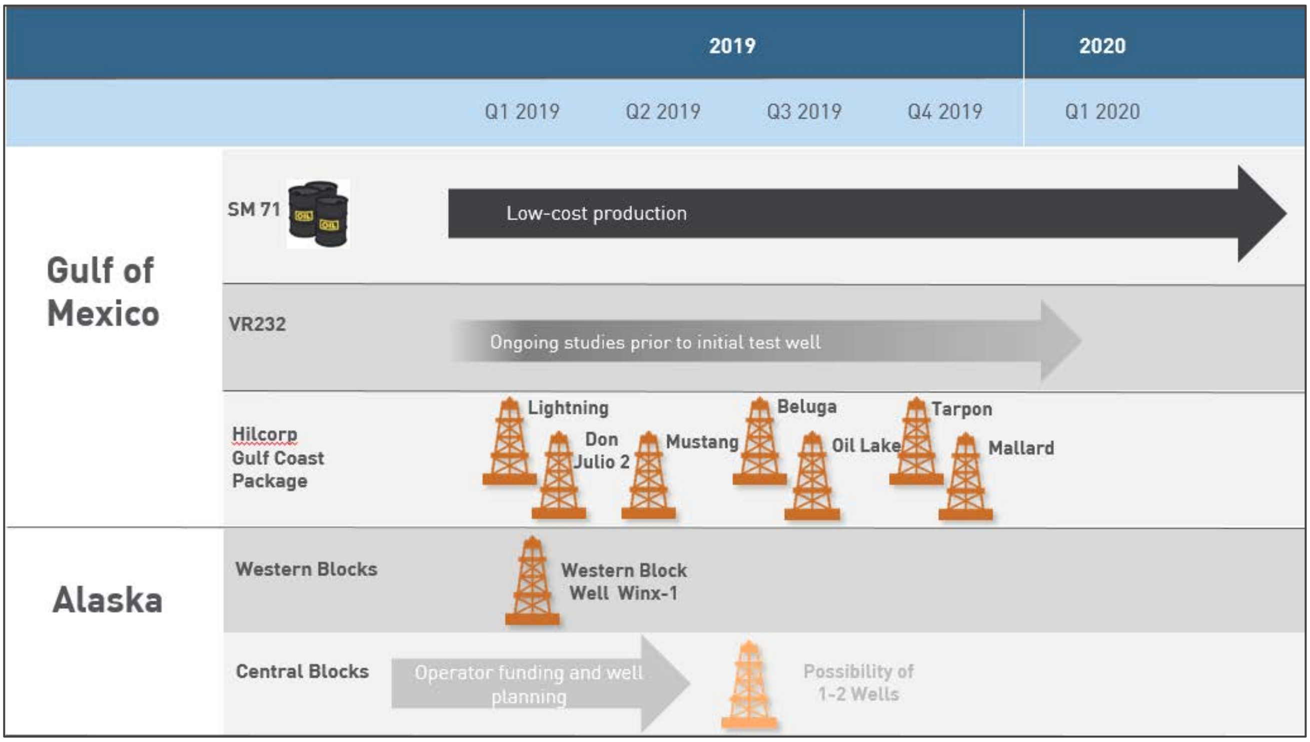
32 Delhi Street
West Perth WA 6005 Australia

**E:** info@ottoenergy.com
**P:** +61 8 6467 8800
**F:** +61 8 6467 8801

**INVESTOR RELATIONS:**
Mark Lindh
Adelaide Equity Partners
+61 8 8232 8800



## Pipeline of Opportunities



## Competent Persons Statement

The information in this report that relates to oil and gas resources in relation to the Alaska Western Blocks was compiled 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.

The information in this report that relates to oil and gas resources in relation to VR 232 in the Gulf of Mexico was compiled by technical employees of Byron Energy Inc, the Operator of VR 232, and subsequently reviewed by Mr Will Armstrong BS in Geology, MS in Geology (Applied Geophysics), who has consented to the inclusion of such information in this report in the form and context in which it appears.

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 Will Armstrong BS in Geology, MS in Geology (Applied Geophysics), who has consented to the inclusion of such information in this report in the form and context in which it appears.

Mr Armstrong 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 Armstrong. Mr Armstrong 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

Mr Senycia is a director 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**

Prospective resource estimates in this report for the Alaska Western Blocks are prepared as at 30 April 2018. Refer to the ASX release of 25 June 2018. The prospective resource information in this document for VR 232 is effective as at 19 June 2018. Refer to the ASX release of 19 June 2018. The prospective resource information in this document in relation to the Gulf Coast Package in the Gulf of Mexico is effective as at 30 June 2018. Refer to the ASX release of 31 July 2018.

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 except for the Gulf Coast Package in the Gulf of Mexico which is prepared using the probabilistic 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.

**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.

## Definitions

- "$m" means USD millions of dollars
- "bbl" means barrel
- "bbls" means barrels
- "bopd" means barrels of oil per day
- "Mbbl" means thousand barrels
- "Mscf" means 1000 standard cubic feet
- "NGLs" means natural gas liquids
- "Mboe" means 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
- "MMscf" means million standard cubic feet
- "MMboe" means million 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
- "MMbtu" means million British thermal units

*+Rule 5.5*

# Appendix 5B

# Mining exploration entity and oil and gas exploration entity quarterly report

Introduced 01/07/96 Origin Appendix 8 Amended 01/07/97, 01/07/98, 30/09/01, 01/06/10, 17/12/10, 01/05/13, 01/09/16

**Name of entity**

Otto Energy Limited

| **ABN** | **Quarter ended ("current quarter")** |
|---|---|
| 56 107 555 046 | 31 December 2018 |

| | **Consolidated statement of cash flows** | **Current quarter US$'000** | **Year to date (6 months) US$'000** |
|---|---|---|---|
| **1.** | **Cash flows from operating activities** | | |
| 1.1 | Receipts from customers (net of royalties)* | 8,494 | 18,438 |
| 1.2 | Payments for | | |
| | (a) exploration & evaluation | (7,982) | (19,571) |
| | (b) development | (1,073) | (1,643) |
| | (c) production | (700) | (1,598) |
| | (d) staff costs | (608) | (1,134) |
| | (e) administration and corporate costs | (668) | (1,598) |
| 1.3 | Dividends received (see note 3) | - | - |
| 1.4 | Interest received | 52 | 72 |
| 1.5 | Interest and other costs of finance paid | (1,162) | (1,162) |
| 1.6 | Income taxes paid | - | - |
| 1.7 | Research and development refunds | - | - |
| 1.8 | Other (provide details if material) | (136) | (133) |
| | -Refundable security deposit Alaska | - | (750) |
| **1.9** | **Net cash from / (used in) operating activities** | **(3,783)** | **(9,079)** |

*Receipts of US$10,435,447 less royalties of US$1,941,052.

| **Consolidated statement of cash flows** | | **Current quarter US$'000** | **Year to date (6 months) US$'000** |
|---|---|---|---|
| **2.** | **Cash flows from investing activities** | | |
| 2.1 | Payments to acquire: | | |
| | (a) property, plant and equipment | (27) | (90) |
| | (b) tenements (see item 10) | - | - |
| | (c) investments | - | - |
| | (d) other non-current assets | - | - |
| 2.2 | Proceeds from the disposal of: | | |
| | (a) property, plant and equipment | - | - |
| | (b) tenements (see item 10) | - | - |
| | (c) investments | - | - |
| | (d) other non-current assets | - | - |
| 2.3 | Cash flows from loans to other entities | - | - |
| 2.4 | Dividends received (see note 3) | - | - |
| 2.5 | Other (provide details if material) | - | - |
| **2.6** | **Net cash from / (used in) investing activities** | **(27)** | **(90)** |

| | | | |
|---|---|---|---|
| **3.** | **Cash flows from financing activities** | | |
| 3.1 | Proceeds from issues of shares | - | 14,726 |
| 3.2 | Proceeds from issue of convertible notes | - | - |
| 3.3 | Proceeds from exercise of share options | - | - |
| 3.4 | Transaction costs related to issues of shares, convertible notes or options | (66) | (1,013) |
| 3.5 | Proceeds from borrowings | - | - |
| 3.6 | Repayment of borrowings | - | - |
| 3.7 | Transaction costs related to loans and borrowings | - | - |
| 3.8 | Dividends paid | - | - |
| 3.9 | Other (provide details if material) | - | - |
| **3.10** | **Net cash from / (used in) financing activities** | **(66)** | **13,713** |

| **Consolidated statement of cash flows** | | **Current quarter US$'000** | **Year to date (6 months) US$'000** |
|---|---|---|---|
| **4.** | **Net increase / (decrease) in cash and cash equivalents for the period** | | |
| 4.1 | Cash and cash equivalents at beginning of period | 14,217 | 5,945 |
| 4.2 | Net cash from / (used in) operating activities (item 1.9 above) | (3,783) | (9,079) |
| 4.3 | Net cash from / (used in) investing activities (item 2.6 above) | (27) | (90) |
| 4.4 | Net cash from / (used in) financing activities (item 3.10 above) | (66) | 13,713 |
| 4.5 | Effect of movement in exchange rates on cash held | (8) | (156) |
| **4.6** | **Cash and cash equivalents at end of period** | **10,333** | **10,333** |

| **5.** | **Reconciliation of cash and cash equivalents** at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts | **Current quarter US$'000** | **Previous quarter US$'000** |
|---|---|---|---|
| 5.1 | Bank balances | 10,333 | 14,217 |
| 5.2 | Call deposits | - | - |
| 5.3 | Bank overdrafts | - | - |
| 5.4 | Other (provide details) | - | - |
| **5.5** | **Cash and cash equivalents at end of quarter (should equal item 4.6 above)** | **10,333** | **14,217** |

| **6.** | **Payments to directors of the entity and their associates** | **Current quarter US$'000** |
|---|---|---|
| 6.1 | Aggregate amount of payments to these parties included in item 1.2 | 228 |
| 6.2 | Aggregate amount of cash flow from loans to these parties included in item 2.3 | - |

6.3 Include below any explanation necessary to understand the transactions included in items 6.1 and 6.2

Directors fees including superannuation where applicable

| | US$'000 |
|---|---|
| Executive Directors | 165 |
| Non-Executive Directors | 63 |
| Total | 228 |

| 7. | **Payments to related entities of the entity and their associates** | **Current quarter US$'000** |
|---|---|---|
| 7.1 | Aggregate amount of payments to these parties included in item 1.2 | - |
| 7.2 | Aggregate amount of cash flow from loans to these parties included in item 2.3 | - |

7.3 Include below any explanation necessary to understand the transactions included in items 7.1 and 7.2

| 8. | **Financing facilities available** *Add notes as necessary for an understanding of the position* | **Total facility amount at quarter end US$'000** | **Amount drawn at quarter end US$'000** |
|---|---|---|---|
| 8.1 | Loan facilities | - | - |
| 8.2 | Credit standby arrangements | - | - |
| 8.3 | Other (Convertible Notes) | 8,200 | 8,200 |

8.4 Include below a description of each facility above, including the lender, interest rate and whether it is secured or unsecured. If any additional facilities have been entered into or are proposed to be entered into after quarter end, include details of those facilities as well.

On 2 August 2017 the Company issued convertible notes to Molton Holdings Limited, a major Otto shareholder (US$8 million), and Mr John Jetter, Otto's Chairman (US$0.2 million). The interest rate is 14% plus a success fee. The notes are secured and the Maturity Date is 30 June 2019. Key terms of the convertible notes are set out in the Notice of Meeting released to ASX on 23 June 2017.

Under the terms of the convertible notes, 50% of net proceeds from SM 71 (after all costs) are only to be used for SM 71 purposes or repayment of amounts outstanding under the convertible note until the total equals the value of the convertible notes and interest outstanding.

During the quarter the Company and Noteholders executed an amendment to the terms (see ASX release dated 17 December 2018). Under the amendment, the Company has the option to extend the Maturity Date to 30 June 2020. In addition to the extension option, Noteholders also agreed to a waiver of the restrictions on the use of existing cash balances and SM 71 proceeds through to 30 June 2019. In the event Otto elects to extend the Maturity Date, the restriction noted above will cease being suspended and will be in effect again from 1 July 2019. The restriction will start from zero and build up with SM 71 net cashflows on the same terms as is currently in place.

| 9. | **Estimated cash outflows for next quarter** | **US$'000** |
|---|---|---|
| 9.1 | Exploration and evaluation | 9,614 |
| 9.2 | Development | 600 |
| 9.3 | Production | 450 |
| 9.4 | Staff costs | 838 |
| 9.5 | Administration and corporate costs | 695 |
| 9.6 | Other | - |
| **9.7** | **Total estimated cash outflows** | **12,197** |

Note that Otto expects to receive substantial proceeds from sales of production during the coming quarter from its 50% owned SM 71 oil field.

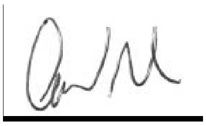
| **10. Changes in tenements (items 2.1(b) and 2.2(b) above)** | **Tenement reference and location** | **Nature of interest** | **Interest at beginning of quarter** | **Interest at end of quarter** |
|---|---|---|---|---|
| 10.1 Interests in mining tenements and petroleum tenements lapsed, relinquished or reduced | | | | |
| 10.2 Interests in mining tenements and petroleum tenements acquired or increased | | | | |

Note that Bivouac Peak and VR 232 interests have been earned, but the lease interests have not yet been transferred. The Hilcorp Gulf Coast prospects are rights to earn in to leases and not yet interests so won't be included in the above until the earn in has occurred.

## Compliance statement

1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.

2 This statement gives a true and fair view of the matters disclosed.

Sign here: 

Date: 29 January 2019

CFO & Company Secretary

Print name: David Rich

**Notes**

1. The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity that wishes to disclose additional information is encouraged to do so, in a note or notes included in or attached to this report.
2. If this quarterly report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, AASB 6: Exploration for and Evaluation of Mineral Resources and AASB 107: Statement of Cash Flows apply to this report. If this quarterly report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standards apply to this report.
3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.