



OTTO ENERGY LIMITED

2020

Annual Report

DELIVERING VALUE



Green Canyon 18 production platform

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OVERVIEW

ABOUT OTTO

Otto Energy Limited is an oil and gas exploration and production company with a regional focus on North America. The Company is continuing to deliver value and building on its track record to be recognized as a partner of choice.

Otto has a clear strategy to deliver shareholder value through building a strong production and financial base of assets, optimizing the portfolio through disciplined investments in exploration and development and driving effective cost management. These efforts are resulting in a strengthening of its balance sheet and creating a robust financial capacity from which to build value.

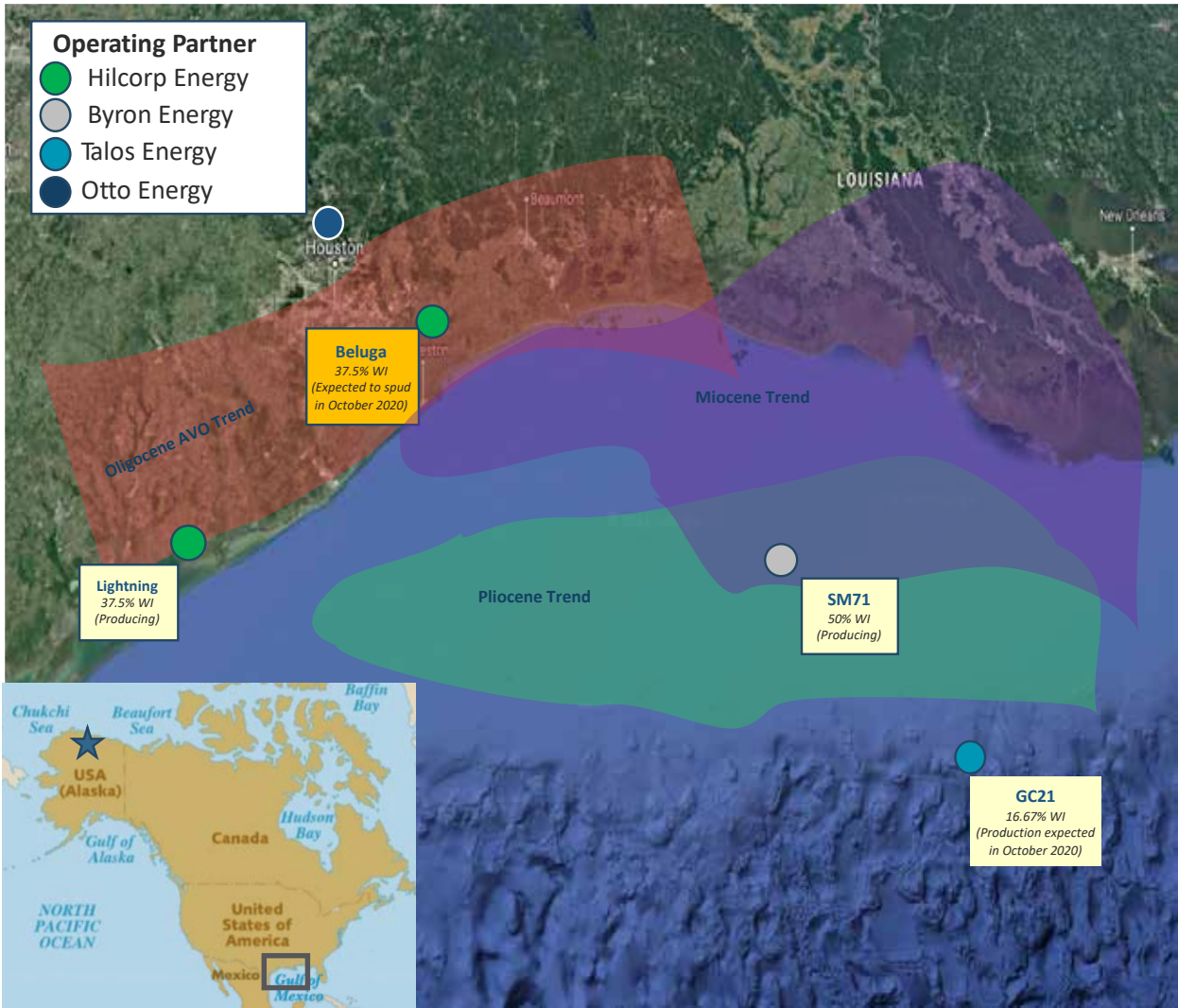
Otto holds attractive exploration and appraisal assets in the prolific petroleum provinces of the onshore and offshore Gulf of Mexico and Alaska. The Company's exploration portfolio has led to discovering two of the top twelve largest Gulf of Mexico Shelf and Gulf coast Onshore fields based on resources found over the past few years. Otto continues to leverage access to high quality exploration potential in the Gulf of Mexico through its access and use of technology and experience.

Otto has quality production from two fields on stream in the Gulf of Mexico Shelf and onshore Texas. This includes oil production from the South Marsh Island 71 (SM 71) oil field in the shallow water Gulf of Mexico (Louisiana) and gas/condensate production from the Lightning discovery onshore Matagorda County, Texas. Development is underway at the Green Canyon 21 (GC 21) oil discovery in the Gulf of Mexico and is expected to commence production in October 2020.

Otto's abilities to actively market and hedge oil production from its operations is providing cashflow from these assets which will underpin its growth in value for shareholders for years to come. Going forward, technology and innovation will remain essential to the Company's long-term sustainability. The Company is working to bring down costs and find solutions in this volatile business of developing energy solutions to meet demands.



AREAS OF ACTIVITY

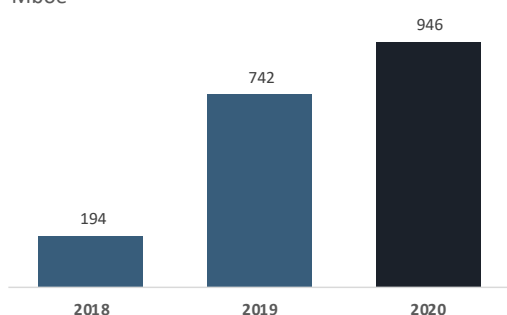


2020 HIGHLIGHTS

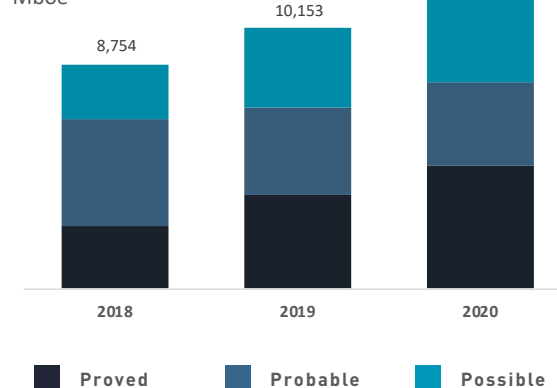
Otto Energy Limited is an oil and gas exploration and production company with a regional focus on North America, focused on the Gulf of Mexico region near-term.

STRONG BASE BUSINESS

Production
Mboe



Reserves¹
Mboe



PREPARED FOR GROWING VALUE

- ✓ Net revenue of US\$23 million
- ✓ EBITDAX² of US\$20.9 million
- ✓ New management team and board members
- ✓ Successful US\$8.8 million capital raise
- ✓ New US\$55 million bank credit facility
- ✓ 40% reduction in office operating costs for FY2021

MOMENTUM FOR GROWING VALUE

- ✓ Expected to spud Beluga well in October 2020
- ✓ Production from GC 21 expected to begin in October 2020

¹Refer to Reserves & Prospective Resources statement for the year ended 30 June 2020 on pages 24 - 32 of this report for additional disclosures

²Refer to ASX announcement, Financial Report for the year ended June 2020, released 25 September 2020 for notes regarding non-IFRS information and reconciliation.

CHAIRMAN'S REPORT

Dear Shareholders,

Otto Energy's Annual Report is being released at a time of unprecedented global disruption, in a world that is dramatically changed from a year ago.

From both a health and economic standpoint, the effects of COVID-19, in tandem with the significant downturn in the international oil and gas industry, has created a challenging backdrop against which the Company is striving to execute, and deliver, its business objectives.

Against this background, Otto achieved the following encouraging results in 2020:

- Continued development of the Lightning Field and Green Canyon 21 discovery
- 28% increase in production to 946,445 boe
- EBITDAX of US\$20.9 million
- 31% increase in Proved Reserves (1P) to 4.8 MMboe (net to Otto)
- 13% increase in 2P Reserves to 8.1 MMboe (net to Otto)
- 15% increase in 3P Reserves to 11.7 MMboe (net to Otto)
- 93% lift in NPAT (smaller loss after income tax)
- Completion of an A\$13.8 million (US\$8.8 million) capital raise, before costs
- Negotiation of a three-year US\$55 million credit facility with Macquarie Bank

OUR RESPONSE

Despite achieving a number of key milestones, Otto was not immune to the precipitous decline in commodity prices and corresponding significant devaluing of its share price and

value during the period. Importantly, the board responded quickly by adjusting the Company's management and operations. This response included making leadership changes, examining all spending, and aggressively reducing overhead in the face of this downturn. The Company will rigorously continue to pursue these initiatives, including a disciplined forward capital allocation and targeting of further reductions in costs and overhead.

The appointment of Mike Utsler as Managing Director after this reporting period and the focus on executing a disciplined strategic and value enhancing review, is demonstration of our ongoing efforts to optimize the Company's assets in order to create great shareholder value.

OUR FOCUS

Building on last year's strategic focus to establish a solid production base, Otto now has three core asset hubs as a foundation for generating meaningful free cash flow. Our first asset, the flagship South Marsh Island 71 (SM71) field, accounted for 56% of FY2020 production and continues to be a strong performer. The second asset, Lighting Field, delivered 44% of FY2020 production and has ramped up to the steady state production levels that were anticipated when production began in May 2019. The third asset, Green Canyon 21 (GC21), is nearing the final stages of completion and development, with production expected in October 2020.

CHAIRMAN'S REPORT CONTINUED

OUR DISCOVERIES

During the year, progress was made in the development of each of our fields, in alignment with our continuing efforts to create long-term shareholder value. At GC21, Otto drilled beyond the commercially successful DTR-10 sands to the deeper MP sands, announcing a discovery. In the Lighting Field, we drilled our second well, Green #2, beginning production in February 2020. There is the potential to fully develop this extensive area of discovery with additional wells. In March 2020, we participated in the drilling of a fourth well at SM71. Unfortunately, COVID-19 forced us to temporarily abandon this well; we are hopeful of being able to sidetrack it in the future.

OUR FINANCES

Otto significantly strengthened its balance sheet in the past year, making it one that can facilitate the building of a robust future. The Company entered into a debt facility agreement with Macquarie Bank that provides access of up to US\$55 million for existing and future developments. We also conducted a successful equity raise of US\$8.8 million. Additionally, Otto undertook an aggressive reduction in its operational costs of circa 40%, combined with the hedging of our crude oil production prices through 2022. This yielded substantial benefits during the volatile oil price period.

As we move into 2021, we are confident that the Company's outlook is bright, due to a strengthened balance sheet and the anticipated overall increase in production and cashflow from our assets. These factors provide the ability to pursue the disciplined development of our existing captured resource base, and to selectively invest in high quality infrastructure-led exploration.

ACKNOWLEDGEMENTS

I want to acknowledge and thank Otto's staff for their hard work and dedication, as well as my fellow board members for their diligence and counsel. I also thank our shareholders and stakeholders for their continuing support in what remains a challenging operating environment globally. I look forward to working with our new CEO and MD, Mike Utsler, and my fellow board members as we vigorously implement our strategic goals. These goals are designed to protect, create and realise value for our shareholders – in a timely and resolute manner.



John Jetter
Chairman

EXECUTIVE MANAGEMENT



Sergio Castro

Chief Financial Officer

BBA Accounting, CPA, CFE

Sergio joined Otto Energy in December 2019 as Chief Financial Officer. Prior to joining Otto, Sergio was Vice President and Treasurer of Contango Oil & Gas Company for over 13 years. Prior to that, Sergio was a consultant for UHY Advisors TX, LP; a lead credit analyst for Dynegy Inc. and an auditor for Arthur Andersen LLP, where he specialized in energy companies. Sergio was honorably discharged from the U.S. Navy in 1993 as an E-6, where he served onboard a nuclear powered submarine. He received a BBA in Accounting in 1997 from the University of Houston graduating summa cum laude. Sergio is a CPA and a Certified Fraud Examiner.



Will Armstrong

Vice President Exploration and New Ventures

B.S. in Geology, M.S. in Geology, emphasis in Geophysics and Hydrogeology

Prior to joining Otto, Will worked with Tri-C Resources, a private oil and gas company, developing Gulf Coast conventional prospects for drilling. Prior to this, he screened Gulf Coast, Offshore GOM, and Deepwater GOM prospects for Continental Land & Fur and worked as a geophysical consultant, generating Offshore and Gulf Coast prospects on behalf of Houston Energy, Westport Resources, and Petroquest Energy. Prior to consulting, Will generated prospects for several oil & gas companies, including Newfield Exploration, where he was a founding member and Tenneco Oil Company. Will graduated with a B.S. in Geology, minor in Mathematics, from Grand Valley State College in 1985. He also graduated from Wright State University with a M.S. in Geology, emphasis in Geophysics and Hydrogeology, in 1987.

EXECUTIVE MANAGEMENT CONTINUED

**Kevin Small****Chief Geophysicist and Executive Director**

B.S Geophysical Engineering

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. Prior to joining Otto, Kevin worked with Tri-C Resources, a private oil and gas company, developing Gulf Coast conventional prospects for drilling. Prior to that, he 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, ultimately helping them go public. 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.

**Philip Trajanovich****Senior Commercial Manager**

Bachelor of Commerce (Hons)

Philip was engaged by Otto as a commercial manager in July 2016 and has worked in both the Perth and Houston offices since that time. Prior to joining Otto, Philip was Commercial Manager at Aurora Oil and Gas and its subsequent acquirer Baytex Energy for over four years, focused on the Eagleford shale unconventional play. Philip has also worked with ConocoPhillips as an Asset Manager for nearly three years and Woodside Energy as a Commercial Adviser for over seven years. Philip has gained extensive experience in all facets of upstream oil and gas operations and commercial structures internationally and within the USA. Philip graduated with a B.Com with First Class Honors from the University of Western Australia in 2001.

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OPERATING
AND FINANCIAL
REVIEW

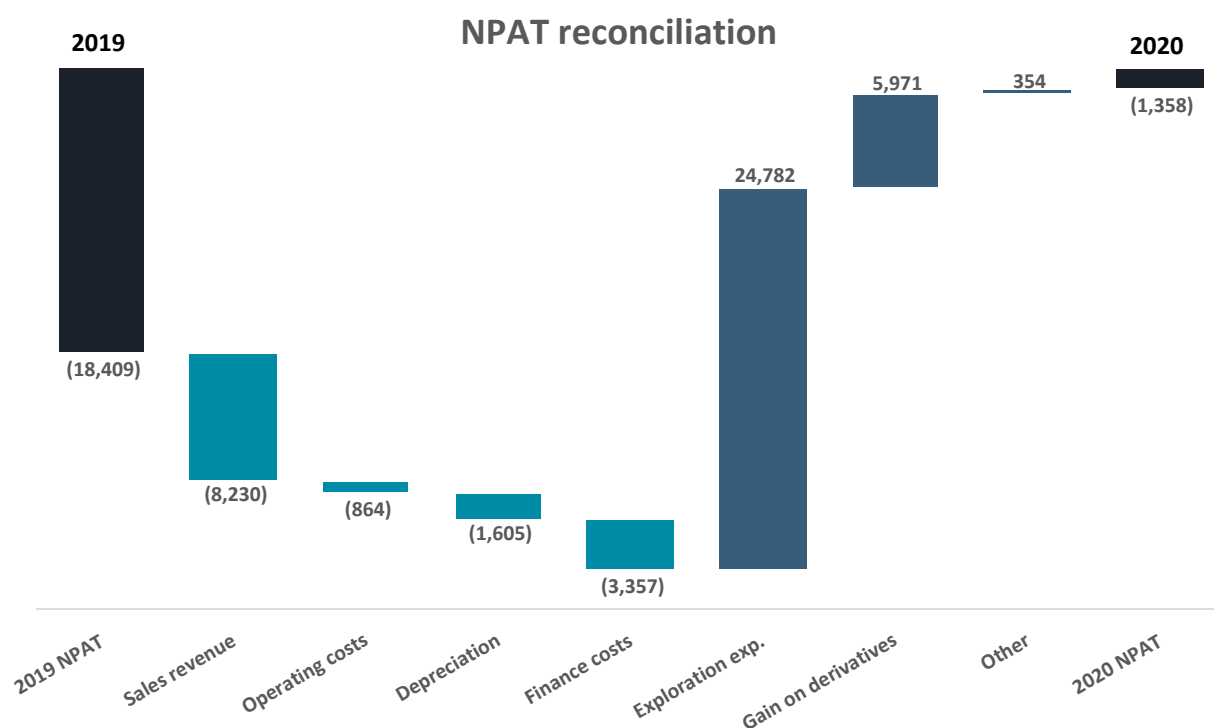
FINANCIAL SUMMARY

| US\$('000) | 30 June 2020 | 30 June 2019 |
|--|--------------|--------------|
| Key Metrics | | |
| Operating Revenue, net of royalties | 23,028 | 31,258 |
| EBITDAX ¹ | 20,873 | 23,484 |
| EBITDA ¹ | 7,806 | (14,365) |
| EBIT ¹ | 1,036 | (19,372) |
| NPAT | (1,358) | (18,409) |
| Net cash outflow from operating activities | (721) | (13,161) |
| Investment expenditures: | | |
| Exploration spend | (11,189) | (36,867) |
| Development spend | (16,206) | (8,904) |
| Key Ratios | | |
| Return on equity (%) | (0.03) | (0.50) |
| ROACE (%) | 2.1 | (63.6) |
| Earnings (US cps) | (0.05) | (0.95) |
| Gearing (%) | 0.41 | 0 |
| Sales Volumes | | |
| Oil /Liquids (Mboe) | 586,427 | 563,250 |
| Gas (Mboe) | 360,018 | 178,376 |

Against a challenging year, Otto has seen an improvement in its financials driven by the increasing of production, lowering of costs, successful oil hedging combined with a successful raising of both equity and the negotiations of a three year US\$55 million credit facility.

¹ Refer to Otto Energy ASX Announcement "2020 Annual Financial Results Summary" released 25 September 2020

FINANCIAL SUMMARY CONTINUED



Key movements

SALES REVENUE

Despite the increase in production during the current year due to the Lightning field, as Green #1 produced for the entire year and Green #2 commenced production in February 2020, sales revenue decreased during the year due to lower realised prices.

FINANCE COSTS

Finance costs increased during the year as a result of the Company’s new three year US\$55 million credit facility with Macquarie Bank entered into in November 2019.

EXPLORATION EXPENDITURES

Exploration expenses decreased during the year in line with a decrease in exploration activity in FY2020.

GAIN ON DERIVATIVES

In connection with the Macquarie Bank credit facility, the Company entered into commodity price hedge instruments to minimize exposure to short term price fluctuations. As a result of the decrease in commodity prices, the mark-to-market value of these commodity instruments increased in value.

STRATEGY

Otto's strategy has been focused over the past year on building a strong base production, growing free cash flow and delivering shareholder value.

Execution of this strategy resulted in the Company focusing on facilitating the completion of the further development of Lightning (Green #2 well completion and tie-in) and the Green Canyon 21 discovery (facilities expansion at GC 18, completion and tie-back of the GC 21 well expected to come on line in October 2020).

In recent years, investor expectations of the upstream oil and gas sector have evolved from rewarding growth, often for growth's own sake and without regard to whether that growth came from an efficient use of capital, to a renewed focus on returns, cost reduction and generation of free cash flow.

Otto agrees with this sentiment and believes that maintaining a prudent capital structure and generating economic returns that build long-term value is the best way to achieve stock price appreciation. Below are some of the key components to this strategy moving forward.

A STRONG FOUNDATION – AN ATTRACTIVE ASSET PORTFOLIO

Otto's Gulf of Mexico assets are complementary, as SM 71 provided stable production and meaningful free cash flow, while the Lightning field provided meaningful growth. Together these core assets provide the Company with a portfolio of high-quality producing assets with attractive returns on capital. Additionally, the Gulf of Mexico assets have a relatively shallow decline that make for stable, predictable cash flow generation with minimal capital investment required going forward.

OPTIMIZING THE PORTFOLIO

Optimizing Otto's asset portfolio can take many different forms, from keeping the asset and optimizing current production and improving capital efficiency, to divesting of the asset to accelerate future cash flows and minimize operational risk. Divesting of assets also allows the seller to reduce debt, enhance liquidity, and reducing future asset retirement obligations (the buyer assumes the future cost of decommissioning the asset), which all serve to strengthen the Company's balance sheet.

CONTROLLING COSTS, IMPROVING CASH FLOW

Another key strategic initiative the team began in early 2020 and will continue into FY 2021 is to align its cost structure to be more consistent with the size of the Company and its activity level. The Company has already taken difficult steps such as streamlining management and reducing personnel costs, and will continue to look at items such as office space, legal fees, consultant use, and optimizing the costs of being a public company.

STRENGTHENING THE BALANCE SHEET AND MANAGING RISK

Otto's objective has been to maintain a simple capital structure, providing the Company with valuable optionality for discretionary capital. Otto can reinvest capital into growth, use it to strengthen its balance sheet, and/or return some to shareholders – depending on which alternative offers the best returns for shareholders. The Company's cash balance at year-end 2020 was \$16.6 million, compared to \$7.4 million at the end of 2019, despite its drilling and development programs during the year.

STRATEGY CONTINUED

STRENGTHENING THE BALANCE SHEET AND MANAGING RISK CONTINUED

That increase in cash was made possible by the proceeds of a A\$13.8 million (US\$8.8 million) capital raise, before costs, in March 2020 and its new credit facility with Macquarie Bank.

Otto's credit facility matures in November 2022 and the Company is currently in compliance with all bank facility covenants. Additionally, the Company has the financial wherewithal to service its debt through maturity, even if it chooses to allocate capital to new development opportunities that may come along.

From a risk management perspective, Otto utilizes hedging to price-protect a significant portion of its cash flow profile, thereby protecting its capital budget and preserving liquidity. At year-end the Company was hedged close to the maximum 80% of forecasted PDP production and was monitoring market conditions to opportunistically layer-on hedges for the remainder of 2020 and beyond.

LOOKING FORWARD – OUR 2021 PLAN

Otto's plan for fiscal year 2021 is straightforward. First, the Company's capital budget is expected to be funded primarily through internally generated cash flow, and if necessary, temporary borrowings under its credit facility. Although a company cannot create value by focusing solely on cost control, Otto is taking a conservative approach to investing during this low and volatile commodity price environment and striving to maintain a low financial risk profile. The Company maintains a watchful eye on commodity price markets and may adjust its capital budget during the year, up or down, to align its investments with expected cash flow and forecasted full cycle returns. Disciplined capital management is the name of the game for Otto in FY 2021. The Otto team is committed to setting the stage for long-term value creation. We work diligently each day to identify opportunities that will create, or result in, the best potential for generating shareholder value.



ASSET OVERVIEW

NORTH AMERICA

GULF OF MEXICO

Otto Energy considers the Gulf of Mexico a core region for its exploration and production focus. Today, Otto produces oil and gas from three projects in the Gulf of Mexico: SM 71, Lightning and GC 21.

The Gulf of Mexico (GoM) region is one of the most prolific oil and gas producing regions on earth. About half of the USA's fossil fuel refining and processing capacity is along the GoM. The high density and availability of production platforms utilised for the development of primary reservoirs contributes to low production costs in the region, making projects viable even in a sustained, low oil price environment.

Otto has focused on a partnership strategy in the GoM to build a portfolio of diverse, conventional oil and gas opportunities. Otto's current operating partners in the Gulf of Mexico are Byron Energy (ASX: BYE), Hilcorp Energy, and Talos Energy (NYSE: TALO), resulting in six producing wells over three core assets, plus a fourth potential core asset currently being drilled.

Summary of Gulf of Mexico Assets as at 30 June 2020

| Asset | Number of Wells | Otto Working Interest (WI) | Otto Net Revenue Interest (NRI) | Join Venture Partner | Notes |
|------------------------------|-----------------|----------------------------|---------------------------------|--|-------------------------------------|
| Gulf of Mexico Region | | | | | |
| South Marsh Island (SM 71) | 3 | 50.00% | 40.63% | Byron Energy | Production |
| Lightning | 2 | 37.50% | 28.21% | Hilcorp Energy | Production |
| Green Canyon 21 (GC 21) | 1 | 16.67% | 13.34% | Talos Energy (Operator) / EnVen Energy Ventures, LLC | Production expected in October 2020 |
| Beluga | 1 | 18.75% | 15.00% | Hilcorp Energy | Expected to spud in October 2020 |

ASSET OVERVIEW CONTINUED

| Production Volumes and Sales Revenue WI Share (before royalties) (USD) | 30 September 2019 | 31 December 2019 | 31 March 2020 | 30 June 2020 |
|---|----------------------|---------------------|------------------|-----------------|
| Crude Oil (Barrels) | | | | |
| South Marsh 71 | 132,063 | 127,211 | 102,768 | 97,756 |
| Lightning Field | 11,123 | 3,791 | 16,771 | 24,328 |
| Total oil production | 143,186 | 131,002 | 119,539 | 122,084 |
| Total oil sales revenue (\$'million) | \$ 8.20 | \$ 7.32 | \$ 5.34 | \$ 2.74 |
| Avg oil price (\$/Bbl) | \$ 57.27 | \$ 55.88 | \$ 44.70 | \$ 22.44 |
| Avg oil price - including hedges (\$/Bbl) | \$ 56.64 | \$ 53.80 | \$ 49.56 | \$ 35.06 |
| Natural gas (thousand cubic feet) | | | | |
| South Marsh 71 | 148,267 | 125,422 | 70,354 | 56,266 |
| Lightning Field | 344,504 | 112,670 | 547,460 | 755,166 |
| Total gas production | 492,771 | 238,092 | 617,814 | 811,432 |
| Total gas sales revenue (\$'million) | \$ 1.10 | \$ 0.57 | \$ 1.20 | \$ 1.40 |
| Avg gas price (\$/MMbtu) | \$ 2.23 | \$ 2.39 | \$ 1.85 | \$ 1.66 |
| Natural gas liquids (barrels) | | | | |
| South Marsh 71 | - | - | - | - |
| Lightning Field | 16,038 | 5,265 | 24,507 | 24,806 |
| Total NGL production | 16,038 | 5,265 | 24,507 | 24,806 |
| Total NGL sales revenue (\$'million) | \$ 0.19 | \$ 0.08 | \$ 0.41 | \$ 0.27 |
| Avg NGL price (\$/Bbl) | \$ 11.77 | \$ 15.80 | \$ 16.55 | \$ 10.82 |
| Total (barrels of oil equivalent) | | | | |
| South Marsh 71 | 156,774 | 148,115 | 114,494 | 107,134 |
| Lightning Field | 84,578 | 27,834 | 132,521 | 174,995 |
| Total production | 241,353 | 175,949 | 247,015 | 282,129 |
| Total daily production (Boe/d) | 2,623 | 1,912 | 2,714 | 3,100 |
| Total revenue (\$'million) | \$ 9.49 | \$ 7.97 | \$ 6.90 | \$ 4.39 |
| Total equivalent price (\$/Boe) | \$ 39.32 | \$ 45.30 | \$ 27.94 | \$ 15.55 |
| Total equivalent price - including hedges (\$/Boe) | \$ 38.95 | \$ 43.75 | \$ 30.30 | \$ 21.01 |

ASSET OVERVIEW CONTINUED

PRODUCTION

SOUTH MARSH ISLAND 71

Otto owns a 50% Working Interest ('WI') and a 40.625% Net Revenue Interest ('NRI') in the South Marsh Island block 71 (SM 71), with Byron Energy Limited ('Byron') the operator, holding an equivalent WI and NRI. Water depth in the area is approximately 137 feet.

Following the initial discovery by Otto and Byron in 2016, oil and gas production from the SM 71 F platform began in late March 2018 from two wells with the third well coming on-line in early April 2018. The F1 and F3 wells are completed in the primary D5 Sand reservoir and the F2 well is completed in the B55 Sand, a secondary production horizon.

In March 2020, the joint venture with Byron spudded the F5 development well. Due to increased uncertainty of continuing operations related to the impact of COVID-19 on operations, the wellbore was temporarily abandoned in a manner that allows it to be efficiently sidetracked in the future when the uncertainty relating to the COVID-19 pandemic has dissipated and also at a time where oil price volatility stabilizes.

The SM 71 F facility has now produced over 2.5 million barrels of oil (gross) and 3.2 billion cubic feet of gas (gross). In December 2019, the joint venture installed a new, upgraded compressor at the platform, which allows for the wells to be managed in a more consistent, stable manner.



ASSET OVERVIEW CONTINUED

PRODUCTION

LIGHTNING

The Green #1 well on the Lightning prospect in Matagorda County, Texas commenced drilling in early December 2018 and began producing in May 2019. Wireline logs indicated 180 feet of net pay, significantly in excess of pre-drill expectations. Through participation in the drilling of the Lightning exploration well, Otto earned a 37.5% working interest in the leases covering the Lightning prospect.

The Green #2 well commenced drilling in October 2019 and was completed in the Tex Miss 1 interval with 66 feet of perforations out of a total of 146 feet of calculated net pay. Further perforations may eventually be added to the well. Construction of upgraded facility and flowlines was completed and the well began production in early February 2020, with the capacity of the sales tap increased to approximately 36 MMscf/day.

Production performance since start-up of the field has continued to deliver strong results with both wells combined currently producing approximately 22.4 MMscf/day and 628 bbl/day of condensate. The joint venture is considering the potential for further wells in the field to fully develop the extensive area of the Lightning discovery. There is the potential for up to five wells being required to ultimately develop the entire Lightning accumulation.

Lightning Location Map



ASSET OVERVIEW CONTINUED

DEVELOPMENT

GREEN CANYON 21

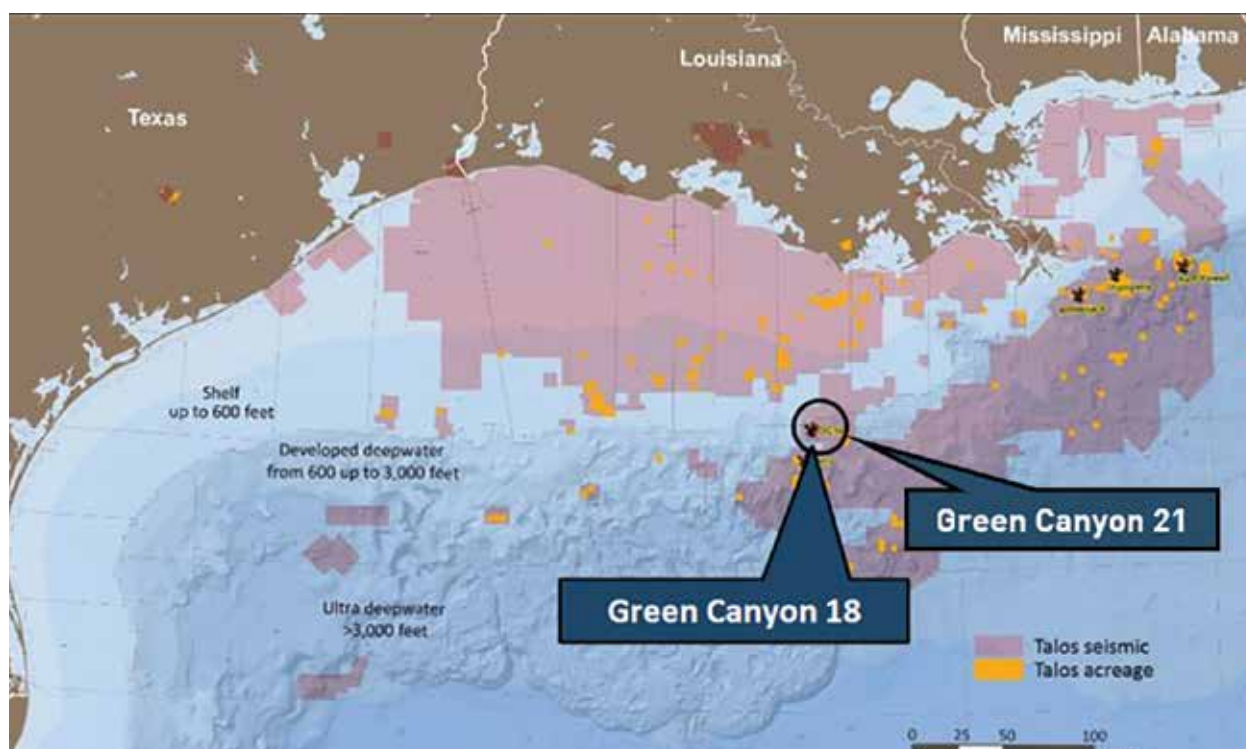
In March 2019, Otto announced that it has entered into a joint venture with Talos Energy (NYSE: TALO) that resulted in it earning a 16.67% working interest in the Green Canyon 21 (GC 21) lease in the Gulf Mexico through paying 22.22% of the cost of the drilling of the 'Bulleit' appraisal well in GC 21.

The 'Bulleit' appraisal well commenced drilling in May 2019. In June 2019, The Company announced that the upper target, the DTR-10 sand, was intersected and a commercial outcome was confirmed. Drilling operations continued through the deeper exploration target, the MP sands, where a discovery was announced in August 2019. Results of the two sands are as follows:

- DTR-10 interval – approximately 140 net feet of TVD oil pay encountered; and
- MP interval – approximately 110 net feet of TVD oil pay encountered.

The "Bulleit" well was tied back to the Talos owned and operated Green Canyon 18 (GC 18A) facility approximately 10 miles (~16 km) west and production is expected to begin in October 2020.

GC21 and GC18 location map



ASSET OVERVIEW CONTINUED

EXPLORATION

HILCORP PROGRAM

In July 2018, Otto announced that it had entered into a joint venture with Hilcorp Energy to drill an eight well portfolio of onshore or state waters prospects located in Texas and Louisiana, with Hilcorp as operator. Four wells have now been drilled (Big Tex, Lightning, Don Julio 2 and Mustang) with Lightning being a discovery (see discussion on Mustang below). The next prospect is Beluga, which is expected to commence drilling in October 2020.

Gulf Coast Package - Prospective Resources as of 30 June 2020

| Prospect | Working Interest | Net Revenue Interest | Prospective Resources | | | | | |
|---------------------|------------------|----------------------|-----------------------|--------------|-------|---------------------------|--------------|-------|
| | | | 8/8ths | | | Otto Net Revenue Interest | | |
| | | | Gas (BCF) | Oil (MMbbls) | Mmboe | Gas (BCF) | Oil (MMbbls) | Mmboe |
| | | | Mean | Mean | Mean | Mean | Mean | Mean |
| Beluga ¹ | 37.50% | 30.00% | 21.25 | 1.21 | 4.75 | 6.38 | 0.36 | 1.43 |
| Tarpon | 37.50% | 28.50% | 161.97 | 9.21 | 36.21 | 46.16 | 2.62 | 10.32 |
| Mallard | 37.50% | 29.06% | 7.79 | 0.45 | 1.75 | 2.26 | 0.13 | 0.51 |

¹ Refer to Otto Energy ASX Announcement "Annual Reserves and Resources Statement" released 24 September 2020

EXPLORATION

ALASKA (CENTRAL BLOCKS)

Through its agreements with Great Bear Petroleum Operating ("Great Bear Operating"), Otto acquired its position in Alaska in 2015. In January 2019, Pantheon acquired Great Bear Petroleum Ventures I LLC and Great Bear Petroleum Ventures II LLC (collectively: Great Bear Ventures).

Extensive, modern 3D seismic coverage, existing well control and proximity to the all-weather Dalton Highway and Trans-Alaskan Pipeline System (TAPS) means the acreage is well positioned for exploration. The existing 3D seismic has allowed development of an extensive prospect portfolio which includes several well locations.

In September 2020, Pantheon announced that its application to form the Talitha Production Unit of 44,373 acres is complete and eligible for approval. Otto has a 10.8% working interest in these Talitha Unit leases. After a public comment period which closes on 12 October 2020, the Alaska Department of Natural Resources will make a decision on the application. Otto's exposure on the first two wells is limited to US\$2.6 million per well.

ASSET OVERVIEW CONTINUED

Alaska Central North Slope - Prospective Resources as of 30 June 2020

| Prospect | Working Interest | Net Revenue Interest | Prospective Resources | | | | | |
|--------------|------------------|----------------------|-----------------------|--------------|--------|---------------------------|--------------|-------|
| | | | 8/8ths | | | Otto Net Revenue Interest | | |
| | | | Gas (BCF) | Oil (MMbbls) | Mmboe | Gas (BCF) | Oil (MMbbls) | Mmboe |
| | | | Mean | Mean | Mean | Mean | Mean | Mean |
| Talitha Unit | 10.80% | 9.45% | - | 483.0 | 483.00 | - | 45.64 | 45.64 |

PLUGGED AND ABANDONED

MUSTANG

In July 2019 Otto announced that the initial exploration well on the Mustang prospect had discovered 57 feet of net hydrocarbon pay. Once completed, however, flow testing revealed that the well would not produce in commercial quantities, and the well was subsequently plugged and abandoned during the quarter ended 31 December 2019.

RELINQUISHED

VR 232

In June 2018, Byron Energy acquired 100% of Vermillion Block 232. Pursuant to the terms of a Participation Agreement, Otto elected to participate in VR 232 at a fifty percent (50%) working interest. In May 2019, Otto acquired Byron Energy's 50% interest in, and operatorship of, VR 232 at no cost, resulting in Otto owning 100% of the lease block.

After reviewing high quality 3D seismic data set over the SM 71 area (including VR 232), this lease block was released in May 2020.

RELINQUISHED

ALASKA (WESTERN BLOCKS)

In June 2018 Otto acquired a 22.5% working interest in four leases, consisting of 22,710 acres, from Great Bear Petroleum Ventures II LLC. The first well on these leases, the Winx-1, commenced drilling on 15 February 2019 and intersected all pre-drill targets safely and efficiently, with a comprehensive wireline logging program successfully run and completed.

Petrophysical analysis of the wireline logging program indicated low oil saturations in the primary Nanushuk Topset objectives; testing and fluid sampling indicated that reservoir quality and fluid mobility at this location was insufficient to warrant production testing. Winx-1 was subsequently plugged and abandoned.

These lease blocks were relinquished in May 2020.

03

CORPORATE

COMMODITY PRICE RISK MANAGEMENT

Otto derives its revenue from the sale of oil and natural gas. As a result, the Company's revenues are determined, to a large degree, by prevailing oil and natural gas prices. Otto sells its production to purchasers pursuant to sales agreements, with sales prices tied to industry standard published index prices, subject to negotiated price adjustments.

Otto typically utilizes commodity price hedge instruments to minimize exposure to short term price fluctuations by using a series of swaps, costless collars and/or puts. Unrealized gains or losses associated with hedges vary period to period, and are a function of hedges in place, the strike prices of those hedges and the forward curve pricing for the commodities being hedged. Currently, all of Otto's hedges are oil swaps, and the Company has no three-way collars or short puts.

As of 30 June 2020, Otto had a total hedge book of 318,840 barrels of oil hedged through September 2022 via swaps, at a weighted average LLS price of \$54.60 as follows:

| Months | Volume (Bbls) | Weighted Avg Price (LLS) |
|--------------------------|---------------|--------------------------|
| July – December 2020 | 90,664 | \$ 56.71 |
| January – December 2021 | 184,616 | \$ 53.71 |
| January – September 2022 | 43,560 | \$ 54.00 |

In July 2020, the Company entered into additional hedges for 66,000 barrels for 2020 and 54,074 barrels for 2021, resulting in a Weighted Average LLS Price of \$50.11 for the remainder of CY 2020 and \$51.62 for CY 2021 (on forecast SM71 and Lightning volumes). In August 2020, the Company entered into additional hedges for 66,358 barrels for CY2022, resulting in a Weighted Average LLS Price of \$49.20 for CY 2022 (on forecast SM71 and Lightning volumes). Refer to the subsequent events section of the report.

RESERVES & PROSPECTIVE RESOURCES

On 23 September 2020 the Company released its statement of reserves and prospective resources as at 30 June 2020.

The statement of reserves included SM 71, Lightning and GC 21. The reserves for SM 71 were compiled by Mr Ed Buckle B.S. Chemical Engineer (Magna Cum Laude), a full-time contractor of the Company, and audited by Collarini Energy Experts, a specialized consulting services firm with hydrocarbon reserve appraisal expertise. The results for Lightning and Green Canyon were compiled by independent consultant Ryder Scott Company.

Otto Energy Limited net reserves and resources for all fields as at 30 June 2020 are summarised below (see additional disclosures provided in the following pages and appendices):

Reserves Summary 30 June 2020

| Total | Gross (100%) | | | Net | | |
|--|---------------|----------------|---------------|--------------|---------------|---------------|
| | Oil (MbbL) | Gas (MMcf) | Mboe | Oil (MbbL) | Gas (MMcf) | Mboe |
| Proved Producing | 3,515 | 25,888 | 7,831 | 1,343 | 7,692 | 2,625 |
| Proved Behind Pipe | 466 | 6,694 | 1,581 | 165 | 1,929 | 487 |
| Proved Undeveloped | 6,034 | 20,303 | 9,417 | 874 | 5,002 | 1,708 |
| Proven (1P) | 10,015 | 52,885 | 18,829 | 2,382 | 14,623 | 4,820 |
| Probable | 8,583 | 34,897 | 14,400 | 1,720 | 9,088 | 3,234 |
| Proven Plus Probable (2P) | 18,598 | 87,782 | 33,229 | 4,102 | 23,711 | 8,054 |
| Possible | 5,879 | 38,102 | 12,229 | 1,807 | 11,142 | 3,663 |
| Proven Plus Probable Plus Possible (3P) | 24,477 | 125,884 | 45,458 | 5,909 | 34,853 | 11,717 |
| Total Prospective Resource (best estimate, unrisks) | - | - | - | 49,071 | 55,146 | 58,262 |

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.

RESERVES & PROSPECTIVE RESOURCES CONTINUED

Changes to reserves and resources since 30 June 2019:

| | Otto Energy Limited Grand Total - Reserve Reconciliation (Otto Energy NRI Share) | | | | | | | | | | | |
|--|--|--------------------|--------------------------|------------------------|------------------------|--------------------|--------------------------|------------------------|------------------------|--------------------|--------------------------|------------------------|
| | Oil (Mbbbl) | | | | Gas (MMCF) | | | | MBOE | | | |
| | Remaining 6/30/2019 | Production 2019 | Additions & Revisions | Remaining 6/30/2020 | Remaining 6/30/2019 | Production 2019 | Additions & Revisions | Remaining 6/30/2020 | Remaining 6/30/2019 | Production 2019 | Additions & Revisions | Remaining 6/30/2020 |
| Proved (1P) | 2,282 | 421 | 522 | 2,382 | 8,320 | 1,796 | 8,099 | 14,624 | 3,669 | 721 | 1,872 | 4,820 |
| Probable | 2,417 | 0 | (698) | 1,719 | 6,100 | 0 | 2,987 | 9,088 | 3,434 | - | (200) | 3,234 |
| Proved Plus Probable (2P) | 4,699 | 421 | (176) | 4,102 | 14,420 | 1,796 | 11,086 | 23,711 | 7,103 | 721 | 1,672 | 8,054 |
| Possible | 1,371 | 0 | 435 | 1,806 | 10,071 | - | 1,071 | 11,142 | 3,050 | - | 613 | 3,663 |
| Proved Plus Probable Plus Possible (3P) | 6,070 | 421 | 259 | 5,907 | 24,492 | 1,796 | 12,157 | 34,853 | 10,153 | 721 | 2,285 | 11,717 |



RESERVES & PROSPECTIVE RESOURCES CONTINUED

SOUTH MARSH ISLAND 71 RESERVES AND RESOURCES STATEMENT

Comment on the changes to reserves and resources:

- SM 71 has now recovered over 2.5 MMbbl of oil and 3.2 Bcf of gas since production commenced in March 2018 and is currently producing approximately 2,700 bopd of oil and 1.5 Mscf/day of gas;
- The D-5 sand continues to produce water free;
- The SM 71 F5 well reached final, total depth on 21 March 2020, with LWD logs indicating 36 feet TVT net gas pay in the primary D-5 sand target. The joint venture elected to temporarily abandon the well, resulting in the reclassification of previously booked PUD and ProbUD reserves to the Possible classification. Without the impact of the recategorisation, proved EUR would have increased by 240 MBOE; and
- Reserves in the B-65 sand that were classified as Probable in last year's report are now considered Prospective Resource.

| SM71 | Gross (100%) | | | Net (40.625%) | | |
|--|--------------|--------------|--------------|---------------|--------------|--------------|
| | Oil (MbbL) | Gas (MMcf) | Mboe | Oil (MbbL) | Gas (MMcf) | Mboe |
| Proved Producing | 2,812 | 2,451 | 3,221 | 1,142 | 996 | 1,308 |
| Proved Behind Pipe | 269 | 134 | 291 | 109 | 55 | 118 |
| Proved Undeveloped | - | - | - | - | - | - |
| Proven (1P) | 3,081 | 2,585 | 3,512 | 1,251 | 1,051 | 1,426 |
| Probable | 1,652 | 1,205 | 1,853 | 671 | 490 | 753 |
| Proven Plus Probable (2P) | 4,733 | 3,790 | 5,365 | 1,922 | 1,541 | 2,179 |
| Possible | 3,209 | 4,342 | 3,933 | 1,304 | 1,764 | 1,598 |
| Proven Plus Probable Plus Possible (3P) | 7,942 | 8,132 | 9,298 | 3,226 | 3,305 | 3,777 |
| Total Prospective Resource (best estimate, unrisks) | 770 | 850 | 912 | 313 | 345 | 370 |

| | SM 71 Field - Reserve Reconciliation (Otto Energy NRI Share) | | | | | | | | | | | |
|--|--|--------------------|--------------------------|------------------------|------------------------|--------------------|--------------------------|------------------------|------------------------|--------------------|--------------------------|------------------------|
| | Oil (MbbL) | | | | Gas (MMCF) | | | | MBOE | | | |
| | Remaining 6/30/2019 | Production 2019 | Additions & Revisions | Remaining 6/30/2020 | Remaining 6/30/2019 | Production 2019 | Additions & Revisions | Remaining 6/30/2020 | Remaining 6/30/2019 | Production 2019 | Additions & Revisions | Remaining 6/30/2020 |
| Proved (1P) | 2,080 | 378 | (451) | 1,251 | 1,581 | 338 | (191) | 1,052 | 2,343 | 434 | (483) | 1,426 |
| Probable | 2,278 | - | (1,608) | 670 | 1,473 | - | (983) | 490 | 2,524 | - | (1,771) | 753 |
| Proved Plus Probable (2P) | 4,358 | 378 | (2,058) | 1,922 | 3,054 | 338 | (1,175) | 1,541 | 4,867 | 434 | (2,254) | 2,179 |
| Possible | 1,092 | - | 212 | 1,304 | 756 | - | 1,008 | 1,764 | 1,218 | - | 380 | 1,598 |
| Proved Plus Probable Plus Possible (3P) | 5,450 | 378 | (1,847) | 3,225 | 3,810 | 338 | (167) | 3,305 | 6,085 | 434 | (1,874) | 3,777 |

Note: gas volumes reported above exclude a 2% shrinkage factor.

Otto holds a 37.5% working interest (28.214% net revenue interest) in Lightning through a wholly owned subsidiary Otto Energy USA Inc. The operator, Hilcorp, holds the remaining working interest.

RESERVES & PROSPECTIVE RESOURCES CONTINUED

LIGHTNING RESERVES AND RESOURCES STATEMENT

Comment on the changes to reserves and resources:

- First production from Green #1 commenced from the Lightning field in May 2019 following the successful discovery and development of the field. The second well, Green #2, began production in February 2020. Production performance since start-up of the field has continued to deliver strong results with both wells combined currently producing approximately 22.4 MMscf/day and 628 bbl/day of condensate; and
- The joint venture is considering the potential for further wells in the field to fully develop the extensive area of the Lightning discovery. There is the potential for up to five wells being required to ultimately develop the entire Lightning accumulation.

| Lightning | Gross (100%) | | | Net (28.214%) | | |
|--|--------------|----------------|---------------|---------------|---------------|--------------|
| | Oil (MbbL) | Gas (MMcf) | Mboe | Oil (MbbL) | Gas (MMcf) | Mboe |
| Proved Producing | 703 | 23,437 | 4,609 | 201 | 6,696 | 1,317 |
| Proved Behind Pipe | 197 | 6,560 | 1,290 | 56 | 1,874 | 369 |
| Proved Undeveloped | 452 | 15,060 | 2,962 | 129 | 4,302 | 846 |
| Proven (1P) | 1,352 | 45,057 | 8,861 | 386 | 12,872 | 2,532 |
| Probable | 808 | 26,939 | 5,298 | 231 | 7,696 | 1,513 |
| Proven Plus Probable (2P) | 2,160 | 71,996 | 14,159 | 617 | 20,568 | 4,045 |
| Possible | 960 | 32,005 | 6,294 | 274 | 9,144 | 1,798 |
| Proven Plus Probable Plus Possible (3P) | 3,120 | 104,001 | 20,453 | 891 | 29,712 | 5,843 |
| Total Prospective Resource (best estimate, unrisks) | - | - | - | - | - | - |

| | Lightning Field - Reserve Reconciliation (Otto Energy NRI Share) | | | | | | | | | | | |
|--|--|--------------------|--------------------------|------------------------|------------------------|--------------------|--------------------------|------------------------|------------------------|--------------------|--------------------------|------------------------|
| | Oil (MbbL) | | | | Gas (MMCF) | | | | MBOE | | | |
| | Remaining 6/30/2019 | Production 2019 | Additions & Revisions | Remaining 6/30/2020 | Remaining 6/30/2019 | Production 2019 | Additions & Revisions | Remaining 6/30/2020 | Remaining 6/30/2019 | Production 2019 | Additions & Revisions | Remaining 6/30/2020 |
| Proved (1P) | 202 | 43 | 227 | 386 | 6,739 | 1,458 | 7,590 | 12,872 | 1,326 | 286 | 1,492 | 2,532 |
| Probable | 139 | | 92 | 231 | 4,627 | | 3,069 | 7,696 | 910 | | 603 | 1,513 |
| Proven Plus Probable (2P) | 341 | 43 | 319 | 617 | 11,366 | 1,458 | 10,659 | 20,568 | 2,236 | 286 | 2,096 | 4,045 |
| Possible | 279 | | (5) | 274 | 9,315 | | (171) | 9,144 | 1,832 | | (34) | 1,798 |
| Proven Plus Probable Plus Possible (3P) | 620 | 43 | 314 | 891 | 20,682 | 1,458 | 10,488 | 29,712 | 4,068 | 286 | 2,062 | 5,843 |

Otto holds a 50% working interest (40.625% net revenue interest) in SM 71 through a wholly owned subsidiary Otto Energy (Louisiana) LLC. The operator, Byron Energy Limited (ASX:BYE) holds the remaining 50% working interest.

RESERVES & PROSPECTIVE RESOURCES CONTINUED

GREEN CANYON 21 RESERVES AND RESOURCES STATEMENT

Comment on the changes to reserves and resources:

- The “Bulleit” appraisal well commenced drilling on 6 May 2019. On 13 June 2019, the Company announced that the upper target, the DTR-10 sand, was intersected and a commercial outcome was confirmed. On 8 August 2019 Otto announced the deeper MP sands were intersected and a net 110 feet of TVD oil pay was intersected in a high-quality reservoir.
- Completion operations continue on schedule for first production late in the third quarter of CY 2020.

| Green Canyon 21 | Gross (100%) | | | Net (13.333%) | | |
|--|---------------|---------------|---------------|---------------|--------------|--------------|
| | Oil (MbbL) | Gas (MMcf) | Mboe | Oil (MbbL) | Gas (MMcf) | Mboe |
| Proved Producing | - | - | - | - | - | - |
| Proved Behind Pipe | - | - | - | - | - | - |
| Proved Undeveloped | 5,582 | 5,243 | 6,455 | 745 | 700 | 862 |
| Proven (1P) | 5,582 | 5,243 | 6,455 | 745 | 700 | 862 |
| Probable | 6,123 | 6,753 | 7,249 | 818 | 902 | 968 |
| Proven Plus Probable (2P) | 11,705 | 11,996 | 13,704 | 1,563 | 1,602 | 1,830 |
| Possible | 1,710 | 1,755 | 2,002 | 228 | 234 | 267 |
| Proven Plus Probable Plus Possible (3P) | 13,415 | 13,751 | 15,706 | 1,791 | 1,836 | 2,097 |
| Total Prospective Resource (best estimate, unrisks) | - | - | - | - | - | - |

| | Bulleit Field (GC 21) - Reserve Reconciliation (Otto Energy NRI Share) | | | | | | | | | | | |
|--|--|--------------------|--------------------------|------------------------|------------------------|--------------------|--------------------------|------------------------|------------------------|--------------------|--------------------------|------------------------|
| | Oil (MbbL) | | | | Gas (MMCF) | | | | MBOE | | | |
| | Remaining 6/30/2019 | Production 2019 | Additions & Revisions | Remaining 6/30/2020 | Remaining 6/30/2019 | Production 2019 | Additions & Revisions | Remaining 6/30/2020 | Remaining 6/30/2019 | Production 2019 | Additions & Revisions | Remaining 6/30/2020 |
| Proved (1P) | 0 | 0 | 745 | 745 | 0 | 0 | 700 | 700 | 0 | 0 | 862 | 862 |
| Probable | 0 | 0 | 818 | 818 | 0 | - | 902 | 902 | 0 | - | 968 | 968 |
| Proved Plus Probable (2P) | 0 | 0 | 1,563 | 1,563 | 0 | 0 | 1,602 | 1,602 | 0 | 0 | 1,830 | 1,830 |
| Possible | 0 | 0 | 228 | 228 | 0 | - | 234 | 234 | 0 | - | 267 | 267 |
| Proved Plus Probable Plus Possible (3P) | 0 | 0 | 1,791 | 1,791 | 0 | 0 | 1,836 | 1,836 | 0 | 0 | 2,097 | 2,097 |

Otto holds a 16.67% working interest (13.333% net revenue interest) in the Green Canyon 21 block through a wholly owned subsidiary Otto Energy (Gulf Two) LLC. The operator, Talos Energy (NYSE: TALO), and another party own the remaining working interest.

RESERVES & PROSPECTIVE RESOURCES CONTINUED

PROSPECTIVE RESOURCES AS AT 30 JUNE 2020

Refer to comments and notes below the tables for commentary on recent activity related to Prospective Resources.

Gulf Coast Package

| Prospect | Working Interest | Net Revenue Interest | Prospective Resources | | | | | |
|---------------------|------------------|----------------------|-----------------------|--------------|-------|---------------------------|--------------|-------|
| | | | 8/8ths | | | Otto Net Revenue Interest | | |
| | | | Gas (BCF) | Oil (MMbbls) | Mmboe | Gas (BCF) | Oil (MMbbls) | Mmboe |
| | | | Mean | Mean | Mean | Mean | Mean | Mean |
| Beluga ¹ | 37.50% | 30.00% | 21.25 | 1.21 | 4.75 | 6.38 | 0.36 | 1.43 |
| Tarpon | 37.50% | 28.50% | 161.97 | 9.21 | 36.21 | 46.16 | 2.62 | 10.32 |
| Mallard | 37.50% | 29.06% | 7.79 | 0.45 | 1.75 | 2.26 | 0.13 | 0.51 |

¹ Refer to Otto Energy ASX Announcement "Annual Reserves and Resources Statement" released 24 September 2020

Alaska Central North Slope

| Prospect | Working Interest | Net Revenue Interest | Prospective Resources | | | | | |
|--------------|------------------|----------------------|-----------------------|--------------|--------|---------------------------|--------------|-------|
| | | | 8/8ths | | | Otto Net Revenue Interest | | |
| | | | Gas (BCF) | Oil (MMbbls) | Mmboe | Gas (BCF) | Oil (MMbbls) | Mmboe |
| | | | Mean | Mean | Mean | Mean | Mean | Mean |
| Talitha Unit | 10.80% | 9.45% | - | 483.0 | 483.00 | - | 45.64 | 45.64 |

Comment on the changes to reserves and resources:

- Mustang (Thunder Gulch #1): In July 2019 Otto announced that the initial exploration well on the Mustang prospect had discovered 57 net feet of pay. Once completed, however, flow testing revealed that the well would not produce in commercial quantities, and the well was subsequently plugged and abandoned during the quarter ended 31 December 2019.
- Alaska Central North Slope: On 7 September 2020, the operator of the Alaska North Slope, Pantheon Resources PLC (AIM: PANR) announced that its application to form the Talitha Production Unit of 44,373 acres is complete and eligible for approval. After a public comment period which closes on 12 October 2020, the Alaska Department of Natural Resources will make a decision on the application.

RESERVES & PROSPECTIVE RESOURCES CONTINUED

NOTES TO RESERVES AND RESOURCES STATEMENT

Reserves and Resources Governance

Otto's reserves estimates are compiled annually. Otto engages Ryder Scott Company, a qualified external petroleum engineering consultant, to conduct an independent assessment of the Lightning Field and Green Canyon 21 reserves on behalf of Otto. Ryder Scott Company is an independent petroleum engineering consulting firm that has been providing petroleum consulting services in the USA for more than fifty years. Ryder Scott Company does not have any financial interest or own any shares in the Company. The fees paid to Ryder Scott Company are not contingent on the reserves outcome of the reserves report.

The reserves for SM 71 were compiled by Mr Ed Buckle B.S. Chemical Engineer (Magna Cum Laude), a full-time contractor of the Company, and audited by Collarini Energy Experts. Collarini Energy Experts is a specialized consulting services firm with hydrocarbon reserve appraisal expertise.

The individual at Collarini Energy Experts responsible for the audit is a petroleum engineer with more than 45 years of experience in the petroleum industry and 39 years of experience in evaluation of oil and gas assets. Collarini Energy Experts does not have any financial interest or own any shares in the Company. The fees paid to Collarini Energy Experts are not contingent on the reserves outcome of the reserves report.

COMPETENT PERSONS STATEMENT

The information in this report that relates to oil and gas reserves and resources at the Lightning Field and Green Canyon 21 was compiled by technical employees of independent consultants Ryder Scott Company, under the supervision of Mr. Ali Porbandarwala PE. Mr. Porbandarwala is a Senior Vice President at Ryder Scott Company and is a registered professional engineer in the State of Texas and a member of the Society of Petroleum Engineers (SPE). He has a B.S. Chemical Engineering from the University of Kansas and an MBA from the University of Texas. The reserves 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 information reported in this Statement are based on, and fairly represents, information and supporting documentation prepared by, or under the supervision of Mr. Porbandarwala. Mr. Porbandarwala 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.

The information in this report that relates to oil and gas reserves and resources at SM 71 was compiled by Mr Ed Buckle B.S. Chemical Engineer (Magna Cum Laude), a full-time contractor of the Company, and audited by Collarini Energy Experts. Mr Buckle has more than 30 years relevant experience in the petroleum industry and is a member of The Society of Petroleum Engineers (SPE). The 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 resources information included in this report are based on, and fairly represents, information and supporting documentation reviewed by Mr Buckle. Mr Buckle 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 & PROSPECTIVE RESOURCES CONTINUED

COMPETENT PERSONS STATEMENT CONTINUED

The information in this report that relates to oil and gas prospective resources in relation to the Gulf Coast Package (Beluga, Tarpon and Mallard) in the Gulf of Mexico was compiled by technical employees of Hilcorp Energy Company, the Operator of the Gulf Coast Package, and subsequently reviewed by Mr Ed Buckle B.S. Chemical Engineering (Magna Cum Laude) who has consented to the inclusion of such information in this report in the form and context in which it appears.

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.

PRICING ASSUMPTIONS

Oil price assumptions used in the independent report represent forward prices (CME Nymex) as at 30 June 2020.

ASX RESERVES AND RESOURCES REPORTING NOTES

- (i) The reserves and prospective resources information in this document is effective as at 30 June, 2020 (Listing Rule (LR) 5.25.1)
- (ii) The reserves and 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)
- (iii) The reserves and prospective resources information in this document is reported according to the Company's economic interest in each of the reserves and prospective resource net of royalties (LR 5.25.5)
- (iv) The reserves and prospective resources information in this document has been estimated and prepared using the probabilistic method (LR 5.25.6)
- (v) The reserves and prospective resources information in this document has been estimated using a ratio of 6,000 cubic feet of natural gas to one barrel of oil. This conversion ratio is based on an energy equivalency conversion method and does not represent value equivalency (LR 5.25.7)

RESERVES & PROSPECTIVE RESOURCES CONTINUED

ASX RESERVES AND RESOURCES REPORTING NOTES CONTINUED

- (vi) The reserves and 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)
- (vii) The method of aggregation used in calculating estimated reserves was the arithmetic summation by category of reserves. As a result of the arithmetic aggregation of the field totals, the aggregate 1P may be a very conservative estimate and the aggregate 3P may be a very optimistic estimate due to the portfolio effects of arithmetic summation (LR 5.26.7 & 5.26.8)
- (viii) Prospective resources are reported on a best estimate basis (LR 5.28.1)
- (ix) For prospective resources, the estimated quantities of petroleum that may potentially be recovered by the application of a future development project(s) relate to undiscovered accumulations. These estimates have both an associated risk of discovery and a risk of development. Further exploration, appraisal and evaluation is required to determine the existence of a significant quantity of potentially moveable hydrocarbons (LR 5.28.2)
- (x) The reserve numbers assume some investment over the life of the field outlined above.

GLOSSARY

Bbl = barrels

bcf = billion cubic feet

Bcfe = billion cubic feet equivalent

boe = barrels of oil equivalent

Bopd = barrels of oil per day

Btu = British Thermal Units

EUR = Economic Ultimate Recovery

Mcfg = thousand cubic of gas

Mcfgpd = thousand cubic feet of gas per day

MMcf = million cubic feet

MBL = thousand barrels of oil

MMBL = million barrels of oil

Mboe = thousand barrels of oil equivalent

MMboe = million barrels of oil equivalent

MCF = thousand cubic feet

mmbtu = million British Thermal Units

04

GOVERNANCE

BOARD OF DIRECTORS



John Jetter

Executive Chairman

BLaw, BEcon, INSEAD

Mr John Jetter is the former Managing Director, CEO and head of investment banking of JP Morgan in Germany and Austria, and a member of the European Advisory Council, JP Morgan London. Mr Jetter has held senior positions with JP Morgan throughout Europe, focusing his attention on major corporate clients advising on some of Europe's largest corporate transactions. Mr Jetter has been a non-executive Director of Venture Minerals Limited since June 2010 and Peak Resources Limited from April 2015 to December 2019. Mr Jetter is a member of the Remuneration and Nomination Committee.



Paul Senycia

Non-Executive Director

BSc Hons (Mining Engineering), ACSM, MAppSc (Geophysics)

Mr Paul Senycia was appointed to the Board on 24 April 2018 and became a non-executive director on 1 January 2019. Mr Senycia joined Otto in 2010 as Exploration Manager, and from 2015 until 1 December 2018 led the Company's technical operations. Mr Senycia was instrumental in the implementation of Otto's US strategy.

A seasoned oil and gas professional, trained as an exploration geoscientist, Mr Senycia has over 35 years of international oil and gas experience in both commercial and technical aspects of the business. This was gained with large and small companies worldwide including Shell, Woodside and Beach Petroleum. Over the last twenty years Mr Senycia has accumulated substantial Gulf of Mexico expertise both on the shelf and in the deep water, including deal capture, asset management and project divestment activities.

BOARD OF DIRECTORS CONTINUED



Kevin Small

Executive Director and Chief Geophysicist

B.S Geophysical Engineering

Mr Small was appointed to the Board on 29 January 2019. Mr Small 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. Mr Small brings extensive networks and relevant experience to Otto's Gulf Coast business. Prior to joining Otto, Mr Small worked with Tri-C Resources, a private oil and gas company, developing Gulf Coast conventional prospects for drilling. Prior to that, he worked for Bluestreak Exploration Group developing prospects exclusively for LLOG Exploration which resulted in successful discoveries on the Gulf of Mexico Shelf and deepwater. Mr Small was the Exploration Manager and a founding member of the Houston office of Westport Oil and Gas Company, ultimately helping them go public. Mr Small 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.

In addition to his executive director role, Mr Small is employed as Chief Geophysicist for Otto.



Geoff Page

Non-Executive Director

MBA, CPA, FCMA, FGIA

Mr Geoff Page was appointed 17 July 2020 as Non-Executive Director. He also became Chairman of the Audit and Risk Committee on 1 August 2020. He is a finance professional with over 20 years of senior finance, accounting and management experience gained globally within a number of industries. He has over 10 years of board experience gained in several different firms.

Mr Page is a member of CPA Australia, Fellow Member of the Chartered Institute of Management Accountants and a Fellow Member of the Governance Institute of Australia.

05

FINANCIAL
REPORT 2020

FINANCIAL REPORT 2020

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Annual General Meeting

The Annual General Meeting of Otto Energy Limited will be held on 19 November 2020.

In light of the novel coronavirus outbreak, and for the health and well-being of our stockholders, employees and directors, this year's Annual General Meeting will be conducted as a virtual meeting, which will be held exclusively online via the Internet as a virtual web conference at <http://www.ottoenergy.com> on 19 November 2020 at 5pm AEST.

CORPORATE DIRECTORY

| | |
|---|---|
| Directors | Mr John Jetter – Non-Executive Chairman Mr Michael Utsler - Managing Director and Chief Executive Officer Mr Geoff Page – Non-Executive Director Mr Paul Senyica – Non-Executive Director Mr Kevin Small – Executive Director |
| Company Secretary | Ms Kaitlin Smith |
| Key Executives | Mr Michael Utsler – Managing Director and Chief Executive Officer Mr Will Armstrong – Vice President Exploration and New Ventures Mr Sergio Castro – Chief Financial Officer Mr Kevin Small – Chief Geophysicist |
| Principal registered office in Australia | Ground Floor 70 Hindmarsh Square Adelaide SA 5000 Tel: + 61 8 6467 8800 Fax: + 61 8 6467 8801 |
| Houston Office | Two Allen Center 1200 Smith Street Houston, TX 77002 Tel: +1 713-893-8894 |
| Share Registry | Link Market Services Limited Level 12 QV1 Building 250 St Georges Terrace Perth WA 6000 Tel: + 61 8 9211 6670 Fax: + 61 2 9287 0303 |
| Auditors | BDO Audit (WA) Pty Ltd 38 Station Street Subiaco WA 6008 Tel: + 61 8 6382 4600 Fax: + 61 8 6382 4601 |
| Securities Exchange Listing | Australian Securities Exchange ASX Code: OEL |
| Website address | www.ottoenergy.com |
| ABN | 56 107 555 046 |

DIRECTOR'S REPORT

For the year ended 30 June 2020

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 financial year ended 30 June 2020 and the auditors' report thereon.

Directors

The Directors in office at any time during the financial year and until the date of this report are set out below. All Directors were in office for the entire period except for Mr Geoff Page who was appointed 17 July 2020, Mr Matthew Allen who resigned on 10 June 2020, Mr Ian Boserio who resigned on 1 April 2020, Mr Ian MacIver who resigned on 21 November 2019 and Mr Michael Utsler who was appointed 11 September 2020.

Mr John Jetter BLaw, BEcon, INSEAD **Chairman (Non-Executive)**

Appointed Non-Executive Director 10 December 2007; Appointed Non-Executive Chairman 25 November 2015; Retired as Chairman but remained as Non-Executive Director 21 November 2019; Re-appointed Non-Executive Chairman 1 April 2020; Appointed Executive Chairman 10 June 2020; Re-appointed Non-Executive Chairman 11 September 2020

Mr John Jetter is the former Managing Director, CEO and head of investment banking of JP Morgan in Germany and Austria, and a member of the European Advisory Council, JP Morgan London. Mr Jetter has held senior positions with JP Morgan throughout Europe, focusing his attention on major corporate clients advising on some of Europe's largest corporate transactions. Mr Jetter has been a non-executive Director of Venture Minerals Limited since June 2010 and Peak Resources Limited from April 2015 to December 2019. He is Chairman of the Remuneration and Nomination Committee.

Mr Jetter will seek re-election at the Annual General Meeting in 2020 as a Non-Executive Director.

Mr Michael Utsler **Managing Director and Chief Executive Officer**

Appointed 11 September 2020

Mr Michael Utsler was appointed Managing Director and Chief Executive Officer on 11 September 2020. Mr Utsler is an oil and gas executive with more than 40 years of experience in senior international oil and gas sector roles, including 15 years in the Gulf of Mexico and 5 years as Chief Operating Officer of Woodside in Australia. His career has encompassed senior executive, leadership and board roles with Amoco, BP, Woodside and New Fortress Energy. He holds a B.S. in Petroleum Engineering from the University of Oklahoma.

Mr Paul Senyia BSc (Hons), MAppSc **Director (Independent Non-Executive)**

Appointed Executive Director 24 April 2018; Became Non-Executive Director 1 January 2019

Mr Paul Senyia is a seasoned geoscientist with over 35 years of international oil and gas experience in both commercial and technical aspects of the business. Mr Senyia has held senior roles in large and small companies worldwide including Shell, Woodside and Beach Petroleum. Over the last twenty years Mr Senyia has accumulated substantial Gulf of Mexico expertise both on the shelf and in the deep water. This has included deal capture, asset management and project divestment activities. Outside the Gulf of Mexico, Mr Senyia has worked in Europe, Asia, Africa and Australasia both on and offshore.

Up until his retirement on 31 December 2018, Mr Senyia was the Vice President – Exploration and New Ventures for the Company. Mr Senyia is a member of the Audit and Risk Management Committee and Remuneration and Nomination Committee. Mr Senyia has not held any other directorships in the last three years.

Mr Kevin Small BSc Geophysical Engineering (Hons) **Director (Executive)**

Appointed Executive Director 29 January 2019

Mr Kevin Small is an exploration geoscientist with 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

DIRECTOR'S REPORT

For the year ended 30 June 2020

numerous Gulf Coast discoveries. Mr Small brings extensive networks and relevant experience to Otto's Gulf Coast business.

Prior to joining Otto Mr Small 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, Mr Small worked for Bluestreak Exploration Group developing prospects exclusively for LLOG Exploration which resulted in successful discoveries on the Gulf of Mexico Shelf and Deepwater. Mr Small 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. Mr Small also has worked for the Superior Oil Company and McMoran Oil and Gas. During his time with LLOG, Westport, and McMoRan. Mr Small drilled wells with cumulative production of over 692 BCFG and 82 MMBO. Mr Small has not held any other directorships in the last three years.

Mr Geoff Page

Director (Independent Non-Executive)

Appointed Non-Executive Director 17 July 2020

Mr Geoff Page is a finance professional with over 20 years of senior finance, accounting and management experience gained globally within a number of industries. He has over 10 years of board experience gained in several different firms. Mr Page is a member of CPA Australia, Fellow Member of the Chartered Institute of Management Accountants and a Fellow Member of the Governance Institute of Australia. Mr Page is Chairman of the Audit and Risk Committee.

Mr Matthew Allen BBus, FCA, F Fin, GAICD

Former Managing Director and Chief Executive Officer

Appointed Managing Director 24 June 2015; Resigned 10 June 2020

Mr Matthew Allen was appointed Chief Executive Officer in February 2014 and Managing Director in June 2015. Mr Allen joined Otto Energy in 2009 as Chief Financial Officer and has played an integral role in implementing Otto's strategy since joining Otto. Prior to joining Otto, Mr Allen worked for Woodside Energy for over 8 years in leadership roles in a number of Woodside business units, including within Woodside's overseas businesses in Africa.

Mr Allen's experience lies in the operation and management of oil & gas companies with particular focus on strategic, commercial and financial aspects of the business. Mr Allen has global upstream experience in the USA, Asia, Africa, Australia and the Middle East. He is a Fellow of Chartered Accountants Australia and New Zealand, Fellow of the Financial Services Institute of Australasia and Graduate Member of the Australian Institute of Company Directors.

Mr Ian Boserio BSc Hons First Class (Geophysics), BSc (Geology) GAICD

Former Chairman (Independent Non-Executive)

Appointed Non-Executive Director 2 September 2010; Appointed Deputy Chairman 8 September 2019; Appointed Chairman 21 November 2019; Resigned 1 April 2020

Mr Ian Boserio brought to the Otto Board more than 35 years international experience in the oil and gas business, focused predominantly on exploration and management. Mr Boserio was formerly at Shell as the Australian New Business Manager, prior to that he led the Shell Australia and New Zealand exploration team developing its gas portfolio for LNG development. Mr Boserio also worked with Shell internationally, including roles in Australia, North Sea, Middle East, India and Indonesia, including a five-year secondment into Woodside. While with Otto, he was co-owner and technical director of private oil and gas company Pathfinder Energy Pty Ltd. Mr Boserio was a former member of the Audit and Risk Management Committee and Chairman of the Remuneration and Nomination Committee.

Mr Ian Macliver BCom, FCA, SF Fin, FAICD

Former Director (Independent Non-Executive)

Appointed Non-Executive Director 7 January 2004; Resigned 21 November 2019

Mr Ian Macliver is Managing Director of Grange Consulting Group Pty Ltd, which provides specialist corporate advisory services to listed and unlisted companies. Mr Macliver has held senior executive and Director roles in both resource and industrial companies, specifically responsible for capital raising and other corporate initiatives. Mr Macliver has been the non-executive Chairman of Western Areas Limited since November

DIRECTOR'S REPORT

For the year ended 30 June 2020

2013, and non-executive Director since October 2011. Mr Macliver was the former Chairman of the Audit and Risk Management Committee.

Company Secretary

Ms Kaitlin Smith BCom (Acc), CA

Appointed 2 November 2019

Ms Smith provides Company Secretarial and Accounting services to various public and proprietary companies. She holds a Bachelor of Commerce (Accounting) and is a Chartered Accountant. Ms Smith replaces Mr David Rich who resigned as Chief Financial Officer and Company Secretary on 2 November 2019.

Director's interests

As at the date of this report, the interests of the Directors in the shares and rights of Otto Energy Limited were:

| Director | Number of Ordinary Shares | Number of Rights |
|---------------|---------------------------|------------------|
| Mr J Jetter | 57,881,668 | 1,804,667 |
| Mr P Senyacia | 8,691,134 | 2,769,000 |
| Mr K Small | 49,486,383 | 4,840,000 |
| Mr G Page | - | - |
| Mr M Utsler | - | - |

Principal activities

The principal activity of the Group is oil and gas exploration, development, production and sales in North America.

Dividends

No dividend has been declared for the year ended 30 June 2020.

Operating and Financial Review

During the year ended 30 June 2020 Otto participated in a second well at the Lightning field (Green #2), which commenced production in February 2020. The Company's Green Canyon 21 "Bulleit" appraisal well reached target depth in August 2019 and completion activities are expected to conclude in September 2020. Otto also participated in the drilling and/or testing of two other exploration/appraisal wells, one of which did not result in a commercial discovery and the other of which was temporarily abandoned due to increased uncertainty surrounding COVID-19.

Financial Summary

Otto's net revenue from production during the year was US\$23.0 million (2019: US\$31.3 million) generating an operating gross profit of US\$12.7 million (2019: US\$23.4 million). Costs of production included US\$6.6 million for amortisation of oil and gas properties (2019: US\$5.0 million). Revenue was down 26% from FY2019 due to lower oil and liquids prices attributed to the impact of the price war between OPEC and non OPEC members, Covid-19 as well as planned ramp down in production rates on SM71 in response to the sharp decline in demand as per the ASX release of 31 March 2020.

DIRECTOR'S REPORT

For the year ended 30 June 2020

Under Otto's accounting policy, exploration expenses are expensed as incurred and for the year Otto's exploration expenditure was US\$13.1 million (2019: US\$37.8 million) which included exploration expenditure for the following wells: Green Canyon 21, SM-71 F5 and Mustang.

Overall the Group recognised a loss after income tax for the year of \$1.4 million (2019: loss \$18.4 million). Administration costs were US\$4.8 million, down from US\$5.1 million in 2019. This includes business development costs of US\$0.4 million (2019: US\$0.7 million) and the costs of establishing the office and management team in Houston.

Finance costs include amortisation of borrowing costs of US\$0.7 million (2019: US\$0.2 million) and interest and commitment fees on the Macquarie debt facility of \$1.65 million.

Included in the Consolidated Statement of Profit or Loss and Other Comprehensive Income is \$6.0 million of gains on derivative financial instruments of which \$1.8 million is realized gains.

The Company had a successful capital raise totaling approximately A\$13.8 million (before costs) undertaken during the year to fund the exploration drilling. A detailed review of the operations of the Group during the financial year are set out below.

In response to the decrease in oil and gas prices, management announced initiatives to reduce corporate costs. Among these initiatives were a 50% reduction in director fees and reductions in base salaries of 46% for Houston based executives and staff. These cost reduction initiatives, the hedging program and production ramp down actions have been taken to ensure that the company is positioned to ride through the current market challenges. Full details of cost reduction initiatives are included in the ASX release of 6 April 2020.

During the year, management identified impairment indicators in relation to the Group's oil and gas assets being the effects of the Covid-19 pandemic and significant decline in oil prices; and the carrying value of the oil and gas assets exceeding market capitalization as at 30 June 2020. This led to the Group assessing the recoverable amount of the Group's oil and gas assets in accordance with relevant accounting standards. No impairment was recorded for the year ended 30 June 2020.

The Group will continue to assess the impact of Covid-19 on existing projects and operations. The duration and spread of the pandemic and regulations imposed by governments continue to be closely monitored to determine any future impact on the Group.

Production and Development

Reserves Statement as at 30 June 2020

On 24 September 2020 the Company released its statement of reserves and resources as at 30 June 2020 which included Otto's offshore leases at South Marsh 71 ("SM 71") and Green Canyon 21 ("GC 21"), and its Lightning Field lease in Matagorda County, TX. The prospective resources cover Alaska, onshore leases along the Gulf Coast, and SM 71. The summary statement of reserves and prospective resources as at 30 June 2020 and Changes to reserves and resources since 30 June 2019 is set out below. Full details including the reconciliations and notes on the statements are included in the ASX release of 24 September 2020.

DIRECTOR'S REPORT

For the year ended 30 June 2020

| Total | Gross (100%) | | | Net | | |
|--|---------------|----------------|---------------|--------------|---------------|---------------|
| | Oil (MbbL) | Gas (MMcf) | Mboe | Oil (MbbL) | Gas (MMcf) | Mboe |
| Proved Producing | 3,515 | 25,888 | 7,831 | 1,343 | 7,692 | 2,625 |
| Proved Behind Pipe | 466 | 6,694 | 1,581 | 165 | 1,929 | 487 |
| Proved Undeveloped | 6,034 | 20,303 | 9,417 | 874 | 5,002 | 1,708 |
| Proven (1P) | 10,015 | 52,885 | 18,829 | 2,382 | 14,623 | 4,820 |
| Probable | 8,583 | 34,897 | 14,400 | 1,720 | 9,088 | 3,234 |
| Proven Plus Probable (2P) | 18,598 | 87,782 | 33,229 | 4,102 | 23,711 | 8,054 |
| Possible | 5,879 | 38,102 | 12,229 | 1,807 | 11,142 | 3,663 |
| Proven Plus Probable Plus Possible (3P) | 24,477 | 125,884 | 45,458 | 5,909 | 34,853 | 11,717 |
| Total Prospective Resource (best estimate, unrisks) | | | | 49,071 | 55,146 | 58,262 |

Changes to reserves and resources since 30 June 2019:

| Otto Energy Limited Grand Total - Reserve Reconciliation (Otto Energy NRI Share) | | | | | | | | | | | | |
|--|------------------------|--------------------|--------------------------|------------------------|------------------------|--------------------|--------------------------|------------------------|------------------------|--------------------|--------------------------|------------------------|
| | Oil (MbbL) | | | | Gas (MMCF) | | | | MBOE | | | |
| | Remaining 6/30/2019 | Production 2019 | Additions & Revisions | Remaining 6/30/2020 | Remaining 6/30/2019 | Production 2019 | Additions & Revisions | Remaining 6/30/2020 | Remaining 6/30/2019 | Production 2019 | Additions & Revisions | Remaining 6/30/2020 |
| Proved (1P) | 2,282 | 421 | 522 | 2,382 | 8,320 | 1,796 | 8,099 | 14,624 | 3,669 | 721 | 1,872 | 4,820 |
| Probable | 2,417 | 0 | (698) | 1,719 | 6,100 | 0 | 2,987 | 9,088 | 3,434 | | (200) | 3,234 |
| Proved+Probable (2P) | 4,699 | 421 | (176) | 4,102 | 14,420 | 1,796 | 11,086 | 23,711 | 7,103 | 721 | 1,672 | 8,054 |
| Possible | 1,371 | 0 | 435 | 1,806 | 10,071 | | 1,071 | 11,142 | 3,050 | | 613 | 3,663 |
| Proved+Probable+ Possible (3P) | 6,070 | 421 | 259 | 5,907 | 24,492 | 1,796 | 12,157 | 34,853 | 10,153 | 721 | 2,285 | 11,717 |

Production and Revenue Summary

The table below sets forth production and revenue information associated with Otto's sales of natural gas, oil and natural gas liquids ("NGLs") from the two producing fields at SM71 and Lightning for the year ended 30 June 2020. One barrel of oil, condensate or NGL is the energy equivalent of six Mcf of natural gas.

DIRECTOR'S REPORT

For the year ended 30 June 2020

| Production Volumes and Sales Revenue | | | | |
|---|------------------|------------------|------------------|------------------|
| WI Share (before royalties) (USD) | 30-Sep-19 | 31-Dec-19 | 31-Mar-20 | 30-Jun-20 |
| Crude oil (barrels) | | | | |
| South Marsh 71 | 132,063 | 127,211 | 102,768 | 97,756 |
| Lightning Field | <u>11,123</u> | <u>3,791</u> | <u>16,771</u> | <u>24,328</u> |
| Total oil production | 143,186 | 131,002 | 119,539 | 122,084 |
| Total oil sales revenue (\$'million) | \$ 8.20 | \$ 7.32 | \$ 5.34 | \$ 2.74 |
| Avg oil price (\$/Bbl) | \$ 57.27 | \$ 55.88 | \$ 44.70 | \$ 22.44 |
| Avg oil price - including hedges (\$/Bbl) | \$ 56.64 | \$ 53.80 | \$ 49.56 | \$ 35.06 |
| Natural gas (thousand cubic feet) | | | | |
| South Marsh 71 | 148,267 | 125,422 | 70,354 | 56,266 |
| Lightning Field | <u>344,504</u> | <u>112,670</u> | <u>547,460</u> | <u>755,166</u> |
| Total gas production | 492,771 | 238,092 | 617,814 | 811,432 |
| Total gas sales revenue (\$'million) | \$ 1.10 | \$ 0.57 | \$ 1.2 | \$ 1.4 |
| Avg gas price (\$/MMbtu) | \$ 2.23 | \$ 2.39 | \$ 1.85 | \$ 1.66 |
| Natural gas liquids (barrels) | | | | |
| South Marsh 71 | - | - | - | - |
| Lightning Field | <u>16,038</u> | <u>5,265</u> | <u>24,507</u> | <u>24,806</u> |
| Total NGL production | 16,038 | 5,265 | 24,507 | 24,806 |
| Total NGL sales revenue (\$'million) | \$ 0.19 | \$ 0.08 | \$ 0.41 | \$ 0.27 |
| Avg NGL price (\$/Bbl) | \$ 11.77 | \$ 15.80 | \$ 16.55 | \$ 10.82 |
| Total (barrels of oil equivalent) | | | | |
| South Marsh 71 | 156,774 | 148,115 | 114,494 | 107,134 |
| Lightning Field | <u>84,578</u> | <u>27,834</u> | <u>132,521</u> | <u>174,995</u> |
| Total production | 241,353 | 175,949 | 247,015 | 282,129 |
| Total daily production (Boe/d) | 2,623 | 1,912 | 2,714 | 3,100 |
| Total revenue (\$'million) | \$ 9.49 | \$ 7.97 | \$ 6.90 | \$ 4.39 |
| Total equivalent price (\$/Boe) | \$ 39.32 | \$ 45.30 | \$ 27.94 | \$ 15.55 |
| Total equivalent price - including hedges | \$ 38.95 | \$ 43.75 | \$ 30.30 | \$ 21.01 |

Notes

1. Otto sells its high-quality Louisiana Light Sweet crude ("LLS") produced at SM 71 at a premium to West Texas Intermediate ("WTI") based on current LLS versus WTI price differentials. Deductions are then applied for transportation, oil shrinkage, basic sediment & water (BS&W), and other applicable adjustments.
2. On average, 1 Mscf = 1.10 MMBtu in June for SM 71 production. The thermal content of SM 71 gas may vary over time.

South Marsh Island 71 (SM 71) – Offshore Gulf of Mexico. Otto WI 50.0%

Otto owns a 50% Working Interest ("WI") and a 40.625% Net Revenue Interest ("NRI") in the South Marsh Island block 71 ("SM 71") in the Gulf of Mexico, with Byron Energy Limited ("Byron") the operator, holding an equivalent WI and NRI. Water depth in the area is approximately 137 feet.

Following the initial discovery by Otto and Byron in 2016, oil and gas production from the SM 71 F platform began in late March 2018 from two wells with the third well coming on-line in early April 2018. The F1 and F3 wells are completed in the primary D5 Sand reservoir and the F2 well is completed in the B55 Sand, a secondary exploration target.

In March 2020, the joint venture spudded the F5 development well in this field and announced a potential discovery on 23 March 2020. Due to increased uncertainty of continuing operations related to the impact of COVID-19 on operations, the SM71 F5 wellbore was temporarily abandoned in a manner that allows it to be efficiently sidetracked in the future when the uncertainty relating to the COVID-19 pandemic has dissipated and also at a time where oil price volatility stabilizes.

The SM 71 F facility has now produced over 2.4 million barrels of oil (gross) since initial production began. The facility has also produced over 3.1 billion cubic feet of gas (gross).

DIRECTOR'S REPORT

For the year ended 30 June 2020

In December 2019, the joint venture installed a new, upgraded compressor at the platform, which allows for the wells to be managed in a more consistent, stable manner. This results in more accurate monthly sales nominations, more predictable operating costs and overall better reservoir management.

The following table sets forth certain information with respect to our SM71 reserves as of 30 June 2020:

| SM71 | Gross (100%) | | | Net (40.625%) | | |
|---|--------------|--------------|--------------|---------------|--------------|--------------|
| | Oil (MbbL) | Gas (MMcf) | Mboe | Oil (MbbL) | Gas (MMcf) | Mboe |
| Proved Producing | 2,812 | 2,451 | 3,221 | 1,142 | 996 | 1,308 |
| Proved Behind Pipe | 269 | 134 | 291 | 109 | 55 | 118 |
| Proved Undeveloped | - | - | - | - | - | - |
| Proven (1P) | 3,081 | 2,585 | 3,512 | 1,251 | 1,051 | 1,426 |
| Probable | 1,652 | 1,205 | 1,853 | 671 | 490 | 753 |
| Proven Plus Probable (2P) | 4,733 | 3,790 | 5,365 | 1,922 | 1,541 | 2,179 |
| Possible | 3,209 | 4,342 | 3,933 | 1,304 | 1,764 | 1,598 |
| Proven Plus Probable Plus Possible (3P) | 7,942 | 8,132 | 9,298 | 3,226 | 3,305 | 3,777 |
| Total Prospective Resource (best estimate, unrisks) | 770 | 850 | 912 | 313 | 345 | 370 |

Lightning – Onshore Matagorda County, Texas. Otto WI 37.5%

Otto owns a 37.5% Working Interest ("WI") and a 28.2% Net Revenue Interest ("NRI") in the Lightning Field in Matagorda County, Texas, with Hilcorp Energy Limited ("Hilcorp") the operator, holding the remaining interest. Otto earned its 37.5% working interest in this field by paying 50.0% of the cost of drilling the initial Green #1 well.

The first well in this field, the Green #1, commenced production in June 2019, while the second well, the Green #2, commenced drilling in October 2019 and commenced production in February 2020.

Reinterpretation of the 3D seismic by the operator confirms that there are multiple levels of hydrocarbon pay in the Lightning field. While the Green #1 and Green #2 wells are currently producing from the upper Tex Miss 1 zone, the lower Tex Miss 2/3 zone was tested in both wells while they were being drilled. The Tex Miss 2/3 zone appears to be aerially significantly larger and potentially thicker than the Tex Miss 1. In both tests, production from the Tex Miss 2/3 zone has indicated that the zone has lower permeability than the Tex Miss 1 and has not been able to establish steady production. It is planned that a future well will be designed to test the ability to stimulate the Tex Miss 2/3 zone and unlock the significant upside potential from this zone in future drilling campaigns.

The following table sets forth certain information with respect to our Lightning reserves as of 30 June 2020:

DIRECTOR'S REPORT

For the year ended 30 June 2020

| Lightning | Gross (100%) | | | Net (28.214%) | | |
|--|--------------|----------------|---------------|---------------|---------------|--------------|
| | Oil (MbbL) | Gas (MMcf) | Mboe | Oil (MbbL) | Gas (MMcf) | Mboe |
| Proved Producing | 703 | 23,437 | 4,609 | 201 | 6,696 | 1,317 |
| Proved Behind Pipe | 197 | 6,560 | 1,290 | 56 | 1,874 | 369 |
| Proved Undeveloped | 452 | 15,060 | 2,962 | 129 | 4,302 | 846 |
| Proven (1P) | 1,352 | 45,057 | 8,861 | 386 | 12,872 | 2,532 |
| Probable | 808 | 26,939 | 5,298 | 231 | 7,696 | 1,513 |
| Proven Plus Probable (2P) | 2,160 | 71,996 | 14,159 | 617 | 20,568 | 4,045 |
| Possible | 960 | 32,005 | 6,294 | 274 | 9,144 | 1,798 |
| Proven Plus Probable Plus Possible (3P) | 3,120 | 104,001 | 20,453 | 891 | 29,712 | 5,843 |
| Total Prospective Resource (best estimate, unrisked) | - | - | - | - | - | - |

Green Canyon 21 (GC 21) – Offshore Gulf of Mexico. Otto WI 16.67%

Otto owns a 16.67% Working Interest ("WI") and a 13.34% Net Revenue Interest ("NRI") in Green Canyon 21 ("GC-21") in the Gulf of Mexico, with Talos Energy ("Talos") as operator. Otto earned its 16.67% working interest in GC-21 by paying 22.22% of the cost of drilling the "Bulleit" appraisal well.

The "Bulleit" appraisal well commenced drilling in May 2019. In June 2019, the Company announced that the upper target, the DTR-10 sand, was intersected and a commercial outcome was confirmed. In August 2019 Otto announced the deeper MP sands were intersected and a net 110 feet of TVD oil pay was intersected in a high-quality reservoir. While drilling the deeper objective MP sands, poor hole conditions and compromised drilling operations requiring sidetracking of this well. In addition, poor weather conditions resulted in delayed operations and as a result, the cost of drilling the GC-21 "Bulleit" well exceeded the pre-drill estimates of US\$9.0m net to Otto. As of 30 June 2020, the Company had invested approximately \$16.1 million to drill and complete this well.

Completion and hook-up operations for this well are underway. Talos will complete the well as a subsea tieback with a standard completion, tying back to the Talos operated GC 18A Platform, approximately 10 miles (~16 km) west of the "Bulleit" well. The platform is currently being upgraded and first production continues to be expected in late Q3 CY 2020.

The following table sets forth certain information with respect to our Green Canyon reserves as of 30 June 2020:

DIRECTOR'S REPORT

For the year ended 30 June 2020

| Green Canyon 21 | Gross (100%) | | | Net (13.333%) | | |
|--|---------------|---------------|---------------|---------------|--------------|--------------|
| | Oil (MbbL) | Gas (MMcf) | Mboe | Oil (MbbL) | Gas (MMcf) | Mboe |
| Proved Producing | - | - | - | - | - | - |
| Proved Behind Pipe | - | - | - | - | - | - |
| Proved Undeveloped | 5,582 | 5,243 | 6,455 | 745 | 700 | 862 |
| Proven (1P) | 5,582 | 5,243 | 6,455 | 745 | 700 | 862 |
| Probable | 6,123 | 6,753 | 7,249 | 818 | 902 | 968 |
| Proven Plus Probable (2P) | 11,705 | 11,996 | 13,704 | 1,563 | 1,602 | 1,830 |
| Possible | 1,710 | 1,755 | 2,002 | 228 | 234 | 267 |
| Proven Plus Probable Plus Possible (3P) | 13,415 | 13,751 | 15,706 | 1,791 | 1,836 | 2,097 |
| Total Prospective Resource (best estimate, unrisked) | - | - | - | - | - | - |

Exploration and Appraisal

Gulf Coast Package - Hilcorp

On 31 July 2018 Otto announced that it had entered into a joint venture with Hilcorp Energy as operator, which will see the Company earn a 37.5% working interest in an eight well portfolio of prospects in the Onshore/Near Shore USA Gulf Coast (Gulf of Mexico).

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 initial exploration well plus lease acquisition costs at each of the eight prospects. Four wells have now been drilled (Big Tex, Lightning, Don Julio 2 and Mustang) with Lightning being a discovery.

In July 2019 Otto announced that the initial exploration well on the Mustang prospect had discovered 57 feet of net hydrocarbon pay. Once completed, however, flow testing revealed that the well would not produce in commercial quantities, and the well was subsequently plugged and abandoned during the quarter ended 31 December 2019.

Vermillion 232 (VR 232)

In June 2018, Byron Energy acquired 100% of Vermillion Block 232. Pursuant to the terms of a Participation Agreement, Otto elected to participate in VR 232 at a fifty percent (50%) working interest. In May 2019, Otto acquired Byron Energy's 50% interest in, and operatorship of, VR 232 at no cost, resulting in Otto owning 100% of the lease block.

After reviewing high quality 3D seismic data set over the SM 71 area (including VR 232), this lease block was released in May 2020.

Alaska Western Blocks

In June 2018 Otto acquired a 22.5% working interest in four leases, consisting of 22,710 acres, from Great Bear Petroleum Ventures II LLC. The first well on these leases, the Winx-1, commenced drilling on 15 February 2019 and intersected all pre-drill targets safely and efficiently, with a comprehensive wireline logging program successfully run and completed.

Petrophysical analysis of the wireline logging program indicated low oil saturations in the primary Nanushuk Topset objectives; testing and fluid sampling indicated that reservoir quality and fluid mobility at this location was insufficient to warrant production testing. Winx-1 was subsequently plugged and abandoned.

These lease blocks were relinquished in May 2020.

DIRECTOR'S REPORT

For the year ended 30 June 2020

Alaska Central Blocks

Through its agreements with Great Bear Petroleum Operating ("Great Bear Operating") in 2015, Otto has between an 8% and 10.8% working interest in the leases held by Pantheon Resources plc (AIM: PANR) ("Pantheon") on the Alaskan North Slope ("Central Blocks"). The leases are in a major play fairway south of the Prudhoe Bay and Kuparuk giant oil fields.

In January 2019, Pantheon acquired Great Bear Petroleum Ventures I LLC and Great Bear Petroleum Ventures II LLC (collectively: Great Bear Ventures).

Extensive, modern 3D seismic coverage, existing well control and proximity to the all-weather Dalton Highway and Trans-Alaskan Pipeline System (TAPS) means the acreage is well positioned for exploration. The existing 3D seismic has allowed development of an extensive prospect portfolio which includes at least 4 well locations.

Otto's exposure on the first two wells is limited to US\$2.6m/well. Otto had no activity in this area during the year ended 30 June 2020.

Corporate and Administration

Houston Office

During the previous fiscal year (30 June 2019), the Company completed the establishment of its Houston office and appointment of a US-based technical team. The final component was the hiring of Mr Sergio Castro as Chief Financial Officer in December 2019.

Executive Changes

In June 2020, the Company announced that Mr Matthew Allen stepped down as Chief Executive Officer and from the Board as Managing Director following the completion of his two-year assignment to Houston. Mr Allen has agreed to remain with the Company as a senior advisor for a period of six months to assist with an orderly leadership transition to a new successor.

In September 2020, the Company announced that Mr Michael J. Utsler had been hired as the Company's new Chief Executive Officer and Managing Director. Refer to the subsequent events section of the report.

Related Parties

Effective 1 April 2020, the Board of Directors engaged Mr John Jetter to serve as a consultant to the Company, to perform any services required by the Company. Under the terms of the consultancy agreement, Mr Jetter is to consult for a maximum of three days per week at a rate of AUD\$2,500 per day. For the fiscal year ended 30 June 2020, Mr Jetter earned AUD\$80,000 under this consultancy agreement.

Commodity Price Risk Management

Otto derives its revenue from the sale of oil and natural gas. As a result, the Company's revenues are determined, to a large degree, by prevailing oil and natural gas prices. Otto sells its production to purchasers pursuant to sales agreements, with sales prices tied to industry standard published index prices, subject to negotiated price adjustments.

Otto typically utilizes commodity price hedge instruments to minimize exposure to short term price fluctuations by using a series of swaps, costless collars and/or puts. Unrealized gains or losses associated with hedges vary period to period, and are a function of hedges in place, the strike prices of those hedges and the forward curve pricing for the commodities being hedged. Currently, all of Otto's hedges are oil swaps, and the Company has no three-way collars or short puts.

As of 30 June 2020, Otto had a total hedge book of 318,840 barrels of oil hedged through September 2022 via swaps, at a weighted average LLS price of \$54.60 as follows:

In July 2020, the Company entered into additional hedges for 66,000 barrels for 2020 and 54,074 barrels for 2021, resulting in a Weighted Average LLS Price of \$50.11 for the remainder of CY 2020 and \$51.62 for CY 2021 (on forecast SM71 and Lightning volumes). In August 2020, the Company entered into additional hedges for 66,358 barrels for CY2022, resulting in a Weighted Average LLS Price of \$49.20 for CY 2022 (on forecast SM71 and Lightning volumes). Refer to the subsequent events section of the report.

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For the year ended 30 June 2020

| Months | Volume (Bbls) | Weighted Avg Price (LLS) |
|--------------------------|---------------|--------------------------|
| July – December 2020 | 90,664 | \$56.71 |
| January – December 2021 | 184,616 | \$53.71 |
| January – September 2022 | 43,560 | \$54.00 |

Strategy

The Company's near-term strategic goal is to grow production in the Gulf of Mexico to 5,000 boepd by the end of 2020. Through successful exploration, Otto has built a portfolio of three conventional oil and gas properties in the US Gulf of Mexico and Gulf Coast with two in production and one in the development stage. These three projects are expected to take Otto close to its goal when each is in full production (anticipated by late-2020).

For FY 2021 and 2022, Otto will likely minimize its drilling program and use excess cash flow for working capital and to reduce borrowings outstanding under the Company's Credit Facility. The Company will continue to make balance sheet strength a priority by reducing its general and administrative expenses where possible. Otto retains the flexibility to be aggressive in its drilling program should commodity prices improve.

Key Risks

The key areas of risk, uncertainty and material issues that could affect the achievement of Otto's goals and delivering on its targets are described below. Note that this is not an exhaustive list of risks that may potentially affect the Company.

Operating Risk

Sustained, unplanned interruption to production may impact Otto's financial performance and its ability to fund its forward programs. The facilities in which Otto currently has a non-operated working interest and third party pipelines, refineries and gas plants which are utilized for sales and transportation of hydrocarbons are subject to operating hazards associated with major accident events, cyber-attack and weather events, which can result in a loss of hydrocarbon containment, diminished production, additional costs, environmental damage and harm to people or reputation. This risk also extends to unexpected sub-surface outcomes.

Otto has insurance cover for a number of these risks where it is appropriate and commercially justifiable to do so. For example, Otto has insurance cover for property damage, but does not have cover for loss of profits as the cost is prohibitive.

As Otto is non-operator, the operating risks are extended to include the performance of the operator. These risks could include inadequate resourcing or systems, misalignment of interest, inadequate capture or provision of data and information, poor financial position or unfavourable or inadequate agreement with the operator. Consequences of poor performance by an operator could extend to operational incidents, financial loss, loss of opportunity, non-compliance, legal disputes or less than optimal financial returns from the field.

Otto seeks to manage the risks around performance of the operator by entering into ventures with operators who have demonstrated competencies and financial capacity. Through its due diligence Otto seeks to ensure that the operator's reputation is sound and that Otto's interests are in alignment before committing to participation.

Unsuccessful Exploration and Oil and Gas Reserves Depletion Risk

Without additions to reserves through exploration and development drilling success or acquisitions, Otto's oil and gas production, and hence revenues and cash flows, will decrease over time as production from existing fields declines naturally. The rate of decline is dependent on reservoir characteristics.

DIRECTOR'S REPORT

For the year ended 30 June 2020

Exploration for and development of reserves may be unsuccessful or unprofitable due to a number of factors that are inherent in the oil and gas industry and are outside Otto's control. These include the risk that Otto will not discover commercially productive reservoirs or discovers reservoirs that do not produce sufficient revenues to return a profit. Drilling and development operations may be curtailed, delayed or cancelled as a result of other sub-surface, mechanical or environmental factors or events causing significant financial losses.

Otto seeks to mitigate the risk of unsuccessful exploration by having an exploration strategy based around a strict set of criteria including geographical restrictions, probabilities of success, partner and operator capacity and reputation (including drilling contractors) and required rates of return. Otto then seeks to ensure that it has suitably qualified and experienced staff and advisors to generate and evaluate opportunities within the set criteria. Any acquisition of reserves is subject to the same discipline.

Where possible, Otto also seeks to reduce the likelihood or impact of such risks through commercial agreements where possible.

Key Management Risk

As Otto is a non-operator of its key interests, it has a small management team. Having a suitably qualified and reputable operating team in place with appropriate relationships and experience in the Gulf of Mexico oil and gas business is critical to Otto's success so far and in the future. The loss of the services of members of the Houston operating team could have a negative impact on the Company's operations and relationships. Particularly in the short term until suitable replacements could be recruited. Otto does not maintain or plan to obtain any insurance against the loss of any key management personnel.

Commodity price risk

Otto's revenues, profitability and generation of cash flows depend significantly on crude oil and natural gas prices. Oil and natural gas prices are volatile and low prices could have a material adverse impact on profitability and cash flow. There are a number of factors that can cause fluctuations in price that are beyond the control of Otto.

Otto monitors and analyses the oil and gas markets and seeks to reduce price risk where reasonable and practical. The Company has policies and procedures for entering into hedging contracts to mitigate against the fluctuations in oil price and exchange rates.

Borrowings

On 4 November 2019 the Company announced it had entered into a three-year senior secured US\$55 million term debt facility (Facility) with Macquarie Bank Limited (Macquarie). This Facility is to be used to fund the Company's current and future developments, including Green Canyon 21 and any new discoveries arising from the remainder of the current programs.

The initial commitment under the Facility is US\$35 million with an additional US\$20 million subject to further credit approval from Macquarie. Key Terms of the Facility include:

- US\$25 million available under Tranche A1. As of 30 June 2020, the Company has drawn the US\$25 million available under this tranche, and had repaid \$4.3 million, resulting in a closing balance of \$20.7 million. Repaid amounts are not available to be re-borrowed;
- Additional US\$10 million available under Tranche A2 until 31 December 2020, upon successful exploration or commencement of commercial production at Green Canyon 21;
- Interest rate of LIBOR plus 8.0% per annum;
- Matures in November 2022 (36 months from initial drawdown);
- Quarterly principal repayments commenced 31 March 2020;
- Senior secured non-revolving facility with security over US based assets; and
- The Facility may be cancelled by the Company after 12 months without penalty once any drawn funds are repaid.

As of 30 June 2020, the Company was in compliance with all of its financial covenants.

DIRECTOR'S REPORT

For the year ended 30 June 2020

Option Issue

In addition to customary upfront fees payable to Macquarie, the Company issued to Macquarie 42.5 million options to subscribe for fully paid ordinary shares in the Company at an exercise price of A\$0.08 to access Tranche A1. A further 42.5 million options will be issued on initial draw of Tranche A2 and will expire four years after issue date.

Significant changes in the state of affairs

Significant changes in the state of affairs of the Group during the financial year were as follows:

- In August 2019, Otto announced a discovery in the deep MP sands with its GC-21 "Bulleit" well. Approximately 110 net feet of TVD oil pay was intersected in a high-quality reservoir. This will be the reservoir from which the well will produce when it comes on-line in late Q3 CY 2020.
- In November 2019, the Company entered into a three-year senior secured US\$55 million Facility with Macquarie. This Facility will be used to fund the Company's current and future developments.
- In December 2019, the joint venture with Hilcorp drilled its second well in the Lightning Field, the Green #2, and commenced production in February 2020.
- In March 2020, the joint venture with Byron spudded the F5 development well at SM71 and announced a potential discovery. Due to increased uncertainty of continuing operations related to the impact of COVID-19 on operations, the wellbore was temporarily abandoned in a manner that allows it to be efficiently sidetracked in the future when the uncertainty relating to the COVID-19 pandemic has dissipated and also at a time where oil price volatility stabilizes.
- In April 2020, Otto completed a capital raising of approximately A\$13.8 million (US\$8.8 million) before costs through a placement and a 1 for 1 accelerated non-renounceable entitlement offer as set out below.
 - a) The Placement raised a total of approximately A\$1.4 million, through the issue of approximately 231 million shares at A\$0.006 per share.
 - b) The Institutional Entitlement Offer raised a total of A\$6.4 million through the issue of approximately 1,074 million shares at A\$0.006 per share. The Institutional Entitlement Offer saw take-up of 536.9 million shares by Molton Holdings Limited, in its capacity as an existing institutional investor; 8.3 million shares to other institutional investors and 528.7 million shortfall shares to Molton Holdings Limited in its capacity as sub-underwriter of the Entitlement Offer.
 - c) A total of A\$6.0 million was raised from the Retail Entitlement Offer through the issue of 1,000 million shares at A\$0.006 per share.

Euroz Securities Limited acted as Lead Manager and Underwriter to the Entitlement Offer, Adelaide Equity Partners Limited as Financial Advisor and Steinepreis Paganin acted as legal advisor. Euroz Securities Limited were appointed Managers to the offer.

The funds were raised to be used in conjunction with cash flows from Otto's 50% owned SM 71 oil field and 37.5% owned Lightning gas/condensate discovery to fund the Company's development program and for general working capital.

Significant events after the balance date

No matters or circumstances have arisen since 30 June 2020 that have significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years apart from those listed below:

- Board and Executive Changes

On 17 July 2020, the Company appointed Mr Geoff Page as a Non-Executive Director of the Company and as Chairman of the Audit and Risk Committee. Mr Page is a finance professional with over 20 years of senior finance, accounting and management experience gained globally within a number of industries. He has over 10 years of board experience gained in several different firms.

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For the year ended 30 June 2020

On 1 September 2020, Mr Philip Trajanovich, the Company's Commercial and Land Manager resigned to move away from Houston, Texas. The Company subsequently re-hired Mr Trajanovich as a remote consultant.

On 11 September 2020, the Company hired Mr Michael Utsler as the Company's new Chief Executive Officer and Managing Director. Mr Utsler is an oil and gas executive with more than 40 years of experience in senior international oil and gas sector roles, including 15 years in the Gulf of Mexico and 5 years as Chief Operating Officer of Woodside in Australia. His career has encompassed senior executive, leadership and board roles with Amoco, BP, Woodside and New Fortress Energy. He holds a B.S. in Petroleum Engineering from the University of Oklahoma.

- *Reserves Statement*

On 24 September 2020 the Company released its statement of reserves and prospective resources for SM 71, Lightning and Green Canyon 21 as at 30 June 2020. The reserves for Lightning and Green Canyon 21 were compiled by Otto's independent consultant Ryder Scott Company, while the reserves for SM 71 were compiled by Mr Ed Buckle, a full-time contractor of the Company, and audited by Collarini Energy Experts. The summary statement of reserves and prospective resources as at 30 June 2020 and Changes to reserves and resources since 30 June 2019 is set out below. For full details refer to ASX release dated 24 September 2020. The individual statements for each field are included in the Production and Development section above.

| Total | Gross (100%) | | | Net | | |
|---|---------------|----------------|---------------|--------------|---------------|---------------|
| | Oil (MbbL) | Gas (MMcf) | Mboe | Oil (MbbL) | Gas (MMcf) | Mboe |
| Proved Producing | 3,515 | 25,888 | 7,831 | 1,343 | 7,692 | 2,625 |
| Proved Behind Pipe | 466 | 6,694 | 1,581 | 165 | 1,929 | 487 |
| Proved Undeveloped | 6,034 | 20,303 | 9,417 | 874 | 5,002 | 1,708 |
| Proven (1P) | 10,015 | 52,885 | 18,829 | 2,382 | 14,623 | 4,820 |
| Probable | 8,583 | 34,897 | 14,400 | 1,720 | 9,088 | 3,234 |
| Proven Plus Probable (2P) | 18,598 | 87,782 | 33,229 | 4,102 | 23,711 | 8,054 |
| Possible | 5,879 | 38,102 | 12,229 | 1,807 | 11,142 | 3,663 |
| Proven Plus Probable Plus Possible (3P) | 24,477 | 125,884 | 45,458 | 5,909 | 34,853 | 11,717 |
| Total Prospective Resource (best estimate, unrisks) | | | | 49,071 | 55,146 | 58,262 |

Changes to reserves and resources since 30 June 2019:

| | Otto Energy Limited Grand Total - Reserve Reconciliation (Otto Energy NRI Share) | | | | | | | | | | | |
|-------------------------------|--|-----------------|-----------------------|---------------------|---------------------|-----------------|-----------------------|---------------------|---------------------|-----------------|-----------------------|---------------------|
| | Oil (MbbL) | | | | Gas (MMCF) | | | | MBOE | | | |
| | Remaining 6/30/2019 | Production 2019 | Additions & Revisions | Remaining 6/30/2020 | Remaining 6/30/2019 | Production 2019 | Additions & Revisions | Remaining 6/30/2020 | Remaining 6/30/2019 | Production 2019 | Additions & Revisions | Remaining 6/30/2020 |
| Proved (1P) | 2,282 | 421 | 522 | 2,382 | 8,320 | 1,796 | 8,099 | 14,624 | 3,669 | 721 | 1,872 | 4,820 |
| Probable | 2,417 | 0 | (698) | 1,719 | 6,100 | 0 | 2,987 | 9,088 | 3,434 | | (200) | 3,234 |
| Proved+Probable (2P) | 4,699 | 421 | (176) | 4,102 | 14,420 | 1,796 | 11,086 | 23,711 | 7,103 | 721 | 1,672 | 8,054 |
| Possible | 1,371 | 0 | 435 | 1,806 | 10,071 | | 1,071 | 11,142 | 3,050 | | 613 | 3,663 |
| Proved+Probable+Possible (3P) | 6,070 | 421 | 259 | 5,907 | 24,492 | 1,796 | 12,157 | 34,853 | 10,153 | 721 | 2,285 | 11,717 |

- *Hedging*

In July 2020, the Company entered into additional hedges for 66,000 barrels for 2020 and 54,074 barrels for 2021, resulting in a Weighted Average LLS Price of \$50.11 for the remainder of CY 2020 and \$51.62 for CY 2021 (on forecast SM71 and Lightning volumes). In August 2020, the Company entered into additional hedges for 66,358 barrels for CY2022, resulting in a Weighted Average LLS Price of \$49.20 for CY 2022 of \$49.20 (on forecast SM71 and Lightning volumes).

The impact of the Coronavirus (Covid-19) pandemic is ongoing and its impact on the Group has been disclosed within the Directors Report. It is not practicable to estimate the potential impact, positive or

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For the year ended 30 June 2020

negative, after the reporting date. The situation is rapidly developing and is dependent on measures imposed by the Australian Government and other countries, such as maintaining social distancing requirements, quarantine, travel restrictions and any economic stimulus that may be provided.

Likely developments and expected results

Likely developments in the operations of the Group that were not finalised at the date of this report included:

- Continue completion of the Green Canyon 21 discovery to commence production in late Q3 2020; and
- Possible participation in a Green #3 development well at the Lightning Field with Hilcorp

Environmental regulation and performance

So far as the Directors are aware, there have been no breaches of environmental conditions of the Group's exploration or production licences. Procedures are adopted for each exploration program to ensure that environmental conditions of the Group's tenements are met.

Directors' meetings

The number of meetings of Directors (including meetings of committees of Directors) held during the year and the numbers of meetings attended by each Director were as follows:

| Director | Board meetings | | Audit and risk management Committee (ARC) | | Remuneration and nomination committee (RNC) | |
|-------------------------------|---------------------------|-----------------|---|-----------------|---|-----------------|
| | Number eligible to attend | Number attended | Number eligible to attend | Number attended | Number eligible to attend | Number attended |
| Mr J Jetter | 24 | 19 | 2 | 2 | - | - |
| Mr M Allen ⁽ⁱ⁾ | 22 | 22 | - | - | - | - |
| Mr I Macliver ⁽ⁱⁱ⁾ | 7 | 6 | 1 | 1 | - | - |
| Mr I Boserio ⁽ⁱⁱⁱ⁾ | 20 | 20 | 1 | 1 | 1 | 1 |
| Mr P Senyia | 24 | 24 | 2 | 2 | 1 | 1 |
| Mr K Small | 24 | 24 | - | - | - | - |

(i) Mr M Allen resigned as Managing Director on 10th June 2020.

(ii) Mr I Macliver resigned as Non-executive Director on 21 November 2019

(iii) Mr I Boserio resigned as Non-executive Director on 1 April 2020

Indemnification and insurance of Directors and officers

During the financial year, the Company paid a premium of approximately \$115,000 to insure the Directors and officers of the Company and its controlled entities, and the managers of each of the divisions of the Group.

The liabilities insured are legal costs that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as officers of entities in the Group, and any other payments arising from liabilities incurred by the officers in connection with such proceedings. This does not include such liabilities that arise from conduct involving a willful breach of duty by the officers or the improper use by the officers of their position or of information to gain advantage for them or someone else or to cause detriment to the Company. It is not possible to apportion the premium between amounts relating to the insurance against legal costs and those relating to other liabilities.

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For the year ended 30 June 2020

Proceedings on behalf of Company

No person has applied to the Court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party, for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings.

No proceedings have been brought or intervened in on behalf of the Company with leave of the Court under section 237 of the Corporations Act 2001.

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.

Non-audit services

The following non-audit services were provided by the entity's auditor, BDO Australia. The Directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The nature and scope of each type of non-audit service provided means that auditor independence was not compromised.

BDO Australia received or are due to receive the following amounts for the provision of non-audit services:

| | 2020 | 2019 |
|-------------------------------|---------------|---------------|
| | US\$ | US\$ |
| Tax compliance services | 15,017 | 13,058 |
| Tax consulting and tax advice | 31,114 | 1,410 |
| | <u>46,131</u> | <u>14,468</u> |

Auditor's independence declaration

The auditor's independence declaration is included on page 69 of this report.

Remuneration report (audited)

The Directors of the Company have prepared this remuneration report to outline the overall remuneration strategy, policies and practices which were in place during 2020. This structure includes the share rights and option plans approved by the shareholders at the Company's Annual General Meeting on 21 November 2019. The report has been prepared in accordance with Section 300A of the Corporations Act 2001 and its regulations.

Otto Energy's remuneration policy is designed to ensure that the level and form of compensation achieves certain objectives, including:

- a) attraction and retention of employees and management to pursue the Group's strategy and goals;
- b) delivery of value-adding outcomes for the Group;
- c) fair and reasonable reward for past individual and Group performance; and
- d) incentive to deliver future individual and Group performance.

Remuneration consists of base salary, superannuation, short term incentives (STI) and long term incentives (LTI). Remuneration is determined by reference to market conditions and performance. Performance is

DIRECTOR'S REPORT

For the year ended 30 June 2020

evaluated at an individual level as well as the performance of the Group as a whole. The remuneration policies and structure in 2020 were generally the same as for 2019.

Key management personnel disclosed in this report are:

Directors

| | |
|------------------|---|
| Mr John Jetter | Non-Executive Chairman |
| Mr Paul Senyca | Non-Executive Director |
| Mr Kevin Small | Executive Director and Chief Geophysicist |
| Mr Matthew Allen | Former Managing Director and Chief Executive Officer, resigned 10 June 2020 |
| Mr Ian Boserio | Former Non-Executive Chairman, resigned 1 April 2020 |
| Mr Ian Macliver | Former Non-Executive Director, resigned 21 November 2019 |

Executives

| | |
|-----------------------|--|
| Mr Will Armstrong | Vice President – Exploration and New Ventures |
| Mr Sergio Castro | Chief Financial Officer, commenced 9 December 2019 |
| Mr Philip Trajanovich | Former Senior Commercial Manager, resigned 1 September 2020 |
| Mr David Rich | Former Chief Financial Officer and Company Secretary, resigned 1 November 2019 |

Changes since the end of reporting period

| | |
|-----------------------|--|
| Mr Michael Utsler | Managing Director and Chief Executive Officer, commenced 11 September 2020 |
| Mr Geoff Page | Non-Executive Director, commenced 17 July 2020 |
| Mr Philip Trajanovich | Former Senior Commercial Manager, resigned 1 September 2020 |

Remuneration governance

Role of the Remuneration and Nomination Committee

The Remuneration and Nomination Committee's role is to review and recommend remuneration for key management personnel and review remuneration policies and practices including Company incentive schemes and superannuation arrangements.

The Committee considers independent advice, where circumstances require, on the appropriateness of remuneration to ensure the Group attracts, motivates and retains high quality people.

The ASX Listing Rules require that the maximum aggregate amount of remuneration to be allocated among the non-executive Directors be approved by shareholders in a general meeting. In proposing the maximum amount for consideration by shareholders and in determining the allocation, the Remuneration and Nomination Committee takes account of the time demands made on Directors and such factors as fees paid to non-executive Directors in comparable Australian companies.

The Remuneration and Nomination Committee is currently comprised of two non-executive Directors.

Remuneration arrangements for Directors and executives are reviewed by the Remuneration and Nomination Committee and recommended to the Board for approval. The Remuneration and Nomination Committee considers external data and information, where appropriate, and may engage independent advisors where appropriate to establish market benchmarks.

Remuneration arrangements are determined in conjunction with the annual review of the performance of Directors, executives and employees of the Group. Performance of the Directors and the CEO of the Group is evaluated by the Board, assisted by the Remuneration and Nomination Committee. The CEO reviews the performance of executives with the Remuneration and Nomination Committee. These evaluations take into account criteria such as the achievement toward the Group's performance benchmarks and the achievement of individual performance objectives.

DIRECTOR'S REPORT

For the year ended 30 June 2020

Non-executive director remuneration policy

Non-executive Directors of the Group are remunerated by way of fees, statutory superannuation, and LTI's where applicable. Fees are set to reflect current market levels based on the time, responsibilities and commitments associated with the proper discharge of their duties as members of the Board. The current base fees were reviewed in June 2018. Prior to this there had been no increase in non-executive director fees since 2012. Non-executive Directors' fees are determined within an aggregate non-executive Directors' fee pool limit, which is periodically recommended for approval by shareholders. The maximum currently stands at A\$500,000 per annum and was approved by shareholders at the Annual General Meeting in January 2008.

Non-executive Directors received a grant of performance rights on 15 November 2018 following approval by shareholders at the Company's Annual General Meeting. The grant was based on 50% of FAR. The Board believes that the issue constituted reasonable remuneration having considered the peer group comparisons, the recent history of the Company, the experience of each of the Directors and the responsibilities involved in that office.

On 6 April 2020, the Company announced initiatives to reduce costs in its Houston office. Among those was a 50% reduction in director fees.

Retirement allowances for non-executive Directors

In line with ASX Corporate Governance Council, non-executive Directors' remuneration does not include retirement allowances. Superannuation contributions required under the Australian superannuation guarantee legislation continue to be made and are deducted from the Directors' overall fee entitlements.

Directors' fees

The following fees have applied:

| | From 1 April 2020 to 30 June 2020 | From 1 July 2019 to 31 March 2020 | From 1 July 2018 to 30 June 2019 |
|---|--|--|---|
| Base fees | | | |
| Chair | A\$75,000 | A\$150,000 | A\$ 150,000 |
| Non-executive Directors | A\$45,000 | A\$90,000 | A\$ 90,000 |
| | | | |
| Additional fees | | | |
| Audit and Risk Management Committee Chair | A\$5,000 | A\$10,000 | A\$ 10,000 |

Appointment

The term of appointment is determined in accordance with the Company's Constitution and is subject to the provisions of the Constitution dealing with retirement, re-election and removal of Directors of the Company. The Constitution provides that all Directors of the Company, other than the Managing Director, are subject to re-election by shareholders by rotation at least every three years during the term of their appointment.

Directors and executive remuneration policy and framework

The remuneration arrangement for Directors and executives of the Group for the year ended 30 June 2020 is summarised below.

The remuneration structure in place for the year ended 30 June 2020 applies to all employees including key management personnel and staff members of the Group. The Group's remuneration structure has three elements:

DIRECTOR'S REPORT

For the year ended 30 June 2020

- a) fixed annual remuneration (FAR) or base salary (including superannuation);
- b) short term incentive (STI) award which provides a reward for performance in the past year; and
- c) long term incentive (LTI) award which provides an incentive to deliver future Company performance.

Executive remuneration mix

In accordance with the Group's objective to ensure that executive remuneration is aligned to Group's performance, a significant portion of the executives' target pay is "at risk".

- a) Fixed annual remuneration (FAR) or base salary (including superannuation);

To attract and retain talented, qualified and effective employees, the Group pays competitive base salaries which have been benchmarked to the market in which the Group operates. The Group compiles competitive salary information on companies of comparable size in the oil and gas industry from several sources. Where appropriate, information is obtained from surveys conducted by independent consultants and national and international publications. In the past the Board has engaged independent advisors to review the remuneration levels paid to the Group's key management personnel. An advisor was not retained for the 2019 or 2020 calendar year reviews.

FAR is paid in cash and is not at risk other than by termination. Individual FAR is set each year based on job description, competitive salary information sourced by the Group and overall competence in fulfilling the requirements of the particular role.

There is no guaranteed base pay increases included in any executives' contracts.

Superannuation contributions required under the Australian superannuation guarantee legislation continue to be made and are deducted from the executives overall FAR entitlements.

- b) Short-term incentives

The Board and Remuneration Committee have the discretion to grant annual short-term incentive (STI) awards to the CEO and other members of the executive team at a certain percentage of FAR. The Committee did not exercise its discretion to meet to discuss possible STI awards for the fiscal year ended 2020.

During the year cash bonuses were paid to David Rich \$A50,000 on successful completion of financing facility and Paul Senyica \$A30,121 as a discretionary bonus.

- c) Long-term incentives

The Group believes that encouraging its employees to become shareholders is the best way of aligning their interests with those of its shareholders. Long-term incentives are provided to certain employees via the Otto Energy Limited Performance Rights and Employee Share Option Plans which were re-approved by shareholders at the 2019 Annual General Meeting.

The Otto Energy Limited Performance Rights and Employee Share Option Plans are designed to provide long-term incentives for employees to deliver long-term shareholder returns. Under the plans, participants are granted performance rights or options which only vest if certain performance conditions are met and the employees are still employed by the Group at the end of the vesting period. Participation in, and administration of, the plan is at the Board's discretion and no individual has a contractual right to participate in the plan or to receive any guaranteed benefits.

The amount of performance rights that will vest depends on the vesting period and/or Otto Energy Limited's total shareholder return ('TSR'), including share price growth, dividends, and capital returns. For the rights on issue during, and at the end of the year, vesting of the rights for directors, the CEO and other members of the executive team were based on TSR performance only. If the TSR vesting condition is not met on a measurement date, no rights vest and those performance rights continue to exist as unvested performance rights to be retested at the next measurement date or expiry date if there are no further measurement dates. Once vested, the performance rights are automatically converted into shares. Performance rights are granted under the plan for no consideration.

DIRECTOR'S REPORT

For the year ended 30 June 2020

No rights were issued for the year ended 30 June 2020.

On 15 November 2018 and 21 December 2018, the Company issued a total of 32,668,000 performance rights to employees, consultants, and directors, based on a flat rate of 50% of FAR. These performance rights vest over a three-year period with a measurement date of 15 November, expire at the end of five years on 15 November 2023, and have a TSR hurdle of 15% per annum (based on a 90-day VWAP). On the 15 November 2019 measurement date, the TSR hurdle was not met and the performance rights will continue to exist and be tested at the next measurement date. Additionally, 4,056,000 performance rights lapsed upon cessation of employment during the fiscal year ended 30 June 2020, resulting in 28,612,000 performance rights remaining as of 30 June 2020.

On 29 November 2017, the Company issued 14,187,000 performance rights to executives and directors, based on a flat rate of 33% of FAR. These performance rights vest over a three-year period, expire at the end of five years, and have a TSR hurdle of 10% per annum (based on 30-day VWAP). On the 29 November 2018 measurement date, 4,729,000 performance rights vested based on a TSR of 19.8%. On the 29 November 2019 measurement date, the TSR hurdle was not met and the performance rights will continue to exist and be tested at the next measurement date. Additionally, 2,535,333 performance rights lapsed upon cessation of employment during the fiscal year ended 30 June 2020, resulting in 6,922,667 performance rights remaining as of 30 June 2020.

On 23 April 2015, the Company issued 6,475,000 performance rights to employees. These performance rights vest over a three-year period with a measurement date of 1 February, expired on 31 December 2019, and had a TSR hurdle of 10% per annum (based on a 30-day VWAP). During the fiscal year ended 30 June 2020, the final 4,630,000 performance rights expired, resulting in no performance rights under this grant remaining as of 30 June 2020.

The total number of performance rights granted is subject to being reduced proportionately so that the total number for performance rights is within:

- i) the Board's determined cap on the total number of performance rights which are issued as LTI awards in a given year; and
- ii) any discretionary cap on the total number of rights on issue at any given time.

The Board has established an initial guideline that the total number of performance rights to be issued in a single year will be capped at 1.7% of the fully paid issued capital of the Company as at the end of the prior year. In the event that the potential total number of performance rights exceeds the cap then all awardees receive a pro-rated reduced number of performance rights. This cap is at the discretion of the Board and may be altered depending on the prevailing context.

The Board exercised its discretion regarding the cap for the 2018 grants and issued a total of 32,668,000 performance rights, which amounted to 2.1% of the issued capital as at 30 June 2018. The Board discretion was exercised considering the following important factors:

- i) the issue amounted to 1.7% of the shares on issue prior to the granting of the rights as there had been a share issue since 30 June 2018; and
- ii) the rights issued included the one-off issue of sign on performance rights to three new, highly qualified and experienced US staff members recruited to form the US-based technical team as set out in Otto's ASX release of 16 July 2018. The sign on performance rights formed an important part of their remuneration packages and provide incentives linked to increases in shareholder value. Such sign on benefits are customary in the US.

Share trading policy

The trading of shares issued to participants under any of the Company's employee equity plans is subject to, and conditional upon, compliance with the Company's Securities Trading Policy. Executives are prohibited from entering into any hedging arrangements over unvested rights. While the Employee Share Option Plan does not specifically prohibit holders from entering into hedging arrangements over options, the Board

DIRECTOR'S REPORT

For the year ended 30 June 2020

would include such restrictions in any offer under the Plan. The Company would consider a breach of this policy as gross misconduct which may lead to disciplinary action and potentially dismissal.

Voting and comments made at the Group's 2019 Annual General Meeting

At its 2019 Annual General Meeting, the Company received approximately 83% of "yes" votes on its remuneration report for the 2019 financial year and the Company did not receive any specific feedback at the Annual General Meeting on its remuneration practices. All resolutions put to the meeting at the 2019 Annual General Meeting were passed on a show of hands.

Performance of Otto Energy Limited

The Corporations Act requires disclosure of the Company's remuneration policy to contain a discussion of the Company's earnings and performance and the effect of the Company's performance on shareholder wealth in the reporting period and the four previous financial years. The table below provides a five-year financial summary.

| | 30 June 2016 | 30 June 2017 | 30 June 2018 | 30 June 2019 | 30 June 2020 |
|--|-----------------|-----------------|-----------------|-----------------|-----------------|
| Net profit/(loss) after tax (US\$'000) | (20,086) | (5,247) | (5,194) | (18,409) | (1,358) |
| Share price at year end (AUD) | 0.044 | 0.025 | 0.064 | 0.054 | 0.007 |
| Basic earnings/(loss) (US cents per share) | (1.70) | (0.44) | (0.37) | (0.95) | (0.05) |
| Return of capital (AU cents per share) | - | - | - | - | - |
| Total dividends (AU cents per share) | - | - | - | - | - |

Details of remuneration

The following table shows details of the remuneration received by Directors and executives of the Group for the current and previous financial year.

Remuneration and other terms of employment for the Managing Director & Chief Executive Officer and other US staff and executives are formalised in service agreements. Each of these agreements provides for performance related conditions and details relating to remuneration are set out in the following table:

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For the year ended 30 June 2020

| | Year | Fixed remuneration | | | | Variable remuneration | | | Total |
|-------------------------------|------|--------------------|--------------------|-----------------------------|-----------------|-----------------------|----------------------|------------|-----------|
| | | Salary and fees | Other transactions | Annual & long service leave | Super-annuation | Other benefits | Termination benefits | Cash bonus | |
| Directors | | \$US | \$US | \$US | \$US | \$US | \$US | \$US | \$US |
| Mr J Jetter ^(viii) | 2020 | 81,326 | 55,268 | - | - | - | - | 10,470 | 147,064 |
| | 2019 | 106,601 | - | - | - | - | - | 14,019 | 120,620 |
| Mr M Allen ⁽ⁱⁱ⁾ | 2020 | 360,000 | - | 64,444 | 16,833 | 244,691 | - | 37,975 | 723,943 |
| | 2019 | 360,235 | - | 29,373 | 17,870 | 229,355 | - | 58,166 | 694,999 |
| Mr I MacIver ^(v) | 2020 | 24,466 | - | - | 2,324 | - | - | (9,063) | 17,727 |
| | 2019 | 65,224 | - | - | 6,196 | - | - | 9,439 | 80,859 |
| Mr I Boserio ^(vi) | 2020 | 51,280 | - | - | 4,872 | - | - | (8,083) | 48,068 |
| | 2019 | 58,696 | - | - | 5,576 | - | - | 8,409 | 72,681 |
| Mr P Senyacia ^(iv) | 2020 | 49,272 | - | - | 6,248 | - | - | 18,407 | 86,075 |
| | 2019 | 157,728 | - | (9,806) | 14,126 | 847 | 61,676 | 31,448 | 256,019 |
| Mr K Small ^(vii) | 2020 | 319,555 | - | (3,211) | 11,876 | 20,105 | - | 15,810 | 364,135 |
| | 2019 | 289,933 | - | 3,211 | 5,060 | 22,202 | - | 13,104 | 333,510 |
| Total Director remuneration | 2020 | 885,898 | 55,268 | 61,233 | 42,153 | 264,796 | - | 59,256 | 1,387,012 |
| | 2019 | 1,038,417 | - | 22,778 | 48,828 | 252,404 | 61,676 | 134,585 | 1,558,688 |

- (i) Performance rights have been valued using a single share price model. Further details of the Performance Rights Plan is contained in this Remuneration Report on pages 17 to 30 and Note 24.
- (ii) Mr M Allen was seconded to the Houston office in August 2018. He resigned as Managing Director and CEO on 10th June 2020. Mr Allen has agreed to remain with the Company as a senior advisor for a period of 6 months.
- (iii) Reflects the value of allowances and non-monetary benefits (including relocation, travel, health insurance, car parking and any associated fringe benefits tax). In addition to the non-monetary benefits disclosed above for M Allen, the Company also incurred \$26,150 of expatriate benefits relating to future financial years. These will be expensed to the profit and loss in the relevant financial year.
- (iv) Mr P Senyacia ceased employment with Otto on 31 December 2018 and continued on the Board as a Non-executive Director from 1 January 2019.
- (v) Mr I MacIver resigned as Non-executive Director 21 November 2019
- (vi) Mr I Boserio resigned as Non-executive Director 1 April 2020
- (vii) Mr K Small was appointed a Director in January 2019. Mr Small consulted to the Company as a Senior Exploration Consultant in Houston. His consultancy contract was replaced with an employment contract effective 14 October 2019.

DIRECTOR'S REPORT

For the year ended 30 June 2020

(viii) Mr J Jetter entered into an agreement with the Company dated 24 July 2020, effective 1 April 2020 for the provision of consultancy services at AUD\$2,500 per day for a maximum of three days per week. Other transactions includes \$A80,000 paid under this agreement to 30 June 2020.

| | Year | Fixed Remuneration | | | | Variable Remuneration | | Total | |
|--------------------------------------|------|-------------------------|---|-----------------------------|------------------------------------|---------------------------------|--------------------|----------|-----------------------------------|
| | | Salary and fees \$US | Annual & long service leave \$US | Super- annuation \$US | Other benefits (iii) \$US | Termination benefits \$US | Cash bonus \$US | | Performance rights (i) \$US |
| Executives | | | | | | | | | |
| Mr D Rich ^(ix) | 2020 | 76,126 | (22,082) | 7,873 | 934 | - | 31,444 | (21,422) | 72,874 |
| | 2019 | 235,504 | 23,994 | 14,676 | 6,239 | - | 35,544 | 22,750 | 338,707 |
| Mr S Castro ^(x) | 2020 | 149,400 | - | 5,701 | 6,056 | - | - | - | 161,157 |
| | 2019 | - | - | - | - | - | - | - | - |
| Mr W Armstrong ^(xi) | 2020 | 306,988 | (7,074) | 9,686 | 21,837 | - | - | 24,016 | 355,453 |
| | 2019 | 345,795 | 7,074 | 9,769 | 44,726 | - | - | 19,906 | 427,270 |
| Mr P Trajanovich ^(xii) | 2020 | 289,842 | (4,168) | 9,788 | 32,044 | - | - | 17,309 | 344,816 |
| | 2019 | 327,833 | 4,168 | 9,754 | 53,262 | - | - | 23,446 | 418,463 |
| Total executive remuneration | 2020 | 822,356 | (33,324) | 33,048 | 60,871 | - | 31,444 | 19,904 | 934,299 |
| | 2019 | 909,132 | 35,236 | 34,199 | 104,227 | - | 35,544 | 66,102 | 1,184,440 |
| Total | 2020 | 1,708,254 | 27,909 | 75,201 | 325,667 | - | 49,852 | 79,160 | 2,266,043 |
| | 2019 | 1,947,549 | 58,014 | 83,027 | 356,631 | 61,676 | 35,544 | 200,687 | 2,743,128 |

(ix) Mr D Rich resigned as Chief Financial Officer and Company Secretary effective 1 November 2019

(x) Mr S Castro was appointed Chief Financial Officer effective 9 December 2019

(xi) Mr W Armstrong was appointed VP, Exploration and New Ventures in July 2019 based in Houston

(xii) Mr P Trajanovich was appointed Senior Commercial Manager in July 2019 based in Houston and resigned effective 1 September 2020

DIRECTOR'S REPORT

For the year ended 30 June 2020

The relative proportions of remuneration that are linked to performance and those that are not are as follows:

| | Fixed and other | | At risk – STI | | At risk – LTI ⁽ⁱ⁾ | |
|----------------------------------|-----------------|------|---------------|------|------------------------------|------|
| | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 |
| Directors | | | | | | |
| Mr J Jetter | 93% | 88% | - | - | 7% | 12% |
| Mr P Senyica | 65% | 88% | 21% | - | 14% | 12% |
| Mr M Allen | 95% | 92% | - | - | 5% | 8% |
| Mr I Macliver ⁽ⁱⁱⁱ⁾ | 100% | 88% | - | - | - | 12% |
| Mr I Boserio ⁽ⁱⁱⁱ⁾ | 100% | 88% | - | - | - | 12% |
| Mr K Small | 96% | 96% | - | - | 4% | 4% |
| Executives | | | | | | |
| Mr D Rich ^(iv) | 67% | 83% | 33% | 10% | - | 7% |
| Mr S Castro ^(v) | 100% | - | - | - | - | - |
| Mr W Armstrong | 93% | 95% | - | - | 7% | 5% |
| Mr P Trajanovich ^(vi) | 95% | 94% | - | - | 5% | 6% |

- (i) Since long-term incentives are provided exclusively by way of performance rights or options, the percentages disclosed also reflect the value of remuneration consisting of performance rights and options, based on the value of performance rights or options expensed during the year.
- (ii) Mr I Macliver resigned as Non-executive Director 21 November 2019
- (iii) Mr I Boserio resigned as Non-executive Director 1 April 2020
- (iv) Mr D Rich resigned as Chief Financial Officer and Company Secretary effective 1 November 2019
- (v) Mr S Castro was appointed Chief Financial Officer effective 9 December 2019
- (vi) Mr P Trajanovich resigned as Senior Commercial Manager effective 1 September 2020

Performance against key measures for LTI:

| Metric | Target | Performance | Impact on Incentive Reward |
|---------------------------------------|---|-------------------------|--|
| STI | No STI awards set for the fiscal year ended 2020. | | |
| LTI | No vesting for the fiscal year ended 2020 | | |
| <i>Performance rights issued 2018</i> | 15% 3 year TSR | TSR hurdle rate not met | Performance rights rolled over to next measurement date in November 2020 |
| <i>Performance rights issued 2017</i> | 10% 3 year TSR | TSR hurdle rate not met | Performance rights rolled over to next measurement date in November 2020 |
| <i>Performance rights issued 2015</i> | 10% 3 year TSR | TSR hurdle rate not met | Performance rights expired |

Service agreements

On appointment to the Board, all non-executive Directors enter into a service agreement with the Company in the form of a letter of appointment. The letter summarises the Board policies and terms, including remuneration, relevant to the office of Director.

Remuneration and other terms of employment for the Managing Director and Chief Executive Officer, Chief Financial Officer and other executives (including executive Directors) are also formalised in service agreements. Each of these service agreements provide for the provision of performance related cash

DIRECTOR'S REPORT

For the year ended 30 June 2020

bonuses, and participation, when eligible, in the Otto Energy Limited Performance Rights and Employee Share Option Plans. For the US staff, terms have been agreed and service agreements formalised. Other major provisions of the agreements relating to remuneration are set out below.

All contracts with executives may be terminated early by either party with notice, per individual agreement, subject to termination payments as detailed below.

| Name | Commencement of contract | Base salary including superannuation/other retirement benefits ⁽ⁱⁱⁱ⁾ \$US per annum | Termination benefit ^(iv) |
|--|--------------------------|---|-------------------------------------|
| Mr Matthew Allen <i>Former Managing Director and Chief Executive Officer</i> ⁽ⁱ⁾ | 24 June 2015 | \$376,833 | 6 months base salary |
| Mr Michael Utsler Managing Director and Chief Executive Officer ⁽ⁱⁱ⁾ | 11 September 2020 | \$300,000 | 3 months base salary |
| Mr Kevin Small <i>Senior Exploration Consultant</i> ^(v) | 1 February 2019 | \$364,000 | 3 months base salary |
| Mr Sergio Castro <i>Chief Financial Officer</i> | 9 December 2019 | \$343,200 | 3 months base salary |
| Mr W Armstrong <i>VP, Exploration and New Ventures</i> | 1 August 2018 | \$358,636 | 3 months base salary |
| Mr P Trajanovich <i>Senior Commercial Manager</i> ^(vi) | 1 August 2018 | \$338,143 | 3 months base salary |

- (i) Mr M Allen was seconded to the Houston office in August 2018. He resigned as Managing Director and CEO on 10th June 2020. Mr Allen has agreed to remain with the Company as a senior advisor for a period of 6 months.
- (ii) Mr M Utsler was appointed Managing Director and Chief Executive Officer 11 September 2020
- (iii) In April 2020, all executives, with exception of Mr Allen, the outgoing CEO, took a 46% reduction in pay, to be reassessed in October 2020. Base salaries quoted as at 30 June 2020 are at 100%; they are reviewed annually by the Board and the Remuneration and Nomination Committee.
- (iv) Termination benefits are payable on early termination by the Company, other than for gross misconduct.
- (v) Mr Small consulted to the Company as a Senior Exploration Consultant under a 12 month consulting contract. This contract was replaced with an employment agreement effective 14 October 2019
- (vi) Mr Trajanovich resigned as Senior Commercial Manager 1 September 2020

Share-based compensation

Otto Energy Limited has two forms of share-based compensation for key management personnel. They are performance rights and options.

Performance rights over equity instruments granted

Performance rights granted to key management personnel were granted as remuneration unless otherwise noted. The rights granted have no exercise price and are exercisable from the date of vesting. Details of vesting periods are set out at Note 24. All rights expire on the earlier of their expiry date or termination of individual's employment. Performance rights granted carry no dividend or voting rights.

The value of rights included in remuneration for the year is calculated in accordance with Australian Accounting Standards. The assessed fair value at grant date of the performance rights is allocated equally

DIRECTOR'S REPORT

For the year ended 30 June 2020

over the period from grant date to vesting date and the amount is included in the remuneration tables. Where rights vest fully in the year of grant, the full value of the rights is recognised in remuneration for that year.

The value of performance rights at the grant date is calculated as the fair value of the rights at grant date, using a Hoadley hybrid single share price model, multiplied by the number of rights granted.

No adjustment is made to the value included in remuneration or the financial results where the right ultimately has a lesser or greater value than as at the date of grant. No performance rights were granted in 2020 financial year. The inputs into the fair value calculation of the rights granted and outstanding as at 30 June 2020 are set out in the following table

DIRECTOR'S REPORT

For the year ended 30 June 2020

Year ended 30 June 2020 – TSR based performance rights

| Measurement date | 15 Nov 2019 ⁽ⁱ⁾ | 15 Nov 2020 | 15 Nov 2021 | 15 Nov 2019 ⁽ⁱ⁾ | 15 Nov 2020 | 15 Nov 2021 | 15 Nov 2019 ⁽ⁱ⁾ | 15 Nov 2020 | 15 Nov 2021 | 29 Nov 2019 ⁽ⁱ⁾ | 29 Nov 2020 |
|---------------------------------------|----------------------------|-------------|-------------|----------------------------|-------------|-------------|----------------------------|-------------|-------------|----------------------------|-------------|
| Grant date | 21 Dec 2018 | 21 Dec 2018 | 21 Dec 2018 | 15 Nov 2018 | 15 Nov 2018 | 15 Nov 2018 | 15 Nov 2018 | 15 Nov 2018 | 15 Nov 2018 | 29 Nov 2017 | 29 Nov 2017 |
| Expiry date | 15 Nov 2023 | 15 Nov 2023 | 15 Nov 2023 | 15 Nov 2023 | 15 Nov 2023 | 15 Nov 2023 | 15 Nov 2023 | 15 Nov 2023 | 15 Nov 2023 | 29 Nov 2022 | 29 Nov 2022 |
| KMP rights on issue at year end: | - | - | - | - | - | - | - | - | - | - | - |
| Mr M Allen | - | - | - | 1,330,000 | 1,330,000 | 1,330,000 | 1,330,000 | 1,330,000 | 1,330,000 | 1,309,000 | 1,309,000 |
| Mr J Jetter | - | - | - | 372,000 | 372,000 | 372,000 | 372,000 | 372,000 | 372,000 | 344,333 | 344,334 |
| Mr I Macliver | - | - | - | - | - | - | - | - | - | - | - |
| Mr I Boserio | - | - | - | - | - | - | - | - | - | - | - |
| Mr P Senyacia | - | - | - | 223,000 | 223,000 | 223,000 | 223,000 | 223,000 | 223,000 | 1,050,000 | 1,050,000 |
| Mr K Small | 2,420,000 | 1,613,334 | 806,666 | - | - | - | - | - | - | - | - |
| Mr D Rich | - | - | - | - | - | - | - | - | - | - | - |
| Mr W Armstrong | 3,676,000 | 2,450,667 | 1,225,333 | - | - | - | - | - | - | - | - |
| Mr P Trajanovich | 1,155,334 | 1,155,334 | 1,155,334 | - | - | - | - | - | - | 758,000 | 758,000 |
| Mr S Castro | - | - | - | - | - | - | - | - | - | - | - |
| KMP total rights on issue at year end | 7,251,334 | 5,219,334 | 3,187,333 | 1,925,000 | 1,925,000 | 1,925,000 | 1,925,000 | 1,925,000 | 1,925,000 | 3,461,333 | 3,461,333 |
| Share price at grant date – A\$ | 0.04 | 0.04 | 0.04 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.04 | 0.04 |
| Expected volatility | 70% | 70% | 70% | 70% | 70% | 70% | 70% | 70% | 70% | 20% | 20% |
| Expected dividend yield | Nil | Nil | Nil | Nil | Nil | Nil | Nil | Nil | Nil | Nil | Nil |
| Risk free rate | 1.97% | 1.97% | 1.90% | 2.08% | 2.08% | 2.08% | 2.08% | 2.08% | 2.16% | 2.09% | 2.09% |
| Fair value – A\$ | 0.008 | 0.012 | 0.014 | 0.022 | 0.025 | 0.027 | 0.025 | 0.025 | 0.027 | 0.020 | 0.015 |
| Total value – A\$ | 56,713 | 63,367 | 46,200 | 41,526 | 48,312 | 52,360 | 48,312 | 48,312 | 52,360 | 69,227 | 51,920 |

(i) The measurement date was rolled forward to 29 November 2020 for the rights expiring on 29 November 2019 and 15 November 2020 for the rights expiring on 15 November 2019.

DIRECTOR'S REPORT

For the year ended 30 June 2020

The number of performance rights that will vest depends on the vesting period and/or Otto Energy Limited's Total Shareholder Return ("TSR"), including share price growth, dividends, and capital returns. Once vested, the performance rights are automatically converted to shares. If the vesting condition is not met on a measurement date (no rights vest), the performance rights will not lapse and will continue to exist as unvested performance rights to be retested at the next measurement date or expiry date, whichever is later. Performance rights are granted under the plan for no consideration. All the rights issued to KMP within the 30 June 2019 financial year require a compound TSR of 15% per annum from the grant date to the measurement date in order to vest. All rights issued prior to 1 July 2018 require a compound TSR of 10% per annum from the grant date to the measurement date in order to vest.

The expected price volatility is based upon the historic volatility (based on the remaining life of the rights), adjusted for any expected changes to future volatility due to publicly available information.

No cash benefit is received by key management personnel of the Group, until the sale of the resultant shares, which cannot be done unless and until the rights have vested and the shares issued.

The number of performance rights over ordinary shares held, granted to, vested and/or lapsed/expired by Directors and executives of Otto Energy Limited as part of compensation during the year ended 30 June 2020 is set out below.

| Key Management Personnel | Balance at start of year | Granted as compensation | Vested and exercised | Lapsed/expired | | Balance at end of year |
|----------------------------------|--------------------------|-------------------------|----------------------|----------------|------|------------------------|
| | | | | Number | % | |
| Directors | | | | | | |
| Mr J Jetter | 1,804,667 | - | - | - | - | 1,804,667 |
| Mr M Allen ^(v) | 8,908,000 | - | - | (2,300,000) | 26% | 6,608,000 |
| Mr P Senyca | 5,069,000 | - | - | (2,300,000) | 45% | 2,769,000 |
| Mr I Macliver ⁽ⁱ⁾ | 1,212,667 | - | - | (1,212,667) | 100% | - |
| Mr I Boserio ⁽ⁱⁱ⁾ | 1,082,333 | - | - | (1,082,333) | 100% | - |
| Mr K Small | 4,840,000 | - | - | - | - | 4,840,000 |
| | 22,916,667 | - | - | (6,895,000) | | 16,021,667 |
| Executives | | | | | | |
| Mr D Rich ⁽ⁱⁱⁱ⁾ | 4,296,333 | - | - | (4,296,333) | 100% | - |
| Mr S Castro | - | - | - | - | - | - |
| Mr P Trajanovich ^(iv) | 4,982,000 | - | - | - | - | 4,982,000 |
| Mr W Armstrong | 7,352,000 | - | - | - | - | 7,352,000 |
| | 16,630,333 | - | - | (4,296,333) | | 12,334,000 |

(i) Mr I Macliver resigned as Non-executive Director 21 November 2019

(ii) Mr I Boserio resigned as Non-executive Director 1 April 2020

(iii) Mr D Rich resigned as Chief Financial Officer and Company Secretary effective 1 November 2019

(iv) Mr P Trajanovich resigned as Senior Commercial Manager effective 1 September 2020

DIRECTOR'S REPORT

For the year ended 30 June 2020

- (v) Mr M Allen was seconded to the Houston office in August 2018. He resigned as Managing Director and CEO on 10th June 2020. Mr Allen has agreed to remain with the Company as a senior advisor for a period of 6 months.

Options over equity instruments granted

Options granted to the Directors and executives are granted as remuneration unless otherwise noted. Options are issued under the Employee Option Plan. There were no options issued to key management personnel during the financial year.

Shareholding

The number of shares in the Company held during the financial year by key management personnel of the Group, including their personally related parties, is set out below:

| Key Management Personnel | Balance at start of year | Purchased during the year | Received through conversion of performance rights during the year | Sold during the year | Balance on resignation date | Balance at end of year |
|----------------------------------|--------------------------|---------------------------|---|----------------------|-----------------------------|------------------------|
| Directors | | | | | | |
| Mr J Jetter | 28,940,834 | 28,940,834 | - | - | | 57,881,668 |
| Mr M Allen ^(v) | 10,770,801 | 10,770,801 | - | - | | 21,541,602 |
| Mr P Senyca | 4,711,468 | 3,979,666 | - | - | | 8,691,134 |
| Mr I Macliver ⁽ⁱ⁾ | 7,490,352 | - | - | - | 7,490,352 | |
| Mr I Boserio ⁽ⁱⁱ⁾ | 3,612,763 | - | - | - | 3,612,763 | |
| Mr K Small | 12,371,515 | 37,114,868 | - | - | | 49,486,383 |
| | 67,897,733 | 80,806,169 | - | - | 11,103,115 | 137,600,787 |
| Executives | | | | | | |
| Mr D Rich ⁽ⁱⁱⁱ⁾ | 1,572,195 | - | - | - | 1,572,195 | |
| Mr W Armstrong | 750,000 | - | - | - | | 750,000 |
| Mr S Castro | - | - | - | - | | - |
| Mr P Trajanovich ^(iv) | 758,000 | - | - | - | | 758,000 |
| | 3,080,195 | - | - | - | 1,572,195 | 1,508,000 |
| | 70,977,928 | 80,806,169 | - | - | 12,675,310 | 139,108,787 |

- (i) Mr I Macliver resigned as Non-executive Director 21 November 2019
(ii) Mr I Boserio resigned as Non-executive Director 1 April 2020
(iii) Mr D Rich resigned as Chief Financial Officer and Company Secretary 1 November 2019
(iv) Mr P Trajanovich resigned as Senior Commercial Manager effective 1 September 2020
(v) Mr M Allen was seconded to the Houston office in August 2018. He resigned as Managing Director and CEO on 10th June 2020. Mr Allen has agreed to remain with the Company as a senior advisor for a period of 6 months.

Outstanding balances arising from sales/purchases of goods and services

There are no balances outstanding at the end of the reporting period in relation to transactions with key management personnel and their related parties (2019: nil).

End of Remuneration Report

DIRECTOR'S REPORT

For the year ended 30 June 2020

Diversity

Proportion of women employees at 30 June 2020:

| | Number | Proportion |
|----------------------------|--------|------------|
| Whole organisation* | 3/11 | 27% |
| Senior executive positions | 0/3 | 0% |
| Board | 0/3 | 0% |

*Includes two non-executive Directors

Performance rights on issue at 30 June 2020

| Date granted | Date of expiry | Number |
|------------------|------------------|------------|
| 29 November 2017 | 29 November 2022 | 6,922,667 |
| 15 November 2018 | 15 November 2023 | 5,775,000 |
| 21 December 2018 | 15 November 2023 | 22,837,000 |
| | | 35,534,667 |

Options on issue at 30 June 2020

| Date granted | Date of expiry | Exercise Price | Number |
|-----------------|-----------------|----------------|------------|
| 4 November 2019 | 4 November 2023 | \$A0.08 | 42,500,000 |
| | | | 42,500,000 |

No performance right holder has any right under the performance rights to participate in any other share issue of the Company or any other entity. There were no options on issue at 30 June 2020.

No options were granted as remuneration to key management personnel during the year. Details of performance rights and options granted to key management personnel are disclosed on pages 26 to 30.

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



Mr John Jetter
Chairman

25 September 2020



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Australia

DECLARATION OF INDEPENDENCE BY PHILLIP MURDOCH TO THE DIRECTORS OF OTTO ENERGY LIMITED

As lead auditor of Otto Energy Limited for the year ended 30 June 2020, 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 audit; and
2. No contraventions of any applicable code of professional conduct in relation to the audit.

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

A handwritten signature in black ink, appearing to read 'P. Murdoch', with a long horizontal stroke extending to the right.

Phillip Murdoch

Director

BDO Audit (WA) Pty Ltd

Perth, 25 September 2020

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 30 June 2020

| | Note | 2020 US\$'000 | 2019 US\$'000 |
|--|------|------------------|------------------|
| Operating Revenue (Net) | 2 | 23,028 | 31,258 |
| Cost of sales | 3 | (10,302) | (7,833) |
| Gross profit | | 12,726 | 23,425 |
| Other income | 2 | 244 | 168 |
| Loss on disposal of property, plant and equipment | | (3) | (2) |
| Exploration expenditure | 4 | (13,067) | (37,849) |
| Finance income/(costs) | 5 | (2,392) | 965 |
| Gains on derivative financial instruments | | 5,971 | - |
| Administration and other expenses | 5 | (4,835) | (5,114) |
| Loss before income tax | | (1,356) | (18,407) |
| Income tax expense | 7 | (2) | (2) |
| Loss after income tax for the year | | (1,358) | (18,409) |
| Other comprehensive income that may be recycled to profit or loss | | | |
| Total other comprehensive income | | - | - |
| Total comprehensive loss for the year | | (1,358) | (18,409) |
| Earnings per share | | | |
| Basic and diluted loss per share (US cents) | 6 | (0.05) | (0.95) |

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 year ended 30 June 2020

| | Note | 2020 US\$'000 | 2019 US\$'000 |
|---------------------------------------|------|------------------|------------------|
| Current assets | | | |
| Cash and cash equivalents | 8 | 16,551 | 7,383 |
| Trade and other receivables | 10 | 2,111 | 3,311 |
| Derivative financial instruments | 11 | 2,907 | - |
| Other assets | 12 | 5,373 | 1,238 |
| Total current assets | | 26,942 | 11,932 |
| Non-current assets | | | |
| Oil and gas properties | 14 | 39,793 | 30,982 |
| Right-of-use assets | 13 | 402 | - |
| Derivative financial instruments | 11 | 1,254 | - |
| Property, plant and equipment | | 288 | 106 |
| Other assets | 12 | 600 | 393 |
| Total non-current assets | | 42,337 | 31,481 |
| Total assets | | 69,279 | 43,413 |
| Current liabilities | | | |
| Trade and other payables | 15 | 1,958 | 4,473 |
| Borrowings (net of transaction costs) | 16 | 8,179 | - |
| Lease liabilities | 17 | 139 | - |
| Provisions | 18 | 194 | 173 |
| Total current liabilities | | 10,470 | 4,646 |
| Non-current liabilities | | | |
| Borrowings (net of transaction costs) | 16 | 10,127 | - |
| Lease liabilities | 17 | 274 | - |
| Provisions | 18 | 3,757 | 1,589 |
| Total non-current liabilities | | 14,158 | 1,589 |
| Total liabilities | | 24,628 | 6,235 |
| Net assets | | 44,651 | 37,178 |
| Equity | | | |
| Contributed equity | 19 | 133,242 | 125,041 |
| Reserves | 20 | 14,697 | 14,067 |
| Accumulated losses | | (103,288) | (101,930) |
| Total equity | | 44,651 | 37,178 |

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2020

| | 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 2018 | 90,704 | 9,659 | 4,188 | (83,521) | 21,030 |
| Loss for the period | - | - | - | (18,409) | (18,409) |
| Other comprehensive income | - | - | - | - | - |
| Total comprehensive loss for the year | - | - | - | (18,409) | (18,409) |
| Transactions with owners in their capacity as owners: | | | | | |
| Issue of shares (net of costs) | 34,337 | - | - | - | 34,337 |
| Equity benefits issued to employees | - | 220 | - | - | 220 |
| Balance at 30 June 2019 | 125,041 | 9,879 | 4,188 | (101,930) | 37,178 |
| Balance at 1 July 2019 | 125,041 | 9,879 | 4,188 | (101,930) | 37,178 |
| Loss for the period | - | - | - | (1,358) | (1,358) |
| Other comprehensive income | - | - | - | - | - |
| Total comprehensive loss for the year | - | - | - | (1,358) | (1,358) |
| Transactions with owners in their capacity as owners: | | | | | |
| Issue of shares (net of costs) | 8,201 | - | - | - | 8,201 |
| Issue of options – Note 16 | - | 528 | - | - | 528 |
| Equity benefits issued to employees | - | 102 | - | - | 102 |
| Balance at 30 June 2020 | 133,242 | 10,509 | 4,188 | (103,288) | 44,651 |

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 30 June 2020

| | Note | 2020 US\$'000 | 2019 US\$'000 |
|---|------|------------------|------------------|
| Cash flows from operating activities | | | |
| Oil and Gas Sales (net) | | 24,217 | 32,042 |
| Other income | | 176 | 11 |
| Payments to suppliers and employees | | (12,341) | (8,504) |
| Payments for exploration and evaluation | | (11,189) | (36,867) |
| Interest received/(paid) | | (1,582) | 157 |
| Income tax paid | | (2) | - |
| Net cash outflow from operating activities | 9 | (721) | (13,161) |
| Cash flows from investing activities | | | |
| Payments for property, plant and equipment | | (418) | (87) |
| Payments for development and evaluation | | (16,206) | (8,904) |
| Bond for development asset | | 43 | (38) |
| Net cash outflow from investing activities | | (16,581) | (9,029) |
| Cash flows from financing activities | | | |
| Net proceeds from borrowings / (repayment) of convertible notes | | 20,700 | (8,100) |
| Transaction costs relating to borrowings | | (2,545) | - |
| Interest paid on convertible notes | | - | (2,327) |
| Proceeds from issue of shares | | 8,785 | 36,613 |
| Transaction costs - shares | | (585) | (2,375) |
| Net cash inflow from financing activities | | 26,355 | 23,811 |
| Net increase in cash and cash equivalents | | 9,053 | 1,621 |
| Cash and cash equivalents at the beginning of the financial year | | 7,383 | 20,309 |
| Effects of exchange rate changes on cash | | 115 | (183) |
| Cash and cash equivalents at the end of the financial year | 8 | 16,551 | 7,383 |

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2020

ABOUT THIS REPORT

Otto Energy Limited (referred to as 'Otto' or the 'Company') is a for-profit entity limited by shares, incorporated and domiciled in Australia. Its shares are publicly traded on the Australian Securities Exchange. The nature of operations and principal activities of Otto and its subsidiaries (referred to as the 'Group') are described in the Directors' Report.

The consolidated general purpose financial report of the Group was authorised for issue in accordance with a resolution of the Directors on 25 September 2020.

Basis of preparation

The financial report is a general purpose financial report which:

- has been prepared in accordance with the requirements of the *Corporations Act 2001*, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board (AASB) and International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB);
- has been prepared on a historical cost basis, except for certain financial instruments which have been measured at fair value;
- presents reclassified comparative information where required for consistency with the current year's presentation; and
- adopts all new and amended Accounting Standards and Interpretations issued by the AASB that are relevant to the Group and effective for reporting periods beginning on or before 1 July 2019. Refer to note 31 for further details.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group. A list of controlled entities (subsidiaries) is contained in note 22.

Subsidiaries are consolidated from the date on which control is obtained by the Group and cease to be consolidated from the date that control ceases. In preparing the consolidated financial statements, all intercompany balances and transactions, income and expenses and profits or losses resulting from intra-group transactions have been eliminated.

Currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in United States dollars, which is Otto Energy Limited's functional and presentation currency.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

Rounding of amounts

The amounts contained in these financial statements have been rounded to the nearest thousand dollars (\$'000) unless otherwise stated, in accordance with ASIC Instrument 2016/191.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2020

ABOUT THIS REPORT (continued)

Other accounting policies

Significant and other accounting policies that summarise the measurement basis used and are relevant to an understanding of the financial statements are provided throughout the notes to the consolidated financial statements.

Going concern

Otto's financial statements have been prepared on a going concern basis.

Key estimates and judgements

In applying the Group's accounting policies, management has made a number of judgements and applied estimates of future events. Judgements and estimates which are material to the financial report are found in the following notes:

- Note 7 Income tax
- Note 14 Oil and gas properties
- Note 18 Provisions
- Note 24 Share-based payments

Impact of Coronavirus (COVID-19) pandemic.

Judgement has been exercised in considering the impacts that the Coronavirus (COVID-19) pandemic has had, or may have, on the company based on known information. Other than as addressed in specific notes, there does not currently appear to be either any significant impact upon the financial statements or any significant uncertainties with respect to events or conditions which may impact the company unfavourably as at the reporting date or subsequently as a result of the Coronavirus (COVID-19) pandemic.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2020

FINANCIAL PERFORMANCE

1. 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) and Other. Discrete financial information about each of these operating segments is reported to the executive management team on at least a monthly basis.

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board. The Group had two reportable segments during 2020.

The segment information for the reportable segments for the year ended 30 June 20 is as follows:

| 2020 | Gulf of Mexico (USA) | Other | Consolidated |
|--|-------------------------|--------------|----------------|
| | US\$'000 | US\$'000 | US\$'000 |
| Operating Revenue | 23,028 | - | 23,028 |
| Cost of Production | (10,302) | - | (10,302) |
| Gross Profit | 12,726 | - | 12,726 |
| Other income | 196 | 48 | 244 |
| Loss on disposal of property, plant and equipment | (3) | - | (3) |
| Exploration expenditure | (13,231) | 164 | (13,067) |
| Finance costs | (2,388) | (4) | (2,392) |
| Gains on derivative financial instruments | 5,971 | - | 5,971 |
| Administration and other expenses | (4,035) | (800) | (4,835) |
| Profit (Loss) before income tax | (764) | (592) | (1,356) |
| Income tax expense | - | (2) | (2) |
| Profit (Loss) after income tax for the year | (764) | (594) | (1,358) |
| Total non-current assets | 42,086 | 251 | 42,337 |
| Total assets | 63,199 | 6,080 | 69,279 |
| Total liabilities | 24,145 | 483 | 24,628 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2020

1. Segment information (continued)

The segment information for the reportable segments for the year ended 30 June 2019 is as follows:

| 2019 | Gulf of Mexico (USA) | Other | Consolidated |
|--|----------------------|----------------|-----------------|
| | US\$'000 | US\$'000 | US\$'000 |
| Operating Revenue | 31,258 | - | 31,258 |
| Cost of Production | (7,833) | - | (7,833) |
| Gross Profit | 23,425 | - | 23,425 |
| Other income | 17 | 151 | 168 |
| Profit/(loss) on disposal of property, plant and equipment | - | (2) | (2) |
| Exploration expenditure | (33,708) | (4,141) | (37,849) |
| Finance costs | (119) | 1,084 | 965 |
| Administration and other expenses | (4,154) | (960) | (5,114) |
| Profit (Loss) before income tax | (14,539) | (3,868) | (18,407) |
| Income tax expense | - | (2) | (2) |
| Profit (Loss) after income tax for the year | (14,539) | (3,870) | (18,409) |
| Total non-current assets | 31,478 | 3 | 31,481 |
| Total assets | 38,769 | 4,644 | 43,413 |
| Total liabilities | 5,555 | 680 | 6,235 |

2. Revenue and other income

South Marsh 71 (SM71) Sales^{(i) (v)}

| | 2020 US\$'000 | 2019 US\$'000 |
|--------------------------------|------------------|------------------|
| Oil Sales | 21,448 | 34,684 |
| Gas Sales | 965 | 3,433 |
| Facility Fee ⁽ⁱⁱⁱ⁾ | 380 | - |
| Total Sales | 22,793 | 38,117 |
| Less: Royalties ⁽ⁱ⁾ | (4,217) | (7,064) |
| SM71 Operating Revenue (Net) | 18,576 | 31,053 |

Lightning Sales^{(iii) (v)}

| | | |
|-----------------------------------|--------|--------|
| Oil Sales | 1,581 | 94 |
| Gas Sales | 2,242 | 89 |
| Natural Gas Liquids Sales | 629 | 22 |
| Lightning Operating Revenue (Net) | 4,452 | 205 |
| Total Operating Revenue (Net) | 23,028 | 31,258 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2020

2. Revenue and other income (continued)

| | 2020 US\$'000 | 2019 US\$'000 |
|---------------------------------|------------------|------------------|
| Interest income ^(iv) | 68 | 157 |
| Other income | 176 | 11 |
| | 244 | 168 |

- (i) SM71 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) Facility fee relates to SM71 F4 slot usage and facility fee
- (iii) Proceeds from the sale of oil and gas from the Lightning field are received net of royalty payments.
- (iv) Interest income is recognised using the effective interest rate method.
- (v) Gross oil revenue (\$21.448m) and net gas revenue (\$0.965m) from Gulf of Mexico SM71, net oil revenue (\$1.581m) and net gas revenue (\$2.871m) from Lightning were all sold to different single customers.

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.

Revenue from the sale of SM71 oil and gas is recognised and measured in the accounting period in which the goods and/or services are provided based on the amount of the transaction price allocated to the performance obligations. The performance obligation is the supply of oil and gas over the contractual term; the units of supply represent a series of distinct goods that are substantially the same with the same pattern of transfer to the customer. The performance obligation is considered to be satisfied as the customer receives the supply through the pipeline, based on the units delivered. Hence revenue is recognised over time.

Revenue from Lightning oil sales is recognised upon transfer of the product to the purchaser's transportation mode, currently via truck for oil, hence revenue is recognized at a point in time. The performance obligation for Lightning gas sales is considered to be satisfied as the customer receives the supply through the pipeline, based on the units delivered. Hence revenue is recognised over time.

| | 2020 US\$'000 | 2019 US\$'000 |
|--|------------------|------------------|
| 3. Cost of Sales | | |
| Cost of Sales | | |
| Gathering and Production charges | 3,738 | 2,874 |
| Amortisation of capitalised developments – Note 14 | 6,564 | 4,959 |
| Total Cost of Sales | 10,302 | 7,833 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2020

| | 2020 US\$'000 | 2019 US\$'000 |
|---|------------------|------------------|
| 4. Exploration expenditure | | |
| Exploration expenditure – Gulf of Mexico/Gulf Coast | 13,231 | 33,708 |
| Exploration expenditure – Alaska North Slope | (164) | 4,231 |
| Exploration expenditure – Other | - | (90) |
| | <u>13,067</u> | <u>37,849</u> |

Recognition and measurement

Costs incurred in the exploration stages of specific areas of interest are expensed against the profit or loss as incurred. All exploration expenditure, including general permit activity, geological and geophysical costs, new venture activity costs and drilling exploration wells, is expensed as incurred. The costs of acquiring interests in new exploration licences are expensed. Once an exploration discovery has been determined, evaluation and development expenditure from that point on is capitalised to the Consolidated Statement of Financial Position as oil and gas properties.

Exploration expenditure in relation to the Gulf of Mexico/Gulf Coast includes the exploration drilling of SM-71 F5 (\$3.6M) and Mustang (\$4.1M) prospects as well as costs incurred to 30 June 2020 in the drilling to the MP sands exploration target in the GC 21 Bulleit well (\$4.1M).

| | 2020 US\$'000 | 2019 US\$'000 |
|--|------------------|------------------|
| 5. Other expenses | | |
| i) Finance costs | | |
| Interest and commitment fees on borrowings | 1,650 | - |
| Interest expense leases | 25 | - |
| Amortisation of borrowing costs | 679 | - |
| Accretion of decommissioning fund | 25 | 51 |
| Convertible notes | - | (1,083) |
| Loss on derivatives | - | 67 |
| Other | 13 | - |
| Total finance costs/ (income) | <u>2,392</u> | <u>(965)</u> |
| ii) Administration and other expenses | | |
| <i>Employee benefits expense</i> | | |
| Defined contribution superannuation expense | 84 | 80 |
| Share-based payment expense | 102 | 220 |
| Other employee benefits expenses | 3,070 | 3,214 |
| Total employee benefits expense | <u>3,256</u> | <u>3,514</u> |
| <i>Depreciation expenseⁱⁱ</i> | | |
| <i>Right-of-use assets</i> | | |
| Right-of-use assets – buildings | 103 | - |
| Right-of-use assets – plant and equipment | 21 | - |
| Total depreciation expense right-of-use assets | <u>124</u> | <u>-</u> |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2020

5. Other expenses (continued)

| | 2020 US\$'000 | 2019 US\$'000 |
|---|------------------|------------------|
| <i>Property, plant and equipment</i> | | |
| Furniture and equipment | 82 | 48 |
| Total depreciation expense | <u>206</u> | <u>48</u> |
| Corporate and other costs | 1,097 | 675 |
| Business development | 391 | 694 |
| Foreign currency (gains)/losses | (115) | 183 |
| | <u>1,373</u> | <u>1,552</u> |
| Total administration and other expenses | <u>4,835</u> | <u>5,114</u> |

- (i) Depreciation and amortisation charges are included above in Note 3 Cost of sales and Note 5 other expenses. Total depreciation and amortisation for the Consolidated Entity is \$6.8 million (2019: \$5.0 million)

6. Earnings per share

Basic earnings per share is calculated by dividing the profit or loss attributable to owners of the Company, excluding any costs of servicing equity (other than dividends), by the weighted average number of ordinary shares, adjusted for the bonus element.

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

The following table reflects the income and share data used in the basic and diluted EPS calculations:

| | 2020 | 2019 |
|---|---------------|---------------|
| Loss attributable to owners of the Company (US\$'000) | (1,358) | (18,409) |
| Weighted average number of ordinary shares on issue for basic and diluted earnings per share (number) | 2,935,246,867 | 1,946,641,840 |
| Performance rights on issue | 35,534,667 | 46,756,000 |
| Options on issue | 42,500,000 | - |
| Basic and diluted loss per share (US cents) | (0.05) | (0.95) |

Due to the Company reporting a loss for the 2020 and 2019 financial years, the impact of potential shares are not included in calculating diluted EPS.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2020

7. Income tax

| | 2020 US\$'000 | 2019 US\$'000 |
|--|------------------|------------------|
| The components of tax expense comprise: | | |
| Current tax | 2 | 2 |
| Deferred tax – origination and reversal of temporary differences | - | - |
| Prior period under provision | - | - |
| | 2 | 2 |
| Reconciliation of income tax expense to prima facie tax payable: | | |
| Loss before income tax | (1,356) | (17,536) |
| Prima facie income tax at 30% | (407) | (5,261) |
| Difference in overseas tax rates | 3,172 | 3,445 |
| Non-assessable income | - | - |
| Tax effect of amounts not deductible in calculating taxable income | (4,026) | (5,285) |
| Benefit of deferred tax assets not brought to account | 1,263 | 7,103 |
| Prior period under/(over) provision | - | - |
| Income tax expense | 2 | 2 |
| Deferred tax assets | | |
| Temporary differences | | |
| – provisions and other corporate costs | 337 | 566 |
| – exploration and evaluation costs | - | - |
| | 337 | 566 |
| Tax losses – revenue | 7,351 | 7,030 |
| Tax losses – foreign | 11,358 | 12,491 |
| | 19,046 | 20,087 |
| Offset against deferred tax liabilities recognised | (10,579) | (8,861) |
| Deferred tax assets not brought to account | (8,468) | (10,660) |
| Deferred tax assets brought to account | - | - |
| Deferred tax liabilities | | |
| Temporary differences – Oil and gas properties | | |
| Offset by deferred tax assets recognised | (10,579) | (8,861) |
| Deferred tax liabilities brought to account | - | - |

Recognition and measurement

The income tax expense for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

Included in the foreign tax losses is tax losses of US\$11.4 million that can be offset against future tax payable on US profits from US Gulf of Mexico operations.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2020

7. Income tax (continued)

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where the Company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously. Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

Key estimates and judgements

The Group is subject to income taxes in Australia and jurisdictions where it has foreign operations. Significant judgement is required in determining the worldwide provision for income taxes. There are certain transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The Group estimates its tax liabilities based on the Group's understanding of the tax law. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

In addition, the Group recognises deferred tax assets relating to carried forward tax losses to the extent there are sufficient taxable temporary differences (deferred tax liabilities) relating to the same taxation jurisdiction and the same subsidiary against which the unused tax losses can be utilised. However, utilisation of the tax losses depends on the ability of the entity to satisfy certain tests at the time the losses are recouped.

| | 2020 US\$'000 | 2019 US\$'000 |
|---|------------------|------------------|
| 8. Cash and cash equivalents | | |
| Cash at bank and on hand | 11,551 | 7,383 |
| Restricted cash – debt service reserve account (DSRA) | 5,000 | - |
| Balance at end of period | 16,551 | 7,383 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2020

8. Cash and cash equivalents (continued)

Recognition and measurement

Cash at bank and on hand includes cash on hand, deposits held at call with financial institutions and other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash at bank earns interest at floating rates based on daily bank deposit rates.

On 2nd November 2019, the Company entered into a three-year senior secured US\$55 million term debt facility (Facility) with Macquarie Bank Limited (Macquarie). Under the terms of the agreement a Debt Service Reserve Account (DSRA) is required with a balance of at least \$5,000,000. The DSRA may only be applied in reduction of the loan.

| | 2020 US\$'000 | 2019 US\$'000 |
|--|------------------|------------------|
| 9. Reconciliation of loss after income tax to net cash outflow from operating activities | | |
| Loss after income tax | (1,358) | (18,409) |
| Non-cash items: | | |
| Depreciation expense – furniture and equipment | 206 | 48 |
| Share-based payments | 102 | 220 |
| Gain on derivative instruments at fair value | (4,035) | - |
| Finance costs/(income) – see note 5(i) | 729 | (1,284) |
| Amortisation of deferred costs | 6,564 | 4,959 |
| Other non-cash items | (360) | 305 |
| Change in assets and liabilities: | | |
| (Increase)/Decrease in trade and other receivables | 1,189 | 784 |
| (Increase) Decrease in other assets | (4,239) | (1,073) |
| Increase in trade and other payables | 466 | 1,307 |
| Increase/(Decrease) in provisions | 15 | (18) |
| Net cash outflow from operating activities | <u>(721)</u> | <u>(13,161)</u> |

Changes in financing liabilities arising from cash flow and non-cash flow items

Borrowings

| | | |
|----------------------------------|---------------|----------|
| Balance at the start of the year | - | - |
| Proceeds/repayment on borrowings | 20,700 | - |
| Borrowing transaction costs | (3,073) | - |
| Amortisation borrowing costs | 679 | - |
| Balance at the end of the year | <u>18,306</u> | <u>-</u> |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2020

OPERATING ASSETS AND LIABILITIES

| | 2020 US\$'000 | 2019 US\$'000 |
|----------------------------------|------------------|------------------|
| 10. Trade and other receivables | | |
| Trade receivables ⁽ⁱ⁾ | 2,024 | 3,213 |
| Other receivables | 87 | 98 |
| | 2,111 | 3,311 |

Recognition and measurement

Other receivables are initially recognised at fair value and subsequently measured at amortised cost less an allowance for uncollectible amounts.

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. 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.

- (i) Trade receivable relates to June 2020 Lightning (net of royalties) and SM 71 oil and gas sales (before deduction of SM 71 royalties).

| | 2020 US\$'000 | 2019 US\$'000 |
|---|------------------|------------------|
| 11. Derivative financial instruments | | |
| Current | | |
| Oil price fixed swaps – held at fair value through profit or loss | 2,907 | - |
| Total current derivative financial instrument assets | 2,907 | - |
| Non-current | | |
| Oil price fixed swaps – held at fair value through profit or loss | 1,254 | - |
| Total non-current derivative financial instrument assets | 1,254 | - |
| Total derivative financial instrument assets | 4,161 | - |

Recognition and measurement

Derivatives are initially recognised at their fair value when the Group becomes a party to the contract and are subsequently measured at fair value through profit or loss. The Group has not adopted Hedge Accounting under AASB 9 *Financial Instruments*.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2020

| | 2020 US\$'000 | 2019 US\$'000 |
|----------------------------|------------------|------------------|
| 12. Other assets | | |
| Current | | |
| Prepayments ⁽ⁱ⁾ | 5,287 | 925 |
| Other assets | 86 | 313 |
| | <u>5,373</u> | <u>1,238</u> |
| Non-current | | |
| Bonds ⁽ⁱⁱ⁾ | 600 | 393 |
| | <u>600</u> | <u>393</u> |

(i) Included in prepayments in 2020 is \$4.5million cash calls paid in advance for Green Canyon GC-21 development costs.

(ii) Development bond for SM 71 (\$325,000), Houston apartment rental bond (\$24,960), Great Bear deposit (\$250,000).

Recognition and measurement

Other financial assets are initially measured at fair value. Transaction costs are included as part of the initial measurement, except for financial assets at fair value through profit or loss. They are subsequently measured at either amortised cost or fair value depending on their classification. Classification is determined based on the purpose of the acquisition and subsequent reclassification to other categories is restricted.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

| | 2020 US\$'000 | 2019 US\$'000 |
|------------------------------------|------------------|------------------|
| 13. Right-of-use assets | | |
| Right-of-use assets | | |
| Land and buildings – right-of-use | 484 | - |
| Less: Accumulated depreciation | (103) | - |
| | <u>381</u> | <u>-</u> |
| Plant and equipment – right-of-use | 42 | - |
| Less: Accumulated depreciation | (21) | - |
| | <u>21</u> | <u>-</u> |
| Total right-of-use assets | <u>402</u> | <u>-</u> |

| | 2020 US\$'000 | 2019 US\$'000 |
|---|------------------|------------------|
| 14. Oil and gas properties | | |
| Producing and development assets | | |
| At cost | | |
| SM71 balance at beginning of year | 23,632 | 27,151 |
| SM71 expenditure for the year | 768 | 1,440 |
| SM71 amortisation of assets | (5,510) | (4,959) |
| SM71 balance at end of year | <u>18,890</u> | <u>23,632</u> |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2020

14. Oil and gas properties (continued)

| | 2020 | 2019 |
|---|----------|----------|
| | US\$'000 | US\$'000 |
| Lightning balance at beginning of year | 1,934 | - |
| Lightning expenditure for the year | 5,104 | 1,934 |
| Lightning amortisation of assets | (1,054) | - |
| Lightning balance at end of year | 5,984 | 1,934 |
| GC-21 balance at beginning of year | 5,416 | - |
| GC-21 expenditure for the year | 9,503 | 5,416 |
| GC-21 balance at end of year | 14,919 | 5,416 |
| Total oil and gas properties including decommissioning assets | 39,793 | 30,982 |

Recognition and measurement

i) Producing and development assets

Producing projects are stated at cost less accumulated amortisation and impairment charges. Development assets include evaluation, construction, installation or completion of production and infrastructure facilities such as platforms and pipelines, development wells, acquired development or producing assets, capitalised borrowing costs and the estimated costs of decommissioning, dismantling and restoration. Evaluation is deemed to be activities undertaken from the beginning of the definitive feasibility study or testing conducted to assess the technical commercial viability of extracting a resource before moving into the development phase.

Once an exploration discovery has been determined, subsequent evaluation and development expenditure is capitalised to the Consolidated Statement of Financial Position as oil and gas properties as it is probable that future economic benefits associated with the item will flow to the Group. Once such costs are capitalised as oil and gas properties, they will be tested for impairment and assessed for impairment indicators for periods thereafter as prescribed by the relevant accounting standards.

The carrying value of oil and gas properties is reviewed annually by directors to ensure it is not in excess of the recoverable amount.

The recoverable amount of an asset or CGU is the greater of its fair value less costs of disposal ("FVLCD") and its value-in-use ("VIU"), using an asset's estimated future cashflows (as described below) discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

ii) Prepaid drilling and completion costs

Where the Company has a non-operated interest in an oil or gas property, it may periodically be required to make a cash contribution for its share of the Operator's estimated drilling and/or completion costs, in advance of these operations taking place.

Where these contributions relate to a prepayment for exploratory or early stage drilling activity, prior to a decision on the commerciality of a well having been made, the costs are expensed in profit or loss when the cash call is paid. The Operator notifies the Company as to how funds have been expended and any relevant costs are reclassified from exploration expense and capitalised to deferred oil and gas properties.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2020

14. Oil and gas properties (continued)

Where these contributions relate to a prepayment for well completion, these costs are capitalised as prepaid completion costs within oil and gas properties.

iii) Commencement of production

When a well demonstrates commercial feasibility or comes into commercial production, accumulated development and evaluation expenditure for the relevant area of interest is amortised on a units of production basis.

iv) Amortisation and depreciation of producing projects

The Group uses the units of production (UOP) approach when amortising and depreciating field-specific assets. Using this method of amortisation and depreciation requires the Group to compare the actual volume of production to the reserves and then to apply this determined rate of depletion to the carrying value of the depreciable asset.

Capitalised producing project costs relating to commercially producing fields are depreciated/amortised using the UOP basis once commercial quantities are being produced within an area of interest. The reserves used in these calculations are the proved plus probable reserves (2P) and are reviewed at least annually.

Key estimates and judgements

Carrying value of oil and gas assets

Judgement is required to determine when an exploration activity ceases and an evaluation or development activity commences. Evaluation is deemed to be activities undertaken from the beginning of the definitive feasibility study or testing conducted to assess the technical commercial viability of extracting a resource before moving into the development phase. Development assets include evaluation, construction, installation or completion of production and infrastructure facilities such as platforms and pipelines, development wells, acquired development or producing assets, capitalised borrowing costs and the estimated costs of decommissioning, dismantling and restoration.

Circumstances vary for each area of interest and where exploration, evaluation and development activities are conducted within a continual timeframe as part of the same project or drilling campaign with common service providers, a degree of estimation is required in determining the amount of costs capitalised as evaluation and development assets under oil and gas properties.

Assessment of costs associated with non-operated interests is also influenced by notification from the Operator as to how funds have been expended.

For GC-21, the well had two planned target intervals. The DTR-10 sand was an appraisal target, having already been discovered prior to Otto's involvement. The deeper MP sand was an exploration target. The accounting for the drilling of the GC-21 Bulleit well involved capitalising drilling costs initially while the DTR-10 sand was tested. Once the DTR-10 sand was deemed a discovery and casing successfully set, drilling costs from that point on were then expensed as the well progressed through the exploration stage of testing the MP sand exploration target. Once the MP Sand was deemed a discovery (as reported to the ASX on 8th August 2019), the subsequent costs were capitalised.

Impairment

Assets are tested for impairment in line with the accounting policies disclosed in Note 14(i). Whenever events or changes in circumstances indicate that the carrying amount may not be recoverable, an

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2020

14. Oil and gas properties (continued)

impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less cost to sell and value in use.

Impairment indicators were identified during the period in relation to the significant decline in market oil prices and the carrying value of net assets of the group (US\$44.65m) exceeding market capitalisation of (US\$23m) as at 30 June 2020.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units).

Recoverable value was calculated using a VIU calculation. The estimated future cash flows for the VIU calculation are based on estimates, the most significant of which are hydrocarbon reserves (excluding uncommitted developments), future production profiles, commodity prices, operating costs and committed development costs.

Estimates of future commodity prices are based on the Group's best estimate of future market prices with reference to external market analyst's forecasts, current spot prices and forward curves.

Average Argus LLS forward prices (\$US/bbl) used were:

| 2021 | 2022 | 2023 | 2024 | 2025+ |
|-------|-------|-------|-------|-------|
| 41.19 | 42.19 | 43.29 | 44.40 | 45.54 |

Average Argus WTI forward prices (\$US/bbl) used were:

| 2021 | 2022 | 2023 | 2024 | 2025+ |
|-------|-------|-------|-------|-------|
| 39.98 | 41.18 | 42.28 | 43.39 | 44.53 |

Average Nymex Henry Hub (LD) forward prices (\$US per MMBtu) used were:

| 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 | 2031+ |
|------|------|------|------|------|------|------|------|------|------|-------|
| 2.32 | 2.54 | 2.38 | 2.38 | 2.39 | 2.41 | 2.43 | 2.46 | 2.55 | 2.58 | 2.78 |

The discount rates applied to the future forecast cash flows are based on the weighted average cost of capital. The pre-tax discount rates that has been applied to non-current assets is 14%.

In the event that future circumstances vary from these assumptions, the recoverable amount of the Group's oil and gas assets could change materially and result in impairment losses. The assumptions made by the Group in performing its impairment considerations reflect conditions existing at 30 June 2020 and the Group's estimate of future performance including the impact of Covid-19 made as of that date.

Due to the interrelated nature of the assumptions, movements in any one variable can have an indirect impact on others and individual variables rarely change in isolation. Additionally, management can be expected to respond to some movements, to mitigate downsides and take advantage of upsides, as circumstances allow. Consequently, it is impractical to estimate the indirect impact that a change in one assumption has on other variables and hence, on the likelihood, or extent, of impairments under different sets of assumptions in subsequent reporting periods.

At 30 June 2020, the Group has separately assessed the SM 71, GC-21 Bulleit and Lightning cash-generating units and determined that no impairment exists and any reasonable changes to the inputs used in the VIU calculation would not result in impairment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2020

14. Oil and gas properties (continued)

Amortisation

Estimation of amortisation of the SM 71 and Lightning oil and gas assets is based on the updated 2P reserves estimate and estimated future development costs as at 30 June 2020. Producing assets are amortised on a unit of production basis on 2P reserves. The reserves for Lightning and Green Canyon 21 were compiled by Otto's independent consultant Ryder Scott Company, while the reserves for SM 71 were compiled by Mr Ed Buckle, a full-time contractor of the Company, and audited by Collarini Energy Experts. The method of amortisation necessitates the estimation of oil and gas reserves over which the carrying value of the relevant asset will be expensed to profit or loss. See below for judgements relating to reserve estimates.

There is no amortisation for the GC-21 Bulleit asset as production has not yet commenced.

Reserve Estimates

Estimation of reported recoverable quantities of proved and provable reserves include judgemental assumptions regarding commodity prices, exchange rates, discount rates and production and transportation cost for future cash flows. It also requires interpretation of complex geological and geophysical models in order to make an assessment of the size, shape, depth and quality of reservoirs and their anticipated recoveries. The economic, geological and technical factors used to estimate reserves may change from period to period. Changes in reported reserves can impact assets' carrying amounts, provision for restoration and recognition of deferred tax assets due to changes in expected future cash flows. Reserves are integral to the amount of depreciation, amortisation and impairment charged to the income statement.

Property, plant and equipment

Recognition and measurement

Property, plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation is calculated using the straight-line method to allocate their cost, net of their residual values, over their estimated useful lives. The following estimated useful lives are used in the calculation of depreciation:

| | |
|-------------------------|--------------|
| Plant and equipment | 5 years |
| Furniture and equipment | 3 – 10 years |

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These are included in profit or loss. When revalued assets are sold, it is Group policy to transfer any amounts included in other reserves in respect of those assets to retained earnings.

| | 2020 US\$'000 | 2019 US\$'000 |
|--------------------------------|------------------|------------------|
| 15. Trade and other payables | | |
| Trade payables | 1,720 | 2,874 |
| Success Fee – convertible note | - | 187 |
| Other Accrued expenses | 238 | 1,412 |
| | 1,958 | 4,473 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2020

15. Trade and other payables (continued)

Recognition and measurement

Trade payables are initially recognised at their fair value and subsequently measured at amortised cost. They represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services. The amounts are unsecured and generally paid within 30 days of recognition.

16. Interest bearing loans and borrowings

Borrowings

| | 2020 US\$'000 | 2019 US\$'000 |
|---|------------------|------------------|
| <i>Current Secured</i> | | |
| Balance at the beginning of the period | - | - |
| Borrowings – at cost | 9,200 | - |
| Less: Facility transaction costs – at cost | (1,700) | - |
| Add: Facility transaction cost – amortisation | 679 | - |
| Balance at the end of the period | 8,179 | - |
| <i>Non – Current Secured</i> | | |
| Balance at the beginning of the period | - | - |
| Borrowings – at cost | 11,500 | - |
| Less: Facility transaction costs – at cost | (1,373) | - |
| Balance at the end of the period | 10,127 | - |

On 2nd November 2019, the Company entered into a three-year senior secured US\$55 million term debt facility (Facility) with Macquarie Bank Limited (Macquarie). This Facility will be used to fund the Company's current and future developments, including Green Canyon 21, Lightning and any new discoveries arising from the remainder of the current programs.

The initial commitment under the Facility is US\$35 million with an additional US\$20 million subject to further credit approval from Macquarie.

Key Terms of the Facility include:

The initial US\$35 million tranche is committed as follows:

- US\$25 million available on facility close (Tranche A1);
- Additional US\$10 million committed and available on successful exploration or commencement of commercial production at Green Canyon 21 (Tranche A2);
- Interest rate of LIBOR plus 8.0% per annum;
- Maturity date 36 months from initial drawdown;
- Quarterly principal repayments commencing 31 March 2020;

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2020

16. Interest bearing loans and borrowings (continued)

- Senior secured non-revolving facility with security over US based assets; and
- The Facility may be cancelled by the Company after 12 months without penalty once any drawn funds are repaid.

Option Issue

In addition to customary upfront fees payable to Macquarie, the Company issued to Macquarie 42.5 million options to subscribe for fully paid ordinary shares in the Company. A further 42.5 million options will be issued on initial draw of Tranche A2 and will expire four years after issue date. The key pricing terms of the option issue include:

- 42.5 million options at an exercise price of A\$0.08 vesting on initial draw down of Tranche A1 funding (6 November 2019) and expiring on 5 November 2023

At 30 June 2020, \$25 million was drawn under the Facility and \$4.3 million had been repaid. As a result, 42.5 million options vested at the reporting date and an expense of \$528,000 has been capitalised against borrowings and is amortised over the life of the facility. The fair value of the options was calculated using a Black-Scholes model.

Transaction costs are accounted for under the effective interest rate method. These costs are incremental costs that are directly attributable to the Facility and include Facility origination fees, legal fees and other costs relating to the establishment of the Facility. The balance of unamortised transaction costs (excluding the fair value of options issued) of \$2.4 million is offset against the facility borrowings of \$20.7 million. Total capitalised transaction costs relating to the facility agreement are \$2.5 million (excluding fair value of options issued).

The facility agreement has certain financial covenants that the Company has to comply with. All such financial covenants have been complied with in accordance with the facility agreement.

| | 2020 US\$'000 | 2019 US\$'000 |
|-------------------------------------|------------------|------------------|
| 17. Lease liabilities | | |
| <i>Current</i> | | |
| Lease liabilities | 139 | - |
| Total current lease liabilities | <u>139</u> | <u>-</u> |
| | | |
| | 2020 US\$'000 | 2019 US\$'000 |
| Lease liabilities | 274 | - |
| Total non-current lease liabilities | <u>274</u> | <u>-</u> |

Lease liabilities relate to the adoption of AASB 16 Leases on 1 July 2019. Details of right-of-use assets are provided in note 13 and a maturity analysis of lease liabilities is provided in note 21.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2020

| | 2020 US\$'000 | 2019 US\$'000 |
|--|------------------|------------------|
| 18. Provisions | | |
| Current | | |
| Employee benefits | 191 | 170 |
| Tax | 3 | 3 |
| | 194 | 173 |
| Non-current | | |
| Employee benefits ⁽ⁱ⁾ | 11 | 17 |
| Decommissioning fund – GC-21 Bulleit ⁽ⁱⁱ⁾ | 1,673 | - |
| Decommissioning fund – Lightning ⁽ⁱⁱⁱ⁾ | 209 | 111 |
| Decommissioning fund – SM 71 ⁽ⁱⁱⁱ⁾ | 1,864 | 1,461 |
| | 3,757 | 1,589 |

(i) The non-current provision for employee benefits includes amounts not expected to be settled within the next 12 months.

(ii) The total present value of the estimated expenditure required to decommission the wells and facilities. The expenditure is expected to be settled at the end of the field life for the 2P production profile.

Recognition and measurement

Employee benefits

A liability is recognised for benefits accruing to employees in respect of wages and salaries, annual leave and long service leave when it is probable that settlement will be required and they are capable of being measured reliably.

Liabilities recognised in respect of employee benefits expected to be settled within 12 months are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Liabilities recognised in respect of employee benefits which are not expected to be settled within 12 months are measured as the present value of the estimated future cash outflows to be made by the Group in respect of services provided by employees up to reporting date.

Contributions to superannuation plans are expensed when incurred.

Decommissioning fund

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of past events, it is probable that the Group will be required to settle the obligation and the amount of the provision can be measured reliably.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows. The unwinding of the discount is expensed as incurred and recognised in the Consolidated Statement of Profit or Loss and Other Comprehensive Income as a finance cost.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2020

18. Provisions (continued)

Provision is made for the estimated cost of legal and constructive obligations to restore operating locations in the period in which the obligation arises. The estimated costs are capitalised as part of the cost of the related project where recognition occurs upon acquisition of an interest in the operating locations. The carrying amount capitalised is amortised on a unit of production basis during the production phase of the project.

Work scope and cost estimates for restoration are reviewed annually and adjusted to reflect the expected cost of restoration. The Group accounts for changes in cost estimates on a prospective basis.

Key estimates and judgements

Decommissioning costs will be incurred by the Group at the end of the operating life of some of the Group's facilities and properties. The Group assesses its decommissioning provision at each reporting date. The ultimate decommissioning costs are uncertain and cost estimates can vary in response to many factors, including changes to relevant legal requirements, the emergence of new restoration techniques or experience at other production sites. The expected timing, extent and amount of expense can also change. Therefore, significant estimates and assumptions are made in determining the provision for decommissioning. As a result, there could be significant adjustments to the provisions established which would affect future financial results. The provision at reporting date represents management's best estimate of the present value of the future decommissioning costs required.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2020

CAPITAL STRUCTURE, FINANCIAL INSTRUMENTS AND RISK

19. Contributed equity

a) Share capital

| | 2020 Number | 2019 Number | 2020 US\$'000 | 2019 US\$'000 |
|---|--------------------------------|------------------------------|------------------|------------------|
| Balance at beginning of year | 2,460,464,725 | 1,530,928,490 | 125,041 | 90,704 |
| Shares issued – placement | 231,109,326 ⁽ⁱ⁾ | 377,038,698 ⁽ⁱ⁾ | 780 | 14,235 |
| Shares issued – entitlement offers | 2,103,435,722 ⁽ⁱⁱⁱ⁾ | 545,159,326 ⁽ⁱⁱⁱ⁾ | 7,421 | 20,002 |
| Shares issued – share purchase plan | - | - | - | - |
| Shares issued – directors | - | - | - | - |
| Shares issued on conversion of notes | - | 2,599,211 ⁽ⁱⁱⁱ⁾ | - | 100 |
| Shares issued on exercise of performance rights | - | 4,739,000 ^(iv) | - | - |
| Balance at end of year | 4,795,009,773 | 2,460,464,725 | 133,242 | 125,041 |

(i) Share placements

- March 2020 at AU0.06 per share, converted to USD at the exchange rate on the transaction date of 0.6166. Net of share issue costs.
- August 2018 at AUD0.059 per share, converted to USD at the exchange rate on the transaction date of 0.7372. Net of share issue costs.
- April 2019 at AUD0.053 per share, converted to USD at the exchange rate on the transaction date of 0.7124. Net of share issue costs.

(ii) Share entitlements:

- Institutional entitlement issued April 2020 at AUD0.06 per share, converted to USD at the weighted average exchange rate on the transaction date of 0.6104. Net of share issue costs.
- Retail entitlement issued April 2020 at AUD0.06 per share, converted to USD at the weighted average exchange rate for the transaction dates of 0.6471. Net of share issue costs.
- Institutional entitlement issued August 2018 at AUD0.059 per share, converted to USD at the exchange rate on the transaction date of 0.7372. Net of share issue costs.
- Institutional entitlement issued April 2019 at AUD0.053 per share, converted to USD at the exchange rate on the transaction date of 0.7124. Net of share issue costs.
- Retail entitlement issued August 2018 at AUD0.059 per share, converted to USD at the exchange rate on the transaction date of 0.7307. Net of share issue costs.
- Retail entitlement issued April 2019 at AUD0.053 per share, converted to USD at the exchange rate on the transaction date of 0.7020. Net of share issue costs.

(iii) Shares issued to J Jetter on conversion of 100,000 convertible notes April 2019 at conversion price AUD0.05418 and converted to USD at 0.7101

(iv) Shares issued on exercise of performance rights November 2018 (4,729,000) and February 2019 (10,000)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2020

19. Contributed equity (continued)

b) Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number and amount paid on the shares held. On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote. The ordinary shares have no par value and the Company does not have a limited amount of 59ptimizati capital.

c) Options

Information relating to the Otto Energy Employee Option Plan, including details of options issued, exercised and lapsed during the financial year and options outstanding at the end of the reporting period, is set out in Note 24.

d) Performance rights

Information relating to the Otto Energy Employee Performance Rights Plan, including details of performance rights issued, exercised and lapsed during the financial year and performance rights outstanding at the end of the reporting period, is set out in Note 24.

Recognition and measurement

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

| | 2020 US\$'000 | 2019 US\$'000 |
|---|------------------|------------------|
| 20. Reserves | | |
| Share-based payments reserve | 10,509 | 9,879 |
| Foreign currency translation reserve | 4,188 | 4,188 |
| | 14,697 | 14,067 |
| Share-based payments reserve | | |
| Balance at beginning of year | 9,879 | 9,659 |
| Options reserve | 528 | - |
| Share-based payment expense | 102 | 220 |
| Balance at end of year | 10,509 | 9,879 |
| Foreign currency translation reserve | | |
| Balance at beginning of year | 4,188 | 4,188 |
| Balance at end of year | 4,188 | 4,188 |

The share-based payments reserve is used to recognise the value of share-based payments provided to employees (including key management personnel) as part of their remuneration and share options and performance rights issued as part of consideration for acquisitions. Refer to Note 24 for further details of these plans.

The foreign currency translation reserve is used to record currency differences arising from the translation of the financial statements of foreign operations.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2020

20. Reserves (continued)

The FCTR balance has been carried forward since 2011 when the functional currency for the financial statements of Otto Energy Philippines Inc. was changed from PHP to USD following the election by Otto Energy Philippines Inc to use USD as its functional currency.

21. Financial instruments

The Group is exposed to market risk, credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group uses different methods to measure different types of risk to which it is exposed.

Otto's Board of Directors ('Board') is responsible for approving Otto's policies on risk oversight and management and ensuring management has developed and implemented effective risk management and internal controls. Risk management is carried out by the senior executives under these policies which have been approved by the Board. Management identifies, evaluates and, if necessary, hedges financial risks within the Group's operating units. The Board then receives reports as required from the Chief Financial Officer or Senior Commercial Manager in which they review the effectiveness of the processes implemented and appropriateness of policies it sets. At all times during the year, and to the date of this report, the Group did not apply any form of hedge accounting.

a) Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk for the Group comprises three types of risk: currency risk, interest rate risk and commodity price risk.

i) Currency risk

The Group's source currency for the majority of revenue and costs is in US dollars. Given the location of the group's offices and operations there is a small exposure to foreign exchange risk arising from the fluctuations in the USD to AUD exchange rate on Australian dollar cash balances and monetary items at year end.

Currency risk arises where the value of a financial instrument or monetary item fluctuates due to changes in foreign currency exchange rates. The exposure to currency risk is measured using sensitivity analysis and cash flow forecasting.

The Board has formed the view that in the ordinary course of business it would not be beneficial for the Group to purchase forward contracts or other derivative financial instruments to hedge this currency risk. Factors which the Board considered in arriving at this position included the expense of purchasing such instruments and the inherent difficulties associated with forecasting the timing and quantum of cash inflows and outflows compared to the relatively low volume and value of commercial transactions and monetary items denominated in a currency which is not US dollars.

During the year the company undertook capital raising activities via the issue of new shares on the ASX. These capital raisings are priced and received in AUD. Over the time period of a capital raising there is some short-term exposure to movements in the AUD to USD exchange rates.

A hypothetical change of 10% (2019: 10%) in the Australian dollar exchange rate was used to calculate the Group's sensitivity to foreign exchange rates movements, as this is management's estimate of possible rate movements over the coming year taking into account current market conditions and past

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2020

21. Financial instruments (continued)

volatility. At 30 June 2020, management has assessed that the entity's exposure to foreign exchange movements is immaterial and therefore no further analysis is provided.

ii) Interest rate risk

Interest rate risk is the risk that the Group's financial position will fluctuate due to changes in market interest rates. At 30 June 2020 the Group's exposure to the risk of changes in the market interest rates relates to interest income on cash and cash equivalents held with financial institutions and interest rate risk on borrowings. The restricted cash in the debt service reserve account held by Macquarie is non-interest bearing so excluded from this analysis.

The financial instruments exposed to movements in variable interest rates are as follows:

| | 2020 US\$'000 | 2019 US\$'000 |
|---|------------------|------------------|
| Cash at bank and on hand | 11,551 | 7,383 |
| Borrowings (excludes capitalised borrowing costs) | (20,700) | - |
| | 9,149 | 7,383 |

The following sensitivity analysis is based on the interest rate risk exposures in existence at the reporting date. The 1.0% sensitivity is based on reasonably possible changes, over a financial year, using an observed range of historical short term deposit rate movements over the last 3 years.

| Judgements of reasonably possible movements | Effect on post tax losses Increase/(decrease) | |
|---|--|------------------|
| | 2020 US\$'000 | 2019 US\$'000 |
| Increase 100 basis points | 91 | 74 |
| Decrease 100 basis points | (91) | (74) |

iii) Commodity price risk

Otto derives its revenue from the sale of oil and natural gas. As a result, the Company's revenues are determined, to a large degree, by prevailing oil and natural gas prices. Otto sells its production to purchasers pursuant to sales agreements, with sales prices tied to industry standard published index prices, subject to negotiated price adjustments.

Otto typically utilizes commodity price hedge instruments to minimize exposure to short term price fluctuations by using a series of swaps, costless collars and/or puts. Unrealized gains or losses associated with hedges vary period to period, and are a function of hedges in place, the strike prices of those hedges and the forward curve pricing for the commodities being hedged. Currently, all of Otto's hedges are oil swaps, and the Company has no three-way collars or short puts.

As of 30 June 2020, Otto had a total hedge book of 318,840 barrels of oil hedged through September 2022 via swaps, at a weighted average LLS price of \$54.60 as follows:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2020

21. Financial instruments (continued)

| Months | Volume (Bbls) | Weighted Avg Price (LLS) |
|--------------------------|---------------|--------------------------|
| July – December 2020 | 90,664 | \$56.71 |
| January – December 2021 | 184,616 | \$53.71 |
| January – September 2022 | 43,560 | \$54.00 |

The fair value of the derivative financial instruments held at fair value through profit and loss is based on forward prices as at 30 June 2020. An increase in forward prices would reduce the fair value of the derivative financial asset held at fair value through profit and loss. An increase of 10% in trade forward prices would result in a decrease of \$1.32 million of the fair value of the derivative financial asset held at fair value through the profit or loss. A decrease of 10% in trade forward prices would result in an increase of \$1.32 million of the fair value of the derivative financial asset held at fair value through the profit or loss.

b) Credit risk

Credit risk is the risk that a contracting entity will not complete its obligation under a financial instrument that will result in a financial loss to the Group. Credit risk arises from the financial assets of the Group, which comprise trade and other receivables and deposits with banks and financial institutions.

To manage credit risk from cash and cash equivalents, it is the Group's policy to only deposit with banks maintaining a minimum independent rating of 'AA', 'A+' or 'A-'. Contracts for the sale of production from SM 71 and Lightning are with creditworthy customers and counterparties.

Receivables balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts in the ordinary course of business is not significant. At reporting date no receivables were overdue.

The maximum exposure to credit risk at reporting date was as follows:

| | 2020 US\$'000 | 2019 US\$'000 |
|-----------------------------|------------------|------------------|
| Cash and cash equivalents | 16,551 | 7,383 |
| Trade and other receivables | 6,634 | 3,311 |
| | <u>23,185</u> | <u>10,694</u> |

c) Liquidity risk

Liquidity risk is the risk that Group will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

It is the policy of the Board to ensure that the Group is able to meet its financial obligations and maintain the flexibility to pursue attractive investment opportunities through the Group maintaining sufficient working capital and access to further funding when required through debt, equity or other means.

The Group manages liquidity risk by continuously monitoring forecast and actual cash flows with scenario analysis. As at reporting date the Group had sufficient cash reserves to meet its current requirements and no receivables were overdue.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2020

21. Financial instruments (continued)

The contractual maturity analysis of payables at the reporting date was as follows:

| | Carrying Value US\$'000 | Total US\$'000 | Less than 1 year US\$'000 | Between 1-2 years US\$'000 | Between 2-5 years US\$'000 |
|--------------------------|----------------------------|-------------------|---------------------------------|----------------------------------|----------------------------------|
| Trade and other payables | | | | | |
| 2020 | 1,958 | 1,958 | 1,958 | - | - |
| 2019 | 4,473 | 4,473 | 4,473 | - | - |
| Lease liabilities | | | | | |
| 2020 | 413 | 413 | 139 | 151 | 123 |
| 2019 | - | - | - | - | - |
| Borrowings | | | | | |
| 2020 | 18,306 | 18,306 | 8,179 | 8,179 | 1,948 |
| 2019 | - | - | - | - | - |

Capital risk management

The Group manages its capital to ensure that it will be able to continue as a going concern while optimization the potential return to shareholders through the optimization of the debt and equity balance.

The capital structure of the Group at year end comprises 59% equity and 41% debt (2019: 100% equity)

In determining the funding mix of debt and equity (total borrowings/total equity), consideration is given to the relative impact of the gearing ratio on the ability of the Group to service interest and repayment schedules, credit facility covenants and also to generate adequate free cash available for corporate and oil and gas exploration, development and production activities.

The Group may consider raising capital when an opportunity to invest in an opportunity, business or company is seen as value adding relative to the company's current share price at the time of the investment.

d) Equity price risk

The Group is not exposed to equity price risk on its financial liabilities

e) Fair values

The following table shows the carrying amounts and fair values of financial assets, including their levels in the fair value hierarchy. It does not include fair value information for financial assets 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:

| Financial assets measured at fair value⁽ⁱ⁾ | | 2020 US\$'000 | 2019 US\$'000 |
|---|---------|--------------------------|--------------------------|
| Derivative financial assets at fair value through profit and loss | Level 1 | - | - |
| Derivative financial assets at fair value through profit and loss | Level 2 | 4,161 | - |
| Derivative financial assets at fair value through profit and loss | Level 3 | - | - |
| Total financial assets measured at fair value | | 4,161 | - |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2020

21. Financial instruments (continued)

- (i) The fair value of the derivatives were determined based on a “mark to market” approach, calculated based on forward prices relative to contracted prices for contracts held as at 30 June 2020 as disclosed in note 11 and note 21.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2020

OTHER DISCLOSURES

22. Subsidiaries

Significant investments in subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following principal subsidiaries:

| Subsidiaries of Otto Energy Limited | Country of incorporation | Functional currency | Class of shares | Ownership Interest ⁽ⁱ⁾ | |
|---|--------------------------|---------------------|-----------------|-----------------------------------|----------|
| | | | | 2020 (%) | 2019 (%) |
| Otto Energy (Tanzania) Pty Limited | Australia | USD | Ordinary | 100 | 100 |
| Otto Energy Investments Limited | Bermuda | USD | Ordinary | 100 | 100 |
| Otto Energy Philippines Inc | Philippines | USD | Ordinary | 100 | 100 |
| Otto Energy (Galoc Investment 1) Aps | Denmark | USD | Ordinary | 100 | 100 |
| Otto Energy (Galoc Investment 2) Aps | Denmark | USD | Ordinary | 100 | 100 |
| GPC Investments SA | Switzerland | USD | Ordinary | 100 | 100 |
| Borealis Petroleum Pty Ltd | Australia | USD | Ordinary | 100 | 100 |
| Borealis Alaska LLC | USA | USD | Ordinary | 100 | 100 |
| Otto Energy (USA) Inc | USA | USD | Ordinary | 100 | 100 |
| Otto Energy (Louisiana) LLC | USA | USD | Ordinary | 100 | 100 |
| Otto Energy (Gulf One) LLC | USA | USD | Ordinary | 100 | 100 |
| Otto Energy (Gulf Two) LLC | USA | USD | Ordinary | 100 | 100 |
| Otto Operating LLC ⁽ⁱⁱⁱ⁾ | USA | USD | Ordinary | 100 | 100 |
| Otto Energy (Lightning) LLC ⁽ⁱⁱⁱ⁾ | USA | USD | Ordinary | 100 | 100 |
| Otto Energy (Patrick Henry) LLC ^(iv) | USA | USD | Ordinary | 100 | 100 |

23. Interest in operations

a) Operations

The Group's share of the assets, liabilities, revenues and expenses of operations have been incorporated into the financial statements in the appropriate items of the Consolidated Statement of Profit or Loss and Other Comprehensive Income and Consolidated Statement of Financial Position.

The Group's interest in operations is detailed below. Oil and Gas exploration and production is the principal activity performed across these assets.

| Asset | Country | 2020 | 2019 |
|---|---------|----------------|----------------|
| | | Group interest | Group interest |
| South Marsh Island 71 | USA | 50% | 50% |
| VR 232 ⁽ⁱ⁾ | USA | - | 100% |
| Onshore Alaska North Slope – Western Blocks ⁽ⁱⁱ⁾ | USA | - | 22.5% |
| Onshore Alaska North Slope – Central Blocks | USA | 8 – 10.8% | 8 – 10.8% |
| Lightning | USA | 37.5% | 37.5% |
| Mustang ⁽ⁱⁱⁱ⁾ | USA | - | 37.5% |
| GC-21 ^(iv) | USA | 16.67% | - |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2020

23. Interest in operations (continued)

- (i) Otto released its interest in VR 232 in May 2020.
- (ii) Ott released its interest in the Western Blocks in May 2020
- (iii) Otto's interest in Mustang was on an earn-in basis. As the well was not a commercial discovery there was no transfer of ownership, therefore no JV interest held at 30 June 2020
- (iv) Otto earned it's 16.67% working interest in GC-21 by paying 22.22% of the cost of drilling the "Bulleit" appraisal well

b) Commitments through interests in operations

The aggregate of the Group's commitments through its interests in operations is as follows:

| | 2020 US\$'000 | 2019 US\$'000 |
|---|------------------|------------------|
| Exploration expenditure commitments – not later than 1 year | 6,203 | 5,744 |
| Exploration expenditure commitments – Later than one year but not later than five years | 2,901 | - |
| Capital expenditure commitments – not later than 1 year | 9,436 | - |
| | 18,540 | 5,744 |

24. Share-based payments

a) Employee share option plan

The establishment of the Employee Share Option Plan was approved by shareholders at the 2016 Annual General Meeting and again at the 2019 Annual General Meeting. The Employee Share Option Plan is designed to provide long term incentives for employees and key management personnel (KMP) to deliver long term shareholder returns. Under the plan, participants are granted options at the Board's discretion and no individual has a contractual right to participate in the plan or to receive any guaranteed benefits. Options granted under the plan carry no dividend or voting rights.

The exercise price of options is based on the weighted average price at which the Company's shares are traded on the Australian Securities Exchange (ASX) during the week up to and including the date of the grant. An option may only be exercised after that option has vested and any other conditions imposed by the Board on exercise are satisfied. Options are granted under the plan for no consideration.

There were no employee options on issue during the 2020 financial year.

The Company did not grant any employee options during the 2020 or 2019 financial years. During the year ended 30 June 2020, nil (2019: nil) options expired.

b) Performance rights

The Performance Rights Plan was approved by shareholders at the 2013 Annual General Meeting and again at the 2016 Annual General Meeting. The Performance Rights Plan is designed to provide long term incentives for senior managers and employees to deliver long term shareholder returns. Participation in the plan is at the Board's discretion and no individual has a contractual right to participate in the plan or to receive any guaranteed benefits.

The amount of performance rights that will vest depends on vesting period and/or Otto Energy Limited's TSR, including share price growth, dividends, and capital returns. Once vested, the performance rights are automatically converted to shares. If the vesting condition is not met on a measurement date (no rights vest), the performance rights will not lapse and will continue to exist as unvested performance rights to be retested at the next measurement date or expiry date, whichever is later. Performance

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2020

24. Share-based payments (continued)

rights are granted under the plan for no consideration. Rights granted under the plan carry no dividend or voting rights.

Set out below are summaries of rights granted and outstanding under the Performance Rights Plan:

| 2020 | | Fair value on date of issue | Fair value on date of issue | Balance at start of the year | Rights issued during the year | Exercised/ vested | Lapsed/ expired | Balance at end of the year |
|---------------------------------------|-------------|-----------------------------|-----------------------------|------------------------------|-------------------------------|-------------------|-----------------|----------------------------|
| Grant date | Expiry date | A\$ | US\$ | Number | Number | Number | Number | Number |
| 23 Apr 2015 | 31 Dec 2019 | 0.06 | 0.05 | 1,543,334 | - | - | (1,543,334) | - |
| 23 Apr 2015 | 31 Dec 2019 | 0.07 | 0.05 | 3,086,666 | - | - | (3,086,666) | - |
| 29 Nov 2017 | 29 Nov 2022 | 0.02 | 0.02 | 4,729,000 | - | - | (1,267,667) | 3,461,333 |
| 29 Nov 2017 | 29 Nov 2022 | 0.02 | 0.01 | 4,729,000 | - | - | (1,267,666) | 3,461,334 |
| 21 Dec 2018 | 15 Nov 2023 | 0.01 | 0.01 | 5,919,333 | - | - | - | 5,919,333 |
| 21 Dec 2018 | 15 Nov 2023 | 0.01 | 0.01 | 2,959,667 | - | - | - | 2,959,667 |
| 15 Nov 2018 | 15 Nov 2023 | 0.02 | 0.02 | 2,396,000 | - | - | (471,000) | 1,925,000 |
| 21 Dec 2018 | 15 Nov 2023 | 0.01 | 0.01 | 5,533,667 | - | - | (881,000) | 4,652,667 |
| 15 Nov 2018 | 15 Nov 2023 | 0.03 | 0.02 | 2,396,000 | - | - | (471,000) | 1,925,000 |
| 21 Dec 2018 | 15 Nov 2023 | 0.01 | 0.01 | 5,533,667 | - | - | (881,000) | 4,652,667 |
| 15 Nov 2018 | 15 Nov 2023 | 0.03 | 0.02 | 2,396,000 | - | - | (471,000) | 1,925,000 |
| 21 Dec 2018 | 15 Nov 2023 | 0.01 | 0.01 | 5,533,666 | - | - | (881,000) | 4,652,666 |
| Total | | | | 46,756,000 | - | - | (11,221,333) | 35,534,667 |
| Weighted average exercise price – A\$ | | | | 0.02 | | | | 0.01 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2020

24. Share-based payments (continued)

| 2019 | | Fair value on date of issue | Fair value on date of issue | Balance at start of the year | Rights issued during the year | Exercised / vested | Lapsed / expired | Balance at end of the year |
|-------------|-------------|-----------------------------|-----------------------------|------------------------------|-------------------------------|--------------------|------------------|----------------------------|
| Grant date | Expiry date | A\$ | US\$ | Number | Number | Number | Number | Number |
| 23 Apr 2015 | 31 Dec 2019 | 0.06 | 0.05 | 1,543,334 | - | - | - | 1,543,334 |
| 23 Apr 2015 | 31 Dec 2019 | 0.07 | 0.05 | 3,096,666 | - | (10,000) | - | 3,086,666 |
| 29 Nov 2017 | 29 Nov 2022 | 0.03 | 0.02 | 4,729,000 | - | (4,729,000) | - | - |
| 29 Nov 2017 | 29 Nov 2022 | 0.02 | 0.02 | 4,729,000 | - | - | - | 4,729,000 |
| 29 Nov 2017 | 29 Nov 2022 | 0.02 | 0.01 | 4,729,000 | - | - | - | 4,729,000 |
| 21 Dec 2018 | 15 Nov 2023 | 0.01 | 0.01 | - | 5,919,333 | - | - | 5,919,333 |
| 21 Dec 2018 | 15 Nov 2023 | 0.01 | 0.01 | - | 2,959,667 | - | - | 2,959,667 |
| 15 Nov 2018 | 15 Nov 2023 | 0.02 | 0.02 | - | 2,396,000 | - | - | 2,396,000 |
| 21 Dec 2018 | 15 Nov 2023 | 0.01 | 0.01 | - | 5,533,667 | - | - | 5,533,667 |
| 15 Nov 2018 | 15 Nov 2023 | 0.03 | 0.02 | - | 2,396,000 | - | - | 2,396,000 |
| 21 Dec 2018 | 15 Nov 2023 | 0.01 | 0.01 | - | 5,533,667 | - | - | 5,533,667 |
| 15 Nov 2018 | 15 Nov 2023 | 0.03 | 0.02 | - | 2,396,000 | - | - | 2,396,000 |
| 21 Dec 2018 | 15 Nov 2023 | 0.01 | 0.01 | - | 5,533,666 | - | - | 5,533,666 |
| Total | | | | 18,827,000 | 32,668,000 | (4,739,000) | - | 46,756,000 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2020

24. Share-based payments (continued)

| | 2020 US\$'000 | 2019 US\$'000 |
|---|------------------|------------------|
| Set out below is the share based payment expense: | | |
| Performance rights issued in financial year 2015 | - | 13 |
| Performance rights issues in financial year 2018 | 1 | 93 |
| Performance rights issues in financial year 2019 | 101 | 114 |
| Total | 102 | 220 |

No performance rights were granted under the Plan in the financial year 2020.

The amount of performance rights that will vest depends on the vesting period and/or Otto Energy Limited's total shareholder return ('TSR'), including share price growth, dividends, and capital returns. For the rights on issue during, and at the end of the year, vesting of the rights for directors, the CEO and other members of the executive team were based on TSR performance only. The TSR performance required for all rights on issue as at 30 June 2018 is 10% per annum (based on 30 day VWAP) and for the rights granted during the year ended 30 June 2019 is 15%, compounding from the date of grant to the measurement date (based on 90 day VWAP). If the TSR vesting condition is not met on a measurement date, no rights vest and those performance rights continue to exist as unvested performance rights to be retested at the next measurement date or expiry date if there are no further measurement dates.

For the year ended 30 June 2020, the Group recognised share-based payments expense of \$102,942 in the Consolidated Statement of Profit or Loss and Other Comprehensive Income (2019: \$219,923). This included reversals of \$54,911 for forfeiture of rights on resignation for Mr Macliver, Mr Rich and Mr Boserio as the service conditions were not met.

Recognition and measurement

The Group has in previous financial years provided benefits to its employees and key management personnel in the form of share-based payments, whereby services were rendered partly or wholly in exchange for shares or rights over shares.

The costs of these equity-settled transactions are measured by reference to the fair value of the equity instruments at the date on which they are granted.

The costs of these equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled (the vesting period), ending on the date on which the relevant employees become fully entitled to the equity instrument (vesting date).

At each subsequent reporting date until vesting, the cumulative charge to the Consolidated Statement of Profit or Loss and Other Comprehensive Income is the product of (i) the fair value at grant date of the award; (ii) the current best estimate of the number of equity instruments that will vest, taking into account such factors as the likelihood of employee turnover during the vesting period and the likelihood of any non-market performance conditions being met and (iii) the expired portion of the vesting period.

The charge to the Consolidated Statement of Profit or Loss and Other Comprehensive Income for the period is the cumulative amount as calculated above less the amounts already charged in previous periods. There is a corresponding credit to equity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2020

24. Share-based payments (continued)

Until an equity instrument has vested, any amounts recorded are contingent and will be adjusted if more or fewer equity instruments vest than were originally anticipated to do so. Any equity instrument subject to a market condition is considered to vest irrespective of whether or not that market condition is fulfilled, provided that all other conditions are satisfied.

If the terms of an equity-settled award are modified, as a minimum, an expense is recognised as if the terms had not been modified. An additional expense is recognised for any modification that increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the recipient of the award, as measured at the date of modification.

If an equity-settled transaction is cancelled (other than a grant cancelled by forfeiture when the vesting conditions are not satisfied), it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new equity instrument is substituted for the cancelled award and designated as a replacement award on the date that it is granted, the cancelled and new equity instrument is treated as if it was a modification of the original award, as described in the preceding paragraph.

Key estimates and judgements

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by using a single share price barrier model taking into account the terms and conditions upon which the instruments were granted. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact profit or loss and equity.

25. Related parties

| | 2020 US\$'000 | 2019 US\$'000 |
|--|------------------|------------------|
| Key management personnel compensation | | |
| Short-term employee benefits | 1,786,015 | 2,041,107 |
| Consulting fees ⁽ⁱ⁾ | 55,268 | - |
| Post-employment benefits | 75,201 | 83,028 |
| Other benefits | 325,667 | 356,632 |
| Termination benefits | - | 61,676 |
| Share-based payments | 79,160 | 200,687 |
| Total USD | <u>2,321,311</u> | <u>2,743,130</u> |
| Total AUD equivalent | <u>3,464,456</u> | <u>3,840,540</u> |

(i) John Jetter (Chairman) entered into an agreement dated 24 July 2020 and backdated to 1 April 2020 to provide consultancy services to the Company. Detailed disclosures provided in the remuneration report on pages 17 to 30

Detailed remuneration disclosures are provided in the remuneration report on pages 17 to 30

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2020

26. Auditor's remuneration

During the year the following fees were paid or payable for services provided by the auditor of the parent entity, its related practices and non-related audit firms:

| | 2020 US\$'000 | 2019 US\$'000 |
|---|------------------|------------------|
| BDO Australia | | |
| Audit and review of financial statements | 52,266 | 34,450 |
| Tax compliance services | 15,017 | 13,058 |
| Tax consulting and tax advice | 31,114 | 1,410 |
| Total remuneration of BDO Australia | 98,397 | 48,918 |
| Network firms of BDO Australia | | |
| Audit and review of financial statements | 10,139 | 24,196 |
| Tax compliance services | 9,500 | 11,067 |
| International tax consulting | - | 968 |
| Total remuneration of network firms of BDO Australia | 19,639 | 36,231 |
| Non-BDO | | |
| Audit and review of financial statements | 1,166 | 1,160 |
| Tax compliance services | - | - |
| Total remuneration of non-BDO audit firms | 1,166 | 1,160 |
| Total | 119,202 | 86,309 |

It is the Group's policy to employ BDO on assignments additional to their statutory audit duties where BDO's expertise and experience with the Group are important. These assignments are principally tax advice where BDO is awarded assignments on a competitive basis. It is the Group's policy to seek competitive tenders for all major consulting projects.

27. Contingent liabilities

There are no contingent liabilities at balance date.

28. Commitments

a) Exploration expenditure commitments

Exploration expenditure contracted for at the reporting date but not recognised as liabilities are as follows:

| | 2020 US\$'000 | 2019 US\$'000 |
|---|------------------|------------------|
| Not later than 1 year | 6,203 | 5,234 |
| Later than one year but not later than five years | 2,901 | 510 |
| | <u>9,104</u> | <u>5,744</u> |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2020

28. Commitments (continued)

Under the Joint Exploration and Development Agreement (JEDA) with Hilcorp dated 31 July 2018, in the event of a default of its obligations, Otto Energy (USA) Inc is required to pay Hilcorp liquidated damages (LDs) of \$1,000,000 for each prospect that is not an earned prospect.

An agreement dated 30th August 2018 between Fairfield Geotechnologies and Otto Energy (USA) was entered into for the provision of licences of geophysical seismic data. A further \$0.5 million is committed and required to be paid by 30 September 2020.

Under the agreement between Great Bear Petroleum Operating LLC and Borealis Petroleum Pty Ltd, there is a remaining commitment to take part in two exploration wells with a capped expenditure of \$US2.6 million per well.

b) Capital expenditure commitments

Capital expenditure contracted for at the reporting date but not recognised as liabilities are as follows:

| | 2020 US\$'000 | 2019 US\$'000 |
|---|------------------|------------------|
| Not later than 1 year | 9,436 | - |
| Later than one year but not later than five years | - | - |
| | 9,436 | - |

Capital expenditure commitments at reporting date relate to committed development costs on GC-21 Bulleit. Commitments are disclosed net of the amount of GST recoverable from, or payable to, the tax authority.

Lease rentals due on the Group's exploration leases can be cancelled and the leases relinquished. Therefore the lease rentals are not non-cancellable and hence are not included in the above.

29. Events after the reporting period

No matters or circumstances have arisen since 30 June 2020 that have significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years apart from those listed below:

- Board and Executive Changes

On 17 July 2020, the Company appointed Mr Geoff Page as a Non-Executive Director of the Company and as Chairman of the Audit and Risk Committee. Mr Page is a finance professional with over 20 years of senior finance, accounting and management experience gained globally within a number of industries. He has over 10 years of board experience gained in several different firms.

On 11 September 2020, the Company hired Mr Michael J. Utsler as the Company's new Chief Executive Officer and Managing Director.

- Reserves Statement

On 24 September 2020 the Company released its statement of reserves and resources as at 30 June 2020 which included Otto's offshore leases at South Marsh 71 ("SM 71") and Green Canyon

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2020

29. Events after the reporting period (continued)

21 ("GC 21"), and its Lightning Field lease in Matagorda County, TX. The prospective resources cover Alaska, onshore leases along the Gulf Coast, and SM 71.

| Total | Gross (100%) | | | Net | | |
|---|---------------|----------------|---------------|--------------|---------------|---------------|
| | Oil (MbbL) | Gas (MMcf) | Mboe | Oil (MbbL) | Gas (MMcf) | Mboe |
| Proved Producing | 3,515 | 25,888 | 7,831 | 1,343 | 7,692 | 2,625 |
| Proved Behind Pipe | 466 | 6,694 | 1,581 | 165 | 1,929 | 487 |
| Proved Undeveloped | 6,034 | 20,303 | 9,417 | 874 | 5,002 | 1,708 |
| Proven (1P) | 10,015 | 52,885 | 18,829 | 2,382 | 14,623 | 4,820 |
| Probable | 8,583 | 34,897 | 14,400 | 1,720 | 9,088 | 3,234 |
| Proven Plus Probable (2P) | 18,598 | 87,782 | 33,229 | 4,102 | 23,711 | 8,054 |
| Possible | 5,879 | 38,102 | 12,229 | 1,807 | 11,142 | 3,663 |
| Proven Plus Probable Plus Possible (3P) | 24,477 | 125,884 | 45,458 | 5,909 | 34,853 | 11,717 |
| Total Prospective Resource (best estimate, unrisks) | | | | 49,071 | 55,146 | 58,262 |

- Hedging*

In July 2020, the Company entered into additional hedges for 66,000 barrels for 2020 and 54,074 barrels for 2021, resulting in a Weighted Average LLS Price of \$50.11 for the remainder of CY 2020 and \$51.62 for CY 2021 (on forecast SM71 and Lightning volumes). In August 2020, the Company entered into additional hedges for 66,358 barrels for CY2022, resulting in a Weighted Average LLS Price of \$49.20 for CY 2022 (on forecast SM71 and Lightning volumes).

The impact of the Coronavirus (Covid-19) pandemic is ongoing and its impact on the Group has been disclosed within the Directors Report. It is not practicable to estimate the potential impact, positive or negative, after the reporting date. The situation is rapidly developing and is dependent on measures imposed by the Australian Government and other countries, such as maintaining social distancing requirements, quarantine, travel restrictions and any economic stimulus that may be provided.

30. Parent entity disclosures

As at, and throughout the financial year ended 30 June 2020, the parent company of the Group was Otto Energy Limited.

| | 2020 US\$'000 | 2019 US\$'000 |
|--|------------------|------------------|
| Parent entity | | |
| Summarised statement of profit or loss and other comprehensive income | | |
| Loss for the year after tax | (38,905) | (40,071) |
| Total comprehensive loss for the year | <u>(38,905)</u> | <u>(40,071)</u> |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2020

30. Parent entity disclosures (continued)

| | 2020 US\$'000 | 2019 US\$'000 |
|---|------------------|------------------|
| Summarised statement of financial position | | |
| Current assets | 5,727 | 4,536 |
| Non-current assets | 40,728 | 33,128 |
| Total assets | 46,455 | 37,664 |
| Current liabilities | 293 | 469 |
| Non-current liabilities | 11 | 17 |
| Total liabilities | 304 | 486 |
| Net assets | 46,151 | 37,178 |

| | 2020 US\$'000 | 2019 US\$'000 |
|---|------------------|------------------|
| Total equity of the parent entity comprises: | | |
| Share capital | 133,242 | 125,041 |
| Share based payments reserves | 10,509 | 9,878 |
| Foreign currency translation reserve | 118 | 118 |
| Accumulated losses | (97,718) | (97,859) |
| Total equity | 46,151 | 37,178 |

Guarantees entered into by the parent in relation to the debts of its subsidiaries

Parent company guarantees are extended on a case by case basis. Otto Energy Limited has provided a number of performance guarantees for subsidiaries under the terms of joint operations operating agreements, participation agreements and agreements with Governments pertaining to oil & gas exploration.

Otto Energy Limited has a guarantee in place to Byron Energy Inc, for the performance of Otto Energy (Louisiana) LLC's obligations in relation to SM 71.

Contingent liabilities

The parent entity had no contingent liabilities as at 30 June 2020 and 30 June 2019 beyond those listed in Note 27

Commitments

The parent entity had an operating lease on office premises expiring 30 November 2019 which is on month to month terms as at 30 June 2020 in accordance with the relocation of head office to Houston.

| | 2020 US\$'000 | 2019 US\$'000 |
|--|------------------|------------------|
| Not later than 1 year | 2 | 11 |
| Later than 1 year but not later than 5 years | - | - |
| | 2 | 11 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2020

30. Parent entity disclosures (continued)

Significant accounting policies

The accounting policies of the parent entity are consistent with those of the Group, except for the following: Investments in subsidiaries are accounted for at cost, less any impairment in the parent entity.

31. New accounting standards and interpretations

New and amended standards adopted by Otto Energy Limited

3(a) The Group has applied the following standard for the first time for their reporting period commencing 1 July 2019

- AASB 16 *Leases* ("AASB 16")

The Group had to change its accounting policies and make certain adjustments following the adoption of AASB 16, however adoption did not give rise to any material transitional or reporting date (30 June 2020) adjustments. This is disclosed in note 3(b).

- AASB Interpretation 23 *Uncertainty over Income Tax Treatments*

This Interpretation clarifies the application of the recognition and measurement criteria in AASB 112 Income Taxes when there is uncertainty over income tax treatments. The Interpretation addresses (a) whether an entity considers uncertain tax treatments separately; (b) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (c) how an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and (d) how an entity considers changes in facts and circumstances.

The adoption of this Interpretation has had no impact on the current or previous reporting period and as such there have been no adjustments to the opening balance of accumulated losses.

3(b) AASB 16

The Group has adopted AASB 16 with a date of initial application of 1 July 2019 using the modified retrospective approach and applied the practical expedients per AASB16.C10(a) and (c). Lease assets and liabilities are measured at the present value of future payments on the initial date of application, being 1 July 2019.

Until 30 June 2019, leases of property, plant and equipment were classified as either finance or operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit and loss on a straight-line basis over the period of the lease.

On adoption of AASB 16, the Group recognized lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of AASB 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the rate implicit in the rental lease. The borrowing rate applied to the lease liabilities on 1 July 2019 was 7.75%.

| Lease liabilities | 01/07/19 US\$'000 |
|---|------------------------------|
| Operating lease commitments at 30 June 2019 | 292 |
| Discounted using the lessee's borrowing rate | 254 |
| Lease liability recognised as at 1 July 2019 | 254 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2020

31. New accounting standards and interpretations (continued)

The Group has not restated comparatives for the reporting period as permitted under the specific transitional provisions in the standard. The reclassification and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 July 2019. The impact on the statement of financial position as at 1 July 2019 on the adoption of AASB16 are noted below:

| | 01/07/19 US\$'000 |
|------------------------------------|------------------------------------|
| Lease Liabilities | |
| Current | 56 |
| Non-current | 198 |
| Total Lease Liabilities | <u>254</u> |
| Right-of-use assets | |
| Right-of-use - Buildings | 257 |
| Right-of-use - Plant and equipment | 19 |
| Total Right-of-use assets | <u>276</u> |
| Prepayments | 22 |

The leases recognised by the Group under AASB 16 on transition relate to office building and equipment. AASB 16 provides a new lessee accounting model which requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months unless the underlying asset is of low value. The depreciation of the lease assets and interest on the lease liabilities are recognised in the consolidated profit or loss and other comprehensive income statement.

In applying AASB 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- The use of a single discount rate to a portfolio of leases with reasonably similar characteristics
- The accounting for leases with a remaining term of less than 12 months as at 1 July 2019 as short-term leases

Leases accounting policy (applied from 1 July 2019)

When a contract is entered into the Group assesses whether the contract contains a lease. A lease arises when the Group has the right to direct the use of an identified asset which is not substitutable and to obtain substantially all economic benefits from the use of the asset throughout the period of use. The Group separates the lease and non-lease components of the contract and accounts for these separately. The Group allocates the consideration in the contract to each component on the basis of their relative stand-alone prices.

Leases as a lessee

Lease assets and lease liabilities are recognised at the lease commencement date, which is when the assets are available for use. The assets are initially measured at cost, which is the present value of future lease payments adjusted for any lease payments made at or before the commencement date, plus any make good obligations and initial direct costs incurred.

Lease assets are depreciated using the straight-line method over the lease term. Periodic adjustments are made for any remeasurements of the lease liabilities and impairment losses, assessed in accordance with the Group's impairment policies.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2020

31. New accounting standards and interpretations (continued)

Lease liabilities are initially measured at the present value of future minimum lease payments, discounted using the Group's incremental borrowing rate if the rate implicit in the lease cannot be readily determined, and are subsequently measured at amortised cost using the effective interest rate. Minimum lease payments are fixed payments.

The lease liability is remeasured when there are changes in future lease payments arising from a change in rates, index or lease terms from exercising an extension or termination option. A corresponding adjustment is made to the carrying amount of the lease assets, with any excess recognised in the consolidated profit or loss and other comprehensive income statement.

Short term leases and lease of low value assets

Short term leases (lease term of 12 months or less) and leases of low value assets are recognised as incurred as an expense in the Consolidated Profit or Loss and Other Comprehensive Income Statement. Low value assets comprise plant and equipment.

DIRECTORS' DECLARATION

For the year ended 30 June 2020

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, notes and the additional disclosures included in the audited 2020 Remuneration Report, comply with Australian Accounting Standards (including Australian Accounting Interpretations) and the *Corporations Act 2001* and other mandatory professional reporting requirements;
 - b. the financial statements and notes give a true and fair view of the financial position of the Group as at 30 June 2020 and of its performance for the year ended on that date;
 - c. the financial statements and notes comply with International Financial Reporting Standards as disclosed in the 'Basis of Preparation' section within the notes to the 2020 Financial Report; and
 - d. there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
2. This declaration has been made after receiving the declarations required to be made to the Directors in accordance with section 295A of the *Corporations Act 2001* for the year ended 30 June 2020.

On behalf of the Board



Mr J Jetter

Chairman

25 September 2020



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INDEPENDENT AUDITOR'S REPORT

To the members of Otto Energy Limited

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Otto Energy Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 30 June 2020, 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 year then ended, and notes to the financial report, including a summary of significant accounting policies and the directors' declaration.

In our opinion the accompanying financial report of the Group, is in accordance with the *Corporations Act 2001*, including:

- (i) Giving a true and fair view of the Group's financial position as at 30 June 2020 and of its financial performance for the year ended on that date; and
- (ii) Complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* section of our report. We are independent of the Group in accordance with the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Recoverability of Oil and Gas Properties

| <i>Key audit matter</i> | <i>How the matter was addressed in our audit</i> |
|--|--|
| <p>The Group's carrying value of oil and gas properties as disclosed in note 14 represents a significant asset to the Group. The Australian Accounting Standards require the Group to assess whether there are any indicators that oil and gas properties may be impaired.</p> <p>The Group concluded there was an impairment indicator as the net assets of the Group exceeded its market capitalisation as at 30 June 2020 and due to the volatility in the oil price during the financial year. Accordingly, the Group was required to estimate the recoverable amount of the assets in accordance with the Australian Accounting Standards from which no impairment was recognised.</p> <p>The assessment of impairment is complex and highly judgemental and it is affected by future performance and market conditions. The key judgements and assumption used in the group's impairment assessment are disclosed in note 14 to the financial report. A reasonable possible change in these key assumptions could impact the recoverable amount of a cash generating unit. Accordingly, this matter was considered to be a key audit matter.</p> | <p>Our work included but not limited to the following procedures:</p> <ul style="list-style-type: none"> Assessing the appropriateness of the Group's categorisation of Cash Generating Units ("CGUs") and the allocation of assets to the carrying value of CGUs based on our understanding of the Group's business and internal reporting; Obtaining and reviewing available reserve data from management's internal and external experts to determine whether the data has been correctly included in the impairment model. This included assessing the competency and objectivity of management's expert; Challenging key inputs used in the value in use calculations including the following: <ul style="list-style-type: none"> In conjunction with our valuation specialist, reviewing the accuracy and integrity of management's value in use model and the discount rate used; Benchmarking and analysing management's oil and gas price assumptions against external market data; Reviewing and analysing the appropriateness of forecasted operating and production costs contained within managements model against actuals and source documentation such as <i>Authorisation for Expenditure Statements</i> where possible; |



| <i>Key audit matter</i> | <i>How the matter was addressed in our audit</i> |
|-------------------------|--|
| | <ul style="list-style-type: none"> • Considering the possible impacts of COVID-19; and • Performing sensitivity analysis on the commodity pricing, key operating costs and discount rates. • Reviewing the Director’s minutes and ASX announcements for evidence of consistency of information with management’s assessment of the carrying value; and • Assessing the adequacy of the related disclosures in note 14 to the financial report. |

Other information

The directors are responsible for the other information. The other information comprises the information in the Group’s annual report for the year ended 30 June 2020, but does not include the financial report and the auditor’s report thereon.

Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the Financial Report

The directors of the Company are responsible for the preparation of the 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 financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or has no realistic alternative but to do so.



Auditor's responsibilities for the audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website (<http://www.auasb.gov.au/Home.aspx>) at:

https://www.auasb.gov.au/admin/file/content102/c3/ar1_2020.pdf

This description forms part of our auditor's report.

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 17 to 30 of the directors' report for the year ended 30 June 2020.

In our opinion, the Remuneration Report of Otto Energy Limited, for the year ended 30 June 2020, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

BDO Audit (WA) Pty Ltd

A handwritten signature in black ink, appearing to be 'P. Murdoch', is written over a horizontal line. The signature is written in a cursive style.

Phillip Murdoch

Director

Perth, 25 September 2020

ADDITIONAL ASX INFORMATION

As at 16 September 2020

Distribution of shareholdings

| Range | Number of holders | Number of shares |
|------------------|-------------------|------------------|
| 1 – 1,000 | 166 | 25,051 |
| 1,001 – 5,000 | 217 | 675,505 |
| 5,001 – 10,000 | 462 | 3,866,783 |
| 10,001 – 100,000 | 2,047 | 90,081,250 |
| 100,001 and over | 1,848 | 4,700,361,184 |
| Total | 4,740 | 4,795,009,773 |

Shareholders by location

| | Number of holders | Number of shares |
|--------------------|-------------------|------------------|
| Australian holders | 4,512 | 4,608,343,055 |
| Overseas holders | 228 | 186,666,718 |
| | 4,740 | 4,795,009,773 |

Unmarketable parcels

There were 2,044 shareholders holding less than a marketable parcel of shares.

Twenty largest shareholders

| | Name | Ordinary shares | |
|----|---|------------------|--------|
| | | Number of shares | % |
| 1 | HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED | 2,327,686,245 | 48.54% |
| 2 | J P MORGAN NOMINEES AUSTRALIA PTY LIMITED | 178,321,280 | 3.72% |
| 3 | BNP PARIBAS NOMINEES PTY LTD | 124,691,962 | 2.60% |
| 4 | CITICORP NOMINEES PTY LIMITED | 78,070,214 | 1.63% |
| 5 | MERRILL LYNCH (AUSTRALIA) NOMINEES PTY LIMITED | 51,490,187 | 1.07% |
| 6 | MR JOHN PHILIP DANIELS | 31,950,000 | 0.67% |
| 7 | BNP PARIBAS NOMS PTY LTD | 22,287,604 | 0.46% |
| 8 | MR MATTHEW GERARD ALLEN | 21,541,602 | 0.45% |
| 9 | MR GEORGE EUSTRATIOS MANIOS | 21,455,555 | 0.45% |
| 10 | MR THOMAS FRITZ ENSMANN | 20,000,000 | 0.42% |
| 11 | BLAMNCO TRADING PTY LTD | 20,000,000 | 0.42% |
| 12 | MR DANIEL LEE | 18,211,778 | 0.38% |
| 13 | DANIEL LEE PTY LTD | 17,771,431 | 0.37% |
| 14 | NATIONAL NOMINEES LIMITED | 16,110,500 | 0.34% |
| 15 | MR ANASTASIOS MAZIS | 16,041,091 | 0.33% |
| 16 | MR WILLIAM GEORGE WILLIAMS | 15,786,102 | 0.33% |
| 17 | MR CRAIG GRANT RADFORD & MRS SARAH JANE RADFORD | 15,537,765 | 0.32% |
| 18 | MR EUAN PATRICK DAVID WADSWORTH | 15,500,000 | 0.32% |
| 19 | BRUXNER PACIFIC PTY LTD | 15,383,333 | 0.32% |
| 20 | PANDA INVESTMENTS PTY LTD | 15,115,698 | 0.32% |
| | | 3,042,952,347 | 63.46% |

ADDITIONAL ASX INFORMATION

As at 16 September 2020

Substantial shareholders

| Name | Ordinary shares | |
|-------------------------|------------------|--------|
| | Number of shares | % |
| Molton Holdings Limited | 2,305,859,697 | 48.38% |

Unquoted securities

The unlisted securities of the Company are 35,534,667 performance rights. The performance rights do not carry a right to vote at a general meeting of shareholders.

Performance Rights

| Grant date | Expiry date | Exercise price | Number of performance rights | Number of holders |
|------------------|------------------|----------------|------------------------------|-------------------|
| 29 November 2017 | 29 November 2022 | A\$0.00 | 6,922,667 | 4 |
| 15 November 2018 | 15 November 2023 | A\$0.00 | 5,775,000 | 3 |
| 21 December 2018 | 15 November 2023 | A\$0.00 | 22,837,000 | 5 |
| | | | 35,534,667 | |

Voting rights

Ordinary shares

In accordance with the Company's Constitution, on a show of hands every shareholder present in person or by proxy, attorney or representative of a shareholder has one vote and on a poll every shareholder present in person or by proxy, attorney or representative of a shareholder has in respect of fully paid shares, one vote for every share held.

Options

There were 42,500,000 options on issue as at the date of this Financial Report.

Performance rights

There are no voting rights attached to the performance rights.

Corporate governance

The Company's Corporate Governance Statement can be accessed at www.ottoenergy.com





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