

Company: Otto Energy Limited
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Start of Transcript

Operator: Ladies and gentlemen, thank you for standing by and welcome to the Otto Energy Limited Investors Conference Call. At this time all participants are in a listen only mode. There'll be a presentation followed by a question and answer session at which time if you wish to queue for a question you'll need to press star followed by one on your telephone. Please note this conference is being recorded today, 21 July 2015.

I would like to hand the conference over to your host today, CEO of Otto Energy Mr Matthew Allen. Thank you sir, please go ahead.

Matthew Allen: Good morning everybody and thank you for joining us early in the morning. I've got with me here apart from myself, Paul Senyia our VP for Exploration and New Ventures and I've also got Matthew Worner who is Otto Energy's Commercial Manager.

We've announced this morning a transaction where we intend to acquire an interest in some very highly prospective onshore Alaska North Slope acreage. Myself and the team will take you through some of the background of that, some of our initial views but also just explain to you a little bit about our thinking and our strategy for why we've taken this particular transaction at this point in time.

As you'll all be aware Otto Energy earlier this year completed our divestment transaction for the Galoc oil field. That was a very successful transaction. It was completed in February and in June we've just recently completed a capital return of \$0.064 per share to each of our shareholders.

That's been a very successful start to the year. We're embarking upon now the Hawkeye-1 exploration well and by way of update there we are currently loading out the drilling rig up in Labuan harbour in Malaysia and we expect to be in the field on schedule before 31 July as we've indicated to the market. That's very exciting activity for us coming up. That well will be drilled during August and we look forward to sharing the results of the Hawkeye well with you as we progress and finalise that drilling.

Earlier this year we sat down with the Board and we started looking at our new business endeavour and what we'd look to with the Company once we'd finished drilling the Hawkeye well and we recognised that the market had fundamentally changed over the past 12 months with the drop in oil price and the availability of some asset opportunities that had previously not been on the market.

We started a process of looking at quite a number of transactions. I think we started with a list of over 600 individual transactions and started screening those against a series of metrics that the Board and management were interested in. Those included looking for acreage that were in a proven petroleum basin, good fiscal terms, good political system and structure and also as you'd suspect, that could sustain a sustained oil price environment below \$100 oil. We believe fundamentally that an oil price currently around

\$50 odd in the US at about \$55 to \$57 in Brent terms, we believe we're in now a very different oil price cycle and projects need to be robust in this new oil price paradigm.

The opportunity to work with both Borealis and Great Bear was presented to us in our screening studies and we've matured what we believe is a very attractive staged entry into this acreage that is held by Great Bear. We're looking to earn between 8% and 10.8% working interest in the acreage that Great Bear currently hold and that will be through an investment in Borealis Petroleum which is an Australian registered vehicle.

The Great Bear Petroleum Group hold currently nearly 560,000 acres on the Alaska North Slope and that's immediately south of the giant discoveries that have been producing for quite a number of years and also is very, very proximal to the recent discoveries that Repsol have been making to the west of this acreage position.

It is a very modest initial investment. We are taking a \$4 million position in Borealis, US\$4 million position and we have rights to increase that ownership equity as we progress our knowledge and understanding and also the acreage is matured as well. That will give us just under 40% equity in Borealis initially and if we like the acreage sufficiently we would intend that we would exercise our rights of first refusal on subsequent equity raises and increase our position to a controlling stake in Borealis as we understand the acreage a bit better.

The initial deal will see us participate in three wells or up to three wells in the current drilling programme coming up and that's likely to look like two appraisal wells and one exploration well in the forward drilling programme. The work going on at the moment involving the analysis of the 3D seismic, the maturing of the prospect and lead inventory, that will be stuff that we'll work with the Great Bear team on in the coming few months to finalise the prospect and drilling programme.

That's the key summaries of the transaction that we've entered into.

As I mentioned, we have a very close working relationship with the Borealis team. We've signed a letter of intent and that will be finalised into a series of transaction documents, one of the most important ones for us being the ability to act as the technical advisor to Borealis. We'll be engaged in using Otto Energy's very strong geosites and geotechnical capabilities to support the joint venture and participate in decision making going forward on this acreage opportunity.

Borealis also has an option to acquire an increased interest of a further 22,800 net acres. This is acreage that Great Bear drilled earlier this year and includes acreage where the Alkaid-1 well was recently drilled. The results of that well are due to be released in the coming short period of time. That has a further option price. The purchase price there is US\$25 million and we'll evaluate that acreage opportunity and that option opportunity as we get our understanding matured on those particular discovery areas.

For those of you that have not previously had experience with the Alaska North Slope, it's recognised as one of the most prolific oil and gas producing areas in the world. Something in the range of 17 billion barrels of oil and 13 trillion cubic feet of natural gas have been produced to date and significant remaining recoveries both of conventional and unconventional scale exist in this area. It's a very exciting area for Otto Energy to participate in and even at 10% equity it presents a very material exposure for our shareholders.

There are a number of the super majors participating. I already mentioned Repsol but all the super majors are represented in this area and have seen quite a significant history of exploration there. Most importantly, 3D seismic and the use of 3D seismic onshore is probably a more recent phenomenon and the Great Bear acreage has something in the range of 700 square miles of existing 3D seismic and more planned to be acquired in the coming short period of time.

Alaska recognised the need to incentivise exploration and development in its petroleum industry and has probably some of the most attractive fiscal terms in the North America and also globally. That includes very significant rebates, cash rebates on exploration and development expenditures and very concessionary taxation terms applied on this acreage.

The Great Bear acreage has running through the middle of it the main all weather highway, the Dalton Highway running right through it providing access to a lot of the acreage. It also has the Trans-Atlantic (sic - Trans Alaska) Pipeline system running right through the middle of its acreage providing ready access to the market as well. Alaska has the ability, unlike a lot of states in the US, to export crude not only domestically but also internationally and into Asia most importantly where Otto has a lot of experience with Asian markets.

The Great Bear position, Great Bear is a private vehicle and they've held this acreage for a number of years. There's something in the range of in excess of US\$150 million has already been spent on this acreage including 3D seismic, unconventional stratigraphic tests and also some very considerable conventional exploration being matured in this acreage.

Given its significant size and its proximity to the Giant discoveries there are a number of play types that exist in this acreage and most importantly all of the main proven petroleum play types exist in this including the Kuparuk and the Brookian reservoir systems and we see very significant developments within the Great Bear acreage that will be tested in the coming drilling seasons.

There is also a very significant unconventional play type in the Shublik and other plays in this acreage. Netherland Sewell have provided some significant attestation on volumes and whilst the focus of Otto is not on the unconventional play type that certainly is another very exciting opportunity in this acreage as well.

I mentioned a little bit about Borealis earlier. Otto Energy will be the largest shareholder and cornerstone shareholder in Borealis. We look forward to working with the Borealis team as we mature this acreage. We look forward to being the technical services advisor to Borealis and providing commercial and technical support to the team and maturing the acreage with the help of Great Bear.

We provided in our release a summary of the transaction between Borealis and Great Bear. There is an initial transaction \$20 million for Borealis to acquire its full 8% to 10.8% working interest in the acreage. That equates to around US\$342 per acre that's being acquired through this transaction. That's very, very favourable when compared to comparable transactions in this acreage area given that especially there is already a significant volume of 3D seismic and drilling activity in this licence. We feel that this benchmarks very, very well against the peer transactions that have gone on in the region.

I outlined the option transaction that exists also. That's something that Otto will evaluate in the coming months but we believe we are well funded, certainly on the initial transaction, to participate and if we wish, to

participate in the whole US\$20 million. The initial investment that Otto is making is US\$4 million which out of our more than \$40 million of available capital we feel is a very manageable transaction.

Otto will also appoint a number of directors to the board of Borealis and we'll work very closely with the Borealis team in the coming months as the transaction is matured.

I hope that's given you a reasonable overview of one, the transaction, two, Alaska North Slope and three, the relationships that Otto Energy has matured. I've highlighted for you that we are very much on now the cusp of drilling the Hawkeye-1 exploration well in the Philippines and that we will be focused quite heavily on this programme with Great Bear and Borealis with the potential for a further three exploration and appraisal wells to be drilled in the coming drilling season, which will provide our Otto shareholders with a very, very material and interesting exposure to this opportunity.

Also I haven't forgotten that we do have a position in Tanzania. We haven't highlighted much in here but we are in the background maturing our drilling programme for the dry season in 2016 and you should expect to see some further news on Tanzania in the coming months as we prepare for that 2016 drilling programme.

Thank you very much. That's the overview that we have. I'd like now if I may to turn over to questions and answers. I also have as I mentioned, Paul Senyacia our VP for Exploration and New Ventures here with me and Matthew Worner who is our Commercial Manager here to help assist answering any questions if you might have some more detailed technical questions.

Operator: Ladies and gentlemen, we will now begin the question and answer session. If you wish to queue for a question you'll need to press star one on your telephone and wait for your name to be announced. If you wish to cancel your request you'll need to press the pound or hash key.

Your first question comes from the line of Peter Strachan from StockAnalysis. Please ask your question.

Peter Strachan: (StockAnalysis, Analyst) Matthew, the royalty regime on this area, is it all 12.5% royalty or is the northern part 16%?

Matthew Allen: The northern part's 16%, Peter and the southern part is 12.5%.

Peter Strachan: (StockAnalysis, Analyst) Your interest is over the whole area - in the whole permit area or just a part of the permit area?

Matthew Allen: No, we have a working interest over the whole area with the exception that there are four blocks that are excised as part of the option acreage which we have a separate decision to make on later in 2015, early 2016.

Peter Strachan: (StockAnalysis, Analyst) Who are the people in Borealis?

Matthew Allen: Borealis, it's a private entity. Otto will hold just under 40% equity interest in the vehicle and the remaining shareholders will be high net worth and sophisticated individuals that have participated in the Borealis raise.

Peter Strachan: (StockAnalysis, Analyst) Is it a vehicle that Otto has started up or was it pre-existing?

Matthew Allen: It was a pre-existing vehicle, Peter.

Peter Strachan: (StockAnalysis, Analyst) But who are the people?

Matthew Allen: It was only incorporated earlier this year in about March I believe so there's only I think about 14 odd shareholders currently in Borealis.

Peter Strachan: (StockAnalysis, Analyst) Thank you.

Operator: Your next question comes from the line of Johan Hedstrom from Canaccord. Please ask your question.

Johan Hedstrom: (Canaccord Genuity, Analyst) Yes, hi Matt. Good to see this transaction. Peter asked a couple of mine but the US\$150 million that Great Bear has spent, you mentioned there's been two unconventional wells, the [strapped] and one exploration well drilled. Has most of that expense been on seismic or could I get a little bit of a feel for where that US\$150 million has been spent?

Matthew Allen: Paul, have you got that detail?

Paul Senyacia: Yes, I can give you a bit of background on that. I can't tell you the exact split but that money was spent on that large 3D seismic survey and the drilling of three wells. The first two wells were targeting the unconventional play and the third well was a conventional target. It was in fact the Alkaid-1 well that we mentioned there in the press release.

I guess what has surprised us and Great Bear is that in the process of drilling the unconventional targets a number of conventional oil plays were discovered and it was that together with the understanding that's now coming from the extensive 3D seismic and previous wells in the region which had also found oil in the conventional play, you start putting all that together and you start to realise that whilst there is a significant unconventional opportunity here there's also a really overlooked conventional opportunity, which is being unlocked by primarily understanding the distribution of sound and that comes from the 3D seismic.

Johan Hedstrom: (Canaccord Genuity, Analyst) Okay so the two appraisal wells that are part of your programme, is that on that Alkaid discovery?

Matthew Allen: Do you want to repeat your question, Johan?

Johan Hedstrom: (Canaccord Genuity, Analyst) Yes, sorry. You've got a programme of three wells that you're going to participate in, two appraisal and one exploration. I was just wondering whether the two appraisal, are they relating to this Alkaid well that has been named or are they on some other older oil discoveries?

Paul Senyacia: They're on some other older oil discoveries. The Alkaid well is in that option area of the four blocks which we have a separate option over, which we have to make a decision on separately.

Johan Hedstrom: (Canaccord Genuity, Analyst) Alright. I suppose Peter was also trying to ask about Borealis. I suppose we're curious. Are there any names of the people involved there that we would be familiar with or are they total unknowns?

Matthew Allen: There's a separate raise that's been going on through Borealis, Johan. I'm not going to comment on who those individuals and shareholders are at this point in time.

Johan Hedstrom: (Canaccord Genuity, Analyst) Okay. Finally, you mentioned the cash is going to be in excess of \$40 million after this transaction. I thought we'd be somewhere probably closer to \$50 million than \$40 million but is that a fair comment? It depends on the June quarterly report which we haven't seen yet, I appreciate that.

Matthew Allen: Johan, our quarterly was out last week.

Johan Hedstrom: (Canaccord Genuity, Analyst) Sorry.

Matthew Allen: We reported US\$41.2 million.

Johan Hedstrom: (Canaccord Genuity, Analyst) So it was, yes.

Matthew Allen: Make sure you're referencing the right currency there.

Johan Hedstrom: (Canaccord Genuity, Analyst) Yes, okay. Sorry about that. I hadn't caught up with that one. Thanks. That's it from me.

Matthew Allen: Thanks, Johan.

Operator: Your next question comes from the line of Michael Skinner from Euroz. Please ask your question.

Michael Skinner: (Euroz Securities, Analyst) Hi Matt and hi gents.

Paul Senyacia: Hi Michael.

Matthew Allen: G'day Michael. How you doing?

Michael Skinner: (Euroz Securities, Analyst) Good thanks. A couple of questions from me. Firstly, regarding the tax concessions can you talk to the indicative well costs on a gross basis and also the tax concessions you might achieve and how those concessions roll off over the next couple of years?

Matthew Allen: Let me just answer very firstly. In terms of this particular transaction Otto's exposure on the drilling for each of those three wells is US\$2 million per well capped so we have a capped well contribution to each of those three wells at roughly 10% equity. The well costs depending on the type and style of well are usually between US\$20 million and US\$30 million gross before concessions in this location.

Otto, through the transaction structure, those tax concessions on the initial three wells will go to the Great Bear consortium. We won't get the rebates on those three initial wells but for future activities we will avail of the current tax concession rebates.

Michael Skinner: (Euroz Securities, Analyst) Which to my knowledge and correct me are starting to roll off as we go into next calendar year? What will they be on a [unclear] development basis, do you know?

Matthew Allen: Well they start to step down next year from 85% to 75% and then from 75% the following year down to 35%, Matt, I think it is?

Michael Skinner: (Euroz Securities, Analyst) That 35% is only on exploration though isn't it? It's not on a production well. Is that correct?

Matthew Allen: That's right.

Michael Skinner: (Euroz Securities, Analyst) On a production basis there's basically no concession.

Matthew Allen: That's what we believe, yes.

Michael Skinner: (Euroz Securities, Analyst) Moving on, in regard to the four blocks excised out of the agreement that you've got an option on are you going to be able to provide guidance on where those blocks are within the acreage? Close to the road is a lot more valuable and if those blocks are closer to the road it would be good to know about them.

Matthew Allen: We'll be providing more detail particularly as we lead into September once we mature the prospect inventory for the coming drilling programme and also the understanding of this option area, Michael. At this point our view is we've taken a \$4 million exposure over the majority of this Great Bear position. We feel that's very significant exposure and as you'll see from the map we have provided there is already quite extensive exposure to the very near block highway and pipeline access.

What we can say is that there are significant other opportunities very close to the current highway location.

Michael Skinner: (Euroz Securities, Analyst) Okay and then looking at the appraisal wells that you'll drill and the existing data of wells drilled in the past will you be able to provide the market with some guidance around what those older wells intersected and what type of targets you're chasing and so forth?

Matthew Allen: Absolutely. All that will come with a full prospect review and lead inventory review in September, Michael.

Michael Skinner: (Euroz Securities, Analyst) Alright. That's great guys. Thanks for that.

Matthew Allen: Thanks, Michael.

Operator: Your next question comes from the line of Mark Sandford from Hartleys. Please ask your question.

Mark Sandford: (Hartleys Limited, Analyst) G'day Matt. Mark Sandford here. How you doing?

Matthew Allen: Good, Mark. Yourself?

Mark Sandford: (Hartleys Limited, Analyst) Very well, mate. Just interested in this Alkaid-1 well which obviously Great Bear's already drilled and if there's a bit more colour on numbers or when Great Bear's actually going to release that out to the market. Obviously you've got this option to be decided late 2015 but I'd suggest you'd probably need to see some actual information on the numbers regarding that Alkaid-1 well before you make an investment decision.

Matthew Allen: Yes.

Mark Sandford: (Hartleys Limited, Analyst) Is Great Bear likely to release anything out?

Matthew Allen: Yes, we believe we'll see some data on that in August.

Mark Sandford: (Hartleys Limited, Analyst) By August. Okay, not a problem. Thanks very much.

Operator: The next question comes from the line of Scott Simpson from GMP. Please ask your question.

Scott Simpson: (GMP Securities, Analyst) Hi, Matt. Well done on the transaction.

Matthew Allen: Hi, Scott. Thank you.

Scott Simpson: (GMP Securities, Analyst) Just quickly, I didn't know whether we were asking it the wrong way or not but I thought the question around Borealis and the people was not so much the investors but just I guess some colour around the management team and technical team in place. Were there any names there or people we'd be familiar with?

Matthew Allen: The key person behind Borealis is a gentleman by the name of Mr Cosimo Damiano, ex-Merrill's chap. We've been working with Cosimo. He's put together the transaction structure with Great Bear but as you'd appreciate small companies of that nature don't have the deep technical capability. We felt that Otto Energy's very strong geoscience capability led capably by Paul Senyacia was something that we could very much contribute to this Borealis structure.

It's very important for us with Cosimo that we joined our technical capability to his abilities here and hopefully add value to the overall transaction structure. We believe that Great Bear also in engagements we've had with them, appreciate the contribution Otto will have and will make to this forward programme.

Scott Simpson: (GMP Securities, Analyst) Great, thanks. I was a little late to the call but just around the transaction structure - I may be a little bit confused but essentially US\$4 million upfront as part of a broader placement gets you around 40%, 50% of the company. Then your subsequent amounts up to US\$20 million, they're all calls as part of additional equity placements are they?

Matthew Allen: The transaction between Borealis and Great Bear's outlined in our release and it will cost Borealis \$20 million to earn the full equity interest and also participate in the three wells. Otto Energy will put in US\$4 million today. That's around 50% of the capital raised that Borealis is in the process of and will have completed and will earn Otto about 40% in the Borealis vehicle.

We've then got rights of first refusal in relation to future capital raises through Borealis and if we like the block we want to see our cash going into the earning of the equity in the participation of the well and we'll discuss with the minority holders in Borealis in the future what's the best way to facilitate their exposure to this opportunity.

Scott Simpson: (GMP Securities, Analyst) Right so your \$4 million as part of that equity will see essentially I guess [unclear] for the first six and a half. The deal's for 20 so I guess you'll then be up for your share of the remaining 14 or thereabouts.

Matthew Allen: The way I look at it, Scott, if we like this acreage enough we'll take all of those subsequent raises. We wouldn't stay at 40% on the way through.

Scott Simpson: (GMP Securities, Analyst) Right. Okay, thanks.

Operator: Your next question comes from the line of Michael Munro from Hartleys. Please ask your question.

Michael Munro: (Hartleys Limited, Analyst) G'day Matt. Just getting back to this question that's coming up from other people on this Borealis and the guys behind it, can you confirm that - is there anyone on the Otto team that are shareholders in this particular private vehicle or are you all independent of this structure at the moment?

Matthew Allen: No, we're all independent, Michael. There are no shareholders in Borealis who are either management, directors or current shareholders that we're aware of, of Otto Energy Limited.

Michael Munro: (Hartleys Limited, Analyst) That's great. I just wanted to confirm that it was at arm's length. Thanks.

Matthew Allen: Very much an arm's length transaction and as I said earlier it was an opportunity that was part of our screening universe that came to us. We've worked this quite hard over the last month or two and we believe it's a transaction that is very much in the interests of our shareholders and provides some exposure to this very exciting play type.

Michael Munro: (Hartleys Limited, Analyst) Will you be taking a board position on Borealis given you've got 40%?

Matthew Allen: We intend to take board positions commensurate with our equity holding so two of four directors will be Otto appointees in the Borealis structure.

Michael Munro: (Hartleys Limited, Analyst) Okay, thank you.

Operator: Once again ladies and gentlemen if you wish to ask a question you'll need to press star one on your telephone and wait for your name to be announced.

There are no further questions at this time. I would like to hand the conference back to your presenter today. Please continue.

Matthew Allen: Well thank you very much everyone for your time in joining us this morning and appreciate that it's been a busy few days with various transactions going on in the market so appreciate you taking the time to join us.

We'll be available if you want to call any of the team here to follow up with any more specific questions you might have later on. We look forward to providing you updates in the upcoming short period of time particularly as we mature this Borealis opportunity and our investment in the Alaska North Slope and also with the drilling of the Hawkeye well in the coming months. It's going to be a very busy and exciting time for the team here so we look forward to sharing our results with you.

Thank you again for your time in joining us.

Operator: Ladies and gentlemen, that does conclude our conference for today. Thank you for your participation. You may all disconnect.

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