

ASX ANNOUNCEMENT
20 April 2016

SM-71 #1 OIL AND GAS DISCOVERY– GULF OF MEXICO

- **SM-71 #1 well successfully drilled to final target measured depth at 6,843 feet/2,086 metres**
- **Hydrocarbon saturated sands intersected in three intervals, including the primary D5 target, with a combined gross thickness of 150 feet/46 metres**
- **7 ½" production liner will be run prior to suspending the well for production**

Otto Energy Ltd (ASX: OEL) ("Otto" or the "Company") is pleased to announce that it has been advised by Operator, Byron Energy Inc., a subsidiary of Byron Energy Limited (ASX:BYE) ("Byron"), that the SM-71 #1 well located at the South Marsh Island Block 71 has completed drilling to the final target measured depth at 6,843 feet (2,086 metres) or 6,477 feet (1,974 metres) True Vertical Depth.

During drilling a number of discrete hydrocarbon bearing sands have been intersected and preliminary evaluation completed using Logging While Drilling (LWD) tools. The following hydrocarbon indications have been observed to date:

- (i) I3 Sand – a hydrocarbon saturated gross sand thickness of approximately 20 feet (6 metres)
- (ii) J sand – a hydrocarbon saturated gross sand thickness of approximately 30 feet (9 metres)
- (iii) D5 sand – a hydrocarbon saturated gross sand thickness of approximately 100 feet (30 metres)

Indications of oil were seen on cuttings from the D5 sand interval and all hydrocarbon bearing zones demonstrated elevated wet gas readings.

Based on preliminary interpretation of these results it appears that a significant proportion of these hydrocarbon bearing sands will result in net hydrocarbon pay, however net pay counts cannot be determined until a porosity log is run and may be determined to be less than the gross sand amounts reported here.

The D5 Sand, which was the primary target of this well exhibits excellent quality, is within the range of predrill expectations, and confirms the RTM technology used to delineate the prospect. The J Sand, which was a secondary target, was found within predrill expectations and was intersected 220 feet (67 metres) up-dip of the highest productive well in the J Sand interval. The I3 Sand, which was not included in the predrill estimates, will enhance the project economics. The I3 sand interval does not appear to have been produced in offset wells on SM 71.

Current operation is to run in to the hole with a bit to address excess wall-cake build up and verify the hole's condition prior to running porosity logs. Whilst drilling to total depth below the D5 Sand, a pressure transition was intersected which required an increase in mud weight to control the well. The higher mud weight suppressed gas ingress, but will require additional conditioning of the wellbore.

The preliminary results from these three discrete hydrocarbon intervals are considered of commercial value to warrant the completion and ultimate production of the well. This will be done by running a 7 ½" production liner and suspension of the well for future production. The joint venture will now move forward with development planning and has already initiated discussions with an offset operator to cost effectively produce the hydrocarbons from this well.

The SM 71 #1 well targeted two objective sands. The first target was the J Sand, which has been assigned by Collarini and Associates gross proved and probable undeveloped reserves of 0.8 million barrels of oil and 0.5 Bcf of gas, equivalent to 0.33 million barrels of oil and 0.2 Bcf of gas net to Otto's 50% working interest and 40.625% net revenue interest. The primary target was the D5 sand, which has been assigned, by Collarini and Associates, gross prospective resources of 5.6 million barrels of oil and 4.1 Bcf of gas, equivalent to 2.3 million barrels of oil and 1.7 bcf of gas net to Otto's 50% working interest and 40.625% net revenue interest.

The SM 71 #1 well is the second well to be drilled as part of the farm-in with Byron announced in December 2015. The SMI-71 #1 well has been drilled to the earning depth and Otto has earned a 50% working interest in the SMI70 /71 licences.

Otto's Managing Director, Matthew Allen said: *"Otto is very pleased with the results of the SM-71 #1 well coming in at the high end of our forecasts. This discovery cements Otto's initial position in the Gulf of Mexico, with our partner Byron Energy, and will form the basis for Otto's continued investment in this high value play. We look forward to developing this opportunity and seeing Otto return to production in 2017."*

The SMI-71 lease is part of a portfolio of low cost, high chance of success, conventional oil and gas opportunities located both onshore and offshore the Gulf of Mexico, which Otto has the option to participate in as part of the transaction.

In order to earn a 50% working interest (equal to a 40.625% revenue interest) in the SMI-71 Lease, Otto will contribute 66.67% of the costs of the well (estimated at US\$3.0 million net to Otto)). Any costs above this amount in respect of the SM-71 #1 well and all future expenditure on the license will be in accordance with Otto and Byron's participating interest (Otto 50%).

Otto is able to fund all activities under the Participation Agreement with Byron Energy from existing cash resources.

More information on the SM-71 #1 well is set out in Appendix 1 to this release.



Hercules 2015 Drilling Rig

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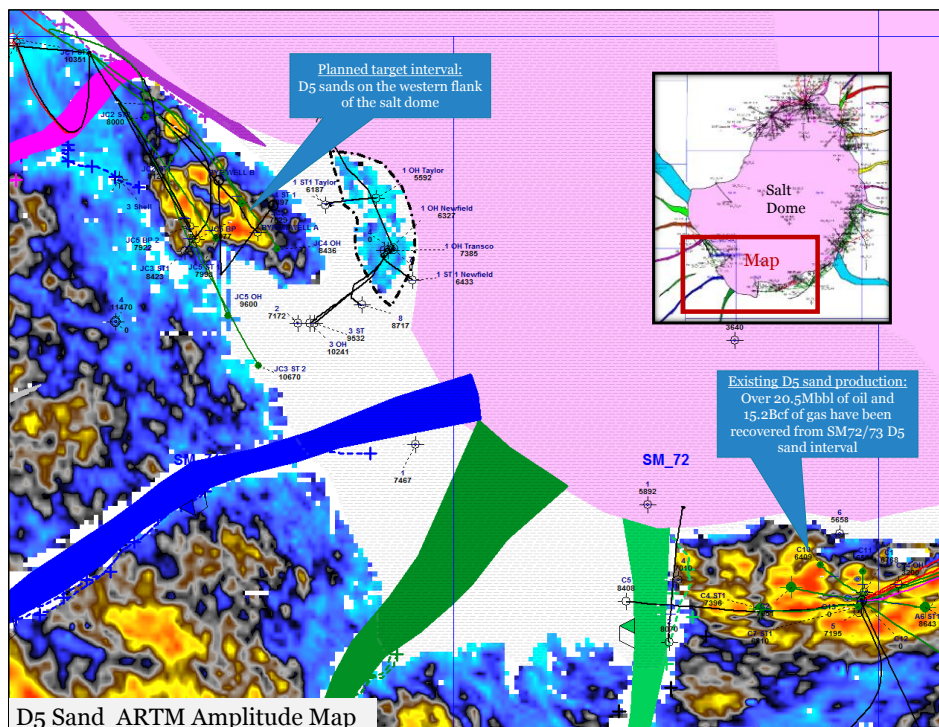
Appendix 1 Overview of SM-71 #1 Well and Development Opportunity

Drilling of the SM-71 #1 well will earn Otto the rights to the following net revenue interests (as determined by independent consultants, Collarini and Associates):

- Oil Mbbbl (1P-2P-3P)- (249 - 343 - 520) and a prospective oil resource of 2,277 Mbbbl; and
- Gas Mscf (1P-2P-3P)- (134 - 185 - 322) and a prospective resource of Gas 1,680 Mscf

The main D5 target sands (classified as a prospective resource), are updip from a legacy well (Shell #2) and a secondary target in the J sands contains attic potential (classified as reserves) updip from the #JC5ST1 well. Further details on the well are set out below:

South Marsh Island-71 #1 Well	
Reservoir type	Pleistocene to Pliocene
Total Depth	6,843 feet (2,086m) MD/6,477feet (1,974m) TVD
Water Depth	130 feet / 40 metres
Drilling program	The Hercules 205 drilling unit has been contracted by Byron Energy.



ARTM Seismic line through SMI-71 well showing main target (D5) and analogues in the same interval on the salt dome

Competent Persons Statement

The information in this report that relates to oil and gas reserves and resources was compiled by technical employees of independent consultants Collarini and Associates, under the supervision of Mr Mitch Reece BSc PE. Mr Reece is the President of Collarini and Associates and is a registered professional engineer in the State of Texas and a member of the Society of Petroleum Evaluation Engineers (SPEE), Society of Petroleum Engineers (SPE), and American Petroleum Institute (API). The reserves and 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 reserves and resources information reported in this Statement are based on, and fairly represents, information and supporting documentation prepared by, or under the supervision of, Mr Reece. Mr Reece 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 & Resources

Reserve and resource estimates in this release are prepared as at 30 June 2015 (reference: Byron Energy Limited ASX announcement 4 September 2015). The resource estimates have been prepared using internationally recognised Petroleum Resources Management System to define resource classification and volumes. The resource estimates are in accordance with the standard definitions set out by the Society of Petroleum Engineers, further information is available at www.spe.org. The estimates are un-risked and have not been adjusted for both associated chance of discovery and a chance of development. Otto is not aware of any new information or data that materially affects the assumptions and technical parameters underpinning the estimates of reserves and resources and the relevant market announcements referenced continue to apply and have not materially changed.

Prospective Resource Cautionary Statement

The estimated quantities of petroleum that may be potentially recoverable by the application of future development project(s) 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 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 estimates.