



# **OTTO ENERGY LIMITED**

ABN: 56 107 555 046

**Half-year financial report**

**31 December 2018**

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# CORPORATE DIRECTORY

<b>Directors</b>	Mr John Jetter – Non-Executive Chairman Mr Matthew Allen – Managing Director and Chief Executive Officer Mr Ian Macliver – Non-Executive Director Mr Ian Boserio – Non-Executive Director Mr Paul Senyca – Non-Executive Director Mr Kevin Small – Non-Executive Director
<b>Company Secretary</b>	Mr David Rich
<b>Key Executives</b>	Mr Matthew Allen – Managing Director and Chief Executive Officer Mr David Rich – Chief Financial Officer and Company Secretary Mr Will Armstrong – Vice President Exploration and New Ventures
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<b>Website address</b>	<a href="http://www.ottoenergy.com">www.ottoenergy.com</a>
<b>ABN</b>	56 107 555 046

# DIRECTORS' REPORT

For the half-year ended 31 December 2018

The Directors present their report together with the consolidated financial statements of the Group comprising Otto Energy Limited (referred to as 'Otto' or the 'Company') and its subsidiaries for the half-year ended 31 December 2018 (the 'Group').

## Directors

The Directors in office at any time during the half-year and until the date of this report are set out below. All Directors were in office for the entire period unless otherwise stated. Mr Paul Senycia ceased his executive role on 31 December 2018 and became a non-executive director from 1 January 2019.

Mr John Jetter  
Mr Matthew Allen  
Mr Ian Macliver  
Mr Ian Boserio  
Mr Paul Senycia  
Mr Kevin Small – appointed 29 January 2019.

## Company Secretary

Mr David Rich

## Review and results of operations

Consolidated net loss from operations after income tax for the half-year was \$4.5 million (2017: net loss of \$8.3 million). The significant items in the result were net operating revenue of \$17.3 million (2017: Nil) and Gross Profit of \$14.3 million (2017: Nil) which were both driven by strong oil production from the SM 71 oil field in the Gulf of Mexico. Exploration expenditure totaled \$17.5 million (2017: \$3.7 million) for the period which included the Hilcorp farmin, drilling of the Bivouac Peak and Big Tex wells, the commencement of drilling at Lightning and preparations for the WInx-1 well on the Alaska North Slope. The increase in administration costs from \$1.7 million in 2017 to \$2.8 million in 2018 reflects the setup and staffing of the Houston office and the transition of functions from the Australian office.

### Production

Production from Otto's 50% owned SM 71 oil field in the Gulf of Mexico for the six months to 31 December 2018 was 301,835 bbls of oil and 469,098 Mcf of gas generating revenue of US\$21.2 million before royalties and US\$17.3 million after royalties.

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. 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 in line with other B55 Sand producers on the salt dome. The F2 well will continue to be managed at appropriate production rates.

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,

# DIRECTORS' REPORT

For the half-year ended 31 December 2018

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.

In August 2018 the Operator provided the annual reserves statement completed by Collarini as at 30 June 2018. The SM 71 reserves and prospective resources as at 30 June 2018 are set out in the table below.

SM 71 30 June 2018 Collarini & Associates Independent Estimate	Gross 100%			Otto Net (40.625%)		
	Oil (Mbbbl)	Gas (MMscf)	MBoe	Oil (Mbbbl)	Gas (MMscf)	MBoe
<b>Proved Developed Producing (PDP)</b>	3,466	2,130	3,821	1,408	865	1,552
<b>Proved Behind Pipe (PDNP)</b>	609	380	672	248	155	274
<b>Proved Undeveloped (PUD)</b>	1,404	868	1,549	570	352	629
<b>Proven (1P)</b>	5,479	3,378	6,042	2,226	1,372	2,455
<b>Probable</b>	9,030	6,974	10,192	3,668	2,833	4,140
<b>Proven Plus Probable (2P)</b>	14,509	10,352	16,234	5,894	4,205	6,595
<b>Possible</b>	4,651	3,970	5,313	1,890	1,613	2,159
<b>Proven Plus Probable Plus Possible (3P)</b>	19,160	14,322	21,547	7,784	5,818	8,754
<b>Total Prospective Resource (best estimate, unrisked)</b>	954	47,687	8,902	387	19,373	3,616

## 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 statements.

## 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. Refer to notes on page 32.

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

## Exploration

### *Gulf of Mexico – Hilcorp Program*

On 31 July 2018 Otto announced that it had entered into a joint venture with Hilcorp Energy which would see it earn a 37.5% working interest in an eight well portfolio of prospects in the Onshore/Near Shore

# DIRECTORS' REPORT

For the half-year ended 31 December 2018

USA Gulf Coast (Gulf of Mexico). The wells have been and will be drilled by Hilcorp, a highly experienced, privately-owned operator based in Houston.

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%).

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

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 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 prospects.

The first well on the program, SL 192 PP 031 on the Big Tex prospect, 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.

Lightning Discovery - On 4 December 2018 Otto reported that the second well on the program, Green#1, testing the Lightning prospect in Matagorda County Texas had commenced drilling. On 4 February 2019 Otto reported that Lightning was a significant discovery. Refer to the Significant Events After Balance Date section below for further details on the Lightning discovery.

The third well in the program, Middleton Trust #1 in Chambers County Texas, testing the Don Julio 2 prospect commenced on 14 February 2019. The well is targeting the Vicksburg sand that is Oligocene in age. Recent discoveries in the Vicksburg trend confirm that this play is relatively underexplored, with most regional production occurring from the Upper Oligocene Frio formation. The use of seismic amplitude is helping to unlock new discoveries. The prospect is a channel/levee system with AVO (amplitude variation with offset) support. The prospect has been assessed as having a probability of success of 44%.

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For the half-year ended 31 December 2018

Further information on the remaining six prospects to be drilled is set out below.

Prospect Name	Working Interest	Net Revenue Interest	Probability of Success	Prospective Resources MMboe			
				Otto Net Revenue Interest			
				P90	P50	Mean	P10
Don Julio 2	37.50%	28.50%	44%	0.2	0.7	1.1	2.7
Mustang	37.50%	30.00%	56%	0.8	1.9	2.6	4.8
Beluga	37.50%	28.50%	45%	0.2	0.9	1.3	3.4
Oil Lake	37.50%	29.06%	45%	0.3	1.0	1.3	2.7
Tarpon	37.50%	29.06%	34%	2.2	7.0	10.3	23.5
Mallard	37.50%	29.63%	64%	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. Refer to notes on page 32.

### *Gulf of Mexico – Bivouac Peak*

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 the data, the well was deemed uncommercial. The plug and abandonment operations were completed on 22 October 2018 and the rig was released.

### *Gulf of Mexico – VR 232*

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.

## 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. Refer to notes on page 32.

The Operator has also identified two other prospects in VR 232 which require further geophysical evaluation before a drilling decision is made.

# DIRECTORS' REPORT

For the half-year ended 31 December 2018

Byron evaluated this block 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.

## *Alaska – Western Blocks*

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 half year the joint venture progressed activities in preparation for the Winx-1 well which commenced on 15 February 2019.

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.

## 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. Refer to notes on page 32.

## *Alaska – Central Blocks*

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").

During the half year 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).

The 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); and
- 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.

## Capital Raising

On 31 July 2018 the Company announced it was undertaking a capital raising of approximately A\$20 million via an institutional Placement and a fully-underwritten, accelerated non-renounceable Entitlement Offer.

# DIRECTORS' REPORT

For the half-year ended 31 December 2018

The Placement raised a total of A\$10m through the issue of approximately 169.5 million shares at A\$0.059 per share.

The Institutional Entitlement Offer raised a total of A\$3m through the issue of approximately 51.6 million shares at A\$0.059 per share. The Institutional Entitlement Offer shortfall was strongly oversubscribed by institutional shareholders. Shares issued under the placement and Institutional Entitlement Offer were allotted on Friday 10 August 2018.

Under the retail component of the Entitlement Offer A\$5.5 million (78%) of Entitlements were taken up leaving a Shortfall of A\$1.5 million. A further A\$6.0 million in subscriptions were received for Additional New Shares which was A\$4.5 million in excess of the Shortfall of A\$1.5 million, hence the A\$4.5 million was refunded. The scale back was determined based on the pro-rata of the Additional New Shares applied for to the shareholder's entitlement as at the Record Date. Accordingly, given the Retail Entitlement Offer was oversubscribed, there was no allocation to underwriters.

A total of A\$7 million was raised from the Retail Entitlement Offer through the issue of 118.5 million shares at A\$0.059 per share. New shares issued under the Retail Entitlement Offer were allotted on 29 August 2018.

As a result of the entitlement offer, the conversion price for the convertible notes reduced from A\$0.055 to A\$0.05484.

The Company's placement capacity under Listing Rule 7.1A was restored by shareholders at the Annual General Meeting on 15 November 2018.

## Convertible notes amendment

As announced on 17 December 2018, the Company executed an amendment deed with the holders of the 8.2 million convertible notes ("Noteholders") as follows:

1. Otto has the option to extend the Maturity Date of the 8,000,000 Molton convertible notes by one year to 30 June 2020 by electing to do so before 17 June 2019;
2. Molton to receive a US\$200,000 fee on the earlier of them reducing their note holding to zero (through transfer, redemption or conversion) or 30 June 2019;
3. In the event Otto elects to extend the Maturity Date:
  - a) a second fee of up to US\$200,000 will be payable to the holder(s) of the Molton notes at 1 July 2019 on the basis of US\$0.025/12 per note held for each month the notes are held between July 2019 and 30 June 2020;
  - b) the restriction on use of SM 71 proceeds will cease being suspended (see 4. below) and will be in effect again from 1 July 2019. The lockup will start from zero and build up with SM 71 net cashflows on the same terms as is currently in place. If the extension does not occur, the restriction is suspended through to maturity at 30 June 2019.
4. Immediate suspension of the restriction on use of SM 71 proceeds;
5. 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. An ASX waiver was granted in January 2019.
6. All other aspects of the original agreement remain the same.
7. John Jetter, Otto's Chairman, approved the amendment as a Noteholder, but the amendment terms do not apply to his 200,000 notes.

# DIRECTORS' REPORT

For the half-year ended 31 December 2018

The security (being a share mortgage over the shares held by Otto in Otto Energy (Louisiana) LLC) which was the subject of shareholder approval at the meeting on 25 July 2017, will continue to apply to the Molton notes, including for the extended Maturity Date (should the option to extend be exercised).

## Significant events after the balance date

Since 31 December 2018 the following material events have occurred:

### Lightning Discovery

On 4 February 2019 Otto reported that the second well on the program, Green#1, testing the Lightning prospect in Matagorda County Texas, reached final total depth of 15,218ft MD (15,216ft TVD). A quad combo wireline logging suite, including dipole sonic, was subsequently acquired over the target Frio-Tex Miss sand intervals which are Oligocene in age.

Petrophysical evaluation of the logging data indicates the presence of a total net hydrocarbon filled sand interval of 180 feet. This petrophysical evaluation was undertaken using historical parameters for production performance in the play trend. Dependent upon porosity and water saturation cutoffs applied, there is potential for an additional 150 feet of net pay in the well.

Pre-drill prospective resource estimates for the Lightning prospect, as first announced on 4 December 2018, assumed a P50 net hydrocarbon bearing reservoir thickness of 31 feet with a P10 net hydrocarbon bearing reservoir thickness of 75 feet. Estimates of reserves will take some months to calculate and will be further refined with production data.

Further evidence supporting the presence of movable hydrocarbons occurred during drilling where strong gas shows, including C5+, were recovered at surface. Indications during drilling showed several sand intervals have the potential for liquids yields significantly higher than the pre-drill estimates. Fluid composition and liquids yield will be determined during well clean-up operations and ultimately production.

The Operator has run a 5½" production liner in the well and is commencing preparations for completion and subsequent tie back to a nearby sales pipeline. The drilling rig has been released and a completion rig will be used to install production equipment and bring the well into operation.

The development plan is to deliver production into one of two nearby multi-phase sales pipelines via a 4" export line to be laid from the well. Otto expects first production from the well by the end of March 2019.

### Drilling at Don Julio 2

The third well in the Hilcorp program, Middleton Trust #1 in Chambers County Texas, testing the Don Julio 2 prospect commenced on 14 February 2019. The well is targeting the Vicksburg sand that is Oligocene in age. Recent discoveries in the Vicksburg trend confirm that this play is relatively underexplored, with most regional production occurring from the Upper Oligocene Frio formation. The use of seismic amplitude is helping to unlock new discoveries. The prospect is a channel/levee system with AVO (amplitude variation with offset) support. The prospect has been assessed as having a probability of success of 44%.

### Drilling at Winx-1 – Alaska Western Blocks

The Winx-1 well commenced on 15 February 2019. At the time of this report Otto is awaiting the logging while drilling (LWD) analysis from the drilling of the primary target interval from the operator.

# DIRECTORS' REPORT

For the half-year ended 31 December 2018

## Board Changes

On 29 January 2019 Mr Kevin Small was appointed as a US-based non-executive director of the Company. Kevin has over forty years' experience in the Gulf of Mexico both onshore and offshore, and has been responsible for the generation, farm-in, drilling and development of numerous Gulf Coast discoveries.

Kevin brings extensive networks and relevant experience to Otto's Gulf Coast business. In addition to his non-executive director role, Kevin will continue to consult to the Company on a part time basis as a Senior Exploration Consultant.

Prior to joining Otto Kevin worked with Tri-C Resources, a privately owned Houston based oil and gas company, developing Gulf Coast conventional prospects for drilling. Between 2003 and 2012, Kevin worked for Bluestreak Exploration Group developing prospects exclusively for LLOG Exploration which resulted in successful discoveries on the Gulf of Mexico Shelf and Deepwater. Kevin was the Exploration Manager and a founding member of the Houston office of Westport Oil and Gas Company between 1996 and 2003, ultimately helping them go public in October 2000. Kevin also has worked for the Superior Oil Company and McMoran Oil and Gas, starting his career in 1978. During his time with LLOG, Westport, and McMoran, he has drilled wells with cumulative production of over 692 BCFG and 82 MMBO.

Kevin graduated with a B.S in Geophysical Engineering from the Colorado School of Mines in 1978 and is a resident of Houston, Texas.

## 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.

No other matters or circumstances have arisen since 31 December 2018 that would have a material impact on the Group's operations.

## **Rounding of amounts**

The Company is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191, and in accordance with that instrument, amounts in the consolidated financial statements and Directors' Report have been rounded off to the nearest thousand dollars, unless otherwise indicated.

## **Auditor's independence declaration**

The auditor's independence declaration is included on page 10 of this report.

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



**Mr I Macliver**  
Director

1 March 2019

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

As lead auditor for the review of Otto Energy Limited for the half-year ended 31 December 2018, I declare that, to the best of my knowledge and belief, there have been:

1. No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
2. No contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Otto Energy Limited and the entities it controlled during the period.



**Jarrad Prue**

Director

**BDO Audit (WA) Pty Ltd**

Perth, 01 March 2019

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the half-year ended 31 December 2018

	Note	31/12/2018 US\$'000	31/12/2017 US\$'000
Operating revenue (net)	5	17,289	-
Cost of sales	6	(2,953)	-
<b>Gross Profit</b>		<b>14,336</b>	<b>-</b>
Other income	5	84	117
Profit on disposal of property, plant and equipment		(2)	-
Exploration expenditure	7	(17,536)	(3,711)
Finance costs	8	1,493	(2,899)
Administration and other expenses	8	(2,853)	(1,744)
<b>Loss before income tax</b>		<b>(4,478)</b>	<b>(8,237)</b>
Income tax expense		(3)	(102)
<b>Loss after income tax for the period</b>		<b>(4,481)</b>	<b>(8,339)</b>
<b>Other comprehensive income that may be recycled to profit or loss</b>			
Total other comprehensive income		-	-
<b>Total comprehensive loss for the period</b>		<b>(4,481)</b>	<b>(8,339)</b>
<b>Earnings per share</b>			
Basic loss per share (US cents)		(0.27)	(0.65)
Diluted loss per share (US cents)		(0.27)	(0.65)

The above consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

For the half-year ended 31 December 2018

	Note	31/12/2018 US\$'000	30/06/2018 US\$'000
<b>Current assets</b>			
Cash and cash equivalents		10,333	5,945
Trade and other receivables		2,902	4,028
Other assets		1,187	287
<b>Total current assets</b>		<b>14,422</b>	<b>10,260</b>
<b>Non-current assets</b>			
Oil and gas properties	9	26,550	27,151
Property, plant and equipment		201	82
Other assets	10	1,105	355
<b>Total non-current assets</b>		<b>27,856</b>	<b>27,588</b>
<b>Total assets</b>		<b>42,278</b>	<b>37,848</b>
<b>Current liabilities</b>			
Trade and other payables		2,114	4,763
Provisions		152	202
Convertible note	11	7,869	7,542
Convertible note derivative	11	549	3,183
<b>Total current liabilities</b>		<b>10,684</b>	<b>15,690</b>
<b>Non-current liabilities</b>			
Provisions		1,154	1,128
<b>Total non-current liabilities</b>		<b>1,154</b>	<b>1,128</b>
<b>Total liabilities</b>		<b>11,838</b>	<b>16,818</b>
<b>Net assets</b>		<b>30,440</b>	<b>21,030</b>
<b>Equity</b>			
Contributed equity	12	104,505	90,704
Reserves		13,937	13,847
Accumulated losses		(88,002)	(83,521)
<b>Total equity</b>		<b>30,440</b>	<b>21,030</b>

The above consolidated statement of financial position should be read in conjunction with the accompanying notes.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the half-year ended 31 December 2018

	Contributed equity	Share-based payments reserve	Foreign currency translation reserve	Accumulated losses	Total
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Balance at 1 July 2017	81,895	9,549	4,188	(78,327)	17,305
Loss for the period	-	-	-	(8,339)	(8,339)
Other comprehensive income	-	-	-	-	-
Total comprehensive loss for the period	-	-	-	(8,339)	(8,339)
Transactions with owners in their capacity as owners:					
Issue of shares (net of costs)	8,809	-	-	-	8,809
Equity benefits issued to employees	-	21	-	-	21
Balance at 31 December 2017	90,704	9,570	4,188	(86,666)	17,796
Balance at 1 July 2018	90,704	9,659	4,188	(83,521)	21,030
Loss for the period	-	-	-	(4,481)	(4,481)
Other comprehensive income	-	-	-	-	-
Total comprehensive loss for the period	-	-	-	(4,481)	(4,481)
Transactions with owners in their capacity as owners:					
Issue of shares (net of costs) – refer note 12	13,801	-	-	-	13,801
Equity benefits issued to employees – refer note 13	-	90	-	-	90
Balance at 31 December 2018	104,505	9,749	4,188	(88,002)	30,440

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the half-year ended 31 December 2018

	<b>31/12/2018</b>	<b>31/12/2017</b>
	US\$'000	US\$'000
<b>Cash flows from operating activities</b>		
Oil and gas sales (net of royalties)	18,720	-
Payments to suppliers and employees	(5,274)	(2,031)
Payments for exploration and evaluation	(18,638)	(3,411)
Interest received	78	94
Interest paid on convertible note	(1,162)	-
Other income	6	22
<b>Net cash outflow used in operating activities</b>	<b>(6,270)</b>	<b>(5,326)</b>
<b>Cash flows from investing activities</b>		
Payments for property, plant and equipment	(159)	-
Payments for development	(2,091)	(8,414)
Bond for development asset	(750)	(150)
<b>Net cash outflow used in investing activities</b>	<b>(3,000)</b>	<b>(8,564)</b>
<b>Cash flows from financing activities</b>		
Proceeds from issue of shares	14,726	9,166
Transaction costs relating to issue of shares	(925)	(336)
Proceeds from issue of convertible notes	-	8,200
Transaction costs relating to issue of convertible notes	-	(309)
<b>Net cash inflow from financing activities</b>	<b>13,801</b>	<b>16,721</b>
Net increase/(decrease) in cash and cash equivalents	4,531	2,831
Cash and cash equivalents at the beginning of the half-year	5,945	20,309
Effects of exchange rate changes on cash	(143)	(6)
<b>Cash and cash equivalents at the end of the half-year</b>	<b>10,333</b>	<b>15,024</b>

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the half-year ended 31 December 2018

## 1. Corporate information

The half-year consolidated financial report of the Group for the six months ended 31 December 2018 was authorised for issue in accordance with a resolution of the Directors on 1 March 2019.

Otto Energy Limited is a company incorporated and domiciled in Australia whose shares are publicly traded. The principle activities of the Group are described in the consolidated financial statements of the Group for the year ended 30 June 2018 which are available at [www.ottoenergy.com](http://www.ottoenergy.com).

## 2. Basis of preparation

The half-year consolidated financial report for the six months ended 31 December 2018 has been prepared in accordance with AASB 134 Interim Financial Reporting.

The half-year consolidated financial report does not include all the information and disclosures required in the annual financial report, and should be read in conjunction with the Group's financial report for the year ended 30 June 2018 which is available at [www.ottoenergy.com](http://www.ottoenergy.com).

## 3. Changes to the Group's accounting policies

### 3(a) New and amended standards adopted by Otto Energy Limited

The Group has applied the following standards for the first time for their interim reporting period commencing 1 July 2018.

- AASB 9 *Financial Instruments* ("AASB 9"), and
- AASB 15 *Revenue from Contracts with Customers* ("AASB 15").

The Group had to change its accounting policies and make certain adjustments following the adoption of AASB 15, however adoption did not give rise to any material transitional or reporting date (31 December 2018) adjustments. This is disclosed in note 3(c).

The Group had to change its accounting policies following the adoption of AASB 9, however adoption did not give rise to any material transitional or reporting date (31 December 2018) adjustments. This is disclosed in note 3(d).

### 3(b) Impact of standards issued but not yet applied by the entity

AASB 16 Leases is effective for the reporting period commencing 1 July 2019. It will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

The Group is still in the process of fully assessing the impact on the Group's financial results and position when it is first adopted for the year ending 30 June 2020.

### 3(c) AASB 15

The Group has adopted AASB 15 with a date of initial application of 1 July 2018. As a result of adoption of AASB 15, the Group has changed its accounting policy for revenue recognition as detailed below:

Revenue is measured based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties. The Group recognises revenue when it transfers control over a product or service to a customer.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the half-year ended 31 December 2018

## *Impact of Adoption of AASB 15*

The Group has determined that the application of AASB 15's requirements at transition 1 July 2018 did not result in any adjustment.

## 3(d) AASB 9

The Group has adopted AASB 9 with a date of initial application of 1 July 2018 and has elected not to restate its comparatives. As a result, the Group has changed its accounting policy for financial instruments as detailed below.

### *Recognition and derecognition*

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the financial instrument.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and substantially all the risks and rewards are transferred. A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

### *Classification and initial measurement of financial assets*

Financial assets are classified according to their business model and the characteristics of their contractual cash flows and are initially measured at fair value adjusted for transaction costs (where applicable).

### *Subsequent measurement of financial assets*

For the purpose of subsequent measurement, financial assets, other than those designated and effective as hedging instruments, are classified into the following four categories:

- Financial assets at amortised cost
- Financial assets at fair value through profit or loss ("FVTPL")
- Debt instruments at fair value through other comprehensive income ("FVTOCI")
- Equity instruments at FVTOCI

All income and expenses relating to financial assets that are recognised in profit or loss are presented within finance costs, finance income or other financial items, except for impairment of trade receivables which is presented within other expenses.

### *Financial assets at amortised cost*

Financial assets with contractual cash flows representing solely payments of principal and interest and held within a business model of 'hold to collect' contractual cash flows are accounted for at amortised cost using the effective interest method. The Group's trade and most other receivables fall into this category of financial instruments.

### *Impairment*

The Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost and FVOCI.

The impairment methodology applied depends on whether there has been a significant increase in credit risk.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the half-year ended 31 December 2018

The Group makes use of a simplified approach in accounting for trade and other receivables as well as contract assets and records the loss allowance at the amount equal to the expected lifetime credit losses. In using this practical expedient, the Group uses its historical experience, external indicators and forward looking information to calculate the expected credit losses using a provision matrix.

The Group considers a financial asset in default when contractual payment are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group.

## *Impact of the adoption of AASB 9*

The Group has determined that the application of AASB 9's requirements at transition 1 July 2018 did not result in a material adjustment.

## 4. Segment information

The Group has identified its operating segments based on the internal management reports that are reviewed and used by the executive management team in assessing performance and in determining the allocation of resources. The operating segments identified by management are based on the geographical locations of the business which are as follows: Gulf of Mexico (USA), Alaska (USA) and Other. Discrete financial information about each of these operating segments is reported to the executive management team on at least a monthly basis.

The segment information for the reportable segments for the half-year ended 31 December 2018 and 31 December 2017 is as follows:

<b>31 December 2018</b>	<b>Gulf of Mexico (USA)</b>	<b>Alaska (USA)</b>	<b>Other</b>	<b>Consolidated</b>
	US\$'000	US\$'000	US\$'000	US\$'000
Operating revenue	17,289	-	-	17,289
Cost of sales	(2,953)	-	-	(2,953)
<b>Gross profit</b>	<b>14,336</b>	<b>-</b>	<b>-</b>	<b>14,336</b>
Other income	17	-	67	84
Exploration expenditure	(17,116)	(510)	90	(17,536)
Finance costs	(17)	-	1,510	1,493
Administration and other expenses	(1,729)	(56)	(1,070)	(2,855)
<b>Loss before income tax</b>	<b>(4,509)</b>	<b>(566)</b>	<b>597</b>	<b>(4,478)</b>
Income tax expense	-	-	(3)	(3)
<b>Loss after income tax for the period</b>	<b>(4,509)</b>	<b>(566)</b>	<b>594</b>	<b>(4,481)</b>
Total non-current assets	27,102	750	4	27,856
Total assets	35,640	875	5,763	42,278
Total liabilities	3,200	(1,366)	10,004	11,838

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the half-year ended 31 December 2018

## 4. Segment information (continued)

<b>31 December 2017</b>	<b>Gulf of Mexico (USA)</b>	<b>Alaska (USA)</b>	<b>Other</b>	<b>Consolidated</b>
	US\$'000	US\$'000	US\$'000	US\$'000
Revenue and other income	5	-	112	117
Profit on disposal of property, plant and equipment	(3,501)	(97)	(113)	(3,711)
Exploration expenditure	(12)	-	(2,887)	(2,899)
Administration and other expenses	(384)	(11)	(1,349)	(1,744)
<b>Loss before income tax</b>	<b>(3,892)</b>	<b>(108)</b>	<b>(4,237)</b>	<b>(8,237)</b>
Income tax expense	-	-	(102)	(102)
<b>Loss after income tax for the period</b>	<b>(3,892)</b>	<b>(108)</b>	<b>(4,339)</b>	<b>(8,339)</b>
<b>30 June 2018</b>				
Total non-current assets	27,581	-	7	27,588
Total assets	35,865	-	1,983	37,848
Total liabilities	4,153	7	12,658	16,818

	<b>31/12/18</b>	<b>31/12/17</b>
	US\$'000	US\$'000
Oil sales	19,417	-
Gas sales	1,813	-
<b>Total sales</b>	<b>21,230</b>	<b>-</b>
Less: Royalties <sup>(i)</sup>	(3,941)	-
Operating revenue (net)	17,289	-
Interest income <sup>(iii)</sup>	78	96
Other income	6	21
	<b>84</b>	<b>117</b>

(i) Operating Revenue is shown net of royalty payments payable to the (USA) Office of Natural Resources Revenue. Royalty payments are 18.75% of revenue under the terms of the SM 71 lease.

(ii) Interest income is recognised using the effective interest rate method.

### Recognition and measurement

Revenue is recognised when or as the Group transfers control of goods or services to a customer at the amount to which the Group expects to be entitled. If the consideration promised includes a variable component, the Group estimates the expected consideration for the estimated impact of the variable component at the point of recognition and re-estimated at every reporting period.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the half-year ended 31 December 2018

	<b>31/12/18</b>	<b>31/12/17</b>
	US\$'000	US\$'000
<b>6. Cost of sales</b>		
Gathering and Production charges	1,204	-
Depreciation of capitalised developments	1,749	-
Total Cost of Sales	<u>2,953</u>	<u>-</u>
<b>7. Exploration expenditure</b>		
Exploration expenditure – Gulf of Mexico - Louisiana	17,116	3,501
Exploration expenditure – Alaska	510	97
Exploration expenditure – Other	(90)	113
	<u>17,536</u>	<u>3,711</u>
	<b>31/12/18</b>	<b>31/12/17</b>
	US\$'000	US\$'000
<b>8. Other expenses</b>		
<b>Finance costs</b>		
Interest on convertible note – refer Note 11	757	536
Accretion of effective interest on convertible note – refer Note 11	199	155
Fair value adjustment on embedded derivative element of convertible note – refer Note 11	(2,634)	2,082
Convertible note extension/success fee	37	-
Amortisation of borrowing costs	131	114
Accretion of decommissioning fund	17	12
	<u>(1,493)</u>	<u>2,899</u>
<b>Administration and other expenses</b>		
<i>Employee benefits expense</i>		
Defined contribution superannuation	31	68
Share based payment expense	90	21
Other employee benefits expenses	1,273	782
	<u>1,394</u>	<u>871</u>
<i>Depreciation expense</i>		
Depreciation expense – furniture and equipment	25	18
	<u>25</u>	<u>18</u>
<i>Other expenses</i>		
Corporate and other costs (net of recharges)	866	114
Business development	424	734
Foreign currency losses	144	1
	<u>1,434</u>	<u>855</u>
Total Administration and other expenses	<u>2,853</u>	<u>1,744</u>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the half-year ended 31 December 2018

	<b>31/12/18</b> US\$'000	<b>30/06/18</b> US\$'000
<b>9. Oil and gas properties</b>		
<b>Development and evaluation assets</b>		
<b>At cost</b>		
Balance at beginning of period	27,151	6,272
Expenditure for the period	1,148	21,756
Amortisation of assets	(1,749)	(877)
Balance at end of period	26,550	27,151

All capitalised development and evaluation costs as at 31 December 2018 relate to the SM 71 oil development in the Gulf of Mexico (including provision for decommissioning).

	<b>31/12/18</b> US\$'000	<b>30/06/18</b> US\$'000
<b>10. Other non-current assets</b>		
Bonds	1,075	355
Deposits	30	-
Balance at end of period	1,105	355

## 11. Interest bearing loans and borrowings – current

### Convertible note

Balance at the beginning of the period	7,542	-
Convertible note debt host liability – at cost	-	7,453
Add: interest accretion	199	347
Less: Convertible note transaction costs – at cost	(3)	(258)
Add: Convertible note transaction cost - amortisation	131	-
Balance at the end of the period	7,869	7,542

Balance at the beginning of the period	3,183	-
Convertible note embedded derivative – at initial fair value through statement of profit or loss	-	747
Convertible note embedded derivative – at fair value through statement of profit or loss	(2,634)	2,436
Balance at the end of the period	549	3,183

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the half-year ended 31 December 2018

## 11. Interest bearing loans and borrowings – current (continued)

On 2 August 2017 the Company issued \$8.2 million secured convertible notes (the 'Notes') to Molton Holdings Limited, a major Otto shareholder (\$8.0 million) and Mr John Jetter, Otto's Chairman (\$0.2 million). No convertible notes have been converted therefore 8.2 million convertible notes remained on issue as at 31 December 2018.

### Principal and Interest

As at 31 December 2018 the principle and interest under the terms of the convertible notes, assuming no conversion, was:

	31/12/18	30/06/18
	US\$'000	US\$'000
Convertible note principal	8,200	8,200
Interest paid	1,162	-
Interest payable – convertible note see below	687	1,225
Withholding tax payable – convertible note	132	-
	<u>10,181</u>	<u>9,425</u>

The key terms of the Notes are as follows:

- Issue amount: 8.2 million convertible notes.
- Face value: US\$1 per convertible note.
- Conversion price: A\$0.05484 per share. The conversion price was reduced from the original A\$0.055 per share as a consequence of the entitlement offer made to shareholders during the half year.
- Interest rate: 14% per annum compounded monthly and paid semi-annually.
- Interest payments: Interest payments commenced on 31 December 2018 with an amount \$1,322,866 payable and an amount of \$658,514 deferred under the terms until 30 June 2019.
- Maturity date: 30 June 2019. Under an amendment to the terms agreed in December 2018 Otto has an option to extend the maturity date to 30 June 2020. Refer below.
- Security: The convertible notes are secured via a share pledge covering the shares in Otto's subsidiaries which hold its Gulf of Mexico interests including the SM 71 project but excluding the Hilcorp portfolio.
- Conversion: A noteholder may elect to convert convertible notes on: a) any 30 June, 30 September, 31 December and 31 March after the first anniversary of the issue date; b) receipt of a redemption notice; and c) the maturity date, in accordance with the following conversion ratio:

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

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the half-year ended 31 December 2018

## 11. Interest bearing loans and borrowings – current (continued)

- As at 31 December 2018, \$8.2million convertible notes at bid exchange rate AUD/USD 0.7039 is equivalent to AUD11,649,382. At the conversion price of A\$0.05484 per share, the number of conversion shares equated to 212,424,909 shares.
- Redemption: The Company may elect to redeem convertible notes on: a) any 30 June, 30 September, 31 December and 31 March after the first anniversary of the issue date; b) the maturity date; and c) receipt of a takeover offer (including by scheme of arrangement).
- Success fee: Paid 30 days after the maturity date, subject to Cumulative Oil Production (defined as the number of barrels of oil produced from SM 71 as reported to the Bureau of Ocean Energy Management) to the maturity date (inclusive) and calculated as per the table below. If a convertible note is redeemed or converted prior to the maturity date, the success fee payable in respect of the convertible note will be paid pro rata to the number of days the noteholder held it. No accrual for the success fee was made in the accounts at 31 December 2018 based on forecast production to maturity.

Cumulative Oil Production (100% field) to 30 June 2019 from SM 71 (bbls)	Less than 1,400,000	Greater than 1,399,999 and less than 1,500,000	Greater than 1,499,999 and less than 1,600,000	Greater than 1,599,999 and less than 1,700,000	Greater than 1,699,999 and less than 1,800,000	Greater than 1,799,999
Total Success Fee amount payable per convertible note (US\$)	-	0.025	0.05	0.075	0.10	0.125

- 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. See below amendment.
- Transferability: A noteholder may transfer the convertible notes subject to notice and other conditions including in relation to transfers to direct competitors of the Company.
- Adjustments: The convertible notes are subject to customary adjustments for alterations to the capital of the Company.
- Default and termination rights: The convertible notes are subject to customary default and termination rights.
- Not quoted: The convertible notes will not be listed on ASX or any other securities exchange.

### Convertible notes amendment

As announced on 17 December 2018, the Company executed an amendment deed with the holders of the 8.2 million convertible notes ("Noteholders") as follows:

1. Otto has the option to extend the Maturity Date of the 8,000,000 Molton convertible notes by one year to 30 June 2020 by electing to do so before 17 June 2019;
2. Molton to receive a US\$200,000 fee on the earlier of them reducing their note holding to zero (through transfer, redemption or conversion) or 30 June 2019;

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the half-year ended 31 December 2018

## 11. Interest bearing loans and borrowings – current (continued)

3. In the event Otto elects to extend the Maturity Date:
  - a) a second fee of up to US\$200,000 will be payable to the holder(s) of the Molton notes at 1 July 2019 on the basis of US\$0.025/12 per note held for each month the notes are held between July 2019 and 30 June 2020;
  - b) the restriction on use of SM 71 proceeds will cease being suspended (see 4. below) and will be in effect again from 1 July 2019. The lockup will start from zero and build up with SM 71 net cashflows on the same terms as is currently in place. If the extension does not occur, the restriction is suspended through to maturity at 30 June 2019.
4. Immediate suspension of the restriction on use of SM 71 proceeds;
5. 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. An ASX waiver was granted in January 2019.
6. All other aspects of the original agreement remain the same.
7. John Jetter, Otto's Chairman, approved the amendment as a Noteholder, but the amendment terms do not apply to his 200,000 notes.

The security (being a share mortgage over the shares held by Otto in Otto Energy (Louisiana) LLC) which was the subject of shareholder approval at the meeting on 25 July 2017, will continue to apply to the Molton notes, including for the extended Maturity Date (should the option to extend be exercised).

## 12. Contributed equity

### a) Share capital

	31/12/18 Number	30/06/18 Number	31/12/18 US\$'000	30/06/18 US\$'000
Balance at beginning of period	1,530,928,490	1,186,298,324	90,704	81,895
Issue of shares	339,597,122	343,000,166	14,726	9,166
Share issue costs	-	-	(925)	(357)
Shares issued on exercise of performance rights	4,729,000	1,630,000	-	-
Balance at end of period	1,875,254,612	1,530,928,490	104,505	90,704

169,491,528 shares were issued on 10<sup>th</sup> August 2018 through the Institutional Placement at A\$0.059 per share, raising A\$10 million.

51,633,664 shares were issued on 10<sup>th</sup> August 2018 through the Institutional Entitlement offer at A\$0.059 per share, raising A\$3.0 million.

118,471,930 shares were issued on 29<sup>th</sup> August 2018 through the Retail Entitlement offer at A\$0.059 per share, raising A\$7.0 million.

4,729,000 shares were issued to directors and employees on exercise of performance rights 21 December 2018.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the half-year ended 31 December 2018

## 13. Share-based payments

On 15 November 2018, the Group issued 7,188,000 performance rights to directors. On 21 December 2018, 25,480,000 performance rights were issued to employees. The fair value at grant date was estimated using a single share price barrier model.

The following table lists inputs to the model used for the rights issued during the half-year ended 31 December 2018:

### Total Shareholder Returns (TSR) based performance rights:

Measurement date	15 November 2019	15 November 2020	15 November 2021	15 November 2019	15 November 2020	15 November 2021
Grant date	21-Dec-18	21-Dec-18	21-Dec-18	15-Nov-18	15-Nov-18	15-Nov-18
Expiry date	15-Nov-23	15-Nov-23	15-Nov-23	15-Nov-23	15-Nov-23	15-Nov-23
Tranche	D&G	E&H	F	A	B	C
Matthew Allen	-	-	-	1,330,000	1,330,000	1,330,000
John Jetter	-	-	-	372,000	372,000	372,000
Ian Macliver	-	-	-	248,000	248,000	248,000
Ian Boserio	-	-	-	223,000	223,000	223,000
Paul Senyia	-	-	-	223,000	223,000	223,000
Will Armstrong	3,676,000	2,450,666	1,225,333	-	-	-
David Rich	881,000	881,000	881,000	-	-	-
Total KMP	4,557,000	3,331,666	2,106,333	2,396,000	2,396,000	2,396,000
Other employees	6,896,000	5,161,668	3,427,333	-	-	-
Total Rights Issue	11,453,000	8,493,334	5,533,666	2,396,000	2,396,000	2,396,000
Share price at grant - A\$	\$ 0.035	\$ 0.035	\$ 0.035	\$ 0.050	\$ 0.050	\$ 0.050
Expected volatility	70.0%	70.0%	70.0%	70.0%	70.0%	70.0%
Expected dividend yield	nil	nil	nil	nil	nil	nil
Risk free rate	1.97%	1.97%	1.90%	2.08%	2.08%	2.16%
Fair value - A\$	\$ 0.0078	\$ 0.0121	\$ 0.0145	\$ 0.0216	\$ 0.0251	\$ 0.0272
Total value - A\$	\$ 89,575	\$ 103,116	\$ 80,209	\$ 51,686	\$ 60,133	\$ 65,058

The expected price volatility is based on a standard deviation of OEL's closing share price over a period of 3 years.

For the half year ended 31 December 2018, the Group recognised a share-based payments expense of \$90,222 in the Consolidated Statement of Profit or Loss and Other Comprehensive Income (31 December 2017: \$20,657).

## 14. Financial instruments

### a) Fair values

The following table shows the carrying amounts and fair values of financial liabilities, including their levels in the fair value hierarchy. It does not include fair value information for financial liabilities not measured at fair value if the carrying value is a reasonable approximation of fair value. The different valuation methods are called hierarchies and they are described below:

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the half-year ended 31 December 2018

## 14. Financial instruments (continued)

	Level	Carrying Amount		Fair Value	
		31/12/18 US\$'000	30/06/18 US\$'000	31/12/18 US\$'000	30/06/18 US\$'000
<b>Financial liabilities measured at fair value</b>					
Convertible note derivative	Level 2	549	3,183	549	3,183
		<u>549</u>	<u>3,183</u>	<u>549</u>	<u>3,183</u>
<b>Financial liabilities not measured at fair value</b>					
Convertible note liability	Level 2	7,869	7,542	7,869	7,542
		<u>7,869</u>	<u>7,542</u>	<u>7,869</u>	<u>7,542</u>

### Fair value hierarchy

Level 1 – the instrument has quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 – the fair values are measured using inputs (other than quoted prices) that are observable for the asset or liability either directly or indirectly; or

Level 3 – the fair values are measured using inputs for the assets or liability that are not based on observable market data.

Cash and cash equivalents, trade and other receivables, trade creditors, other creditors and accruals have been excluded from the above analysis as their fair values are equal to the carrying values.

The fair value of convertible note derivatives is determined using a Black-Scholes model based on the time to expiry. The key drivers of this value include the Group's own share price and the foreign exchange rate. Sensitivities considering reasonably possible movements in these assumptions are included below at note 14(b).

### b) Equity price risk

The Group is exposed to equity price risk on its financial liabilities. The liability fluctuates with the Group's underlying share price until either the convertible note is repaid by the Group or the note holders convert. The Group has no policy for mitigating potential adversities associated with its own equity price risk given its dependence on market fluctuations.

In relation to the convertible note derivative, the Group have used an equity price change of 70% (June 2018: 65%) upper and lower representing a reasonable possible change based upon the Group's historic share price volatility over the last three years of trading. At reporting date, should the Group's share price be reduced by 70% the value of the derivative would have been affected and the loss decreased by \$0.5 million (June 2018: \$3.0 million). An equal and opposite increase in share price would have increased losses by \$2.4 million (June 2018: \$5.3 million).

## 15. Contingent liabilities

### Convertible note success fee

As at 31 December 2018, there is no success fee payable in respect of the convertible note based on cumulative and forecast SM 71 oil production to 30 June 2019 (refer Note 11). Production commenced in March 2018. The maximum amount of success fee payable is \$1,025,000.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the half-year ended 31 December 2018

## 16. Commitments

	31/12/18 US\$'000	31/12/17 US\$'000
Exploration expenditure contracted for at the reporting date but not recognised as liabilities are as follows:		
Not later than one year	8,360	2,600
Later than one year but not later than five years	510	-
	<u>8,870</u>	<u>2,600</u>
Capital expenditure contracted for at the reporting date but not recognised as liabilities are as follows:		
Not later than one year	-	8,612
	<u>-</u>	<u>8,612</u>
Operating lease arrangements		
Operating lease arrangements relate to the lease of a compressor on the SM 71 F platform. The term is for a minimum 36 months with a 30 day notice period option to discontinue the arrangement beyond the 3 year period. These obligations are not provided for in the financial statements and the Group doesn't have a purchase option		
Commitments for minimum lease payments in relation to non-cancellable leases are payable as follows:		
Not later than one year	193	98
Later than one year but not later than five years	295	-
	<u>488</u>	<u>98</u>

## 17. Related parties

There have been no changes to related parties since the 30 June 2018 financial statements other than:

### *Compensation*

7,188,000 performance rights issued to directors on 15 November 2018 (refer Note 13).

25,480,000 performance rights issue to employees on 21 December 2018 (refer Note 13).

### *Transactions with key management personnel*

During the period the Company engaged the services of US consulting firm Amvest Capital. Amvest capital is a related party by virtue of non-executive director Ian Macliver's son being a partner in the firm. Ian Macliver has no financial, ownership or other interest in Amvest Capital beyond his relationship with his son. Ian Macliver was not involved in the negotiation with, or appointment of, Amvest Capital as an advisor to Otto. The fees paid to Amvest Capital during the period for US investor relations consulting services was \$10,268.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the half-year ended 31 December 2018

## 18. Events after the reporting period

Since 31 December 2018 the following material events have occurred:

### Lightning Discovery

On 4 February 2019 Otto reported that the second well on the program, Green#1, testing the Lightning prospect in Matagorda County Texas, reached final total depth of 15,218ft MD (15,216ft TVD). A quad combo wireline logging suite, including dipole sonic, was subsequently acquired over the target Frio-Tex Miss sand intervals which are Oligocene in age.

Petrophysical evaluation of the logging data indicates the presence of a total net hydrocarbon filled sand interval of 180 feet. This petrophysical evaluation was undertaken using historical parameters for production performance in the play trend. Dependent upon porosity and water saturation cutoffs applied, there is potential for an additional 150 feet of net pay in the well.

Pre-drill prospective resource estimates for the Lightning prospect, as first announced on 4 December 2018, assumed a P50 net hydrocarbon bearing reservoir thickness of 31 feet with a P10 net hydrocarbon bearing reservoir thickness of 75 feet. Estimates of reserves will take some months to calculate and will be further refined with production data.

Further evidence supporting the presence of movable hydrocarbons occurred during drilling where strong gas shows, including C5+, were recovered at surface. Indications during drilling showed several sand intervals have the potential for liquids yields significantly higher than the pre-drill estimates. Fluid composition and liquids yield will be determined during well clean-up operations and ultimately production.

The Operator has run a 5½" production liner in the well and is commencing preparations for completion and subsequent tie back to a nearby sales pipeline. The drilling rig has been released and a completion rig will be used to install production equipment and bring the well into operation.

The development plan is to deliver production into one of two nearby multi-phase sales pipelines via a 4" export line to be laid from the well. Otto expects first production from the well by the end of March 2019.

### Drilling at Don Julio 2

The third well in the Hilcorp program, Middleton Trust #1 in Chambers County Texas, testing the Don Julio 2 prospect commenced on 14 February 2019. The well is targeting the Vicksburg sand that is Oligocene in age. Recent discoveries in the Vicksburg trend confirm that this play is relatively underexplored, with most regional production occurring from the Upper Oligocene Frio formation. The use of seismic amplitude is helping to unlock new discoveries. The prospect is a channel/levee system with AVO (amplitude variation with offset) support. The prospect has been assessed as having a probability of success of 44%.

### Drilling at Winx-1 – Alaska Western Blocks

The Winx-1 well commenced on 15 February 2019. At the time of this report Otto is awaiting the logging while drilling (LWD) analysis from the drilling of the primary target interval from the operator.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the half-year ended 31 December 2018

## 18. Events after the reporting period (continued)

### Board Changes

On 29 January 2019 Mr Kevin Small was appointed as a US-based non-executive director of the Company. Kevin has over forty years' experience in the Gulf of Mexico both onshore and offshore, and has been responsible for the generation, farm-in, drilling and development of numerous Gulf Coast discoveries.

Kevin brings extensive networks and relevant experience to Otto's Gulf Coast business. In addition to his non-executive director role, Kevin will continue to consult to the Company on a part time basis as a Senior Exploration Consultant.

Prior to joining Otto Kevin worked with Tri-C Resources, a privately owned Houston based oil and gas company, developing Gulf Coast conventional prospects for drilling. Between 2003 and 2012, Kevin worked for Bluestreak Exploration Group developing prospects exclusively for LLOG Exploration which resulted in successful discoveries on the Gulf of Mexico Shelf and Deepwater. Kevin was the Exploration Manager and a founding member of the Houston office of Westport Oil and Gas Company between 1996 and 2003, ultimately helping them go public in October 2000. Kevin also has worked for the Superior Oil Company and McMoran Oil and Gas, starting his career in 1978. During his time with LLOG, Westport, and McMoRan, he has drilled wells with cumulative production of over 692 BCFG and 82 MMBO.

Kevin graduated with a B.S in Geophysical Engineering from the Colorado School of Mines in 1978 and is a resident of Houston, Texas.

### 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.

No other matters or circumstances have arisen since 31 December 2018 that would have a material impact on the Group's operations.

## DIRECTORS' DECLARATION

For the half-year ended 31 December 2018

In accordance with a resolution of the Directors of Otto Energy Limited, I state that:

1. In the opinion of the Directors:
  - a. the financial statements and notes of Otto Energy Limited for the half-year ended 31 December 2018 are in accordance with the *Corporations Act 2001*, including:
    - (i) giving a true and fair view of the Group's financial position as at 31 December 2018 and of its performance for the half-year ended on that date; and
    - (ii) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.
  - b. There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

On behalf of the Board



**Mr I Macliver**  
Director  
1 March 2019

## INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of Otto Energy Limited

### Report on the Half-Year Financial Report

#### Conclusion

We have reviewed the half-year financial report of Otto Energy Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 31 December 2018, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the half-year then ended, and notes comprising a statement of accounting policies and other explanatory information, and the directors' declaration.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of the Group is not in accordance with the Corporations Act 2001 including:

- (i) Giving a true and fair view of the Group's financial position as at 31 December 2018 and of its financial performance for the half-year ended on that date; and
- (ii) Complying with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001.

#### Directors' responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001 and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

#### Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 Review of a Financial Report Performed by the Independent Auditor of the Entity, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the Corporations Act 2001 including giving a true and fair view of the Group's financial position as at 31 December 2018 and its financial performance for the half-year ended on that date and complying with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001. As the auditor of the Group, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.



#### Independence

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

BDO Audit (WA) Pty Ltd

BDO

A handwritten signature in black ink, appearing to read 'J Prue'.

Jarrad Prue

Director

Perth, 1 March 2019

## PROSPECTIVE RESOURCES REPORTING NOTES

- The prospective resources information in this document is effective as at the dates below (Listing Rule (LR) 5.25.1):
  - SM 71, Hilcorp portfolio – 30 June 2018
  - Winx-1 - 30 April 2018
  - VR 232 - 19 June 2018
- The prospective resources information in this document 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 in this document 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 for the Hilcorp portfolio and the deterministic method for SM 71, Winx-1 and VR 232 (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).
- The prospective resources information in this document has been estimated on the basis that products are sold on the spot market with delivery at the sales point on the production facilities (LR 5.26.5.)
- Prospective resources are reported on a best estimate basis (LR 5.28.1).