ASX ANNOUNCEMENT
2 January 2018

SM 71 F2 WELL COMPLETION AND NEW SM 71 F3 WELL TO BE DRILLED

- **SM 71 F2 well to be completed for production from the B65 Sand**
- **SM 71 F3 development well to be drilled providing a second D5 Sand take point for production**
- **First Production from F1, F2 and F3 wells expected early March 2018**

Otto Energy Limited (ASX:OEL) ("Otto" or the "Company") is pleased to advise that the OCS G-34266 #F-2 well ('SM 71 F2'), operated on behalf of the joint venture by Byron Energy Ltd (ASX: BYE, "Byron") within the South Marsh Island 71 ('SM 71') lease in the Gulf Of Mexico shelf, will be completed for near term production in the B65 sand. In addition, the joint venture has approved the drilling of the F3 development well, expected to spud next week, with the intention to provide a second take point in the D5 sand zone.

SM 71 F2 Well

On 27 December 2017 Otto reported that the SM 71 F2 appraisal well encountered four discrete hydrocarbon bearing sands, including the B65 and D5, The joint venture has decided to case the F2 well to a depth of 7,700 feet measured depth ("MD"), 130 feet MD below the base of the B65 Sand.

The F2 well will now be used to provide a take point to produce hydrocarbons from the B65 Sand. The F2 well can also be used in the future to produce the J1 Sand and B55 Sand after cessation of production in B65 Sand.

On 1 January 2018 (11.00 AM USA Central Time), current operations are running 7 5/8 inch casing before suspending the well for a short period before completion for production.

Further petrophysical analysis of the net oil pay counts confirms the preliminary analysis, reported on 27 December 2017.

The previously reported net oil pay counts based on transmitted data, will serve as final internal pay counts as the additional higher resolution log while drilling ("LWD") memory data was not retrieved. Real time LWD porosity data indicates the porosity of both the B65 and D5 Sands to be consistent with other wells the area with porosities ranging up to 31% with a high net to gross sand ratio in each zone.

SM 71 F3 Well

The joint venture has also decided to drill the SM 71 F3 well and utilize it as a D5 development well. The very significant results from the F2 well have provided the basis for the joint venture to make the decision to accelerate drilling of the F3 well.

Given the high quality and thickness of the D5 Sand encountered in the F2 well and the fact that the joint venture has an option to drill a second well under the existing Ensco drilling contract (at current day rates), it has been decided to drill SM 71 F3 well immediately using the Ensco 68 rig, rather than releasing it.

As designed, the SM 71 F3 well will intersect the D5 Sand very near the point that the F2 well intersected the D5 Sand. The F3 well will provide a second take point in the D5 Sand reservoir in addition to the F1 well, which was drilled in 2016. The engineering design of the F3 well will allow for a borehole angle of 24 degrees with shorter measured depth than the F2well which had an angle of 60 degrees.

The SM 71 F3 development well will be drilled to planned total depth of 7,624 ft/2,324 metres MD, equivalent to 7,423 ft/2,263 metres true vertical depth ("TVD"). F3 is estimated to take approximately 30 days to drill to total depth and evaluate from the spud date. Operations on the F3 should begin later this week after work is completed on the F2 and will be conducted under an approved permit the operator applied for in November in anticipation of a desirable result in the SM 71 F2 well.

SM 71 Production Plan

Acceleration of the drilling of the F3 well will add a third completion to the field and accelerate significant value for the joint venture. Initial production from SM 71 field will be delayed by approximately one month, now expected to commence in early March 2018.

Once all wells are completed for production, the joint venture anticipates having three wells on production with two D5 completions, in the F1 and F3 wells, and one B65 completion in the F2 well. Further drilling opportunities from the platform will be assessed on the basis of performance.

Combined initial production of these wells will take up the majority of the SM 71 F Platform production capacity. SM 71 F Platform has capacity to produce up to 5,000 bopd from wells located on the SM 71 lease.

Otto holds a 50% working interest (40.625% net revenue interest) in South Marsh Island Block 71 through a wholly owned subsidiary Otto Energy (Louisiana) Inc. The operator, Byron, holds the remaining 50% working interest.

Otto's Managing Director, Matthew Allen, commented: *"Otto is very pleased with progress by the operator, Byron Energy, at the flagship SM 71 development. The ability to accelerate significant production and value through the production from two different sands in three development wells on the SM 71 field will provide a long term and stable cashflow base for Otto.*

The near term completion of the SM 71 drilling program and the start of production in early 2018 provides the ability for Otto to continue expanding its portfolio of opportunities in the Gulf of Mexico focus area. Otto has a number of exciting projects which we will progress in 2018 to drilling."

Otto intends to report on well progress as material milestones are achieved. For further information on the well, please see the Company's announcement on 4 December 2017.

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