ASX ANNOUNCEMENT
4 December 2017

DRILLING COMMENCES AT SM 71

- **Drilling of the SM 71 F2 development well has commenced and is currently drilling ahead at 564 ft MD**
- **The SM 71 F2 development well will also test the highly prospective B65 sand**
- **Drilling and evaluation time is expected to be approximately one month**
- **First production currently expected in late January 2018**

Otto Energy Limited (ASX:OEL) ('Otto' or the 'Company') is pleased to announce that the Ensco 68 jack-up rig has commenced drilling the OCS G-34266 #F-2 well ('SM 71 F2') within the South Marsh Island 71 ('SM 71') lease in the Gulf Of Mexico shelf.

The Operator advised overnight that the SM 71 F2 well had spudded and as at 9.45 pm on 3 December USA Central Standard Time current operations are drilling ahead at 564 ft (172 metres) Measured Depth ("MD"). 16-inch conductor pipe will be set at 800 ft (244m) MD.

The rig is located over the platform to allow the F1 and F2 wells to be completed for production.

The SM 71 F2 well has two targets: the D5 Sand and the B65 Sand. The primary target in the F2 well is the D5 Sand which will serve as an additional D5 take point and extend the D5 proven reserves down-dip from the F1 well. The second target, the highly prospective B65 Sand, has the potential to double the current field size of SM 71 and will be tested first before drilling ahead to the D5 sand.

The well is expected to take around one month to drill and evaluate. The rig will then be skidded over to the SM 71 F1 well in order to complete the well for production.

First production from the SM 71 F platform is currently expected in late January 2018 following well completion operations.

Otto holds a 50% working interest (40.625% net revenue interest) in South Marsh Island Block 71. The operator, Byron Energy Limited (ASX:BYE), holds the remaining 50% working interest.

Otto intends to report on well progress as material milestones are achieved.

> Otto's Managing Director, Matthew Allen, commented: *"We are very pleased to have commenced drilling and look forward to testing the highly prospective B65 exploration target."*
>
> *"The commencement of first production from the field remains on schedule for the end of January 2018. These important milestones in the coming short period of time provide opportunities for significant value upside for Otto's shareholders."*

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SCHEDULE 1
INFORMATION ON SM 71 OIL FIELD DEVELOPMENT

LOUISIANA/GULF OF MEXICO – SOUTH MARSH ISLAND 71

Location:	Offshore Gulf of Mexico
Gross Area:	12.16 km2 (3,005 acres)
Otto's Interest:	50.00% with Byron Energy Inc. (50% and Operator)
Water Depth:	140 feet
Proposed Total Depth:	8,965 feet/2,733 metres (MD) 7,555 feet/2,303 metres (TVD)

Background

Through the drilling of the SM-71 #1 well (now SM 71 F1 well) in April-May 2016, Otto earned a 50% participating interest (equal to a 40.625% revenue interest) in the license with Working Interest 2P reported reserves of 2.793 MMboe* (2.269 MMboe* Otto NRI). Drilling of SM 71 F1 intersected four separate hydrocarbon bearing sand intervals of which three will ultimately be completed. The well bore has been temporarily suspended awaiting tie-in to production infrastructure. Otto expects that first production will be delivered in January 2018 from SM 71.

In 2016 the joint venture procured a tripod platform to be modified for use at the SM 71 location. The platform jacket and decks are now installed at the field location and final commissioning work is ongoing. Subsea pipeline installation works are substantially complete and once the SM 71 F1 and F2 wells are finished in January 2018 the system will be ready to receive hydrocarbons.

The joint venture plans to drill and complete the SM 71 F2 well in the D5 sand before completing the SM 71 F1 well in this same interval to optimise field drainage. Both wells are expected to record initial flow rates between 1,500 to 2,000 bopd (gross field production) similar to those recorded on the adjacent SM 72 and SM 73 blocks.

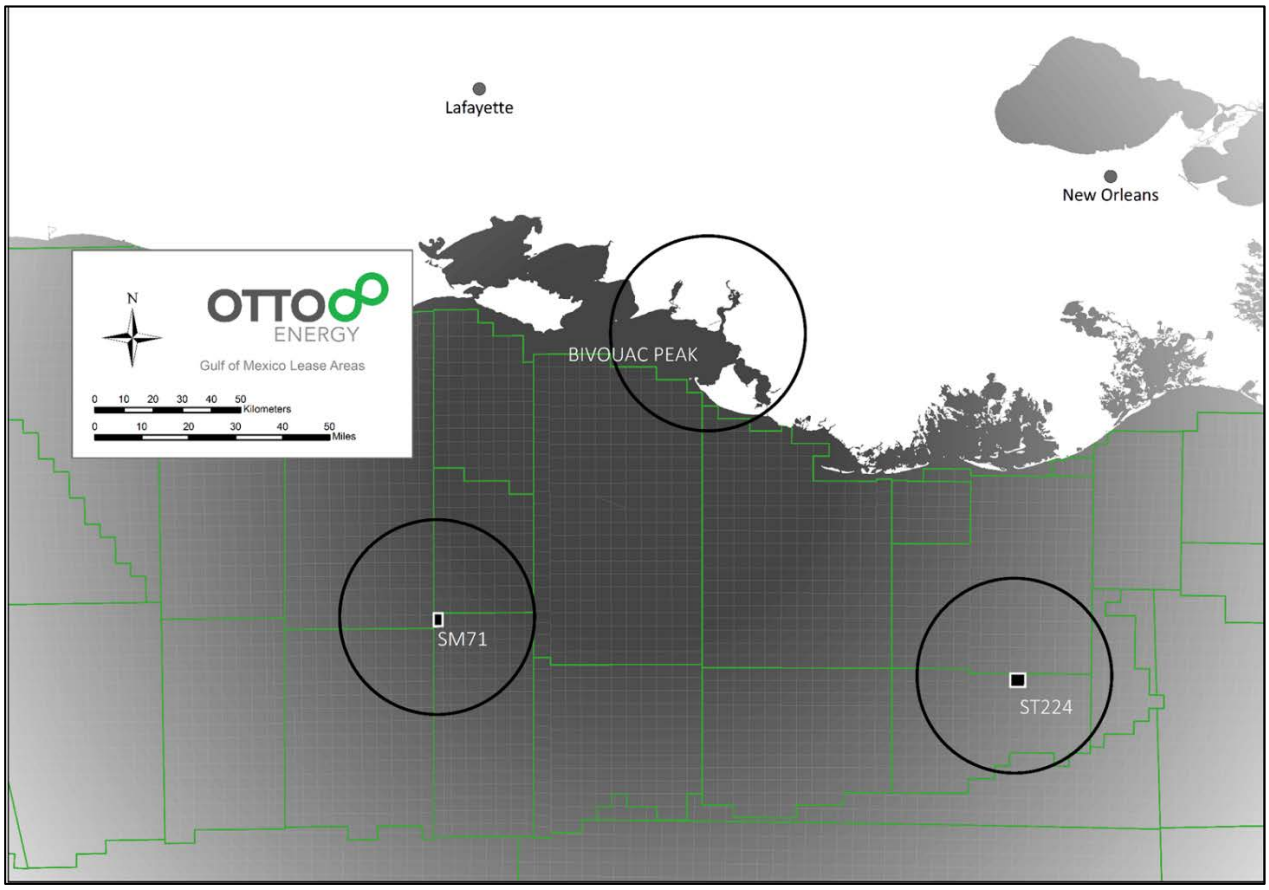
During drilling of the SM 71 F2 well the oil prospective B65 sand interval will be intersected. This has the potential to double the present block reserve base. Interpretation of post-drill seismic inversion data by the Operator shows promising results defining the D5 sand extent and clearly delineating the B65 sand target.

The B65 sands have been assigned a 2.869 MMboe Prospective Resource* - Otto 50% WI share (2.331 MMboe* Otto NRI). Given success within the B65 sand, additional development wells would be drilled in due course. The platform has slots available for six wells.

Ensco 68 drill rig. Photo courtesy of Ensco Plc.

Additional follow-up opportunities around this salt dome are being progressed by the Operator and Otto has the right to acquire a 50% working interest/40.625% net revenue interest in VR 232 or SM 74 (should VR 232 not be awarded to Byron).

*The reserves and resources referred to in this report were reported on 28 September 2017 (refer to the Company's announcement on 28 September 2017).



Definitions:

TVD	True Vertical Depth (vertical distance from the wellhead to the target level)
MD	Measured Depth (distance along the well bore from the wellhead – for inclined wells, this will be longer than the TVD)
MMboe	means million barrels of oil equivalent ("BOE") with a BOE determined using a ratio of 6,000 cubic feet of natural gas to one barrel of oil – 6:1 conversion ratio is based on an energy equivalency conversion method and does not represent value equivalency