

Quarterly REPORT



THREE MONTHS ENDED 31 MARCH 2014

QUARTERLY HIGHLIGHTS

Corporate:

- Closing cash position of US\$22.367 million.
- Galoc Phase II debt balance of US\$24.491 million after first repayment of US\$11.432 million.
- Increased oil cargo liftings after successful commissioning of Galoc Phase II with three cargos lifted during the quarter.

Production:

- Galoc production post commissioning of Galoc Phase II was initially 14,500 BOPD and averaged 9,168 BOPD for the quarter in line with forecast production; revenue of US\$28.814 million from oil sales realised.
- Safety and integrity of FPSO and subsea facilities maintained.

Exploration:

- Tanzania - Elected to enter Years 3 and 4 of the Pangani and Kilosa-Kilombero production sharing agreements. Commitments include further seismic in 2014 and two exploration wells to be drilled before February 2016.
- Philippines - DOE approval received for re-assignment of 60% working interest in SC55 from BHPB to Otto and payment of US\$3 million received from BHPB. A further US\$24.5 million to be received from BHPB upon drilling of the first exploration well. Farm out process underway to introduce a new partner into the joint venture to participate in drilling of the Hawkeye-1 exploration well.

PRODUCTION & FINANCIAL SUMMARY

		Mar 2014 Quarter	Dec 2013 Quarter	Change %
Production (net to Otto)	bbl	272,303	181,721	49.85%
Liftings (net to Otto)	bbl	283,631	100,539	182.11%
Revenue	US\$m	28.814	10.305	179.61%
Closing Cash Position	US\$m	22.367	16.067	39.21%
Closing Debt Position	US\$m	24.491	35.923	(31.82%)
Expenditure	US\$m	13.20	24.62	(46.39%)

SIX-MONTH OUTLOOK

- Maintain safe and reliable production from the Galoc field.
- Deliver significant revenue stream through regular Galoc cargo offtakes.
- Commence further seismic acquisition in Tanzania and plan for the drilling the of the Kito prospect in 2015.
- Continue farm-out campaign for SC55 prior to drilling the Hawkeye-1 exploration well.
- Evaluate further exploration, appraisal and incremental development opportunities at the Galoc field.

PRODUCTION ASSETS**SERVICE CONTRACT 14C – GALOC OIL FIELD**

Location: Palawan Basin, Philippines
Area: 163 km²
Otto's Interest: 33% - Operator Otto Energy Group

Production

Production operations continued through the quarter following the successful completion of Galoc Phase II commissioning in December 2013.

Production averaged 9,168 bbls per day during the quarter. Production post Galoc Phase II commissioning is in line with pre-start-up expectations. Production tests continued through January as the four well system was stabilised and optimal production rates established. At the end of the quarter, the field was producing approximately 9,150 bbls per day

Cargo 34 was lifted on 4 January 2014 with 294,613 bbls sold at US\$108 per bbl.

Cargo 35 was lifted on 29 January 2014 with 275,135 bbls sold at US\$ 109 per bbl.

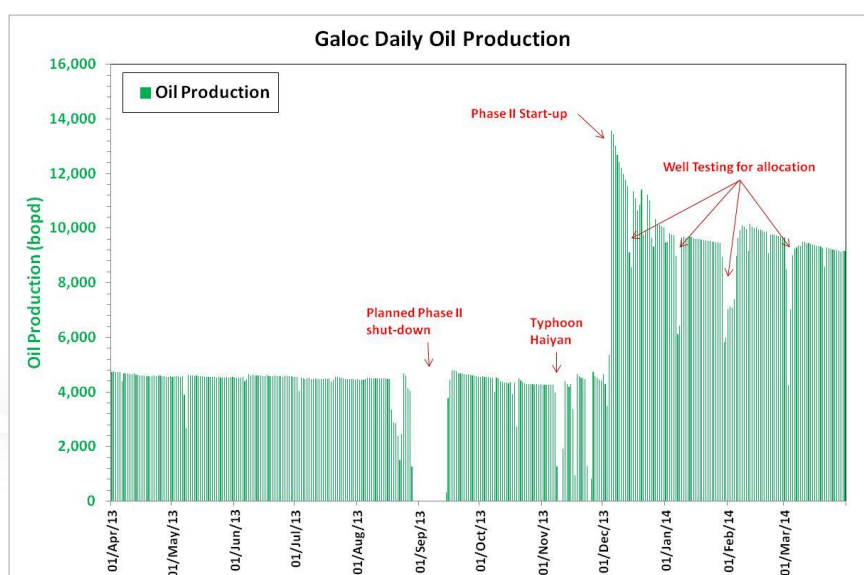
Cargo 36 was lifted on 2 March 2014 with 289,740 bbls sold at US\$ 111 per bbl.

After the end of the quarter, Cargo 37 was lifted on 8 April 2014.

All liftings were sold to South Korean refineries.

Cargo 38 is expected to be lifted in early May 2014. Cargo 39 is expected to be lifted before the end of the June 2014 quarter bringing the total liftings to six for the six months to June 2014.

	Production (bbls)		Liftings (bbls)	
	Gross	Net ¹	Gross	Net ¹
2 nd Qtr 2013	414,614	136,823	340,379	112,325
3 rd Qtr 2013	322,977	106,582	377,668	124,630
4 th Qtr 2013	550,671	181,721	304,665	100,539
1 st Qtr 2014	825,162	272,303	859,488	283,631



¹ Net to Otto

EXPLORATION ASSETS**SERVICE CONTRACT 55**

Location:	Offshore Palawan, Philippines
Area:	9,880 km ²
Otto's Interest:	93.18% - Operator Otto Energy Group

Otto executed binding agreements with BHP Billiton Philippines Inc. (BHPBP) to terminate the farm-out agreement between the two parties in respect of Service Contract 55 (SC55), offshore the Philippines. Under the agreements, BHPBP re-assigned a 60% working interest to Otto, taking Otto's working interest to 93.18%. The reassignment was approved by the Philippines Department of Energy (DOE) on 14 March 2014.

The key terms of the agreements are:

- Otto to be re-assigned BHPBP's 60% working interest;
- BHPBP to pay US\$3.0m to Otto; and
- BHPBP will pay a further US\$24.5m to Otto upon drilling the first exploration well in SC55.

Otto has access to all 3D seismic data acquired in the permit to date and has resumed as operator following a handover process from BHPBP as the former operator of SC55. As operator, Otto has lodged a Sub-Phase 4 work program and budget with the DOE which includes the drilling of the Hawkeye-1 well.

Otto is several months into a farm-out process to introduce a new joint venture partner to participate in the drilling of the Hawkeye-1 exploration well. Otto is targeting suitably qualified partners with deepwater experience to join the exploration program and several suitable companies with SE Asia operations have commenced technical due diligence reviews of the available data. Completion of the farm-out process is anticipated to be completed and a new partner secured by mid-2014.

Otto is pleased with the response from potential partners and the progress of the farm-out campaign.

Otto has commenced drilling planning preparations, including well design, planning studies and procurement reviews. Importantly, Otto has also invited expressions of interest from drilling rig owners to determine availability of drilling units to ensure Hawkeye-1 is drilled within the required timeframe.

SC55 contains a number of distinct exploration play types that provide material opportunities, including: the carbonate gas/condensate trend that has the potential for an oil charge; and turbidite clastic prospects.

The Hawkeye prospect was identified on 2D seismic originally acquired by Otto in 2007 and further defined with the 600 km² 3D seismic acquisition in late 2009. Hawkeye contains a 'Best Estimate' STOIP of ~ 480 MMbbl of oil and a 'Best Estimate' Net Prospective Resource of 89 MMbbl of oil.

The Cinco prospect was identified as part of the 2010 1,800 km² 3D seismic program undertaken by BHPB that focused on a trend of carbonate prospects and leads. Cinco is analogous to the Malampaya producing gas/condensate field, which is located 400 kms north east of the permit. Cinco contains a 'Best Estimate' GIIP of 2.4 Tcf with a 'Best Estimate' Net Prospective Resource of 1.3 Tcf of gas and 45 MMbbl of associated condensate (Condensate Gas Ratio 35 bbls/MMcf), assuming 93.18% working interest for Otto and excluding Government Share.

EXPLORATION ASSETS (CONTINUED)**KILOSA-KILOMBERO AND PANGANI**

Location: Onshore, Tanzania
Area: ~34,000 km²
Otto's Interest: 50% - Operator Swala Oil and Gas (Tanzania) Plc (ASX:SWE)

The Joint Venture has elected to enter Years 3 and 4 of the Pangani and Kilosa-Kilombero Production Sharing Agreements due to very positive results from recent seismic work.

Entry into Years 3 and 4 represents a significant milestone and involves a commitment to drill one exploration well in each contract area before the end of 2015 and the acquisition of additional seismic data to allow optimal well positioning.

Kilosa-Kilombero Permit

A total of 123km of 2D seismic was acquired over the Kilosa basin and a total of 137km of 2D seismic was acquired over the Kidatu basin. In the Kidatu basin, initial results indicate the presence of large-scale structures along the edges of the basin, together with a major intra-basin high identified on dip and strike lines. The structure may be as large as 30 to 60 square kilometres.

A total of 110km of 2D seismic was acquired over the Kilombero basin. Initial results suggest the presence of a Neogene-age basin with a maximum depth to basement in excess of 3,000m. The age of the sediments recorded (based on low seismic velocities) appears to be similar to that of sediments observed in the now proven oil basins of Lokichar (Kenya) and Lake Albert (Uganda), where Africa Oil (TSX.V:AOI) and Tullow Oil (LSE: TLE) have had significant success.

Dip lines across the basin suggest the presence of both structural traps and traps against the main basin-bounding fault with possible Direct Hydrocarbon Indicators (DHIs or 'Flat Spots') observed at several levels at the crest.

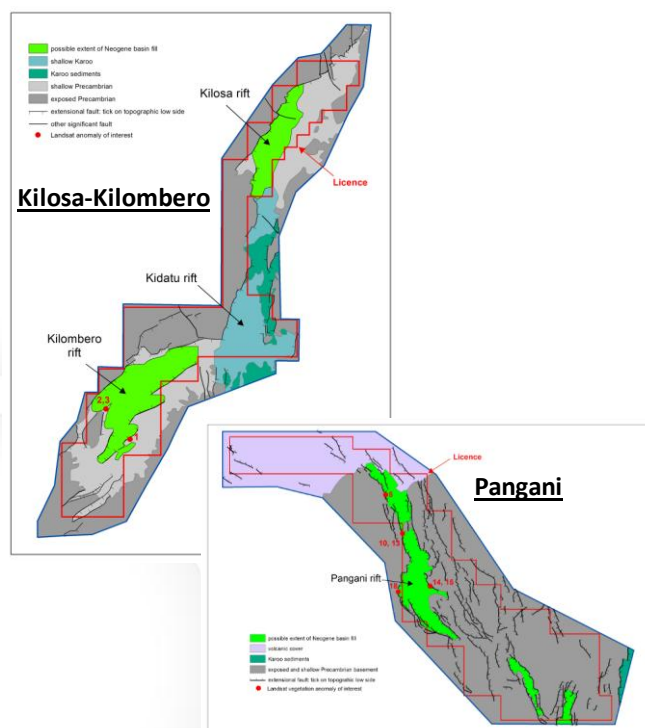
Otto's partner Swala Oil & Gas (Tanzania) Plc announced results from a prospective resource assessment over the "Kito" prospect in the Kilosa-Kilombero Licence in Tanzania indicating a net prospective resource of between 19.2 million barrels and 169.6 million barrels to Otto with a best estimate of 60.4 million barrels.

Pangani Permit

A total of 200 km of 2D seismic has been acquired over the Mvungwe and Moshi basins.

The results from the survey show that the Moshi basin in the north of the permit appears to be a basin with sedimentary fill of probable Neogene age. Further evidence from the seismic survey suggests that the basin is fault-bounded, some 25km wide, and with basin fill to between 2,000 and 3,000m depth.

The Mvungwe basin in the south of the permit is still being processed, but initial results suggest that the basin is shallower, at less than 1,000m deep, and contains sediments of probable Neogene age. Given conducive heat flows, these shallow basins could be productive (the Pakwach basin in Uganda's Lake Albert, where six discoveries have been made to date, has a depth of 900m) and Otto will continue its planned basin modelling programme.



EXPLORATION ASSETS (CONTINUED)**SERVICE CONTRACT 73**

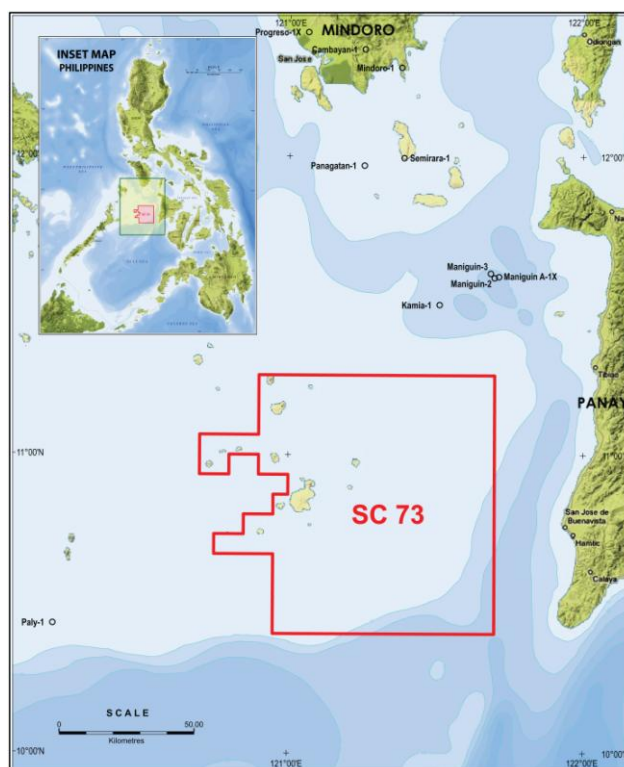
Location: Offshore Mindoro-Cuyo, Philippines
Area: 8,440 km²
Otto's Interest: 100% - Operator Otto Energy Group

Otto has committed to reprocessing existing seismic data with a minimum financial commitment of US\$0.5 million over an initial period of 18 months.

Service Contract 73 is an offshore block located in the southern part of the Mindoro Basin – Cuyo Platform, an offshore continental rift basin. It covers 8,440 km² and water depths range from 100 – 1,300 metres. There is 3,000 kilometres of existing 2D seismic data within and adjacent to the block.

The petroleum play types in the permit include reef build-ups, fault blocks and anticlines. The reservoir intervals are Early Miocene to Pliocene carbonates and Early to Late Miocene carbonates and clastics. Source rocks are coaly and organic-rich claystones of Eocene to Middle Miocene. Middle Miocene carbonates and clastics provide the seal for the system.

Oil was previously discovered and an Extended Production Test conducted in 1994 at the Maniguin wells, located 50 kilometres north of the permit. Oil seepages in the Mindoro Island region confirm the presence of an active petroleum system in the area.

**SERVICE CONTRACT 51**

Location: Onshore Leyte, Philippines
Area: 1,660 km²
Otto's Interest: 80% - Operator Otto Energy Group

Duhat-2 Exploration Well

The presence of the high pressure, water bearing, permeable section intersected at the Duhat-2 well location in July 2013 was not seen at a similar depth in the Duhat-1 well located only 440 metres away. Seismic data through both the Duhat-1 and Duhat-2 wells provided no warning of the presence of the overpressure interval. Accordingly, this significant new information is being reviewed in detail and will be considered in any future decisions regarding SC51.

CORPORATE**CASH OUTFLOWS**

Otto's free cash reserve at the end of the quarter was US\$22.367 million (Dec: US\$16.067 million).

Historic and expected cash outflows in the coming quarter are shown below:

	Jun 14 Qtr US\$m Forecast	Mar 14 Qtr US\$m Actual	Dec 13 Qtr US\$m Actual	Sep 13 Qtr US\$m Actual	Jun 13 Qtr US\$m Actual
Philippines					
SC 14C					
Production	6.28	5.80	5.20	4.98	6.84
Development	-	4.11	13.48	21.97	20.04
Exploration	0.25	-	-	-	-
SC 51	-	-	1.24	3.24	1.13
SC 55	0.50	0.14	-	-	-
SC 69	-	-	0.09	-	-
SC 73	0.02	-	0.14	-	-
Tanzania	0.20	0.25	2.62	1.32	0.54
Administration	1.83	2.90	1.83	0.69	0.90
Total	9.08	13.20	24.60	32.20	29.45

CORPORATE (CONTINUED)**SHAREHOLDERS**

Otto's issued capital as at 31 March 2014:

	Number
Fully paid ordinary shares	1,149,290,071
Unlisted Options ¹	9,750,000
Performance Rights	16,000,000

¹ Exercisable between 11.13 and 12.0 cents per share with expiration dates from October 2014 to December 2016.

Otto's Top 20 Holders as at 1 April 2014:

TOP 20 SHAREHOLDERS AS AT 1 APRIL 2014

Rank	Name	Units	% of Units
1	SANTO HOLDING AG	241,910,757	21.05%
2	MOLTON HOLDINGS LIMITED	241,910,757	21.05%
3	ACORN CAPITAL LIMITED	86,717,074	7.55%
4	CITICORP NOMINEES PTY LIMITED	35,821,963	3.12%
5	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED - A/C 2	20,403,375	1.78%
6	JOHN JETTER (CONSOLIDATED RELEVANT INTEREST)	19,089,175	1.66%
7	JP MORGAN NOMINEES AUSTRALIA LIMITED	18,608,193	1.62%
8	RICK CRABB (CONSOLIDATED RELEVANT INTEREST)	17,495,052	1.52%
9	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	16,305,051	1.42%
10	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	15,072,744	1.31%
11	JP MORGAN NOMINEES AUSTRALIA LIMITED <CASH INCOME A/C>	14,870,144	1.29%
12	DBS VICKERS SECURITIES (SINGAPORE) PTE LTD	14,020,833	1.22%
13	PAN PACIFIC PETROLEUM NL	11,680,340	1.02%
14	ESCOT FINANCE LTD	8,150,000	0.71%
15	NAVIGATOR AUSTRALIA LTD	7,946,695	0.69%
16	FORSYTH BARR CUSTODIANS LTD <FORSYTH BARR LTD-NOMINEE	6,989,569	0.61%
17	MR BRIAN LESLEIGH WILLIAMS & MRS VALERIE RUBY DAWN WILLIAMS	5,339,000	0.46%
18	NATIONAL NOMINEES LIMITED	5,322,741	0.46%
19	MR GREGOR MCNAB	5,000,000	0.44%
20	IAN MACLIVER (CONSOLIDATED RELEVANT INTEREST)	4,549,721	0.40%
TOTAL TOP 20 SHAREHOLDERS		797,203,184	69.36%
TOTAL REMAINING SHAREHOLDERS		352,086,887	30.64%
TOTAL SHARES ON ISSUE		1,149,290,071	100.0%

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

DIRECTORS

Chairman:

Rick Crabb

Non-Executive Directors:

Ian Boserio

Ian MacIver

John Jetter

Rufino Bomasang

OFFICERS

Chief Executive Officer:

Matthew Allen

Chief Financial Officer:

Craig Hasson

Chief Legal Counsel and Company Secretary:

Scott Blenkinsop

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Definitions

- (1) "\$m" means USD millions of dollars
- (2) "bbl" means barrel
- (3) "bbls" means barrels

Competent Person Statement

The Reserve and Contingent Resource estimates outlined in this report have been compiled by Dr Mark Pogson. Dr Pogson is the Petroleum Engineering Consultant for Otto. Dr Pogson has more than 25 years of relevant experience and is qualified in accordance with ASX Listing Rule 5.11. Dr Pogson has consented to the form and context of this statement.

Appendix 5B

Mining exploration entity and oil and gas exploration entity quarterly report

Introduced 01/07/96 Origin Appendix 8 Amended 01/07/97, 01/07/98, 30/09/01, 01/06/10, 17/12/10, 01/05/2013

Name of entity

Otto Energy Ltd

ABN

56 107 555 046

Quarter ended ("current quarter")

31 March 2014

Consolidated statement of cash flows

		Current quarter \$US'000	Year to date (9 months) \$US'000
Cash flows related to operating activities			
1.1	Receipts from product sales and related debtors	28,814	52,016
1.2	Payments for		
	(a) exploration & evaluation	(394)	(9,040)
	(b) development	(4,106)	(39,550)
	(c) production	(5,804)	(15,211)
	(d) administration	(2,897)	(5,413)
1.3	Dividends received	-	-
1.4	Interest and other items of a similar nature received	1	11
1.5	Interest and other costs of finance paid	(839)	(1,864)
1.6	Income taxes paid	-	(770)
1.7	Other	3,000	3,589
Net Operating Cash Flows		17,775	(16,232)
Cash flows related to investing activities			
1.8	Payment for purchases of:		
	(a) prospects	-	-
	(b) equity investments	-	-
	(c) other fixed assets	(35)	(179)
1.9	Proceeds from sale of:		
	(a) prospects	-	-
	(b) equity investments	-	-
	(c) other fixed assets	2	5
1.10	Loans to other entities	-	-
1.11	Loans repaid by other entities	-	-
1.12	Other (provide details if material)	-	(575)
Net investing cash flows		(33)	(749)
1.13	Total operating and investing cash flows (carried forward)	17,742	(16,981)

+ See chapter 19 for defined terms.

Appendix 5B**Mining exploration entity and oil and gas exploration entity quarterly report**

1.13	Total operating and investing cash flows (brought forward)	17,742	(16,981)
	Cash flows related to financing activities		
1.14	Proceeds from issues of shares, options, etc.	-	-
1.15	Proceeds from sale of forfeited shares	-	-
1.16	Proceeds from borrowings	-	18,984
1.17	Repayment of borrowings	(11,432)	(11,432)
1.18	Dividends paid	-	-
1.19	Other (provide details if material)	-	-
	Net financing cash flows	(11,432)	7,552
	Net increase (decrease) in cash held	6,310	(9,429)
1.20	Cash at beginning of quarter/year to date	16,067	31,854
1.21	Exchange rate adjustments to item 1.20	(10)	(58)
1.22	Cash at end of quarter	22,367	22,367

Payments to directors of the entity, associates of the directors, related entities of the entity and associates of the related entities

		Current quarter \$US'000
1.23	Aggregate amount of payments to the parties included in item 1.2	107
1.24	Aggregate amount of loans to the parties included in item 1.10	-
1.25	Explanation necessary for an understanding of the transactions	
	Payment of Directors Fees	107

Non-cash financing and investing activities

- 2.1 Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows

Nil

- 2.2 Details of outlays made by other entities to establish or increase their share in projects in which the reporting entity has an interest

Nil

Financing facilities available

Add notes as necessary for an understanding of the position.

	Amount available \$US'000	Amount used \$US'000
3.1	Loan facilities	24,491
3.2	Credit standby arrangements	10,000
		-

+ See chapter 19 for defined terms.

Estimated cash outflows for next quarter

	\$US'000
4.1 Exploration and evaluation	959
4.2 Development	-
4.3 Production	6,280
4.4 Administration	1,838
Total	9,077

Reconciliation of cash

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.	Current quarter \$US'000	Previous quarter \$US'000
5.1 Cash on hand and at bank	22,367	16,067
5.2 Deposits at call	-	-
5.3 Bank overdraft	-	-
5.4 Other (Term Deposit)	-	-
Total: cash at end of quarter (item 1.22)	22,367	16,067

Changes in interests in mining tenements and petroleum tenements

	Tenement reference and location	Nature of interest (note (2))	Interest at beginning of quarter	Interest at end of quarter
6.1 Interests in mining tenements and petroleum tenements relinquished, reduced or lapsed				
6.2 Interests in mining tenements and petroleum tenements acquired or increased	SC55, Philippines	Service Contract Area	33.18%	93.18%

Issued and quoted securities at end of current quarter

Description includes rate of interest and any redemption or conversion rights together with prices and dates.

	Total number	Number quoted	Issue price per security (see note 3) (cents)	Amount paid up per security (see note 3) (cents)

+ See chapter 19 for defined terms.

Appendix 5B

Mining exploration entity and oil and gas exploration entity quarterly report

7.1	Preference +securities (description)	Nil	Nil		
7.2	Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions	Nil	Nil		
7.3	+Ordinary securities	1,149,290,071	1,149,290,071		
7.4	Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs	Nil Nil	Nil Nil	Nil	Nil
7.5	+Convertible debt securities (description)	Nil	Nil		
7.6	Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted	Nil	Nil		
7.7	Options (description and conversion factor)	9,750,000 Unlisted Options	Nil	1,250,000 Exercise Price \$0.12	On or before 13 October 2014
				500,000 Exercise Price \$0.12	On or before 5 January 2015
				8,000,000 Exercise Price \$0.1113	On or before 2 December 2016
		16,000,000 Unlisted Performance Rights	Nil	2,000,000 Performance Rights	On or before 31 December 2014
				4,000,000 Performance Rights	On or before 31 December 2014

+ See chapter 19 for defined terms.

Appendix 5B

Mining exploration entity and oil and gas exploration entity quarterly report

			500,000 Performance Rights	On or before 1 April 2014
			9,500,000 Performance Rights	On or before 1 April 2016
7.8	Issued during quarter	Nil	Nil	Nil
7.9	Exercised during quarter	Nil	Nil	Nil
7.10	Expired during quarter	Nil	Nil	Nil
7.11	Debentures <i>(totals only)</i>			
7.12	Unsecured notes <i>(totals only)</i>			

Compliance statement

- 1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act or other standards acceptable to ASX (see note 5).
- 2 This statement does give a true and fair view of the matters disclosed.

Matthew Allen
Chief Executive Officer
14 April 2014

+ See chapter 19 for defined terms.

Notes

- 1 The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.
- 2 The "Nature of interest" (items 6.1 and 6.2) includes options in respect of interests in mining tenements and petroleum tenements acquired, exercised or lapsed during the reporting period. If the entity is involved in a joint venture agreement and there are conditions precedent which will change its percentage interest in a mining tenement or petroleum tenement, it should disclose the change of percentage interest and conditions precedent in the list required for items 6.1 and 6.2.
- 3 **Issued and quoted securities** The issue price and amount paid up is not required in items 7.1 and 7.3 for fully paid securities.
- 4 The definitions in, and provisions of, *AASB 6: Exploration for and Evaluation of Mineral Resources* and *AASB 107: Statement of Cash Flows* apply to this report.
- 5 **Accounting Standards** ASX will accept, for example, the use of International Financial Reporting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.

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