



OTTO ENERGY

ANNUAL REPORT 2022

ACHIEVING OUTSTANDING BUSINESS DELIVERY AS A PARTNER OF CHOICE IN THE GULF OF MEXICO



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ABOUT OTTO

Otto Energy Limited is an Australian-listed ASX oil and gas exploration and production company with a regional focus on North America. As of 30 June 2022, the Company had established non-operated interests in onshore Texas and the offshore Gulf of Mexico (GoM) as follows:

					
SOUTH MARSH ISLAND 71	LIGHTNING FIELD	GREEN CANYON 21	EAVES FIELD	MOSQUITO BAY WEST	OYSTER BAYOU SOUTH

STATUS

Producing	Producing	Producing	Completing	Completing	Drilling*
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LOCATION

Offshore shallow waters of the Gulf of Mexico	Onshore Matagorda County, Texas	Offshore deep waters of the Gulf of Mexico	Onshore Lavaca County, Texas	Offshore state waters, Terrebonne Parish, Louisiana	Offshore state waters, Terrebonne Parish, Louisiana
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OWNERSHIP STRUCTURE

50% WI	37.5% WI	16.7% WI	10.3% WI	30.0% WI	30.0% WI
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NRI

40.6%	28.2%	13.3%	7.7%	22.4%	22.7%
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OPERATOR

Byron Energy	Hilcorp	Talos Energy	Forza Operating	Castex Energy	Castex Energy
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PRODUCT MIX

Oil with associated gas production	Gas/Condensate	Oil with associated gas production	Gas/Condensate	Gas/Condensate	Oil with associated gas production
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*Announced as a discovery post year-end on 18 July 2022.

Otto's commercial and technical capabilities to screen, identify, pursue and actively capture resource development potentials within the onshore and offshore Gulf of Mexico remains a core company focus. The Gulf of Mexico basin is the most prolific hydrocarbon basin in the US. It is considered a significantly mature hydrocarbon province but continues to yield highly attractive discoveries both onshore and offshore. This is complimented by having a well-established regulatory regime, both federal and state, with low royalty rates.

The extensive infrastructure from a facilities and pipeline transport perspective also enables lower development costs along with greater access to premium oil and gas sales markets. Commercially, the capacity to actively market and/or hedge oil or gas production from operations provides strong cashflow from these assets, underpinning growth in value for shareholders for years to come.

Otto has a clear strategy to deliver shareholder value, through building a strong production and financial base of assets, and will look to optimize the portfolio through disciplined investments in infrastructure-led development. These efforts have strengthened Otto's financial capacity and continue to do so. We take a disciplined and prudent approach to capital management, ensuring management of financial risks and maintaining a resilient financial position. This allows us to maximize the value delivered from our portfolio of opportunities.

Technology and innovation are essential to Otto's long-term sustainability. We are growing our energy business, as well as seeking to partner with operators who are using technology to reduce emissions and the carbon footprint of our products. The Company is continually working to bring down its direct and indirect costs. Enhancing operating margins ensures that Otto can continue to find opportunities in the volatile business of developing energy solutions to meet future demands, while growing sustainable value for shareholders.

We are committed to upholding our values of integrity, discipline, excellence, teamwork and being a partner of choice. Otto's success is driven by its people and their capabilities. We aim to manage access to a diverse, high performing workforce while keeping a prudent footprint in size and efficiency. We recognize that enduring, meaningful relationships with all stakeholders are fundamental to maintaining our license to operate and exist. We actively seek to build relationships with stakeholders by creating and sharing our knowledge, while building resilience and gaining access to new opportunities. Our proven track record and distinctive capabilities are underpinned by years of experience and skills, making us a partner of choice.



COMPANY FOCUS:

STRUCTURED FOR THE FUTURE

PILLAR

01

Maximize Base Business Delivery

Optimize production delivery from the existing assets within our portfolio safely and sustainably. Simplify our business through the continued targeting of cost reductions and efficiencies in order to drive lowest operating costs and breakeven costs of supply and deliver highest viable margin returns.

PILLAR

02

Optimize Organic Growth in Existing Assets

Commercialize the resources-to-reserves-to-production progression of lower risk and cost opportunities, resulting in higher margin returns in the existing base business.

PILLAR

03

Deliver Inorganic Growth

Identify and capture growth in value returns through any or all three lenses:

A Further lower risk, higher margin infrastructure-led prospect participation.

B Value accretive acquisitions, sales or mergers.

C Direct potential to return to shareholders via dividend, stock buybacks or distributions.

2022 HIGHLIGHTS

Total WI revenue

US\$51.1m

29%

Net profit before tax

US\$19.8m

528%

Net profit after tax

US\$15.5m

3548%

EBITDA

US\$27.1m

564%

STRATEGIC ACHIEVEMENTS

80%**REDUCTION**of debt to
US\$2.3 million**US\$5.8m****GAIN**on successful sale of
11,000,000 shares of
Pantheon stock**SUCCESSFUL**gas condensate
discovery at
Mosquito Bay
West**SUCCESSFUL**gas condensate
discovery at
Eaves

AREAS OF ACTIVITY



EAVES FIELD

10.3%

Otto Working Interest

7.7%

Otto Net Revenue Interest

1 well

Status – Completing at 30 June 2022

– Commenced production in
September 2022

GULF OF
MEXICO

HOUSTON

NEW ORLEANS

GULF OF MEXICO



LIGHTNING FIELD

37.5%

Otto Working Interest

28.2%

Otto Net Revenue Interest

2 wells

Status – Producing From

2,602 boe/day

Gross Production
(100% basis, at 30 June 2022)

18.5%

Liquids Proportion of 2P Reserves



SOUTH MARSH ISLAND 71 SM 71

50%

Otto Working Interest

40.6%

Otto Net Revenue Interest

3 wells

Status – Producing From

2,468 boe/day

Gross Production
(100% basis, at 30 June 2022)

90%

Liquids Proportion of 2P Reserves



MOSQUITO BAY WEST

30%

Otto Working Interest

22.35%

Otto Net Revenue Interest

1 well

Status – Completing at 30 June 2022
– Commenced production in August 2022

13%

Liquids Proportion of 2P Reserves



OYSTER BAYOU SOUTH

30%

Otto Working Interest

22.65%

Otto Net Revenue Interest

1 well

Status – Drilling at 30 June 2022
– Commenced production in September 2022



GREEN CANYON 21 GC 21

16.7%

Otto Working Interest

13.3%

Otto Net Revenue Interest

1 well

Status – Producing From

145 boe/day

Gross Production (June 2022 Quarter)

90%

Liquids Proportion of 2P Reserves

PRODUCTION

Otto Energy considers the US Gulf Coast a core region for its production focus. As of 30 June 2022, Otto was producing oil and gas from three projects in the Gulf Coast: South Marsh Island 71 (SM 71), Lightning and Green Canyon 21 (GC 21).

The Gulf of Mexico (GoM) region is one of the most prolific oil and gas producing regions on earth and the most prolific basin in the US. Otto's focus in the Gulf region is on evaluating the Pliocene and Miocene gas and liquids rich proven areas. The high density and availability of production platforms utilised for the development of primary reservoirs contributes to low production costs in the region, making projects viable even in a sustained, low oil and gas pricing environment.

Additionally, the significant and extensive technical data available gives Otto the ability to reduce its costs of finding and developing, and lowering the overall risk involved in upstream exploration and production. Adding to the advantages of focusing on the Gulf region is the availability of significant market options, with about half of the US fossil fuel refining and processing capacity being located in the Gulf region.

EXPLORATION

During the current fiscal year, Otto drilled four exploration wells (Schindler #2, Vick #1, Mosquito Bay West and Oyster Bayou South).

Of these, the Vick #1, Mosquito Bay West and Oyster Bayou South wells were all successful discoveries and began production post year-end. The Schindler #2 encountered gas shows, but the sands were too tight to be producible.

Additionally, Otto holds approximately 3.3 million shares in Pantheon Resources plc (LSE: PANR), the operator of various current projects in Alaska, including the Talitha Unit where Otto retains a 0.5% of 8/8ths ORRI.

CHAIRMAN'S REPORT



Last year, I began my chairman's statement by saying that the previous 12 months had been one of the most significant periods of global change and transformation ever seen. A year later these challenges, combined with the war in Ukraine and international economic uncertainties, have resulted in even greater shifts the energy sector and the world.

Energy security and energy poverty are very real issues across the globe, creating great volatility in the demand for, pricing of and sourcing of energy options. Collectively, there is a continuing need to find real solutions to reduce the impacts we have on the world.

Set against the backdrop of the past year's complex challenges, Otto's strategy, together with its excellent operational results, has seen us deliver one of the best financial results in our company's history. There has been an 80% reduction in debt through the year, to a remaining US\$2.3 million at balance date.

FINANCIAL DELIVERY

Total WI revenue

US\$51.1m ▲ 29%

FY21: US\$39.7m

Attributable to higher crude oil, natural gas and NGL prices.

Net operating revenue

US\$40.6m ▲ 35%

FY21: US\$30.1m

EBITDAX

US\$30.2m ▲ 348%

FY21: US\$6.7m

As a result of higher revenues, higher gain on investments, lower impairment charges, and lower derivative costs.

EBITDA

US\$27.1m ▲ 564%

FY21: US\$4.1m

Net Income before tax

US\$19.8m

FY21: -US\$4.6m

Net Income after tax

US\$15.5m

FY21: -US\$0.5m

CASHFLOW

Net operating cashflow (pre-exploration)

US\$21.1m

FY21: US\$18.9 million

Free cashflow (operating net investing)

US\$24.9m

FY21: US\$3.8 million

Boosted by partial sale of Pantheon Resources shareholding during the year.

Otto has an outstanding asset base that generates meaningful cash flow with significant long-term value. Recent discoveries at Eaves, Mosquito Bay West and Oyster Bayou South, together with planned recompletion activities at South Marsh 71 and Green Canyon 21, will further boost cash flow outlook and are an example of our ability to add value to the base business.

STRUCTURED FOR THE FUTURE

We have demonstrated focus and resilience by delivering record results in 2021-2022, and are looking to the future with determination and resolve. Building on this momentum, we are well-positioned with a strong balance sheet, a robust production base and significant operational cashflow to enable growth of the company and its value to shareholders.

The Otto team can rapidly evaluate and execute on accretive acquisition opportunities that meet established criteria. We continue to assess opportunities to remain active in our drilling program, whilst maintaining financial flexibility. We are, as always, committed to growing shareholder value and positioning for sustained success.

We will deliver this with a focus on:

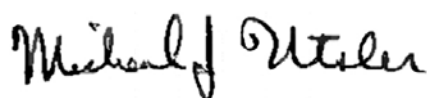
- Maintaining financial and operating discipline,
- Further streamlining corporate structure to reduce complexity and costs.
- Expanding capture of high value potential prospects and PDP acquisitions,
- Continuing to build scale and portfolio diversity in our asset base and product mix,
- Maintaining transparency and rigour in the performance management of our business.

RECOGNITIONS

I want to recognize Otto's leadership team and all those who have showed such commitment in helping to achieve the necessary changes, through these very testing times. I also wish to acknowledge the contribution and counsel of my fellow board members.

On behalf of the Board, I thank our shareholders for their support and continuing endorsement of our plans. I am confident that the change accelerated over the last year only creates more opportunity for the company and shareholders, sure in the belief that Otto is positioned to thrive, achieving even greater levels of success in the years to come.

I look forward to sharing Otto's continued progress as we forge ahead, building a long-term sustainable business where every customer, partner, investor, supplier and employee can benefit in the shared value of our business success.



MICHAEL J. UTSLER

Executive Chairman, Chief Executive Officer
and Managing Director

EXECUTIVE MANAGEMENT



MICHAEL J. UTSLER

**Executive Chairman,
Chief Executive Officer
and Managing Director**

B.S. Petroleum Engineering

Mike was appointed Chief Executive Officer and Managing Director of the Company on 11 September 2020, and Executive Chairman on 19 November 2020. Mike is an oil and gas executive with more than 40 years of experience in senior international oil and gas sector roles, including 15 years in the Gulf of Mexico and 5 years as Chief Operating Officer of Woodside in Australia. His career has encompassed senior executive, leadership and board roles with Amoco, BP, Woodside and New Fortress Energy. Mike was a former non-executive director of Oil Search Limited and Innovative Asset Solutions Group. He was appointed non-executive director of Santos Limited on 3 May 2022. He holds a B.S. in Petroleum Engineering from the University of Oklahoma.



SERGIO CASTRO

Chief Financial Officer

BBA Accounting, CPA, CFE

Sergio joined Otto Energy in December 2019 as Chief Financial Officer. Prior to joining Otto, Sergio was Vice President and Treasurer of Contango Oil & Gas Company for over 13 years. Prior to that, Sergio was a consultant for UHY Advisors TX, LP; a lead credit analyst for Dynegy Inc. and an auditor for Arthur Andersen LLP, where he specialized in energy companies. Sergio was honorably discharged from the U.S. Navy in 1993 as an E-6, where he served onboard a nuclear-powered submarine. He received a BBA in Accounting in 1997 from the University of Houston graduating summa cum laude. Sergio is a CPA and a Certified Fraud Examiner.

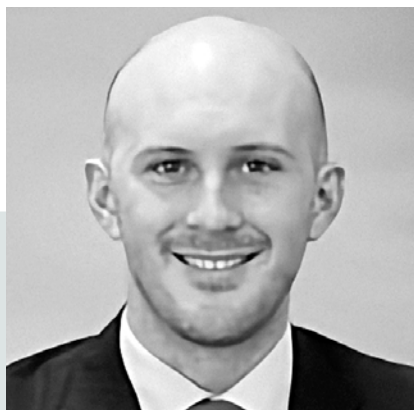


WILL ARMSTRONG

**Vice President Exploration
and New Ventures**

**B.S. in Geology, M.S. in Geology,
emphasis in Geophysics and
Hydrogeology**

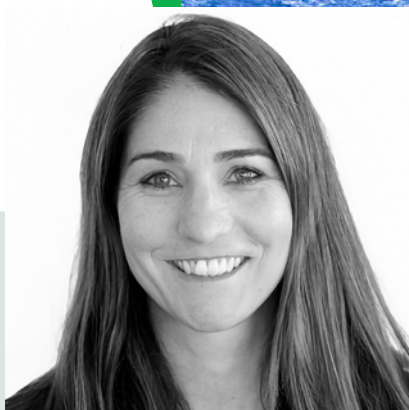
Prior to joining Otto, Will worked with Tri-C Resources, a private oil and gas company, developing Gulf Coast conventional prospects for drilling. Prior to this, he screened Gulf Coast, Offshore GOM, and Deepwater GOM prospects for Continental Land & Fur and worked as a geophysical consultant, generating Offshore and Gulf Coast prospects on behalf of Houston Energy, Westport Resources, and Petroquest Energy. Prior to consulting, Will generated prospects for several oil & gas companies, including Newfield Exploration, where he was a founding member and Tenneco Oil Company. Will graduated with a B.S. in Geology, minor in Mathematics, from Grand Valley State College in 1985. He also graduated from Wright State University with a M.S. in Geology, emphasis in Geophysics and Hydrogeology, in 1987.



PHILIP TRAJANOVICH
Senior Commercial Manager

Bachelor of Commerce (Hons)

Philip was engaged by Otto as a commercial manager in July 2016 and has worked in both the Perth and Houston offices since that time. Prior to joining Otto, Philip was Commercial Manager at Aurora Oil and Gas and its subsequent acquirer Baytex Energy for over four years, focused on the Eagleford shale unconventional play. Philip has also worked with ConocoPhillips as an Asset Manager for nearly three years and Woodside Energy as a Commercial Adviser for over seven years. Philip has gained extensive experience in all facets of upstream oil and gas operations and commercial structures internationally and within the USA. Philip graduated with a B.Com with First Class Honors from the University of Western Australia in 2001.



JULIE DUNMORE
Group Financial Controller

B.Comm(UWA), CA, GAICD, FGIA

Ms. Dunmore is the Group Financial Controller having joined Otto Energy in June 2018. Ms Dunmore has over 20 years experience in financial and management accounting primarily within the oil and gas industry. Ms. Dunmore's previous experience includes Regional Finance Manager (SEA) for Crondall Energy, Project Finance Manager at Clough Engineering and Wesfarmers Group accountant. Ms. Dunmore is a Chartered Accountant, Graduate of the Australian Institute of Company Directors and a Fellow of the Governance Institute of Australia.

CORPORATE



STRATEGIC FOCUS

Our strategy is based on optimizing our existing assets and building a diversified, low break-even cost portfolio of additional quality assets. The results of successfully delivering this strategy will optimize the value of Otto and the returns we create for our shareholders.



DRIVEN BY

TRANSFORM OEL TO BUILD SCALE

Capture future value initiatives

- Otto to leverage fiscal and operating portfolio to position itself to create industry scale

2024

BUILD THE COMPANY

Maximising inorganic and organic growth opportunities

- Develop/deliver on existing field growth
- Leverage technical and commercial access to 4-6 drilling options
- Pursue/capture PDP acquisitions
- Sell/merge assets or companies

2023

2022

REBASE THE COMPANY

Drive performance excellence and transparency in our delivery

- Strengthen balance sheet
- Establish disciplined low cost operating model
- Overhaul processes and practices to enhance transparency

2021

2020

WHILE GOVERNED BY OUR CORE VALUES

INTEGRITY

We say what we will do and do what we say and our actions re-enforce that culture

DISCIPLINE

We set ourselves challenging goals, we define our boundaries and earn our space through consistent delivery

EXCELLENCE

We plan, do, measure, learn and consistently strive to continuously improve

TEAMWORK

We challenge with respect but deliver as one team

PARTNER OF CHOICE

We will be recognised and valued for our competency and expertise in how and what we deliver

CAPITAL MANAGEMENT

The foundation of our strategy is disciplined capital management. We have a clear hierarchy for allocating capital, which takes into consideration a range of macroeconomic scenarios to stress test our portfolio, inform our decision making and ensure we maintain an adequate liquidity position.

SUSTAINING CAPITAL

We prioritize capital expenditures to ensure the safety of operations and continuity of production. Sustaining capital is funded from operating cash flows.

STRONG, FLEXIBLE BALANCE SHEET

We are focused on maintaining a strong, flexible balance sheet with access to sufficient liquidity to fund the next phase of growth. Our long-term target gearing is ~50%.

CORPORATE LEVEL FINANCE

We are focused on evaluating the marketplace to address project financing and/or infrastructure opportunities. We will continue to assess the viability of selling assets or even the Company to optimize value capture.

COMMODITY PRICE HEDGING

We may utilize hedging instruments to minimize exposure to short term price fluctuations by using a series of swaps, costless collars and/or puts.

ACQUISITIONS/CAPITAL RETURNS

We recognize capital returns are a key component of shareholder value. Accordingly, future merger and acquisition activities will only be considered when adequate capital is available, the opportunities are value accretive, and the combination is assessed against organic growth options and capital management alternatives.

CURRENT ECONOMIC ASSUMPTIONS

Given the volatility in commodity prices, we continuously monitor the market to make sure we use the latest economic indicators for our planning and budgeting. The tables below show the vast changes from 2021 to 2022.

2021

MARKET	LOW	MID	HIGH
WTI Oil (US/bbl)	50	60	70
Henry Hub (US/MMbtu)	2.7	3	3.4
Carbon Tax	15	25	35

RATES

USD	0.76%
Inflation Rate	2%
SOFR	0.25%

2022

MARKET	LOW	MID	HIGH
WTI Oil (US/bbl)	81	91	101
Henry Hub (US/MMbtu)	4.5	5.4	6.4
Carbon Tax	10	19	20

RATES

USD	0.75%
Inflation Rate	4.7%
SOFR	1.5%

CAPITAL ALLOCATION FRAMEWORK

Our capital allocation framework sets clear target investment criteria for oil and gas investments we are targeting. Using these criteria while maintaining balance sheet and financial discipline allows us to build a diversified folder which is robust against changes in pricing and demand.

OIL AND GAS ONSHORE AND OFFSHORE GULF OF MEXICO	KEY ATTRIBUTES
INVESTMENT FOCUS	<ul style="list-style-type: none"> • Generate high returns to continue funding growth from existing cash flows • Leverage existing infrastructure to lower costs of development and reduce risks
TARGETED CHARACTERISTICS	<ul style="list-style-type: none"> • High cash flow generation • Shorter payback periods • Quick to tie-in to markets • Multiple market access potentials • Resilient to commodity pricing • Upside potential

Our technical, commercial and financial operating models combined with our disciplined capital allocation processes includes the consistent approach to assessing new investment opportunities, the potential impacts on our balance sheet and overall portfolio, the product mix and its potential for marketing premiums and the overall returns on those investments.

PERFORMANCE OBJECTIVES

BASE AND ORGANIC GROWTH OPTIONS		INORGANIC GROWTH OPPORTUNITIES
Base business + organic options (3-year group targets)		Facilitated by underlying base business Key targeting criteria
Base business outcome (3 years forward)	Base outcome incl. exercise of organic options (3 years forward)	Year on year metrics
ROACE > 20%	ROACE > 17.5%	ROACE > 15%
IRR > 75% (Success case)	IRR > 75% (Success Case)	ROE > 15%
IRR > 25% (Full cycle)	IRR > 25% (Full Cycle)	DROI (15) > 25%
FCF > US\$40M	FCF > US\$40M	NAV growth > 10% CAGR
Gearing – <10%	Gearing – <10%	Gearing – 45-65%
Debt to equity – <10%	Debt to equity – <10%	Debt to equity ratio – <50%
Drives strong operating cash flow and balance sheet		Drives effective capital allocation discipline

RISK MANAGEMENT

Our approach to risk management enables us to take risk for reward, protect against negative impacts and improve our resilience to emerging risks. Otto recognizes that risk is inherent in our business, and the effective management of risk is vital to deliver our strategic objectives, continued growth, and success.

We are committed to managing risk in a proactive and effective manner as a source of competitive advantage. We apply a structured and comprehensive approach to the identification, assessment, and treatment of current risks as well as being able to respond to emerging risks.

Our risk management framework provides a single consolidated view of risks across the Company to quantify our full risk exposure and prioritize risk management and governance. The framework is aligned with the intent of the International Standard ISO31000 for risk management, providing line of sight of risk at appropriate levels of the organization, including the executive team and the Board, based on defined materiality thresholds. Our assessment of risk considers both financial and non-financial exposures, including health and safety, environment, finance, reputation, brand, legal and compliance, social and culture. The framework requires a quarterly review by the executive team and the Board to evaluate the strategic risk profile, the effectiveness of the risk being managed and our resilience to emerging risks. The Board reviewed and confirmed in 2022 that the risk management framework is sound, and that Otto is operating with due regard to the risk appetite endorsed by the Board.

Climate change and the transition to a lower-carbon economy influences Otto's strategy, presenting both risk and opportunity in the operation of our existing assets or commercialization of our growth portfolio. We leverage our risk management framework to ensure an integrated and coordinated approach to the management of climate change across the business. The risks posed by the transition to a lower-carbon economy are recognized given changes in policy, regulation, or social expectations in current and future markets.

An overview of our strategic and material risks we have identified and seek to manage through controls and mitigations include:

OPERATIONS

- Maintaining the technical integrity and operational performance of our assets is essential to protecting our people, the environment, our license to operate and the financial capacity to support existing business and growth opportunities. Failure to deliver safe, reliable, and efficient operations could result in a sustained, unplanned interruption to production, which can lead to not meeting production forecasts, delivery of the base business or generate revenue to support growth.
- Our operating assets are subject to operating hazards associated with major accident events, cyber-attacks, extreme weather events and disruptions within global supply chains that may ultimately lead to a loss of hydrocarbon containment or additional costs. Safe operation is fundamentally embedded through an extensive framework of controls that deliver strong operational performance in our base business.
- Operating risk is managed wherever possible via operator and partner selection, joint venture partner meetings, real time data receipt and review, technical reviews and audits.

CORPORATE

FINANCE

Otto's financial performance and resilience may be impacted by key factors such as:

- Management of financial risks. An inability to fund the delivery of strategic portfolio objectives could prevent Otto from unlocking value, weaken financial resilience and result in a loss of shareholder value.
- Commodity prices are variable and are impacted by global economic factors and beyond Otto's control. At times, Otto will employ commodity price hedging to manage commodity price risk and allow Otto to achieve specific business objectives.
- Demand for and pricing of our products remain sensitive to external economic and political factors, weather, natural disasters, introduction of new and competing supply, changes in buyer preferences for differing products and price regimes.
- Insufficient liquidity to meet financial commitments and fund growth opportunities could have a material adverse effect on our operations and financial performance.
- Our financing costs could be affected by interest rate fluctuations or a change in applicable interest rate benchmarks.
- We are exposed to credit risk; our counterparties could fail or could be unable to meet their payment or performance obligations under contractual arrangements. The delivery of our strategic portfolio objectives requires significant capital expenditure, supported by strong underlying cashflows. Credit risk evaluation is a key part of Otto's evaluation of financial counterparts and working interest partner's capability.
- A flexible approach to capital management enables this overall level of investment in the different areas of our business and the mix to be adjusted to reflect the external environment. Our capital management strategy focuses on capital allocation, capital discipline and capital efficiency.
- We maintain insurance in line with industry practice and sufficient to cover normal operational risks. However, Otto is not insured against all potential risks because not all risks can be insured and because of constraints on the availability of commercial insurance in global markets.
- Insurance coverage is determined by the availability of commercial options and cost/benefit analysis, considering Otto's risk management program. Losses that are not insured could impact Otto's financial performance. For example, Otto does not purchase insurance for the loss of revenue arising from an operational interruption.

CLIMATE CHANGE

- Climate change is impacting the way that the world produces and consumes energy, and this is expected to accelerate in time. Climate change also requires adaptation to physical change. This will impact the transition to a lower carbon economy and may impact demand (and pricing) for fossil fuels.

CYBER SECURITY RISKS

- Regulatory and compliance obligations are increasing for data protection and security of critical infrastructure. Failure to safeguard the confidentiality, integrity and availability of digital data and information could have an adverse effect on Otto's operation performance.
- Otto's technology systems may be subject to both unintentional and intentional disruption, for example cybersecurity attack. We are committed to the protection of our people, assets, reputation, and brand through securely enabled digital technologies. Digital risks are identified, assessed, and managed based on the business criticality of our people and systems, and may be required to be segregated and isolated. Our exposure to cyber risk is managed by a control framework that ensures cyber events are identified, contained, and recovered in a timely manner.

INNOVATION

- We focus on maintaining our competitive advantage by delivering value through new ideas, technologies, or diversified products. The practical application of innovation delivers near-term value to our base business and in the longer-term, transforms and creates opportunities to thrive in a lower carbon economy.
- Failure to build, embed, leverage and support innovation may result in a significant threat to the competitive advantage of our base business and our longer-term sustainability. We drive the practical application of innovation through an entrepreneurial, opportunity-focused, agile approach.

PEOPLE & CULTURE

- Otto must maintain sufficient talent, capability, capacity, and a strong organizational culture. An engaged and enabled workforce underpins our ability to deliver base business, future growth and to identify and capture new opportunities.

SOCIAL LICENSE TO OPERATE

Our business performance is underpinned by our social license to operate, that requires compliance with legislation and the maintenance of a high level of ethical behavior and social responsibility. Our business activities are subject to extensive regulation and government policy in each of the countries where we do business. Failure to comply may impact our license to operate.

- Stakeholders have evolving expectations of social responsibility and ethical decision making. These are changing at a rate faster than governments can introduce or amend regulation.
- A significant or continuous departure from national or local laws, regulations or approvals may result in negative social and cultural impacts, reputation and brand, and loss of license to operate.
- Violation of international anti-bribery and corruption laws may expose Otto to fines, criminal sanctions, and civil suits, and negatively impact our international reputation. Otto proactively maintains and builds our social license to operate through the application of our values, effective stakeholder engagement strategies, our regulatory compliance framework and our anti-fraud and corruption program.

ENVIRONMENTAL SOCIAL & GOVERNANCE (ESG)

- Environmental Social and Governance (ESG) risks are present in Otto's operations and business locations. As a non-operator SEMS evaluation in partner selection, tracking of operational environmental data combined with COVID 19 and other safety protocols allow Otto to monitor and manage environmental risks.
- Otto has a comprehensive governance framework starting with the procedures for the selection and appointment of the board of directors, board committees, associated policies and procedures, the corporate delegation of authority, and independent external financial and reserves audits.
- Otto's social related policies include its Security Trading Policy, Continuous Disclosure and Shareholder Communication Policy, Anti Bribery and Corruption Policy and Active Whistleblower policy.

COMMODITY PRICE RISK MANAGEMENT

Otto derives its revenue from the sale of oil and natural gas. As a result, the Company's revenues are determined by prevailing oil and natural gas prices. Otto sells its production to purchasers pursuant to sales agreements, with sales prices tied to regional industry standard published index prices, subject to negotiated price adjustments.

- Otto typically utilizes commodity price hedge instruments to minimize exposure to short term price fluctuations by using a series of swaps, costless collars and/or puts. Unrealized gains or losses associated with hedges vary period to period, and are a function of hedges in place, the strike prices of those hedges and the forward curve pricing for the commodities being hedged. Currently, all of Otto's hedges are swaps, and the Company has no three-way collars or short puts.
- As of 30 June 2022, Otto had approximately 54% of its forecasted oil production for the next three months (July 2022 – September 2022) hedged at a weighted average LLS price of US\$57.50 per bbl as follows:

MONTH	VOLUME (Bbls)	PRICE LLS (\$/BBL)
July 2022	17,219	\$56.77
August 2022	16,440	\$57.03
September 2022	15,221	\$58.83

RESERVES & PROSPECTIVE RESOURCES

On 23 August 2022 the Company released its statement of reserves and prospective resources as at 30 June 2022. The statement of reserves included SM 71, Lightning, GC 21, Eaves and Mosquito Bay West, and were all compiled by independent consultant Ryder Scott Company.

Otto Energy Limited's net reserves and resources for all fields as at 30 June 2022 are summarised below (see additional disclosures provided in the following pages and appendices):

RESERVES SUMMARY 30 JUNE 2022

TOTAL	GROSS (100%)			NET		
	OIL (MbbL)	GAS (MMcf)	MBOE	OIL (MbbL)	GAS (MMcf)	MBOE
Proved Producing	2,327	15,228	4,865	895	4,499	1,645
Proved Behind Pipe	4,741	15,466	7,318	810	3,659	1,420
Proved Undeveloped	351	11,689	2,299	100	3,339	657
Proved (1P)	7,419	42,383	14,482	1,805	11,497	3,722
Probable	4,813	25,997	7,299	944	6,995	2,110
Proved Plus Probable (2P)	12,232	68,380	21,781	2,749	18,492	5,832
Possible	2,598	28,134	7,287	666	7,884	1,980
Proved Plus Probable Plus Possible (3P)	14,830	96,514	29,068	3,415	26,376	7,812
Total Prospective Resource (best estimate, unrisks)	2,928	25,925	7,249	1,115	7,970	2,442

CHANGES TO RESERVES AND RESOURCES SINCE 30 JUNE 2021

OTTO ENERGY LIMITED GRAND TOTAL - RESERVE RECONCILIATION (OTTO ENERGY NRI SHARE)												
	OIL (MbbL)				GAS (MMCF)				MBOE			
	Remaining 6/30/2021	Production 2022	Additions & Revisions	Remaining 6/30/2022	Remaining 6/30/2021	Production 2022	Additions & Revisions	Remaining 6/30/2022	Remaining 6/30/2021	Production 2022	Additions & Revisions	Remaining 6/30/2022
Proved (1P)	2,140	365	30	1,805	11,905	1,705	1,297	11,497	4,122	649	246	3,722
Probable	982	0	(38)	944	8,235	0	(1,240)	6,995	2,355		(245)	2,110
Proved+ Probable (2P)	3,122	365	(8)	2,749	20,140	1,705	57	18,492	6,477	649	1	5,832
Possible	665	0	1	666	7,838	0	46	7,884	1,971		9	1,980
Proved+ Probable+ Possible (3P)	3,787	365	(7)	3,415	27,978	1,705	103	26,376	8,448	649	10	7,812

CONTINGENT AND PROSPECTIVE RESOURCES AS AT 30 JUNE 2022

PROSPECT	WORKING INTEREST	NET REVENUE INTEREST	CASE	CONTINGENT RESOURCES					
				8/8THS			OTTO NET REVENUE INTEREST		
				GAS (BCF)	OIL (MMbbls)	MMBOE	GAS (BCF)	OIL (MMbbls)	MMBOE
SM 71 F-3ST (D5)	50.00%	40.63%	P10	1.03	1.71	1.88	0.42	0.69	0.76
			P50	1.64	0.86	1.13	0.67	0.35	0.46
			P90	2.25	0.01	0.39	0.91	0.00	0.16
SM 71 F-5ST (D5)	50.00%	40.63%	P10	1.23	1.32	1.53	0.50	0.54	0.62
			P50	2.11	0.67	1.02	0.86	0.27	0.41
			P90	2.98	0.02	0.51	1.21	0.01	0.21

PROSPECT	WORKING INTEREST	NET REVENUE INTEREST	CASE	PROSPECTIVE RESOURCES					
				8/8THS			OTTO NET REVENUE INTEREST		
				GAS (BCF)	OIL (MMbbls)	MMBOE	GAS (BCF)	OIL (MMbbls)	MMBOE
Lightning G-6	37.50%	28.57%	P10	31.40	0.94	6.18	8.97	0.27	1.76
			P50	21.250	0.625	4.167	6.071	0.179	1.190
			P90	11.10	0.33	2.18	3.17	0.10	0.62
SM 71 B65 Sand	50.00%	40.63%	P10	1.24	1.24	1.45	0.50	0.50	0.59
			P50	0.93	0.77	0.93	0.38	0.31	0.38
			P90	0.62	0.31	0.41	0.25	0.12	0.17

Prospective Resources Cautionary Statement

The estimated quantities of petroleum that may potentially be recovered by the application of future development projects 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.

NOTES TO RESERVES AND RESOURCES STATEMENT

Reserves and Resources Governance

Otto's reserves estimates are compiled annually. Otto engages Ryder Scott Company, a qualified external petroleum engineering consultant, to conduct an independent assessment of reserves on behalf of Otto. Ryder Scott Company is an independent petroleum engineering consulting firm that has been providing petroleum consulting services in the USA for more than fifty years. Ryder Scott Company does not have any financial interest or own any shares in the Company. The fees paid to Ryder Scott Company are not contingent on the reserves outcome of the reserves report.

Competent Persons Statement

The information in this report that relates to oil and gas reserves was compiled by technical employees of independent consultants Ryder Scott Company, under the supervision of Mr. Ali Porbandarwala PE. Mr. Porbandarwala is a Senior Vice President at Ryder Scott Company and is a registered professional engineer in the State of Texas and a member of the Society of Petroleum Engineers (SPE). He has a B.S. Chemical Engineering from the University of Kansas and an MBA from the University of Texas. The reserves 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 information reported in this Statement are based on, and fairly represents, information and supporting documentation prepared by, or under the supervision of Mr. Porbandarwala. Mr. Porbandarwala 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.

The information in this report that relates to oil and gas contingent and potential resources was compiled by Mr Ed Buckle B.S. Chemical Engineer (Magna Cum Laude), a full-time contractor of the Company. Mr Buckle has more than 30 years relevant experience in the petroleum industry and is a member of The Society of Petroleum Engineers (SPE). The 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 resources information included in this report are based on, and fairly represents, information and supporting documentation reviewed by Mr Buckle. Mr Buckle 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 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 statements.

Prospective Resources Cautionary Statement

The estimated quantities of petroleum that may potentially be recovered by the application of future development projects 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.

Pricing Assumptions

Oil price assumptions used in the independent report represent forward-prices (CME Nymex) as at 30 June 2022.

ASX Reserves and Resources Reporting Notes

- (i) The reserves and prospective resources information in this document is effective as at 30 June, 2022 (Listing Rule (LR) 5.25.1)
- (ii) The reserves and prospective resources information in this document has been estimated and is classified in accordance with SPE-PRMS (Society of Petroleum Engineers – Petroleum Resources Management System) (LR 5.25.2)
- (iii) The reserves and prospective resources information in this document is reported according to the Company's economic interest in each of the reserves and prospective resource net of royalties (LR 5.25.5)
- (iv) The reserves and prospective resources information in this document has been estimated and prepared using the probabilistic method (LR 5.25.6)
- (v) The reserves and prospective resources information in this document has been estimated using a ratio of 6,000 cubic feet of natural gas to one barrel of oil. This conversion ratio is based on an energy equivalency conversion method and does not represent value equivalency (LR 5.25.7)
- (vi) The reserves and prospective resources information in this document has been estimated on the basis that products are sold on the spot market with delivery at the sales point on the production facilities (LR 5.26.5)
- (vii) The method of aggregation used in calculating estimated reserves was the arithmetic summation by category of reserves. As a result of the arithmetic aggregation of the field totals, the aggregate 1P may be a very conservative estimate and the aggregate 3P may be a very optimistic estimate due to the portfolio effects of arithmetic summation (LR 5.26.7 & 5.26.8)
- (viii) Prospective resources are reported on a best estimate basis (LR 5.28.1)
- (ix) For prospective resources, the estimated quantities of petroleum that may potentially be recovered by the application of a future development project(s) relate to undiscovered accumulations. These estimates have both an associated risk of discovery and a risk of development. Further exploration, appraisal and evaluation is required to determine the existence of a significant quantity of potentially moveable hydrocarbons (LR 5.28.2)
- (x) The reserve numbers assume some investment over the life of the field outlined above.

GLOSSARY

Bbl	barrels	MMcf	million cubic feet
bcf	billion cubic feet	MBL	thousand barrels of oil
Bcfe	billion cubic feet equivalent	MMBL	million barrels of oil
boe	barrels of oil equivalent	Mboe	thousand barrels of oil equivalent
Bopd	barrels of oil per day	MMboe	million barrels of oil equivalent
Btu	British Thermal Units	MCF	thousand cubic feet
EUR	Economic Ultimate Recovery	mmbtu	million British Thermal Units
Mcfg	thousand cubic of gas	NRI	net revenue interest
Mcfgpd	thousand cubic feet of gas per day		

An aerial photograph of a large offshore oil platform in the middle of a dark blue ocean. The platform is a complex of steel structures, including tall derrick masts and various levels of decks with yellow safety railings. A helipad with a red and white target is visible on the left side of the platform. A teal-colored graphic overlay covers the upper portion of the image, containing the title text.

FINANCIAL PERFORMANCE

FINANCIAL HIGHLIGHTS

FINANCIAL PERFORMANCE

US\$40.6m

Operating Revenue,
net of royalties

US\$30.2m

EBITDAX

US\$15.5m

Net Income after tax

LIQUIDITY PERFORMANCE

US\$26.8m

Cash Balance
at 30 June 2022

US\$2.3m

Debt Balance
at 30 June 2022, to be paid
off by 30 September 2022

US\$24.9m

Free Cash Flow
(operating net investing)

RATIO METRICS

41%

Return on Average
Capital Employed

3% / 4%

Gearing / Debt to Equity

28%

Return on Equity

FINANCIAL SUMMARY

In FY 2022 we achieved a reported net profit after tax of US\$15.5 million, the highest since 2015. Strong sales revenue resulting from increased market pricing in FY 2022 was a key contributor to this.

US\$('000)	30 June 2022	30 June 2021	30 June 2020	30 June 2019
KEY METRICS				
Operating Revenue, net of Royalties	40,557	30,137	23,028	31,258
EBITDAX	30,203	6,749	20,873	23,484
EBITDA	27,048	4,073	7,806	(14,365)
EBIT	21,947	(1,755)	1,036	(19,372)
Profit from discontinued operations	-	4,188	-	-
Net Income (Loss) after tax	15,514	(450)	(1,358)	(18,409)
KEY RATIOS				
Return on Equity(%)	28.0%	-1.1%	-3.0%	-49.5%
Return on Assets (%)	23.2%	-0.7%	-2.4%	-45.3%
ROACE (%)	41.5%	-3.3%	2.1%	-63.6%
Earnings (US cps)	0.32	-0.01	-0.05	-0.95
OTHERS				
Adjusted EBITDAX ⁽¹⁾	30,711	29,114	16,699	23,484
Adjusted EBITDA ⁽¹⁾	27,556	26,438	3,632	(14,365)
Adjusted EBIT ⁽¹⁾	22,455	20,610	(3,138)	(19,372)

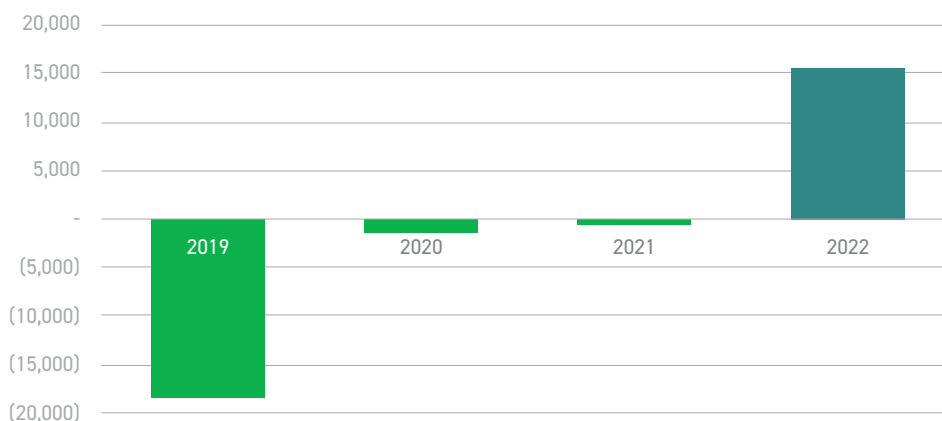
CREATING VALUE

We delivered a reported NPAT

US\$15.5m

the highest since 2015. Our strong NPAT performance was underpinned by increased oil and gas prices, consistent operational performance and proactive decisions.

NET PROFIT AFTER TAX (NPAT) US\$ ('000)



EXCEPTIONAL RETURNS

An increase in Return on Average Capital Employed (ROACE), demonstrating enhanced profitability versus the investments made by the Company.

EBITDAX

▲ 348%

EBITDA

▲ 564%

EBIT

▲ 1300%

as a result of higher operating revenues and lower derivative and impairment expenses.

Return on Equity

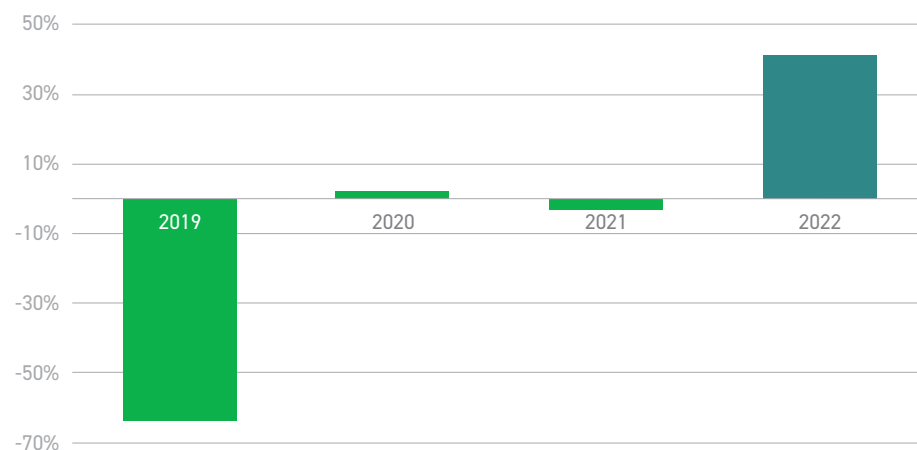
▲ 28%

Return on Assets

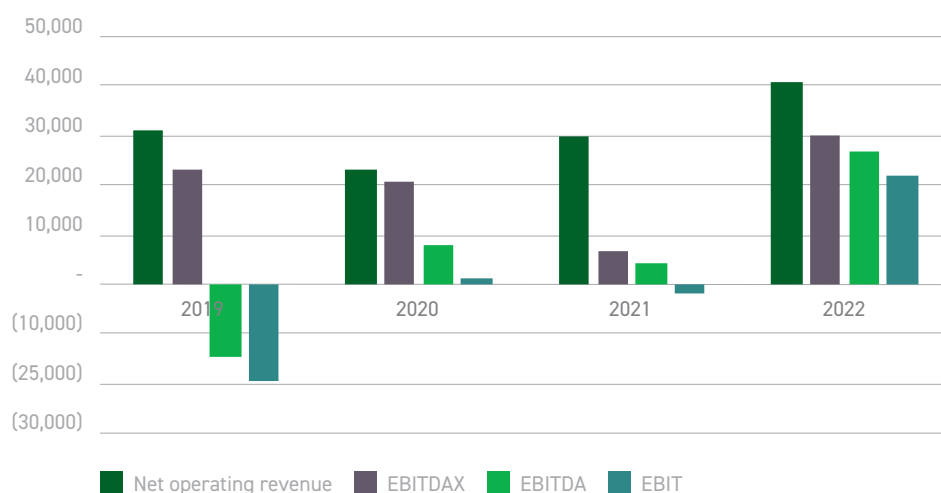
▲ 23%

as a result of higher operating revenues and lower derivative and impairment expenses.

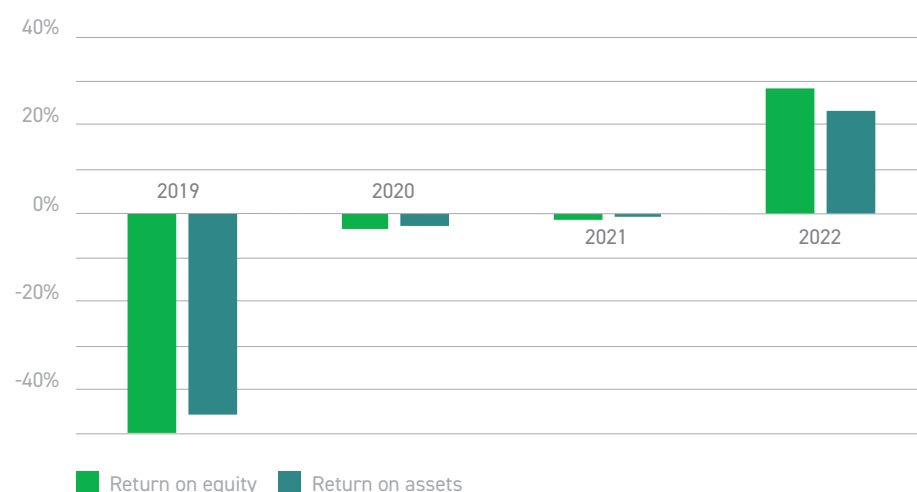
ROACE %



IMPROVEMENT IN EARNINGS US\$ ('000)



IMPROVEMENT IN RETURNS %



LIQUIDITY SUMMARY

We continued to prudently manage our cash flow by reducing our debt balance by 80% to US\$2.3 million, while simultaneously increasing our cash balance by 141% to US\$26.8 million, as of balance date.

US\$ ('000), except ratios	30 June 2022	30 June 2021	30 June 2020	30 June 2019
BALANCE SHEET				
Cash	26,764	11,100	16,551	7,383
Accounts Receivable	5,191	3,884	2,111	3,311
Marketable Securities	3,558	8,129	-	-
Total Current Assets	38,900	23,550	26,942	11,932
Accounts Payable	3,375	1,675	1,958	4,473
Total Current Liabilities	12,992	14,730	10,470	4,646
Total Debt	2,300	11,500	20,700	-
CASH FLOWS				
Net cash from operating activities	14,989	15,232	(721)	(13,161)
Net cash from investing activities	9,939	(11,477)	(16,581)	(9,029)
KEY RATIOS				
Working Capital	25,908	8,820	16,472	7,286
Debt to Equity (%)	4%	29%	46%	n/a
Gearing Ratio	3%	19%	30%	n/a
Current Ratio	3.0	1.6	2.6	2.6

Balance date cash

US\$26.8m

Residual equity interest held in Pantheon Resources plc (LSE: PANR) at fiscal year-end valued at:

US\$3.6m

plus an additional 0.5% ORRI in the Talitha Unit, a significant operating area of Pantheon.

Balance date debt (drawn credit facility)

US\$2.3m

to be paid off by 30 September 2022.

Net operating cashflow (pre-exploration)

US\$21.1m

FY21: US\$18.9 million

Net operating cashflow (post exploration)

US\$15.0m

FY21: US\$15.2 million

Free cashflow (operating net investing)

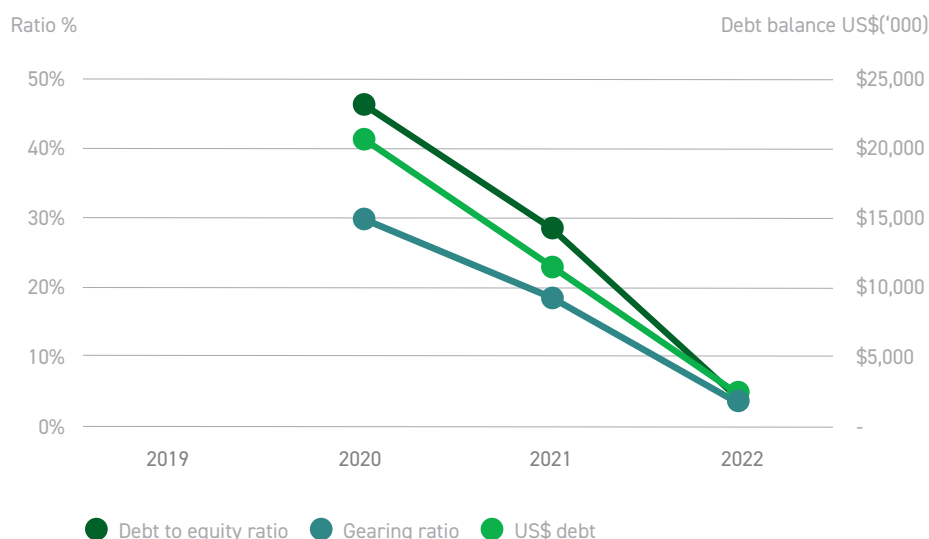
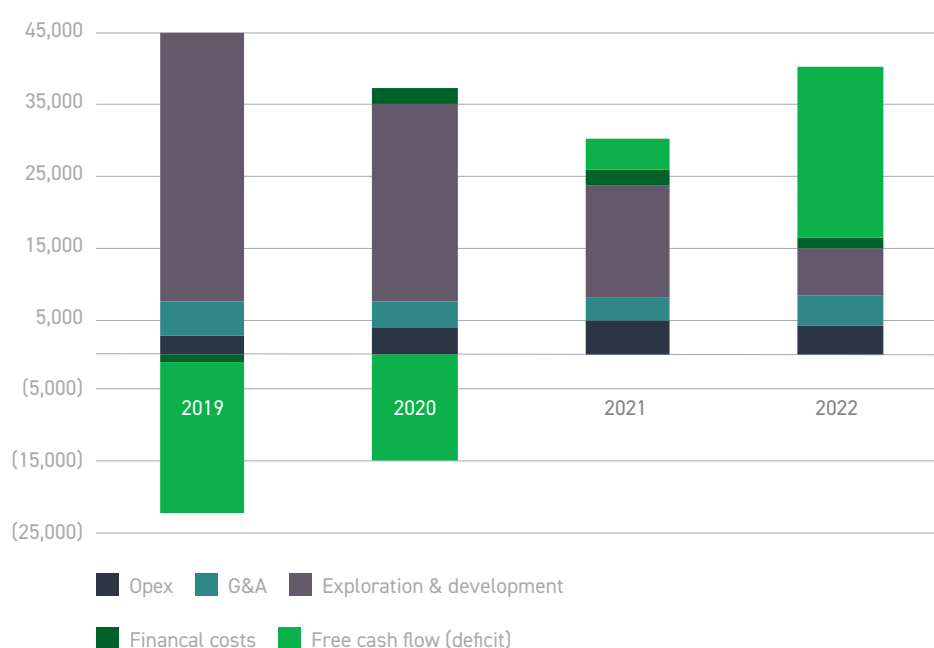
US\$24.9m

FY21: US\$3.8 million, boosted by partial sale of Pantheon Resources shareholding during the year.

Debt repayment

US\$9.2m

during the year.

IMPROVEMENT IN LEVERAGE**IMPROVEMENT IN FREE CASH FLOW US\$ ('000)**

OPERATIONAL PERFORMANCE



OPERATING SUMMARY

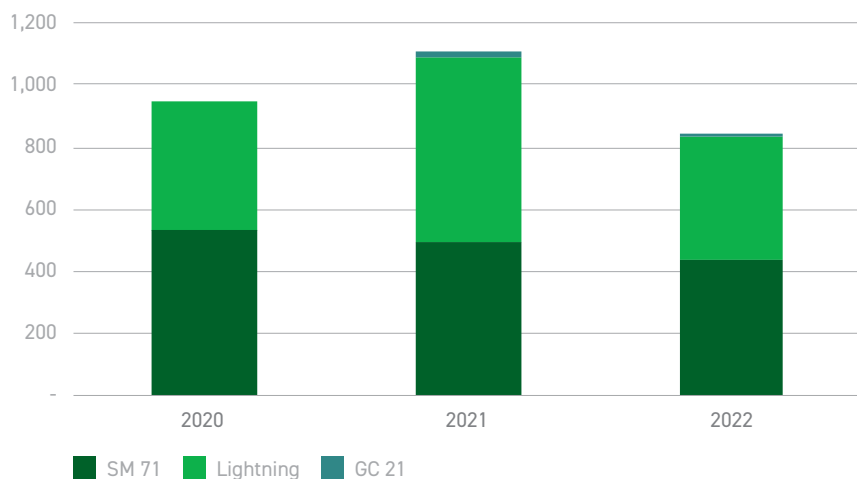
During the current fiscal year, Otto drilled four exploration wells (Schindler #2, Vick #1, Mosquito Bay West and Oyster Bayou South). Of these, the Vick #1, Mosquito Bay West and Oyster Bayou South wells were all successful discoveries and began production post year-end. The Schindler #2 encountered gas shows, but the sands were too tight to be producible.

Subsequent to year-end, Mosquito Bay West, Oyster Bayou South and Vick #1 began production. These three wells alone are expected to increase the Company's production by over 30%. Additionally, recompletion operations at Green Canyon 21 and South Marsh 71 are expected to increase production even further.

	30 June 2022	30 June 2021	30 June 2020
PRODUCTION VOLUMES (Mboe)			
South Marsh 71	439	498	527
Lightning	398	590	420
Green Canyon 21	8	18	-
CASH FLOWS US\$ ('000)			
Net operating revenue	40,557	30,137	23,028
Capital expenditures	(6,480)	(14,931)	(27,395)
RESERVES (Mboe)			
Proved	3,722	4,122	4,820
Probable	2,110	2,355	3,234
Possible	1,980	1,971	3,664

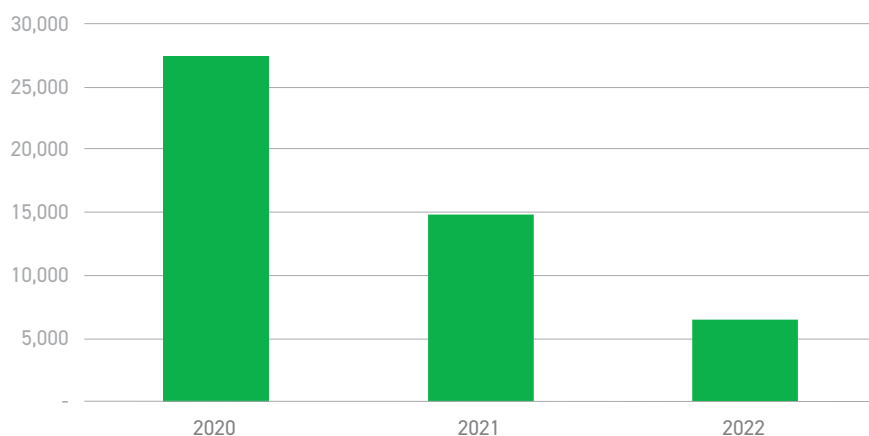
OPERATIONAL PERFORMANCE

PRODUCTION (Mboe)



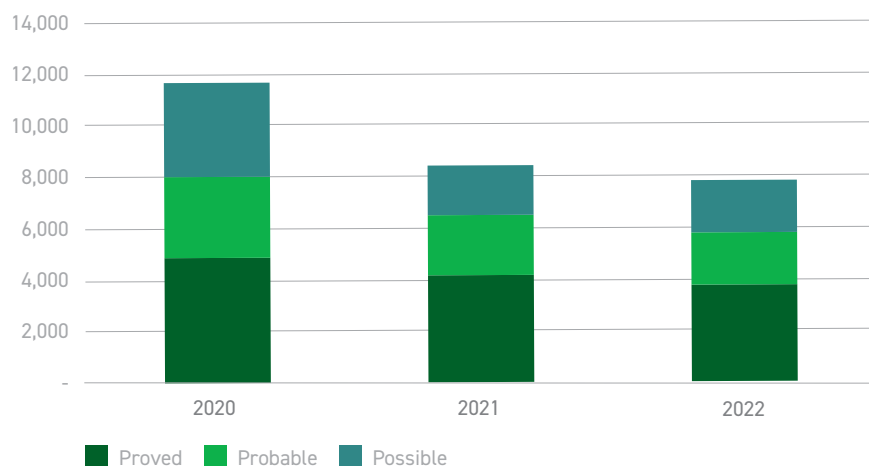
- SM 71 and Lightning production continue to exceed independently calculated production profiles.
- Advancing recommendations for development potential at Lightning.
- Began GC 21 recompletion to shallower DTR 10 Sand in August 2022, with first production from the DTR 10 sand expected in Q3 CY 2022.
- Completed SM 71 recompletion of F2 well in August 2022, with production resuming in September 2022.

CAPITAL EXPENDITURES US\$ ('000)



- During the current fiscal year, Otto drilled four exploration wells (Schindler #2, Vick #1, Mosquito Bay West and Oyster Bayou South).
- Of these, the Vick #1, Mosquito Bay West and Oyster Bayou South wells were all successful discoveries and began production post year-end.
- The Schindler #2 encountered gas shows, but the sands were too tight to be producible.

RESERVES (Mboe)



- Does not include Oyster Bayou South which was discovered post year-end.
- Oyster Bayou South adds an additional 1P reserves of 0.4 MMboe, 2P reserves of 0.4 MMboe, and 3P reserves of 0.4 MMboe.
- When Oyster Bayou South is added to FY 2022 discoveries, the Company has replaced 90% of its FY 2022 net production on a proved basis, and over 100% on a 2P basis.

ASSET OVERVIEW

NORTH AMERICA

GULF OF MEXICO

Otto Energy considers the Gulf of Mexico its core region for exploration, development and production focus. As of 30 June 2022, Otto produced oil and gas from three projects in the Gulf of Mexico: SM 71, Lightning, and GC 21. Post year-end, Otto added three more projects: Mosquito Bay West, Oyster Bayou South and Vick #1.

The Gulf of Mexico (GoM) region is one of the most prolific oil and gas producing regions on earth. About half of the US fossil fuel refining and processing capacity is along the GoM. The high density and availability of production platforms utilised for the development of primary reservoirs contributes to low production costs in the region, making projects viable even in a sustained, low oil price environment.

Otto has focused on a partnership strategy in the GoM to build a portfolio of diverse, conventional oil and gas opportunities. Otto's current operating partners in the Gulf of Mexico are Byron Energy (ASX: BYE), Hilcorp Energy, Talos Energy (NYSE: TALO), Castex Energy and Forza Operating, resulting in nine producing wells over six core assets.

SUMMARY OF GULF OF MEXICO ASSETS AS AT 30 JUNE 2022

ASSET	NUMBER OF WELLS	OTTO WI	OTTO NRI	JOINT VENTURE PARTNER	STATUS
South Marsh Island 71 (SM 71)	3	50.0%	40.6%	Byron Energy	Producing
Lightning	2	37.5%	28.2%	Hilcorp	Producing
Green Canyon 21 (GC 21)	1	16.7%	13.3%	Talos Energy	Producing
Eaves (Vick #1)	1	10.3%	7.7%	Forza Operating	Completing *
Mosquito Bay West	1	30.0%	22.4%	Castex Energy	Completing *
Oyster Bayou South	1	30.0%	22.7%	Castex Energy	Drilling *

*Began production post year-end

OPERATIONAL PERFORMANCE

PRODUCTION VOLUMES AND SALES REVENUE

WI Share (before royalties) (USD)	30 June 22	31 Mar 22	31 Dec 21	30 Sept 21
CRUDE OIL (barrels)				
South Marsh 71	91,995	99,951	107,431	91,511
Lightning Field	12,353	13,340	14,463	15,906
Green Canyon 21	851	715	816	1,106
Total oil production	105,199	114,006	122,710	108,523
Total oil sales revenue (\$'million)	\$11.3	\$10.5	\$9.1	\$7.3
Avg oil price (\$/Bbl)	\$107.66	\$91.99	\$73.86	\$67.09
NATURAL GAS (thousand cubic feet)				
South Marsh 71	61,134	75,566	85,277	69,145
Lightning Field	378,266	387,056	432,312	499,836
Green Canyon 21	4,886	4,645	4,455	5,624
Total gas production	444,286	467,266	522,044	574,604
Gas revenue (\$'millions)	\$3.1	\$2.4	\$2.7	\$2.5
Avg gas price (\$/Mmbtu)	\$6.85	\$5.09	\$4.94	\$4.27
NATURAL GAS LIQUIDS (barrels)				
South Marsh 71	-	-	-	-
Lightning Field	13,295	13,055	14,973	17,764
Green Canyon 21	121	191	249	301
Total NGL production	13,417	13,246	15,222	18,065
NGL revenue (\$'millions)	\$0.6	\$0.5	\$0.5	\$0.6
Avg NGL price (\$/Bbl)	\$42.28	\$37.85	\$35.44	\$31.62
TOTAL (barrels of oil equivalent)				
South Marsh 71	102,184	112,545	121,644	103,035
Lightning Field	88,693	90,905	101,488	116,976
Green Canyon 21	1,787	1,680	1,808	2,344
Total production (Boe)	192,664	205,130	224,940	222,356
Total daily production (Boe/d)	2,117	2,279	2,445	2,417
Percent liquids (%)	62%	62%	61%	57%
Total revenue (\$'million)	\$15.0	\$13.4	\$12.3	\$10.4
Avg WA price (\$/Boe)	\$77.91	\$65.48	\$54.50	\$46.61



We have demonstrated focus and resilience by delivering record results in 2021-2022, and are looking to the future with determination and resolve."

PRODUCTION

SOUTH MARSH ISLAND 71

Otto owns a 50% Working Interest (WI) and a 40.625% Net Revenue Interest (NRI) in South Marsh Island 71 (SM 71) in the Gulf of Mexico, with Byron Energy Limited (Byron) the operator, holding an equivalent WI and NRI. Water depth in the area is approximately 137 feet.

The F1 and F3 wells began producing in March 2018 from the primary D5 Sand reservoir, while the F2 well began production in April 2018 from the B55 Sand. In March 2020, the joint venture spudded the F5 well and announced a potential discovery on 23 March 2020. Due to increased uncertainty of continuing operations related to the impact of COVID-19 on operations, the SM71 F5 wellbore was temporarily abandoned in a manner that allows it to be efficiently sidetracked in the future.

In September 2022, the F2 well was successfully recompleted in the J1 sand and resumed production. Once the completion fluids are fully produced, the flowing tubing pressure will be evaluated with respect to reservoir support and a final flowrate will be established.

The SM 71 lease ranks number two of all currently active oil producing leases in the Gulf of Mexico shelf, with the SM71 F3 and F1 ranked as the number one and number three active oil producing wells. Base production from SM 71 continues to produce at or above expectations.

LIGHTNING

Otto owns a 37.5% WI and a 28.2% NRI in the Lightning Field in Matagorda County, Texas, with Hilcorp Energy Limited (Hilcorp) the operator, holding the remaining interest. Otto earned its 37.5% working interest in this field by paying 50.0% of the cost of drilling the initial Green #1 well.

The first well in this field, the Green #1, commenced production in June 2019, while the second well, the Green #2, commenced production in February 2020.

Reinterpretation of the 3D seismic by the operator confirms that there are multiple levels of hydrocarbon pay in the Lightning field. While production is currently from the upper Tex Miss 1 zone, the lower Tex Miss 2/3 zone was tested in both wells while they were being drilled. The Tex Miss 2/3 zone appears to be aerially significantly larger and potentially thicker than the Tex Miss 1. In both tests, production from the Tex Miss 2/3

zone has indicated that the zone has lower permeability than the Tex Miss 1 and has not been able to establish steady production. It is planned that a future well will be designed to test the ability to stimulate the Tex Miss 2/3 zone and unlock the significant upside potential. Resource progression is currently targeted for CY 2022, consistent with our current planning and budget. Seismic data and mapping are on-going to develop specific well proposals for Green #3 and #4.

Base production from Lightning continues to produce at or above expectations. There is the potential for up to five wells being required to ultimately develop the entire Lightning accumulation.

GREEN CANYON 21

Otto owns a 16.67% WI and a 13.34% NRI in Green Canyon 21 (GC 21) in the Gulf of Mexico, with Talos Energy (Talos) as operator. Otto earned its 16.67% working interest in GC-21 by paying 22.22% of the cost of drilling the "Bulleit" appraisal well.

The "Bulleit" appraisal well located at GC 21 commenced production from the deeper MP sands on 15 October 2020. Detailed bottomhole pressure and reservoir performance data collected after hook-up and first production indicate a smaller reservoir in the MP sands than originally anticipated.

In August 2022, the Seadrill Sevan Louisiana drilling rig was mobilized to location at GC 21 to begin a recompletion of the well in the shallower DTR 10 sand, which is where 70% of the well reserves are expected to reside. Initial production from the DTR 10 sand is expected to begin in Q3 CY 2022.

The recompletion is expected to cost approximately US\$35.5 million (US\$5.9 million, net to Otto), which will be paid out of existing free cash flow.

EXPLORATION AND APPRAISAL

MOSQUITO BAY WEST

The Mosquito Bay West prospect was spud on 22 May 2022 in state waters in Terrebonne Parish, Louisiana, and safely drilled down to a target depth of 14,867' MD (Measured Depth) / 12,967' TVD (True Vertical Depth) ahead of schedule. The well encountered a proved net gas pay of 111 feet TVT (True Vertical Thickness) across five separate Miocene intervals, plus another 10 feet TVT potential pay in one other sand that is considered probable or possible. This represents a higher net pay count than Otto was originally expecting.

First production began in August 2022 and continues to produce strongly at a rate of 205 bbl/d of oil and 3.3 MMscf/d of gas (750 boe/d 8/8ths) at a 3544 psi FTP and a conservative 16.5/64th choke setting as released to the ASX on 12 September 2022. The Condensate Gas Ratio (CGR) of approximately 62 bbl/MMscf is significantly higher than Otto's pre flowback estimate of 26 bbl/MMscf. The well continues to unload and is in the early stages of production and is still being optimized. Otto holds a 30% WI and a 22.35% NRI in this field.

This well is expected to cost Otto US\$3.3 million, funded from existing cash reserves.

OYSTER BAYOU SOUTH

The Oyster Bayou South prospect was spud on 27 June 2022 in state waters in Terrebonne Parish, Louisiana, and safely drilled down to a target depth of 14,137' MD (Measured Depth) / 13,064' TVD (True Vertical Depth) ahead of schedule. The well encountered proved net gas pay of 68 feet TVT (True Vertical Thickness) Miocene pay, consistent with Otto's expectations.

First production began in September 2022 at a rate of 807 bbl/d of oil and 4.6 MMscf/d of gas (1,574 boe/d 8/8ths) at a 3614 psi FTP (Flowing Tubing Pressure) and a conservative 15/64th choke setting as released to the ASX on 12 September 2022. The well was originally expected to flow at an initial oil rate of 150 bbl/d. The well continues to unload and is in the early stages of production and is still being optimized. Otto holds a 30% WI and a 22.65% NRI in this field. This well is expected to cost Otto US\$3.3 million, to be funded from existing cash reserves.

EAVES PROSPECT

The Vick #1 well, within the Eaves Prospect in Lavaca County, Texas, was spud on 9 December 2021 and reached 9,242' TVD on 22 December 2021. The well was logged and cored across multiple intervals, encountering a total of 12 feet of net pay in the shallower Yegua formation as expected. In the Wilcox sand targets, the well encountered 16 feet of net pay. The Wilcox was encountered across three separate sands as expected. During completion operations, a completion attempt was initially made in the deeper Wilcox section, however the well was plugged back and completed in the shallower Yegua interval at approximately 5,450 feet TVD, with first production commencing in September 2022 as additional rig time was required for testing of the various Wilcox objectives. Total costs to drill, complete and bring this well to production were approximately US\$0.2 million, net to Otto.

SCHINDLER WELL

The Schindler #2 well in Colorado County, TX was spud on 14 October 2021 and reached 13,658' TVD on 3 December 2021. The well encountered 11 separate gas shows in the primary Wilcox objective, however triple combo wireline log evaluations indicated that the sands were too tight to be producible. The well has been plugged and abandoned with a total final cost of approximately US\$0.9 million, net to Otto.

SOUTH TIMBALIER 48 LEASE

Otto was notified as being the apparent high bid on the South Timbalier 48 (ST 48) at OCS Lease Sale 257 held in November 2021. Otto bid the minimum entry price of US\$125,000 and was confirmed as the high bidder on ST 48. In January 2022, a United States federal judge invalidated the results of the lease sale. In August 2022, however, the US Inflation Reduction Act (2022) was signed into law which reinstated Lease Sale 257. See "Significant events after the balance date" for additional information.

PANTHEON SHAREHOLDING (LSE: PANR)

On 21 October 2021, the Company announced that it had successfully sold 11,000,000 shares of Pantheon Resources Plc (LSE: PANR) (Pantheon) in exchange for approximately US\$10.5 million. The Company continues to own 3,272,592 shares of PANR, valued at approximately US\$3.6 million as at 30 June 2022, as well as a 0.5% of 8/8ths overriding royalty interest (ORRI) in any future production from the Talitha Unit in Alaska, which is operated by Pantheon.

GOVERNANCE



BOARD OF DIRECTORS



MICHAEL J. UTSLER
Executive Chairman,
Chief Executive Officer
and Managing Director

B.S. Petroleum Engineering

Mike was appointed Chief Executive Officer and Managing Director of the Company on 11 September 2020, and Executive Chairman on 19 November 2020. Mike is an oil and gas executive with more than 40 years of experience in senior international oil and gas sector roles, including 15 years in the Gulf of Mexico and 5 years as Chief Operating Officer of Woodside in Australia. His career has encompassed senior executive, leadership and board roles with Amoco, BP, Woodside and New Fortress Energy. Mike was a former non-executive director of Oil Search Limited and Innovative Asset Solutions Group. He was appointed non-executive director of Santos Limited on 3 May 2022. He holds a B.S. in Petroleum Engineering from the University of Oklahoma.



JOHN JETTER
Non-Executive Director

BLaw, BEcon, INSEAD

Mr John Jetter is the former Managing Director, CEO and head of investment banking of JP Morgan in Germany and Austria, and a member of the European Advisory Council, JP Morgan London. Mr Jetter has held senior positions with JP Morgan throughout Europe, focusing his attention on major corporate clients advising on some of Europe's largest corporate transactions. Mr Jetter has been a non-executive director of Venture Minerals Limited since June 2010 and Peak Resources Limited from April 2015 to December 2019. Mr Jetter is Chairman of the Remuneration and Nomination Committee and a member of the Audit and Risk Committee.



GEOFF PAGE
Non-Executive Director

MBA, CPA, FCMA, FGIA

Mr Geoff Page was appointed 17 July 2020 as non-executive director. He also became Chairman of the Audit and Risk Committee on 1 August 2020. He is a finance professional with over 20 years of senior finance, accounting and management experience gained globally within a number of industries. He has over 10 years of board experience gained in several different firms. Mr Page is a member of the Remuneration and Nomination Committee. Mr Page will step down as Chairman of the Audit and Risk Committee at the end of the FY 2022 reporting period.

Mr Page is also a member of CPA Australia, Fellow Member of the Chartered Institute of Management Accountants and a Fellow Member of the Governance Institute of Australia.

BOARD OF DIRECTORS CONTINUED



PAUL SENYCIA
Non-Executive Director

**BSc Hons (Mining Engineering),
ACSM, MAppSc (Geophysics)**

Mr Paul Senycia was appointed to the Board on 24 April 2018 and became a non-executive director on 1 January 2019. Mr Senycia joined Otto in 2010 as Exploration Manager, and from 2015 until 31 December 2018 led the Company's technical operations. Mr Senycia was instrumental in the implementation of Otto's US strategy.

A seasoned oil and gas professional, trained as an exploration geoscientist, Mr Senycia has over 35 years of international oil and gas experience in both commercial and technical aspects of the business. This was gained with large and small companies worldwide including Shell, Woodside and Beach Petroleum. Over the last twenty years Mr Senycia has accumulated substantial Gulf of Mexico expertise both on the shelf and in the deep water, including deal capture, asset management and project divestment activities. Mr Senycia is a member of the Audit and Risk Committee and the Remuneration and Nomination Committee.



JOHN MADDEN
Non-Executive Director

**BCom (Melb), FCPA, FGIA, FTIA,
MAICD**

Mr Madden has over 40 years' experience with a proven track record encompassing administrative, acquisitions, business analysis, community consultation, corporate secretarial functions, feasibility studies, financing (including equity raising for listed and unlisted entities), IPO on AIM market, planning and strategic studies, accounting and taxation. These experiences were gained through positions held at both major and junior mining companies at corporate and operating levels. Mr Madden is an executive director of AKORA Resources Limited. He did three years of post-university study/exams for membership of CPA Australia and another two years to get membership of the Australian Instituted of Chartered Secretaries now Governance Institute of Australia and one year for Taxation Institute of Australia. He is also a Member of the Institute of Company Directors (MAICD).

CORPORATE GOVERNANCE

OTTO ENERGY CORPORATE GOVERNANCE

In fulfilling its obligations and responsibilities to its various stakeholders, the Board supports a strong system of corporate governance, to ensure that the management of Otto is conducted in order to maximise shareholder value in a proper and ethical manner.

Otto is committed to a high level of corporate governance, a culture that practices highly ethical behaviours, integrity and respect. We believe that adopting and operating in accordance with high standards of corporate governance is essential for long term high performance and sustained value creation.

Otto follows the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations. Throughout the year, Otto complied with all the ASXCGC Recommendations. These principles and practices are reviewed regularly and revised as appropriate to reflect changes in law and developments in corporate governance.

Our Corporate Governance Statement reports on Otto's key governance principles and practices.

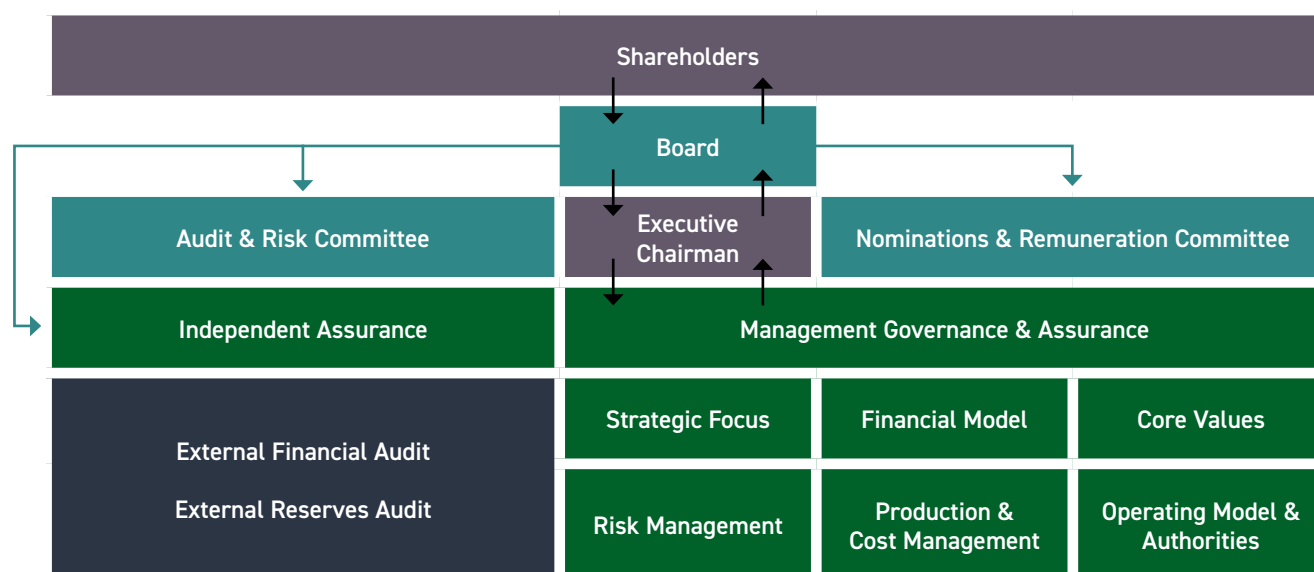
The Corporate Governance Statement discusses arrangements in relation to our Board of Directors, committees of the Board, shareholders, risk management and internal control, the external auditor relationship, and inclusion and diversity.

The Chairman of the Board, Mr Michael Utsler, is an executive director. The Chairman of the Board is responsible for leadership and effective performance of the Board. The Chairman's responsibilities are set out in more detail in the Board Charter.

Mr Utsler is also a non-executive Director of Santos Limited and a non-executive Director of Integrated Asset Solutions.

Our website contains copies of Board and committee charters and copies of many of the policies and documents mentioned in the Corporate Governance Statement. The website is updated regularly to ensure that it reflects Otto's most current corporate governance information.

Our corporate governance model is illustrated below.



Refer to Otto's Website for more information on Corporate Governance Policies (ottoenergy.com/corporate-governance)

A large offshore oil rig is shown in the background, with a helipad and various structural elements. In the foreground, a yellow crane arm extends over a blue container on a platform. The entire scene is set against a backdrop of the deep blue ocean under a clear sky.

FINANCIAL REPORT

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CORPORATE DIRECTORY

Directors	Mr Michael Utsler – Executive Chairman, Chief Executive Officer and Managing Director Mr John Jetter – Non-Executive Director Mr Geoff Page – Non-Executive Director Mr Paul Senyica – Non-Executive Director Mr John Madden – Non-Executive Director
Company Secretary	Ms Kaitlin Smith
Key Executives	Mr Michael Utsler – Executive Chairman, Chief Executive Officer and Managing Director Mr Will Armstrong – Vice President Exploration and New Ventures Mr Sergio Castro – Chief Financial Officer Mr Philip Trajanovich – Commercial and Land Manager
Principal registered office in Australia	Ground Floor 70 Hindmarsh Square Adelaide SA 5000 Tel: + 61 8 6467 8800 Fax: + 61 8 6467 8801
Houston Office	717 Texas Avenue Suite 1200 Houston, TX 77002 Tel: +1 713-893-8894
Share Registry	Link Market Services Limited Level 12 QV1 Building 250 St Georges Terrace Perth WA 6000 Tel: + 61 8 9211 6670 Fax: + 61 2 9287 0303
Auditors	BDO Audit (WA) Pty Ltd Level 9, Mia Yellagonga Tower 2 5 Spring Street Perth WA 6000 Tel: + 61 8 6382 4600 Fax: + 61 8 6382 4601
Securities Exchange Listing	Australian Securities Exchange ASX Code: OEL
Website address	www.ottoenergy.com
ABN	56 107 555 046

DIRECTOR'S REPORT

For the year ended 30 June 2022

FINANCIAL REPORT

The Directors present their report together with the consolidated financial statements of the Group comprising Otto Energy Limited (referred to as 'Otto' or the 'Company') and its subsidiaries for the financial year ended 30 June 2022 and the auditors' report thereon.

Directors

The Directors in office at any time during the financial year and until the date of this report are set out below. All Directors were in office for the entire period except for Mr John Madden who was appointed 1 July 2022.

Mr Michael Utsler

Executive Chairman, Chief Executive Officer and Managing Director

Appointed 11 September 2020

Mr Michael Utsler was appointed Managing Director and Chief Executive Officer on 11 September 2020 and Executive Chairman on 19 November 2020. Mr Utsler is an oil and gas executive with more than 40 years of experience in senior international oil and gas sector roles, including 15 years in the Gulf of Mexico and 5 years as Chief Operating Officer of Woodside in Australia. His career has encompassed senior executive, leadership and board roles with Amoco, BP, Woodside and New Fortress Energy. He holds a B.S. in Petroleum Engineering from the University of Oklahoma. Mr Utsler is a former non-executive director of Oil Search Limited and Innovative Asset Solutions Group. He was appointed non-executive director of Santos Limited on 3 May 2022.

Mr John Jetter BLaw, BEcon, INSEAD

Director (Independent Non-Executive)

Appointed Non-Executive Director 10 December 2007; Appointed Non-Executive Chairman 25 November 2015; Retired as Chairman but remained as Non-Executive Director 21 November 2019; Re-appointed Non-Executive Chairman 1 April 2020; Appointed Executive Chairman 10 June 2020; Re-appointed Non-Executive Chairman 11 September 2020; Retired as Chairman but remained as Non-Executive Director 19 November 2020.

Mr John Jetter is the former Managing Director, CEO and head of investment banking of JP Morgan in Germany and Austria, and a member of the European Advisory Council, JP Morgan London. Mr Jetter has held senior positions with JP Morgan throughout Europe, focusing his attention on major corporate clients advising on some of Europe's largest corporate transactions. Mr Jetter has been a non-executive director of Venture Minerals Limited since June 2010 and Peak Resources Limited from April 2015 to December 2019. He is Chairman of the Remuneration and Nomination Committee and a member of the Audit and Risk Committee.

Mr Paul Senyia BSc (Hons), MAppSc

Director (Independent Non-Executive)

Appointed Executive Director 24 April 2018; Became Non-Executive Director 1 January 2019

Mr Paul Senyia is a seasoned geoscientist with over 35 years of international oil and gas experience in both commercial and technical aspects of the business. Mr Senyia has held senior roles in large and small companies worldwide including Shell, Woodside and Beach Petroleum. Over the last twenty years Mr Senyia has accumulated substantial Gulf of Mexico expertise both on the shelf and in the deep water. This has included deal capture, asset management and project divestment activities. Outside the Gulf of Mexico, Mr Senyia has worked in Europe, Asia, Africa and Australasia both on and offshore.

Up until his retirement on 31 December 2018, Mr Senyia was the Vice President – Exploration and New Ventures for the Company. Mr Senyia is a member of the Audit and Risk Committee and Remuneration and Nomination Committee. Mr Senyia has not held any other directorships in the last three years.

Mr Geoff Page MBA, CPA, FCMA, FGIA

Director (Non-Executive)

Appointed Non-Executive Director 17 July 2020

Mr Geoff Page is a finance professional with over 20 years of senior finance, accounting and management experience gained globally within a number of industries. He has over 10 years of board experience gained in several different firms. Mr Page is a member of CPA Australia, Fellow Member of the Chartered Institute of Management Accountants and a Fellow Member of the Governance Institute of Australia. Mr Page is Chairman of the Audit and Risk Committee

DIRECTOR'S REPORT

For the year ended 30 June 2022

FINANCIAL REPORT

and a member of the Remuneration and Nomination Committee. Mr Page will step down as Chairman of the Audit and Risk Committee at the end of the FY 2022 reporting period.

Mr John Madden BCom (Melb), FCPA, FGIA, FTIA, MAICD

Director (Independent Non-Executive)

Appointed Non-Executive Director 1 July 2022

Mr Madden has over 40 years' experience with a proven track record encompassing administrative, acquisitions, business analysis, community consultation, corporate secretarial functions, feasibility studies, financing (including equity raising for listed and unlisted entities), IPO on AIM market, planning and strategic studies, accounting and taxation. These experiences were gained through positions held at both major and junior mining companies at corporate and operating levels. Mr Madden is an executive director of AKORA Resources Limited. He did three years of post-university study/exams for membership of CPA Australia and another two years to get membership of the Australian Institute of Chartered Secretaries now Governance Institute of Australia and one year for Taxation Institute of Australia. He is also a Member of the Institute of Company Directors (MAICD).

Company Secretary

Ms Kaitlin Smith BCom (Acc), CA

Appointed 2 November 2019

Ms Smith provides Company Secretarial and Accounting services to various public and proprietary companies. She holds a Bachelor of Commerce (Accounting) and is a Chartered Accountant.

Director's interests

As at the date of this report, the interests of the Directors in the shares and rights of Otto Energy Limited were:

Director	Number of Ordinary Shares	Number of Rights
Mr J Jetter	57,881,668	1,804,667
Mr P Senyica	8,691,134	2,769,000
Mr G Page	-	-
Mr M Utsler	5,000,000	-
Mr J Madden	2,000,000	-

Principal activities

The principal activity of the Group is oil and gas exploration, development, production and sales in North America.

Dividends

No dividend has been declared for the year ended 30 June 2022.

Operating and Financial Review

During the year ended 30 June 2022, the Company drilled four exploration wells (Schindler #2, Vick #1, Mosquito Bay West and Oyster Bayou South). Of these, the Vick #1, Mosquito Bay West and Oyster Bayou South wells were all successful discoveries, while the Schindler #2 encountered gas shows, but the sands were too tight to be producible.

Subsequent to year-end, Eaves (Vick #1), Mosquito Bay West and Oyster Bayou South all began production. These three wells alone are expected to increase the Company's net production by greater than 30%. Additionally, recompletion operations began at Green Canyon 21 and South Marsh 71 which are expected to increase production even further. See "Significant events after the balance date" for additional information.

During the current fiscal year, the Company also successfully sold 11,000,000 shares of Pantheon Resources Plc (LSE: PANR) (Pantheon) in exchange for approximately US\$10.5 million.

Financial Summary

Total profit after tax for the year ended 30 June 2022 was approximately US\$15.5 million (2021: loss of US\$0.5 million). This improvement was primarily driven by higher revenues and higher gain on investments, as well as lower impairment charges, finance costs, and derivative costs. Partially offsetting this increase in net profits after tax were higher exploration expenditures, administrative costs, and income tax expense, as well as lower profits from disposal of assets and discontinued operations.

Net revenue for the current year was approximately US\$40.6 million (2021: US\$30.1 million), a 35% increase from the prior fiscal year due to a 75% increase in crude oil prices, a 26% increase in natural gas and a 114% increase in the price received for natural gas liquids. This increase in revenue was partially offset by a 24% decrease in production due to normal field declines, combined with the operator of the Lightning field reducing flowrates in May 2021 and October 2021 as part of a reservoir depletion and optimization strategy. This generated an operating gross profit of approximately US\$31.1 million (2021: US\$19.9 million), an increase of 56%, as gathering and production charges remained relatively consistent to prior year.

Gain on investments for the current year was approximately US\$5.8 million (2021: US\$0.2 million) which was attributable to the shares of Pantheon Resources Plc (LSE: PANR) held by the Company. Of this amount, approximately US\$4.3 million was related to the gain on the sale of 11,000,000 shares, while the remaining US\$1.5 million was the gain on the increase in value of the remaining 3,272,492 shares. See Pantheon Shareholding section below for additional information.

Impairment charges for the current year were nil, compared to approximately US\$12.85 million for the prior fiscal year as a result of cost overruns and lower than expected performance from the MP sands on the Bulleit well at Green Canyon 21 (GC 21).

Finance costs (including amortisation of borrowing costs, interest, and commitment fees) for the current year totaled approximately US\$2.1 million (2021: US\$2.9 million), a 27% decrease due to a lower outstanding principal balance on the Company's credit facility with Macquarie Bank which was established in November 2019.

Net loss on derivative financial instruments for the current year was approximately US\$6.6 million (2021: US\$10.3 million). Of this amount, US\$8.8 million was a realized loss (2021: US\$0.6 million) as a result of higher crude oil prices.

Exploration expenditures during the current year were approximately US\$3.2 million (2021: US\$2.7 million), an 18% increase as a result of its drilling activities during the year, including the Mosquito Bay West, Oyster Bayou South, Vick #1 and Schindler #2 wells.

Administrative and other expenses for the current year were approximately US\$5.2 million (2021: US\$4.2 million), a 23% increase due to restructuring expenditures and other administrative costs.

Income tax expense for the current year was approximately US\$4.3 million (2021: US\$5,000) as a result of US Corporate and State tax (US\$2.9 million) and Danish corporate income tax (CIT) on the PANR share price appreciation (US\$1.4 million).

Profit on disposal of assets for the current year was nil, compared to a gain of approximately US\$8.0 million for the prior fiscal year, as a result of the Company's sale of its subsidiary, Borealis Alaska LLC to Pantheon Resources Plc.

Profit from discontinued operations for the current year was nil, compared to a gain of approximately US\$4.2 million in the prior year due to the reversal of the Foreign Currency Translation Reserve associated with the dissolution of Otto Energy Philippines Inc.

DIRECTOR'S REPORT

For the year ended 30 June 2022

FINANCIAL REPORT

Production and Development

Reserves Statement as at 30 June 2022

On 23 August 2022 the Company released its statement of reserves and resources as at 30 June 2022 which included Otto's existing fields at South Marsh 71 (SM 71), Green Canyon 21 (GC 21), and Lightning in Matagorda County, TX (Lightning), plus its new discoveries at Eaves and Mosquito Bay West. The Oyster Bayou South discovery was made subsequent to year-end and is therefore not included in the year-end results. The prospective resources cover SM 71 and Lightning. The summary statement of reserves and prospective resources as at 30 June 2022 and changes to reserves and resources since 30 June 2021 is set out below. Full details including the reconciliations and notes on the statements are included in the ASX release of 23 August 2022.

Total	Gross (100%)			Net		
	Oil (MbbL)	Gas (MMcf)	Mboe	Oil (MbbL)	Gas (MMcf)	Mboe
Proved Producing	2,327	15,228	4,865	895	4,499	1,645
Proved Behind Pipe	4,741	15,466	7,318	810	3,659	1,420
Proved Undeveloped	351	11,689	2,299	100	3,339	657
Proved (1P)	7,419	42,383	14,482	1,805	11,497	3,722
Probable	4,813	25,997	7,299	944	6,995	2,110
Proved Plus Probable (2P)	12,232	68,380	21,781	2,749	18,492	5,832
Possible	2,598	28,134	7,287	666	7,884	1,980
Proved Plus Probable Plus Possible (3P)	14,830	96,514	29,068	3,415	26,376	7,812
Total Prospective Resource (best estimate, unrisks)	2,928	25,925	7,249	1,115	7,970	2,442

Changes to reserves and resources since 30 June 2021

Otto Energy Limited Grand Total - Reserve Reconciliation (Otto Energy NRI Share)												
	Oil (MbbL)				Gas (MMCF)				MBOE			
	Remaining 6/30/2021	Production 2022	Additions & Revisions	Remaining 6/30/2022	Remaining 6/30/2021	Production 2022	Additions & Revisions	Remaining 6/30/2022	Remaining 6/30/2021	Production 2022	Additions & Revisions	Remaining 6/30/2022
Proved (1P)	2,140	365	30	1,805	11,905	1,705	1,297	11,497	4,122	649	246	3,722
Probable	982	0	(38)	944	8,235	0	(1,240)	6,995	2,355		(245)	2,110
Proved+Probable (2P)	3,122	365	(8)	2,749	20,140	1,705	57	18,492	6,477	649	1	5,832
Possible	665	0	1	666	7,838	0	46	7,884	1,971		9	1,980
Proved+Probable+Possible (3P)	3,787	365	(7)	3,415	27,978	1,705	103	26,376	8,448	649	10	7,812

Proved reserves total approximately 3.7 MMboe and consist of six PDP wells and one PUD well at Lightning (Green #3), compared to 4.1 MMboe as of 30 June 2021. This decrease is predominantly due to production of 649 Mboe (NRI) through FY 2022 at the Company's Lightning and SM 71 fields, partially offset by the addition of new reserves attributable to Mosquito Bay West and Eaves.

Proved plus Probable reserves total approximately 5.8 MMboe as a result of an additional well at Lightning (Green #4), plus an additional 0.9 MMboe of probable reserves from remaining assets. This compares to 6.5 MMboe as of 30 June 2021, a decrease attributable to 1P production and a downward revision at Lightning associated with the operator of the field reducing flowrates to protect the reservoir, partially offset by the addition of new reserves attributable to Mosquito Bay West and Eaves.

Proved plus Probable plus Possible reserves totaled approximately 7.8 MMboe as a result of an additional well at Lightning (Green #5), plus an additional 0.6 MMboe of possible reserves from remaining assets. This compares to 8.4 MMboe as of 30 June 2021, a decrease attributable to 1P production and a downward revision at Lightning associated with the operator of the field reducing flowrates to protect the reservoir, partially offset by the addition of new reserves attributable to Mosquito Bay West and Eaves.

DIRECTOR'S REPORT

For the year ended 30 June 2022

FINANCIAL REPORT

Contingent and Prospective resources totaled approximately 2.4 MMboe as a result of additional resources at SM 71 and Lightning. This compares to 2.1 MMboe at 30 June 2021, an increase associated with continued superior performance at SM 71 and Lightning.

Production and Revenue Summary

The table below sets forth production and revenue information associated with Otto's sales of natural gas, oil and natural gas liquids ("NGLs") from its producing fields at SM71, Lightning and GC 21 for the year ended 30 June 2022. One barrel of oil, condensate or NGL is the energy equivalent of six Mcf of natural gas.

	FY 2022	FY 2021	% Change
Total Oil (Bbls)	450,439	537,496	-16%
Total Gas (Mcf)	2,008,200	2,910,974	-31%
Total NGLs (Bbls)	59,949	84,042	-29%
Total BOE	845,088	1,106,700	-24%
Total (Boe/d)	2,315	3,032	-24%
Percent Liquids (%)	60%	56%	8%
Total WI Revenue (US\$MM)	\$ 51.07	\$ 39.72	29%
Oil WI revenue (\$millions)	\$ 38.2	\$ 26.0	47%
Avg oil price (\$/Bbl)	\$ 84.71	\$ 48.35	75%
Gas WI revenue (\$millions)	\$ 10.7	\$ 12.3	-13%
Avg gas price (\$/Mcf)	\$ 5.34	\$ 4.23	26%
NGL WI revenue (\$millions)	\$ 2.2	\$ 1.4	53%
Avg NGL price (\$/Bbl)	\$ 36.35	\$ 16.98	114%
Total WI revenue (\$millions)	\$ 51.1	\$ 39.7	29%
Avg WI price (\$/Boe)	\$ 60.43	\$ 35.90	68%

Otto's hydrocarbon sales for the current year equate to 2,315 Boe/d, a 24% decrease over the prior fiscal year primarily driven by normal field declines, combined with the operator of the Lightning field reducing flowrates in May 2021 and again in October 2021 in order to protect the reservoir. Planned recompletions combined with upcoming new production is expected to deliver growth in production going forward.

Notes

- Otto sells its high-quality crude produced at SM 71 at Louisiana Light Sweet crude ("LLS") crude pricing which is a premium to West Texas Intermediate ("WTI") pricing. Deductions are applied for transportation, gravity, and pipeline loss allowances.
- GC 21 crude is a medium sour grade and sells against the Bonito Sour crude marker. Deductions are applied for transportation, gravity, and pipeline loss allowances.
- Lightning crude sells against the WTI Houston crude marker. Deductions are applied for transportation and gravity.
- On average, 1 Mscf = 1.10 MMbtu for SM 71 raw gas production. The thermal content of SM 71 gas may vary over time.
- On average, 1 Mscf = 1.25 MMbtu for GC 21 raw gas production. The thermal content of GC 21 gas may vary over time.
- On average, 1 Mscf = 1.10 MMbtu for Lightning raw gas production. The thermal content of Lightning gas may vary over time.

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South Marsh Island 71 (SM 71) – Offshore Gulf of Mexico (137 feet)

The F1 and F3 wells began producing in March 2018 from the primary D5 Sand reservoir, while the F2 well began production in April 2018 from the B55 Sand. In March 2020, the F5 well was spud and announced as a potential discovery. Due to uncertainty related to the impact of COVID-19 on operations, the SM71 F5 wellbore was temporarily abandoned in a manner that allows it to be efficiently sidetracked in the future. The field is operated by Byron Energy.

In September 2022, the F2 well was successfully recompleted in the J1 sand and resumed production. Once the completion fluids are fully produced, the flowing tubing pressure will be evaluated with respect to reservoir support and a final flowrate will be established.

The SM 71 lease ranks number two of all currently active oil producing leases in the US Gulf of Mexico shelf, with the SM71 F3 and F1 ranked as the number one and number three active oil producing wells. Production and revenue for the year ended 30 June 2022 and 2021 was as follows:

SM 71 Production Volumes		FY 2022	FY 2021	% Change
WI (50.0%)	Oil (bbls)	390,888	445,336	-12%
	Gas (Mscf)	291,122	315,237	-8%
	Total (Boe)	439,408	497,876	-12%
	Total (Boepd)	1,204	1,364	-12%
NRI (40.6%)	Oil (bbls)	317,597	361,836	-12%
	Gas (Mscf)	236,536	256,131	-8%
	Total (Boe)	357,019	404,525	-12%
	Total (Boepd)	978	1,108	-12%

SM 71 Sales Revenue		FY 2022	FY 2021	% Change
WI (50.0%)	Oil - \$million	\$ 33.1	\$ 21.5	54%
	Oil - \$ per bbl	\$ 84.69	\$ 48.34	75%
	Gas - \$million	\$ 1.8	\$ 1.0	75%
	Gas – \$ per Mcf	\$ 6.12	\$ 3.24	89%
	Total – US\$million	\$ 34.9	\$ 22.5	55%
NRI (40.6%)	Total – US\$million	\$ 28.4	\$ 18.3	55%

Production volumes for the current year were below production volumes for the prior year due to normal field declines. Sales revenues increased as a result of the 75% increase in crude oil prices and 89% increase in natural gas prices received. Production was approximately 1,234 Boe/d as of 30 June 2022. The following table sets forth certain information with respect to SM71 reserves as of 30 June 2022:

SM71	Gross (100%)			Net (40.625%)		
	Oil (MbbL)	Gas (MMcf)	Mboe	Oil (MbbL)	Gas (MMcf)	Mboe
Proved Producing	1,907	1,237	2,113	775	502	859
Proved Behind Pipe	493	289	541	200	118	220
Proved Undeveloped	-	-	-	-	-	-
Proved (1P)	2,400	1,526	2,654	975	620	1,079
Probable	734	486	815	298	198	331
Proved Plus Probable (2P)	3,134	2,012	3,469	1,273	818	1,410
Possible	734	486	815	298	197	331
Proved Plus Probable Plus Possible (3P)	3,868	2,498	4,284	1,571	1,015	1,741
Total Prospective Resource (best estimate, unrisked)	2,303	4,675	3,082	936	1,899	1,252

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Lightning – Onshore Matagorda County, Texas

The first well in this field, Green #1, commenced production in June 2019 while the second well, Green #2, commenced production in February 2020. Production and revenue for the year ended 30 June 2022 and 2021 was as follows:

Lightning Volumes		FY 2022	FY 2021	% Change
WI (37.5%)	Oil (bbls)	56,062	83,416	-33%
	Gas (Mscf)	1,697,469	2,548,511	-33%
	NGLs (bbls)	59,088	82,285	-28%
	Total (Boe)	398,062	590,453	-33%
	Total (Boepd)	1,091	1,618	-33%
NRI (28.2%)	Oil (bbls)	42,179	62,759	-33%
	Gas (Mscf)	1,277,118	1,917,413	-33%
	NGLs (bbls)	44,456	61,908	-28%
	Total (Boe)	299,488	444,236	-33%
	Total (Boepd)	821	1,217	-33%

Lightning Sales Revenue		FY 2022	FY 2021	% Change
WI (37.5%)	Oil - \$million	\$ 4.8	\$ 4.0	18%
	Oil - \$ per bbl	\$ 84.99	\$ 48.53	75%
	Gas - \$million	\$ 8.8	\$ 11.2	-21%
	Gas – \$ per Mcf	\$ 5.20	\$ 4.38	19%
	NGLs - \$million	\$ 2.1	\$ 1.4	53%
	NGLs – \$ per bbl	\$ 36.35	\$ 17.02	114%
	Total – US\$million	\$ 15.7	\$ 16.6	-5%
NRI (28.2%)	Total – US\$million	\$ 11.8	\$ 12.5	-5%

Production volumes for the current year were lower than production volumes for the prior year due to normal field declines, combined with Hilcorp, the operator of the Lightning field, reducing flowrates in May 2021 and October 2021 in order to protect the reservoir. Sales revenues increased as a result of a 75% increase in crude oil prices received, a 19% increase in natural gas prices received and a 114% increase in the price received for natural gas liquids. Production was approximately 976 Boe/d as of 30 June 2022.

Reinterpretation of the 3D seismic by the operator confirms that there are multiple levels of hydrocarbon pay in the Lightning field. While production is currently from the upper Tex Miss 1 zone, the lower Tex Miss 2/3 zone was tested in both wells while they were being drilled. The Tex Miss 2/3 zone appears to be significantly larger in area and potentially thicker than the Tex Miss 1, but indicates lower permeability. Future wells (potentially Green #3) might test the ability to stimulate the Tex Miss 2/3 zone and unlock its significant upside potential.

Lightning	Gross (100%)			Net (28.214%)		
	Oil (MbbL)	Gas (MMcf)	Mboe	Oil (MbbL)	Gas (MMcf)	Mboe
Proved Producing	420	13,990	2,752	120	3,997	786
Proved Behind Pipe	197	6,560	1,290	56	1,874	368
Proved Undeveloped	351	11,689	2,299	100	3,339	657
Proved (1P)	968	32,239	6,341	276	9,210	1,811
Probable	632	21,084	2,299	181	6,023	1,185
Proved Plus Probable (2P)	1,600	53,323	8,640	457	15,233	2,996
Possible	755	25,159	4,948	216	7,188	1,414
Proved Plus Probable Plus Possible (3P)	2,355	78,482	13,588	673	22,421	4,410
Total Prospective Resource (best estimate, unrisks)	625	21,250	4,167	179	6,071	1,190

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Green Canyon 21 (GC 21) – Offshore Gulf of Mexico

The GC 21 well, operated by Talos Energy, commenced production from the deeper MP sands in October 2020. In August 2022, recompletion operations began in the shallower DTR-10 sand, which is where 70% of the well reserves are expected to reside. This recompletion is budgeted to cost approximately US\$35.5 million (US\$5.9 million, net to Otto), to be paid out of existing free cash flow. Initial production from the DTR 10 sand is expected to begin in September 2022. Production and revenue from the MP sands for the years ended 30 June 2022 and 2021 were as follows:

GC 21 Production Volumes		FY 2022	FY 2021	% Change
WI (16.67%)	Oil (bbls)	3,488	8,744	-60%
	Gas (Mscf)	19,609	47,226	-58%
	NGLs (bbls)	862	1,756	-51%
	Total (Boe)	7,618	18,372	-59%
	Total (Boepd)	21	50	-59%
NRI (13.3%)	Oil (bbls)	2,791	6,996	-60%
	Gas (Mscf)	15,687	37,781	-58%
	NGLs (bbls)	689	1,404	-51%
	Total (Boe)	6,095	14,697	-59%
	Total (Boepd)	17	40	-59%

GC 21 Sales Revenue		FY 2022	FY 2021	% Change
WI (16.67%)	Oil - \$million	\$ 0.3	\$ 0.4	-30%
	Oil - \$ per bbl	\$ 83.1	\$ 47.3	76%
	Gas - \$million	\$ 0.1	\$ 0.1	-12%
	Gas – \$ per Mcf	\$ 5.9	\$ 2.8	111%
	NGLs - \$million	\$ 0.0	\$ 0.0	17%
	NGLs – \$ per bbl	\$ 36.5	\$ 15.3	138%
	Total – US\$million	\$ 0.4	\$ 0.6	-24%
NRI (13.3%)	Total – US\$million	\$ 0.3	\$ 0.5	-24%

Production volumes for the current year were lower than production volumes for the prior year due to normal field declines. Sales revenues decreased as a result of the decrease in production, partially offset by the 76% increase in crude oil prices received, the 111% increase in natural gas prices received and a 138% increase in the price received for natural gas liquids. Production was approximately 25 Boe/d as of 30 June 2022. The following table sets forth certain information with respect to GC 21 reserves as at 30 June 2022. The proved producing reserves are from the MP sand, while all remaining reserves are from the DTR-10:

Green Canyon 21	Gross (100%)			Net (13.336%)		
	Oil (MbbL)	Gas (MMcf)	Mboe	Oil (MbbL)	Gas (MMcf)	Mboe
Proved Producing	-	1	-	-	-	-
Proved Behind Pipe	3,902	2,341	4,292	521	313	573
Proved Undeveloped	-	-	-	-	-	-
Proved (1P)	3,902	2,342	4,292	521	313	573
Probable	3,393	2,036	3,732	453	272	498
Proved Plus Probable (2P)	7,295	4,378	8,024	974	585	1,071
Possible	1,063	638	1,169	142	85	156
Proved Plus Probable Plus Possible (3P)	8,358	5,016	9,193	1,116	670	1,227
Total Prospective Resource (best estimate, unrisked)	-	-	-	-	-	-

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Exploration and Appraisal

Mosquito Bay West

The Mosquito Bay West prospect was spud on 22 May 2022 in state waters in Terrebonne Parish, Louisiana, and safely drilled down to a target depth of 14,867' MD (Measured Depth) / 12,967' TVD (True Vertical Depth) ahead of schedule. The well encountered a proved net gas pay of 111 feet TVT (True Vertical Thickness) across five separate Miocene intervals, plus another 10 feet TVT potential pay in one other sand that is considered probable or possible. This represents a higher net pay count than Otto was originally expecting. The well began producing post year-end in August 2022. See "Significant events after the balance date" for additional information. This well is expected to cost Otto US\$3.3 million, funded from existing cash reserves. The following table sets forth certain information with respect to Mosquito Bay West reserves as of 30 June 2022:

Mosquito Bay West	Gross (100%)			Net (13.336%)		
	Oil (MbbL)	Gas (MMcf)	Mboe	Oil (MbbL)	Gas (MMcf)	Mboe
Proved Producing	-	-	-	-	-	-
Proved Behind Pipe	149	5,945	1,140	33	1,329	255
Proved Undeveloped	-	-	-	-	-	-
Proved (1P)	149	5,945	1,140	33	1,329	255
Probable	54	2,176	417	12	486	93
Proved Plus Probable (2P)	203	8,121	1,557	45	1,815	348
Possible	46	1,851	355	10	414	79
Proved Plus Probable Plus Possible (3P)	249	9,972	1,912	55	2,229	427
Total Prospective Resource (best estimate, unrisks)	-	-	-	-	-	-

Eaves Prospect

The Vick #1 well, within the Eaves Prospect in Lavaca County, Texas, was spud on 9 December 2021 and reached 9,242' TVD on 22 December 2021. The well was logged and cored across multiple intervals, encountering a total of 12 feet of net pay in the shallower Yegua formation as expected. In the Wilcox sand targets, the well encountered 16 feet of net pay. The Wilcox was encountered across three separate sands as expected. During completion operations, a completion attempt was initially made in the deeper Wilcox section, however the well was plugged back and completed in the shallower Yegua interval at approximately 5,450 feet TVD, with first production expected in September 2022 as additional rig time was required for testing of the various Wilcox objectives. Total costs to drill, complete and bring this well to production were approximately US\$0.2 million, net to Otto. See "Significant events after balance date" for additional information. The following table sets forth certain information with respect to Eaves Prospect reserves as of 30 June 2022:

Eaves	Gross (100%)			Net (13.336%)		
	Oil (MbbL)	Gas (MMcf)	Mboe	Oil (MbbL)	Gas (MMcf)	Mboe
Proved Producing	-	-	-	-	-	-
Proved Behind Pipe	-	331	55	-	25	4
Proved Undeveloped	-	-	-	-	-	-
Proved (1P)	-	331	55	-	25	4
Probable	-	215	36	-	16	3
Proved Plus Probable (2P)	-	546	91	-	41	7
Possible	-	-	-	-	-	-
Proved Plus Probable Plus Possible (3P)	-	546	91	-	41	7
Total Prospective Resource (best estimate, unrisks)	-	-	-	-	-	-

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Schindler Well

The Schindler #2 well in Colorado County, TX was spud on 14 October 2021 and reached 13,658' TVD on 3 December 2021. The well encountered 11 separate gas shows in the primary Wilcox objective, however triple combo wireline log evaluations indicated that the sands were too tight to be producible. The well has been plugged and abandoned with a total final cost of approximately US\$0.9 million, net to Otto.

South Timbalier 48 Lease

Otto was notified as being the apparent high bid on the South Timbalier 48 (ST 48) at OCS Lease Sale 257 held in November 2021. Otto bid the minimum entry price of US\$125,000 and was confirmed as the high bidder on ST 48. In January 2022, a United States federal judge invalidated the results of the lease sale. In August 2022, however, the US Inflation Reduction Act (2022) was signed into law which reinstated Lease Sale 257. See "Significant events after the balance date" for additional information.

Oyster Bayou South

The Oyster Bayou South prospect was spud on 27 June 2022 in state waters in Terrebonne Parish, Louisiana and announced as a successful discovery on 18 July 2022. See "Significant events after balance date" for additional information.

Corporate and Administration

Board of Director Changes

Effective 1 July 2022, the Company appointed Mr John Madden as an independent non-executive director of the Company.

Pantheon Shareholding (LSE: PANR)

On 21 October 2021, the Company announced that it had successfully sold 11,000,000 shares of Pantheon Resources Plc (LSE: PANR) (Pantheon) in exchange for approximately US\$10.5 million. The Company continues to own 3,272,592 shares of PANR, valued at approximately US\$3.6 million as at 30 June 2022, as well as a 0.5% of 8/8ths overriding royalty interest (ORRI) in any future production from the Talitha Unit in Alaska, which is operated by Pantheon.

Commodity Price Risk Management

Otto derives its revenue from the sale of oil and natural gas. As a result, the Company's revenues are determined, to a large degree, by prevailing oil and natural gas prices. Otto sells its production to purchasers pursuant to sales agreements, with sales prices tied to industry standard published index prices, subject to negotiated price adjustments.

Otto typically utilizes commodity price hedge instruments to minimize exposure to short term price fluctuations by using a series of swaps, costless collars and/or puts. Unrealized gains or losses associated with hedges vary period to period, and are a function of hedges in place, the strike prices of those hedges and the forward curve pricing for the commodities being hedged. Currently, all of Otto's hedges are swaps, and the Company has no three-way collars or short puts.

For the fiscal year ended 30 June 2022, the Company recorded a loss on hedging of approximately \$6.6 million, as the hedged price was consistently below prevailing market prices. As of 30 June 2022, Otto had approximately 54% of its forecasted oil production for the next three months (July 2022 – September 2022) hedged at a weighted average LLS price of US\$57.50 as follows:

Month	Volume (Bbls)	Price LLS (\$/Bbl)
July 2022	17,219	\$56.77
August 2022	16,440	\$57.03
September 2022	15,221	\$58.83

Strategy

Otto has a clear strategy to deliver shareholder value through building a strong production and financial base of assets, optimizing the portfolio through disciplined investments in exploration and development and driving effective cost management. These efforts are resulting in a strengthening of its balance sheet and creating a robust financial capacity from which to build value.

Otto holds attractive exploration and appraisal assets in the prolific petroleum provinces of the onshore and offshore Gulf of Mexico. The Company's exploration portfolio has led to discovering two of the top twelve largest Gulf of Mexico Shelf and Gulf coast Onshore fields based on resources found over the past few years. Otto continues to leverage access to high quality exploration potential in the Gulf of Mexico through its access and use of technology and experience.

Key Risks

The key areas of risk, uncertainty and material issues that could affect the achievement of Otto's goals and delivering on its targets are described below. Note that this is not an exhaustive list of risks that may potentially affect the Company.

Operating Risk

Sustained, unplanned interruption to production may impact Otto's financial performance and its ability to fund its forward programs. The facilities in which Otto currently has a non-operated working interest and third-party pipelines, refineries and gas plants which are utilized for sales and transportation of hydrocarbons are subject to operating hazards associated with major accident events, cyber-attack and weather events, which can result in a loss of hydrocarbon containment, diminished production, additional costs, environmental damage and harm to people or reputation. This risk also extends to unexpected sub-surface outcomes.

Otto has insurance cover for a number of these risks where it is appropriate and commercially justifiable to do so. For example, Otto has insurance cover for property damage, but does not have cover for loss of profits as the cost is prohibitive.

As Otto is non-operator, the operating risks are extended to include the performance of the operator. These risks could include inadequate resourcing or systems, misalignment of interest, inadequate capture or provision of data and information, poor financial position or unfavourable or inadequate agreement with the operator. Consequences of poor performance by an operator could extend to operational incidents, financial loss, loss of opportunity, non-compliance, legal disputes or less than optimal financial returns from the field.

Otto seeks to manage the risks around performance of the operator by entering into ventures with operators who have demonstrated competencies and financial capacity. Through its due diligence Otto seeks to ensure that the operator's reputation is sound and that Otto's interests are in alignment before committing to participation.

Unsuccessful Exploration and Oil and Gas Reserves Depletion Risk

Without additions to reserves through exploration and development drilling success or acquisitions, Otto's oil and gas production, and hence revenues and cash flows, will decrease over time as production from existing fields declines naturally. The rate of decline is dependent on reservoir characteristics.

Exploration for and development of reserves may be unsuccessful or unprofitable due to a number of factors that are inherent in the oil and gas industry and are outside Otto's control. These include the risk that Otto will not discover commercially productive reservoirs or discovers reservoirs that do not produce sufficient revenues to return a profit. Drilling and development operations may be curtailed, delayed or cancelled as a result of other sub-surface, mechanical or environmental factors or events causing significant financial losses.

Otto seeks to mitigate the risk of unsuccessful exploration by having an exploration strategy based around a strict set of criteria including geographical restrictions, probabilities of success, partner and operator capacity and reputation (including drilling contractors) and required rates of return. Otto then seeks to ensure that it has suitably qualified and experienced staff and advisors to generate and evaluate opportunities within the set criteria. Any acquisition of reserves is subject to the same discipline.

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Where possible, Otto also seeks to reduce the likelihood or impact of such risks through commercial agreements where possible.

Key Management Risk

As Otto is a non-operator of its key interests, it has a small management team. Having a suitably qualified and reputable operating team in place with appropriate relationships and experience in the Gulf of Mexico oil and gas business is critical to Otto's success so far and in the future. The loss of the services of members of the Houston operating team could have a negative impact on the Company's operations and relationships. Particularly in the short term until suitable replacements could be recruited. Otto does not maintain or plan to obtain any insurance against the loss of any key management personnel.

Commodity price risk

Otto's revenues, profitability and generation of cash flows depend significantly on crude oil and natural gas prices. Oil and natural gas prices are volatile and low prices could have a material adverse impact on profitability and cash flow. There are a number of factors that can cause fluctuations in price that are beyond the control of Otto.

Otto monitors and analyses the oil and gas markets and seeks to reduce price risk where reasonable and practical. The Company has policies and procedures for entering into hedging contracts to mitigate against the fluctuations in oil price and exchange rates.

Liquidity and Debt

Otto's cash on hand at 30 June 2022 was approximately US\$26.8 million (including US\$5.0 million of restricted cash in a Macquarie debt service reserve account).

On 4 November 2019 the Company announced it had entered into a three-year senior secured US\$55 million term debt facility with Macquarie Bank Limited (**Macquarie**) (the **Credit Facility**). The initial commitment under the Credit Facility was US\$25 million available under Tranche A1, US\$10 million available under Tranche A2, and US\$20 million (subject to further credit approval from Macquarie) available under Tranche B. The Credit has an interest rate of LIBOR plus 8.0% per annum and is secured by substantially all of the Company's oil and gas producing assets.

As of 30 June 2022, the Company had drawn US\$25 million under Tranche A1 and had repaid US\$22.7 million, resulting in a closing debt balance of US\$2.3 million. Tranche A2 expired undrawn as of 30 June 2022. The Company was in compliance with all of its financial covenants throughout the year.

Option Issue

In addition to customary upfront fees payable to Macquarie, the Company issued to Macquarie 42.5 million options to subscribe for fully paid ordinary shares in the Company at an exercise price of A\$0.08 to access Tranche A1 (November 2019). A further 42.5 million options will be issued on initial draw of Tranche A2 and will expire four years after issue date. As a result of the Company's A\$17.5 million non-renounceable entitlement offer in March 2020, the exercise price has been adjusted down to A\$0.079.

On 27 August 2021, the Company announced that it had issued 30,000,000 options to Foster Stockbroking Pty Ltd pursuant to the terms of an Equity Capital Markets Advisory Agreement. Of these, 20,000,000 options have an exercise price of \$0.02 per option with an expiry date of 27 August 2024 and 10,000,000 options have an exercise price of \$0.025 per option and an expiry date of 27 August 2024.

Significant changes in the state of affairs

Significant changes in the state of affairs of the Group during the financial year were as follows:

- Successful commercial gas condensate discovery at Vick #1 well, within the Eaves Prospect in Lavaca County, Texas
- Successful commercial gas condensate discovery at Mosquito Bay West.

Significant events after the balance date

No matters or circumstances have arisen since 30 June 2022 that have significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years apart from those listed below:

- The Oyster Bayou South prospect was spud on 27 June 2022 in state waters in Terrebonne Parish, Louisiana, and safely drilled down to a target depth of 14,137' MD (Measured Depth) / 13,064' TVD (True Vertical Depth) ahead of schedule. The well encountered proved net gas pay of 68 feet TVT (True Vertical Thickness) Miocene pay, consistent with Otto's expectations.

First production began in September 2022 at a rate of 807 bbl/d of oil and 4.6 MMscf/d of gas (1,574 boe/d 8/8ths) at a 3614 psi FTP (Flowing Tubing Pressure) and a conservative 15/64th choke setting as released to the ASX on 12 September 2022. Oyster Bayou South was originally expected to flow at an initial oil rate of 150 bbl/d. The well continues to unload and is in the early stages of production and is still being optimized. Otto holds a 30% WI / 22.65% NRI in this field. This well is expected to cost Otto US\$3.3 million, to be funded from existing cash reserves.

- The Mosquito Bay West well commenced production in August 2022 as released to the ASX on 18 August 2022 and continues to produce strongly at a rate of 205 bbl/d of oil and 3.3 MMscf/d of gas (750 boe/d 8/8ths) at a 3544 psi FTP and a conservative 16.5/64th choke setting as released to the ASX on 12 September 2022. The Condensate Gas Ratio (CGR) of approximately 62 bbl/MMscf is significantly higher than Otto's pre flowback estimate of 26 bbl/MMscf. The well continues to unload and is in the early stages of production and is still being optimized. Otto holds a 30% WI and a 22.35% NRI in this field.
- Eaves (Vick #1) well commenced production in September 2022. The Eaves well was originally expected to flow at an initial gas rate of 1.5 MMscf/d. The well continues to unload and is in the early stages of production and is still being optimized. Otto holds a 10.2% WI / 8.2% NRI in this field. This well cost Otto US\$0.2 million and was funded from existing cash reserves.
- Recompletion operations began at GC 21 in August 2022, as released to the ASX on 18 August 2022, to recomplete the well uphole to the DTR-10 sand, which contains 70% of the original proven reserves attributed to this well. The Seadrill Sevan Louisiana drilling rig was mobilized to location where it initially underwent pre-acceptance rig maintenance. The rig has cut and removed production tubing associated with the previously productive zone in the MP Sand. Cement has been pumped and set in the well with a packer to be set beneath the DTR-10 zone. The well will then be perforated and a frac pack run in the well prior to flow back to sales, expected in CY Q3 2022, as released to the ASX on 12 September 2022. Otto holds a 16.67% WI / 13.33% NRI in this lease. The recompletion is expected to cost Otto \$5.9 million, to be paid out of existing free cash flow.
- Recompletion operations began on the F2 well in the J1 sand at SM 71 in August 2022 with production resuming in September 2022, as released to the ASX on 12 September 2022. The recompletion is estimated to cost Otto \$0.95 million, to be paid out of existing free cash flow.
- On 16 August 2022, the US Inflation Reduction Act (2022) was signed into law by President Biden. The Act reinstates Lease Sale 257 and provides that high bidders are to be awarded leases, which Otto anticipates to occur in the near term.
- On 23 August 2022 the Company released its statement of reserves and prospective resources for SM 71, Lightning, Green Canyon 21, Mosquito Bay West and Eaves as at 30 June 2022. The reserves were compiled by Otto's independent consultant Ryder Scott Company. The summary statement of reserves and prospective resources as at 30 June 2022 and Changes to reserves and resources since 30 June 2021 is set out in the Production and Development section of this Director's Report. For full details refer to ASX release dated 23 August 2022.

Likely developments and expected results

Likely developments in the operations of the Group that were not finalised at the date of this report included:

- Recompletion of GC 21 in the shallower DTR-10 Sand.

Environmental regulation and performance

So far as the Directors are aware, there have been no breaches of environmental conditions of the Group's exploration or production licenses. Procedures are adopted for each exploration program to ensure that environmental conditions of the Group's tenements are met.

Directors' meetings

The number of meetings of Directors (including meetings of committees of Directors) held during the year and the numbers of meetings attended by each Director were as follows:

Director	Board meetings		Audit and risk management Committee (ARC)		Remuneration and nomination committee (RNC)	
	Number eligible to attend	Number attended	Number eligible to attend	Number attended	Number eligible to attend	Number attended
Mr J Jetter	10	10	2	2	1	1
Mr M Utsler	10	10	-	-	-	-
Mr P Senyica	10	9	2	2	1	1
Mr G Page	10	10	2	2	1	1

Indemnification and insurance of Directors and officers

During the financial year, the Company paid a premium of approximately US\$149,000 to insure the Directors and officers of the Company and its controlled entities, and the managers of each of the divisions of the Group.

The liabilities insured are legal costs that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as officers of entities in the Group, and any other payments arising from liabilities incurred by the officers in connection with such proceedings. This does not include such liabilities that arise from conduct involving a willful breach of duty by the officers or the improper use by the officers of their position or of information to gain advantage for them or someone else or to cause detriment to the Company. It is not possible to apportion the premium between amounts relating to the insurance against legal costs and those relating to other liabilities.

Proceedings on behalf of Company

No person has applied to the Court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party, for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings.

No proceedings have been brought or intervened in on behalf of the Company with leave of the Court under section 237 of the Corporations Act 2001.

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Rounding of amounts

The Company is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191, and in accordance with that instrument, amounts in the consolidated financial statements and Directors' Report have been rounded off to the nearest thousand dollars, unless otherwise indicated.

Non-audit services

The following non-audit services were provided by the entity's auditor, BDO Australia. The Directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The nature and scope of each type of non-audit service provided means that auditor independence was not compromised.

BDO Australia received or are due to receive the following amounts for the provision of non-audit services:

	2022	2021
	US\$	US\$
Tax compliance services	9,217	13,433
Tax consulting and tax advice	9,581	6,970
	<u>18,798</u>	<u>20,403</u>

Auditor's independence declaration

The auditor's independence declaration is included on page 73 of this report.

Remuneration report (audited)

The Directors of the Company have prepared this remuneration report to outline the overall remuneration strategy, policies and practices which were in place during 2022. This structure includes the share rights and option plans approved by the shareholders at the Company's Annual General Meeting on 19 November 2019. The report has been prepared in accordance with Section 300A of the Corporations Act 2001 and its regulations.

Otto Energy's remuneration policy is designed to ensure that the level and form of compensation achieves certain objectives, including:

- a) attraction and retention of employees and management to pursue the Group's strategy and goals;
- b) delivery of value-adding outcomes for the Group;
- c) fair and reasonable reward for past individual and Group performance; and
- d) incentive to deliver future individual and Group performance.

Remuneration consists of base salary, superannuation, short term incentives (STI) and long term incentives (LTI). Remuneration is determined by reference to market conditions and performance. Performance is evaluated at an individual level as well as the performance of the Group as a whole.

Key management personnel disclosed in this report are:

Directors

Mr John Jetter	Non-Executive Director
Mr Paul Senyca	Non-Executive Director
Mr Geoff Page	Non-Executive Director
Mr Michael Utsler	Executive Chairman, Chief Executive Officer and Managing Director

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Executives

Mr Will Armstrong	Vice President – Exploration and New Ventures
Mr Sergio Castro	Chief Financial Officer
Mr Philip Trajanovich	Senior Commercial Manager

Remuneration governance

Role of the Remuneration and Nomination Committee

The Remuneration and Nomination Committee's role is to review and recommend remuneration for key management personnel and review remuneration policies and practices including Company incentive schemes and superannuation arrangements. The Committee considers independent advice, where circumstances require, on the appropriateness of remuneration to ensure the Group attracts, motivates and retains high quality people.

The ASX Listing Rules require that the maximum aggregate amount of remuneration to be allocated among the non-executive Directors be approved by shareholders in a general meeting. In proposing the maximum amount for consideration by shareholders and in determining the allocation, the Remuneration and Nomination Committee takes account of the time demands made on Directors and such factors as fees paid to non-executive Directors in comparable Australian companies.

The Remuneration and Nomination Committee is currently comprised of three non-executive Directors.

Remuneration arrangements for Directors and executives are reviewed by the Remuneration and Nomination Committee and recommended to the Board for approval. The Remuneration and Nomination Committee considers external data and information, where appropriate, and may engage independent advisors where appropriate to establish market benchmarks.

Remuneration arrangements are determined in conjunction with the annual review of the performance of Directors, executives and employees of the Group. Performance of the Directors and the CEO of the Group is evaluated by the Board, assisted by the Remuneration and Nomination Committee. The CEO reviews the performance of executives with the Remuneration and Nomination Committee. These evaluations take into account criteria such as the achievement toward the Group's performance benchmarks and the achievement of individual performance objectives.

Non-executive director remuneration policy

Non-executive Directors of the Group are remunerated by way of fees, statutory superannuation, and LTI's where applicable. Fees are set to reflect current market levels based on the time, responsibilities and commitments associated with the proper discharge of their duties as members of the Board. Non-executive Directors' fees are determined within an aggregate non-executive Directors' fee pool limit, which is periodically recommended for approval by shareholders. The maximum currently stands at A\$500,000 per annum and was approved by shareholders at the Annual General Meeting in January 2008.

Non-executive Directors received a grant of performance rights on 15 November 2018 following approval by shareholders at the Company's Annual General Meeting. The grant was based on 50% of FAR. The Board believes that the issue constituted reasonable remuneration having considered the peer group comparisons, the recent history of the Company, the experience of each of the Directors and the responsibilities involved in that office.

Retirement allowances for non-executive Directors

In line with ASX Corporate Governance Council, non-executive Directors' remuneration does not include retirement allowances. Superannuation contributions required under the Australian superannuation guarantee legislation continue to be made and are deducted from the Directors' overall fee entitlements.

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Directors' fees

The following fees have applied:

	From 1 May 2021 to 30 June 2022	From 1 April 2020 to 30 April 2021
Base fees		
Chair ⁽ⁱ⁾	-	A\$75,000
Non-executive Directors	A\$75,000	A\$45,000
Additional fees		
Audit and Risk Management Committee Chair	A\$10,000	A\$5,000
Remuneration Committee Chair	A\$5,000	-

- (i) Mr M Utsler was appointed as Executive Chairman on 19 November 2020, no Non-Executive Chair position held from 19 November 2020.

Appointment

The term of appointment is determined in accordance with the Company's Constitution and is subject to the provisions of the Constitution dealing with retirement, re-election and removal of Directors of the Company. The Constitution provides that all Directors of the Company, other than the Managing Director, are subject to re-election by shareholders by rotation at least every three years during the term of their appointment.

Directors and executive remuneration policy and framework

The remuneration arrangement for Directors and executives of the Group for the year ended 30 June 2022 is summarised below.

The remuneration structure in place for the year ended 30 June 2022 applies to all employees including key management personnel and staff members of the Group. The Group's remuneration structure has three elements:

- fixed annual remuneration (FAR) or base salary (including superannuation);
- short term incentive (STI) award which provides a reward for performance in the past year; and
- long term incentive (LTI) award which provides an incentive to deliver future Company performance.

Element	Purpose	Performance Metrics	Potential Value
Fixed annual remuneration (FAR)	Provide competitive market salary including superannuation and non-monetary benefits	Nil	Reviewed in line with market positioning
STI	Reward for performance	HSSE, EBITDA, production reserve replacement TSR Improvements, individual performance	CFO – 35% of FAR Other Execs – 30% of FAR
LTI	Alignment to long term shareholder value	TSR Performance, vesting over 3 year period	CFO – 30% of FAR Other Execs – 30% of FAR

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Executive remuneration mix

In accordance with the Group's objective to ensure that executive remuneration is aligned to Group's performance, a significant portion of the executives' target pay is "at risk".

a) Fixed annual remuneration (FAR) or base salary (including superannuation);

To attract and retain talented, qualified and effective employees, the Group pays competitive base salaries which have been benchmarked to the market in which the Group operates. The Group compiles competitive salary information on companies of comparable size in the oil and gas industry from several sources. Where appropriate, information is obtained from surveys conducted by independent consultants and national and international publications. In the past the Board has engaged independent advisors to review the remuneration levels paid to the Group's key management personnel. An advisor was not retained for the 2022 or 2021 calendar year reviews.

FAR is paid in cash and is not at risk other than by termination. Individual FAR is set each year based on job description, competitive salary information sourced by the Group and overall competence in fulfilling the requirements of the particular role. There is no guaranteed base pay increases included in any executives' contracts. Superannuation contributions required under the Australian superannuation guarantee legislation continue to be made.

b) Short-term incentives

The Board and Remuneration Committee have the discretion to grant annual short-term incentive (STI) awards to the CEO and other members of the executive team at a certain percentage of FAR. A corporate scorecard and the weighting of individual and corporate performance to determine executive STI was implemented for the 2021 calendar year. Executive STI is based on individual performance against KPI's and the company's performance against the corporate scorecard. Individual performance is weighted at 50% and corporate performance at 50% to determine the STI outcome.

Feature	Description		
Max opportunity	CFO 35% of FAR, Other Executives 30% of FAR (50% company performance x 50% individual contribution)		
	Metric	Weighting	Reason for selection
Company performance (50%)			
	HSSE	10%	Reflects company non-financial values
	Financial metrics: production (MMBOE), capex and opex spend, EBITDA	60%	Reflects improvements in both revenue, cost control and production metrics.
	Resource / reserve replacement	15%	Focus of the group's growth strategy
	Share price / TSR improvements	15%	Alignment with shareholder returns
Individual performance (50%)			
	Specific to individuals	100%	Target metrics have been chosen that are critical to individual roles
Delivery of STI	STI award is paid in cash in the quarter following the end of the calendar year.		
Board discretion	STI awards are issued at the discretion of the Board.		

c) Long-term incentives

The Group believes that encouraging its employees to become shareholders is the best way of aligning their interests with those of its shareholders. Long-term incentives are provided to certain employees via the Otto Energy Limited Performance Rights and Employee Share Option Plans which were re-approved by shareholders at the 2020 Annual General Meeting.

The Otto Energy Limited Performance Rights and Employee Share Option Plans are designed to provide long-term incentives for employees to deliver long-term shareholder returns. Under the plans, participants are granted performance rights or options which only vest if certain performance conditions are met and the employees are still employed by the Group at the end of the vesting period. Participation in, and administration of, the plan is at the Board's discretion and no individual has a contractual right to participate in the plan or to receive any guaranteed benefits.

The amount of performance rights that will vest depends on the vesting period and/or Otto Energy Limited's total shareholder return ('TSR'), including share price growth, dividends, and capital returns. For the rights on issue during, and at the end of the year, vesting of the rights for directors, the CEO and other members of the executive team were based on TSR performance only. If the TSR vesting condition is not met on a measurement date, no rights vest and those performance rights continue to exist as unvested performance rights to be retested at the next measurement date or expiry date if there are no further measurement dates. Once vested, the performance rights are automatically converted into shares. Performance rights are granted under the plan for no consideration.

No rights were issued for the year ended 30 June 2022.

On 15 November 2018 and 21 December 2018, the Company issued a total of 25,489,002 performance rights to executives and directors, based on a flat rate of 50% of FAR. These performance rights vest over a three-year period with a measurement date of 15 November, expire at the end of five years on 15 November 2023, and have a TSR hurdle of 15% per annum (based on a 90-day VWAP). On the 15 November 2019, 15 November 2020 and 15 November 2021 measurement dates, the TSR hurdle was not met and the performance rights will continue to exist and be tested at expiry date. The number of remaining performance rights issued in December 2018 held by executives and directors as of 30 June 2022 is 9,137,000.

On 29 November 2017, the Company issued 14,187,000 performance rights to executives and directors, based on a flat rate of 33% of FAR. These performance rights vest over a three-year period, expire at the end of five years, and have a TSR hurdle of 10% per annum (based on 30-day VWAP). On the 29 November 2018 measurement date, 4,729,000 performance rights vested based on a TSR of 19.8%. On the 29 November 2019 and 29 November 2020 measurement dates, the TSR hurdle was not met and the performance rights will continue to exist and be tested at expiry date. The number of remaining performance rights issued in November 2017 held by executives and directors as of 30 June 2022 is 2,788,667.

The total number of remaining performance rights on issue held by executives and directors as of 30 June 2022 is 11,925,667.

The total number of performance rights granted is subject to being reduced proportionately so that the total number for performance rights is within:

- i) the Board's determined cap on the total number of performance rights which are issued as LTI awards in a given year; and
- ii) any discretionary cap on the total number of rights on issue at any given time.

The Board has established an initial guideline that the total number of performance rights to be issued in a single year will be capped at 1.7% of the fully paid issued capital of the Company as at the end of the prior year. In the event that the potential total number of performance rights exceeds the cap then all awardees receive a pro-rated reduced number of performance rights. This cap is at the discretion of the Board and may be altered depending on the prevailing context.

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The Board exercised its discretion regarding the cap for the 2018 grants and issued a total of 32,668,000 performance rights of which 25,489,002 related to executives and directors, which amounted to 2.1% of the issued capital as at 30 June 2018. The Board discretion was exercised considering the following important factors:

- i) the issue amounted to 1.7% of the shares on issue prior to the granting of the rights as there had been a share issue since 30 June 2018; and
- ii) the rights issued included the one-off issue of sign on performance rights to three new, highly qualified and experienced US staff members recruited to form the US-based technical team as set out in Otto's ASX release of 16 July 2018. The sign on performance rights formed an important part of their remuneration packages and provide incentives linked to increases in shareholder value. Such sign on benefits are customary in the US.

Share trading policy

The trading of shares issued to participants under any of the Company's employee equity plans is subject to, and conditional upon, compliance with the Company's Securities Trading Policy. Executives are prohibited from entering into any hedging arrangements over unvested rights. While the Employee Share Option Plan does not specifically prohibit holders from entering into hedging arrangements over options, the Board would include such restrictions in any offer under the Plan. The Company would consider a breach of this policy as gross misconduct which may lead to disciplinary action and potentially dismissal.

Voting and comments made at the Group's 2021 Annual General Meeting

At its 2021 Annual General Meeting, the Company received approximately 96% of "yes" votes on its remuneration report for the 2021 financial year and the Company did not receive any specific feedback at the Annual General Meeting on its remuneration practices. All resolutions put to the meeting at the 2021 Annual General Meeting were carried on a poll.

Performance of Otto Energy Limited

The Corporations Act requires disclosure of the Company's remuneration policy to contain a discussion of the Company's earnings and performance and the effect of the Company's performance on shareholder wealth in the reporting period and the four previous financial years. The table below provides a five-year financial summary.

	30 June 2018	30 June 2019	30 June 2020	30 June 2021	30 June 2022
Net profit/(loss) after tax (US\$'000)	(5,194)	(18,409)	(1,358)	(450)	15,514
Share price at year end (AUD)	0.064	0.054	0.007	0.008	0.013
Basic earnings/(loss) (US cents per share)	(0.37)	(0.95)	(0.05)	(0.01)	0.32
Return of capital (AU cents per share)	-	-	-	-	-
Total dividends (AU cents per share)	-	-	-	-	-

Details of remuneration

The following table shows details of the remuneration received by Directors and executives of the Group for the current and previous financial year.

Remuneration and other terms of employment for the Managing Director & Chief Executive Officer and other US staff and executives are formalised in service agreements. Each of these agreements provides for performance related conditions and details relating to remuneration are set out in the following table:

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	Year	Salary and fees \$US	Other transactions \$US ⁽ⁱⁱⁱ⁾	Annual & long service leave \$US	Super- annuation \$US	Other benefits (ii) \$US	Termination benefits \$US	Cash bonus ^(iv) \$US	Performance rights ⁽ⁱ⁾ \$US	Total
Directors										
Mr J Jetter ⁽ⁱⁱⁱ⁾	2022	58,665	-	-	-	-	-	-	927	59,592
	2021	46,520	44,610	-	-	-	-	-	4,279	95,409
Mr M Utsler ^(v)	2022	300,000	-	-	-	31,782	-	122,500	-	454,282
	2021	243,269	-	-	-	43,697	-	-	-	286,966
Mr G Page ^(vi)	2022	61,347	-	-	2,564	-	-	-	-	63,911
	2021	36,762	-	-	3,492	-	-	-	-	40,254
Mr P Senyica	2022	51,249	-	-	5,117	-	-	-	556	56,922
	2021	34,484	-	-	3,276	-	-	-	3,897	41,657
Mr K Small ^(vii)	2022	-	-	-	-	-	-	-	-	-
	2021	173,542	-	-	7,742	9,515	-	20,000	5,141	215,940
Total Director remuneration	2022	471,261	-	-	7,681	31,782	-	122,500	1,483	634,707
	2021	534,577	44,610	-	14,510	53,212	-	20,000	13,317	680,226

(i) Performance rights have been valued using a single share price model. Further details of the Performance Rights Plan is contained in this Remuneration Report on pages 59 to 71 and Note 23. Employee share plan costs are reversed for rights not vested where service criteria not met.

(ii) Reflects the value of allowances and non-monetary benefits (including health insurance and other US payroll deductions).

(iii) Mr J Jetter entered into an agreement with the Company dated 24 July 2020, effective 1 April 2020 for the provision of consultancy services at AUD\$2,500 per day for a maximum of three days per week ceasing September 2020. Other transactions includes consultancy service payments under this agreement (2022:nil ,2021:.\$A62,500)

(iv) Cash bonus' were paid in recognition of performance under STI award

(v) Mr Utsler was appointed Chief Operating Office and Managing Director effective 11 September 2020.

(vi) Mr G Page was appointed Non-Executive Director 17 July 2020

(vii) Mr K Small resigned as Director in April 2021. 2021 remuneration disclosure includes remuneration from 1 July 2020 to 30 April 2021.

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	Year	Salary and fees \$US	Annual & long service leave \$US	Super- annuation \$US	Other benefits (ii) \$US	Termination benefits \$US	Cash bonus ⁽ⁱⁱⁱ⁾ \$US	Performance rights (i) \$US	Total
Executives									
Mr S Castro	2022	260,000	-	15,840	12,202		136,000	-	424,042
	2021	206,958	-	8,278	12,465		20,000	-	247,701
Mr W Armstrong	2022	240,000	-	13,932	24,844		108,300	1,645	388,721
	2021	210,984	-	9,239	23,244		20,000	8,536	272,003
Mr P Trajanovich	2022	240,000	-	8,380	36,482		139,500	-	424,362
	2021	203,662	-	1,170	11,376		20,000	(39,561)	196,647
Total executive remuneration	2022	740,000	-	38,152	73,528		383,800	1,645	716,351
	2021	621,604	-	18,687	47,085		60,000	(31,025)	716,351
Total	2022	1,211,261	-	45,833	105,310	-	506,300	3,128	1,396,577
	2021	1,156,182	-	33,198	100,296	-	80,000	(17,708)	1,396,577

(i) Performance rights have been valued using a single share price model. Further details of the Performance Rights Plan is contained in this Remuneration Report on pages 59 to 71 and Note 23. Employee share plan costs are reversed for rights not vested where service criteria not met.

(ii) Reflects the value of allowances and non-monetary benefits (including health insurance and other US payroll deductions).

(iii) Cash bonus' were paid in recognition of performance under STI award

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The relative proportions of remuneration that are linked to performance and those that are not, are as follows:

	Fixed and other		At risk – STI		At risk – LTI ⁽ⁱ⁾	
	2022	2021	2022	2021	2022	2021
Directors						
Mr J Jetter	98%	96%	-	-	2%	4%
Mr P Senyia	99%	91%	-	-	1%	9%
Mr M Utsler	73%	100%	27%	-	-	-
Mr G Page	100%	100%	-	-	-	-
Mr K Small ⁽ⁱⁱ⁾	-	89%	-	9%	-	2%
Executives						
Mr S Castro	68%	92%	32%	8%	-	-
Mr W Armstrong	72%	90%	28%	7%	-	3%
Mr P Trajanovich	67%	90%	33%	10%	-	-

- (i) Since long-term incentives are provided exclusively by way of performance rights or options, the percentages disclosed also reflect the value of remuneration consisting of performance rights and options, based on the value of performance rights or options expensed during the year.
- (ii) Mr K Small resigned as Director in April 2021. 2021 remuneration disclosure includes remuneration from 1 July 2020 to 30 April 2021

Performance against key measures for LTI:

Metric	Target	Performance	Impact on Incentive Reward
LTI	No vesting for the fiscal year ended 2022		
Performance rights issued 2018	15% 3 year TSR	TSR hurdle rate not met	Performance rights rolled over to next measurement date in November 2023
Performance rights issued 2017	10% 3 year TSR	TSR hurdle rate not met	Performance rights rolled over to next measurement date in November 2022

Service agreements

On appointment to the Board, all non-executive Directors enter into a service agreement with the Company in the form of a letter of appointment. The letter summarises the Board policies and terms, including remuneration, relevant to the office of Director.

Remuneration and other terms of employment for the Managing Director/ Chief Executive Officer, Chief Financial Officer and other executives (including executive Directors) are also formalised in service agreements. Each of these service agreements provide for the provision of performance related cash bonuses, and participation, when eligible, in the Otto Energy Limited Performance Rights and Employee Share Option Plans. For the US staff, terms have been agreed and service agreements formalised. Other major provisions of the agreements relating to remuneration are set out below.

All contracts with executives may be terminated early by either party with notice, per individual agreement, subject to termination payments as detailed below.

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Name	Commencement of contract	Base salary including superannuation/other retirement benefits ⁽ⁱⁱ⁾ \$US per annum	Termination benefit ⁽ⁱⁱⁱ⁾
Mr Michael Utsler Managing Director and Chief Executive Officer ⁽ⁱ⁾	11 September 2020	\$300,000	3 months base salary
Mr Sergio Castro ⁽ⁱⁱⁱ⁾ Chief Financial Officer	9 December 2019	\$260,000	3 months base salary
Mr W Armstrong ⁽ⁱⁱⁱ⁾ VP, Exploration and New Ventures	1 August 2018	\$240,000	3 months base salary
Mr P Trajanovich ⁽ⁱⁱⁱ⁾ Senior Commercial Manager	1 August 2018	\$240,000	3 months base salary

(i) Mr M Utsler was appointed Managing Director and Chief Executive Officer 11 September 2020

(ii) Executive contracts are reviewed annually by the Board and the Remuneration and Nomination Committee.

(iii) Termination benefits are payable on early termination by the Company, other than for gross misconduct.

Share-based compensation

Otto Energy Limited has two forms of share-based compensation for key management personnel. They are performance rights and options.

Performance rights over equity instruments granted

Performance rights granted to key management personnel were granted as remuneration unless otherwise noted. The rights granted have no exercise price and are exercisable from the date of vesting. Details of vesting periods are set out at Note 23. All rights expire on the earlier of their expiry date or termination of individual's employment. Performance rights granted carry no dividend or voting rights.

The value of rights included in remuneration for the year is calculated in accordance with Australian Accounting Standards. The assessed fair value at grant date of the performance rights is allocated equally over the period from grant date to vesting date and the amount is included in the remuneration tables. Where rights vest fully in the year of grant, the full value of the rights is recognised in remuneration for that year.

The value of performance rights at the grant date is calculated as the fair value of the rights at grant date, using a Hoadley hybrid single share price model, multiplied by the number of rights granted.

No adjustment is made to the value included in remuneration or the financial results where the right ultimately has a lesser or greater value than as at the date of grant. No performance rights were granted in 2022 financial year. The inputs into the fair value calculation of the rights granted and outstanding as at 30 June 2022 are set out in the following table

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Year ended 30 June 2022 – TSR based performance rights

Measurement date	15 Nov 2019 ⁽ⁱ⁾	15 Nov 2020	15 Nov 2021	15 Nov 2019 ⁽ⁱ⁾	15 Nov 2020	15 Nov 2021	15 Nov 2019 ⁽ⁱ⁾	15 Nov 2020	15 Nov 2021	29 Nov 2019 ⁽ⁱ⁾	29 Nov 2020
Grant date	21 Dec 2018	21 Dec 2018	21 Dec 2018	15 Nov 2018	15 Nov 2018	15 Nov 2018	15 Nov 2018	15 Nov 2018	15 Nov 2018	29 Nov 2017	29 Nov 2017
Expiry date	15 Nov 2023	15 Nov 2023	15 Nov 2023	15 Nov 2023	15 Nov 2023	15 Nov 2023	15 Nov 2023	15 Nov 2023	15 Nov 2023	29 Nov 2022	29 Nov 2022
KMP rights on issue at year end:											
Mr J Jetter	-	-	-	372,000	372,000	372,000	372,000	372,000	372,000	344,333	344,334
Mr P Senyia	-	-	-	223,000	223,000	223,000	223,000	223,000	223,000	1,050,000	1,050,000
Mr M Utsler	-	-	-	-	-	-	-	-	-	-	-
Mr G Page	-	-	-	-	-	-	-	-	-	-	-
Mr W Armstrong	3,676,000	2,450,667	1,225,333	-	-	-	-	-	-	-	-
Mr P Trajanovich	-	-	-	-	-	-	-	-	-	-	-
Mr S Castro	-	-	-	-	-	-	-	-	-	-	-
KMP total rights on issue at year end	3,676,000	2,450,667	1,225,333	595,000	595,000	595,000	595,000	595,000	595,000	1,394,333	1,394,334
Share price at grant date – A\$	0.04	0.04	0.04	0.05	0.05	0.05	0.05	0.05	0.05	0.04	0.04
Expected volatility	70%	70%	70%	70%	70%	70%	70%	70%	70%	20%	20%
Expected dividend yield	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Risk free rate	1.97%	1.97%	1.90%	2.08%	2.08%	2.08%	2.08%	2.08%	2.16%	2.09%	2.09%
Fair value – A\$	0.008	0.012	0.014	0.022	0.025	0.027	0.022	0.025	0.027	0.020	0.015
Total value – A\$	29,408	29,408	17,155	13,090	14,875	16,065	13,090	14,875	16,065	27,887	20,915
Total value not yet vested – A\$	-	-	-	-	-	-	-	-	-	-	-

(i) The measurement date was rolled forward to expiry date of November 2022 for the rights granted in November 2017 and November 2023 for rights granted in November and December 2018

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The number of performance rights that will vest depends on the vesting period and/or Otto Energy Limited's Total Shareholder Return ("TSR"), including share price growth, dividends, and capital returns. Once vested, the performance rights are automatically converted to shares. If the vesting condition is not met on a measurement date (no rights vest), the performance rights will not lapse and will continue to exist as unvested performance rights to be retested at the next measurement date or expiry date, whichever is later. Performance rights are granted under the plan for no consideration. All the rights issued to KMP within the 30 June 2019 financial year require a compound TSR of 15% per annum from the grant date to the measurement date in order to vest. All rights issued prior to 1 July 2018 require a compound TSR of 10% per annum from the grant date to the measurement date in order to vest.

The expected price volatility is based upon the historic volatility (based on the remaining life of the rights), adjusted for any expected changes to future volatility due to publicly available information.

No cash benefit is received by key management personnel of the Group, until the sale of the resultant shares, which cannot be done unless and until the rights have vested and the shares issued.

The number of performance rights over ordinary shares held, granted to, vested and/or lapsed/expired by Directors and executives of Otto Energy Limited as part of compensation during the year ended 30 June 2022 is set out below.

Key Management Personnel	Balance at start of year	Granted as compensation	Vested and exercised	Lapsed/expired		Balance at end of year
Directors				Number	%	
Mr J Jetter	1,804,667	-	-	-	-	1,804,667
Mr P Senyia	2,769,000	-	-	-	-	2,769,000
Mr M Utsler	-	-	-	-	-	-
Mr G Page	-	-	-	-	-	-
	4,573,667	-	-	-		4,573,667
Executives	Balance at start of year	Granted as compensation	Vested and exercised	Lapsed/expired		Balance at end of year
				Number	%	
Mr S Castro	-	-	-	-	-	-
Mr P Trajanovich	-	-	-	-	-	-
Mr W Armstrong	7,352,000	-	-	-	-	7,352,000
	7,352,000	-	-	-	-	7,352,000
Total	11,925,667	-	-	-	-	11,925,667

Options over equity instruments granted

Options granted to the Directors and executives are granted as remuneration unless otherwise noted. Options are issued under the Employee Option Plan. There were no options issued to key management personnel during the financial year.

DIRECTOR'S REPORT

For the year ended 30 June 2022

FINANCIAL REPORT

Shareholding

The number of shares in the Company held during the financial year by key management personnel of the Group, including their personally related parties, is set out below:

Key Management Personnel	Balance at start of year	Purchased during the year	Received through conversion of performance rights during the year	Sold during the year	Balance at end of year
Directors					
Mr J Jetter	57,881,668	-	-	-	57,881,668
Mr M Utsler	5,000,000	-	-	-	5,000,000
Mr P Senyica	8,691,134	-	-	-	8,691,134
Mr G Page	-	-	-	-	-
	71,572,802	-	-	-	71,572,802
Executives					
Mr W Armstrong	750,000	-	-	-	750,000
Mr S Castro	-	-	-	-	-
Mr P Trajanovich	758,000	-	-	-	758,000
	1,508,000	-	-	-	1,508,000
	73,080,802	-	-	-	73,080,802

Outstanding balances arising from sales/purchases of goods and services

There are no balances outstanding at the end of the reporting period in relation to transactions with key management personnel and their related parties (2021: nil).

End of Remuneration Report

Diversity

Proportion of women employees at 30 June 2022:

	Number	Proportion
Whole organisation*	3/10	30%
Senior executive positions	0/4	0%
Board	0/3	0%

*Includes three non-executive Directors

Performance rights on issue at 30 June 2022

Date granted	Date of expiry	Number
29 November 2017	29 November 2022	2,788,667
15 November 2018	15 November 2023	1,785,000
21 December 2018	15 November 2023	19,371,000
		23,944,667

DIRECTOR'S REPORT

For the year ended 30 June 2022

FINANCIAL REPORT

Options on issue at 30 June 2022

Beneficiary	Date granted	Date of expiry	Exercise Price	Adjusted Exercise Price	Number
Macquarie Bank Limited	4 November 2019	4 November 2023	\$A0.080	\$A0.079	42,500,000
Fosters Stockbroking	27 August 2021	27 August 2024	\$A0.020	-	20,000,000
Fosters Stockbroking	27 August 2021	27 August 2024	\$A0.025	-	10,000,000
					72,500,000

No performance right holder has any right under the performance rights to participate in any other share issue of the Company or any other entity. There were no options on issue to employees at 30 June 2022.

No options were granted as remuneration to key management personnel during the year. Details of performance rights and options granted to key management personnel are disclosed on pages 59 to 71.

This report is made in accordance with a resolution of Directors.



Mr Michael Utsler
Executive Chairman

28 September 2022

DECLARATION OF INDEPENDENCE BY PHILLIP MURDOCH TO THE DIRECTORS OF OTTO ENERGY LIMITED

As lead auditor of Otto Energy Limited for the year ended 30 June 2022, I declare that, to the best of my knowledge and belief, there have been:

1. No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
2. No contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Otto Energy Limited and the entities it controlled during the period.



Phillip Murdoch
Director

BDO Audit (WA) Pty Ltd
Perth
28 September 2022

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 30 June 2022

FINANCIAL REPORT

	Note	2022 US\$'000	2021 US\$'000
Operating Revenue (Net)	2	40,557	30,137
Cost of sales	3	(9,504)	(10,198)
Gross profit		31,053	19,939
Other income	2	8	203
Profit on disposal of subsidiary		-	7,971
Gain on investments at fair value (net of transaction costs)	4	5,847	158
Exploration expenditure	5	(3,155)	(2,676)
Impairment	13	-	(12,850)
Finance costs	6	(2,107)	(2,878)
Losses on derivative financial instruments	15	(6,642)	(10,313)
Administration and other expenses	6	(5,164)	(4,187)
Profit/(loss) before income tax		19,840	(4,633)
Income tax expense	8	(4,326)	(5)
Profit/(loss) from continuing operations		15,514	(4,638)
Profit from discontinued operations		-	4,188
Profit/(loss) for the year after tax		15,514	(450)
Other comprehensive income that may be recycled to profit or loss			
Total other comprehensive income		-	-
Total comprehensive profit /(loss) for the year		15,514	(450)
Earnings per share from continuing operations			
Basic and diluted profit/(loss) per share (US cents)	7	0.32	(0.10)
Earnings per share attributable to the ordinary equity holders of the company			
Basic and diluted profit/(loss) per share (US cents)	7	0.32	(0.01)

The above consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

For the year ended 30 June 2022

FINANCIAL REPORT

	Note	2022 US\$'000	2021 US\$'000
Current assets			
Restricted cash	9	5,000	5,380
Cash equivalents	9	21,764	5,720
Trade and other receivables	11	5,191	3,884
Financial assets at fair value through profit or loss	12	3,558	8,129
Prepayments	12	3,289	348
Other assets	12	98	89
Total current assets		38,900	23,550
Non-current assets			
Oil and gas properties	13	32,774	36,963
Right-of-use assets		-	242
Property, plant and equipment		147	201
Other financial assets	12	375	375
Total non-current assets		33,296	37,781
Total assets		72,196	61,331
Current liabilities			
Trade and other payables	14	3,375	1,675
Borrowings (net of transaction costs)	16	1,949	8,179
Derivative financial instruments	15	3,310	4,703
Lease liabilities		-	151
Provisions	17	4,358	22
Total current liabilities		12,992	14,730
Non-current liabilities			
Borrowings (net of transaction costs)	16	-	1,950
Derivative financial instruments	15	-	809
Lease liabilities		-	123
Provisions	17	3,752	3,820
Total non-current liabilities		3,752	6,702
Total liabilities		16,744	21,432
Net assets		55,452	39,899
Equity			
Contributed equity	18	133,170	133,223
Reserves	19	10,506	10,414
Accumulated losses		(88,224)	(103,738)
Total equity		55,452	39,899

The above consolidated statement of financial position should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2022

FINANCIAL REPORT

	Contributed equity	Share-based payments reserve	Foreign currency translation reserve	Accumulated losses	Total
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Balance at 1 July 2020	133,242	10,509	4,188	(103,288)	44,651
Loss for the year	-	-	-	(4,638)	(4,638)
Profit from discontinued operations	-	-	-	4,188	4,188
Total comprehensive loss for the year	-	-	-	(450)	(450)
Transactions with owners in their capacity as owners:					
Issue of shares (net of costs)	(19)	-	-	-	(19)
Equity benefits issued to employees	-	(95)	-	-	(95)
Foreign currency translation	-	-	(4,188)	-	(4,188)
Balance at 30 June 2021	133,223	10,414	-	(103,738)	39,899
Balance at 1 July 2021	133,223	10,414	-	(103,738)	39,899
Profit for the year	-	-	-	15,514	15,514
Profit from discontinued operations	-	-	-	-	-
Total comprehensive profit for the year	-	-	-	15,514	15,514
Transactions with owners in their capacity as owners:					
Share issue costs	(53)	-	-	-	(53)
Equity benefits issued to advisors- Note 23	-	86	-	-	86
Equity benefits issued to employees	-	6	-	-	6
Balance at 30 June 2022	133,170	10,506	-	(88,224)	55,452

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CASHFLOW

For the year ended 30 June 2022

FINANCIAL REPORT

	Note	2022 US\$'000	2021 US\$'000
Cash flows from operating activities			
Oil and Gas Sales (net)		39,170	28,370
Other income		-	203
Payments to suppliers and employees		(8,185)	(7,216)
Payments on settlement of derivative financial instruments		(8,844)	(640)
Payments for exploration and evaluation		(6,086)	(3,676)
Interest paid (net of interest received)		(1,061)	(1,805)
Income tax paid		(5)	(4)
Net cash inflow from operating activities	10	14,989	15,232
Cash flows from investing activities			
Proceeds from sale of investments		10,482	-
Payments for property, plant and equipment		(149)	(172)
Payments for development and evaluation		(394)	(11,255)
Bond for development asset		-	(50)
Net cash inflow/(outflow) from investing activities		9,939	(11,477)
Cash flows from financing activities			
Loan repayments		(9,200)	(9,200)
Transaction costs relating to borrowings		(3)	-
Transaction costs relating to equity instruments		(53)	(19)
Net cash outflow from financing activities		(9,256)	(9,219)
Net (decrease)/increase in cash and cash equivalents		15,672	(5,464)
Cash and cash equivalents at the beginning of the financial year		11,100	16,551
Effects of exchange rate changes on cash		(8)	13
Cash and cash equivalents at the end of the financial year	9	26,764	11,100

There is no impact on the statement of cashflows from discontinued operations in the prior year. The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENT

For the year ended 30 June 2022

FINANCIAL REPORT

ABOUT THIS REPORT

Otto Energy Limited (referred to as 'Otto' or the 'Company') is a for-profit entity limited by shares, incorporated and domiciled in Australia. Its shares are publicly traded on the Australian Securities Exchange. The nature of operations and principal activities of Otto and its subsidiaries (referred to as the 'Group') are described in the Directors' Report.

The consolidated general purpose financial report of the Group was authorised for issue in accordance with a resolution of the Directors on 28 September 2022.

Basis of preparation

The financial report is a general purpose financial report which:

- has been prepared in accordance with the requirements of the *Corporations Act 2001*, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board (AASB) and International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB);
- has been prepared on a historical cost basis, except for certain financial instruments which have been measured at fair value;
- presents reclassified comparative information where required for consistency with the current year's presentation; and
- adopts all new and amended Accounting Standards and Interpretations issued by the AASB that are relevant to the Group and effective for reporting periods beginning on or before 1 July 2021. Refer to note 30 for further details.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group. A list of controlled entities (subsidiaries) is contained in note 21.

Subsidiaries are consolidated from the date on which control is obtained by the Group and cease to be consolidated from the date that control ceases. In preparing the consolidated financial statements, all intercompany balances and transactions, income and expenses and profits or losses resulting from intra-group transactions have been eliminated.

Currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in United States dollars, which is Otto Energy Limited's functional and presentation currency.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENT

For the year ended 30 June 2022

FINANCIAL REPORT

ABOUT THIS REPORT (continued)

Rounding of amounts

The amounts contained in these financial statements have been rounded to the nearest thousand dollars (\$'000) unless otherwise stated, in accordance with ASIC Instrument 2016/191.

Other accounting policies

Significant and other accounting policies that summarise the measurement basis used and are relevant to an understanding of the financial statements are provided throughout the notes to the consolidated financial statements.

Going concern

Otto's financial statements have been prepared on a going concern basis.

Key estimates and judgements

In applying the Group's accounting policies, management has made a number of judgements and applied estimates of future events. Judgements and estimates which are material to the financial report are found in the following notes:

- Note 8 Income tax
- Note 13 Oil and gas properties
- Note 17 Provisions
- Note 23 Share-based payments

Impact of Coronavirus (COVID-19) pandemic

Judgement has been exercised in considering the impacts that the Coronavirus (COVID-19) pandemic has had, or may have, on the company based on known information. Other than as addressed in specific notes, there does not currently appear to be either any significant impact upon the financial statements or any significant uncertainties with respect to events or conditions which may impact the company unfavourably as at the reporting date

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENT

For the year ended 30 June 2022

FINANCIAL REPORT

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENT

For the year ended 30 June 2022

FINANCIAL REPORT

FINANCIAL PERFORMANCE

1. Segment information

The Group has identified its operating segments based on the internal management reports that are reviewed and used by the executive management team in assessing performance and in determining the allocation of resources. The operating segments identified by management are based on the geographical locations of the business which are as follows: Gulf of Mexico (USA) and Other. Discrete financial information about each of these operating segments is reported to the executive management team on at least a monthly basis.

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board. The Group had two reportable segments during 2022. Reportable segments exclude results from discontinued operations.

The segment information for the reportable segments for the year ended 30 June 2022 is as follows:

2022	Gulf of Mexico (USA)	Other	Consolidated
	US\$'000	US\$'000	US\$'000
Operating Revenue	40,557	-	40,557
Cost of Production	(9,504)	-	(9,504)
Gross Profit	31,053	-	31,053
Other income	8	-	8
Gain on investments at fair value (net of transaction costs)	-	5,847	5,847
Exploration expenditure	(3,155)	-	(3,155)
Impairment	-	-	-
Finance costs	(2,099)	(8)	(2,107)
Losses on derivative financial instruments	(6,642)	-	(6,642)
Administration and other expenses	(3,741)	(1,423)	(5,164)
Profit (Loss) before income tax from continuing operations	15,424	4,416	19,840
Income tax expense	(2,945)	(1,381)	(4,326)
Profit (Loss) after income tax from continuing operations	12,479	3,035	15,514
30 June 2022			
Total non-current assets	33,294	2	33,296
Total assets	52,791	19,405	72,196
Total liabilities	14,908	1,836	16,744

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENT

For the year ended 30 June 2022

FINANCIAL REPORT

1. Segment information (continued)

The segment information for the reportable segments for the year ended 30 June 2021 is as follows:

2021	Gulf of Mexico (USA)	Other	Consolidated
	US\$'000	US\$'000	US\$'000
Operating Revenue	30,137	-	30,137
Cost of Production	(10,198)	-	(10,198)
Gross Profit	19,939	-	19,939
Other income	178	25	203
Profit on disposal of subsidiary	-	7,971	7,971
Gain on investments at fair value	-	158	158
Exploration expenditure	(2,476)	(200)	(2,676)
Impairment	(12,850)	-	(12,850)
Finance costs	(2,877)	(1)	(2,878)
Losses on derivative financial instruments	(10,313)	-	(10,313)
Administration and other expenses	(3,037)	(1,150)	(4,187)
Profit (Loss) before income tax from continuing operations	(11,436)	6,803	(4,633)
Income tax expense	-	(5)	(5)
Profit (Loss) after income tax from continuing operations	(11,436)	6,798	(4,638)
30 June 2021			
Total non-current assets	37,777	4	37,781
Total assets	47,350	13,981	61,331
Total liabilities	21,099	333	21,432

2. Revenue and other income

South Marsh 71 (SM71) Sales^{(i) (iv)}

	2022 US\$'000	2021 US\$'000
Oil Sales	33,111	21,524
Gas Sales	1,830	1,021
Facility Fee	-	-
Total Sales	34,941	22,545
Less: Royalties ⁽ⁱ⁾	(6,534)	(4,212)
SM71 Operating Revenue (Net)	28,407	18,333

Bulleit Field (GC-21) Sales^{(i) (iv)}

	2022 US\$'000	2021 US\$'000
Oil Sales	289	414
Gas Sales	96	127
Natural Gas Liquids Sales	34	28
Total Sales	419	569
Less: Royalties ⁽ⁱ⁾	(82)	(107)
GC-21 Operating Revenue (Net)	337	462

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENT

For the year ended 30 June 2022

FINANCIAL REPORT

2. Revenue and other income (continued)

Lightning Sales^{(ii) (iv)}

	2022 US\$'000	2021 US\$'000
Oil Sales	3,429	2,890
Gas Sales	6,232	7,058
Natural Gas Liquids Sales	2,152	1,394
Lightning Operating Revenue (Net)	11,813	11,342
Total Operating Revenue (Net)	40,557	30,137

	2022 US\$'000	2021 US\$'000
Interest income ⁽ⁱⁱⁱ⁾	8	1
Other income	-	202
	8	203

- (i) SM71 and GC-21 operating revenue is shown net of royalty payments payable to the (USA) Office of Natural Resources Revenue.
- (ii) Proceeds from the sale of oil and gas from the Lightning field are received net of royalty payments.
- (iii) Interest income is recognised using the effective interest rate method.
- (iv) Gross oil revenue (US\$33.1 million) from Gulf of Mexico SM71 and Gross oil revenue (US\$0.3 million) from Gulf of Mexico GC-21, were sold to the same single customer. Net gas revenue (US\$1.8 million) from Gulf of Mexico SM71, net oil revenue (US\$3.4 million) and net gas revenue (US\$8.4 million) from Lightning were all sold to different single customers. Net gas revenue (US\$0.13 million) from Gulf of Mexico GC-21 was sold to multiple different customers.

Recognition and measurement

Revenue from the sale of SM 71 oil & gas is recognised and measured in the accounting period in which the goods and/or services are provided based on the amount of the transaction price allocated to the performance obligations. The performance obligation is the supply of oil & gas over the contractual term; the units of supply represent a series of distinct goods that are substantially the same with the same pattern of transfer to the customer. The performance obligation is considered to be satisfied as the customer receives the supply through the pipeline, based on the units delivered. Hence revenue is recognised over time.

Revenue from Lightning oil sales is recognised upon transfer of the product to the purchaser's transportation mode, currently via truck for oil, and at the production facilities for gas which is the point that title passes. Hence revenue is recognized at a point in time.

Production from GC 21 travels from the well via subsea flowline to the Talos owned GC 18 platform where the production is processed and sent to separate oil and gas transportation pipelines. Revenue from the sale of GC-21 oil is recognized at the inlet to the Shell Boxer Pipeline where the sale takes place. Gas is transported through the Manta Ray and Nautilus pipeline systems delivering gas at the Enterprise owned Neptune gas plant where the gas is processed and NGLs extracted from the gas stream. Revenue is recognized separately at this point for NGLs and residue gas as each product is sold at this point, hence revenue is recognised at a point in time.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENT

For the year ended 30 June 2022

FINANCIAL REPORT

3. Cost of Sales

Cost of Sales

Gathering and Production charges

Amortisation of capitalised developments – Note 13

Total Cost of Sales

2022 US\$'000	2021 US\$'000
4,588	4,624
4,916	5,574
9,504	10,198

4. Gain on investments at fair value

Gain on fair value of Pantheon Resources Plc shares (net of transaction costs)

Total Gain on fair value of investments

2022 US\$'000	2021 US\$'000
5,847	158
5,847	158

On 20 January 2021, Otto advised it had reached agreement to sell the Otto subsidiary, Borealis Alaska LLC (Borealis) which held a 10.8% interest in the 44,463-acre Talitha Unit in Alaska to the acreage operator Pantheon Resources (Pantheon). As part of the sale terms, Otto retained an existing a 0.5% of 8/8ths overriding royalty interest (ORRI) in any future production from the Talitha Unit. On 29 March 2021, the company advised that Otto received 14,272,592 shares in Pantheon Resources Plc (London Stock Exchange: PANR) in exchange for Borealis Alaska LLC. A profit on sale of US\$7.97 million was recognised in the consolidated statement of profit or loss and other comprehensive income at 30 June 2021. On 21 October 2021, the Company announced that it had successfully sold 11,000,000 shares of Pantheon Resources Plc (LSE: PANR) (Pantheon) in exchange for approximately US\$10.5 million. The Company continues to own 3,272,592 shares of PANR, valued at approximately US\$3.6 million as at 30 June 2022, as well as a 0.5% of 8/8ths overriding royalty interest (ORRI) in any future production from the Talitha Unit in Alaska, which is operated by Pantheon.

Gain on investments (net of transaction costs) for the current year was US\$5.8 million (2021: US\$0.2 million), which was attributable to the shares of Pantheon Resources Plc (LSE: PANR) held by the Company. Of this amount approximately US\$4.1 million was related to the gain on the sale of 11,000,000 shares, while US\$1.7 million was the gain on the increase in value of the remaining 3,272,492 shares.

5. Exploration expenditure

Exploration expenditure – Gulf of Mexico/Gulf Coast

Exploration expenditure – Alaska North Slope

2022 US\$'000	2021 US\$'000
3,155	2,476
-	200
3,155	2,676

Recognition and measurement

Costs incurred in the exploration stages of specific areas of interest are expensed against the profit or loss as incurred. All exploration expenditure, including general permit activity, geological and geophysical costs, new venture activity costs and drilling exploration wells, is expensed as incurred. The costs of acquiring interests in new exploration licences are expensed. Once an exploration discovery has been determined, evaluation and development expenditure from that point on is capitalised to the Consolidated Statement of Financial Position as oil and gas properties.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENT

For the year ended 30 June 2022

FINANCIAL REPORT

5. Exploration expenditure (continued)

Exploration expenditure in relation to the Gulf of Mexico/Gulf Coast includes the exploration drilling of the Schindler #2 (US\$1.0 million), Vick #1 (US\$0.2 million), Mosquito Bay West (US\$1.6 million) and Oyster Bayou South (US\$0.2 million) prospects.

6. Other expenses

i) Finance costs

	2022 US\$'000	2021 US\$'000
Interest and commitment fees on borrowings	1,061	1,805
Interest expense leases	(14)	25
Amortisation of borrowing costs	1,020	1,023
Accretion of decommissioning fund	28	23
Other	12	2
Total finance costs/ (income)	2,107	2,878

ii) Administration and other expenses

Employee benefits expense

Defined contribution superannuation expense	57	49
Share-based payment (reversal)/expense	92	(95)
Other employee benefits expenses	3,138	2,454
Total employee benefits expense	3,287	2,408

Depreciation expense⁽ⁱ⁾

Right-of-use assets

Right-of-use assets – buildings	119	138
Right-of-use assets – plant and equipment	-	22
Total depreciation expense right-of-use assets	119	160

Property, plant and equipment

Furniture and equipment	66	94
Total depreciation expense	185	254

Corporate and other costs	1,306	1,177
Business development	443	361
Foreign currency (gains)/losses	(57)	(13)
	1,692	1,525
Total administration and other expenses	5,164	4,187

- (i) Depreciation and amortisation charges are included above in Note 6 other expenses and Note 3 Cost of sales. Total depreciation and amortisation for the Consolidated Entity is US\$5.1 million (2021: US\$5.8 million)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENT

For the year ended 30 June 2022

FINANCIAL REPORT

7. Earnings per share

Basic earnings per share is calculated by dividing the profit or loss attributable to owners of the Company, excluding any costs of servicing equity (other than dividends), by the weighted average number of ordinary shares, adjusted for the bonus element.

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

The following table reflects the income and share data used in the basic and diluted EPS calculations:

	2022	2021
Profit/(loss) after tax from continuing operations (US\$'000)	15,514	(4,638)
Profit after tax from discontinued operations (US\$'000)	-	4,188
Profit/(loss) attributable to owners of the Company (US\$'000)	15,514	(450)
Weighted average number of ordinary shares on issue for basic and diluted earnings per share (number)	4,795,009,773	4,795,009,773
Basic and diluted profit/(loss) per share from continuing operations (US cents)	0.32	(0.10)
Basic and diluted profit per share from discontinued operations (US cents)	-	0.09
Basic and diluted profit/(loss) per share attributable to owners of the Company (US cents)	0.32	(0.01)

8. Income tax

	2022 US\$'000	2021 US\$'000
The components of tax expense comprise:		
Current tax ⁽ⁱ⁾	4,247	5
Deferred tax – origination and reversal of temporary differences	-	-
Prior period under provision ⁽ⁱ⁾	79	-
	4,326	5
Reconciliation of income tax expense to prima facie tax payable:		
Profit/(loss) before income tax from continuing operations	19,839	(4,633)
Profit before income tax from discontinued operations	-	4,188
Loss before income tax	19,839	(445)
Prima facie income tax at 30%	(5,952)	(133)
Difference in overseas tax rates	(1,754)	1,188
Non-assessable income	-	-
Tax effect of amounts not deductible in calculating taxable income	(110)	(1,753)
Benefit of deferred tax assets not brought to account	238	704
Income tax expense	4,326	5

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENT

For the year ended 30 June 2022

FINANCIAL REPORT

8. Income tax (continued)

	2022 US\$'000	2021 US\$'000
Deferred tax assets		
Temporary differences		
– provisions and other corporate costs	(22)	235
– exploration and evaluation costs	-	-
Deferred tax assets brought to account	(22)	235
Tax losses - revenue	8,547	7,819
Tax losses - foreign	4	12,450
	8,529	20,504
Offset against deferred tax liabilities recognised	(8,324)	(9,473)
Deferred tax assets not brought to account	(205)	(11,031)
Deferred tax assets brought to account	-	-
Deferred tax liabilities		
Temporary differences – Oil and gas properties	8,324	9,473
Offset by deferred tax assets recognised	(8,324)	(9,473)
Deferred tax liabilities brought to account	-	-

⁽ⁱ⁾Income tax expense primarily relates to US Corporate and State taxes (US\$2.9 million) and the Danish mark to market corporate income tax incurred on the Pantheon shares held by Otto Energy Alaska LLC, a subsidiary of Otto Energy (Galoc Investment 1) ApS and Otto Energy (Galoc Investment 2) ApS (\$US1.4 million).

Recognition and measurement

The income tax expense for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where the Company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENT

For the year ended 30 June 2022

FINANCIAL REPORT

8. Income tax (continued)

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively

Key estimates and judgements

The Group is subject to income taxes in Australia and jurisdictions where it has foreign operations. Significant judgement is required in determining the worldwide provision for income taxes. There are certain transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The Group estimates its tax liabilities based on the Group's understanding of the tax law operating in the respective jurisdiction. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

In addition, the Group recognises deferred tax assets relating to carried forward tax losses to the extent there are sufficient taxable temporary differences (deferred tax liabilities) relating to the same taxation jurisdiction and the same subsidiary against which the unused tax losses can be utilised. However, utilisation of the tax losses depends on the ability of the entity to satisfy certain tests at the time the losses are recouped. In particular for the Group's US based tax losses, significant judgement has been applied in determining the availability of losses which can be used to offset taxable income.

9. Cash and cash equivalents

	2022 US\$'000	2021 US\$'000
Cash at bank and on hand	21,764	5,720
Restricted cash – debt service reserve account (DSRA)	5,000	5,380
Balance at end of period	26,764	11,100

Recognition and measurement

Cash at bank and on hand includes cash on hand, deposits held at call with financial institutions and other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

On 2nd November 2019, the Company entered into a three-year senior secured US\$55 million term debt facility (Facility) with Macquarie Bank Limited (Macquarie). Under the terms of the agreement a Debt Service Reserve Account (DSRA) is required with a balance of the greater of 6 months of the forecast debt service or US\$5 million. The DSRA may only be applied in reduction of the loan.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENT

For the year ended 30 June 2022

FINANCIAL REPORT

	2022 US\$'000	2021 US\$'000
10. Reconciliation of profit/(loss) after income tax to net cash outflow from operating activities		
Profit (Loss) after income tax	15,514	(450)
Non-cash items:		
Impairment	-	12,850
Depreciation expense – furniture and equipment	185	254
Foreign currency translation reserve reversal	-	(4,188)
Profit on sale of subsidiary	-	(7,971)
Gain on investments at fair value	(5,847)	(158)
Share-based payments	92	(95)
(Gain) Loss on derivative instruments at fair value	(2,202)	9,673
Finance costs	1,038	1,071
Amortisation of capitalised developments – see note 3	4,916	5,574
Other non-cash items	(56)	238
Change in assets and liabilities:		
Increase in trade and other receivables	(1,387)	(1,767)
Decrease in other assets	(2,870)	407
Decrease in trade and other payables	1,254	(24)
Increase/(Decrease) in provisions	4,352	(182)
Net cash inflow from operating activities	14,989	15,232

Changes in financing liabilities arising from cash flow and non-cash flow items

Borrowings

Balance at the start of the year	10,129	18,306
Repayment on borrowings	(9,200)	(9,200)
Borrowing transaction costs	-	-
Amortisation borrowing costs	1,020	1,023
Balance at the end of the year	1,949	10,129

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENT

For the year ended 30 June 2022

FINANCIAL REPORT

OPERATING ASSETS AND LIABILITIES

	2022 US\$'000	2021 US\$'000
11. Trade and other receivables		
Trade receivables ⁽ⁱ⁾	5,177	3,791
Other receivables	14	93
	<u>5,191</u>	<u>3,884</u>

Recognition and measurement

Other receivables are initially recognised at fair value and subsequently measured at amortised cost less an allowance for uncollectible amounts.

Impairment

The Group assesses on a forward-looking basis the expected credit losses associated with its debt instruments carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk. The Group makes use of a simplified approach in accounting for trade and other receivables as well as contract assets and records the loss allowance at the amount equal to the expected lifetime credit losses. In using this practical expedient, the Group uses its historical experience, external indicators and forward-looking information to calculate the expected credit losses using a provision matrix.

The Group considers a financial asset in default when contractual payment are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group.

- (i) Trade receivable relates to June 2022 Lightning (net of royalties), SM 71 and GC-21 oil and gas sales (before deduction of SM 71 and GC-21 royalties).

	2022 US\$'000	2021 US\$'000
12. Other assets		
Current		
Financial assets at fair value through profit or loss ⁽ⁱ⁾	3,558	8,129
Prepayments ⁽ⁱⁱ⁾	3,289	348
Other assets	98	89
	<u>6,945</u>	<u>8,566</u>
Non-current		
Bonds ⁽ⁱⁱⁱ⁾	375	375
	<u>375</u>	<u>375</u>

- (i) On 20 January 2021, Otto advised it had reached agreement to sell the Otto subsidiary, Borealis Alaska LLC (Borealis) which held a 10.8% interest in the 44,463 acre Talitha Unit in Alaska to the acreage operator Pantheon Resources (Pantheon). As part of the sale terms, Otto will retain an existing a 0.5% of 8/8ths overriding royalty interest (ORRI) in any future production from the Talitha Unit. On 29 March 2021, the company advised that Otto received 14,272,592 shares in Pantheon Resources Plc (London Stock Exchange: PANR) in exchange for Borealis Alaska LLC. On 21 October 2021, the Company announced that it had successfully sold 11,000,000 shares of Pantheon Resources Plc (LSE: PANR) (Pantheon) in exchange

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENT

For the year ended 30 June 2022

FINANCIAL REPORT

12. Other assets (continued)

for approximately US\$10.5 million. The Company continues to own 3,272,592 shares of PANR, valued at approximately US\$3.6 million as at 30 June 2022.

- (ii) Net cash calls in advance for Mosquito Bay West and Oyster Bayou South (US\$3.05 million)
- (iii) Development bond for SM 71 (US\$0.3 million), GC-21 (US\$0.05 million)

Recognition and measurement

Other financial assets are initially measured at fair value. Transaction costs are included as part of the initial measurement, except for financial assets at fair value through profit or loss. They are subsequently measured at either amortised cost or fair value depending on their classification. Classification is determined based on the purpose of the acquisition and subsequent reclassification to other categories is restricted. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

Financial assets held at fair value through profit or loss (FVPL)

The Group's classification of financial assets held at fair value through profit or loss applies to equity investments which are held for trading or where the FVOCI election has not been applied. They are carried on the balance sheet at fair value with changes in fair value recognised in profit or loss with any associated changes in fair value recognised in the income statement.

Financial assets held at fair value through other comprehensive income (FVOCI)

The Group's classification of financial assets held at fair value through other comprehensive income applies to equity investments where the Group has made the irrevocable election to present the fair value gains or losses on revaluation of the asset in other comprehensive income. This election can be made for each investment; however, it is not applicable to equity investments which are held for trading. These assets are included in non-current assets unless management intends to dispose of the investment within 12 months of the reporting date. These instruments are recognised at fair value, with changes in fair value being recognised directly in other comprehensive income.

Management have elected not to apply the FVOCI election and to hold the equity investment in Pantheon shares at fair value through profit and loss. The increase in fair value of US\$5.847 million (2021:US\$0.158 million) was recognised through profit and loss at reporting date. (PANR GBP0.894 and USD/GBP exchange rate 1.216).

13. Oil and gas properties

Producing and development assets

At cost

	2022 US\$'000	2021 US\$'000
SM71 balance at beginning of year	14,960	18,890
SM71 expenditure for the year	(104)	70
SM71 amortisation of assets	(3,558)	(4,000)
SM71 balance at end of year	11,298	14,960
Lightning balance at beginning of year	4,640	5,984
Lightning expenditure for the year	16	(42)
Lightning amortisation of assets	(1,210)	(1,302)
Lightning balance at end of year	3,446	4,640

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENT

For the year ended 30 June 2022

FINANCIAL REPORT

	2022 US\$'000	2021 US\$'000
13. Oil and gas properties (continued)		
GC-21 balance at beginning of year	17,363	14,919
GC-21 expenditure for the year	683	15,566
GC-21 impairment	-	(12,850)
GC-21 amortisation of assets	(147)	(272)
GC-21 balance at end of year	17,899	17,363
 Vick #1 balance at beginning of year	-	-
Vick #1 expenditure for the year	96	-
Vick #1 balance at end of year	96	-
 Mosquito Bay West balance at beginning of year	-	-
Mosquito Bay West expenditure for the year	35	-
Mosquito Bay West balance at end of year	35	-
 Total Oil and Gas Properties	32,774	36,963

Recognition and measurement

i) Producing and development assets

Producing projects are stated at cost less accumulated amortisation and impairment charges. Development assets include evaluation, construction, installation or completion of production and infrastructure facilities such as platforms and pipelines, development wells, acquired development or producing assets, capitalised borrowing costs and the estimated costs of decommissioning, dismantling and restoration. Evaluation is deemed to be activities undertaken from the beginning of the definitive feasibility study or testing conducted to assess the technical commercial viability of extracting a resource before moving into the development phase.

Once an exploration discovery has been determined, subsequent evaluation and development expenditure is capitalised to the Consolidated Statement of Financial Position as oil and gas properties as it is probable that future economic benefits associated with the item will flow to the Group. Once such costs are capitalised as oil and gas properties, they will be tested for impairment and assessed for impairment indicators for periods thereafter as prescribed by the relevant accounting standards.

The carrying value of oil and gas properties is reviewed annually by directors to ensure it is not in excess of the recoverable amount.

The recoverable amount of an asset or CGU is the greater of its fair value less costs of disposal (FVLCD) and its value-in-use (VIU), using an asset's estimated future cashflows (as described below) discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

ii) Prepaid drilling and completion costs

Where the Company has a non-operated interest in an oil or gas property, it may periodically be required to make a cash contribution for its share of the Operator's estimated drilling and/or completion costs, in advance of these operations taking place.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENT

For the year ended 30 June 2022

FINANCIAL REPORT

13. Oil and gas properties (continued)

Where these contributions relate to a prepayment for exploratory or early stage drilling activity, prior to a decision on the commerciality of a well having been made, the costs are expensed in profit or loss when the cash call is paid. The Operator notifies the Company as to how funds have been expended and any relevant costs are reclassified from exploration expense and capitalised to deferred oil and gas properties.

Where these contributions relate to a prepayment for well completion, these costs are capitalised as prepaid completion costs within oil and gas properties.

iii) Commencement of production

When a well demonstrates commercial feasibility or comes into commercial production, accumulated development and evaluation expenditure for the relevant area of interest is amortised on a units of production basis.

iv) Amortisation and depreciation of producing projects

The Group uses the units of production (UOP) approach when amortising and depreciating field-specific assets. Using this method of amortisation and depreciation requires the Group to compare the actual volume of production to the reserves and then to apply this determined rate of depletion to the carrying value of the depreciable asset.

Capitalised producing project costs relating to commercially producing fields are depreciated/amortised using the UOP basis once commercial quantities are being produced within an area of interest. The reserves used in these calculations are the proved plus probable reserves (2P) and are reviewed at least annually.

Key estimates and judgements

Carrying value of oil and gas assets

Judgement is required to determine when an exploration activity ceases and an evaluation or development activity commences. Evaluation is deemed to be activities undertaken from the beginning of the definitive feasibility study or testing conducted to assess the technical commercial viability of extracting a resource before moving into the development phase. Development assets include evaluation, construction, installation or completion of production and infrastructure facilities such as platforms and pipelines, development wells, acquired development or producing assets, capitalised borrowing costs and the estimated costs of decommissioning, dismantling and restoration.

Circumstances vary for each area of interest and where exploration, evaluation and development activities are conducted within a continual timeframe as part of the same project or drilling campaign with common service providers, a degree of estimation is required in determining the amount of costs capitalised as evaluation and development assets under oil and gas properties.

Assessment of costs associated with non-operated interests is also influenced by notification from the Operator as to how funds have been expended.

Impairment

Assets are tested for impairment in line with AASB 136. Whenever events or changes in circumstances indicate that the carrying amount may not be recoverable, an impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value, which is a product of quantity of reserves, prices, and operating costs, less the cost to sell and value in use.

No impairment indicators were identified on oil and gas assets at 30 June 2022.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENT

For the year ended 30 June 2022

FINANCIAL REPORT

13. Oil and gas properties (continued)

Amortisation

Estimation of amortisation of the SM 71, GC-21 and Lightning oil and gas assets is based on the updated 2P reserves estimate and estimated future development costs as at 30 June 2022. Producing assets are amortised on a unit of production basis on 2P reserves. The reserves for SM-71, Lightning and Green Canyon 21 were compiled by Otto's independent consultant Ryder Scott Company. The method of amortisation necessitates the estimation of oil and gas reserves over which the carrying value of the relevant asset will be expensed to profit or loss. See below for judgements relating to reserve estimates.

Reserve Estimates

Estimation of reported recoverable quantities of proved and provable reserves include judgemental assumptions regarding commodity prices, exchange rates, discount rates and production and transportation cost for future cash flows. It also requires interpretation of complex geological and geophysical models in order to make an assessment of the size, shape, depth and quality of reservoirs and their anticipated recoveries. The economic, geological and technical factors used to estimate reserves may change from period to period. Changes in reported reserves can impact assets' carrying amounts, provision for restoration and recognition of deferred tax assets due to changes in expected future cash flows. Reserves are integral to the amount of depreciation, amortisation and impairment charged to the income statement.

Recognition and measurement

Property, plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation is calculated using the straight-line method to allocate their cost, net of their residual values, over their estimated useful lives. The following estimated useful lives are used in the calculation of depreciation:

Plant and equipment	5 years
Furniture and equipment	3 – 10 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These are included in profit or loss. When revalued assets are sold, it is Group policy to transfer any amounts included in other reserves in respect of those assets to retained earnings.

	2022 US\$'000	2021 US\$'000
14. Trade and other payables		
Trade payables	3,134	1,526
Other Accrued expenses	241	149
	<u>3,375</u>	<u>1,675</u>

Recognition and measurement

Trade payables are initially recognised at their fair value and subsequently measured at amortised cost. They represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services. The amounts are unsecured and generally paid within 30 days of recognition.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENT

For the year ended 30 June 2022

FINANCIAL REPORT

15. Derivative financial instruments

Current liability

	2022 US\$'000	2021 US\$'000
Balance at the beginning of the year	4,703	(2,907)
Unrealised losses on oil and natural gas price fixed swaps	(1,393)	7,610
Current oil price fixed swaps – held at fair value through profit or loss	3,310	4,703

Non-current liability

	2022 US\$'000	2021 US\$'000
Balance at the beginning of the year	809	(1,254)
Unrealised losses on oil and natural gas price fixed swaps	(809)	2,063
Non-current oil and natural gas price fixed swaps – held at fair value through profit or loss	-	809
Total derivative financial instrument liabilities	3,310	5,512

	2022 US\$'000	2021 US\$'000
Realised losses on oil and natural gas price fixed swaps	(8,844)	(640)
Unrealised gains/(losses) on oil and natural gas price fixed swaps	2,202	(9,673)
Total loss on derivative financial instruments	(6,642)	(10,313)

Recognition and measurement

Derivatives are initially recognised at their fair value when the Group becomes a party to the contract and are subsequently measured at fair value through profit or loss. The Group has not adopted Hedge Accounting under AASB 9 *Financial Instruments*.

16. Interest bearing loans and borrowings

Borrowings

	2022 US\$'000	2021 US\$'000
<i>Current Secured</i>		
Principal outstanding at the end of the year	2,300	9,200
Less: Unamortised facility transaction costs at the end of the year	(351)	(1,021)
Net borrowings at the end of the year	1,949	8,179
<i>Non – Current Secured</i>		
Principal outstanding at the end of the year	-	2,300
Less: Unamortised facility transaction costs at the end of the year	-	(350)
Net borrowings at the end of the year	-	1,950

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENT

For the year ended 30 June 2022

FINANCIAL REPORT

16. Interest bearing loans and borrowings (continued)

On 2nd November 2019, the Company entered into a three-year senior secured US\$55 million term debt facility (Facility) with Macquarie Bank Limited (Macquarie). The key terms of the facility were disclosed in the 30 June 2020 Annual Report and subsequent amendments in the 30 June 2021 Annual Report.

At 30 June 2022, US\$25 million was drawn under the Facility and US\$22.7 million had been repaid. 42.5 million options vested in November 2019 and an expense of US\$0.5 million has been capitalised against borrowings and is amortised over the life of the facility. The fair value of the options was calculated using a Black-Scholes model.

Transaction costs are accounted for under the effective interest rate method. These costs are incremental costs that are directly attributable to the Facility and include Facility origination fees, legal fees and other costs relating to the establishment of the Facility. The balance of unamortised transaction costs of US\$0.35 million is offset against the facility borrowings of US\$2.3 million. Total capitalised transaction and fair value of options relating to the facility agreement are US\$3.1 million of which US\$1.0 million was amortised during the period (2021: US\$1.0 million). The facility agreement has certain financial covenants that the Company has to comply with. All such financial covenants have been complied with in accordance with the facility agreement.

	2022 US\$'000	2021 US\$'000
17. Provisions		
Current		
Employee benefits	37	18
Tax ⁽ⁱ⁾	4,321	4
	<u>4,358</u>	<u>22</u>
Non-current		
Employee benefits ⁽ⁱⁱ⁾	17	-
Decommissioning fund – GC-21 Bulleit ⁽ⁱⁱⁱ⁾	1,679	1,694
Decommissioning fund – Lightning ⁽ⁱⁱⁱ⁾	194	175
Decommissioning fund – SM 71 ⁽ⁱⁱⁱ⁾	1,836	1,951
Decommissioning fund – Vick #1 ⁽ⁱⁱⁱ⁾	26	-
	<u>3,752</u>	<u>3,820</u>

- (i) Provision for income tax expense primarily relates to US Corporate and State taxes (US\$2.9 million) and the Danish mark to market corporate income tax incurred on the Pantheon shares held by Otto Energy Alaska LLC, a subsidiary of Otto Energy (Galoc Investment 1) ApS and Otto Energy (Galoc Investment 2) ApS (\$US1.4 million).
- (ii) The non-current provision for employee benefits includes amounts not expected to be settled within the next 12 months.
- (iii) The total present value of the estimated expenditure required to decommission the wells and facilities. The expenditure is expected to be settled at the end of the field life for the 2P production profile.

Recognition and measurement

Employee benefits

A liability is recognised for benefits accruing to employees in respect of wages and salaries, annual leave and long service leave when it is probable that settlement will be required and they are capable of being measured reliably.

17. Provisions (continued)

Liabilities recognised in respect of employee benefits expected to be settled within 12 months are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Liabilities recognised in respect of employee benefits which are not expected to be settled within 12 months are measured as the present value of the estimated future cash outflows to be made by the Group in respect of services provided by employees up to reporting date.

Contributions to superannuation plans are expensed when incurred.

Decommissioning fund

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of past events, it is probable that the Group will be required to settle the obligation and the amount of the provision can be measured reliably.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows. The unwinding of the discount is expensed as incurred and recognised in the Consolidated Statement of Profit or Loss and Other Comprehensive Income as a finance cost.

Provision is made for the estimated cost of legal and constructive obligations to restore operating locations in the period in which the obligation arises. The estimated costs are capitalised as part of the cost of the related project where recognition occurs upon acquisition of an interest in the operating locations. The carrying amount capitalised is amortised on a unit of production basis during the production phase of the project.

Work scope and cost estimates for restoration are reviewed annually and adjusted to reflect the expected cost of restoration. The Group accounts for changes in cost estimates on a prospective basis.

Key estimates and judgements

Decommissioning costs will be incurred by the Group at the end of the operating life of some of the Group's facilities and properties. The Group assesses its decommissioning provision at each reporting date. The ultimate decommissioning costs are uncertain and cost estimates can vary in response to many factors, including changes to relevant legal requirements, the emergence of new restoration techniques or experience at other production sites. The expected timing, extent and amount of expense can also change. Therefore, significant estimates and assumptions are made in determining the provision for decommissioning. As a result, there could be significant adjustments to the provisions established which would affect future financial results. The provision at reporting date represents management's best estimate of the present value of the future decommissioning costs required.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENT

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FINANCIAL REPORT

CAPITAL STRUCTURE, FINANCIAL INSTRUMENTS AND RISK

18. Contributed equity

Share capital

	2022 (Number)	2021 (Number)	2022 (US\$'000)	2021 (US\$'000)
Balance at beginning of year	4,795,009,773	4,795,009,773	133,223	133,242
Shares issued – transaction costs	-	-	(53)	(19)
Balance at end of year	4,795,009,773	4,795,009,773	133,170	133,223

(i) Share transaction costs relate to non-recoverable GST applicable to the following entitlements:

- Institutional entitlement issued April 2020 at AUD0.06 per share, converted to USD at the weighted average exchange rate on the transaction date of 0.6104. Net of share issue costs.
- Retail entitlement issued April 2020 at AUD0.06 per share, converted to USD at the weighted average exchange rate for the transaction dates of 0.6471. Net of share issue costs.

Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number and amount paid on the shares held. On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote. The ordinary shares have no par value and the Company does not have a limited amount of authorized capital.

Options

Information relating to the Otto Energy Employee Option Plan, including details of options issued, exercised and lapsed during the financial year and options outstanding at the end of the reporting period, is set out in Note 23.

On 2nd November 2019, the Company entered into a three-year senior secured US\$55 million term debt facility (Facility) with Macquarie Bank Limited (Macquarie). 42.5 million options were issued to Macquarie under this agreement and vested in November 2019.

On 27 August 2021, the Company announced that it had issued 30 million options to Foster Stockbroking Pty Ltd pursuant to the terms of an Equity Capital Markets Advisory Agreement. Of these, 20 million options have an exercise price of \$0.02 per option with an expiry date of 27 August 2024 and 10 million options have an exercise price of \$0.025 per option and an expiry date of 27 August 2024.

Performance rights

Information relating to the Otto Energy Employee Performance Rights Plan, including details of performance rights issued, exercised and lapsed during the financial year and performance rights outstanding at the end of the reporting period, is set out in Note 23.

Recognition and measurement

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENT

For the year ended 30 June 2022

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19. Reserves

Share-based payments reserve

2022 US\$'000	2021 US\$'000
10,506	10,414
10,506	10,414

Share-based payments reserve

Balance at beginning of year

Share-based payment expense

Balance at end of year

2022 US\$'000	2021 US\$'000
10,414	10,509
92	(95)
10,506	10,414

The share-based payments reserve is used to recognise the value of share-based payments provided to employees (including key management personnel) as part of their remuneration and share options issued as part of advisory consideration. Refer to Note 23 for further details of these plans.

20. Financial instruments

The Group is exposed to market risk, credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group uses different methods to measure different types of risk to which it is exposed.

Otto's Board of Directors ('Board') is responsible for approving Otto's policies on risk oversight and management and ensuring management has developed and implemented effective risk management and internal controls. Risk management is carried out by the senior executives under these policies which have been approved by the Board. Management identifies, evaluates and, if necessary, hedges financial risks within the Group's operating units. The Board then receives reports as required from the Chief Financial Officer or Senior Commercial Manager in which they review the effectiveness of the processes implemented and appropriateness of policies it sets. At all times during the year, and to the date of this report, the Group did not apply any form of hedge accounting.

a) Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk for the Group comprises three types of risk: currency risk, interest rate risk and commodity price risk.

b) Currency risk

The Group's source currency for the majority of revenue and costs is in US dollars. Given the location of the group's offices and operations there is a small exposure to foreign exchange risk arising from the fluctuations in the USD to AUD exchange rate on Australian dollar cash balances and monetary items at year end.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENT

For the year ended 30 June 2022

FINANCIAL REPORT

20. Financial instruments (continued)

Currency risk arises where the value of a financial instrument or monetary item fluctuates due to changes in foreign currency exchange rates. The exposure to currency risk is measured using sensitivity analysis and cash flow forecasting.

The Board has formed the view that in the ordinary course of business it would not be beneficial for the Group to purchase forward contracts or other derivative financial instruments to hedge this currency risk. Factors which the Board considered in arriving at this position included the expense of purchasing such instruments and the inherent difficulties associated with forecasting the timing and quantum of cash inflows and outflows compared to the relatively low volume and value of commercial transactions and monetary items denominated in a currency which is not US dollars.

The company may undertake capital raising activities via the issue of new shares on the ASX. These capital raisings are priced and received in AUD. Over the time period of a capital raising there is some short-term exposure to movements in the AUD to USD exchange rates. There were no capital raising activities in the current financial year.

A hypothetical change of 10% (2021: 10%) in the Australian dollar exchange rate was used to calculate the Group's sensitivity to foreign exchange rates movements, as this is management's estimate of possible rate movements over the coming year taking into account current market conditions and past volatility. At 30 June 2022, management has assessed that the entity's exposure to foreign exchange movements is immaterial and therefore no further analysis is provided.

c) Interest rate risk

Interest rate risk is the risk that the Group's financial position will fluctuate due to changes in market interest rates. At 30 June 2022 the Group's exposure to the risk of changes in the market interest rates relates to interest income on cash and cash equivalents held on term deposit with Australian financial institutions and interest rate risk on borrowings. The restricted cash in the debt service reserve account held by Macquarie and cash held in US bank accounts is non-interest bearing so excluded from this analysis.

The financial instruments exposed to movements in variable interest rates are as follows:

	2022 US\$'000	2021 US\$'000
Cash on interest bearing term deposit	21	5,720
Borrowings (excludes capitalised borrowing costs)	(2,300)	(11,500)
	<u>(2,279)</u>	<u>(5,780)</u>

The following sensitivity analysis is based on the interest rate risk exposures in existence at the reporting date. The 2.0% sensitivity (2021:1% sensitivity) is based on reasonably possible changes, over a financial year, using an observed range of historical short term deposit rate movements over the last 3 years.

Judgements of reasonably possible movements	Effect on post tax losses Increase/(decrease)	
	2022 US\$'000	2021 US\$'000
Increase 200 basis points (2021:100 basis points)	46	58
Decrease 200 basis points (2021:100 basis points)	(46)	(58)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENT

For the year ended 30 June 2022

FINANCIAL REPORT

20. Financial instruments (continued)

d) Commodity price risk

Otto derives its revenue from the sale of oil and natural gas. As a result, the Company's revenues are determined, to a large degree, by prevailing oil and natural gas prices. Otto sells its production to purchasers pursuant to sales agreements, with sales prices tied to industry standard published index prices, subject to negotiated price adjustments.

Otto typically utilizes commodity price hedge instruments to minimize exposure to short term price fluctuations by using a series of swaps, costless collars and/or puts. Unrealized gains or losses associated with hedges vary period to period, and are a function of hedges in place, the strike prices of those hedges and the forward curve pricing for the commodities being hedged. Currently, all of Otto's hedges are swaps, and the Company has no three-way collars or short puts.

For the fiscal year ended 30 June 2022, the Company recorded a loss on hedging of approximately \$6.6 million, as the hedged price was consistently below prevailing market prices. As of 30 June 2022, Otto had approximately 54% of its forecasted oil production for the next three months (July 2022 – September 2022) hedged at a weighted average LLS price of US\$57.50 as follows:

Month	Volume (Bbls)	Price LLS (\$/Bbl)
July 2022	17,219	\$56.77
August 2022	16,440	\$57.03
September 2022	15,221	\$58.83

The fair value of the derivative financial instruments held at fair value through profit and loss is based on forward prices as at 30 June 2022. An increase in forward prices would increase the fair value of the derivative financial liability held at fair value through profit and loss. An increase of 10% in trade forward prices would result in an increase of US\$0.33 million of the fair value of the derivative financial liability held at fair value through the profit or loss. A decrease of 10% in trade forward prices would result in a decrease of US\$0.33 million of the fair value of the derivative financial liability held at fair value through the profit or loss.

e) Credit risk

Credit risk is the risk that a contracting entity will not complete its obligation under a financial instrument that will result in a financial loss to the Group. Credit risk arises from the financial assets of the Group, which comprise trade and other receivables and deposits with banks and financial institutions.

To manage credit risk from cash and cash equivalents, it is the Group's policy to only deposit with banks maintaining a minimum independent rating of 'AA', 'A+' or 'A-'. Contracts for the sale of production from SM 71, GC-21 and Lightning are with creditworthy customers and counterparties.

Receivables balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts in the ordinary course of business is not significant. At reporting date no receivables were overdue.

The maximum exposure to credit risk at reporting date was as follows:

	2022 US\$'000	2021 US\$'000
Cash and cash equivalents	26,764	11,100
Trade and other receivables	5,191	3,884
	<u>31,955</u>	<u>14,984</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENT

For the year ended 30 June 2022

FINANCIAL REPORT

20. Financial instruments (continued)

f) Liquidity risk

Liquidity risk is the risk that Group will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

It is the policy of the Board to ensure that the Group is able to meet its financial obligations and maintain the flexibility to pursue attractive investment opportunities through the Group maintaining sufficient working capital and access to further funding when required through debt, equity or other means.

The Group manages liquidity risk by continuously monitoring forecast and actual cash flows with scenario analysis. As at reporting date the Group had sufficient cash reserves to meet its current requirements and no receivables were overdue. The contractual maturity analysis of payables at the reporting date was as follows:

	Carrying Value US\$'000	Total US\$'000	Less than 1 year US\$'000	Between 1-2 years US\$'000	Between 2-5 years US\$'000
Trade and other payables					
2022	3,375	3,375	3,375	-	-
2021	1,675	1,675	1,675	-	-
Lease liabilities					
2022	-	-	-	-	-
2021	274	274	151	123	-
Borrowings					
2022	1,949	1,949	1,949	-	-
2021	10,129	10,129	8,179	1,950	-

g) Capital risk management

The Group manages its capital to ensure that it will be able to continue as a going concern while optimization the potential return to shareholders through the optimization of the debt and equity balance. The capital structure of the Group at year end comprises 96% equity and 4% debt (2021: 75% equity and 25% debt)

In determining the funding mix of debt and equity (total borrowings/total equity), consideration is given to the relative impact of the gearing ratio on the ability of the Group to service interest and repayment schedules, credit facility covenants and also to generate adequate free cash available for corporate and oil and gas exploration, development and production activities.

The Group may consider raising capital when an opportunity to invest in an opportunity, business or company is seen as value adding relative to the company's current share price at the time of the investment.

h) Equity price risk

The Group is exposed to equity price risk on its equity investments. The group holds 3,272,592 shares in Pantheon Resources Plc (London Stock Exchange: PANR)

The following sensitivity analysis is based on the equity price risk exposures in existence at the reporting date. The 10.0% sensitivity is based on reasonable possible changes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENT

For the year ended 30 June 2022

FINANCIAL REPORT

20. Financial instruments (continued)

Judgements of reasonably possible movements

	Effect on post tax losses Increase/(decrease)	
	2022 US\$'000	2021 US\$'000
Increase 10%	356	813
Decrease 10%	(356)	(813)

i) Fair values

The following table shows the carrying amounts and fair values of financial assets and liabilities, including their levels in the fair value hierarchy. It does not include fair value information for financial assets not measured at fair value if the carrying value is a reasonable approximation of fair value. The different valuation methods are called hierarchies and they are described below:

Financial assets measured at fair value

		2022 US\$'000	2021 US\$'000
Financial assets at fair value through profit and loss ⁽ⁱⁱ⁾	Level 1	3,558	8,129
Financial assets at fair value through profit and loss	Level 2	-	-
Financial assets at fair value through profit and loss	Level 3	-	-
Total financial assets measured at fair value		3,558	8,129

Financial liabilities measured at fair value

		2022 US\$'000	2021 US\$'000
Derivative financial liabilities at fair value through profit and loss	Level 1	-	-
Derivative financial liabilities at fair value through profit and loss ⁽ⁱ⁾	Level 2	3,310	5,512
Derivative financial liabilities at fair value through profit and loss	Level 3	-	-
Total financial liabilities measured at fair value		3,310	5,512

- (i) The fair value of the derivatives were determined based on a “mark to market” approach, calculated based on forward prices relative to contracted prices for contracts held as at 30 June 2022 as disclosed in note 15
- (ii) The fair value of equity investments was determined based on a “mark to market” approach, calculated based on the closing price of PANR shares as at 30 June 2022 as disclosed in note 12.

Fair value hierarchy

Level 1 – the instrument has quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 – the fair values are measured using inputs (other than quoted prices) that are observable for the asset or liability either directly or indirectly; or

Level 3 – the fair values are measured using inputs for the assets or liability that are not based on observable market data.

Cash and cash equivalents, trade and other receivables, trade creditors, other creditors and accruals have been excluded from the above analysis as their fair values are equal to the carrying values.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENT

For the year ended 30 June 2022

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OTHER DISCLOSURES

21. Subsidiaries

Significant investments in subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following principal subsidiaries:

Subsidiaries of Otto Energy Limited	Country of incorporation	Functional currency	Class of shares	Ownership Interest	
				2022 (%)	2021 (%)
Otto Energy (Tanzania) Pty Limited	Australia	USD	Ordinary	-	100
Otto Energy Investments Limited	Bermuda	USD	Ordinary	-	100
Otto Energy (Galoc Investment 1) Aps	Denmark	USD	Ordinary	100	100
Otto Energy (Galoc Investment 2) Aps	Denmark	USD	Ordinary	100	100
GPC Investments SA	Switzerland	USD	Ordinary	100	100
Borealis Petroleum Pty Ltd	Australia	USD	Ordinary	100	100
Otto Energy Alaska (Delaware) LLC	USA	USD	Ordinary	100	100
Otto Energy Resources Corporation (Delaware)	USA	USD	Ordinary	100	100
Otto Energy (USA) Inc	USA	USD	Ordinary	100	100
Otto Energy (Louisiana) LLC	USA	USD	Ordinary	100	100
Otto Energy (Gulf One) LLC	USA	USD	Ordinary	100	100
Otto Energy (Gulf Two) LLC	USA	USD	Ordinary	100	100
Otto Operating LLC	USA	USD	Ordinary	100	100
Otto Energy (Lightning) LLC	USA	USD	Ordinary	100	100
Otto Energy (Patrick Henry) LLC	USA	USD	Ordinary	100	100

22. Interest in operations

a) Operations

The Group's share of the assets, liabilities, revenues and expenses of operations have been incorporated into the financial statements in the appropriate items of the Consolidated Statement of Profit or Loss and Other Comprehensive Income and Consolidated Statement of Financial Position.

The Group's interest in operations is detailed below. Oil and Gas exploration and production is the principal activity performed across these assets.

Asset	Country	2022	2021
		Group working interest	Group working interest
South Marsh Island 71	USA	50%	50%
Lightning	USA	37.5%	37.5%
GC-21	USA	16.67%	16.67%
Eaves	USA	10.3%	-
Mosquito Bay West	USA	30%	-
Oyster Bayou South	USA	30%	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENT

For the year ended 30 June 2022

FINANCIAL REPORT

22. Interest in operations (continued)

b) Commitments through interests in operations

The aggregate of the Group's commitments through its interests in operations is as follows:

	2022 US\$'000	2021 US\$'000
Exploration expenditure commitments – not later than 1 year	2,845	103
Exploration expenditure commitments – later than one year but not later than five years	95	198
Capital expenditure commitments – not later than 1 year	6,677	-
	<u>9,617</u>	<u>301</u>

23. Share-based payments

a) Employee share option plan

The establishment of the Employee Share Option Plan was approved by shareholders at the 2016 Annual General Meeting and again at the 2019 Annual General Meeting. The Employee Share Option Plan is designed to provide long term incentives for employees and key management personnel (KMP) to deliver long term shareholder returns. Under the plan, participants are granted options at the Board's discretion and no individual has a contractual right to participate in the plan or to receive any guaranteed benefits. Options granted under the plan carry no dividend or voting rights.

The exercise price of options is based on the weighted average price at which the Company's shares are traded on the Australian Securities Exchange (ASX) during the week up to and including the date of the grant. An option may only be exercised after that option has vested and any other conditions imposed by the Board on exercise are satisfied. Options are granted under the plan for no consideration.

There were no employee options on issue during the 2022 financial year. The Company did not grant any employee options during the 2022 or 2021 financial years. During the year ended 30 June 2022, nil (2021: nil) options expired.

b) Options issued to external parties

In addition to customary upfront fees payable to Macquarie, the Company issued to Macquarie 42.5 million options to subscribe for fully paid ordinary shares in the Company at an exercise price of A\$0.08 to access Tranche A1. Under the terms of the options deed, the exercise price is reduced when the company makes a pro-rata issue to shareholders. Subsequent to the April 2020 share issue, the adjusted exercise price is \$A0.0785. A further 42.5 million options will be issued on initial draw of Tranche A2 and will expire four years after issue date.

The initial 42.5 million options vested in November 2019 and an expense of US\$528,000 has been capitalised against borrowings and is amortised over the life of the facility. The fair value of the options was calculated using a Black-Scholes model.

On 27 August 2021, the Company announced that it had issued 30,000,000 options to Foster Stockbroking Pty Ltd pursuant to the terms of an Equity Capital Markets Advisory Agreement. Of these, 20,000,000 options have an exercise price of \$0.02 per option with an expiry date of 27 August 2024 and 10,000,000 options have an exercise price of \$0.025 per option and an expiry date of 27 August 2024. These options vested immediately on issue and were expensed in the accounts at fair value using a Black Scholes model (Tranche A US\$59,171, Tranche B US\$26,621)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENT

For the year ended 30 June 2022

FINANCIAL REPORT

23. Share-based payments (continued)

c) Performance rights

The Performance Rights Plan was approved by shareholders at the 2016 Annual General Meeting and again at the 2019 Annual General Meeting. The Performance Rights Plan is designed to provide long term incentives for senior managers and employees to deliver long term shareholder returns. Participation in the plan is at the Board's discretion and no individual has a contractual right to participate in the plan or to receive any guaranteed benefits. The amount of performance rights that will vest depends on vesting period and/or Otto Energy Limited's TSR, including share price growth, dividends, and capital returns. Once vested, the performance rights are automatically converted to shares. If the vesting condition is not met on a measurement date (no rights vest), the performance rights will not lapse and will continue to exist as unvested performance rights to be retested at the next measurement date or expiry date, whichever is later. Performance rights are granted under the plan for no consideration. Rights granted under the plan carry no dividend or voting rights. Any unvested performance rights lapse on cessation of employment or office.

Set out below are summaries of rights granted and outstanding under the Performance Rights Plan:

2022		Fair value on date of issue	Fair value on date of issue	Balance at start of the year	Rights issued during the year	Exercised/ vested	Lapsed/ expired	Balance at end of the year
Grant date	Expiry date	A\$	US\$	Number	Number	Number	Number	Number
29 Nov 2017	29 Nov 2022	0.02	0.02	1,394,333	-	-	-	1,394,333
29 Nov 2017	29 Nov 2022	0.02	0.01	1,394,334	-	-	-	1,394,334
21 Dec 2018	15 Nov 2023	0.01	0.01	5,919,333	-	-	-	5,919,333
21 Dec 2018	15 Nov 2023	0.01	0.01	2,959,667	-	-	-	2,959,667
15 Nov 2018	15 Nov 2023	0.02	0.02	595,000	-	-	-	595,000
21 Dec 2018	15 Nov 2023	0.01	0.01	3,497,333	-	-	-	3,497,333
15 Nov 2018	15 Nov 2023	0.03	0.02	595,000	-	-	-	595,000
21 Dec 2018	15 Nov 2023	0.01	0.01	3,497,335	-	-	-	3,497,335
15 Nov 2018	15 Nov 2023	0.03	0.02	595,000	-	-	-	595,000
21 Dec 2018	15 Nov 2023	0.01	0.01	3,497,332	-	-	-	3,497,332
Total				23,944,667	-	-	-	23,944,667
Weighted average exercise price – A\$				0.01				0.01

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23. Share-based payments (continued)

2021		Fair value on date of issue	Fair value on date of issue	Balance at start of the year	Rights issued during the year	Exercise d/ vested	Lapsed/ expired	Balance at end of the year
Grant date	Expiry date	A\$	US\$	Number	Number	Number	Number	Number
29 Nov 2017	29 Nov 2022	0.02	0.02	3,461,333	-	-	(2,067,000)	1,394,333
29 Nov 2017	29 Nov 2022	0.02	0.01	3,461,334	-	-	(2,067,000)	1,394,334
21 Dec 2018	15 Nov 2023	0.01	0.01	5,919,333	-	-	-	5,919,333
21 Dec 2018	15 Nov 2023	0.01	0.01	2,959,667	-	-	-	2,959,667
15 Nov 2018	15 Nov 2023	0.02	0.02	1,925,000	-	-	(1,330,000)	595,000
21 Dec 2018	15 Nov 2023	0.01	0.01	4,652,667	-	-	(1,155,334)	3,497,333
15 Nov 2018	15 Nov 2023	0.03	0.02	1,925,000	-	-	(1,330,000)	595,000
21 Dec 2018	15 Nov 2023	0.01	0.01	4,652,667	-	-	(1,155,332)	3,497,335
15 Nov 2018	15 Nov 2023	0.03	0.02	1,925,000	-	-	(1,330,000)	595,000
21 Dec 2018	15 Nov 2023	0.01	0.01	4,652,666	-	-	(1,155,334)	3,497,332
Total				35,534,667	-	-	(11,221,333)	23,944,667
Weighted average exercise price – A\$				0.01				0.01

	2022 US\$'000	2021 US\$'000
Set out below is the share based payment (reversal)/expense:		
Performance rights issued prior to 1 July 2017	-	(126)
Performance rights issues in financial year 2018	-	2
Performance rights issues in financial year 2019	6	29
Options issued in financial year 2022	86	-
Total	92	(95)

No performance rights were granted under the Plan in the financial year 2022. The amount of performance rights that will vest depends on the vesting period and/or Otto Energy Limited's total shareholder return ('TSR'), including share price growth, dividends, and capital returns. For the rights on issue during, and at the end of the year, vesting of the rights for directors, the CEO and other members of the executive team were based on TSR performance only. The TSR performance required for all rights on issue as at 30 June 2018 is 10% per annum (based on 30 day VWAP) and for the rights granted during the year ended 30 June 2019 is 15%, compounding from the date of grant to the measurement date (based on 90 day VWAP).

If on a measurement date, no rights vest and those performance rights continue to exist as unvested performance rights to be retested at the next measurement date or expiry date if there are no further measurement dates. Any unvested performance rights will lapse on cessation of employment or office under the Performance Rights Plan.

23. Share-based payments (continued)

For the year ended 30 June 2022, the Group recognised share-based payments expense of US\$0.09M (2021:reversal of US\$0.09M) in the Consolidated Statement of Profit or Loss and Other Comprehensive Income

Recognition and measurement

The Group has in previous financial years provided benefits to its employees and key management personnel in the form of share-based payments, whereby services were rendered partly or wholly in exchange for shares or rights over shares.

The costs of these equity-settled transactions are measured by reference to the fair value of the equity instruments at the date on which they are granted.

The costs of these equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled (the vesting period), ending on the date on which the relevant employees become fully entitled to the equity instrument (vesting date).

At each subsequent reporting date until vesting, the cumulative charge to the Consolidated Statement of Profit or Loss and Other Comprehensive Income is the product of (i) the fair value at grant date of the award; (ii) the current best estimate of the number of equity instruments that will vest, taking into account such factors as the likelihood of employee turnover during the vesting period and the likelihood of any non-market performance conditions being met and (iii) the expired portion of the vesting period.

The charge to the Consolidated Statement of Profit or Loss and Other Comprehensive Income for the period is the cumulative amount as calculated above less the amounts already charged in previous periods. There is a corresponding credit to equity.

Until an equity instrument has vested, any amounts recorded are contingent and will be adjusted if more or fewer equity instruments vest than were originally anticipated to do so. Any equity instrument subject to a market condition is considered to vest irrespective of whether or not that market condition is fulfilled, provided that all other conditions are satisfied.

If the terms of an equity-settled award are modified, as a minimum, an expense is recognised as if the terms had not been modified. An additional expense is recognised for any modification that increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the recipient of the award, as measured at the date of modification.

If an equity-settled transaction is cancelled (other than a grant cancelled by forfeiture when the vesting conditions are not satisfied), it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new equity instrument is substituted for the cancelled award and designated as a replacement award on the date that it is granted, the cancelled and new equity instrument is treated as if it was a modification of the original award, as described in the preceding paragraph.

Key estimates and judgements

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by using a single share price barrier model taking into account the terms and conditions upon which the instruments were granted. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact profit or loss and equity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENT

For the year ended 30 June 2022

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24. Related parties

	2022 US\$'000	2021 US\$'000
Key management personnel compensation		
Short-term employee benefits	1,717	1,236
Consulting fees	-	45
Post-employment benefits	46	33
Other benefits	105	100
Share-based payments	3	(18)
Total USD	1,871	1,396
Total AUD equivalent	2,591	1,886

25. Auditor's remuneration

During the year the following fees were paid or payable for services provided by the auditor of the parent entity, its related practices and non-related audit firms:

	2022 US\$'000	2021 US\$'000
BDO Australia		
Audit and review of financial statements	56	61
Tax compliance services	9	14
Tax consulting and tax advice	10	7
Total remuneration of BDO Australia	75	82
Network firms of BDO Australia		
Audit and review of financial statements	18	24
Tax compliance services	54	5
International tax consulting	78	53
Total remuneration of network firms of BDO Australia	150	82
Total	225	164

It is the Group's policy to employ BDO on assignments additional to their statutory audit duties where BDO's expertise and experience with the Group are important. These assignments are principally tax advice where BDO is awarded assignments on a competitive basis. It is the Group's policy to seek competitive tenders for all major consulting projects.

26. Contingent assets and liabilities

In January 2021, the Company announced the terms of sale of Borealis Alaska LLC to Pantheon Resources Plc. Borealis Alaska held a 10.8% working interest in each of the 16 leases in the Talitha unit in Alaska. Under the terms of the sale Otto retained an existing 0.5% of 8/8ths ORRI in any future production from the Talitha unit.

There are no contingent liabilities at balance date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENT

For the year ended 30 June 2022

FINANCIAL REPORT

27. Commitments

a) Exploration expenditure commitments

Exploration expenditure contracted for at the reporting date but not recognised as liabilities are as follows:

	2022 US\$'000	2021 US\$'000
Not later than 1 year	2,845	103
Later than one year but not later than five years	95	198
	<u>2,940</u>	<u>301</u>

Exploration expenditure commitments at reporting date primarily relate to committed exploration costs on Mosquito Bay West (\$0.7 million) and Oyster Bayou South (\$2.0 million).

b) Capital expenditure commitments

Capital expenditure contracted for at the reporting date but not recognised as liabilities are as follows:

	2022 US\$'000	2021 US\$'000
Not later than 1 year	6,677	-
Later than one year but not later than five years	-	-
	<u>6,677</u>	<u>-</u>

Capital expenditure commitments at reporting date primarily relate to committed development costs on GC-21 DTR-10 Completions (\$5.3 million), SM 71 F2 Well (\$0.7 million) and Mosquito Bay West (\$0.7 million).

28. Events after the reporting period

No matters or circumstances have arisen since 30 June 2022 that have significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years apart from those listed below:

- The Oyster Bayou South prospect was spud on 27 June 2022 in state waters in Terrebonne Parish, Louisiana, and safely drilled down to a target depth of 14,137' MD (Measured Depth) / 13,064' TVD (True Vertical Depth) ahead of schedule. The well encountered proved net gas pay of 68 feet TVT (True Vertical Thickness) Miocene pay, consistent with Otto's expectations.

First production began in September 2022 at a rate of 807 bbl/d of oil and 4.6 MMscf/d of gas (1,574 boe/d 8/8ths) at a 3614 psi FTP (Flowing Tubing Pressure) and a conservative 15/64th choke setting as released to the ASX on 12 September 2022. Oyster Bayou South was originally expected to flow at an initial oil rate of 150 bbl/d. The well continues to unload and is in the early stages of production and is still being optimized. Otto holds a 30% WI / 22.65% NRI in this field. This well is expected to cost Otto US\$3.3 million, to be funded from existing cash reserves.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENT

For the year ended 30 June 2022

FINANCIAL REPORT

28. Events after the reporting period (continued)

- The Mosquito Bay West well commenced production in August 2022 as released to the ASX on 18 August 2022 and continues to produce strongly at a rate of 205 bbl/d of oil and 3.3 MMscf/d of gas (750 boe/d 8/8ths) at a 3544 psi FTP and a conservative 16.5/64th choke setting as released to the ASX on 12 September 2022. The Condensate Gas Ratio (CGR) of approximately 62 bbl/MMscf is significantly higher than Otto's pre flowback estimate of 26 bbl/MMscf. The well continues to unload and is in the early stages of production and is still being optimized. Otto holds a 30% WI and a 22.35% NRI in this field.
- Eaves (Vick #1) well commenced production in September 2022. The Eaves well was originally expected to flow at an initial gas rate of 1.5 MMscf/d. The well continues to unload and is in the early stages of production and is still being optimized. Otto holds a 10.2% WI / 8.2% NRI in this field. This well cost Otto US\$0.2 million and was funded from existing cash reserves.
- Recompletion operations began at GC 21 in August 2022, as released to the ASX on 18 August 2022, to recomplete the well uphole to the DTR-10 sand, which contains 70% of the original proven reserves attributed to this well. The Seadrill Sevan Louisiana drilling rig was mobilized to location where it initially underwent pre-acceptance rig maintenance. The rig has cut and removed production tubing associated with the previously productive zone in the MP Sand. Cement has been pumped and set in the well with a packer to be set beneath the DTR-10 zone. The well will then be perforated and a frac pack run in the well prior to flow back to sales, expected in CY Q3 2022, as released to the ASX on 12 September 2022. Otto holds a 16.67% WI and a 13.33% NRI in this lease. The recompletion is expected to cost Otto \$5.9 million, to be paid out of existing free cash flow.
- Recompletion operations began on the F2 well in the J1 sand at SM 71 in August 2022 with production resuming in September 2022, as released to the ASX on 12 September 2022. The recompletion is estimated to cost Otto \$0.95 million, to be paid out of existing free cash flow.
- On 16 August 2022, the US Inflation Reduction Act (2022) was signed into law by President Biden. The Act reinstates Lease Sale 257 and provides that high bidders are to be awarded leases, which Otto anticipates to occur in the near term.
- On 23 August 2022 the Company released its statement of reserves and prospective resources for SM 71, Lightning, Green Canyon 21, Mosquito Bay West and Eaves as at 30 June 2022. The reserves were compiled by Otto's independent consultant Ryder Scott Company. The summary statement of reserves and prospective resources as at 30 June 2022 and Changes to reserves and resources since 30 June 2021 is set out in the Production and Development section of this Director's Report. For full details refer to ASX release dated 23 August 2022.

29. Parent entity disclosures

As at, and throughout the financial year ended 30 June 2022, the parent company of the Group was Otto Energy Limited.

	2022 US\$'000	2021 US\$'000
Parent entity		
Summarised statement of profit or loss and other comprehensive income		
Profit/(loss) for the year after tax	13,641	(31,918)
Total comprehensive profit/(loss) for the year	13,641	(31,918)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENT

For the year ended 30 June 2022

FINANCIAL REPORT

29. Parent entity disclosures (continued)

	2022 US\$'000	2021 US\$'000
Summarised statement of financial position		
Current assets	5,237	5,767
Non-current assets	50,647	34,315
Total assets	55,884	40,082
Current liabilities	415	183
Non-current liabilities	17	-
Total liabilities	432	183
Net assets	55,452	39,899
	2022 US\$'000	2021 US\$'000
Total equity of the parent entity comprises:		
Share capital	133,170	133,223
Share based payments reserves	10,506	10,414
Foreign currency translation reserve	-	-
Accumulated losses	(88,224)	(103,738)
Total equity	55,452	39,899

Guarantees entered into by the parent in relation to the debts of its subsidiaries

Parent company guarantees are extended on a case-by-case basis. Otto Energy Limited has provided a number of performance guarantees for subsidiaries under the terms of joint operations operating agreements, participation agreements and agreements with Governments pertaining to oil & gas exploration.

Otto Energy Limited has a guarantee in place to Byron Energy Inc, for the performance of Otto Energy (Louisiana) LLC's obligations in relation to SM 71.

Contingent liabilities

The parent entity had no contingent liabilities as at 30 June 2022 and 30 June 2021 beyond those listed in Note 29

Significant accounting policies

The accounting policies of the parent entity are consistent with those of the Group, except for the following: Investments in subsidiaries are accounted for at cost, less any impairment in the parent entity.

30. New accounting standards and interpretations

There are no new and amended standards adopted by Otto Energy Limited

DIRECTORS' DECLARATION

For the year ended 30 June 2022

FINANCIAL REPORT

In accordance with a resolution of the Directors of Otto Energy Limited, I state that:

1. In the opinion of the Directors:
 - a. the financial statements, notes and the additional disclosures included in the audited 2022 Remuneration Report, comply with Australian Accounting Standards (including Australian Accounting Interpretations) and the *Corporations Act 2001* and other mandatory professional reporting requirements;
 - b. the financial statements and notes give a true and fair view of the financial position of the Group as at 30 June 2022 and of its performance for the year ended on that date;
 - c. the financial statements and notes comply with International Financial Reporting Standards as disclosed in the 'Basis of Preparation' section within the notes to the 2022 Financial Report; and
 - d. there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
2. This declaration has been made after receiving the declarations required to be made to the Directors in accordance with section 295A of the *Corporations Act 2001* for the year ended 30 June 2022.

On behalf of the Board



Mr M Utsler
Director
28 September 2022

INDEPENDENT AUDITOR'S REPORT

To the members of Otto Energy Limited

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Otto Energy Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 30 June 2022, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial report, including a summary of significant accounting policies and the directors' declaration.

In our opinion the accompanying financial report of the Group, is in accordance with the *Corporations Act 2001*, including:

- (i) Giving a true and fair view of the Group's financial position as at 30 June 2022 and of its financial performance for the year ended on that date; and
- (ii) Complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* section of our report. We are independent of the Group in accordance with the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Carrying value of Oil and Gas Properties

<i>Key audit matter</i>	<i>How the matter was addressed in our audit</i>
<p>The Group's carrying value of oil and gas properties as disclosed in note 13 represents a significant asset to the Group and is comprised of several Cash Generating Units ("CGUs"). The Australian Accounting Standards require the Group to assess whether there are any indicators that oil and gas properties may be impaired.</p> <p>The assessment of impairment indicators is complex and highly judgemental and includes assessing a range of external and internal factors to determine whether the assets held within the CGU require impairment in accordance with Australian Accounting Standard AASB 136 Impairment of Assets. Accordingly, this matter was considered to be a key audit matter.</p>	<p>Our work included but was not limited to the following procedures:</p> <ul style="list-style-type: none"> • Assessing the appropriateness of the Group's categorisation of Cash Generating Units ("CGUs") and the allocation of assets to the carrying value of CGUs based on our understanding of the Group's business and internal reporting; • Assessing the competency and objectivity of, and work performed by, management's experts in respect of the oil & gas reserve estimates; • Evaluating and challenging management's assessment of indicators of impairment under the Australian Accounting Standards for the CGU's assets by: <ul style="list-style-type: none"> • Comparing commodity price assumptions at 30 June 2022 to independent consensus forecast; • Evaluating the operating performance of the assets by reference to actual production volumes against changes in reserve reports; and • Assessing economic indicators for impacts on appropriate discount rates. • Reviewing the Director's minutes and ASX announcements for evidence of consistency of information with management's assessment of the carrying value; and • Assessing the adequacy of the related disclosures in note 13 of the financial report.

Other information

The directors are responsible for the other information. The other information comprises the information in the Group's annual report for the year ended 30 June 2022, but does not include the financial report and the auditor's report thereon.

Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the Financial Report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website (<http://www.auasb.gov.au/Home.aspx>) at:

https://www.auasb.gov.au/admin/file/content102/c3/ar1_2020.pdf

This description forms part of our auditor's report.

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 17 to 29 of the directors' report for the year ended 30 June 2022.

In our opinion, the Remuneration Report of Otto Energy Limited, for the year ended 30 June 2022, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

BDO Audit (WA) Pty Ltd



Phillip Murdoch

Director

Perth

28 September 2022

ADDITIONAL ASX INFORMATION

As at 13 September 2022

FINANCIAL REPORT

Distribution of shareholdings

Range	Number of holders	Number of shares
1 – 1,000	167	22,568
1,001 – 5,000	204	625,861
5,001 – 10,000	404	3,365,508
10,001 – 100,000	1,752	77,095,127
100,001 and over	1,296	4,713,900,709
Total	3,823	4,795,009,773

Shareholders by location

	Number of holders	Number of shares
Australian holders	3,602	4,415,484,023
Overseas holders	221	379,525,750
	3,823	4,795,009,773

Unmarketable parcels

There were 1,658 shareholders holding less than a marketable parcel of shares.

Twenty largest shareholders

	Name	Ordinary shares	
		Number of shares	%
1	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	2,327,964,444	48.55%
2	MONEX BOOM SECURITIES (HK) LTD CLIENT A/C	180,652,398	3.77%
3	BNP PARIBAS NOMS PTY LTD	139,072,441	2.90%
4	BNP PARIBAS NOMINEES PTY LTD	136,257,179	2.84%
5	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED – A/C 2	99,482,875	2.07%
6	BNP PARIBAS NOMINEES PTY LTD ACF CLEARSTREAM	88,774,366	1.85%
7	MONEX BOOM SECURITIES (HK) LTD CLIENT A/C	68,647,101	1.43%
8	MR KENNETH JOSEPH HALL	67,800,000	1.41%
9	CITICORP NOMINEES PTY LIMITED	63,787,354	1.33%
10	CS THIRD NOMINEES PTY LIMITED	57,365,565	1.20%
11	MERRILL LYNCH (AUSTRALIA) NOMINEES PTY LIMITED	53,485,823	1.12%
12	CRANPORT PTY LTD	40,000,000	0.83%
13	REMOND HOLDINGS PTY LTD	36,000,000	0.75%
14	MR DOUGAL JAMES FERGUSON	29,340,000	0.61%
15	MR NEIL DAVID OLOFSSON & MRS BELINDA OLOFSSON	26,000,000	0.54%
16	MR ANASTASIOS MAZIS	23,807,812	0.50%
17	TROPICAL INVESTMENTS WA PTY LTD	22,555,555	0.47%
18	DARCYTOM PTY LIMITED	22,000,000	0.46%
18	MR DAVID ELTON	22,000,000	0.46%
19	SHENTON JAMES PTY LTD	21,000,000	0.44%
20	ASB NOMINEES LIMITED	19,823,524	0.41%
		3,545,816,437	73.95%

ADDITIONAL ASX INFORMATION

As at 13 September 2022

FINANCIAL REPORT

Substantial shareholders

Name	Ordinary shares	
	Number of shares	%
Molton Holdings Limited	2,305,859,697	48.09%

Unquoted securities

The unlisted securities of the Company are 23,944,667 performance rights. The performance rights do not carry a right to vote at a general meeting of shareholders.

Performance Rights

Grant date	Expiry date	Exercise price	Number of performance rights	Number of holders
29 November 2017	29 November 2022	A\$0.00	2,788,667	2
15 November 2018	15 November 2023	A\$0.00	1,785,000	2
21 December 2018	15 November 2023	A\$0.00	19,371,000	4
			23,944,667	

Voting rights

Ordinary shares

In accordance with the Company's Constitution, on a show of hands every shareholder present in person or by proxy, attorney or representative of a shareholder has one vote and on a poll every shareholder present in person or by proxy, attorney or representative of a shareholder has in respect of fully paid shares, one vote for every share held.

Options

There were 72,500,000 options on issue as at 30 June 2022.

Performance rights

There are no voting rights attached to the performance rights.

Corporate governance

The Company's Corporate Governance Statement can be accessed at www.ottoenergy.com



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