

6 August 2015

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

By E-Lodgement

Otto acquires Borealis Petroleum Pty Ltd

HIGHLIGHTS:

- **Revised entry into Alaskan North Slope acreage by acquiring 100% of the issued capital of Borealis Petroleum Pty Ltd for A\$1.2 million to be paid by the issue of Otto shares**
- **Staged entry for an 8% and 10.8% working interest in Alaskan North Slope Acreage held by Great Bear Petroleum Operating LLC ("Great Bear")**

Otto Energy Limited (ASX:OEL) ("Otto") has acquired 100% of the issued capital of 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"). Otto will now control Borealis Petroleum Pty Ltd and its subsidiary, Borealis Alaska LLC.

Otto had previously announced it entered into a Letter of Intent ("LOI") to invest US\$4 million into Borealis as part of a larger capital raise by Borealis. Otto has terminated the LOI and acquired 100% of the issued capital of Borealis for consideration of A\$1.2 million to be paid for by the issue of Otto shares. A total of 17,518,250 Otto shares will be issued.

Otto has taken this decision following drilling progress to date at the Hawkeye-1 exploration well and the recently completed SC55 farm-in option agreement with Pryce Gases Inc., which have collectively de-risked Otto's short term capital expenditure program.

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 two areas of Alaskan North Slope exploration acreage held by Great Bear through a staged purchase arrangement of up to US\$20 million.

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

Consideration to paid to Great Bear to complete the entry and the forward capital investment program will involve the following:

- US\$4 million paid on 4 August 2015;
- US\$2.5 million to be paid on 10 August 2015;
- US\$7 million to be paid on 30 September 2015;
- Additional 3D seismic data acquisition; and
- Future work program of two 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).

Otto's Managing Director, Matthew Allen said: *"Otto is very pleased that we have been able to accelerate our investment in the partnership with Great Bear. The Alaskan North Slope is one of the world's most prolific oil and gas exploration and production areas. 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 1800km² 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.

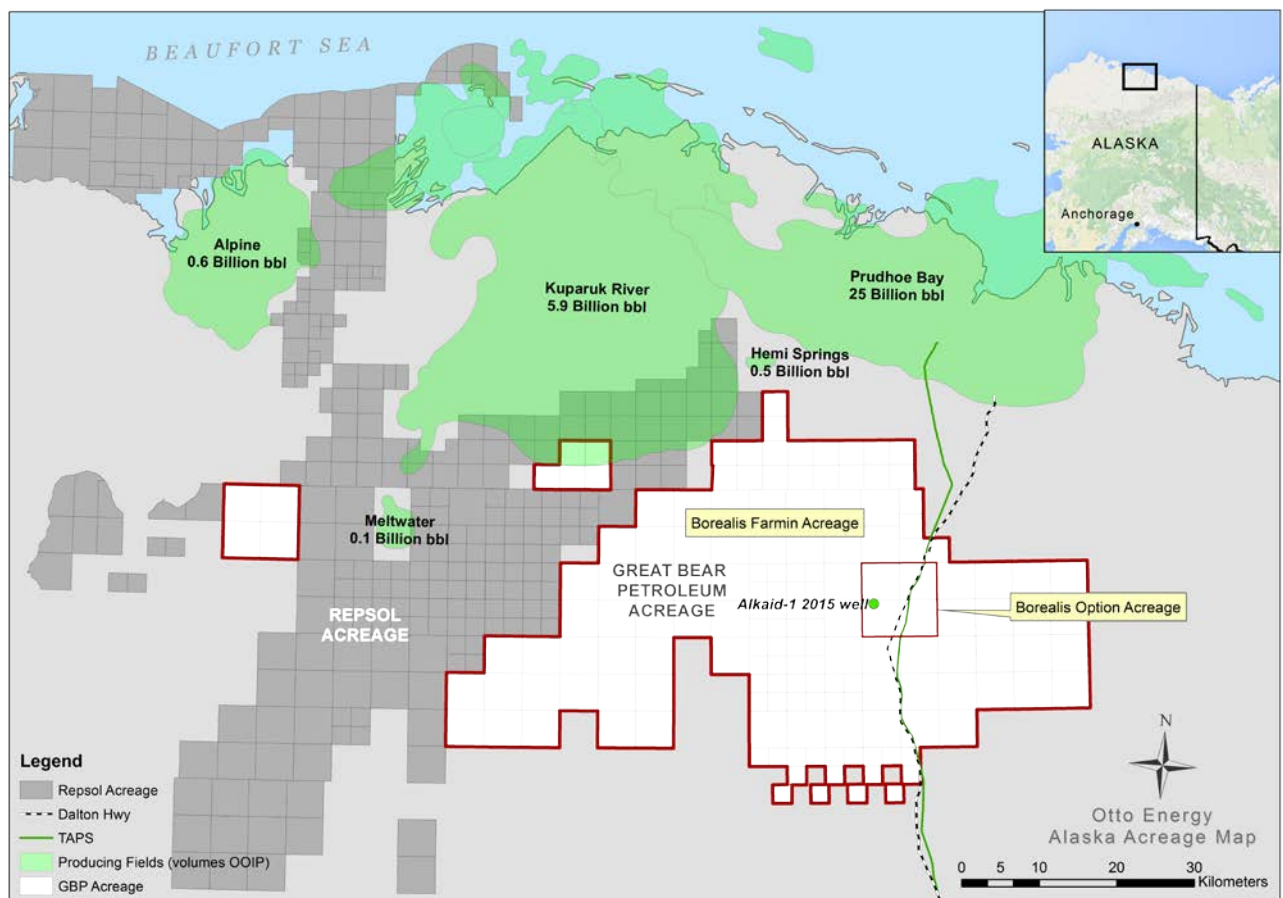
- The Brookian turbidite fans are productive at offset Tarn, Meltwater and Tabasco Fields (field sizes of around 100mmbo to 300mmbo in place).
- The Ivishak formation is the primary producing reservoir at the Prudhoe Bay Field (25 billion barrels of oil in place).
- The Kuparuk sand play is regionally 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.



Map showing Great Bear acreage highlighted in red and proximity to other fields

About the Transaction

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 ¹	\$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 ²	\$6.5mm	July 31, 2015			
Final Land ³	\$7.0mm	Sept 30, 2015			
Drilling Commitment ⁴	\$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 ⁵	58,334		1,824		60,149
Per Acre Costs	\$342/acre				\$748/acre
Working Interest ⁶	8.0% - 10.8%		8.0%		10.5% average

Notes

- ¹ Non refundable deposit that secures exclusivity and access to title with the AK State Government
- ² 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
- ³ 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
- ⁴ 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
- ^{5 & 6} 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

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