

## ASX ANNOUNCEMENT

11 February 2016

## RIG MOBILISED FOR DRILLING OF FIRST WELL IN GULF OF MEXICO

- Hercules 205 drilling rig mobilised to drilling location, with SMI-6 #2 well to be spud in the coming days
- Low cost, high chance of success, conventional oil and gas opportunity
- Drilling expected to take approximately 40 days to reach total depth and if successful, the well will be completed for production, with first oil in 2017
- Otto fully funded from a strong cash position of circa A\$47m
- Low-cost operating environment means project remains financially robust in the current oil price environment

Otto Energy Ltd (ASX: OEL) (“Otto” or the “Company”) is pleased to announce that it has been advised by Operator, Byron Energy Inc., a wholly owned subsidiary of Byron Energy Limited (ASX:BYE) (“Byron”), that the Hercules 205 drilling rig has been mobilised to the SM-6 #2 well location. The rig move is expected to take 1 day. The well is expected to spud about 6 days after mobilisation. Once on location the rig will install new 30” conductor guides on the existing 72” caisson, drive the 30” conductor pipe and then commence drilling the SM-6 #2 well.

The SM-6 #2 well is the first well to be drilled as part of Otto’s farm-in transaction with Byron announced in December 2015. The SMI-6 lease is part of a portfolio of low cost, high chance of success, conventional oil and gas opportunities located both onshore and offshore the Gulf of Mexico, which Otto has the option to participate in as part of the transaction.

In order to earn a 50% working interest (equal to a 40.625% revenue interest) in the SMI-6 Lease, Otto will contribute 66.67% of the costs of the well (estimated at US\$5.3 million net to Otto). Any costs above this amount in respect of the SM-6 #2 well and all future expenditure on the license will be in accordance with Otto and Byron’s participating interest (Otto 50%).



Hercules 2015 Drilling Rig

**Otto’s Managing Director, Matthew Allen said:** “We are very pleased to have commenced operations in respect of the SM-6 #2 well. The well location is situated in shallow water and surrounded by existing infrastructure. In the success case, the well will be completed for production with development by way of low-cost tie in, meaning that the project is economically robust even in the current low oil price environment. With production likely to commence around mid-2017, any improvement in oil price conditions will yield significant further value.”

More information on the SM-6 #2 well is set out in Appendix 1 to this release.



Otto will report once the well has been spud and then only on material events. It is expected that the well will take approximately 5 weeks to be drilled to the main target interval, at which time Otto would report key information obtained during drilling.

<p>Contact: Matthew Allen Managing Director &amp; CEO +61 8 6467 8800 <a href="mailto:info@ottoenergy.com">info@ottoenergy.com</a></p>	<p>Media: Richard Glass Citadel-MAGNUS +61 8 6160 4902 <a href="mailto:rglass@citadelmagnus.com">rglass@citadelmagnus.com</a></p>
--	---

www.ottoenergy.com

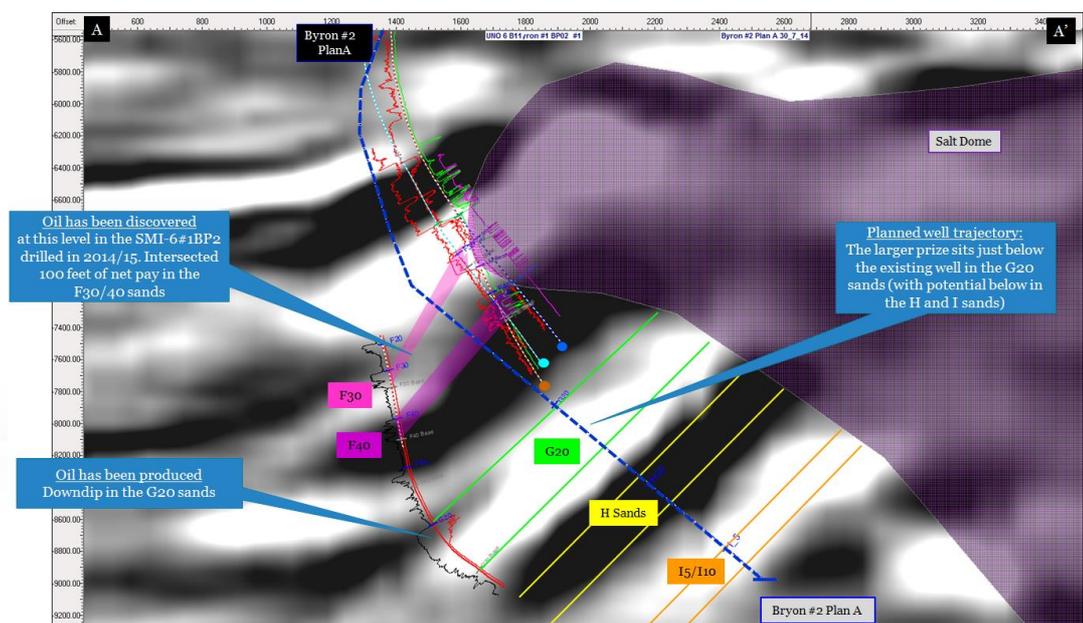
## Appendix 1 Overview of SMI-6 #2 Well and Development Opportunity

Drilling of the SMI-6 #2 well will earn Otto the rights to the following net revenue interests (as determined by independent consultants, Collarini and Associates):

- Oil Mbbbl (1P-2P-3P)- (567 - 1,495 - 2,167) and a prospective oil resource of 3,603 Mbbbl; and
- Gas Mscf (1P-2P-3P)- (5,619 - 8,639 - 6,667) and a prospective resource of Gas 59,198 Mscf

The main G20 target sands, which are up-dip from existing production located in the same sand interval, sit 100m below a previous well completed for production by the Operator and which intersected 100 feet of net pay sands. As a result, Otto assigns a 70% chance of success to this opportunity. Further details on the well and potential development are set out below:

South Marsh Island-6 #2 Appraisal Well		South Marsh Island-6 Development Opportunity	
Reservoir type	Miocene – G20 sands updip of previous production in the SMI-6 B11 well	Development Requirements	In the success case, the appraisal well would be completed with production casing. The well will be suspended within the existing 72" caisson installed at the well location. The following additional items would be needed to bring the well into production: <ul style="list-style-type: none"> <li>• 8" flowline (7.3 km)</li> <li>• Topsides modifications to the existing 72" caisson</li> <li>• Minor topsides modifications to SM10 platform</li> </ul>
Total Depth	9,616' (2,900m) MD/9,138' (2,785m) TVD		
Water Depth	20 metres		
Geological Chance of Success	<ul style="list-style-type: none"> <li>• 70% chance of intersecting oil or gas within net reserve and prospective resources range</li> </ul>	Development Costs – indicative only	Approximately US\$8-10m (gross JV, Otto funding 50%)
Key Risks	<ul style="list-style-type: none"> <li>• Reservoir thickness</li> <li>• Exact position of the salt seal</li> </ul>	Initial Production rate	Approximately 1,400 bopd (gross field production)
Drilling program	The Hercules 205 drilling unit has been contracted by Byron Energy for a 1 firm (SMI-6) and 1 contingent well (SMI-71) program commencing in Q1 2016.	Timeframe from drilling to production/cashflow	15-18 months



ARTM Seismic line through SMI-6 #2 well showing main target (G20) and already discovered (F30/F40) sands

### **Competent Persons Statement**

The information in this report that relates to oil and gas reserves and resources was compiled by technical employees of independent consultants Collarini and Associates, under the supervision of Mr Mitch Reece BSc PE. Mr Reece is the President of Collarini and Associates and is a registered professional engineer in the State of Texas and a member of the Society of Petroleum Evaluation Engineers (SPEE), Society of Petroleum Engineers (SPE), and American Petroleum Institute (API). The reserves and resources included in this report have been prepared using definitions and guidelines consistent with the 2007 Society of Petroleum Engineers (SPE)/World Petroleum Council (WPC)/American Association of Petroleum Geologists (AAPG)/Society of Petroleum Evaluation Engineers (SPEE) Petroleum Resources Management System (PRMS). The reserves and resources information reported in this Statement are based on, and fairly represents, information and supporting documentation prepared by, or under the supervision of, Mr Reece. Mr Reece is qualified in accordance with the requirements of ASX Listing Rule 5.41 and consents to the inclusion of the information in this report of the matters based on this information in the form and context in which it appears.

### **Reserves & Resources**

Reserve and resource estimates in this release are prepared as at 30 June 2015 (reference: Byron Energy Limited ASX announcement 4 September 2015). The resource estimates have been prepared using internationally recognised Petroleum Resources Management System to define resource classification and volumes. The resource estimates are in accordance with the standard definitions set out by the Society of Petroleum Engineers, further information is available at [www.spe.org](http://www.spe.org). The estimates are un-risked and have not been adjusted for both associated chance of discovery and a chance of development. Otto is not aware of any new information or data that materially affects the assumptions and technical parameters underpinning the estimates of reserves and resources and the relevant market announcements referenced continue to apply and have not materially changed.

### **Prospective Resource Cautionary Statement**

The estimated quantities of petroleum that may be potentially recoverable by the application of future development project(s) relate to undiscovered accumulations. These estimates have both an associated risk of discovery and a risk of development. Further appraisal and evaluation is required to determine the existence of a significant quantity of potentially moveable hydrocarbons.

### **Reserves cautionary statement**

Oil and gas reserves and resource estimates are expressions of judgment based on knowledge, experience and industry practice. Estimates that were valid when originally calculated may alter significantly when new information or techniques become available. Additionally, by their very nature, reserve and resource estimates are imprecise and depend to some extent on interpretations, which may prove to be inaccurate. As further information becomes available through additional drilling and analysis, the estimates are likely to change. This may result in alterations to development and production plans which may, in turn, adversely impact the Company's operations. Reserves estimates and estimates of future net revenues are, by nature, forward looking statements and subject to the same risks as other forward looking estimates.