28 November 2013

Manager of Company Announcements
ASX Limited
Level 6, 20 Bridge Street
SYDNEY NSW 2000

**By E-Lodgement**

## SC55 - OTTO EXECUTES LETTER OF INTENT TO ASSUME BHP BILLITON'S INTEREST

**Highlights:**

- **Executed Letter of Intent with BHP Billiton on termination of the farm-out agreement.**
- **Letter of Intent contemplates a re-assignment of BHP Billiton's 60% working interest to Otto.**
- **BHP Billiton to pay US$3m to Otto upon DOE approval of re-assignment and a further US$24.5m upon drilling of a well.**
- **Upon execution of a definitive agreement, Otto intends to submit a work program and budget to the DOE for 2014 proposing to drill the Hawkeye-1 exploration well.**

Otto Energy Limited ("Otto") (ASX: OEL) has executed a letter of intent with BHP Billiton Petroleum (Philippines) Corporation (BHPB) (ASX: BHP), proposing to terminate the farm-out agreement between the two parties over Service Contract 55 (SC55), offshore the Philippines. The letter of intent contemplates the re-assignment of BHPB's 60% working interest to Otto, taking Otto's working interest to 93.18%, subject to approval of the re-assignment by the Philippines Department of Energy (DOE).

A binding termination agreement is expected to be executed in the coming weeks. The key terms of the letter of intent are as follows:

- Upon approval of the re-assignment by the DOE, Otto will accept the re-assignment of BHPB's 60% working interest and BHPB will pay US$3.0m to Otto;
- Otto undertakes to lodge a Sub-Phase 4 work program and budget with the DOE; and
- BHPB will pay a further US$24.5m to Otto upon drilling the first exploration well in SC55.
- BHPB has no enduring rights to any future exploration outcomes or obligations.

Otto notes that it has access to all 3D seismic data that has been acquired in the permit to date and has commenced a handover process for work undertaken by BHPB as the former operator of SC55.

Upon execution of a definitive agreement, Otto intends to submit a 2014 work program and budget to the DOE outlining the intention to undertake drilling of the 3D seismically defined and DHI (Direct Hydrocarbon Indicator) supported Hawkeye-1 exploration well in Sub-Phase 4. Hawkeye is a turbidite clastic reservoir target in 1,690 metres of water with top reservoir prognosed to be at 2,732 metres.

## OTTO AT A GLANCE

- ASX-listed oil and gas company with a strategy to grow its integrated oil and gas business across exploration, development and production
- Focused on South East Asia and East Africa
- Operator of the producing Galoc oil field in the Philippines, which provides cashflow
- Opportunity rich with substantial exploration prospects and leads

## COMPANY OFFICERS

| | |
|---|---|
| Rick Crabb | Chairman |
| Ian Macliver | Director |
| Rufino Bomasang | Director |
| John Jetter | Director |
| Ian Boserio | Director |
| Gregor McNab | CEO |
| Matthew Allen | CFO/Coy Secretary |

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SC55 contains a number of distinct exploration play types including the carbonate gas/condensate trend, that has the potential for an oil charge, and the turbidite clastic prospects. The permit provides material opportunity and a series of possible drilling targets in an exploration campaign that will be undertaken during the remaining term of the service contract.

The Cinco prospect (see Appendix 2) was identified as part of the 2010 1,800 km$^2$ 3D seismic program undertaken by BHPB that focused on a trend of carbonate prospects and leads with Cinco being analogous to the Malampaya producing gas/condensate field in the Philippines. There is also the potential for an oil charge in the Cinco prospect that is yet to be quantified into a resource estimate. Cinco contains a 'Best Estimate' GIIP of 2.4 Tscf with a 'Best Estimate' Net Prospective Resource of 1.3 Tcf of gas and 45 MMbbl of associated condensate (Condensate Gas Ratio 35 bbls/MMscf). The Net Prospective Resources assumes working interest post re-assignment of 93.18% for Otto and excludes Government Share of profit oil.

The arithmetically aggregated gas/condensate prospect and lead inventory (see Appendix 1), including Cinco, contains a 'Best Estimate' GIIP of ~ 17 Tscf with a 'Best Estimate' Net Prospective Resource of ~ 9 Tscf of gas and 320 MMbbl of condensate.

The Hawkeye prospect (see Appendix3) was identified on 2D seismic originally acquired by Otto in 2007 and further defined with the 600 km$^2$ 3D seismic acquisition in late 2009. Hawkeye contains a 'Best Estimate' STOIIP of ~ 480 MMbbl of oil and a 'Best Estimate' Net Prospective Resource of 89 MMbbl of oil.

Otto will undertake drilling planning preparations in the coming months, including development of well designs and the necessary equipment procurement required to undertake this programme. Otto will also commence a farm-out process intended to introduce a new partner into the joint venture to participate in this program.

BHPB has engaged with the Philippine Department of Energy regarding the revised timing of the work program commitments following the suspension due to delays in the receipt of the Strategic Environmental Plan. It is expected that this revised timing will be the subject of a separate announcement shortly.

Otto Chief Executive Officer Gregor McNab said: "This letter of intent with BHPB represents a favourable outcome for Otto shareholders, providing us with material funding to allow drilling in SC55. This licence is a material and high potential permit with a number of exciting prospects and leads within it. We have commenced drilling planning activities and we look forward to unlocking the value from this permit through drilling the first well. The prospectivity of the carbonate trend, including the Cinco prospect, and the Hawkeye turbidite clastic prospect demonstrates the high impact potential to be tested by exploration drilling in SC55."

**<u>Cautionary Statement regarding Prospective Resources</u>**

"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 chance of discovery (GPOS) and chance of development (CCOS). Further exploration and appraisal and evaluation is required to determine the existence of a significant quantity of potentially moveable hydrocarbons"

*--Ends--*

| Contact: | Media: |
|---|---|
| Matthew Allen | Dudley White |
| Chief Financial Officer | MAGNUS Investor Relations + Corporate Communication |
| +61 8 6467 8800 | +61 2 8999 1010 |
| info@ottoenergy.com | dwhite@magnus.net.au |


## Competent Persons Statement

The Reserve and Resource estimates outlined in this announcement have been compiled by Mr Nick Pink. Mr Pink is the Senior Reservoir Engineer of Otto and a full time employee. Mr Pink has more than 14 years of relevant experience and is qualified in accordance with ASX Listing Rule 5.11. Mr Pink has consented to the form and context that this statement appears.

The Reserve and Resource estimates in this release are reported in accordance with the requirements of ASX Listing Rules, in particular Guidance Note 32 which takes effect from 1 December 2013. Otto has adopted these reporting requirements early.

## Definitions:

| | |
|---|---|
| Best Estimate | Equivalent to the P50 outcome, which is the median of the resource distribution estimates. |
| GIIP | Gas Initially in Place |
| Mean | Arithmetic average of the distribution of the resource estimates and can be influenced by the range of the resource estimates. The Mean is not the same as the Best Estimate. |
| MMbbl | Millions of barrels |
| STOIIP | Stock Tank Oil Initially in Place |
| Tscf | Trillion Standard Cubic feet |

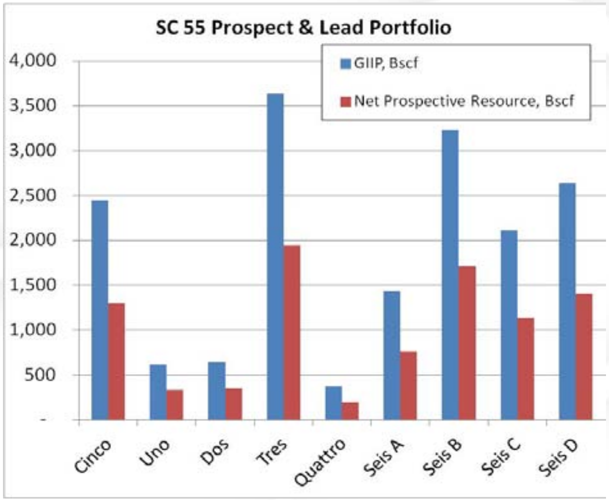
**APPENDIX 1:** **SC55 PROSPECT AND LEAD INVENTORY**

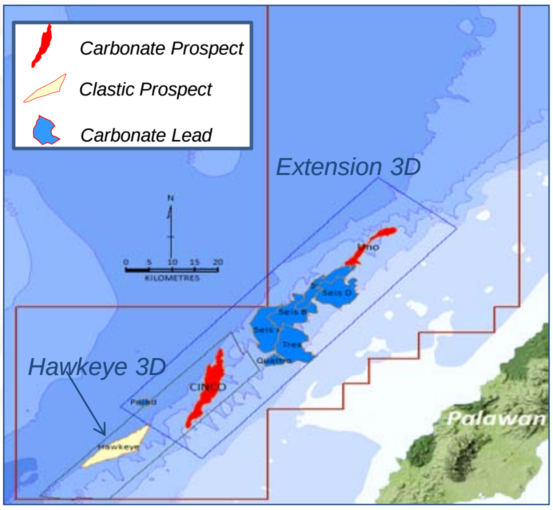
## Exploration SC-55 – Prospects & Leads

An ***impressive gas and condensate portfolio***, developed on an emerging major regional trend, parallel to the island of Palawan

Arithmetically Aggregated ***'Best Estimate'***

- GIIP 17 Tscf
- Net Prospective Resource Gas 9 Tscf
- Net Prospective Resources Condensate 320 MMbbls

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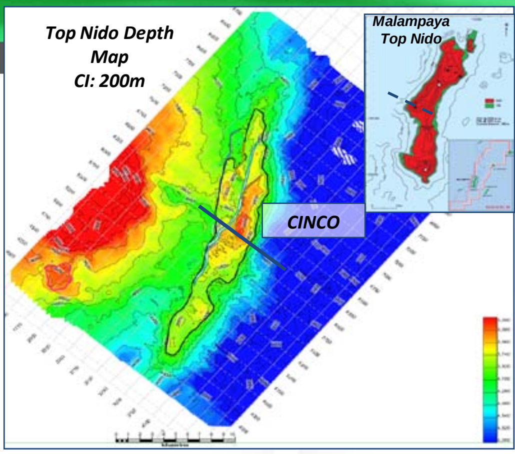
| | GIIP | Gross Prospective Resource | | Net Prospective Resource | |
|---|---|---|---|---|---|
| | Best Estimate, Bscf | Best Estimate, Bscf | Mean, Bscf | Best Estimate, Gas, Bscf | Best Estimate, Condensate, MMbbls |
| Cinco | 2,447 | 1,635 | 2,148 | 1,295 | 45 |
| Uno | 617 | 419 | 825 | 332 | 12 |
| Dos | 644 | 437 | 708 | 346 | 12 |
| Tres | 3,640 | 2,451 | 4,454 | 1,941 | 68 |
| Quattro | 371 | 249 | 473 | 198 | 7 |
| Seis A | 1,431 | 966 | 1,765 | 765 | 27 |
| Seis B | 3,231 | 2,163 | 3,696 | 1,713 | 60 |
| Seis C | 2,116 | 1,428 | 2,730 | 1,131 | 40 |
| Seis D | 2,643 | 1,779 | 2,834 | 1,409 | 49 |
| **Total** | **17,141** | **11,527** | **19,633** | **9,130** | **320** |

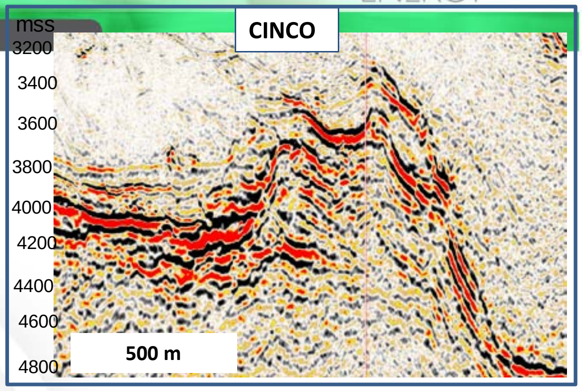


**Head Office** 32 Delhi Street, West Perth WA 6005 Australia PO Box 1414, West Perth, WA 6872 Australia T: +61 8 6467 8800 F: +61 8 6467 8801
**Manila Office** 32nd Floor Philamlife Tower, 8767 Paseo de Roxas, Makati City 1226, Philippines T: +63 2 773 2700 F: +63 2 773 2801
info@ottoenergy.com ASX Code: OEL ABN: 56 107 555 046

## APPENDIX 2: CINCO PROSPECT OUTLINE

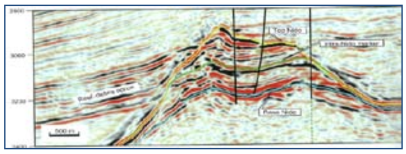
# Exploration SC-55 – Cinco Prospect




**MALAMPAYA**

**Same scale**



| Cinco Prospect | |
|---|---|
| Area of Closure | 53 km$^2$<br>Up to 500m column height |
| Water Depth | 1,430 metres |
| Objective Depth | 3,120 – 4,500 metres |
| GIIP | 0.9 – 2.4 – 6.3 Tscf ((Low – Best- High) |
| Net Prospective Resource (*) | 0.5 - 1.3 - 3.4 Tscf gas, plus (Low – Best- High)<br>16 - 45 - 132 MMbbls condensate (Low – Best- High) |
| GPOS | 20% |
| Development | Potential analogue to the Malampaya platform & pipeline<br>“Probable” chance of development, given multiple mid case discoveries |

***MALAMPAYA (Northern Palawan)***

- ***Proven Reserves 2.5 TCFG and 81 MMBC***

***(*) Otto WI 93.18%***

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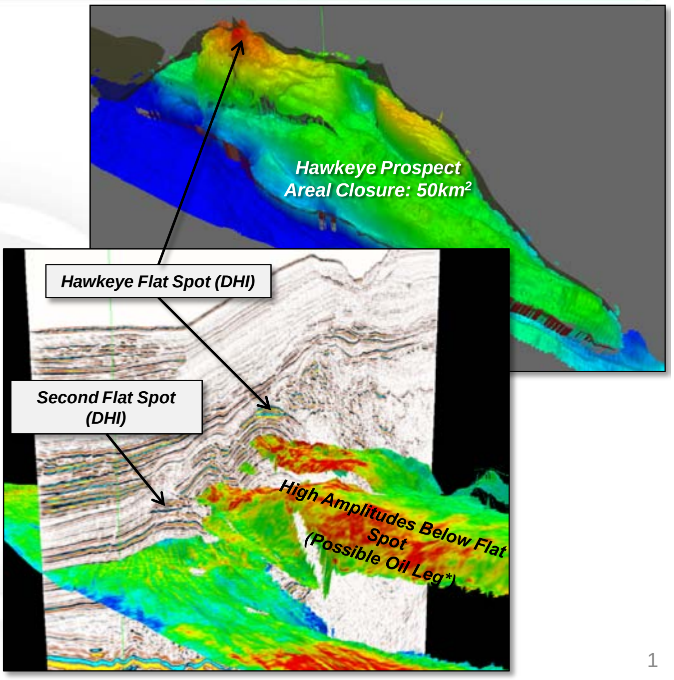
**<u>APPENDIX 3:</u> HAWKEYE PROSPECT OUTLINE**

## Exploration SC-55 – Hawkeye Prospect

| Hawkeye Prospect | |
|---|---|
| Location | Offshore, SW Palawan |
| Area of Closure | 50 km$^2$<br>Up to 500m column height |
| Water Depth | 1,690 metres |
| Objective Depth | 2,750 metres |
| STOIIP, mmstb | 87 - 484 - 1,539<br>(Low – Best- High) |
| Net Prospective Resource (*), MMbbl | 15 - 89 – 318<br>(Low – Best- High) |
| GPOS | 27% |
| Development | FPSO & Tanker Offtake. "Probable" Chance of development given Mid Case Discovery |

***(*) Otto WI 93.18%***

- ***Rock physics analysis supports an oil phase below the gas cap (DHI)***

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