

21 July 2015

Manager of Company Announcements  
ASX Limited  
Level 6, 20 Bridge Street  
SYDNEY NSW 2000

## By E-Lodgement

### Otto to acquire interest in highly prospective onshore Alaskan North Slope Acreage

#### HIGHLIGHTS:

- **Staged entry for an 8% and 10.8% working interest in 2 separate areas located in highly prospective, oil prone Alaskan North Slope Acreage held by Great Bear Petroleum Operating LLC ("Great Bear"), through an investment in Borealis Petroleum Pty Ltd.**
- **Great Bear holds a 558,195 net acre position on the Alaskan North Slope, immediately south of the super-giant Prudhoe Bay and Kuparuk oil fields and adjacent to Repsol's recently appraised significant oil discoveries.**
- **Modest initial investment of US\$4 million secures position in Borealis with rights to increase ownership in stages.**
- **Initial deal secures participation in 2 oil discovery appraisal wells and 1 exploration well in 2015/2016, with a further option to secure an interest in the Alkaid well drilled by Great Bear in 2015, and participate in drilling the Phecda prospect.**
- **Otto Energy to hold Investor Conference Call, Tuesday 21 July 2015 at 11am (Sydney time)/9am (Perth time)**

#### OTTO AT A GLANCE

- ASX-listed oil and gas company with a strategy to grow an integrated petroleum business through high impact exploration
- Focused on conventional oil plays in proven petroleum provinces
- Formerly Operator of the producing Galoc oil field in the Philippines

#### COMPANY OFFICERS

Rick Crabb	Chairman
Ian MacIver	Director
Rufino Bomasang	Director
John Jetter	Director
Ian Boserio	Director
Matthew Allen	MD/CEO
Craig Hasson	CFO
Neil Hackett	Company Secretary

Otto Energy Limited (ASX:OEL) ("Otto") has entered into a Letter of Intent ("LOI") with Borealis Petroleum Pty Ltd ("Borealis") to earn an interest, through staged capital injections, in a substantial acreage position on the highly prospective, oil prone, onshore Alaskan North Slope held by Great Bear Petroleum Operating LLC ("Great Bear").

Through its agreements with Great Bear, Borealis has the right to acquire an 8% and 10.8% working interest (equivalent to 58,334 net acres) in 2 areas of Alaskan North Slope exploration acreage held by Great Bear through a staged purchase arrangement of up to US\$20 million. Borealis is in the process of completing a US\$8 million capital raising, of which Otto has contributed US\$4 million. As a result, Otto holds approximately 40% of Borealis. Further funding rounds will be undertaken by Borealis over the course of 2015 to complete its entry into the Great Bear acreage. Otto has a first right of refusal to participate in these funding rounds. This staged earn-in structure provides Otto with the opportunity to move to increased/controlling ownership of Borealis as the Great Bear acreage matures.

Consideration to paid by Borealis to Great Bear will be applied to:

- Reimbursement of past costs incurred by Great Bear;
- Additional 3D seismic data acquisition; and
- Future work program of 2 appraisal wells and 1 exploration well (each with a capped exposure to Borealis of US\$2 million).

This drilling program is targeting existing proven geological play types, which if successful have the potential to yield significant recoverable resources.

In addition, Borealis has an option to acquire an interest in a further 22,804 acres for a purchase price of US\$25 million. This acreage includes a very recently drilled exploration well by Great Bear in early 2015 (Alkaid-1), and numerous exploration prospects (including the Phecda prospect).

In the event Borealis exercises its right over this acreage, second stage consideration will be applied to appraisal drilling and testing.

Otto's Managing Director, Matthew Allen said: *"Otto is very pleased to be entering into this partnership with both Borealis and Great Bear. The Alaskan North Slope is one of the world's most prolific oil and gas exploration and production areas. Participation in the Great Bear acreage provides Otto with a clear focus post the sale of our Galoc production field and the drilling of the Hawkeye-1 exploration well, offshore Philippines which is readying for commencement of operations. With the ability to participate in multiple appraisal and exploration wells in the coming year, this acquisition positions Otto with significant exposure to the highly prospective and proven Alaskan North Slope."*

### **About the Alaskan North Slope**

Alaska contains some of the largest conventional oil fields in North America and has produced more than 17 billion barrels of oil and 13 trillion cubic feet of natural gas. The US Geological Society estimates that the Alaskan North Slope has the potential to hold 40 billion barrels of conventional oil and over 200 trillion cubic feet of conventional gas. Whilst Otto and its partners' focus will be on conventional oil, the unconventional oil plays located in this acreage contain significant potential and Borealis will have access to its proportionate share of any resource through its deal with Great Bear.

The size and potential of the opportunities on the Alaskan North Slope see it as home to super majors such as Conoco, Shell, ExxonMobil, Repsol, ENI, Statoil and BP. Recent exploration drilling by Repsol in adjacent acreage has yielded a significant conventional oil discovery in the Kuparuk play sands; similar opportunities at this play level have already been identified in the Great Bear North Slope acreage. The Repsol well discovered several distinct oil accumulations and encountered a 650 foot oil column and 150 feet of net pay and is likely a multi-hundred million barrel oil discovery. This discovery was made after Repsol had farmed in to a 350,000 net acre position in 2011 in a deal valued at US\$760 million.

Further, financial incentives provided by the Alaskan Government to attract investment in the North Slope provides Alaska with the most attractive fiscal regime in North America and one that ranks very highly on a global scale. These incentives include:

- 75% to 85% exploration and development cash rebates;
- Flat rate production tax of 35% (previously taxes varied between 25-75% depending on profitability criteria);

- 12.5% state royalty; and
- Various production tax exemptions for new oil production.

Oil production can be transported through the Trans Alaska Pipeline System ("TAPS"), which runs through the Great Bear acreage. TAPS provides regulated open access to domestic and international markets and presently has around 1.0 mmbopd spare capacity.

Alaska is the only U.S. state able to export oil under current regulations. Alaska's geographical location provides safe and effective shipping routes for crude exports into the Asian markets, allowing Alaskan projects to provide a strategic long-term petroleum reserve for the Asian region.

### **About the Great Bear Acreage**

Great Bear is a private exploration company focused on exploring and developing conventional and unconventional resources on the North Slope of Alaska. Great Bear is the largest exploration leaseholder on the North Slope, having taken a position in a major play fairway south of the Prudhoe Bay and Kuparuk fields.

Great Bear is the dominant exploration acreage holder in this highly prospective basin; holding 579,374 gross acres. Great Bear has undertaken significant exploration work on the acreage since 2011 with a cumulative spend in excess of US\$150 million. This work includes:

- Acquisition and processing of approximately 1800km<sup>2</sup> of 3D seismic data.
- Drilling of 2 unconventional stratigraphic test wells which cored 3 primary unconventional targets. Results from these wells indicate that the majority of the Great Bear acreage is expected to be liquids rich. These wells also encountered light oil in various conventional formations.
- 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 TAPS means that the Great Bear joint venture is well positioned to test numerous prospects during the 2015-6 and 2016-7 northern winter drilling seasons.

The Great Bear acreage lies in the established conventional play fairways of the Ivishak, Kuparuk and Brookian sand reservoir systems in a region demonstrating oil maturity.

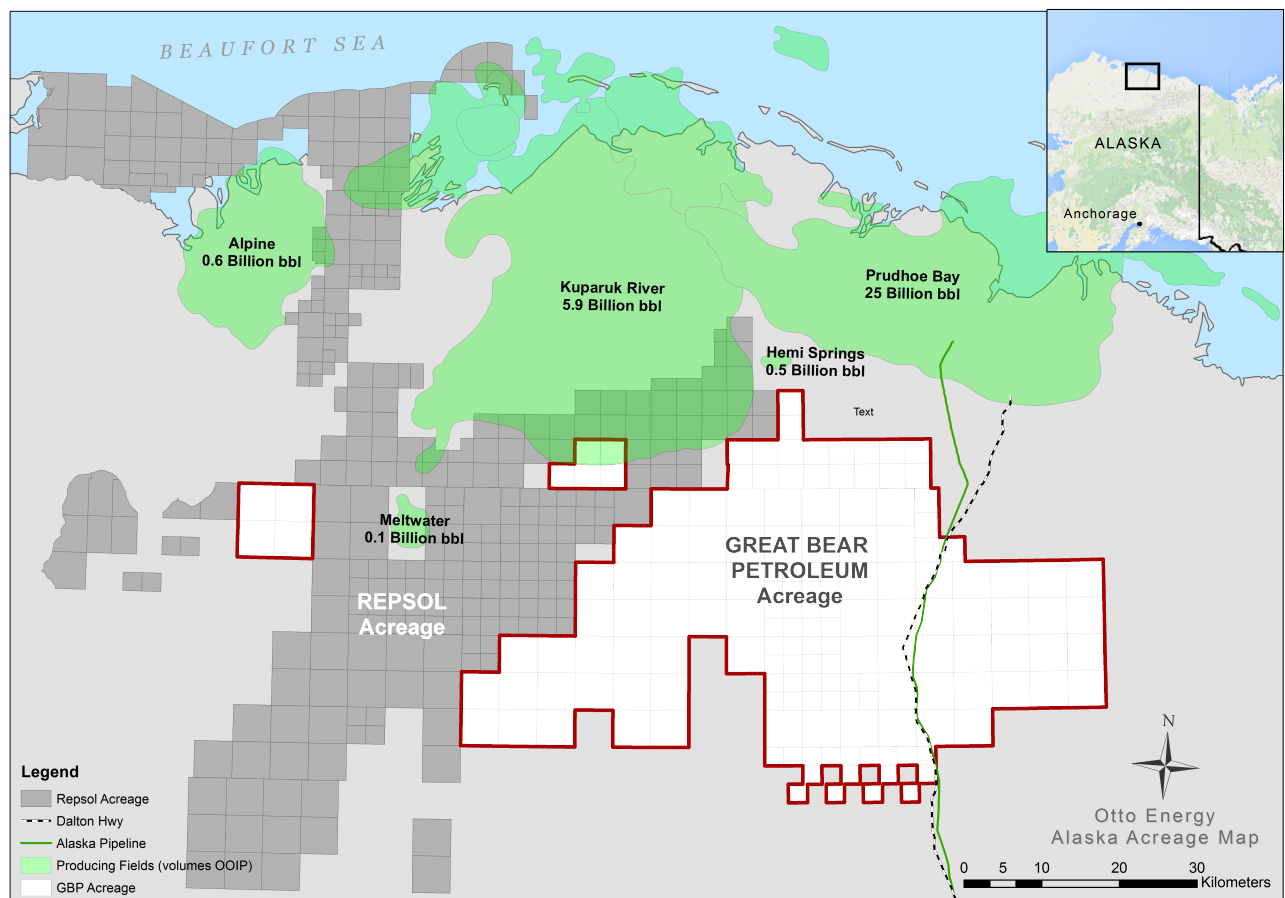
- The Brookian turbidite fans are productive at offset Tarn, Meltwater and Tabasco Fields (field sizes of around 100mmbo to 300mmbo in place).
- The Ivishak formation is the primary producing reservoir at the Prudhoe Bay Field (25 billion barrels of oil in place).
- The Kuparuk sand play is regionally productive with the Kuparuk Field holding 5.9 billion barrels of oil in place and was also the target of the recent substantial oil discovery made by Repsol.

The play types exhibited in the prospects so far identified by Great Bear have been the basis for other significant conventional oil discoveries in and around the Alaskan North Slope with discovered recoverable volumes being in the hundreds of millions of barrels. The size of these other discoveries within these plays provides an indication of the potential of Great Bear acreage in the success case.

In terms of unconventional potential, the North Slope is rated by the USGS as being potentially one of the last remaining material oil shale plays in the United States. The North Slope contains three world class

source rocks - Shublik, Kingak and Hue/HRZ shales. All three of these source rocks are in existence within the Great Bear acreage. This substantial unconventional play will be the subject of a longer term evaluation program with the immediate focus of the joint venture being on the conventional oil potential.

Multinational oil and gas services company, Halliburton farmed into a portion of the Great Bear acreage in 2011. Halliburton currently holds a 25% working interest in 126,186 gross acres. Halliburton's interest ensures the joint venture exposure to leading edge experience and technology in developing unconventional plays and will ensure that this aspect of the exploration potential continues to be progressed in conjunction with the planned 2015 and 2016 conventional exploration work program.



## About Borealis

Borealis Petroleum Pty Ltd is a private Australian company incorporated for the purpose of participating in the Great Bear Alaskan North Slope project. The acreage position will be held by Borealis Alaska LLC, which is 100% owned by Borealis. Upon completion of its initial investment into Borealis, Otto will be the largest single shareholder in the company and will be entitled to appoint nominees to the Board of Borealis. Further, Otto and Borealis will enter into a technical services agreement, pursuant to which Otto will provide the benefit of its experienced geological team (along with other members of the Otto staff) to assist Borealis' in its participation in the Great Bear project. Through the structuring of the transaction, Otto has the ability increase its shareholding in Borealis via first rights to negotiate the terms of any future capital raisings.

## About the Transactions

### Great Bear/Borealis Transaction

Borealis and Great Bear have agreed a transaction whereby Borealis will acquire an interest in an area of 58,334 net acres over the Great Bear acreage. Consideration to be paid by Borealis for the acquisition is a total amount of US\$20 million payable in stages and as set out below. This equates to an acquisition cost per acre of US\$342 and which is extremely favourable when compared against prices paid for similar Alaskan North Slope acreage, which have been in the region of US\$2000 per acre.

In addition, Borealis holds an option to acquire an interest in a further 22,804 acres that includes the Alkaid-1 well and the Phecda prospect, through the contribution to well testing or a further exploration well in an amount of US\$25 million.

	Initial Transaction		Option Transaction		Combined
Amount	\$20.0mm	Various Stages	\$25mm	Subject to terms	\$45.0mm
Deposit Land <sup>1</sup>	\$0.5mm	Paid	Option over 22,804 gross acres that include existing Alkaid-1 well and numerous prospects. Option must be exercised before the testing or spud of an appraisal well on Alkaid or Phecda, whichever shall occur earlier, which is expected to be late 2015		Land Costs \$14.0mm Drilling \$31.0mm
Installment Land <sup>2</sup>	\$6.5mm	July 31, 2015			
Final Land <sup>3</sup>	\$7.0mm	Sept 30, 2015			
Drilling Commitment <sup>4</sup>	\$6.0mm	Dec 1, 2015			
Number of Wells	Firm 3 well program – 1Q 2016		1 appraisal well or test program		4 wells within 12mths
Acres Net <sup>5</sup>	58,334		1,824		60,149
Per Acre Costs	\$342/acre				\$748/acre
Working Interest <sup>6</sup>	8.0% - 10.8%		8.0%		10.5% average

#### Notes

- <sup>1</sup> Non refundable deposit that secures exclusivity and access to title with the AK State Government
- <sup>2</sup> Seed capital contribution that entitles SPV to 50% ownership in the event that the Final payment is not made, i.e. 50% of 58,334 = 29,167 acres
- <sup>3</sup> Final payment to earn 100% of acreage; if payment not made SPV has to relinquish acreage (i.e. 29,167 acres) within a specified period of time
- <sup>4</sup> SPV is carried through a three well program commencing January 2016; well costs have been capped at \$20m gross i.e. \$2m net to SPV per well
- <sup>5 & 6</sup> SPV will have title to acreage in two joint ventures; 1.) HAL 8.0% equivalent to 8,271 acres; and 2.) Non HAL 10.8% equivalent to 50,064 acres

### Borealis/Otto Transaction

Pursuant to the LOI executed between Otto and Borealis, Otto will subscribe for shares in Borealis in an amount of US\$4 million. Otto's subscription forms 50% of a broader equity placement conducted by Borealis of US\$8 million with the remaining 50% equity having been taken up by sophisticated and institutional investors. This initial capital injection will be used by Borealis to pay the required US\$6.5 million due to Great Bear and to provide working capital for the Company. Further rounds of funding will be required by Borealis in order to meet its subsequent payment obligations to Great Bear and Otto has the right to participate in these further funding rounds up to the full amount to be raised. This staged earn-in structure provides Otto with the opportunity to move to increased/controlling ownership of Borealis as the Great Bear acreage matures.

Under the LOI terms, Otto is entitled to appoint nominees to the Board of Borealis in numbers commensurate to its shareholding and will provide geotechnical and other relevant services to Borealis

under a technical services agreement to ensure Borealis is an active participant in the Great Bear Joint Venture.

The LOI is subject to standard conditions, including entering into formal agreements in respect of the transaction (including subscription, technical services and shareholder agreements); due diligence; and successful completion of the initial funding round.

## OTTO ENERGY LIMITED – INVESTOR CONFERENCE CALL

### Conference Call – 11:00am Sydney time / 9:00am Perth, Tuesday 21 July 2015

Otto Energy Limited invites you to a conference call to discuss the Company's recent announcement regarding its entry to Alaska North Slope acreage.

The call will be hosted by Otto's Managing Director, Matthew Allen, who will provide an overview of the transaction followed by a Question and Answer session.

If you choose to dial in to the presentation, please register 15 minutes ahead of the scheduled start time to ensure your participation.

#### Participant Dial-in:

Australia Toll Free **1800 123 296**

Sydney Toll **+61 2 8038 5221**

International See below details

**Confirmation Code: 9018 9320**

#### International dial-in details

These numbers are toll-free dial-in numbers for each country listed below. For countries not listed below, the Australian Participant Toll number listed above can be dialled.

To ask a question, participants will need to dial “\*1” (star, 1) on their telephone keypad.

Canada	1855 5616 766
China	4001 203 085
Hong Kong	800 908 865
New Zealand	0800 452 782
Singapore	800 616 2288
United Kingdom	0808 234 0757
United States	1855 293 1544

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