

ASX ANNOUNCEMENT
2 August 2017

RECEIPT OF FUNDS & ISSUE OF CONVERTIBLE NOTES APPENDIX 3B & CLEANSING STATEMENT

Otto Energy Limited (ASX : OEL) announced on 29 May 2017 a proposed capital raising of US\$8.2 million through the issue of convertible notes each with a face value of US\$1.00 (Convertible Notes).

The Company obtained shareholder approval for this Convertible Note issue at a meeting of shareholders held on 25 July 2017. Key terms of the Convertible Notes and other information is set out in the announcement released on 29 May 2017 and in the Company's Notice of Meeting lodged with the ASX on 23 June 2017.

The Company is pleased to announce that all conditions precedent to the completion of the Convertible Note issue have been met, including the receipt of US\$8.2 million from the Noteholders, and today Otto has issued the Convertible Notes.

The Appendix 3B and Cleansing Statement (Notification under section 708A(12C)(e) of the Corporations Act) in relation to the issue of the Convertible Notes are attached.

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NOTIFICATION UNDER SECTION 708A(12C)(e) OF THE *CORPORATIONS ACT 2001* (CTH) FOR THE PURPOSES OF ASIC CORPORATIONS (SALE OFFERS: SECURITIES ISSUED ON CONVERSION OF CONVERTIBLE NOTES) INSTRUMENT 2016/82

This notice (**Cleansing Notice**) is given by Otto Energy Limited (ACN 107 555 046) (ASX: OEL) (the **Company**) under section 708A(12C)(e) of the *Corporations Act 2001* (Cth) (the **Corporations Act**) as modified by ASIC Corporations (Sale Offers: Securities Issued on Conversion of Convertible Notes) Instrument 2016/82 (**CI 2016/82**). Where applicable, references in this Cleansing Notice to the Corporations Act are to those sections as modified by CI 2016/82.

This Cleansing Notice is important and should be read in its entirety. Neither ASIC nor ASX take responsibility for the contents of this Cleansing Notice.

1 Background

On 2 August 2017, the Company issued US\$8.2 million worth of secured convertible notes (**Convertible Notes**) to Molton Holdings Limited (**Molton**), and Mr John Jetter (together, the **Subscribers**) to fund costs associated or connected with the two well development of the development project at the South Marsh Island Area Block 71 (**SM-71**) (the **SM-71 Project**) and provide contingent funding for costs associated or connected with a third well to be drilled in the initial development of the SM-71 Project, if approved by the SM-71 Project joint venture participants.

Details of the terms and conditions of the Convertible Notes and the Share Mortgage (defined below), Share Mortgage Document (defined below) and any other related arrangements, were provided in the Company's notice of extraordinary general meeting dated 23 June 2017 (**Notice of Meeting**).

Shareholders at an extraordinary general meeting on Tuesday, 25 July 2017 approved:

- (a) the issue of Convertible Notes to Molton for the purposes of item 7 of section 611 of the Corporations Act;
- (b) the issue of Convertible Notes to Mr John Jetter for the purposes of Part 2E.1 of the Corporations Act and ASX Listing Rule 10.11; and
- (c) the grant and direct enforcement of the Share Mortgage by the Bank of New York Mellon (**Security Agent**) on behalf of the Subscribers for the purposes of ASX Listing Rule 10.1, and all other purposes.

The Company hereby gives notice that:

- (d) the Convertible Notes were issued without a disclosure document under Part 6D.2 of the Corporations Act; and
- (e) this Cleansing Notice has been given in accordance with section 708A(12C)(e) of the Corporations Act.

The issue of this Cleansing Notice enables any fully paid ordinary shares in the capital of the Company (**Shares**), which may be issued by the Company on conversion of the Convertible Notes on the terms described below (**Conversion Shares**), to be on-sold to retail investors without further disclosure.

2 Contents of this Cleansing Notice

This Cleansing Notice sets out the following:

- (a) in relation to the Convertible Notes:
 - (i) the effect of the issue on the Company;
 - (ii) a summary of the rights and liabilities attaching to the Convertible Notes; and
 - (iii) a summary of the rights and liabilities attaching to the Conversion Shares; and
- (b) any information that:
 - (i) has been excluded from any continuous disclosure notice in accordance with the ASX Listing Rules;
 - (ii) is information that investors and their professional advisors would reasonably require for the purpose of making an informed assessment of:
 - (A) the assets and liabilities, financial position and performance, profits and losses and prospects of the Company; and
 - (B) the rights and liabilities attaching to the Shares; and
 - (iii) other information relating to the Company's status as a disclosing entity.

3 Effect of the Convertible Notes Issue on the Company

The principal effects of the issue of the Convertible Notes on the Company will be:

- (a) to increase the Company's cash reserves by US\$8.2 million (before costs) upon the issue of the Convertible Notes;
- (b) the grant of a mortgage over the shares in Otto Energy (Louisiana) LLC (***Otto Louisiana***), Otto (Gulf One) LLC (***Gulf One***) and Otto (Gulf Two) LLC (***Gulf Two***), each a Delaware limited liability company and wholly owned subsidiary of the Company, (the ***Share Mortgage***) under the pledge agreement entered into between, among others, the Subscribers, the Security Agent and Otto Energy (USA) Inc. (***Otto USA***) (the ***Share Mortgage Document***);
- (c) to give rise to the Company having liability for the aggregate amount of the face values of the Convertible Notes (US\$8.2 million) plus any interest which may accrue and remain unpaid; and
- (d) to increase the number of Shares on issue as a consequence of the issue of the Conversion Shares, in the event some or all of the Convertible Notes are converted in accordance with their terms.

4 Impact on the Company's Financial Position

The pro-forma Consolidated Statement of Financial Position shown in the table below has been prepared on the following basis:

- (a) The 31 December 2016 Consolidated Statement of Financial Position has been used as a base position to illustrate the impact of the issue of Convertible Notes.
- (b) The issue of 8,200,000 Convertible Notes at a face value of US\$1 per Convertible Note raising a total of US\$8.2 million (before costs).

- (c) The pro-forma financial information is presented in an abbreviated form in so far as it does not include all of the disclosures required by Australian accounting standards. It has been prepared in accordance with the Company's normal accounting policies. The pro-forma financial information is not audited. The classification of the Convertible Notes liability may change in the future.

	Consolidated Statement of Financial Position 31 December 2016 US\$'000	Issue of Convertible Notes US\$'000	Pro-forma Consolidated Statement of Financial Position 31 December 2016 US\$'000
Current Assets			
Cash and cash equivalents	16,952	8,200	25,152
Trade and other receivables	84	-	84
Other current assets	502	-	502
Total Current Assets	17,538	8,200	25,738
Non-Current Assets			
Oil and gas properties	3,391	-	3,391
Property, plant and equipment	51	-	51
Other assets	175	-	175
Total Non-Current Assets	3,617	-	3,617
Total Assets	21,155	8,200	29,355
Current Liabilities			
Trade and other payables	749	-	749
Income tax payable	51	-	51
Provisions	210	-	210
Total Current Liabilities	1,010	-	1,010
Non-Current Liabilities			
Financial liability measured at amortised cost	-	7,233	7,233
Derivative financial instrument - at fair value	-	967	967
Provisions	202	-	202
Total Non-Current Liabilities	202	8,200	8,402
Total Liabilities	1,212	8,200	9,412
NET ASSETS	19,943	-	19,943
EQUITY			
Contributed equity	81,895	-	81,895
Reserves	13,766	-	13,766
Accumulated losses	(75,718)	-	(75,718)
TOTAL EQUITY	19,943	-	19,943

5 Potential Effect of the Convertible Notes Issue on the Company's Capital Structure

As at the date of this Cleansing Notice, the issued capital of the Company and the performance rights held in respect of the Company is as follows:

Class	Number
Fully paid ordinary shares	1,186,298,324
Unlisted employee performance rights (Measurement date 1/2/2018, Expiry date 31/12/2018)	1,620,000
Unlisted employee performance rights (Measurement dates 1/2/2018 and 1/2/2019, Expiry dates 31/12/17 and 31/12/2019)	6,050,000

Assuming conversion of the Convertible Notes occurs today at an A\$/US\$ exchange rate of 0.80, the number of Conversion Shares to be issued is determined as follows:

$$\frac{\text{Aggregate Convertible Notes Amount Outstanding}}{\text{Bid Exchange Rate}} = \text{Australian Dollar Equivalent}$$

and

$$\frac{\text{Australian Dollar Equivalent}}{\text{Conversion Price}} = \text{Number of Conversion Shares to be issued}$$

Where:

Aggregate Convertible Notes Amount Outstanding	=	US\$8.2 (being, 8.2 million Convertible Notes x US\$1)
Bid Exchange Rate	=	0.80 (being, the US dollar exchange rate published by the Reserve Bank of Australia on 1 August 2017)
Australian Dollar Equivalent	=	A\$10.25 million
Conversion Price	=	A\$0.055
Number of Conversion Shares to be issued	=	186,363,636

Assuming conversion of the Convertible Notes occurs today at an A\$/US\$ exchange rate of 0.80, the Company's capital structure would be as follows:

Capital Structure	Share Capital
Shares on issue	1,186,298,324
Unlisted employee performance rights (Measurement date 1/2/2018, Expiry date 31/12/2018)	1,620,000
Unlisted employee performance rights (Measurement dates 1/2/2018 and 1/2/2019, Expiry date 31/12/17 and 31/12/2019)	6,050,000
Fully diluted Shares on issue	1,193,968,324
Maximum number of Conversion Shares to be issued	186,363,636
Fully diluted Shares on issued following conversion of Convertible Notes	1,380,331,960

Investors should have regard to information regarding the Company, its securities and financing arrangements that has previously been disclosed on ASX, particularly the Notice of Meeting. The Notice of Meeting contains more detail on the maximum voting power that Molton and its respective associates may have in the Company, under different conversion scenarios (see section 1.5(b) of the Explanatory Memorandum in the Notice of Meeting).

6 The Rights and Liabilities Attaching to the Convertible Notes

The following is a broad summary of the rights, privileges and restrictions attaching to the Convertible Notes. The summary is not exhaustive and does not constitute a definitive statement of the rights and liabilities of the holders of Convertible Notes (**Noteholders**).

Term	The Convertible Notes have a term commencing on 2 August 2017 (Issue Date) and expiring on 30 June 2019 (Maturity Date) (unless converted or redeemed earlier).
Face value	Each Convertible Note has a face value of US\$1 (Face Value).
Security	The Convertible Notes will be secured through the Share Mortgage, under the Share Mortgage Document. Under the Share Mortgage Document, Otto USA grants a security interest in favour of the Security Agent over the equity interests it owns in Otto Louisiana, Gulf One and Gulf Two, the books and records relating to such equity interests and all proceeds of such property (the Secured Assets). The Security Agent is appointed agent of the Subscribers and Noteholders under the Share Mortgage Document, for the purposes of holding the benefit of the Share Mortgage and taking certain actions on behalf of the Noteholders (including enforcement action). If an 'Event of Default' occurs and is not remedied, the Security Agent can, under the Share Mortgage Document, enforce the Share Mortgage by taking ownership of the Secured Assets and/or selling the Secured Assets and recovering the proceeds. The Share Mortgage Document prescribes how the Security Agent should distribute such proceeds. In summary, these can firstly be applied by the Security Agent to pay fees, costs and charges owing to it, then secondly to the Noteholders to repay money owing to them under the Convertible Notes and, thirdly, any surplus is returned to Otto USA. The Events of Default are set out in the Terms and Conditions and include, in respect of the Company or Otto USA: (a) default on any payment or other term or condition in respect of the Convertible Notes; (b) default on, in respect of Noteholder, any obligation under the Deed Poll or the Share Mortgage Document; (c) other than as disclosed on the ASX prior to 23 May 2017, any financial indebtedness of a member of the Company group in excess of US\$1 million or its equivalent currency is not paid when due (or within the applicable grace period) or becomes due and payable before its stated maturity or expiry; (d) an insolvency event in relation to a member of the Company group; (e) any warranty given by the Company under its subscription agreement in relation to the Convertible Notes and/or the Company or Otto USA under the Share Mortgage Document is incorrect or misleading in any material respect at the time given; (f) delisting, or suspension for ten consecutive trading days, of the Company's shares (g) the SM-71 lease expires, other than in circumstances where, immediately prior to its expiry, a replacement lease covering a materially similar area is granted;

- (h) any event or circumstance, or series or combination of events or circumstances whether related or not, occurs, which has or is reasonably likely to have a material adverse effect on:
 - (i) the business, assets, property, operations, condition (financial or otherwise) of the Company or member of the Company group's ownership or operation of the SM-71 Project;
 - (ii) the validity, legality, binding effect or enforceability against the Company of the deed poll or any subscription agreement in relation to the Convertible Notes (respectively, the **Deed Poll** and any **Subscription Agreement**);
 - (iii) the ability of any Noteholder to enforce any of its material rights and remedies under its Subscription Agreement, Deed Poll or the Share Mortgage Document;
 - (iv) the ranking or applicable priority of the Share Mortgage; or
 - (v) the ability of the Company to perform its payment obligations and other material obligations under the Subscription Agreements, the Deed Poll and/or the Share Mortgage Document.

The Share Mortgage will terminate when all amounts owing under the Convertible Notes have been paid in full.

Interest

The sum total of the Face Values of a Noteholder's Convertible Notes, which have not been converted into Conversion Shares or repaid by the Company, (**Aggregate Convertible Notes Amount Outstanding**) will accrue interest at a rate of 14% per annum to be compounded monthly, calculated on the basis of a 365 day year and paid in arrears on each 30 June and 31 December after the Issue Date (each such date being an **Interest Payment Date**). During the period commencing on the 2 August 2017 and ending on the date that occurs 60 days after the date on which there has been 30 continuous days of steady state production of hydrocarbons from the SM-71 Project into the sales export pipeline (the **Deferred Interest Period**), the Company is relieved from the obligation to pay interest, and any interest that has accrued but is not paid on an Interest Payment Date occurring during the Deferred Interest Period must be repaid in two equal instalments on the two Interest Payment Dates immediately following the Deferred Interest Period.

Success Fee

Subject to the number of barrels of oil produced from the SM-71 Lease between the period commencing on the execution of the Deed Poll and Subscription Agreements and ending on the Maturity Date as reported to the Bureau of Ocean Energy Management (**Cumulative Oil Production**), the Company must pay a 'Success Fee' to each Noteholder in immediately available United States dollars on the date falling 30 days after the Maturity Date by electronic funds transfer to an account nominated by the Noteholder. The Success Fee will be the total Success Fee amount calculated in accordance with the table below.

Cumulative Oil Production (100% field) to June 30 2019 from SMI 71 (bbls)	< 1,400,000	= and > 1,400,000 and < 1,500,000	= and > 1,500,000 and < 1,600,000	= and > 1,600,000 and < 1,700,000	= and > 1,700,000 and < 1,800,000	= and > 1,800,000
Total Success Fee Amount payable per Convertible Note (US\$)	-	0.025	0.05	0.075	0.10	0.125

Rights of Noteholder

For the avoidance of doubt, if total Cumulative Oil Production is less than 1,400,000 bbls no Success Fee is payable.

If a Noteholder has converted or the Company has redeemed any Convertible Note in accordance with the Terms and Conditions before the Maturity Date, the Success Fee payable by the Company to the relevant Noteholder will be reduced to an amount calculated as follows:

- the Success Fee applicable to the relevant Convertible Note calculated in accordance with the table above; divided by
- the total number of days from and including the Issue Date until and including the Maturity Date; multiplied by
- the total number of days from and including the Issue Date to and including the Conversion Date or Redemption Date (as applicable).

The rights of a Noteholder against the Company for the aggregate face value amount of the Convertible Notes held by, and any other amounts that are due by the Company to, the Noteholder (**Amount Outstanding**):

- rank in priority to the rights of holders of any other security over or in connection with the Company's interest in the Secured Assets;
- rank in priority to the rights of any ordinary shareholders and, to the extent of the Secured Assets, holders of any other convertible instruments or convertible securities issued by the Company;
- are of equal ranking with other Noteholders; and
- to the extent of the Secured Assets, rank in priority to the rights of all other present and future unsecured creditors of the Company (subject to laws and principles of equity generally affecting creditors' rights or as provided by operation of law).

Conversion

The ranking of Convertible Notes is not affected by the date of registration of any Noteholder in the register of Convertible Notes.

(Conversions at election of Noteholder) After the first anniversary of the Issue Date, a Noteholder may elect in its discretion to convert some or all of its Convertible Notes (each, a **Quarterly Conversion**) into Shares on any 30 June, 30 September, 31 December and 31 March (each, a **Conversion Date**) by providing the Company with notice not less than 20 business days before the requested Conversion Date (each, a **Conversion Notice**). The Conversion Notice must contain the information set out in section 5 of this Cleansing Notice for calculating the number of Conversion Shares to be issued to the Noteholder on the relevant Conversion Date. A Noteholder may only convert Convertible Notes into Conversion Shares if there is an aggregate of at least 1,000,000 Convertible Notes held by the Noteholders sought to be converted on the Conversion Date (regardless of whether such Convertible Notes are held by only one or more Noteholders).

	(Conversion at maturity) To the extent that as of the Maturity Date there is an Aggregate Convertible Notes Amount Outstanding in respect of a Noteholder, the Noteholder may elect in its discretion to convert such Convertible Notes to Shares on the Maturity Date, by providing a notice to the Company not less than 20 business days before the Maturity Date, which contains the information set out in section 5 of this Cleansing Notice for calculating the number of Conversion Shares to be issued to the Noteholder on the Maturity Date.
Conversion Price	A\$0.055
Conversion threshold	Where an issuance of Conversion Shares would result in the voting power (as defined in the Corporations Act) of: (a) any person (other than Molton) in the Company exceeding 19.99%; and (b) Molton exceeding 36%, the Company must not, unless it has already been approved at a general meeting of shareholders, effect such conversion by way of an issuance of Conversion Shares, but must instead repay to the Noteholder an amount equal to the value of those Convertible Notes that would have otherwise been the subject of such conversion.
Redemption	(Early Redemption) The Company may, after the first anniversary of the Issue Date, elect in its discretion to redeem some or all of a Noteholder's Convertible Notes (each, a Redemption) and pay to that Noteholder an amount equal to the value of those Convertible Notes on any 30 June, 30 September, 31 December and 31 March (each, a Redemption Date) by providing the Noteholder with notice not less than 20 business days before the requested Redemption Date (each, a Redemption Notice and each date of such notice, a Redemption Notice Date), specifying: (a) the number, which must not be less than 2,000,000, of Convertible Notes to be redeemed on the Redemption Date and the amount in US Dollars corresponding to the Convertible Notes being redeemed (the Redemption Amount); and (b) the Redemption Date, and, following the receipt of a Redemption Notice, the Noteholder may elect to: (c) do nothing, in which case the Company will pay the Redemption Amount on the Redemption Date into an account nominated by the Noteholder; or (d) have the Redemption Amount converted into Shares by providing a notice substantially in the form of a Conversion Notice except that such notice must be provided to the Company within 5 business days of the relevant Redemption Notice Date. If option (d) above is chosen by the Noteholder, the procedure for a Quarterly Conversion will apply in respect of the issuance of the corresponding Conversion Shares. Any existing or remaining Amount Outstanding must be paid by the Company to the Noteholder on the relevant Redemption Date if after the Redemption (or the Conversion of the Convertible Notes to Shares in accordance with option (d) above) that Noteholder no longer holds any Convertible Notes. The Amount Outstanding to be paid will not include the corresponding Aggregate Convertible Notes Amount Outstanding in respect of those Convertible Notes which a Noteholder elects to convert by providing a maturity conversion notice. (Redemption at maturity) To the extent that as of the Maturity Date there is an Amount Outstanding in respect of a Noteholder, the Company must by not later than the first business day following the Maturity Date pay to that Noteholder an amount equal to that Amount Outstanding.

(Redemption on receipt of a takeover offer) If the Company either receives a takeover offer in respect of all of its issued Shares and it is recommended to shareholders by the board of the Company in its target's statement issued under the Corporations Act that they accept the offer, or the Company issues a notice of meeting (**Scheme Booklet**) to its shareholders in respect of a scheme of arrangement under section 411 of the Corporations Act which would have substantially the same effect as such a takeover offer, (the date of such recommendation or Scheme Booklet, being the **Takeover Offer Date**), to the extent that as of the Takeover Offer Date there is an Amount Outstanding in respect of a Noteholder:

- (a) the Company may provide the Noteholder on or after the Takeover Offer Date with notice of not less than 20 business days (**Takeover Redemption Notice**) that it elects to redeem all of the Convertible Notes held by the Noteholder and pay to that Noteholder an amount equal to that Amount Outstanding at the end of the 20 business day notice period (**Takeover Redemption Date**); and
- (b) if the Takeover Redemption Date is within the initial 12 month period after the Payment Date, the Company must pay a premium of 14% (being an amount equal to 14% of the Amount Outstanding) (**Premium**), which is to be offset against any interest already paid by the Company.

Following the receipt of a Takeover Redemption Notice, the Noteholder may elect to:

- (c) do nothing, in which case the Company will pay an amount equal to the Amount Outstanding (including, if applicable, the Premium) on the Redemption Date into an account nominated by the Noteholder; or
- (d) have the Aggregate Convertible Notes Amount Outstanding converted into Conversion Shares by providing a notice substantially in the form of a Conversion Notice except that such notice must be provided to the Company within five business days of the relevant Takeover Redemption Notice.

If option (d) above is chosen by the Noteholder:

- (e) the procedure in relation to conversions at election of Noteholder will apply (with any necessary changes to reflect the specific circumstances of option (d)) in respect of the issuance of the corresponding Conversion Shares, except that, for the purposes of option (d) only, the Conversion Date will be the Takeover Redemption Date;
- (f) the Company must pay the Premium to the Noteholder in the circumstance described in option (d); and
- (g) any remaining Amount Outstanding (including any Premium, if applicable) must be paid by the Company to that Noteholder on the Takeover Redemption Date.

Representations and Warranties Rights and Adjustments

Customary conditions regarding representations and warranties by the Company.

The Convertible Notes do not carry any entitlement to receive dividends or participate in any issue of securities.

Each time the Company reorganises its share capital (other than by a rights offering or a bonus issue), the Conversion Price will be reduced or, as the case may be, increased, in the same proportion as the issued capital of the Company is, as the case may be, consolidated, subdivided or cancelled.

- Transferability**
- (a) Subject to paragraphs (b) and (c), each Noteholder is entitled to transfer without the consent of the Company some or all of their Convertible Notes to any other party at any time after they are issued, on 5 business days' prior notice to the Company. Each Convertible Note may be transferred separately from any other Convertible Note.
 - (b) A Noteholder may not, without the express written consent of the Company (which may be withheld in its absolute discretion), transfer any of its Convertible Notes to a third party transferee where such transfer would be to a third party transferee which is:
 - (i) an entity whose securities are quoted on the ASX and whose primary business is to develop and extract hydrocarbons;
 - (ii) an entity whose primary business is to develop and extract hydrocarbons in jurisdictions in which the Company operates; or
 - (iii) an oil and gas company with assets in similar jurisdictions to the Company, (being, a **Direct Competitor**).
 - (c) A transfer of a Convertible Note will only be effective if the proposed transferee has delivered to the Company an executed notice in form and substance reasonably satisfactory to the Company pursuant to which a proposed transferee acknowledges the terms of the Share Mortgage Document and agrees to be bound by the Share Mortgage Document as Noteholder on and from the date of transfer of the relevant Convertible Note(s).
 - (d) Where the prior consent of the Company is required for the transfer of Convertible Notes in accordance with paragraph (b) above, and the Company rejects such a transfer, the Company must, within 60 days of receipt of the notice under paragraph (a), provide the Noteholder with an alternative third party transferee that is willing to acquire by transfer the relevant Convertible Notes on comparable or better terms than the rejected offer.
 - (e) If the Company fails to present an alternative third party pursuant to paragraph (d) above, the Noteholder will be permitted to transfer any such Convertible Notes to the interested Direct Competitor notwithstanding the provisions of paragraph (b) above.
 - (f) At the written request of a Noteholder (or former Noteholder), the Company must immediately update the register of Convertible Notes to reflect a transfer of a Convertible Note by that Noteholder (or former Noteholder).
 - (g) No fee or other charge is payable to the Company in respect of the transfer or registration of transfer of any Convertible Note.

7 Rights and Liabilities Attaching to Conversion Shares

The Conversion Shares will rank equally in all respects with all of the Company's existing Shares. The rights attaching to Shares, including the Conversion Shares, are set out in the Company's constitution, and, in certain circumstances, regulated by the Corporations Act, the ASX Listing Rules and the general law.

The Company intends to apply to ASX for quotation of the Conversion Shares.

Full details of the rights and liabilities attaching to Shares are set out in the Company's constitution, a copy of which can be inspected, free of charge, at the Company's registered office during normal business hours.

The following is a broad summary of the rights, privileges and restrictions attaching to all Shares. This summary is not exhaustive and does not constitute a definitive statement of the rights and liabilities of shareholders of the Company.

General Meetings	Each shareholder has the right to receive notice of and to attend and vote at all general meetings of the Company.
Voting Rights	At a general meeting, each shareholder in person or by proxy, attorney or representative is entitled to one vote on a show of hands. On a poll, every person present who is a shareholder or a proxy, attorney or representative of a shareholder will, in respect of each fully paid Share held by them, or in respect of which they are appointed a proxy, attorney or representative, have one vote for the Share.
Dividend Rights	There is no entitlement to a dividend other than that determined by the directors from time to time.
Rights on winding up	In a winding up, the Shares attract the right to participate in the distribution of the assets of the Company, subject to any amounts unpaid on the Share.
Offer of shares	Subject to the Corporations Act, the ASX Listing Rules and the Company's constitution, the directors may at any time issue such number of shares either as Shares or shares of a named class or classes at the issue price that the directors determine and with such preferred, deferred or other special rights or such restrictions.
Variation of rights	If at any time the share capital of the Company is divided into difference classes of shares, the rights attached to any class (unless otherwise provided by the terms of issue of the shares of that class) may be varied with the consent in writing of the holders of three quarters of the issued shares of that class, or if authorised by a special resolution passed at a separate meeting of the holders of the shares of the class.

8 Compliance with Continuous Disclosure

As a disclosing entity, the Company is subject to regular reporting and disclosure obligations. Copies of documents lodged with ASIC in relation to the Company may be obtained from, or inspected at, an ASIC office.

As at the date of this notice, the Company has complied with:

- the provisions of Chapter 2M of the Corporations Act, as they apply to the Company; and
- section 674 of the Corporations Act, as it applies to the Company.

The Company will provide a copy of any of the following documents free of charge, to any person on request:

- a copy of its annual financial report most recently lodged with ASIC, being the financial report of the Company for the year ended 30 June 2016;
- a copy of any half-year report lodged with ASIC after lodgement of that annual financial report referred to in paragraph (a) and before the lodgement of this Cleansing Notice; and
- a copy of any continuous disclosure notices given after the lodgement of that annual financial report referred to in paragraph (a) and before the lodgement of this Cleansing Notice.

A list of the continuous disclosure documents given by the Company to ASX after the lodgement of the financial report referred to in paragraph (a) and before the lodgement of this Cleansing Notice with ASX is set out in the table below.

Date	Description
31/07/2017	Quarterly Activities & Cash Flow Report
25/07/2017	Results of General Meeting
24/07/2017	Rig Contracted to Drill ST 224 Prospect in Q4 2017
20/07/2017	Company Presentation – Noosa M&E Conference
03/07/2017	Otto Energy Farms into South Timbalier 224 Lease
23/06/2017	Notice of General Meeting & Independent Expert's Report
22/06/2017	Otto to Acquire 50% Interest in New Gulf of Mexico Lease
29/05/2017	Otto to Raise US\$8.2 million via Convertible Notes Issue
26/5/2017	Resolution of Tanzanian Matters – Joint Statement
12/05/2017	Updated Securities Trading Policy
27/04/2017	Quarterly Activities & Cashflow Report
21/04/2017	Change of Perth Address for Shareholder Purposes (LNK)
29/03/2017	Update on Tanzania Joint Venture Disputes
13/03/2017	Investor Presentation
06/03/2017	Extension of Kilosa-Kilombero Licence and Update on Tanzania
01/03/2017	Half Yearly Report and Accounts
13/02/2017	Change of Director's Interest Notice - M Allen
13/02/2017	Appendix 3B
08/02/2017	Change of Director's Interest Notice
31/01/2017	Appointment of Chief Financial Officer & Company Secretary
31/01/2017	Quarterly Activities & Cashflow Report
23/01/2017	BYE: SM 71 Development and Metgasco Funding Facility Update
23/01/2017	SMI-71 Facility Design Change and Project Update
16/11/2016	Results of Meeting
16/11/2016	Chairman's Address to Shareholders
16/11/2016	Managing Director Presentation
25/10/2016	Investor Presentation
19/10/2016	Quarterly Activities & Cashflow Report
14/10/2016	Notice of Annual General Meeting/Proxy Form
20/09/2016	Corporate Governance Statement and Appendix 4G

9 Information Excluded from Continuous Disclosure Notice

The Company is not aware of any information that:

- (a) has been excluded from a continuous disclosure notice in accordance with the ASX Listing Rules; and
- (b) is information that investors and their professional advisers would reasonably require for the purposes of making an informed assessment of:
 - (i) the assets and liabilities, financial position and performance, profits and losses and prospects of the Company; and
 - (ii) the rights and liabilities attaching to the Convertible Notes being issued.

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Appendix 3B

New issue announcement, application for quotation of additional securities and agreement

Information or documents not available now must be given to ASX as soon as available. Information and documents given to ASX become ASX's property and may be made public.

Introduced 01/07/96 Origin: Appendix 5 Amended 01/07/98, 01/09/99, 01/07/00, 30/09/01, 11/03/02, 01/01/03, 24/10/05, 01/08/12, 04/03/13

Name of entity

Otto Energy Limited

ABN

56 107 555 046

We (the entity) give ASX the following information.

Part 1 - All issues

You must complete the relevant sections (attach sheets if there is not enough space).

- | | | |
|---|---|---|
| 1 | +Class of +securities issued or to be issued | Convertible Notes ("Notes"). |
| 2 | Number of +securities issued or to be issued (if known) or maximum number which may be issued | 8,200,000 Notes. |
| 3 | Principal terms of the +securities (e.g. if options, exercise price and expiry date; if partly paid +securities, the amount outstanding and due dates for payment; if +convertible securities, the conversion price and dates for conversion) | <ul style="list-style-type: none"> • Face value: US\$1 per Note. • Conversion price: A\$0.055 per fully paid ordinary share ("Share"). • Transferability: A noteholder may transfer the Notes subject to notice and other conditions including in relation to transfers to direct competitors of the Company. • Interest rate: 14% per annum compounded monthly and paid semi-annually. |

+ See chapter 19 for defined terms.

Principal terms of the +securities (Continued) (e.g. if options, exercise price and expiry date; if partly paid +securities, the amount outstanding and due dates for payment; if +convertible securities, the conversion price and dates for conversion)

- Interest payments: Interest accrues until payments commence on the date 60 days after First Oil¹, at which time any accrued interest will be payable in two equal instalments on the first and second interest payment dates.
- Maturity date: 30 June 2019.
- Security: The Notes will be secured via a share pledge covering the shares in Otto's subsidiaries which hold its Gulf of Mexico interests including the SM-71 Project.
- Conversion: A Noteholder may elect to convert Notes on:
 - any 30 June, 30 September, 31 December and 31 March after the first anniversary of the issue date;
 - upon receipt of a redemption notice; and
 - the maturity date,
 in accordance with the following conversion ratio:

$$\frac{\text{Number of Notes to be converted}}{\text{Bid exchange rate}} = \text{Australian dollar equivalent}$$
 where the bid exchange rate means the US Dollar exchange rate published by the Reserve Bank of Australia, and

$$\frac{\text{Australian dollar equivalent}}{\text{Conversion price}} = \text{Number of Shares to be issued on conversion}$$
- Redemption: The Company may elect to redeem Notes on:
 - any 30 June, 30 September, 31 December and 31 March after the first anniversary of the issue date;
 - the maturity date; and
 - on receipt of a takeover offer (including by scheme of arrangement).
- Success fee: Paid 30 days after the maturity date, subject to Cumulative Oil Production² to the maturity date. If a Note is redeemed or converted prior to the maturity date, the success fee payable in respect of the Note will be paid pro rata to the number of days the noteholder held it.
- Refer to the ASX release on 29 May 2017 and the Notice of Meeting released to ASX on 23 June 2017 for more details on terms.

¹ The date on which there has been 30 continuous days of steady state production of hydrocarbons from the SM-71 project into the sales export pipeline.

² The number of barrels of oil produced from SM-71 as reported to the Bureau of Ocean Energy Management.

4	Do the +securities rank equally in all respects from the +issue date with an existing +class of quoted +securities? If the additional +securities do not rank equally, please state: • the date from which they do • the extent to which they participate for the next dividend, (in the case of a trust, distribution) or interest payment • the extent to which they do not rank equally, other than in relation to the next dividend, distribution or interest payment	The Notes do not rank equally with an existing class of quoted securities. The Notes do not carry any rights to participate in dividends or other distributions of the Company. Shares issued on conversion of the Notes will rank equally with all other Shares on issue.
5	Issue price or consideration	US\$1.00 per Note.
6	Purpose of the issue (If issued as consideration for the acquisition of assets, clearly identify those assets)	Fund costs associated or connected with the two well development of the SM-71 Project and provide contingent funding for costs associated or connected with a third well to be drilled in the initial development of the SM-71 Project, if approved by the joint venture participants.
6a	Is the entity an +eligible entity that has obtained security holder approval under rule 7.1A? If Yes, complete sections 6b – 6h <i>in relation to the +securities the subject of this Appendix 3B</i>, and comply with section 6i	Yes.
6b	The date the security holder resolution under rule 7.1A was passed	16 November 2016.
6c	Number of +securities issued without security holder approval under rule 7.1	Nil
6d	Number of +securities issued with security holder approval under rule 7.1A	Nil

+ See chapter 19 for defined terms.

6e	Number of +securities issued with security holder approval under rule 7.3, or another specific security holder approval (specify date of meeting)	Nil				
6f	Number of +securities issued under an exception in rule 7.2	Nil				
6g	If +securities issued under rule 7.1A, was issue price at least 75% of 15 day VWAP as calculated under rule 7.1A.3? Include the +issue date and both values. Include the source of the VWAP calculation.	N/A				
6h	If +securities were issued under rule 7.1A for non-cash consideration, state date on which valuation of consideration was released to ASX Market Announcements	N/A				
6i	Calculate the entity's remaining issue capacity under rule 7.1 and rule 7.1A – complete Annexure 1 and release to ASX Market Announcements	177,944,749 (LR 7.1) 118,629,832 (LR 7.1A)				
7	+Issue dates Note: The issue date may be prescribed by ASX (refer to the definition of issue date in rule 19.12). For example, the issue date for a pro rata entitlement issue must comply with the applicable timetable in Appendix 7A. Cross reference: item 33 of Appendix 3B.	2 August 2017.				
8	Number and +class of all +securities quoted on ASX (including the +securities in section 2 if applicable)	<table><tr><th>Number</th><th>+Class</th></tr><tr><td>1,186,298,324</td><td>Ordinary fully paid shares</td></tr></table>	Number	+Class	1,186,298,324	Ordinary fully paid shares
Number	+Class					
1,186,298,324	Ordinary fully paid shares					

		<table><tr><th>Number</th><th>+Class</th></tr><tr><td>1,620,000</td><td>Unlisted Employee Performance Rights (Measurement date 1/2/2018, Expiry date 31/12/2018)</td></tr><tr><td>6,050,000</td><td>Unlisted Employee Performance Rights (Measurement dates 1/2/2018 and 1/2/2019, Expiry date 31/12/2019 (1,400,000 expire on 31/12/17))</td></tr><tr><td>8,200,000</td><td>Convertible Notes</td></tr></table>	Number	+Class	1,620,000	Unlisted Employee Performance Rights (Measurement date 1/2/2018, Expiry date 31/12/2018)	6,050,000	Unlisted Employee Performance Rights (Measurement dates 1/2/2018 and 1/2/2019, Expiry date 31/12/2019 (1,400,000 expire on 31/12/17))	8,200,000	Convertible Notes
Number	+Class									
1,620,000	Unlisted Employee Performance Rights (Measurement date 1/2/2018, Expiry date 31/12/2018)									
6,050,000	Unlisted Employee Performance Rights (Measurement dates 1/2/2018 and 1/2/2019, Expiry date 31/12/2019 (1,400,000 expire on 31/12/17))									
8,200,000	Convertible Notes									
9	Number and +class of all +securities not quoted on ASX (including the +securities in section 2 if applicable)									
10	Dividend policy (in the case of a trust, distribution policy) on the increased capital (interests)	If converted into ordinary fully paid shares - participation available from the date of issue.								

Part 2 - Pro rata issue

Questions 11 to 33 Not Applicable

Part 3 - Quotation of securities

You need only complete this section if you are applying for quotation of securities

34 Type of ⁺securities
(tick one)

(a) ☐ ⁺Securities described in Part 1

(b) ☐ All other ⁺securities

Example: restricted securities at the end of the escrowed period, partly paid securities that become fully paid, employee incentive share securities when restriction ends, securities issued on expiry or conversion of convertible securities

Entities that have ticked box 34(a)

Additional securities forming a new class of securities

Questions 35 to 37 - Not Applicable

Entities that have ticked box 34(b)

Questions 38 to 42 - Not Applicable

⁺ See chapter 19 for defined terms.

Quotation agreement

1 +Quotation of our additional +securities is in ASX's absolute discretion. ASX may quote the +securities on any conditions it decides.

2 We warrant the following to ASX.

- The issue of the +securities to be quoted complies with the law and is not for an illegal purpose.
- There is no reason why those +securities should not be granted +quotation.
- An offer of the +securities for sale within 12 months after their issue will not require disclosure under section 707(3) or section 1012C(6) of the Corporations Act.

Note: An entity may need to obtain appropriate warranties from subscribers for the securities in order to be able to give this warranty

- Section 724 or section 1016E of the Corporations Act does not apply to any applications received by us in relation to any +securities to be quoted and that no-one has any right to return any +securities to be quoted under sections 737, 738 or 1016F of the Corporations Act at the time that we request that the +securities be quoted.
- If we are a trust, we warrant that no person has the right to return the +securities to be quoted under section 1019B of the Corporations Act at the time that we request that the +securities be quoted.

3 We will indemnify ASX to the fullest extent permitted by law in respect of any claim, action or expense arising from or connected with any breach of the warranties in this agreement.

4 We give ASX the information and documents required by this form. If any information or document is not available now, we will give it to ASX before +quotation of the +securities begins. We acknowledge that ASX is relying on the information and documents. We warrant that they are (will be) true and complete.



Sign here:
(~~Director~~/Company secretary)

Date: 2 August 2017

Print name:David Rich.....

== == == == ==

Appendix 3B – Annexure 1

Calculation of placement capacity under rule 7.1 and rule 7.1A for eligible entities

Introduced 01/08/12 Amended 04/03/13

Part 1

Rule 7.1 – Issues exceeding 15% of capital	
Step 1: Calculate “A”, the base figure from which the placement capacity is calculated	
Insert number of fully paid +ordinary securities on issue 12 months before the +issue date or date of agreement to issue	1,181,908,323
Add the following: - Number of fully paid +ordinary securities issued in that 12 month period under an exception in rule 7.2 - Number of fully paid +ordinary securities issued in that 12 month period with shareholder approval - Number of partly paid +ordinary securities that became fully paid in that 12 month period Note: - Include only ordinary securities here – other classes of equity securities cannot be added - Include here (if applicable) the securities the subject of the Appendix 3B to which this form is annexed - It may be useful to set out issues of securities on different dates as separate line items	4,390,001 0 0
Subtract the number of fully paid +ordinary securities cancelled during that 12 month period	0
“A”	1,186,298,324

Step 2: Calculate 15% of “A”	
“B”	0.15 <i>[Note: this value cannot be changed]</i>
Multiply “A” by 0.15	177,944,749
Step 3: Calculate “C”, the amount of placement capacity under rule 7.1 that has already been used	
Insert number of +equity securities issued or agreed to be issued in that 12 month period <i>not counting</i> those issued: - Under an exception in rule 7.2 - Under rule 7.1A - With security holder approval under rule 7.1 or rule 7.4 Note: <i>This applies to equity securities, unless specifically excluded – not just ordinary securities</i> <i>Include here (if applicable) the securities the subject of the Appendix 3B to which this form is annexed</i> <i>It may be useful to set out issues of securities on different dates as separate line items</i>	0 0 0
“C”	0
Step 4: Subtract “C” from [“A” x “B”] to calculate remaining placement capacity under rule 7.1	
“A” x 0.15 <i>Note: number must be same as shown in Step 2</i>	177,944,749
Subtract “C” <i>Note: number must be same as shown in Step 3</i>	0
Total [“A” x 0.15] – “C”	177,944,749 <i>[Note: this is the remaining placement capacity under rule 7.1]</i>

Part 2

Rule 7.1A – Additional placement capacity for eligible entities	
Step 1: Calculate “A”, the base figure from which the placement capacity is calculated	
“A” <i>Note: number must be same as shown in Step 1 of Part 1</i>	1,186,298,324
Step 2: Calculate 10% of “A”	
“D”	0.10 <i>Note: this value cannot be changed</i>
Multiply “A” by 0.10	118,629,832
Step 3: Calculate “E”, the amount of placement capacity under rule 7.1A that has already been used	
Insert number of +equity securities issued or agreed to be issued in that 12 month period under rule 7.1A Notes: • This applies to equity securities – not just ordinary securities • Include here – if applicable – the securities the subject of the Appendix 3B to which this form is annexed • Do not include equity securities issued under rule 7.1 (they must be dealt with in Part 1), or for which specific security holder approval has been obtained • It may be useful to set out issues of securities on different dates as separate line items	
“E”	0

Appendix 3B
New issue announcement

Step 4: Subtract “E” from [“A” x “D”] to calculate remaining placement capacity under rule 7.1A	
“A” x 0.10 <i>Note: number must be same as shown in Step 2</i>	118,629,832
Subtract “E” <i>Note: number must be same as shown in Step 3</i>	0
Total [“A” x 0.10] – “E”	118,629,832 <i>Note: this is the remaining placement capacity under rule 7.1A</i>