

ASX ANNOUNCEMENT

1 March 2017

HALF YEAR RESULTS RELEASE

Please find attached Otto Energy Limited's (ASX : OEL) Half-Year Results to 31 December 2016.

A copy of this announcement can be viewed on the Company's website www.ottoenergy.com under the heading "News & Reports".

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Otto Energy Limited

ABN: 56 107 555 046

Financial Report
For the half-year ended
31 December 2016

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Corporate Directory

Directors

Mr. John Jetter – Non-Executive Chairman
Mr. Matthew Allen – Managing Director and Chief Executive Officer
Mr. Ian MacIver – Non-Executive Director
Mr. Ian Boserio – Non-Executive Director

Company Secretary

Mr. Neil Hackett (resigned 31 January 2017)
Mr. David Rich (appointed 31 January 2017)

Executive Management

Mr. Matthew Allen – Managing Director and Chief Executive Officer
Mr. Paul Senyca – Vice President, Exploration and New Ventures
Mr. David Rich – Chief Financial Officer (appointed 9 January 2017)
Mr. Matthew Worner – Commercial Manager

Principal Registered Office in Australia

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West Perth WA 6005
Tel: +61 8 6467 8800
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Auditors

BDO Audit (WA) Pty Ltd
38 Station Street
Subiaco WA 6008
Tel: +61 8 6382 4600
Fax: +61 8 6382 4601

Share Register

Link Market Services Limited
178 St Georges Terrace
Perth WA 6000
Tel: +61 8 9211 6670
Fax: +61 2 9287 0303

Stock Exchange Listing

Australian Securities Exchange
Level 8, Exchange Plaza
2 The Esplanade
Perth WA 6000
ASX Code: OEL

Bank

Westpac Banking Corporation
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Perth WA 6000
Tel: +61 8 9426 2580
Fax: +61 8 9426 2288

Website Address

www.ottoenergy.com

Directors' Report

Your Directors submit their report on the consolidated entity consisting of Otto Energy Limited and the entities it controlled at the end of, or during, the half-year ended 31 December 2016.

Directors

The names of the company's directors in office during the half-year and until the date of this report are set out below. Directors were in office for this entire period unless otherwise stated.

Mr. John Jetter
Mr. Matthew Allen
Mr. Ian Macliver
Mr. Ian Boserio

Company Secretary

Mr Neil Hackett (resigned 31 January 2017)
Mr David Rich (appointed 31 January 2017)

Review and results of operations

Consolidated net loss from operations after income tax for the half-year was \$2.6 million (2015: net loss of \$8.6 million).

After the successful drilling of a discovery in the South Marsh Island 71 licence (SMI-71) in the 2nd quarter of 2016, Bryon and Otto entered a purchase and construction agreement with Laredo Construction Inc. for tripod jacket, decks, helidecks, boat landing and production equipment. The Tripod facility is capable of accommodating 6 wells and producing in excess of 4,500 bopd and 5.0 Mmcfpd along with produced natural gas. Significant progress has already been made on the refurbishment of the jacket section of the platform and following completion of engineering design work, construction work on the deck portion will begin. Production is expected to commence in Q4 2017, with initial rates of 1,500 to 2,000 bopd (gross field production).

Following the successful drilling of the SM-71 #1 exploration well, Otto exercised its option under the staged farm-in with Operator, Byron Energy Limited to acquire a 45% working interest in the Bivouac Peak lease. Independent Prospective Resource estimate for Bivouac Peak completed by Collarini Associates attribute 15,288 MBOE (un-risked best estimate) net to Otto. The prospective resource estimate was based on high quality 3D seismic data representing a significant increase from previous reporting. Drilling of the Bivouac Peak well is planned for 2017.

In July 2016, Otto along with its joint venture partner Byron advised that the SM-6 joint venture will not be undertaking a re-entry of the SM6 #2 well.

In Alaska existing 3D seismic has allowed development of an extensive prospect portfolio which includes at least 4 well locations. The Raptor Prospect is a conventional all season drilling target on the Dalton Highway where a drilling permit has already been obtained. Recently acquired 3D is being fully interpreted in order for new prospects to be added to the current portfolio resulting in the best opportunities being drilled.

In Tanzania, the joint venture was preparing to undertake drilling of the Kito-1 exploration well in 2016, however, due to delays in obtaining necessary permits from the authorities the weather window to drill the Kito-1 exploration well in 2016 has been missed. The Joint Venture is seeking a licence extension to allow drilling in 2017.

Events occurring after reporting date

In January 2017, Otto announced a SMI-71 joint venture proposal to modify the design concept to a manned platform which allows direct tie-in to sales pipelines. The design change allows the project to immediately tie-in future successful wells and the manned facility significantly enhances SMI-71 project economics. Otto has indicated it's in principle support for the manned facility, subject to receiving Byron's final proposed authority for expenditure and development plan. The final development plan is subject to JV approval.

Effective 1 February 2017, 4,390,001 Performance Rights vested and 4,390,001 ordinary fully paid shares were issued.

Directors' Report

Events occurring after reporting date (continued)

Key Management Personnel Changes

On 31 January 2017, Otto announced the appointment of Mr David Rich as Chief Financial Officer and Company Secretary. Mr Rich replaces Neil Hackett (Company Secretary, resigned effective 31 January 2017) and Craig Hasson (Chief Financial Officer, leaving 28 February 2017).

There are no other events occurring after the reporting period that would have a material impact on the Group's operations.

Rounding

The Company is of a kind referred to in ASIC Corporations Legislative Instrument 2016/191, relating to the 'rounding off' of amounts in the financial statements. Amounts in the financial statements have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, the nearest dollar.

Auditor's Independence Declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 14.

Signed in Perth accordance with a resolution of the Board of Directors.



Mr I Macliver
Director
28 February 2017

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 31 December 2016

	Note	31/12/2016 US\$'000	31/12/2015 US\$'000
Continuing Operations			
Other income	4	58	27,012
Gain on disposal of asset		2	13
Other expenses from ordinary activities			
Employee benefit expense		(1,128)	(1,772)
Depreciation & amortisation		(26)	(54)
Exploration expense	7	(614)	(32,242)
Other expenses		(873)	(1,540)
Foreign currency losses		(6)	(47)
Loss before income tax from continuing operations		(2,587)	(8,630)
Income tax expense		(51)	(3)
Loss after income tax for the half-year from continuing operations		(2,638)	(8,633)
Net loss for the period attributable to owners of Otto Energy Limited		(2,638)	(8,633)
Total comprehensive loss for the period attributable to owners of Otto Energy Limited		(2,638)	(8,633)
Loss per share for the continuing operations half-year loss attributable to the members of Otto Energy Limited:			
Basic loss per share (cents per share)		(0.22)	(0.73)
Diluted loss per share (cents per share)		(0.22)	(0.73)

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

As at 31 December 2016

	Note	31/12/2016 US\$'000	30/06/2016 US\$'000
Current Assets			
Cash and cash equivalents	5	16,952	20,309
Trade and other receivables		84	107
Other current assets		502	414
Total Current Assets		17,538	20,830
Non-Current Assets			
Oil and gas properties	6	3,391	2,717
Property, plant and equipment		51	73
Other assets		175	-
Total Non-Current Assets		3,617	2,790
Total Assets		21,155	23,620
Current Liabilities			
Trade and other payables		749	722
Provision for Income Tax Payable		51	-
Provisions		210	197
Total Current Liabilities		1,010	919
Non-Current Liabilities			
Provisions		202	224
Total Non-Current Liabilities		202	224
Total Liabilities		1,212	1,143
NET ASSETS		19,943	22,477
EQUITY			
Contributed equity	8	81,895	81,895
Reserves		13,766	13,662
Accumulated losses		(75,718)	(73,080)
TOTAL EQUITY		19,943	22,477

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

Consolidated Statement of Changes in Equity

For the six months ended 31 December 2016

	Issued Capital US\$'000	Accumulated Losses US\$'000	Reserves US\$'000	Total Equity US\$'000
Balance at 1 July 2015	81,104	(52,994)	13,410	41,520
Total comprehensive loss for the half-year				
Loss for the half-year	-	(8,633)	-	(8,633)
Total comprehensive loss for the period	-	(8,633)	-	(8,633)
Transactions with owners in their capacity as owners				
Shares issued	791	-	-	791
Recognition of share based payments	-	-	127	127
Balance at 31 December 2015	81,895	(61,627)	13,537	33,805
Balance at 1 July 2016	81,895	(73,080)	13,662	22,477
Total comprehensive loss for the half-year				
Loss for the half-year	-	(2,638)	-	(2,638)
Total comprehensive loss for the period	-	(2,638)	-	(2,638)
Transactions with owners in their capacity as owners				
Shares issued	-	-	-	-
Recognition of share based payments	-	-	104	104
Balance at 31 December 2016	81,895	(75,718)	13,766	19,943

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

Consolidated Statement of Cash Flows

For the six months ended 31 December 2016

	Note	31/12/2016 US\$'000	31/12/2015 US\$,000
Cash flows from operating activities			
Funds received from BHPB and Pryce Gases for Hawkeye Well		-	26,042
Receipts from recharges to joint venture		-	942
Payments to suppliers and employees		(1,922)	(2,650)
Payments for exploration expense		(265)	(31,968)
Interest received		47	22
Income taxes paid		-	(2)
Other income		11	-
Net cash outflow from operating activities		(2,129)	(7,614)
Cash flows from investing activities			
Payments for property, plant and equipment		(4)	(6)
Proceeds from sale of property, plant and equipment		2	8
Payments for development and evaluation		(1,045)	-
Bond for development asset		(175)	-
Net cash (outflow)/inflow from investing activities		(1,222)	2
Cash flows from financing activities			
Net cash inflow from financing activities		-	-
Net decrease in cash and cash equivalents		(3,351)	(7,612)
Cash and cash equivalents at the beginning of the financial half-year		20,309	41,206
Effects of exchange rate changes on cash		(6)	(28)
Cash and cash equivalents at end of half-year	5	16,952	33,566

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

Notes to the Consolidated Financial Statements

1. Corporate Information

The interim consolidated financial report of the Group for the six months ended 31 December 2016 was authorised for issue in accordance with a resolution of the directors on 28 February 2017.

Otto Energy Limited is a company incorporated and domiciled in Australia whose shares are publicly traded. The principle activities of the company and its subsidiaries (the Group) are described in the consolidated financial statements of the Group as at and for the year ended 30 June 2016 that is available at www.ottoenergy.com.

2. Statement of Significant Accounting Policies

(a) Basis of preparation

The interim consolidated financial report of the Group for the six months ended 31 December 2016 has been prepared in accordance with AASB 134 *Interim Financial Reporting*.

The interim 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 annual financial report as at 30 June 2016.

The accounting policies adopted in the preparation of the consolidated financial report are consistent with those followed in the preparation of the Group's financial report for the year ended 30 June 2016.

2. Statement of Significant Accounting Policies

New accounting standards and interpretations

In the half-year ended 31 December 2016, the Group has reviewed all of the new and revised Standards and Interpretations issued by the AASB that are relevant to its operations and effective for annual reporting periods beginning on or after 1 July 2016.

New and amended standards adopted by the entity

A number of new or amended standards became applicable for the current reporting period, however, the Group did not have to change its accounting policies or make retrospective adjustments as a result of adopting these standards. There may be some changes to the disclosures in the 30 June 2017 annual report as a consequence of these amendments.

Impact of standards issued but not yet applied by the entity

There were no new standards issued since 30 June 2016 that have been applied by Otto Energy Limited. The 30 June 2016 annual report disclosed that Otto Energy Limited anticipated no material impacts (amounts recognised and/or disclosed) arising from initial application of those standards issued but not yet applied at that date, and this remains the assessment as at 31 December 2016.

The Group has also reviewed all new Standards and Interpretations that have been issued but are not yet effective for the half-year ended 31 December 2016. As a result of this review the Directors have determined that there is no impact, material or otherwise, of the new and revised Standards and Interpretations on its business.

3. Operating segment information

Management has determined the operating segments based on reports reviewed by the executive management team when making strategic decisions. The executive leadership team comprises the chief executive officer, chief financial officer Vice President, Exploration and New Ventures and the Commercial Manager. Management monitors the business based on geographic factors and has identified 5 reportable segments.

The segment information provided to Management for the reportable segments for the half-year ended 31 December 2016 is as follows:

Notes to the Consolidated Financial Statements

31 December 2016	Australia US\$'000	Philippines US\$'000	Tanzania US\$'000	USA US\$'000	Other US\$'000	Consolidated US\$'000
Other income	58	-	-	-	-	58
Gain on disposal of asset	2	-	-	-	-	2
Employee benefit expense	(1,113)	(15)	-	-	-	(1,128)
Depreciation & amortisation	(26)	-	-	-	-	(26)
Exploration expenses	-	(179)	(170)	(265)	-	(614)
Other expenses	(630)	(18)	(37)	(151)	(37)	(873)
Foreign currency losses	(4)	(1)	-	-	(1)	(6)
Net Loss before income tax	(1,713)	(213)	(207)	(416)	(38)	(2,587)
Income tax expense	-	-	-	-	(51)	(51)
Net Loss after income Tax for the half-year	(1,713)	(213)	(207)	(416)	(89)	(2,638)
Total Segment Assets	17,280	175	-	3,699	1	21,155
Total Segment Liabilities	490	219	240	212	51	1,212

31 December 2015	Australia US\$'000	Philippines US\$'000	Tanzania US\$'000	USA US\$'000	Other US\$'000	Consolidated US\$'000
Other income	970	26,042	-	-	-	27,012
Gain on disposal of asset	12	1	-	-	-	13
Employee benefit expense	(1,735)	(37)	-	-	-	(1,772)
Depreciation & amortisation	(54)	-	-	-	-	(54)
Exploration expense	-	(17,293)	(486)	(14,463)	-	(32,242)
Other expenses	(1,368)	(67)	(26)	(32)	(47)	(1,540)
Foreign currency gain/(loss)	(33)	1	-	(15)	-	(47)
Net Profit/(loss) before income tax	(2,208)	8,647	(512)	(14,510)	(47)	(8,630)
Income tax expense	-	(3)	-	-	-	(3)
Net Profit/(Loss) after income Tax for the half-year	(2,208)	8,644	(512)	(14,510)	(47)	(8,633)

<u>30 June 2016</u>	Australia US\$'000	Philippines US\$'000	Tanzania US\$'000	USA US\$'000	Other US\$'000	Consolidated US\$'000
Total Segment Assets	20,548	350	4	2,717	1	23,620
Total Segment Liabilities	452	46	175	470	-	1,143

4. Other Income

	31/12/2016 US\$'000	31/12/2015 US\$'000
BHPP reimbursed for Hawkeye expenditure	-	23,732
Farm In option with Pryce Gases	-	2,310
Interest Received	47	23
Other	11	947
Other income from continuing operations	58	27,012

Notes to the Consolidated Financial Statements

5. Cash and Cash Equivalents

	31/12/2016 US\$'000	30/06/2016 US\$'000
Total Cash	16,952	20,309
Cash and Cash Equivalents	16,952	20,309

6. Oil and Gas Properties

	31/12/2016 US\$'000	30/06/2016 US\$'000
Evaluation and Development Assets		
At Cost		
As at 1 July	2,717	-
Additions	674	2,717
Net carrying value	3,391	2,717

All capitalised development and evaluation costs as at 31 December 2016 relate to SMI-71 completion equipment installed during the drilling campaign, evaluation undertaken to assess the technical commercial viability of extracting a resource, purchase and modification of the Tripod facility and decommissioning costs associated with SMI-6 and SMI-71.

7. Exploration Expenditures

Exploration expenditure	31/12/2016 US\$'000	31/12/2015 US\$'000
Exploration expenditure - Philippines	179	17,294
Exploration expenditure - Tanzania	170	485
Exploration expenditure – Louisiana	189	-
Exploration expenditure – Alaska North Slope	76	-
Acquisition costs of Borealis – Alaska North Slope	-	14,463
Total Exploration Expenditure	614	32,242

8. Contributed Equity

Share Capital

	31-Dec-16 No.	30-Jun-16 No.	31-Dec-16 US\$'000	30-Jun-16 US\$'000
At the beginning of the period	1,181,908,323	1,164,290,071	81,895	81,104
Shares issued during the period	-	17,618,252	-	791
At the end of the period	1,181,908,323	1,181,908,323	81,895	81,895

Notes to the Consolidated Financial Statements

9. Commitments through joint operations

The aggregate of the consolidated entity's commitments through jointly controlled assets is as follows:

	31/12/2016 US\$'000	31/12/2015 US\$'000
Exploration Expenditure Commitments		
Committed exploration expenditure commitments:		
No longer than 1 year *	3,000	11,382
Longer than 1 year and no longer than 5 years	2,600	2,600
More than 5 years	-	-
	<u>5,600</u>	<u>13,982</u>

* 31 December 2016 relates to the drilling of the Kito-1 exploration well in the Kilosa-Kilombero licence. The Joint Venture has applied for a licence extension beyond the current expiry date of 20 February 2017 to allow drilling to be planned for later in 2017. Otto's understanding is that the licence continues to be valid past 20 February 2017 until the outcome of the licence extension is determined and as such remains a commitment.

	31/12/2016 US\$'000	31/12/2015 US\$'000
Capital Commitments		
Committed capital expenditure commitments:		
No longer than 1 year	2,922	-
Longer than 1 year and no longer than 5 years	-	-
More than 5 years	-	-
	<u>2,922</u>	<u>-</u>

10. Share – Based Payments

During the half-year ended 31 December 2016, no new shares were issued as a result of the exercising of share options or the vesting of performance rights. No new options or performance rights were issued to employees.

The Group has recognised \$104,397 of share-based payment transactions expense in the Consolidated Statement of Profit or Loss and Other Comprehensive Income (31 December 2015:\$127,000).

11. Events occurring after reporting period

In January 2017, Otto announced a SMI-71 joint venture proposal to modify the design concept to a manned platform which allows direct tie-in to sales pipelines. The design change allows the project to immediately tie-in future successful wells and the manned facility significantly enhances SMI-71 project economics. Otto has indicated it's in principle support for the manned facility, subject to receiving Byron's final proposed authority for expenditure and development plan. The final development plan is subject to JV approval.

Effective 1 February 2017, 4,390,001 Performance Rights vested and 4,390,001 ordinary fully paid shares were issued.

Key Management Personnel Changes

On 31 January 2017, Otto announced the appointment of Mr David Rich as Chief Financial Officer and Company Secretary. Mr Rich replaces Neil Hackett (Company Secretary, resigned effective 31 January 2017) and Craig Hasson (Chief Financial Officer, leaving 28 February 2017).

There are no other events occurring after the reporting period that would have a material impact on the Group's operations.

Notes to the Consolidated Financial Statements

12. Dividends

Since the end of the previous financial year, no dividend has been paid or declared (30 June 2016: Nil).

13. Contingent Liabilities and Contingent Assets

Contingent Liability – Pangani PSA

In 2016 the Joint Venture applied to relinquish the Pangani PSA in Tanzania without conducting further work. The regulator is processing this request and final Government agreement to terminate the PSA is expected to be imminent. The Pangani PSA contains a minimum work commitment to drill 1 exploration well with a minimum spend of US\$3,000,000 (OEL share). A thorough technical analysis of Pangani data showed no structures of commercial interest and the PSA is expected to be terminated without penalty.

Contingent Asset - Swala Energy Limited and Swala Oil and Gas (Tanzania) plc ("SOGTL")

In May 2016, Otto Energy Limited's subsidiary, Otto Energy (Tanzania) Pty Ltd, commenced legal action in the Federal Court against Swala Energy Limited, Swala Oil and Gas (Tanzania) plc and current and former directors of these entities seeking to recover a gross amount of approximately US\$1,000,000. The legal action relates to the Pangani licence, a licence operated by SOGTL with a 25% working interest. The matter is proceeding and updates will be given as and when appropriate.

Director's Declaration

In the Director's opinion:

- a) The financial statements and accompanying notes are in accordance with the Corporations Act 2001 and:
 - (i) comply with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
 - (ii) give a true and fair view of the consolidated entity's financial position as at 31 December 2016 and of its performance for the half-year ended on that date
- 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.

This declaration is made in accordance with a resolution of the Board of Directors and is signed for and on behalf of the directors by:



Mr I Macliver
Director

28 February 2017

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 2016, 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, 28 February 2017

INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of Otto Energy Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Otto Energy Limited, which comprises the consolidated statement of financial position as at 31 December 2016, 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 ended on that date, notes comprising a statement of accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the half-year's end or from time to time during the half-year.

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 consolidated entity's financial position as at 31 December 2016 and its 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 Otto Energy Limited, 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 Otto Energy Limited, would be in the same terms if given to the directors as at the time of this auditor's review report.



Conclusion

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 Otto Energy Limited is not in accordance with the Corporations Act 2001 including:

- (i) Giving a true and fair view of the consolidated entity's financial position as at 31 December 2016 and of its performance for the half-year ended on that date; and
- (ii) Complying with Accounting Standard AASB 134 Interim Financial Reporting and Corporations Regulations 2001.

BDO Audit (WA) Pty Ltd

A handwritten signature in blue ink. The word 'BDO' is written in a simple, blocky font. Below it, the name 'J Prue' is written in a cursive, handwritten style.

Jarrad Prue

Director

Perth, 28 February 2017