



OTTO ENERGY

ANNUAL REPORT

2023





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ABOUT OTTO

Otto Energy Limited is an Australian-listed (ASX: OEL) oil and gas exploration and production company with a core focus on the US Gulf Coast. As of 30 June 2023, the Company had established non-operated interests in the Gulf of Mexico (GoM) and on-shore Texas as follows:



**SOUTH MARSH
ISLAND 71**



**LIGHTNING
FIELD**



**GREEN
CANYON 21**



**MOSQUITO
BAY**

STATUS

Producing

Producing

Producing

Producing

LOCATION

Offshore shallow waters of the Gulf of Mexico

Onshore Matagorda County, Texas

Offshore deep waters of the Gulf of Mexico

Offshore state waters, Terrebonne Parish, Louisiana

WORKING INTEREST (WI) / NET REVENUE INTEREST (NRI)

50% / 40.6%

37.5% / 27.8%

16.7% / 13.3%

30.0% / 22.4%

OPERATOR

Byron Energy

Hilcorp

Talos Energy

Castex Energy

FY23 AVG DAILY PRODUCTION (WI)

856 Boe/d

990 Boe/d

48 Boe/d

201 Boe/d

PRODUCT MIX

Oil with associated gas production

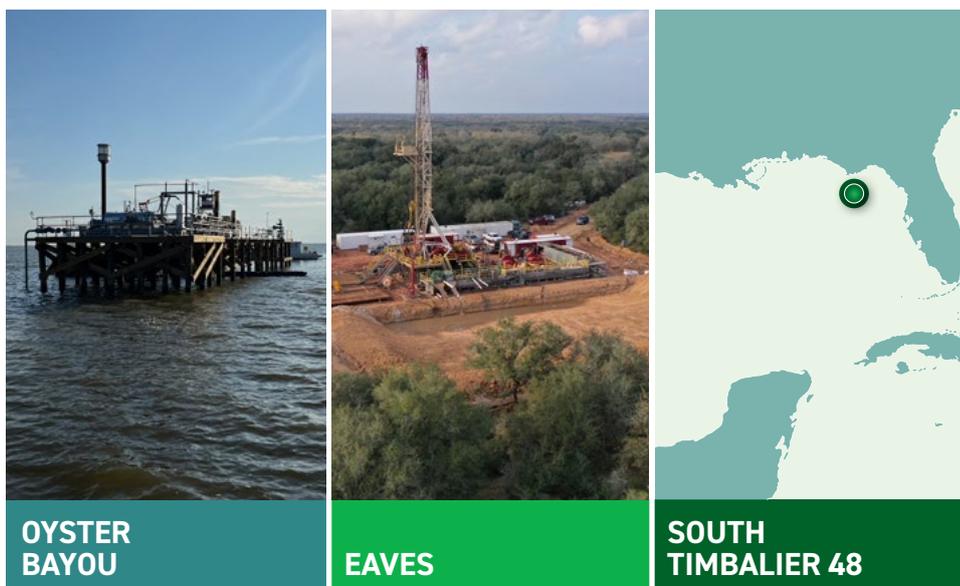
Gas/Condensate

Oil with associated gas production

Gas/Condensate

The US Gulf Coast region is one of the most prolific oil and gas producing regions which includes one of the most prolific basins 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 attractive royalty rates. The extensive infrastructure from a facilities and pipeline transport perspective 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 value for shareholders for years to come.

As set out in the ASX announcement dated 29 March 2023, Otto has initiated a formal review process to maximise shareholder value. The process, led by Seaport Global and Adelaide Equity Partners, and supervised by a Board Sub Committee of Independent Directors, includes an assessment of a potential partial or full sale of the Company and/or its assets. The strategic review was initiated due to the Directors' belief that Company's shares have traded at a significant discount relative to the intrinsic value of the underlying assets, notwithstanding that Otto is debt free with a strong balance sheet and has significant free cash flow. While we continue negotiations, we will only recommend a transaction if and when we obtain terms which are in the best interests of all shareholders.



| OYSTER BAYOU | EAVES | SOUTH TIMBALIER 48 |
|---|------------------------------|---|
| STATUS | | |
| Producing | Shut-in | Prospect |
| LOCATION | | |
| Offshore state waters, Terrebonne Parish, Louisiana | Onshore Lavaca County, Texas | Offshore shallow waters of the Gulf of Mexico |
| WI/NRI | | |
| 30.0% / 22.8% | 10.3% / 7.7% | 100%/87.5% |
| OPERATOR | | |
| Castex Energy | Forza Operating | TBD |
| FY23 AVG DAILY PRODUCTION (WI) | | |
| 208 Boe/d | 5 Boe/d | n/a |
| PRODUCT MIX | | |
| Oil with associated gas production | Gas/Condensate | TBD |

AREAS OF ACTIVITY



EAVES FIELD

10.3%

Otto Working Interest

7.7%

Otto Net Revenue Interest

1 well

Status - Shut-In at 30 June 2023

HOUSTON

NEW ORLEANS

GULF OF MEXICO



LIGHTNING FIELD

37.5%

Otto Working Interest

27.8%

Otto Net Revenue Interest

2 wells

Status - Producing

2,305 boe/day

Gross Production
(100% basis, at 30 June 2023)

29%

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

1,285 boe/day

Gross Production
(100% basis, at 30 June 2023)

88%

Liquids Proportion of 2P Reserves



MOSQUITO BAY WEST

30%

Otto Working Interest

22.4%

Otto Net Revenue Interest

1 well

Status - Producing

489 boe/day

(100% basis, at 30 June 2023)

29%

Liquids Proportion of 2P Reserves



GULF OF MEXICO



OYSTER BAYOU SOUTH

30%

Otto Working Interest

22.8%

Otto Net Revenue Interest

1 well

Status - Producing

342 boe/day

(100% basis, at 30 June 2023)

70%

Liquids Proportion of 2P Reserves



SOUTH TIMBALIER 48

100%

Otto Working Interest

87.5%

Otto Net Revenue Interest

Exploration Prospect

5yr initial lease term



GREEN CANYON 21 GC 21

16.7%

Otto Working Interest

13.3%

Otto Net Revenue Interest

1 well

Status - Producing

970 boe/day

Gross Production
(100% basis, at 30 June 2023)

89%

Liquids Proportion of 2P Reserves

GULF OF MEXICO

CHAIRMAN'S REPORT



This time last year I did not expect to be back for a third time writing this report as Chairman. I thank the Board for its trust and confidence in re-electing me.

We talk every year about the challenging market and geopolitical environment. The last 12 months have been no different. Energy, and oil and gas in particular, are commodities affected not only by normal market supply and demand, but often by global politics. The ongoing war in Ukraine and climate change are currently major influences on the price of energy, and for oil and gas companies navigating this uncertain global environment is never easy.

Against that backdrop I am pleased to report that operationally and financially our business is in better shape than ever before. Whilst GC21 has been a disappointment given the numerous delays and cost overruns experienced, it is now finally in production, so that all five of our projects (SM71, Lightning, Mosquito Bay, Oyster Bayou and GC21) are operating and contributing to the bottom line at a time of elevated oil prices.

Although we have had to report a loss after tax of US \$7.0 million for the financial year ended 30 June 2023, this was due entirely to the cost overruns and lower estimated production profile at GC21 resulting in a US \$19.8 million impairment charge. Our operating profit for the year was US \$21.7 million, and we are currently generating a healthy monthly cashflow as I am writing this report.

As a consequence the Board is recommending a significant return of capital to shareholders of up to A \$40.0 million, or

A \$0.008 per share. We will seek approval for this return at the forthcoming Annual General Meeting on 30 November 2023. Subject to approval by the Australian Taxation Office, this capital will be returned tax free to shareholders. This return equates to a 40% return on our recent share price of A \$0.02.

Earlier this year we announced a strategic review of our business and initiation of an M&A process leading to the likely sale of the company. This process has proven more difficult and protracted than expected partly due to the difficult market and political environment mentioned. On one hand energy prices are high leading to strong profitability, but the uncertain political environment and high interest rate environment makes companies reluctant to invest. Whilst we continue negotiations, we will only recommend a transaction if and when we obtain terms which are in the best interests of all shareholders.

I would like to thank our management team for their continued commitment and achievements, and my fellow Board members for their thoughtful advice and counsel. On behalf of the Board I would like to also thank our shareholders for their continued support.

A handwritten signature in black ink, appearing to read 'John Jetter', written in a cursive style.

JOHN JETTER
Chairman

CEO'S REPORT



I am very pleased to be making my first report to shareholders as CEO of Otto Energy. The energy industry continues to evolve and the upstream sector faces many challenges – including geopolitical factors such as the war in Ukraine, levels of inflation not seen in many years, increased regulatory scrutiny and reduced investor interest in oil and gas due to climate change concerns. However, demand for oil and gas remains strong and provides opportunities.

The Company had a solid year ending 30 June 2023 with production of 2,308 Boe/d, of which 56% was liquids. Net operating revenue was US \$33.4 million, driven by an average oil price of US \$80.00 per barrel. Otto's net operating cash flow (pre-exploration) was US \$19.8 million. Subsequent to year end, we received an initial payment of US \$5.8 million for our insurance claim at Green Canyon 21, further improving liquidity.

Operationally, Otto participated in two exploration discoveries in the shallow waters of the Gulf of Mexico at Mosquito Bay West and Oyster Bayou South with production starting in August and September 2022, respectively. At Green Canyon 21, recompletion operations were completed in May 2023 and production commenced from both DTR-10 zones.

Your Company is in excellent financial position with no debt and over US \$30.0 million in cash. Subject to shareholder approval at the Annual General Meeting on 30 November 2023, we will return up to A \$40.0 million to shareholders in early 2024. This return of capital is a significant first step in our plan to reward shareholders.

The strategic options process that was announced in late March 2023 has taken longer than anticipated, partially due to the challenges already mentioned. We are continuing to evaluate opportunities to enhance shareholder value.

In closing, I want to thank the Board of Directors for their guidance and support, as well as our management team for their dedication and commitment to Otto's success. I also want to thank our shareholders for their ongoing support.

STEVE HEROD
Chief Executive Officer

EXECUTIVE MANAGEMENT



STEVE HEROD
Chief Executive Officer

B.S. Finance & Management

Steve has over 40 years experience in the oil and gas industry in the USA, together with a distinguished career both as an entrepreneur and CEO. He has successfully completed numerous M&A transactions creating significant shareholder value. He was co-founder of Petrohawk Energy Corporation and lead the successful sale of Petrohawk to BHP in a multi-billion dollar transaction. He subsequently was CEO of Grizzly Energy which he also successfully divested. Steve graduated in 1981 from Oklahoma State University with a B.S. in Finance and Management.



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
Senior 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.

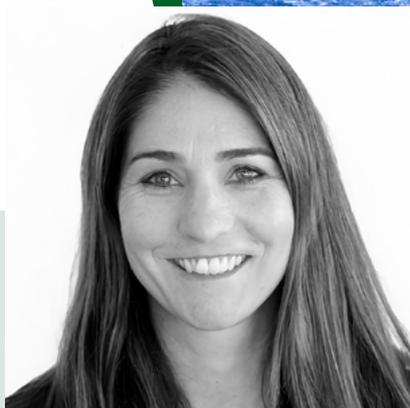


PHILIP TRAJANOVICH

**Senior Vice President
Commercial and Land**

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

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

ASSET OVERVIEW

North America: Gulf of Mexico



Otto Energy considers the US Gulf Coast its core region for exploration, development and production focus. As of 30 June 2023, Otto produced oil and gas from five projects in this region: SM 71, Lightning, GC 21, Mosquito Bay West and Oyster Bayou South.

The Gulf Coast 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 Gulf Coast. 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 Gulf Coast and has built a portfolio of diverse, conventional oil and gas opportunities. Otto's current operating partners are Byron Energy (ASX: BYE), Hilcorp Energy, Talos Energy (NYSE: TALO) and Castex Energy, resulting in eight producing wells over five core assets.

SUMMARY OF ASSETS AS AT 30 JUNE 2023

| Asset | Number of wells | Otto WI | Otto NRI | Operator | Status |
|------------------------------|-----------------|---------|----------|-----------------|-----------|
| South Marsh Island 71 (SM71) | 3 | 50.0% | 40.6% | Byron Energy | Producing |
| Lightning | 2 | 37.5% | 27.8% | Hilcorp | Producing |
| Green Canyon 21 (GC21) | 1 | 16.7% | 13.3% | Talos Energy | Producing |
| Mosquito Bay West | 1 | 30.0% | 22.4% | Castex Energy | Producing |
| Oyster Bayou South | 1 | 30.0% | 22.8% | Castex Energy | Producing |
| Eaves | 1 | 10.3% | 7.7% | Forza Operating | Shut-In |
| South Timbalier 48 | - | 100% | 87.5% | TBD | Prospect |



South Marsh Island 71

Otto owns a 50% WI and a 40.6% 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 sidetracked in the future.

In September 2022, the F2 well was successfully recompleted in the J1 sand and resumed production. In late June 2022, traces of water were detected from the F3 well. At that time, the F3 well had a 2% water cut. During the month of June 2023, the average water cut in the F3 well was approximately 78%, which is consistent with Otto's mapping and reservoir modelling. The F1 well, updip to the F3, continues to produce water-free. Base production from SM 71 continues to meet expectations.



Lightning

Otto owns a 37.5% WI and a 27.8% 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% WI 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.

The Lightning prospect was initially leased to a level in excess of 99%. For the unleased interest, the parties owning the unleased interest were carried for the drilling of the two wells. Prior to payout, the parties earned a share of production in relation to their WI, and share in relation to their carried WI attributable to the unleased mineral interest. At payout, the carried share of production reverted to the unleased interests. Beginning in FY2023, Otto's NRI in relation to Green #1 and Green #2 was 27.8%, compared to the prior 28.2%, factoring in this change.

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.

Base production from Lightning continues to meet expectations. There is the potential for additional wells to be drilled to ultimately develop the entire Lightning accumulation.



Green Canyon 21

Otto owns a 16.7% WI and a 13.3% NRI in Green Canyon 21 (GC 21) in the Gulf of Mexico, with Talos Energy (Talos) the operator, holding the remaining interest. Otto earned its 16.7% WI in GC-21 by paying 22.2% of the cost of drilling the 'Bulleit' appraisal well. Water depth in the area is approximately 1,200 feet.

The 'Bulleit' appraisal well located at GC 21 commenced production from the deeper MP sands in October 2020. In August 2022, recompletion operations began in the shallow DTR-10 sands. During operations, an issue with the casing hanger in the wellhead caused by strong loop currents was discovered. Due to additional equipment being required, operations were suspended and resumed in February 2023, with production beginning on 22 March 2023.

After a few days of production from the DTR-10 sands, well diagnostics indicated that the lower DTR-10 completion was not contributing to well production and the well was only seeing a contribution from the upper completion. Well intervention operations were completed in mid-May 2023 and the well is currently producing from both DTR-10 zones.

In January 2023, Otto and the operator both filed a Control of Well event insurance claim regarding the recompletion at GC 21. Both claims are being reviewed by the same insurance adjuster. During the recompletion, the tubing string, control lines, casing and clamps were damaged. A review is underway to determine how increased loop eddy currents contributed to these failures. The insurance carriers have confirmed the merits of the claim and the Company received an initial insurance payment of US\$5.8 million in August 2023. No assurance can be made as to the amount or timing of any potential additional insurance claim proceeds.



Mosquito Bay West

The Mosquito Bay West prospect was spud in May 2022 in state waters in Terrebonne Parish, Louisiana, and safely drilled 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 the well has cumulatively produced over 49,000 bbls of oil and 1,000 MMcf of gas (8/8ths). Otto holds a 30% WI/22.4% NRI in this field.

**EXPLORATION
AND APPRAISAL**



Oyster Bayou South

The Oyster Bayou South prospect was spud in June 2022 in state waters in Terrebonne Parish, Louisiana, and safely drilled 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 and the well has cumulatively produced over 163,000 bbls of oil and 470 MMcf of gas (8/8ths). Beginning in November 2022, the well began producing small amounts of water, with a water cut of approximately 10%. Since then, the water rate has continued to increase while the oil rate has declined. During June 2023, the average water cut in the well was approximately 78%. Otto holds a 30% WI/22.8% NRI in this field.



Eaves Prospect

The Vick #1 well, within the Eaves Prospect in Lavaca County, Texas, was spud in December 2021 and reached 9,242' TVD in December 2021.

The well was logged and cored across multiple intervals and was completed in the shallow Yegua interval at approximately 5,450 feet TVD, where it encountered 12 feet of net pay. Production from the Vick #1 well began in September 2022 and has cumulatively produced over 530 Bbls of oil and 95 MMcf of gas (8/8ths). The well was shut in on 22 April 2023 and remained shut in as of 30 June 2023, as the well has reached the end of its economic life. Otto owns a 10.3% WI/7.7% NRI in this field.

South Timbalier 48 Lease

Otto was notified as being the apparent high bidder on 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 and awarded the lease to Otto for a primary term of five years.

Pantheon Shareholding (LSE: PANR)

The Company owns 3,272,592 shares of Pantheon Resources Plc (LSE: PANR) (Pantheon) valued at US\$0.5 million as at 30 June 2023 (June 2022: US\$3.6 million), 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.

RESERVES AND PROSPECTIVE RESOURCES

On 30 August 2023, the Company released its statement of reserves and prospective resources as at 30 June 2023. The statement of reserves covered SM 71, Lightning, GC 21, Mosquito Bay West and Oyster Bayou South, and were compiled by independent consultant Ryder Scott Company.

Otto Energy Limited's net reserves and resources for all fields as at 30 June 2023 are summarised below (see additional disclosures provided in the following pages and appendices):

RESERVES SUMMARY 30 JUNE 2023

| TOTAL | GROSS (100%) | | | | OTTO NET REVENUE INTEREST | | | |
|---|---------------|---------------|---------------|--------|---------------------------|---------------|---------------|-------|
| | OIL (MbbL) | GAS (MMcf) | NGL (MbbL) | MBOE | OIL (MbbL) | GAS (MMcf) | NGL (MbbL) | MBOE |
| Proved Producing | 3,164 | 17,979 | 630 | 6,791 | 878 | 4,593 | 172 | 1,815 |
| Proved Behind Pipe | 516 | 8,968 | 301 | 2,311 | 174 | 2,210 | 80 | 622 |
| Proved Undeveloped | - | - | - | - | - | - | - | - |
| Proved (1P) | 3,680 | 26,947 | 931 | 9,102 | 1,052 | 6,803 | 252 | 2,437 |
| Probable | 3,735 | 28,558 | 993 | 9,488 | 912 | 7,112 | 262 | 2,360 |
| Proved Plus Probable (2P) | 7,415 | 55,505 | 1,924 | 18,590 | 1,964 | 13,915 | 514 | 4,797 |
| Possible | 2,388 | 32,577 | 1,085 | 8,902 | 558 | 8,225 | 293 | 2,222 |
| Proved Plus Probable Plus Possible (3P) | 9,803 | 88,082 | 3,009 | 27,492 | 2,522 | 22,140 | 807 | 7,019 |
| Total Contingent and Prospective Resources (best estimate, unrisks) | 7,040 | 44,590 | - | 14,472 | 4,700 | 24,160 | - | 8,727 |

CHANGES TO RESERVES SINCE 30 JUNE 2022

| | OTTO ENERGY LIMITED GRAND TOTAL - RESERVE RECONCILIATION (OTTO ENERGY NRI SHARE) | | | | | | | | | | | |
|---------------------------------|--|----------------------|--------------------------|------------------------|------------------------|----------------------|--------------------------|------------------------|------------------------|----------------------|--------------------------|------------------------|
| | OIL/NGL (MbbL) | | | | GAS (MMCF) | | | | MBOE | | | |
| | Remaining 6/30/2022 | Production FY2023 | Additions & Revisions | Remaining 6/30/2023 | Remaining 6/30/2022 | Production FY2023 | Additions & Revisions | Remaining 6/30/2023 | Remaining 6/30/2022 | Production FY2023 | Additions & Revisions | Remaining 6/30/2023 |
| Proved (1P) | 1,805 | 373 | (128) | 1,304 | 11,472 | 1,657 | (3,012) | 6,803 | 3,718 | 649 | (632) | 2,437 |
| Probable | 944 | 0 | 230 | 1,174 | 6,979 | 0 | 133 | 7,112 | 2,107 | 0 | 253 | 2,360 |
| Proved+ Probable (2P) | 2,749 | 373 | 102 | 2,478 | 18,451 | 1,657 | (2,879) | 13,915 | 5,825 | 649 | (379) | 4,797 |
| Possible | 666 | 0 | 185 | 851 | 7,884 | 0 | 341 | 8,225 | 1,980 | 0 | 242 | 2,222 |
| Proved+ Probable+ Possible (3P) | 3,415 | 373 | 287 | 3,329 | 26,335 | 1,657 | (2,538) | 22,140 | 7,805 | 649 | (137) | 7,019 |

CONTINGENT AND PROSPECTIVE RESOURCES AS AT 30 JUNE 2023

| PROSPECT | WORKING INTEREST | NET REVENUE INTEREST | CONTINGENT RESOURCES | | | | | |
|------------------|------------------|----------------------|----------------------|--------------|-------|---------------------------|--------------|-------|
| | | | 8/8THS | | | OTTO NET REVENUE INTEREST | | |
| | | | GAS (BCF) | OIL (MMbbls) | Mmboe | GAS (BCF) | OIL (MMbbls) | Mmboe |
| | | | P50 | P50 | P50 | P50 | P50 | P50 |
| SM 71 F3 ST (D5) | 50.0% | 40.6% | 1.64 | 0.86 | 1.13 | 0.67 | 0.35 | 0.46 |
| SM 71 F5 ST (D5) | 50.0% | 40.6% | 2.11 | 0.67 | 1.02 | 0.86 | 0.27 | 0.41 |

| PROSPECT | WORKING INTEREST | NET REVENUE INTEREST | PROSPECTIVE RESOURCES | | | | | |
|----------------|------------------|----------------------|-----------------------|--------------|-------|---------------------------|--------------|-------|
| | | | 8/8THS | | | OTTO NET REVENUE INTEREST | | |
| | | | GAS (BCF) | OIL (MMbbls) | Mmboe | GAS (BCF) | OIL (MMbbls) | Mmboe |
| | | | P50 | P50 | P50 | P50 | P50 | P50 |
| SM 71 B65 Sand | 50.0% | 40.6% | 0.93 | 0.77 | 0.93 | 0.38 | 0.31 | 0.38 |
| Lightning | 37.5% | 27.8% | 21.25 | 0.63 | 4.17 | 5.92 | 0.17 | 1.16 |
| ST 48 | 100.0% | 87.5% | 18.66 | 4.11 | 7.22 | 16.33 | 3.60 | 6.32 |

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 2023.

ASX Reserves and Resources Reporting Notes

- (i) The reserves and prospective resources information in this document is effective as at 30 June, 2023 (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/natural gas liquids |
| Bcfe | billion cubic feet equivalent | MMLB | million barrels of oil/natural gas liquids |
| 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 | Estimated Ultimate Recovery | mmbtu | million British Thermal Units |
| Mcfg | thousand cubic of gas | NRI | net revenue interest |
| Mcfgpd | thousand cubic feet of gas per day | WI | working interest |

GOVERNANCE

BOARD OF DIRECTORS



JOHN JETTER
Chairman
(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, Austria, and Switzerland, 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 a member of the Audit and Risk Committee and Remuneration and Nomination Committee, and former Chairman of the Remuneration and Nomination Committee having resigned from that role on 19th June 2023.



PAUL SENYCIA
Deputy Chairman
(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 was appointed Chairman of the Remuneration and Nomination Committee on 19th June 2023.



JOHN MADDEN
Non-Executive Director

BCom (Melb), FCPA, FGIA, 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. He is also a Member of the Institute of Company Directors (MAICD). Mr Madden is Chairman of the Audit and Risk Committee and a member of the Remuneration and Nomination Committee.



GEOFF PAGE
Non-Executive Director

MBA, CPA, FCMA, FGIA

Mr Geoff Page was appointed 17 July 2020 as non-executive director. 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 CPA Australia, Fellow Member of the Chartered Institute of Management Accountants and a Fellow Member of the Governance Institute of Australia. Mr Page is a member of the Audit and Risk Committee and Remuneration and Nomination Committee.

FINANCIAL REPORT 2023

FOR THE YEAR ENDED 30 JUNE 2023

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Annual General Meeting

The Annual General Meeting of Otto Energy Limited will be held on 30 November 2023.

This year's Annual General Meeting will be conducted as a physical meeting on 30 November 2023 at 4pm AWST. Further details will be provided in the Company's notice of Annual General Meeting.

CORPORATE DIRECTORY

| | |
|---|---|
| Directors | Mr John Jetter – Non-Executive Chairman Mr Paul Senycia – Non-Executive Deputy Chairman Mr John Madden – Non-Executive Director Mr Geoff Page – Non-Executive Director |
| Company Secretary | Ms Kaitlin Smith |
| Key Executives | Mr Steve Herod – Chief Executive Officer Mr Will Armstrong – Senior VP Exploration and New Ventures Mr Sergio Castro – Chief Financial Officer Mr Philip Trajanovich – Senior VP Commercial and Land |
| 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 |

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 2023 and the auditors' report thereon.

DIRECTOR'S REPORT

For the year ended 30 June 2023

Directors

The Directors in office at any time during the financial year and until the date of this report are set out below.

Mr John Jetter BLaw, BEcon, INSEAD **Chairman (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; Re-appointed Non-Executive Chairman 19 June 2023.

Mr John Jetter is the former Managing Director, CEO and head of investment banking of JP Morgan in Germany, Austria, and Switzerland, 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 a member of the Audit and Risk Committee and Remuneration and Nomination Committee, and former Chairman of the Remuneration and Nomination Committee having resigned from that role on 19th June 2023.

Mr Paul Senyacia BSc (Hons), MAppSc **Deputy Chairman (Independent Non-Executive)**

Appointed Executive Director 24 April 2018; Became Non-Executive Director 1 January 2019; Appointed Deputy Chairman 19 June 2023

Mr Paul Senyacia is a seasoned geoscientist with over 35 years of international oil and gas experience in both commercial and technical aspects of the business. Mr Senyacia has held senior roles in large and small companies worldwide including Shell, Woodside and Beach Petroleum. Over the last twenty years Mr Senyacia 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 Senyacia has worked in Europe, Asia, Africa and Australasia both on and offshore. Up until his retirement on 31 December 2018, Mr Senyacia was the Vice President – Exploration and New Ventures for the Company. Mr Senyacia is a member of the Audit and Risk Committee and was appointed Chairman of the Remuneration and Nomination Committee on 19th June 2023. Mr Senyacia has not held any other directorships in the last three years.

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 Instituted of Chartered Secretaries now Governance Institute of Australia. He is also a Member of the Institute of Company Directors (MAICD). Mr Madden is Chairman of the Audit and Risk Committee and a member of the Remuneration and Nomination Committee.

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 a member of the Audit and Risk Committee and Remuneration and Nomination Committee.

DIRECTOR'S REPORT

For the year ended 30 June 2023

Mr Michael Utsler

Executive Chairman, Chief Executive Officer and Managing Director

Appointed 11 September 2020 and departed 19 June 2023.

Mr Michael Utsler was appointed Managing Director and Chief Executive Officer on 11 September 2020 and Executive Chairman on 19 November 2020. He departed as a Director of the Company on 19 June 2023. 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.

Company Secretary

Ms Kaitlin Smith BCom (Acc), CA, FGIA

Appointed 2 November 2019

Ms Smith is an experienced Company Secretary, finance and corporate governance professional and has held Company Secretary and CFO roles within ASX listed and unlisted entities. She is a Chartered Accountant, fellow member of the Governance Institute of Australia and holds a Bachelor of Commerce (Accounting).

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 | 1,116,000 |
| Mr P Senyca | 8,691,134 | 669,000 |
| Mr J Madden | 2,000,000 | - |
| Mr G Page | - | - |

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 2023.

Operating and Financial Review

During the year ended 30 June 2023, the Company commenced production from Mosquito Bay West, Oyster Bayou South, and Vick #1 (Eaves). Additionally, recompletion operations were completed at Green Canyon 21 and South Marsh 71 F-2 well, which increased production from both wells.

The Company also made its final payment under its existing credit facility and became debt-free, plus its hedge book has been closed out, delivering full exposure to current prices.

Finally, the Company launched a process to assess a range of value realisation opportunities, including shareholder return options, available to the Company and its shareholders.

Financial Summary

Total loss after tax for the year ended 30 June 2023 was US\$7.0 million (2022: US\$15.5 million profit). This loss was primarily driven by a \$19.8 million impairment on Green Canyon 21, as well as a loss on investments, lower net operating revenues, higher cost of sales, and higher administrative costs. Partially offsetting this decrease in net profits after tax were a gain on derivatives, an income tax reversal, and lower finance costs and exploration expenditures.

DIRECTOR'S REPORT

For the year ended 30 June 2023

Net operating revenue for the current year was US\$33.4 million (2022: US\$40.6 million), an 18% decrease from the prior fiscal year due to a 6% decrease in crude oil prices, a 14% decrease in natural gas prices and a 36% decrease in the price received for natural gas liquids. Production for the period remained relatively consistent with the prior year, as normal field declines were offset by increased production at Green Canyon 21 as a result of the recompletion, plus new production at Mosquito Bay West, Oyster Bayou South and Vick #1 (Eaves).

Cost of Sales for the current year were US\$11.7 million (2022: US\$9.5 million), a 24% increase due to higher gathering and production charges and higher amortization of producing assets as a result of the increased production at Green Canyon 21, Mosquito Bay West, Oyster Bayou South and Vick #1 (Eaves). This generated an operating gross profit of approximately US\$21.7 million (2022: US\$31.1 million), a decrease of 30%.

Impairment charges for the current year were US\$19.8 million (2022: nil) as a result of cost overruns and lower than expected performance from the Bulleit well at Green Canyon 21. See Note 13 to the Consolidated Financial Statements for additional information.

Loss on investments for the current year was US\$3.0 million (2022: US\$5.8 million gain) which was attributable to the 3,272,492 shares of Pantheon Resources Plc (LSE: PANR) held by the Company. See Pantheon Shareholding section below for additional information.

Administrative and other expenses for the current year were approximately US\$6.4 million (2022: US\$5.2 million), a 25% increase partly due to costs associated with the ongoing strategic options process, the departure of Mr Mike Utsler, the appointment of Mr Steve Herod and restructuring expenditures.

Gain on derivative financial instruments for the current year was US\$1.5 million (2022: US\$6.6 million loss) as a result of softening crude oil prices between June 2022 and September 2022.

Income tax expense for the current year was a benefit of US\$2.9 million (2022: US\$4.3 million expense), which was attributable to the reversal of US federal income tax expense booked in the prior fiscal year, as a result of the Company being able to utilize previously incurred net operating losses.

Finance costs (including amortisation of borrowing costs, interest, and commitment fees) for the current year totaled US\$1.1 million (2022: US\$2.1 million), a 50% decrease due to a lower average outstanding principal balance on the Company's credit facility with Macquarie Bank during the current fiscal year.

Exploration expenditures during the current year were US\$3.0 million (2022: US\$3.2 million), a 6% decrease due to less drilling and exploration activities during the year.

DIRECTOR'S REPORT

For the year ended 30 June 2023

Production and Development

Reserves Statement as at 30 June 2023

On 30 August 2023 the Company released its statement of reserves and resources as at 30 June 2023. The statement of reserves included Otto's fields at South Marsh 71 (SM 71), Green Canyon 21 (GC 21), Lightning in Matagorda County, TX (Lightning), Mosquito Bay West and Oyster Bayou South, and were independently prepared by Ryder Scott Company. The contingent and prospective resources cover SM 71, Lightning and South Timbalier 48 (ST 48). The summary statement of reserves and contingent & prospective resources as at 30 June 2023 and changes to reserves and resources since 30 June 2022 is set out below. Full details including the reconciliations and notes on the statements are included in the ASX release of 30 August 2023.

| Total | Gross (100%) | | | | Net | | | |
|---|--------------|---------------|--------------|---------------|--------------|---------------|------------|--------------|
| | Oil (MbbL) | Gas (MMcf) | NGL (MbbL) | Mboe | Oil (MbbL) | Gas (MMcf) | NGL (MbbL) | Mboe |
| Proved Producing | 3,164 | 17,979 | 630 | 6,791 | 878 | 4,593 | 172 | 1,815 |
| Proved Behind Pipe | 516 | 8,968 | 301 | 2,311 | 174 | 2,210 | 80 | 622 |
| Proved Undeveloped | - | - | - | - | - | - | - | - |
| Proved (1P) | 3,680 | 26,947 | 931 | 9,102 | 1,052 | 6,803 | 252 | 2,437 |
| Probable | 3,735 | 28,558 | 993 | 9,488 | 912 | 7,112 | 262 | 2,360 |
| Proved Plus Probable (2P) | 7,415 | 55,505 | 1,924 | 18,590 | 1,964 | 13,915 | 514 | 4,797 |
| Possible | 2,388 | 32,577 | 1,085 | 8,902 | 558 | 8,225 | 293 | 2,222 |
| Proved Plus Probable Plus Possible (3P) | 9,803 | 88,082 | 3,009 | 27,492 | 2,522 | 22,140 | 807 | 7,019 |
| Total Contingent and Prospective Resources (best estimate, unrisks) | 7,040 | 44,590 | - | 14,472 | 4,700 | 24,160 | - | 8,727 |

Changes to reserves and resources since 30 June 2022

| | Otto Energy Limited Grand Total - Reserve Reconciliation (Otto Energy NRI Share) | | | | | | | | | | | |
|---------------------------------------|--|-----------------|-----------------------|---------------------|---------------------|-----------------|-----------------------|---------------------|---------------------|-----------------|-----------------------|---------------------|
| | Oil/NGL (MbbL) | | | Gas (MMCF) | | | | MBOE | | | | |
| | Remaining 6/30/2022 | Production FY23 | Additions & Revisions | Remaining 6/30/2023 | Remaining 6/30/2022 | Production FY23 | Additions & Revisions | Remaining 6/30/2023 | Remaining 6/30/2022 | Production FY23 | Additions & Revisions | Remaining 6/30/2023 |
| Proved (1P) | 1,805 | 373 | (128) | 1,304 | 11,472 | 1,657 | (3,012) | 6,803 | 3,718 | 649 | (632) | 2,437 |
| Probable | 944 | 0 | 230 | 1,174 | 6,979 | 0 | 133 | 7,112 | 2,107 | 0 | 253 | 2,360 |
| Proved+Probable (2P) | 2,749 | 373 | 102 | 2,478 | 18,451 | 1,657 | (2,879) | 13,915 | 5,825 | 649 | (379) | 4,797 |
| Possible | 666 | 0 | 185 | 851 | 7,884 | 0 | 341 | 8,225 | 1,980 | 0 | 242 | 2,222 |
| Proved+Probable+ Possible (3P) | 3,415 | 373 | 287 | 3,329 | 26,335 | 1,657 | (2,538) | 22,140 | 7,805 | 649 | (137) | 7,019 |

Estimated proved reserves total approximately 2.4 Mmboe and consist of eight PDP wells, compared to 3.7 Mmboe as of 30 June 2022. This decrease is predominantly due to production of 649 Mboe on a net revenue interest basis ("NRI") through FY 23, the reclassification of a proved undeveloped well at Lightning (Green #3) to probable, and downward revisions at GC 21, partially offset by the addition of new reserves attributable to Oyster Bayou South.

Estimated proved plus probable reserves total approximately 4.8 Mmboe, compared to 5.8 Mmboe as of 30 June 2022. This decrease is predominantly attributable to 1P production of 649 Mboe (NRI) through FY 23 and downward revisions at GC 21, partially offset by the addition of new reserves attributable to Oyster Bayou South and upward revisions at SM 71.

Estimated proved plus probable plus possible reserves totaled approximately 7.0 Mmboe, compared to 7.8 Mmboe as of 30 June 2022. This decrease is predominantly attributable to 1P production of 649 Mboe (NRI) through FY 23 and downward revisions at GC 21 and SM 71, partially offset by the addition of new reserves attributable to Oyster Bayou South and upward revisions at Lightning.

Contingent and prospective resources totaled approximately 8.7 Mmboe as a result of additional resources at SM 71, Lightning, and ST 48. This compares to 2.4 Mmboe at 30 June 2022, an increase associated with ST 48 which was awarded to the Company in November 2022 from OCS Lease Sale 257.

DIRECTOR'S REPORT

For the year ended 30 June 2023

Production and Revenue Summary

The table below sets out production and working interest ("WI") revenue information associated with Otto's sales of natural gas, oil and natural gas liquids ("NGLs") from its fields at SM71, Lightning, GC 21, Vick #1, Mosquito Bay West and Oyster Bayou South for the year ended 30 June 2023. One barrel of oil, condensate or NGL is the energy equivalent of six Mcf of natural gas.

| | FY 2023 | FY 2022 | % Change |
|----------------------------|----------------|----------------|-----------------|
| Total Oil (Bbls) | 403,922 | 450,439 | -10% |
| Total Gas (Mcf) | 2,203,444 | 2,008,200 | 10% |
| Total NGLs (Bbls) | 71,371 | 59,949 | 19% |
| Total BOE | 842,533 | 845,088 | 0% |
| Total (Boe/d) | 2,308 | 2,315 | 0% |
| Percent Liquids (%) | 56% | 60% | -7% |
| Total WI Revenue (US\$MM) | \$ 44.1 | \$ 51.1 | -14% |
| Oil revenue (\$millions) | \$ 32.3 | \$ 38.2 | -15% |
| Avg oil price (\$/Bbl) | \$ 79.99 | \$ 84.71 | -6% |
| Gas revenue (\$millions) | \$ 9.8 | \$ 10.7 | -9% |
| Avg gas price (\$/Mmbtu) | \$ 4.50 | \$ 5.21 | -14% |
| NGL revenue (\$millions) | \$ 1.7 | \$ 2.2 | -23% |
| Avg NGL price (\$/Bbl) | \$ 23.37 | \$ 36.35 | -36% |
| Total revenue (\$millions) | \$ 43.7 | \$ 51.1 | -14% |
| Avg WA price (\$/Boe) | \$ 51.93 | \$ 60.43 | -14% |

Otto's hydrocarbon sales for the current year equate to 2,308 Boe/d, which is consistent with the prior fiscal year primarily driven by new production from Mosquito Bay West, Oyster Bayou South, and Vick #1 (Eaves Prospect), as well as recompleting GC 21. The increased production from these new wells was offset by normal field declines.

Notes

- Otto sells its high-quality crude produced at SM 71, Mosquito Bay West, and Oyster Bayou South 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 market. Deductions are applied for transportation, gravity, and pipeline loss allowances.
- Lightning crude sells against the WTI Houston crude market. 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.
- On average, 1 Mscf = 1.12 Mmbtu for Mosquito Bay West and Oyster Bayou South raw gas production. The thermal content of Mosquito Bay West and Oyster Bayou South gas may vary over time.

DIRECTOR'S REPORT

For the year ended 30 June 2023

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

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 sidetracked in the future. The field is operated by Byron Energy.

In late June 2022, traces of water were detected from the F3 well. At that time, the F3 well had a 2% water cut. During the month of June 2023, the average water cut in the F3 well was approximately 78%, which is consistent with Otto's mapping and reservoir modelling. The F1 well, updip to the F3, continues to produce water-free.

In September 2022, the F2 well was successfully recompleted in the J1 sand and resumed production. On 2 June 2023, the F2 well was shut in for pressure buildup, and remained shut-in until 23 July 2023.

Production and WI revenue for the year ended 30 June 2023 and 2022 was as follows:

| SM 71 Production Volumes | | FY 2023 | FY 2022 | % Change |
|--------------------------|---------------|---------|---------|----------|
| WI (50.0%) | Oil (bbls) | 276,164 | 390,888 | -29% |
| | Gas (Mscf) | 218,413 | 291,122 | -25% |
| | Total (Boe) | 312,566 | 439,408 | -29% |
| | Total (Boepd) | 856 | 1,204 | -29% |
| NRI (40.6%) | Oil (bbls) | 224,383 | 317,597 | -29% |
| | Gas (Mscf) | 177,460 | 236,536 | -25% |
| | Total (Boe) | 253,960 | 357,019 | -29% |
| | Total (Boepd) | 696 | 978 | -29% |

| SM 71 Prices | | FY 2023 | FY 2022 | % Change |
|-------------------|---------------------|----------|----------|----------|
| WI (50.0%) | Oil - \$million | \$ 22.3 | \$ 33.1 | -33% |
| | Oil - \$ per bbl | \$ 80.76 | \$ 84.69 | -5% |
| | Gas - \$million | \$ 1.3 | \$ 1.8 | -28% |
| | Gas - \$ per Mmbtu | \$ 5.09 | \$ 6.12 | -17% |
| | Total – US\$million | \$ 23.6 | \$ 34.9 | -32% |

Production volumes for the current year were below production volumes for the prior year due to normal field decline, as well as the F2 well being shut in for 57 days during the year for recompletion operations and later for pressure build up. All three wells had 19 days of partial downtime during the year due to installing gas lift at F1 and F2, as well as for compressor issues. During the prior year, the wells were down for 19 days due to Hurricane Ida, and later for repairs at a 3rd party oil sales pipeline. Sales revenues for the current year were also lower than the prior year due to this 29% decrease in production, as well as a 5% decrease in oil prices received and a 17% decrease in natural gas prices received. Production, on a WI basis, was approximately 643 Boe/d as of 30 June 2023. The following table sets out certain information with respect to SM 71 reserves as of 30 June 2023.

| SM71 | Gross (100%) | | | | Net (40.6%) | | | |
|---|--------------|--------------|------------|--------------|--------------|--------------|------------|--------------|
| | Oil (MbbL) | Gas (MMcf) | NGL (MbbL) | Mboe | Oil (MbbL) | Gas (MMcf) | NGL (MbbL) | Mboe |
| Proved Producing | 1,385 | 1,293 | 57 | 1,658 | 563 | 482 | 23 | 666 |
| Proved Behind Pipe | 263 | 164 | 7 | 297 | 107 | 61 | 3 | 120 |
| Proved Undeveloped | - | - | - | - | - | - | - | - |
| Proved (1P) | 1,648 | 1,457 | 64 | 1,955 | 670 | 543 | 26 | 786 |
| Probable | 1,101 | 1,026 | 45 | 1,317 | 447 | 382 | 18 | 529 |
| Proved Plus Probable (2P) | 2,749 | 2,483 | 109 | 3,272 | 1,117 | 925 | 44 | 1,315 |
| Possible | 367 | 324 | 14 | 435 | 149 | 121 | 6 | 175 |
| Proved Plus Probable Plus Possible (3P) | 3,116 | 2,807 | 123 | 3,707 | 1,266 | 1,046 | 50 | 1,490 |
| Total Contingent and Prospective Resources (best estimate, unrisks) | 2,300 | 4,680 | - | 3,080 | 930 | 1,910 | - | 1,248 |

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Lightning – Onshore Matagorda County, Texas

The first well in this field, Green #1, commenced production in June 2019 while the Green #2, commenced production in February 2020. Production and WI revenue for the year ended 30 June 2023 and 2022 was as follows:

| Lightning Volumes | | FY 2023 | FY 2022 | % Change |
|--------------------|---------------|-----------|-----------|----------|
| WI (37.5%) | Oil (bbls) | 49,965 | 56,062 | -11% |
| | Gas (Mscf) | 1,545,836 | 1,697,469 | -9% |
| | NGLs (bbls) | 53,828 | 59,088 | -9% |
| | Total (Boe) | 361,432 | 398,062 | -9% |
| | Total (Boepd) | 990 | 1,091 | -9% |
| NRI (27.8%) | Oil (bbls) | 37,225 | 42,179 | -12% |
| | Gas (Mscf) | 1,151,751 | 1,277,118 | -10% |
| | NGLs (bbls) | 40,109 | 44,456 | -10% |
| | Total (Boe) | 269,292 | 299,488 | -10% |
| | Total (Boepd) | 738 | 821 | -10% |

| Lightning Sales Revenue | | FY 2023 | FY 2022 | % Change |
|-------------------------|---------------------|----------|----------|----------|
| WI (37.5%) | Oil - \$million | \$ 4.0 | \$ 4.8 | -15% |
| | Oil - \$ per bbl | \$ 80.59 | \$ 84.99 | -5% |
| | Gas - \$million | \$ 6.6 | \$ 8.8 | -25% |
| | Gas – \$ per Mmbtu | \$ 4.24 | \$ 5.20 | -19% |
| | NGLs - \$million | \$ 1.3 | \$ 2.1 | -37% |
| | NGLs – \$ per bbl | \$ 24.97 | \$ 36.35 | -31% |
| | Total – US\$million | \$ 12.0 | \$ 15.7 | -24% |

Beginning in FY2023, Otto's NRI in the Lightning field decreased from 28.2% to 27.8%. The Lightning prospect was initially leased to a level in excess of 99%. For the unleased interest, the parties owning the unleased interest were carried for the drilling of the two wells. Prior to payout, the parties earned a share of production in relation to their WI, and share in relation to their carried WI attributable to the unleased mineral interest. At payout, the carried share of production reverted to the unleased interests.

Production volumes for the current year were lower than production volumes for the prior year due to normal field decline. Sales revenues for the current year were also lower than the prior year due to this 9% decrease in production and the reduced NRI, as well as a 5% decrease in oil prices received, a 19% decrease in natural gas prices received, and a 31% decrease in NGL prices received. Production, on a WI basis, was approximately 864 Boe/d as of 30 June 2023.

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.

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The following table sets out certain information with respect to Lightning reserves as of 30 June 2023.

| Lightning | Gross (100%) | | | | Net (27.8%) | | | |
|--|--------------|---------------|--------------|---------------|-------------|---------------|------------|--------------|
| | Oil (MbbL) | Gas (MMcf) | NGL (MbbL) | Mboe | Oil (MbbL) | Gas (MMcf) | NGL (MbbL) | Mboe |
| Proved Producing | 445 | 14,833 | 476 | 3,393 | 124 | 3,818 | 133 | 893 |
| Proved Behind Pipe | 197 | 6,560 | 211 | 1,501 | 55 | 1,688 | 59 | 395 |
| Proved Undeveloped | - | - | - | - | - | - | - | - |
| Proved (1P) | 642 | 21,393 | 687 | 4,894 | 179 | 5,506 | 192 | 1,288 |
| Probable | 697 | 23,236 | 746 | 5,316 | 194 | 5,980 | 208 | 1,399 |
| Proved Plus Probable (2P) | 1,339 | 44,629 | 1,433 | 10,210 | 373 | 11,486 | 400 | 2,687 |
| Possible | 898 | 29,928 | 961 | 6,847 | 250 | 7,702 | 267 | 1,801 |
| Proved Plus Probable Plus Possible (3P) | 2,237 | 74,557 | 2,394 | 17,057 | 623 | 19,188 | 667 | 4,488 |
| Total Prospective Resources (best estimate, unrisks) | 630 | 21,250 | - | 4,172 | 170 | 5,920 | - | 1,157 |

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 shallow DTR-10 sands. During operations, an issue with the casing hanger in the wellhead caused by strong loop currents was discovered. Due to additional equipment being required, operations were suspended and resumed in February 2023, with production beginning on 22 March 2023.

After a few days of production from the DTR-10 sands, well diagnostics indicated that the lower DTR-10 completion was not contributing to well production and the well was only seeing a contribution from the upper completion. Well intervention operations were completed in mid-May 2023 and the well is currently producing from both DTR-10 zones.

In January 2023, Otto and the operator both filed a Control of Well event insurance claim regarding the recompletion at GC 21. Both claims are being reviewed by the same insurance adjuster. During the recompletion, the tubing string, control lines, casing and clamps were damaged. A review is underway to determine how increased loop eddy currents contributed to these failures. The insurance carriers have confirmed the merits of the claim and the Company received an initial insurance payment of US\$5.8 million in August 2023. The insurance claim is for a maximum total amount of \$8.7 MM (Otto share, net of deductible), but no assurance can be made as to the amount or timing of any potential additional insurance claim proceeds.

Production and WI revenue for the year ended 30 June 2023 and 2022 was as follows:

| GC 21 Production Volumes | | FY 2023 | FY 2022 | % Change |
|--------------------------|---------------|---------|---------|----------|
| WI (16.67%) | Oil (bbls) | 13,892 | 3,488 | 298% |
| | Gas (Mscf) | 14,942 | 19,609 | -24% |
| | NGLs (bbls) | 1,172 | 862 | 36% |
| | Total (Boe) | 17,554 | 7,618 | 130% |
| | Total (Boepd) | 48 | 21 | 130% |
| NRI (13.3%) | Oil (bbls) | 11,113 | 2,791 | 298% |
| | Gas (Mscf) | 11,953 | 15,687 | -24% |
| | NGLs (bbls) | 937 | 689 | 36% |
| | Total (Boe) | 14,043 | 6,095 | 130% |
| | Total (Boepd) | 38 | 17 | 130% |

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| GC 21 Sales Revenue | | FY 2023 | FY 2022 | % Change |
|---------------------|---------------------|----------|----------|----------|
| WI (16.67%) | Oil - \$million | \$ 1.0 | \$ 0.3 | 236% |
| | Oil - \$ per bbl | \$ 70.05 | \$ 83.07 | -16% |
| | Gas - \$million | \$ 0.1 | \$ 0.1 | -56% |
| | Gas - \$ per Mmbtu | \$ 2.82 | \$ 5.89 | -52% |
| | NGLs - \$million | \$ 0.02 | \$ 0.03 | -22% |
| | NGLs - \$ per bbl | \$ 20.81 | \$ 36.47 | -43% |
| | Total - US\$million | \$ 1.0 | \$ 0.4 | 140% |

Production volumes for the current year were higher than production volumes for the prior year due to recompletion activities in the shallow DTR-10 sands. Sales revenues also increased as a result of the recompletion activities, partially offset by a 16% decrease in oil prices received, a 52% decrease in natural gas prices received, and a 43% decrease in NGL prices received. Production, on a WI basis, was approximately 162 Boe/d as of 30 June 2023. The following table sets out certain information with respect to GC 21 reserves as of 30 June 2023.

| Green Canyon 21 | Gross (100%) | | | | Net (13.3%) | | | |
|--|--------------|--------------|------------|--------------|-------------|------------|------------|------------|
| | Oil (MbbL) | Gas (MMcf) | NGL (MbbL) | Mboe | Oil (MbbL) | Gas (MMcf) | NGL (MbbL) | Mboe |
| Proved Producing | 1,194 | 1,015 | 66 | 1,429 | 159 | 120 | 9 | 188 |
| Proved Behind Pipe | - | - | - | - | - | - | - | - |
| Proved Undeveloped | - | - | - | - | - | - | - | - |
| Proved (1P) | 1,194 | 1,015 | 66 | 1,429 | 159 | 120 | 9 | 188 |
| Probable | 1,803 | 1,532 | 100 | 2,158 | 241 | 182 | 13 | 284 |
| Proved Plus Probable (2P) | 2,997 | 2,547 | 166 | 3,587 | 400 | 302 | 22 | 472 |
| Possible | 1,026 | 872 | 57 | 1,228 | 137 | 103 | 8 | 162 |
| Proved Plus Probable Plus Possible (3P) | 4,023 | 3,419 | 223 | 4,815 | 537 | 405 | 30 | 634 |
| Total Prospective Resources (best estimate, unrisks) | - | - | - | - | - | - | - | - |

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. The well began producing in August 2022. Production and WI revenue for the year ended 30 June 2023 and 2022 was as follows:

| Mosquito Bay West Production Volumes | | FY 2023 | FY 2022 | % Change |
|--------------------------------------|---------------|---------|---------|----------|
| WI (30.0%) | Oil (bbls) | 14,769 | - | n/a |
| | Gas (Mscf) | 283,312 | - | n/a |
| | NGLs (bbls) | 11,290 | - | n/a |
| | Total (Boe) | 73,278 | - | n/a |
| | Total (Boepd) | 201 | - | n/a |
| NRI (22.4%) | Oil (bbls) | 11,003 | - | n/a |
| | Gas (Mscf) | 211,068 | - | n/a |
| | NGLs (bbls) | 8,411 | - | n/a |
| | Total (Boe) | 54,592 | - | n/a |
| | Total (Boepd) | 150 | - | n/a |

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| Mosquito Bay West Sales Revenue | | FY 2023 | FY 2022 | % Change |
|---------------------------------|--------------------|----------|---------|----------|
| WI (30.0%) | Oil - \$million | \$ 1.1 | \$ - | n/a |
| | Oil - \$ per bbl | \$ 77.87 | \$ - | n/a |
| | Gas - \$million | \$ 1.2 | \$ - | n/a |
| | Gas - \$ per MMBtu | \$ 4.30 | \$ - | n/a |
| | NGLs - \$million | \$ 0.2 | \$ - | n/a |
| | NGLs - \$ per bbl | \$ 17.77 | \$ - | n/a |
| Total - US\$million | | \$ 2.5 | \$ - | n/a |

The following table sets out certain information with respect to Mosquito Bay West reserves as of 30 June 2023.

| Mosquito Bay West | Gross (100%) | | | | Net (22.4%) | | | |
|--|--------------|--------------|------------|--------------|-------------|--------------|------------|------------|
| | Oil (MbbL) | Gas (MMcf) | NGL (MbbL) | Mboe | Oil (MbbL) | Gas (MMcf) | NGL (MbbL) | Mboe |
| Proved Producing | 13 | 437 | 16 | 102 | 3 | 90 | 4 | 22 |
| Proved Behind Pipe | 56 | 2,244 | 83 | 513 | 12 | 461 | 18 | 107 |
| Proved Undeveloped | - | - | - | - | - | - | - | - |
| Proved (1P) | 69 | 2,681 | 99 | 615 | 15 | 551 | 22 | 129 |
| Probable | 70 | 2,561 | 95 | 592 | 16 | 526 | 21 | 125 |
| Proved Plus Probable (2P) | 139 | 5,242 | 194 | 1,207 | 31 | 1,077 | 43 | 254 |
| Possible | 33 | 1,250 | 46 | 287 | 7 | 257 | 10 | 60 |
| Proved Plus Probable Plus Possible (3P) | 172 | 6,492 | 240 | 1,494 | 38 | 1,334 | 53 | 314 |
| Total Prospective Resources (best estimate, unrisks) | - | - | - | - | - | - | - | - |

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. Production and WI revenue for the year ended 30 June 2023 and 2022 was as follows:

| Oyster Bayou South Production Volumes | | FY 2023 | FY 2022 | % Change |
|---------------------------------------|---------------|---------|---------|----------|
| WI (30.0%) | Oil (bbls) | 49,067 | - | n/a |
| | Gas (Mscf) | 131,096 | - | n/a |
| | NGLs (bbls) | 5,081 | - | n/a |
| | Total (Boe) | 75,998 | - | n/a |
| | Total (Boepd) | 208 | - | n/a |
| NRI (22.8%) | Oil (bbls) | 37,260 | - | n/a |
| | Gas (Mscf) | 99,548 | - | n/a |
| | NGLs (bbls) | 3,858 | - | n/a |
| | Total (Boe) | 57,710 | - | n/a |
| | Total (Boepd) | 158 | - | n/a |

| Oyster Bayou South Sales Revenue | | FY 2023 | FY 2022 | % Change |
|----------------------------------|--------------------|----------|---------|----------|
| WI (30.0%) | Oil - \$million | \$ 3.8 | \$ - | n/a |
| | Oil - \$ per bbl | \$ 78.46 | \$ - | n/a |
| | Gas - \$million | \$ 0.6 | \$ - | n/a |
| | Gas - \$ per MMBtu | \$ 5.24 | \$ - | n/a |
| | NGLs - \$million | \$ 0.1 | \$ - | n/a |
| | NGLs - \$ per bbl | \$ 19.35 | \$ - | n/a |
| Total - US\$million | | \$ 4.5 | \$ - | n/a |

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The following table sets out certain information with respect to Oyster Bayou South reserves as of 30 June 2023.

| Oyster Bayou South | Gross (100%) | | | | Net (22.8%) | | | |
|--|--------------|------------|------------|------------|-------------|------------|------------|-----------|
| | Oil (MbbL) | Gas (MMcf) | NGL (MbbL) | Mboe | Oil (MbbL) | Gas (MMcf) | NGL (MbbL) | Mboe |
| Proved Producing | 127 | 401 | 15 | 209 | 29 | 83 | 3 | 46 |
| Proved Behind Pipe | - | - | - | - | - | - | - | - |
| Proved Undeveloped | - | - | - | - | - | - | - | - |
| Proved (1P) | 127 | 401 | 15 | 209 | 29 | 83 | 3 | 46 |
| Probable | 64 | 203 | 7 | 105 | 14 | 42 | 2 | 23 |
| Proved Plus Probable (2P) | 191 | 604 | 22 | 314 | 43 | 125 | 5 | 69 |
| Possible | 64 | 203 | 7 | 105 | 15 | 42 | 2 | 24 |
| Proved Plus Probable Plus Possible (3P) | 255 | 807 | 29 | 419 | 58 | 167 | 7 | 93 |
| Total Prospective Resources (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, with first production in September 2022. The well has cumulatively produced over 530 bbls of oil and 95 MMcf of gas (8/8ths).

During FY 2023, on a WI basis, the Vick #1 well produced approximately 1,706 Boe. The well was shut-in on 22 April 2023, and remained shut in as of 30 June 2023, as the well has reached the end of its economic life.

Exploration and Appraisal

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. ST 48 was awarded to the Company effective 1 November 2022 for a primary term of five years.

Corporate and Administration

Board of Director Changes

Effective 19 June 2023, Mr Michael Utsler departed as Executive Chairman, Chief Executive Officer, and Managing Director. Mr John Jetter was appointed as non-executive Chairman of the Company and Mr Paul Senyacia was appointed Deputy Chairman of the Company effective 19 June 2023.

Pantheon Shareholding (LSE: PANR)

The Company continues to own 3,272,592 shares of PANR, valued at approximately US\$0.5 million as at 30 June 2023, 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 net operating revenue from the sale of oil and natural gas. As a result, the Company's net operating 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 may occasionally utilize 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.

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For the fiscal year ended 30 June 2023, the Company recorded a gain on derivatives of approximately \$1.5 million. As of 30 June 2023, Otto had no open hedge positions.

Strategy

As set out in the ASX announcement dated 29 March 2023, the Company has initiated a formal review process to maximise shareholder value. The process, led by Seaport Global and Adelaide Equity Partners, and supervised by a Board Sub Committee of Independent Directors, includes an assessment of a potential partial or full sale of the Company and/or its assets. The strategic review was initiated due to the Directors' belief that Company's shares have traded and continue to trade at a significant discount relative to the intrinsic value of the underlying assets, notwithstanding that Otto is debt free with a strong balance sheet, has significant free cash and positive cash flow. The Board remains confident of a positive outcome to this process which, if successful, would enable the Company to adequately reward shareholders by various methods, including a return of capital to shareholders from the proceeds of a sale of the Company's assets.

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 a 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. Otto seeks to ensure that the operator's reputation is sound, and that Otto's interests are in alignment before committing to participation. Once committed, the risk is further mitigated through joint venture partner meetings, real time data receipt and review, and technical reviews and audits.

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 net operating revenues and cash flows, will decrease over time as production from existing fields declines naturally. The rate of decline is dependent on reservoir characteristics and may vary materially from estimates.

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 revenue 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

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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.

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

Reserves Recovery Risk

The process of estimating oil and natural gas reserves is complex. It requires interpretations of available technical data and many assumptions, including assumptions relating to economic factors. Any significant inaccuracies in these interpretations or assumptions could materially affect the estimated quantities of our reserves at 30 June 2023.

In order to prepare our year-end reserve estimates, our independent consultant projected our production rates and timing of development expenditures. Our independent consultant also analyzed available geological, geophysical, production and engineering data. The extent, quality and reliability of this data can vary and may not be under our control. The process also requires economic assumptions about matters such as crude oil and natural gas prices, operating expenses, capital expenditures, taxes and availability of funds. Therefore, estimates of oil and natural gas reserves are inherently imprecise.

Actual future production, crude oil and natural gas prices, net operating revenues, taxes, development expenditures, operating expenses and quantities of recoverable oil and natural gas reserves will most likely vary from our estimates. Any significant variance could materially affect the estimated quantities of our reserves. In addition, our independent consultant may adjust estimates of proved reserves to reflect production history, drilling results, prevailing oil and natural gas prices and other factors, many of which are beyond our control.

Financial Risk

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

- 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.
- 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.
- Insufficient liquidity to meet financial commitments and fund growth opportunities could have a material adverse effect on our operations and financial performance.
- 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.

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.

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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 attacks. 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.

Commodity price risk

Otto's net operating 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.

One such factor is the transition to lower carbon sources of energy in many parts of the world (driven by ESG and climate change concerns) which may affect demand for Otto's products, including crude oil, natural gas and NGLs, which in turn may affect the price received (or expected to be received) for these products. Material adverse price impacts (including as a result of the energy transition) may affect the economic performance (including as to margins and cash flows) of, and longevity of production from, Otto's production assets, and ultimately the financial performance of Otto. The Company monitors and analyses the oil and gas markets and seeks to reduce price risk where reasonable and practical.

The Company may utilize commodity price hedge instruments to minimize exposure to short term price fluctuations by using a series of swaps, costless collars and/or puts. The Company evaluates market prices and sensitivities from time to time to determine when it would be appropriate to enter into these hedges.

Environmental Social & Governance (ESG) Risks

Environmental Social and Governance (ESG) risks are present in Otto's operations and business locations. As a non-operator, Safety and Environmental Management Systems (SEMS) evaluation in partner selection and tracking of operational environmental data allow Otto to monitor and manage environmental risks. Otto also 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.

Climate Change Risk

Climate change and the transition to a lower-carbon economy presents both risk and opportunity in the operation of our existing assets, commercialization of our growth portfolio, and in the way that the world produces and consumes energy. 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.

Technology Risks

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.

DIRECTOR'S REPORT

For the year ended 30 June 2023

Regulatory Risks

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.

Liquidity and Debt

Otto's cash on hand at 30 June 2023 was approximately US\$25.9 million, with the Company having no outstanding debt.

On 4 November 2019 the Company announced it had entered into a senior secured US\$55 million term debt facility with Macquarie Bank Limited (**Macquarie**) (the **Credit Facility**) made up of Tranche A1 (US\$25 million), Tranche A2 (US\$10 million), and Tranche B (US\$20 million, subject to further credit approval).

As of 30 June 2023, the Company had drawn and repaid the entire US\$25 million available under Tranche A1, resulting in a closing debt balance of nil. Tranche A1 is therefore no longer available to borrow. The Company is currently terminating this facility. The Credit Facility is secured by substantially all of the Company's oil and gas producing assets. 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, which expire in November 2023. 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 discovery and production at Oyster Bayou South.
- Commenced production at Mosquito Bay West discovery.
- Commenced production at Vick #1 (Eaves) discovery.
- Completed recompletion at GC 21 and commenced production from the DTR-10 sands.
- Awarded South Timbalier 48 (ST 48).
- Announcement of strategic options process.

DIRECTOR'S REPORT

For the year ended 30 June 2023

Significant events after the balance date

No matters or circumstances have arisen since 30 June 2023 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:

- On 9 August 2023, Otto received an AFE from the operator of the Vick #1 well to plug and abandon this well, at a cost of US\$11,000, net to Otto.
- As of 11 August 2023, Otto had received proceeds of US\$5.8 million in relation to a Control of Well insurance claim at GC 21. During the recompletion, the tubing string, control lines, casing and clamps were damaged. A review is underway to determine how increased loop eddy currents contributed to these failures.
- On 30 August 2023 the Company released its statement of reserves and prospective resources as at 30 June 2023. The reserves were compiled by Otto's independent consultant Ryder Scott Company and covered SM 71, Lightning, GC 21, Mosquito Bay West and Oyster Bayou South. The contingent and prospective resources covered SM 71, Lightning and ST 48. The summary statement of reserves and resources as at 30 June 2023 and changes to reserves and resources since 30 June 2022 is set out in the Production and Development section of this Director's Report. For full details refer to ASX release dated 30 August 2023.

Likely developments and expected results

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

- Termination of the Company's credit facility with Macquarie.
- Resolution and/or conclusion of the Company's strategic options process.

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 | | Merger and Acquisition Committee | | 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 | Number eligible to attend | Number attended |
| Mr J Jetter | 10 | 9 | 12 | 12 | 2 | 2 | 7 | 7 |
| Mr M Utsler | 10 | 10 | 10 | 10 | - | - | - | - |
| Mr P Senyica | 10 | 10 | 12 | 12 | 2 | 2 | 7 | 7 |
| Mr G Page | 10 | 10 | - | - | 2 | 2 | 7 | 7 |
| Mr J Madden | 10 | 9 | 12 | 11 | 2 | 1 | 7 | 7 |

FINANCIAL REPORT

DIRECTOR'S REPORT

For the year ended 30 June 2023

Indemnification and insurance of Directors and officers

During the financial year, the Company paid a premium of approximately US\$145,000 (2022: 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.

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 Audit (WA) Pty Ltd. 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 Audit (WA) Pty Ltd received or are due to receive the following amounts for the provision of non-audit services:

| | 2023 | 2022 |
|-------------------------------|-------|--------|
| | US\$ | US\$ |
| Tax compliance services | 7,757 | 9,217 |
| Tax consulting and tax advice | - | 9,581 |
| | 7,757 | 18,798 |

Auditor's independence declaration

The auditor's independence declaration is included on page 53 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 2023. 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.

DIRECTOR'S REPORT

For the year ended 30 June 2023

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 Chairman |
| Mr Paul Senyca | Non-Executive Deputy Chairman |
| Mr John Madden | Non-Executive Director |
| Mr Geoff Page | Non-Executive Director |
| Mr Michael Utsler | Executive Chairman (through 19 June 2023) |

Executives

| | |
|-----------------------|--|
| Mr Steve Herod | Chief Executive Officer |
| Mr Will Armstrong | Senior Vice President Exploration and New Ventures |
| Mr Sergio Castro | Chief Financial Officer |
| Mr Philip Trajanovich | Senior Vice President Commercial and Land |

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 the four 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 long term incentives (LTI) where applicable. Fees are set to reflect current market levels based on the time, responsibilities

DIRECTOR'S REPORT

For the year ended 30 June 2023

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 in office at the time received a grant of performance rights on 15 November 2018 following approval by shareholders at the Company's Annual General Meeting. These performance rights expire on 15 November 2023. The grant was based on 50% of fixed annual remuneration (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.

Directors' fees

The following fees have applied:

| | 2023 (16 Jun 2023 - 30 Jun 2023) | 2023 (1 Jul 2022 - 15 Jun 2023) | 2022 (1 Jul 2021 - 30 Jun 2022) |
|---|---|--|--|
| Base fees: | | | |
| Non-executive Directors | A\$75,000 | A\$75,000 | A\$75,000 |
| Additional fees: | | | |
| Chairman | A\$60,000 | - | - |
| Deputy Chairman | A\$60,000 | - | - |
| Audit and Risk Management Committee Chair | A\$10,000 | A\$10,000 | A\$10,000 |
| Remuneration Committee Chair | A\$5,000 | A\$5,000 | A\$5,000 |

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 2023 is summarised below.

The remuneration structure in place for the year ended 30 June 2023 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.

DIRECTOR'S REPORT

For the year ended 30 June 2023

| <i>Element</i> | <i>Purpose</i> | <i>Performance Metrics</i> | <i>Potential Value</i> |
|---------------------------------|--|---|--|
| 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, net operating revenue targets | CFO 35% of FAR, Other Execs 30% of FAR plus net operating revenue bonus pool capped at 2% gross revenue if gross revenue >\$30M |
| LTI | Alignment to long term shareholder value | TSR Performance, vesting over 3 year period | CFO – 30% of FAR Other Execs – 30% of FAR |

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 2023 or 2022 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. A corporate scorecard and the weighting of individual and corporate performance to determine executive STI was implemented for the 2022 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. A net operating revenue pool capped at 2% of gross net operating revenue is available to be distributed at Board discretion if net operating revenue targets are met. 2022 calendar year net operating revenue target >\$US30 million (2021 calendar year: >\$US25 million). STI award is paid in cash in the quarter following the end of the calendar year.

DIRECTOR'S REPORT

For the year ended 30 June 2023

| <i>Feature</i> | <i>Description</i> | | | |
|-------------------------------------|---|------------------|---|--|
| <i>Max opportunity</i> | CFO 35% of FAR, Other Executives 30% of FAR (50% company performance x 50% individual contribution) | | | |
| | <i>Metric</i> | <i>Weighting</i> | <i>Reason for selection</i> | <i>2022 Calendar year actual outcome</i> |
| <i>Company performance (50%)</i> | | | | |
| | HSSE | 5% | Reflects company non-financial values | 5% |
| | Financial metrics: production (MMBOE), capex and opex spend, EBITDA | 45% | Reflects improvements in both net operating revenue, cost control and production metrics. | 41% |
| | Resource / reserve replacement | 25% | Focus of the group's growth strategy | 23% |
| | Share price / TSR improvements | 25% | Alignment with shareholder returns | 2% |
| <i>Individual performance (50%)</i> | | | | |
| | Specific individuals | to 100% | Target metrics have been chosen that are critical to individual roles | |
| <i>Other Cash Payments</i> | Net operating revenue pool capped at 2% of gross revenue distributed at Board discretion if net operating revenue target met. Net operating revenue target for 2022 calendar year \$US30 million (2021 > US\$25 million). | | | Net Operating Revenue US\$44 million |
| <i>Delivery of STI</i> | STI award is paid in cash in the quarter following the end of the calendar year. | | | |
| <i>Board discretion</i> | 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.

DIRECTOR'S REPORT

For the year ended 30 June 2023

No rights were issued for the year ended 30 June 2023.

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 continue to exist and will be tested at expiry date. The number of remaining performance rights issued in December 2018 held by executives and directors as of 30 June 2023 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%. The TSR hurdle was not met on the expiry date of 29 November 2022 and the remaining performance rights expired.

The total number of remaining performance rights on issue held by executives and directors as of 30 June 2023 is 9,137,000.

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.

The Board exercised its discretion regarding the cap for the 2018 grants and issued 25,489,002 performance rights to executives and directors. The Board discretion was exercised considering the following important factors:

- i) the total 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 new, highly qualified and experienced executives 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 2022 Annual General Meeting

At its 2022 Annual General Meeting, the Company received approximately 99% of "yes" votes on its remuneration report for the 2022 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 2022 Annual General Meeting were carried on a poll.

DIRECTOR'S REPORT

For the year ended 30 June 2023

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 2019 | 30 June 2020 | 30 June 2021 | 30 June 2022 | 30 June 2023 |
|--|-----------------|-----------------|-----------------|-----------------|-----------------|
| Net profit/(loss) after tax (US\$'000) | (18,409) | (1,358) | (450) | 15,514 | (7,006) |
| Share price at year end (AUD) | 0.054 | 0.007 | 0.008 | 0.013 | 0.015 |
| Basic earnings/(loss) (US cents per share) | (0.95) | (0.05) | (0.01) | 0.32 | (0.15) |
| 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 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:

DIRECTOR'S REPORT

For the year ended 30 June 2023

| | Year | Fixed Remuneration | | | | | | Variable remuneration | | | Total | |
|------------------------------|------|-------------------------|--|-----------------------------|-----------------------------------|---------------------------------|-------------------------------------|--|---------|-------|-------|-----------|
| | | 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 | | | | |
| Directors | | | | | | | | | | | | |
| Mr J Jetter | 2023 | 54,762 | - | - | - | - | - | - | - | - | - | 54,762 |
| | 2022 | 58,665 | - | - | - | - | - | - | - | 927 | - | 59,592 |
| Mr M Utsler ^(v) | 2023 | 315,520 | - | - | 44,442 | - | 300,000 | - | 131,300 | - | - | 791,262 |
| | 2022 | 300,000 | - | - | 31,782 | - | - | - | 122,500 | - | - | 454,282 |
| Mr G Page | 2023 | 53,425 | - | - | - | - | - | - | - | - | - | 53,425 |
| | 2022 | 61,347 | - | 2,564 | - | - | - | - | - | - | - | 63,911 |
| Mr P Senyucia | 2023 | 47,232 | - | 4,960 | - | - | - | - | - | - | - | 52,192 |
| | 2022 | 51,249 | - | 5,117 | - | - | - | - | - | 556 | - | 56,922 |
| Mr J Madden ^(iv) | 2023 | 48,191 | - | 5,060 | - | - | - | - | - | - | - | 53,251 |
| | 2022 | - | - | - | - | - | - | - | - | - | - | - |
| Total | 2023 | 519,130 | - | 10,020 | 44,442 | 300,000 | - | 131,300 | - | - | - | 1,004,892 |
| Director remuneration | 2022 | 471,261 | - | 7,681 | 31,782 | - | - | 122,500 | - | 1,483 | - | 634,707 |

(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 38 to 51 and Note 23.

(ii) Employee share plan costs are reversed for rights not vested where service criteria not met.

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

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

(v) Mr J Madden appointed non-executive director 1 July 2022

Mr Michael Utsler departed as Chief Executive Officer and Managing Director on 19 June 2023. Includes \$300,000 termination benefit agreed under a revised termination agreement outside of the employment agreement.

DIRECTOR'S REPORT

For the year ended 30 June 2023

| | Year | Fixed Remuneration | | | | Variable Remuneration | | | Total |
|---|------|-------------------------|-----------------------------|--------------------------------|---------------------------------|-------------------------------------|--|-----------|-------|
| | | Salary and fees \$US | Super- annuation \$US | Other benefits (ii) \$US | Termination benefits \$US | Cash bonus ⁽ⁱⁱⁱ⁾ \$US | Performance rights ⁽ⁱ⁾ \$US | \$US | |
| Executives | | | | | | | | | |
| Mr S Herod ^(iv) | 2023 | 12,273 | - | 1,175 | - | 10,000 | - | 23,448 | |
| | 2022 | - | - | - | - | - | - | - | |
| Mr S Castro | 2023 | 261,950 | 13,404 | 13,129 | - | 164,150 | - | 452,633 | |
| | 2022 | 260,000 | 15,840 | 12,202 | - | 136,000 | - | 424,042 | |
| Mr W Armstrong | 2023 | 241,800 | 13,072 | 26,801 | - | 128,300 | - | 409,973 | |
| | 2022 | 240,000 | 13,932 | 24,844 | - | 108,300 | 1,645 | 388,721 | |
| Mr P Trajanovich | 2023 | 241,800 | 13,928 | 39,368 | - | 130,900 | - | 425,996 | |
| | 2022 | 240,000 | 8,380 | 36,482 | - | 139,500 | - | 424,362 | |
| Total executive remuneration | 2023 | 757,823 | 40,404 | 80,473 | - | 433,350 | - | 1,312,050 | |
| | 2022 | 740,000 | 38,152 | 73,528 | - | 383,800 | 1,645 | 716,351 | |
| Total Director and executive remuneration | 2023 | 1,276,953 | 50,424 | 124,915 | 300,000 | 564,650 | - | 2,316,942 | |
| | 2022 | 1,211,261 | 45,833 | 105,310 | - | 506,300 | 3,128 | 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 38 to 51 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

(iv) Mr S Herod was appointed Chief Executive Officer on 20 June 2023

DIRECTOR'S REPORT

For the year ended 30 June 2023

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⁾ | |
|------------------------------|-----------------|------|---------------|------|------------------------------|------|
| | 2023 | 2022 | 2023 | 2022 | 2023 | 2022 |
| Directors | | | | | | |
| Mr J Jetter | 100% | 98% | - | - | - | 2% |
| Mr P Senyca | 100% | 99% | - | - | - | 1% |
| Mr M Utsler ⁽ⁱⁱⁱ⁾ | 81% | 73% | 19% | 27% | - | - |
| Mr G Page | 100% | 100% | - | - | - | - |
| Mr J Madden ⁽ⁱⁱ⁾ | 100% | - | - | - | - | - |
| Executives | | | | | | |
| Mr S Herod ^(iv) | 57% | - | 43% | - | - | - |
| Mr S Castro | 64% | 68% | 36% | 32% | - | - |
| Mr W Armstrong | 69% | 72% | 31% | 28% | - | - |
| Mr P Trajanovich | 69% | 67% | 31% | 33% | - | - |

- (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 J Madden appointed non-executive director 1 July 2022
- (iii) Mr M Utsler departed as Chief Executive Officer and Managing Director on 19 June 2023
- (iv) Mr S Herod was appointed Chief Executive Officer on 20 June 2023

Transaction related bonuses:

Mr Herod will be entitled to receive a cash bonus if there is a liquidity event that results in a return of capital to the Company's shareholders (including a takeover, merger, scheme of arrangement, sale of assets, share buy-back, special dividend, or a series of liquidity events) that arises from the signing of definitive documents during Mr Herod's employment not later than 1 March 2024. The maximum amount of the cash bonus is US\$300,000.

Performance against key measures for LTI:

| Metric | Target | Performance | Impact on Incentive Reward |
|--------------------------------|---|-------------------------|--|
| LTI | No vesting for the fiscal year ended 2023 | | |
| 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 expired on 29 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.

DIRECTOR'S REPORT

For the year ended 30 June 2023

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

| Name | Commencement of contract | Base salary including superannuation/other retirement benefits ⁽ⁱ⁾ \$US per annum (Effective 1 April 2023) | Termination benefit ⁽ⁱⁱ⁾ |
|---|--|---|---|
| Mr Michael Utsler <i>Managing Director and Chief Executive Officer</i> | 11 September 2020 (departed 19 th June 2023) | \$309,000 | 3 months base salary |
| Mr Steve Herod <i>Chief Executive Officer</i> | 20 June 2023 for initial 6-month term of contract. At will basis thereafter. | \$360,000 | During initial 6-month term: base salary to end of initial term. Thereafter, \$50,000 lump sum or continued participation in eligible company benefit plan as selected by Company |
| Mr Sergio Castro <i>Chief Financial Officer</i> | 9 December 2019 | \$267,800 | 3 months base salary |
| Mr W Armstrong <i>VP, Exploration and New Ventures</i> | 1 August 2018 | \$247,200 | 3 months base salary |
| Mr P Trajanovich <i>Senior VP Commercial and Land</i> | 1 August 2018 | \$247,200 | 3 months base salary |

- (i) Executive contracts are reviewed annually by the Board and the Remuneration and Nomination Committee.
(ii) 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 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 2023 financial year. The inputs into the fair value calculation of the rights granted and outstanding as at 30 June 2023 are set out in the following table:

DIRECTOR'S REPORT

For the year ended 30 June 2023

Year ended 30 June 2023 – 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 2020 | 15 Nov 2021 |
|---------------------------------------|----------------------------|-------------|-------------|----------------------------|-------------|-------------|-------------|-------------|
| 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 |
| 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 |
| KMP rights on issue at year end: | | | | | | | | |
| Mr J Jetter | - | - | - | 372,000 | 372,000 | 372,000 | 372,000 | 372,000 |
| Mr P Senyacia | - | - | - | 223,000 | 223,000 | 223,000 | 223,000 | 223,000 |
| Mr M Utsler | - | - | - | - | - | - | - | - |
| Mr G Page | - | - | - | - | - | - | - | - |
| Mr J Madden | - | - | - | - | - | - | - | - |
| Mr W Armstrong | 3,676,000 | 2,450,667 | 1,225,333 | - | - | - | - | - |
| Mr P Trajanovich | - | - | - | - | - | - | - | - |
| Mr S Castro | - | - | - | - | - | - | - | - |
| Mr S Herod | - | - | - | - | - | - | - | - |
| 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 |
| Share price at grant date – A\$ | 0.04 | 0.04 | 0.04 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 |
| Expected volatility | 70% | 70% | 70% | 70% | 70% | 70% | 70% | 70% |
| Expected dividend yield | 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% | 2.16% |
| Fair value – A\$ | 0.008 | 0.012 | 0.014 | 0.022 | 0.025 | 0.027 | 0.025 | 0.027 |
| Total value – A\$ | 29,408 | 29,408 | 17,155 | 13,090 | 14,875 | 16,065 | 14,875 | 16,065 |
| Total value not yet vested – A\$ | - | - | - | - | - | - | - | - |

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

DIRECTOR'S REPORT

For the year ended 30 June 2023

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 2023 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 |
|-----------------------------|--------------------------|-------------------------|----------------------|----------------|-----|------------------------|
| | | | | Number | % | |
| Directors | | | | | | |
| Mr J Jetter | 1,804,667 | - | - | 688,667 | 38% | 1,116,000 |
| Mr P Senyca | 2,769,000 | - | - | 2,100,000 | 76% | 669,000 |
| Mr M Utsler ⁽ⁱ⁾ | - | - | - | - | - | - |
| Mr G Page | - | - | - | - | - | - |
| Mr J Madden ⁽ⁱⁱ⁾ | - | - | - | - | - | - |
| | 4,573,667 | - | - | 2,788,667 | | 1,785,000 |
| Executives | | | | | | |
| | | | | | | |
| | | | | | | |
| Mr S Herod ⁽ⁱⁱⁱ⁾ | - | - | - | - | - | - |
| 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 | - | - | 2,788,667 | - | 9,137,000 |

(i) Mr M Utsler departed as Chief Executive Officer and Managing Director on 19 June 2023

(ii) Mr J Madden appointed non-executive director 1 July 2022

(iii) Mr S Herod was appointed Chief Executive Officer on 20 June 2023

DIRECTOR'S REPORT

For the year ended 30 June 2023

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.

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 (KMP) | KMP balance at start of year | Holding on appointment | Purchased during the year | Received through conversion of performance rights during the year | Balance on date ceased to be KMP | KMP balance at end of year |
|--------------------------------|------------------------------|------------------------|---------------------------|---|----------------------------------|----------------------------|
| Directors | | | | | | |
| Mr J Jetter | 57,881,668 | - | - | - | - | 57,881,668 |
| Mr M Utsler ⁽ⁱ⁾ | 5,000,000 | - | - | - | (5,000,000) | - |
| Mr P Senyca | 8,691,134 | - | - | - | - | 8,691,134 |
| Mr G Page | - | - | - | - | - | - |
| Mr J Madden ⁽ⁱⁱ⁾ | - | 2,000,000 | - | - | - | 2,000,000 |
| | 71,572,802 | 2,000,000 | - | - | (5,000,000) | 68,572,802 |
| Executives | | | | | | |
| Mr S Herod ⁽ⁱⁱⁱ⁾ | - | - | - | - | - | - |
| 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 | 2,000,000 | - | - | (5,000,000) | 70,080,802 |

(i) Mr M Utsler departed as Chief Executive Officer and Managing Director on 19 June 2023

(ii) Mr J Madden appointed non-executive director 1 July 2022

(iii) Mr S Herod was appointed Chief Executive Officer on 20 June 2023

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 (2022: nil).

End of Remuneration Report

DIRECTOR'S REPORT

For the year ended 30 June 2023

Diversity

Proportion of women employees at 30 June 2023:

| | Number | Proportion |
|----------------------------|--------|------------|
| Whole organisation* | 2/10 | 20% |
| Senior executive positions | 0/4 | 0% |
| Board | 0/4 | 0% |

*Includes four non-executive Directors

Performance rights on issue at 30 June 2023

| Date granted | Date of expiry | Issued to | Number |
|------------------|------------------|----------------|------------|
| 15 November 2018 | 15 November 2023 | Directors | 1,785,000 |
| 21 December 2018 | 15 November 2023 | Executives | 7,352,000 |
| 21 December 2018 | 15 November 2023 | Non-executives | 12,019,000 |
| | | | 21,156,000 |

Options on issue at 30 June 2023

Options were held by two separate parties at 30 June 2023 as follows:

| 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 2023.

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 38 to 51.

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



Mr John Jetter
Chairman

28 September 2023

DIRECTOR'S REPORT

For the year ended 30 June 2023



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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 2023, 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.

A handwritten signature in black ink, appearing to read 'Phillip Murdoch', with a long horizontal flourish extending to the right.

Phillip Murdoch

Director

BDO Audit (WA) Pty Ltd

Perth

28 September 2023

BDO Audit (WA) Pty Ltd ABN 79 112 284 787 is a member of a national association of independent entities which are all members of BDO Australia Ltd ABN 77 050 110 275, an Australian company limited by guarantee. BDO Audit (WA) Pty Ltd and BDO Australia Ltd are members of BDO International Ltd, a UK company limited by guarantee, and form part of the international BDO network of independent member firms. Liability limited by a scheme approved under Professional Standards Legislation.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 30 June 2023

| | Note | 2023 US\$'000 | 2022 US\$'000 |
|--|------|------------------|------------------|
| Operating Revenue (Net) | 2 | 33,432 | 40,557 |
| Cost of sales | 3 | (11,739) | (9,504) |
| Gross profit | | 21,693 | 31,053 |
| Other income | 2 | 180 | 8 |
| Gain/(loss) on investments at fair value (net of transaction costs) | 4 | (3,029) | 5,847 |
| Exploration expenditure | 5 | (2,977) | (3,155) |
| Impairment | 13 | (19,800) | - |
| Finance costs | 6 | (1,055) | (2,107) |
| Gain/(loss) on derivative financial instruments | 15 | 1,501 | (6,642) |
| Administration and other expenses | 6 | (6,437) | (5,164) |
| Profit/(loss) before income tax | | (9,924) | 19,840 |
| Income tax (expense)/reversal | 8 | 2,918 | (4,326) |
| Profit/(loss) from continuing operations | | (7,006) | 15,514 |
| Profit/(loss) for the year after tax | | (7,006) | 15,514 |
| Other comprehensive income that may be recycled to profit or loss | | | |
| Total other comprehensive income | | - | - |
| Total comprehensive profit/(loss) for the year | | (7,006) | 15,514 |
| Earnings per share from continuing operations | | | |
| Basic and diluted profit/(loss) per share (US cents) | 7 | (0.15) | 0.32 |
| Earnings per share attributable to the ordinary equity holders of the company | | | |
| Basic and diluted profit/(loss) per share (US cents) | 7 | (0.15) | 0.32 |

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

As at 30 June 2023

| | Note | 2023 US\$'000 | 2022 US\$'000 |
|---|------|------------------|------------------|
| Current assets | | | |
| Restricted cash | 9 | - | 5,000 |
| Cash equivalents | 9 | 25,851 | 21,764 |
| Trade and other receivables | 11 | 2,110 | 5,191 |
| Financial assets at fair value through profit or loss | 12 | 529 | 3,558 |
| Prepayments | 12 | 448 | 3,289 |
| Other assets | 12 | 77 | 98 |
| Total current assets | | 29,015 | 38,900 |
| Non-current assets | | | |
| Oil and gas properties | 13 | 30,687 | 32,774 |
| Property, plant and equipment | | 88 | 147 |
| Other financial assets | 12 | 1,000 | 375 |
| Total non-current assets | | 31,775 | 33,296 |
| Total assets | | 60,790 | 72,196 |
| Current liabilities | | | |
| Trade and other payables | 14 | 4,648 | 3,375 |
| Borrowings (net of transaction costs) | 16 | - | 1,949 |
| Derivative financial instruments | 15 | - | 3,310 |
| Provisions | 17 | 1,473 | 4,358 |
| Total current liabilities | | 6,121 | 12,992 |
| Non-current liabilities | | | |
| Provisions | 17 | 6,223 | 3,752 |
| Total non-current liabilities | | 6,223 | 3,752 |
| Total liabilities | | 12,344 | 16,744 |
| Net assets | | 48,446 | 55,452 |
| Equity | | | |
| Contributed equity | 18 | 133,170 | 133,170 |
| Reserves | 19 | 10,506 | 10,506 |
| Accumulated losses | | (95,230) | (88,224) |
| Total equity | | 48,446 | 55,452 |

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 2023

| | Contributed equity | Share- based payments reserve | Accumulated losses | Total |
|--|-----------------------|--|-----------------------|----------|
| | US\$'000 | US\$'000 | US\$'000 | US\$'000 |
| Balance at 1 July 2021 | 133,223 | 10,414 | (103,738) | 39,899 |
| Loss for the year | - | - | 15,514 | 15,514 |
| Total comprehensive loss for the year | - | - | 15,514 | 15,514 |
| Transactions with owners in their capacity as owners: | | | | |
| Issue of shares (net of costs) | (53) | - | - | (53) |
| Equity benefits issued to employees | - | 86 | - | 86 |
| Foreign currency translation | - | 6 | - | 6 |
| Balance at 30 June 2022 | 133,170 | 10,506 | (88,224) | 55,452 |
| Balance at 1 July 2022 | 133,170 | 10,506 | (88,224) | 55,452 |
| Loss for the year | - | - | (7,006) | (7,006) |
| Total comprehensive loss for the year | - | - | (7,006) | (7,006) |
| Transactions with owners in their capacity as owners: | | | | |
| Share issue costs | - | - | - | - |
| Equity benefits issued to advisors- Note 23 | - | - | - | - |
| Equity benefits issued to employees | - | - | - | - |
| Balance at 30 June 2023 | 133,170 | 10,506 | (95,230) | 48,446 |

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

CONSOLIDATED STATEMENT OF CASHFLOWS

For the year ended 30 June 2023

| | Note | 2023 US\$'000 | 2022 US\$'000 |
|---|------|------------------|------------------|
| Cash flows from operating activities | | | |
| Oil and Gas Sales (net) | | 36,547 | 39,170 |
| Payments to suppliers and employees | | (14,445) | (8,185) |
| Payments on settlement of derivative financial instruments | | (1,809) | (8,844) |
| Payments for exploration and evaluation | | (2,674) | (6,086) |
| Interest paid (net of interest received) | | (480) | (1,061) |
| Income tax paid | | (1) | (5) |
| Net cash inflow from operating activities | 10 | 17,138 | 14,989 |
| Cash flows from investing activities | | | |
| (Payments) / proceeds for purchase/ sale of investments | | (575) | 10,482 |
| Payments for property, plant and equipment | | (5) | (149) |
| Payments for development and evaluation | | (15,052) | (394) |
| Bond for development asset | | (50) | - |
| Net cash inflow/(outflow) from investing activities | | (15,682) | 9,939 |
| Cash flows from financing activities | | | |
| Loan repayments | | (2,300) | (9,200) |
| Transaction costs relating to borrowings | | - | (3) |
| Transaction costs relating to equity instruments | | - | (53) |
| Net cash outflow from financing activities | | (2,300) | (9,256) |
| Net (decrease)/increase in cash and cash equivalents | | (844) | 15,672 |
| Cash and cash equivalents at the beginning of the financial year | | 26,764 | 11,100 |
| Effects of exchange rate changes on cash | | (70) | (8) |
| Cash and cash equivalents at the end of the financial year | 9 | 25,851 | 26,764 |

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

FINANCIAL REPORT

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2023

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 2023.

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 2022. 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 STATEMENTS

For the year ended 30 June 2023

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2023

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2023

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 2023. Reportable segments exclude results from discontinued operations.

The segment information for the reportable segments for the year ended 30 June 2023 is as follows:

| 2023 | Gulf of Mexico (USA) | Other | Consolidated |
|--|-------------------------|----------|--------------|
| | US\$'000 | US\$'000 | US\$'000 |
| Operating Revenue (Net) | 33,432 | - | 33,432 |
| Cost of Production | (11,739) | - | (11,739) |
| Gross Profit | 21,693 | - | 21,693 |
| Other income | 154 | 26 | 180 |
| Loss on investments at fair value (net of transaction costs) | (215) | (2,814) | (3,029) |
| Exploration expenditure | (2,977) | - | (2,977) |
| Impairment | (19,800) | - | (19,800) |
| Finance costs | (1,049) | (6) | (1,055) |
| Gains on derivative financial instruments | 1,501 | - | 1,501 |
| Administration and other expenses | (4,384) | (2,053) | (6,437) |
| Loss before income tax from continuing operations | (5,077) | (4,847) | (9,924) |
| Income tax (expense)/ reversal | 2,924 | (6) | 2,918 |
| Loss after income tax from continuing operations | (2,153) | (4,853) | (7,006) |
| | | | |
| 30 June 2023 | | | |
| Total non-current assets | 31,772 | 3 | 31,775 |
| Total assets | 48,990 | 11,800 | 60,790 |
| Total liabilities | 10,534 | 1,810 | 12,344 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2023

1. Segment information (continued)

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 (Net) | 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 |

| | 2023 | 2022 |
|---|-----------------|-----------------|
| | US\$'000 | US\$'000 |
| 2. Net operating revenue and other income | | |
| South Marsh 71 (SM71) Sales^{(i) (v)} | | |
| Oil Sales | 22,313 | 33,111 |
| Gas Sales | 1,304 | 1,830 |
| Total Sales | 23,617 | 34,941 |
| Less: Royalties ⁽ⁱ⁾ | (4,418) | (6,534) |
| SM71 Operating Revenue (Net) | 19,199 | 28,407 |
| Bulleit Field (GC-21) Sales^{(ii) (v)} | | |
| Oil Sales | 971 | 289 |
| Gas Sales | 52 | 96 |
| Natural Gas Liquids Sales | 33 | 34 |
| Total Sales | 1,056 | 419 |
| Less: Royalties ⁽ⁱⁱ⁾ | (197) | (82) |
| GC-21 Operating Revenue (Net) | 859 | 337 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2023

| | 2023 US\$'000 | 2022 US\$'000 |
|--|------------------|------------------|
| 2. Net operating revenue and other income (continued) | | |
| Lightning Sales^{(iii) (v)} | | |
| Oil Sales | 2,812 | 3,429 |
| Gas Sales | 4,482 | 6,232 |
| Natural Gas Liquids Sales | 1,351 | 2,152 |
| Lightning Operating Revenue (Net) | 8,645 | 11,813 |
| Mosquito Bay West Sales^{(iii) (v)} | | |
| Oil Sales | 745 | - |
| Gas Sales | 831 | - |
| Natural Gas Liquids Sales | 129 | - |
| Mosquito Bay West Operating Revenue (Net) | 1,705 | - |
| Oyster Bayou South Sales^{(iii) (v)} | | |
| Oil Sales | 2,417 | - |
| Gas Sales | 507 | - |
| Natural Gas Liquids Sales | 63 | - |
| Oyster Bayou South Operating Revenue (Net) | 2,987 | - |
| Vick #1 Sales^{(iii) (v)} | | |
| Gas Sales | 37 | - |
| Vick #1 Operating Revenue (Net) | 37 | - |
| Total Operating Revenue (Net) | 33,432 | 40,557 |
| | 2023 | 2022 |
| | US\$'000 | US\$'000 |
| Interest income ^(iv) | 180 | 8 |
| | 180 | 8 |

- (i) SM 71 net operating revenue is shown net of royalty payments payable to the (USA) Office of Natural Resources Revenue. Royalty payments are 18.75% of gross revenue under the terms of the SM 71 lease.
- (ii) GC 21 net operating revenue is shown net of royalty payments totalling 20%.
- (iii) Proceeds from the sale of oil and gas from the Lightning field, Mosquito Bay West, Oyster Bayou South and Vick#1 wells are received net of royalty payments.
- (iv) Interest income is recognised using the effective interest rate method.
- (v) Gross oil revenue (US\$22.3 million) from Gulf of Mexico SM71 and Gross oil revenue (US\$0.97 million) from Gulf of Mexico GC-21, were sold to the same single customer. Net gas revenue (US\$1.3 million) from Gulf of Mexico SM71, net oil revenue (US\$2.8 million) and net gas revenue (US\$5.8million) from Lightning were all sold to different single customers. Net gas revenue (US\$0.85 million) from Gulf of Mexico GC-21 was sold to multiple different customers.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2023

2. Net operating revenue and other income (continued)

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.

Production from Mosquito Bay West and Oyster Bayou South is measured at the wellhead and sent to a third party owned central processing facility where production is processed and commingled with other third party production and exported via sales pipeline. Revenue from the sale of Mosquito Bay West and Oyster Bayou South oil are recognized as liquids are recovered at the termination of the sales pipeline after it has passed through a liquids recovery plant. Gas is delivered to a regional Natural Gas Liquids (NGL) extraction plant where NGLs are extracted and the residue gas delivered to a gas sales pipeline. Revenue for NGLs is recognized at the plant gate after NGLs have been extracted from the raw gas stream, revenue for gas sales is recognized at inlet to the gas sales pipeline, hence revenue is recognised at a point in time.

| | 2023 US\$'000 | 2022 US\$'000 |
|--|------------------|------------------|
| 3. Cost of Sales | | |
| Gathering and Production charges | 5,900 | 4,588 |
| Amortisation of capitalised developments – Note 13 | 5,839 | 4,916 |
| Total Cost of Sales | 11,739 | 9,504 |

| | 2023 US\$'000 | 2022 US\$'000 |
|---|------------------|------------------|
| 4. Gain/(loss) on investments at fair value | | |
| Gain / (loss) on fair value of Pantheon Resources Plc shares (net of transaction costs) | (3,029) | 5,847 |
| Total Gain / (loss) on fair value of investments | (3,029) | 5,847 |

The Company owns 3,272,592 shares of Pantheon Resources Plc (London Stock Exchange: PANR), as a result of its 2021 sale of Borealis Alaska LLC to acreage operator Pantheon Resources (Pantheon), which are valued at US\$0.5 million as at 30 June 2023 (2022: US\$3.6 million), as well as a 0.5% of 8/8ths overriding royalty interest (ORRI) in any future production from the Talitha Unit in Alaska,

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2023

4. Gain on investments at fair value (continued)

which is operated by Pantheon. Loss on investments (net of transaction costs) for the current year was US\$3.0 million (2022: Gain of US\$5.8 million), which was attributable to the shares of Pantheon Resources Plc (LSE: PANR) held by the Company.

| | 2023 | 2022 |
|--|----------|----------|
| | US\$'000 | US\$'000 |

5. Exploration expenditure

| | | |
|---|--------------|--------------|
| Exploration expenditure – Gulf of Mexico/Gulf Coast | 2,977 | 3,155 |
| | <u>2,977</u> | <u>3,155</u> |

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.

Exploration expenditure in relation to the Gulf of Mexico/Gulf Coast includes the exploration drilling of the Mosquito Bay West (US\$0.9 million) and Oyster Bayou South (US\$1.7 million) prospects.

| | 2023 | 2022 |
|--|----------|----------|
| | US\$'000 | US\$'000 |

6. Other expenses

i) Finance Costs

| | | |
|--|--------------|--------------|
| Interest and commitment fees on borrowings | 607 | 1,061 |
| Interest expense leases | - | (14) |
| Amortisation of borrowing costs | 351 | 1,020 |
| Accretion of decommissioning fund | 58 | 28 |
| Other | 39 | 12 |
| Total finance cost | <u>1,055</u> | <u>2,107</u> |

ii) Administration and other expenses

Employee benefits expense

| | | |
|---|--------------|--------------|
| Defined contribution superannuation expense | 90 | 57 |
| Share-based payment (reversal)/expense | - | 92 |
| Other employee benefits expenses | 3,507 | 3,138 |
| Total employee benefits expense | <u>3,597</u> | <u>3,287</u> |

*Depreciation expense⁽¹⁾**Right-of-use assets*

| | | |
|--|----------|------------|
| Right-of-use assets – buildings | - | 119 |
| Total depreciation expense right-of-use assets | <u>-</u> | <u>119</u> |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2023

| | 2023 US\$'000 | 2022 US\$'000 |
|---|------------------|------------------|
| 6. Other expenses (continued) | | |
| <i>Depreciation expense⁽ⁱ⁾</i> | | |
| <i>Property, plant and equipment</i> | | |
| Furniture and equipment | 63 | 66 |
| Total depreciation expense | <u>63</u> | <u>185</u> |
| Corporate and other costs | 2,328 | 1,306 |
| Business development | 379 | 443 |
| Foreign currency (gains)/losses | 70 | (57) |
| | <u>2,777</u> | <u>1,692</u> |
| Total administration and other expenses | <u>6,437</u> | <u>5,164</u> |

(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\$5.9 million (2022: US\$5.1 million)

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:

| | 2023 | 2022 |
|---|----------------|---------------|
| Profit/(loss) after tax from continuing operations (US\$'000) | (7,006) | 15,514 |
| Profit after tax from discontinued operations (US\$'000) | - | - |
| Profit/(loss) attributable to owners of the Company (US\$'000) | <u>(7,006)</u> | <u>15,514</u> |
| 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) | (0.15) | 0.32 |
| Basic and diluted profit per share from discontinued operations (US cents) | - | - |
| Basic and diluted profit/(loss) per share attributable to owners of the Company (US cents) | (0.15) | 0.32 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2023

8. Income tax

| | 2023 US\$'000 | 2022 US\$'000 |
|--|------------------|------------------|
| The components of tax expense comprise: | | |
| Current tax ⁽¹⁾ | 6 | 4,247 |
| Deferred tax – origination and reversal of temporary differences | - | - |
| Prior period under/ (over) provision ⁽¹⁾ | (2,924) | 79 |
| | <u>(2,918)</u> | <u>4,326</u> |
| Reconciliation of income tax expense to prima facie tax payable: | | |
| Profit/(loss) before income tax from continuing operations | (9,924) | 19,839 |
| Profit before income tax from discontinued operations | - | - |
| Loss before income tax | (9,924) | 19,839 |
| Prima facie income tax at 30% | (2,977) | 5,952 |
| Difference in overseas tax rates | (744) | (1,754) |
| Non-assessable income | - | - |
| Tax effect of amounts not deductible in calculating taxable income | 6,059 | (110) |
| Benefit of deferred tax assets not brought to account | (2,332) | 238 |
| Prior period under/ (over) provision ⁽¹⁾ | (2,924) | - |
| Income tax expense/(benefit) | <u>(2,918)</u> | <u>4,326</u> |
| Deferred tax assets | | |
| Temporary differences | | |
| – provisions and other corporate costs | (237) | (22) |
| – exploration and evaluation costs | - | - |
| Deferred tax assets brought to account | <u>(237)</u> | <u>(22)</u> |
| Tax losses - revenue | | |
| | 10,959 | 8,547 |
| Tax losses - foreign | 4,798 | 4 |
| | <u>15,520</u> | <u>8,529</u> |
| Offset against deferred tax liabilities recognised | (7,230) | (8,324) |
| Deferred tax assets not brought to account | (8,290) | (205) |
| Deferred tax assets brought to account | - | - |
| Deferred tax liabilities | | |
| Temporary differences – Oil and gas properties | | |
| | 7,230 | 8,324 |
| Offset by deferred tax assets recognised | (7,230) | (8,324) |
| Deferred tax liabilities brought to account | - | - |

⁽¹⁾Income tax expense reversal relates to prior year accrual of US income tax expense not payable.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2023

8. Income tax (continued)

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 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.

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.

| | 2023 US\$'000 | 2022 US\$'000 |
|---|------------------|------------------|
| 9. Cash and cash equivalents | | |
| Cash at bank and on hand | 25,851 | 21,764 |
| Restricted cash – debt service reserve account (DSRA) | - | 5,000 |
| Balance at end of period | <u>25,851</u> | <u>26,764</u> |

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.

In November 2019, the Company entered into a 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) was required with a balance of the greater of 6 months of the forecast debt service or US\$5 million. The debt facility was repaid during the year and the DSRA balance of US\$5 million repaid to the Company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2023

| | 2023 US\$'000 | 2022 US\$'000 |
|---|------------------|------------------|
| 10. Reconciliation of profit/(loss) after income tax to net cash outflow from operating activities | | |
| Profit/(loss) after income tax | (7,006) | 15,514 |
| Non-cash items: | | |
| Impairment | 19,800 | - |
| Depreciation expense – furniture and equipment | 63 | 185 |
| Foreign currency translation reserve reversal | - | - |
| Profit on sale of subsidiary | - | - |
| (Gain)/ loss on investments at fair value | 3,029 | (5,847) |
| Share-based payments | - | 92 |
| Gain on derivative instruments at fair value | (3,310) | (2,202) |
| Finance costs | 409 | 1,038 |
| Amortisation of capitalised developments – see Note 3 | 5,839 | 4,916 |
| Other non-cash items | 320 | (56) |
| Change in assets and liabilities: | | |
| Decrease/(increase) in trade and other receivables | 3,068 | (1,387) |
| Increase in other assets | (1,648) | (2,870) |
| Increase/(decrease) in trade and other payables | (546) | 1,254 |
| Increase/(decrease) in provisions | (2,880) | 4,352 |
| Net cash inflow from operating activities | 17,138 | 14,989 |

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

| | | |
|----------------------------------|---------|---------|
| Balance at the start of the year | 1,949 | 10,129 |
| Repayment on borrowings | (2,300) | (9,200) |
| Borrowing transaction costs | - | - |
| Amortisation borrowing costs | 351 | 1,020 |
| Balance at the end of the year | - | 1,949 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2023

OPERATING ASSETS AND LIABILITIES

| | 2023 US\$'000 | 2022 US\$'000 |
|--|------------------|------------------|
| 11. Trade and other receivables | | |
| Trade receivables ⁽ⁱ⁾ | 2,063 | 5,177 |
| Other receivables | 47 | 14 |
| | 2,110 | 5,191 |

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 2023 Lightning, Mosquito Bay West, Oyster Bayou South (net of royalties), SM 71 and GC-21 oil and gas sales (before deduction of SM 71 and GC-21 royalties).

| | 2023 US\$'000 | 2022 US\$'000 |
|--|------------------|------------------|
| 12. Other assets | | |
| Current | | |
| Financial assets at fair value through profit or loss ⁽ⁱ⁾ | 529 | 3,558 |
| Prepayments ⁽ⁱⁱ⁾ | 448 | 3,289 |
| Other assets | 77 | 98 |
| | 1,054 | 6,945 |
| Non-current | | |
| Bonds ⁽ⁱⁱⁱ⁾ | 425 | 375 |
| Investments ^(iv) | 575 | |
| | 1,000 | 375 |

- (i) The Company continues to own 3,272,592 shares of PANR, valued at approximately US\$0.5 million as at 30 June 2023 (2022: US\$3.6 million)
- (ii) Net cash calls in advance for Lightning, Mosquito Bay West and Oyster Bayou South (US\$0.24 million)
- (iii) Development bond for SM 71 (US\$0.325 million), GC-21 (US\$0.05 million) and ST48 (US\$0.05 million)
- (iv) Investment in Minotaur Mineral Development Fund 1, LLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2023

12. Other assets (continued)

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 decrease in fair value of US\$3.03 million (2022: increase of US\$5.8 million) was recognised through profit and loss at reporting date. (PANR GBP0.13 and USD/GBP exchange rate 1.271).

13. Oil and gas properties

Producing and development assets**At cost**

| | 2023 US\$'000 | 2022 US\$'000 |
|---------------------------------------|------------------|------------------|
| SM71 balance at beginning of year | 11,298 | 14,960 |
| SM71 expenditure for the year | 807 | (104) |
| SM71 amortisation of assets | (1,460) | (3,558) |
| SM71 balance at end of year | 10,645 | 11,298 |
| Lighting balance at beginning of year | 3,446 | 4,640 |
| Lightning expenditure for the year | (62) | 16 |
| Lightning amortisation of assets | (1,538) | (1,210) |
| Lightning balance at end of year | 1,846 | 3,446 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2023

| | 2023 US\$'000 | 2022 US\$'000 |
|---|------------------|------------------|
| 13. Oil and gas properties (continued) | | |
| GC-21 balance at beginning of year | 17,899 | 17,363 |
| GC-21 expenditure for the year | 21,417 | 683 |
| GC-21 impairment | (19,800) | - |
| GC-21 amortisation of assets | (2,243) | (147) |
| GC-21 balance at end of year | <u>17,273</u> | <u>17,899</u> |
| | | |
| Vick #1 balance at beginning of year | 96 | - |
| Vick #1 expenditure for the year | 2 | 96 |
| Vick #1 amortisation of assets | (98) | - |
| Vick #1 balance at end of year | <u>-</u> | <u>96</u> |
| | | |
| Mosquito Bay West balance at beginning of year | 35 | - |
| Mosquito Bay West expenditure for the year | 710 | 35 |
| Mosquito Bay West amortisation of assets | (177) | - |
| Mosquito Bay West balance at end of year | <u>568</u> | <u>35</u> |
| | | |
| Oyster Bayou South balance at beginning of year | - | - |
| Oyster Bayou South expenditure for the year | 677 | - |
| Oyster Bayou South amortisation of assets | (322) | - |
| Oyster Bayou South balance at end of year | <u>355</u> | <u>-</u> |
| | | |
| Total Oil and Gas Properties | <u>30,687</u> | <u>32,774</u> |

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2023

13. Oil and gas properties (continued)

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.

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.

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2023

13. Oil and gas properties (continued)

The Company assessed each cash generating unit (CGU) for indicators of impairment. Impairment indicators were identified on the GC 21 CGU in relation to cost overruns on the DTR-10 recompletion and well performance. After a few days of production from the DTR-10 sands, well diagnostics indicated that the lower DTR-10 completion was not contributing to well production and the well was only seeing a contribution from the upper completion. Well intervention operations were completed in mid-May 2023.

GC 21 recoverable value was calculated using a VIU (value in use) calculation. The estimated future cash flows for the VIU calculation are based on estimates, the most significant of which are hydrocarbon reserves (excluding uncommitted developments), future production profiles, commodity prices, operating costs and committed development costs.

The basis of reserves in the VIU model was 2P estimated reserve volumes for the DTR-10 well. Gross (100%) oil 2,996 Mbbbl/Gross (100%) gas 2,546MMcf. (2022: Gross (100%) oil 7,295 Mbbbl/Gross (100%) gas 4,378MMcf)

Estimates of future commodity prices are based on the Group's best estimate of future market prices with reference to external market analyst's forecasts, current spot prices and forward curves. Weighted average estimates are \$70/Bbl oil and \$3.70/MMBtu gas.

The discount rates applied to the future forecast cash flows are based on the weighted average cost of capital. The pre-tax discount rates that has been applied to non-current assets is 15%.

In the event that future circumstances vary from these assumptions, the recoverable amount of the Group's oil and gas assets could change materially and result in further impairment losses.

Due to the interrelated nature of the assumptions, movements in any one variable can have an indirect impact on others and individual variables rarely change in isolation. Additionally, management can be expected to respond to some movements, to mitigate downsides and take advantage of upsides, as circumstances allow. Consequently, it is impractical to estimate the indirect impact that a change in one assumption has on other variables and hence, on the likelihood, or extent, of impairments under different sets of assumptions in subsequent reporting periods.

At 30 June 2023, the Group has assessed the GC 21 Bulleit cash generating unit and determined that there is an impairment loss of US\$19.8 million.

Sensitivity

To the extent oil and gas cash generating units have been written down to their respective recoverable amounts in the current and prior years, any change in key assumptions on which valuations are based would further impact asset carrying values. When modelled in isolation, it is estimated that reasonable changes in key assumptions would result in the following additional impairment:

| Oil and gas assets | Production decrease 5% US\$'000 | Discount rate increase 0.5% US\$'000 | Oil and gas price decrease 10% all years US\$'000 |
|--------------------|------------------------------------|---|--|
| GC-21 | 988 | 88 | 1,877 |

There were no impairment indicators identified for the other assets at 30 June 2023.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2023

13. Oil and gas properties (continued)

Amortisation

Estimation of amortisation of the SM 71, GC-21, Mosquito Bay West, Oyster Bayou South and Lightning oil and gas assets is based on the updated 2P reserves estimate and estimated future development costs as at 30 June 2023. Producing assets are amortised on a unit of production basis on 2P reserves. The estimated reserves for all fields 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 estimated 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.

| | 2023 US\$'000 | 2022 US\$'000 |
|-------------------------------------|------------------|------------------|
| 14. Trade and other payables | | |
| Trade payables | 4,179 | 3,134 |
| Other accrued expenses | 469 | 241 |
| | 4,648 | 3,375 |

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 STATEMENTS

For the year ended 30 June 2023

| | 2023 US\$'000 | 2022 US\$'000 |
|---|------------------|------------------|
| 15. Derivative financial instruments | | |
| Current liability | | |
| Balance at the beginning of the year | 3,310 | 4,703 |
| Unrealised gains on oil and natural gas price fixed swaps | (3,310) | (1,393) |
| Current oil price fixed swaps – held at fair value through profit or loss | - | 3,310 |
| Non-current liability | | |
| Balance at the beginning of the year | - | 809 |
| Unrealised gains on oil and natural gas price fixed swaps | - | (809) |
| Non-current oil price fixed swaps – held at fair value through profit or loss | - | - |
| Total derivative financial instrument liabilities | - | 3,310 |

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

| | 2023 US\$'000 | 2022 US\$'000 |
|---|------------------|------------------|
| <i>Current Secured</i> | | |
| Principal outstanding at the end of the year | - | 2,300 |
| Less: Unamortised facility transaction costs at the end of the year | - | (351) |
| Net borrowings at the end of the year | - | 1,949 |

On 4 November 2019 the Company announced it had entered into a senior secured US\$55 million term debt facility with Macquarie Bank Limited (**Macquarie**) (the **Credit Facility**) made up of Tranche A1 (US\$25 million), Tranche A2 (US\$10 million), and Tranche B (US\$20 million, subject to further credit approval).

As of 30 June 2023, the Company had drawn and repaid the entire US\$25 million available under Tranche A1, resulting in a closing debt balance of nil. Tranche A1 is therefore no longer available to borrow. The Company is currently terminating this facility. The Credit Facility is secured by substantially all of the Company's oil and gas producing assets. The Company was in compliance with all of its financial covenants throughout the year.

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. Total capitalised transaction and fair value of options relating to the facility agreement were US\$3.1 million of which the final US\$0.35 million was amortised during the period (2022: US\$1.0 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2023

| | 2023 US\$'000 | 2022 US\$'000 |
|--|------------------|------------------|
| 17. Provisions | | |
| Current | | |
| Employee benefits | 39 | 37 |
| Tax ⁽ⁱ⁾ | 1,434 | 4,321 |
| | 1,473 | 4,358 |
| Non-current | | |
| Employee benefits ⁽ⁱⁱ⁾ | 22 | 17 |
| Decommissioning fund – GC-21 Bulleit ⁽ⁱⁱⁱ⁾ | 4,148 | 1,679 |
| Decommissioning fund – Lightning ⁽ⁱⁱⁱ⁾ | 134 | 194 |
| Decommissioning fund – SM 71 ⁽ⁱⁱⁱ⁾ | 1,859 | 1,836 |
| Decommissioning fund – Mosquito Bay ⁽ⁱⁱⁱ⁾ | 27 | - |
| Decommissioning fund – Oyster Bayou South ⁽ⁱⁱⁱ⁾ | 28 | - |
| Decommissioning fund – Vick #1 ⁽ⁱⁱⁱ⁾ | 5 | 26 |
| | 6,223 | 3,752 |

- (i) Provision for income tax expense primarily relates to 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.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2023

17. Provisions (continued)

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 STATEMENTS

For the year ended 30 June 2023

CAPITAL STRUCTURE, FINANCIAL INSTRUMENTS AND RISK

18. Contributed equity

Share capital

| | 2023 (Number) | 2022 (Number) | 2023 (US\$'000) | 2022 (US\$'000) |
|--|------------------|------------------|--------------------|--------------------|
| Balance at beginning of year | 4,795,009,773 | 4,795,009,773 | 133,170 | 133,223 |
| Shares issued – transaction costs ⁽ⁱ⁾ | - | - | - | (53) |
| Balance at end of year | 4,795,009,773 | 4,795,009,773 | 133,170 | 133,170 |

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

- a. 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.
- b. 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.

In November 2019, the Company entered into a 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 STATEMENTS

For the year ended 30 June 2023

| | 2023 | 2022 |
|-------------------------------------|-----------------|-----------------|
| | US\$'000 | US\$'000 |
| 19. Reserves | | |
| Share-based payments reserve | 10,506 | 10,506 |
| | <u>10,506</u> | <u>10,506</u> |
| | | |
| | 2023 | 2022 |
| | US\$'000 | US\$'000 |
| Share-based payments reserve | | |
| Balance at beginning of year | 10,506 | 10,414 |
| Share-based payment expense | - | 92 |
| Balance at end of year | <u>10,506</u> | <u>10,506</u> |

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2023

20. Financial instruments (continued)

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.

A hypothetical change of 10% (2022: 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 2023, 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 2023 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 Westpac Banking Corporation in Australia and Bank of America in the United States.

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

| | 2023 US\$'000 | 2022 US\$'000 |
|---|------------------|------------------|
| Cash on interest bearing term deposit | 12,052 | 21 |
| Borrowings (excludes capitalised borrowing costs) | - | (2,300) |
| | 12,052 | (2,279) |

The following sensitivity analysis is based on the interest rate risk exposures in existence at the reporting date. The 2.0% sensitivity (2022:2% 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) | |
|---|--|------------------|
| | 2023 US\$'000 | 2022 US\$'000 |
| Increase 200 basis points (2022:200 basis points) | 241 | 46 |
| Decrease 200 basis points (2022:200 basis points) | (241) | (46) |

d) Commodity price risk

Otto derives its net operating revenue from the sale of oil and natural gas. As a result, the Company's net operating 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 may utilize commodity price hedge instruments to minimize exposure to short term price fluctuations by using a series of swaps, costless collars and/or puts. The Company evaluates market prices and sensitivities from time to time to determine when it would be appropriate to enter into these hedges. 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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2023

20. Financial instruments (continued)

and the forward curve pricing for the commodities being hedged. For the fiscal year ended 30 June 2023, the Company recorded a profit on hedging of approximately \$1.5 million due to the reversal of unrealized losses recognised in the previous year. The last remaining hedges expired on 7 October 2022. The fair value of the derivative financial instruments held at fair value through profit and loss at reporting date is nil.

Currently, there are no hedge instruments in place and the Group is exposed to commodity price risk on oil and gas revenue. The following sensitivity analysis is based on the commodity price risk exposures in existence at the reporting date. The 10.0% sensitivity is based on reasonable possible changes.

| Judgements of reasonably possible movements | Effect on post tax losses Increase/(decrease) | |
|---|--|------------------|
| | 2023 US\$'000 | 2022 US\$'000 |
| Increase 10% | 3,343 | 4,056 |
| Decrease 10% | (3,343) | (4,056) |

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:

| | 2023 US\$'000 | 2022 US\$'000 |
|-----------------------------|------------------|------------------|
| Cash and cash equivalents | 25,851 | 26,764 |
| Trade and other receivables | 2,110 | 5,191 |
| | <u>27,961</u> | <u>31,955</u> |

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:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2023

20. Financial instruments (continued)

| | 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 | | | | | |
| 2023 | 4,648 | 4,648 | 4,648 | - | - |
| 2022 | 3,375 | 3,375 | 3,375 | - | - |
| Borrowings | | | | | |
| 2023 | - | - | - | - | - |
| 2022 | 1,949 | 1,949 | 1,949 | - | - |

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 100% equity (2022: 96% equity and 4% 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.

| Judgements of reasonably possible movements | Effect on post tax losses Increase/(decrease) | |
|---|--|------------------|
| | 2023 US\$'000 | 2022 US\$'000 |
| Increase 10% | 50 | 356 |
| Decrease 10% | (50) | (356) |

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:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2023

20. Financial instruments (continued)

| Financial assets measured at fair value | | 2023 | 2022 |
|---|---------|-----------------|-----------------|
| | | US\$'000 | US\$'000 |
| Financial assets at fair value through profit and loss ⁽ⁱⁱ⁾ | Level 1 | 529 | 3,558 |
| 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 | | <u>529</u> | <u>3,558</u> |
| Financial liabilities measured at fair value | | 2023 | 2022 |
| | | US\$'000 | 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 |
| Derivative financial liabilities at fair value through profit and loss | Level 3 | - | - |
| Total financial liabilities measured at fair value | | <u>-</u> | <u>3,310</u> |

(i) No derivative balance held at 30 June 2023. The 30 June 2022 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 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 2023 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 STATEMENTS

For the year ended 30 June 2023

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 | |
|--|--------------------------|---------------------|-----------------|--------------------|----------|
| | | | | 2023 (%) | 2022 (%) |
| 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 ⁽ⁱ⁾ | USA | USD | Ordinary | - | 100 |
| Otto Energy (Patrick Henry) LLC ⁽ⁱ⁾ | USA | USD | Ordinary | - | 100 |

(i) Otto Energy (Lightning) LLC and Otto Energy (Patrick Henry) LLC were dissolved during the year

22. Interest in operations

a) Operations

The Group's share of the assets, liabilities, net operating 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 | 2023 | 2022 |
|-----------------------|---------|----------|----------|
| | | Group WI | Group WI |
| South Marsh Island 71 | USA | 50% | 50% |
| Lightning | USA | 37.5% | 37.5% |
| GC-21 | USA | 16.67% | 16.67% |
| Eaves | USA | 10.3% | 10.3% |
| Mosquito Bay West | USA | 30% | 30% |
| Oyster Bayou South | USA | 30% | 30% |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2023

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:

| | 2023 US\$'000 | 2022 US\$'000 |
|--|------------------|------------------|
| Exploration expenditure commitments – not later than 1 year | 95 | 2,845 |
| Exploration expenditure commitments – later than one year but not later than five years | - | 95 |
| Capital expenditure commitments – not later than 1 year | - | 6,677 |
| Capital expenditure commitments – later than one year but not later than five years ⁽ⁱ⁾ | 1,667 | - |
| | 1,762 | 9,617 |

(i) Capital expenditure commitments relate to future GC-21 development activities.

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 2023 financial year. The Company did not grant any employee options during the 2023 or 2022 financial years. During the year ended 30 June 2023, nil (2022: 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 fully amortised over the life of the facility.

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 STATEMENTS

For the year ended 30 June 2023

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:

| 2023 | | 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 | - | - | (2,788,667) | 21,156,000 |
| Weighted average exercise price - A\$ | | | | 0.01 | | | | 0.01 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2023

23. Share-based payments (continued)

| 2022 | | Fair value on date of issue | Fair value on date of issue | Balance at start of the year | Rights issued during the year | Exercise/Vested/lapsed/expired | Balance at end of the year |
|---------------------------------------|-------------|-----------------------------|-----------------------------|------------------------------|-------------------------------|--------------------------------|----------------------------|
| Grant date | Expiry date | A\$ | US\$ | 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 |

| | 2023 US\$'000 | 2022 US\$'000 |
|--|------------------|------------------|
| Set out below is the share based payment (reversal)/expense: | | |
| Performance rights issues in financial year 2019 | - | 6 |
| Options issued in financial year 2022 | - | 86 |
| Total | - | 92 |

No performance rights were granted under the Plan in the financial year 2023. 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 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.

For the year ended 30 June 2023, the Group recognised share-based payments expense of nil (2022:US\$0.09M) in the Consolidated Statement of Profit or Loss and Other Comprehensive Income

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2023

23. Share-based payments (continued)

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 STATEMENTS

For the year ended 30 June 2023

24. Related parties

| | 2023 US\$'000 | 2022 US\$'000 |
|--|------------------|------------------|
| Key management personnel compensation | | |
| Short-term employee benefits | 1,842 | 1,717 |
| Post-employment benefits | 50 | 46 |
| Other benefits | 125 | 105 |
| Termination benefits | 300 | - |
| Share-based payments | - | 3 |
| Total USD | <u>2,317</u> | <u>1,871</u> |
| Total AUD equivalent | <u>3,457</u> | <u>2,591</u> |

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:

| | 2023 US\$'000 | 2022 US\$'000 |
|---|------------------|------------------|
| BDO Audit (WA) Pty Ltd | | |
| Audit and review of financial statements | 58 | 56 |
| Tax compliance services | 8 | 9 |
| Tax consulting and tax advice | - | 10 |
| Total remuneration of BDO Audit (WA) Pty Ltd | <u>66</u> | <u>75</u> |
| Network firms of BDO Audit (WA) Pty Ltd | | |
| Audit and review of financial statements | 33 | 18 |
| Tax compliance services | 28 | 54 |
| International tax consulting | 39 | 78 |
| Total remuneration of network firms of BDO Audit (WA) Pty Ltd | <u>100</u> | <u>150</u> |
| Total | <u>166</u> | <u>225</u> |

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

Insurance Claim

In January 2023, Otto and the operator of GC 21, both filed a Control of Well event claim with their respective insurance carriers regarding the recompletion at GC 21. During the recompletion, the tubing string, control lines and clamps were damaged, and the 14-inch casing was found to be parted below the mudline. Once the loss of control was encountered, it took numerous attempts, tests, and work to determine the issues.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2023

26. Contingent assets and liabilities (continued)

The insurance claim is for a maximum amount of US\$8.7 million. In August 2023, the Company announced it had received US\$5.8 million in relation to the insurance claim as an interim payment. Refer to Note 28 Events after the reporting period. However, the contingent asset has not been recognised as a receivable as at 30 June 2023 as the outcome was not finalised at reporting date. No assurance can be made as to the amount or timing of any additional insurance claim proceeds.

Transaction related bonuses

In March 2023, the Company announced a formal review process to evaluate strategic options to maximize shareholder value including a potential partial or full sale of the Company and/or its assets. Seaport Global Securities (in the United States) and Adelaide Equity Partners Limited (in Australia) have been retained as financial advisors to assist with the process with a transaction-based fee agreed on a successful outcome. The success fee is dependent on the aggregate consideration and sale structure.

In June 2023, the Company announced a change in management whereby Mr Utsler departed as CEO and Managing Director on 19 June 2023 with Mr Herod commencing as CEO on 20 June 2023. Mr Herod will be entitled to receive a cash bonus if there is a liquidity event that results in a return of capital to the Company's shareholders (including a takeover, merger, scheme of arrangement, sale of assets, share buy-back, special dividend, or a series of liquidity events) that arises from the signing of definitive documents during Mr Herod's employment not later than 1 March 2024. The maximum amount of the cash bonus is US\$0.3 million. As a separate matter, Mr Utsler will be entitled to receive a cash bonus of US\$0.2 million if there is a liquidity event occurring not later than December 31, 2023 pursuant to the terms and conditions of a consulting agreement dated 19 June 2023.

27. Commitments**a) Exploration expenditure commitments**

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

| | 2023 US\$'000 | 2022 US\$'000 |
|---|------------------|------------------|
| Not later than 1 year | 95 | 2,845 |
| Later than one year but not later than five years | - | 95 |
| | 95 | 2,940 |

b) Capital expenditure commitments.

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

| | 2023 US\$'000 | 2022 US\$'000 |
|---|------------------|------------------|
| Not later than 1 year | - | 6,677 |
| Later than one year but not later than five years | 1,667 | - |
| | 1,667 | 6,677 |

Capital expenditure commitments relate to future GC-21 development activities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2023

28. Events after the reporting period

No matters or circumstances have arisen since 30 June 2023 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:

- On 9 August 2023, Otto received an AFE from the operator of the Vick #1 well to plug and abandon this well, at a cost of US\$11,000, net to Otto.
- As of 11 August 2023, Otto had received proceeds of US\$5.8 million in relation to a Control of Well insurance claim at GC 21. During the recompletion, the tubing string, control lines, casing and clamps were damaged. A review is underway to determine how increased loop eddy currents contributed to these failures.
- On 30 August 2023 the Company released its statement of reserves and prospective resources as at 30 June 2023. The estimated reserves were compiled by Otto's independent consultant Ryder Scott Company and covered SM 71, Lightning, GC 21, Mosquito Bay West and Oyster Bayou South. The contingent and prospective resources covered SM 71, Lightning and ST 48. The summary statement of reserves and resources as at 30 June 2023 and changes to reserves and resources since 30 June 2022 is set out in the Production and Development section of this Director's Report. For full details refer to ASX release dated 30 August 2023.

29. Parent entity disclosures

As at, and throughout the financial year ended 30 June 2023, the parent company of the Group was Otto Energy Limited.

| | 2023 US\$'000 | 2022 US\$'000 |
|--|------------------|------------------|
| Parent entity | | |
| Summarised statement of profit or loss and other comprehensive income | | |
| Profit/(loss) for the year after tax | (7,006) | 13,641 |
| Total comprehensive profit/(loss) for the year | <u>(7,006)</u> | <u>13,641</u> |
| | | |
| | | |
| Summarised statement of financial position | | |
| Current assets | 10,171 | 5,237 |
| Non-current assets | 37,922 | 50,647 |
| Total assets | <u>48,093</u> | <u>55,884</u> |
| | | |
| Current liabilities | 331 | 415 |
| Non-current liabilities | 22 | 17 |
| Total liabilities | <u>353</u> | <u>432</u> |
| | | |
| Net assets | <u>48,446</u> | <u>55,452</u> |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2023

29. Parent entity disclosures (continued)

| | 2023 US\$'000 | 2022 US\$'000 |
|---|------------------|------------------|
| Total equity of the parent entity comprises: | | |
| Share capital | 133,170 | 133,170 |
| Share based payments reserves | 10,506 | 10,506 |
| Foreign currency translation reserve | - | - |
| Accumulated losses | (95,230) | (88,224) |
| Total equity | 48,446 | 55,452 |

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 2023 and 30 June 2022 beyond those listed in Note 26.

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 2023

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 2023 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 2023 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 2023 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 2023.

On behalf of the Board



Mr J Jetter

Chairman

28 September 2023

INDEPENDENT AUDIT REPORT TO THE MEMBERS OF OTTO ENERGY LIMITED

For the year ended 30 June 2023



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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 2023, 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 2023 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.

BDO Audit (WA) Pty Ltd ABN 79 112 284 787 is a member of a national association of independent entities which are all members of BDO Australia Ltd ABN 77 050 110 275, an Australian company limited by guarantee. BDO Audit (WA) Pty Ltd and BDO Australia Ltd are members of BDO International Ltd, a UK company limited by guarantee, and form part of the international BDO network of independent member firms. Liability limited by a scheme approved under Professional Standards Legislation.

INDEPENDENT AUDIT REPORT TO THE MEMBERS OF OTTO ENERGY LIMITED

For the year ended 30 June 2023



Impairment testing of Cash Generating Unit

| <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 Group concluded there was an impairment indicator during the year pertaining to its Bulleit well at Green Canyon (GC-21) as a result of lower than expected well performance and cost overruns. Accordingly, the Group was required to estimate the recoverable amount of the GC-21 CGU in accordance with the Australian Accounting Standards from which an impairment was recognised as per note 13.</p> <p>The assessment of impairment is complex and contains a number of estimates and judgements. The key judgements and estimates used in the group's impairment assessment are disclosed in note 13 to the financial report. Accordingly, this matter was considered to be a key audit matter.</p> | <p>Our work included but 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; • Considering management's valuation methodology applied in measuring the fair value of the respective assets identified within the GC-21 CGU; • Obtaining and reviewing available reserve data from management's external experts to determine whether the data has been correctly included in the impairment model. This included assessing the competency and objectivity of management's expert; • Reviewing the accuracy and integrity of management's value in use model; • Challenging key inputs used in the value in use calculation including but not limited to the following: <ul style="list-style-type: none"> • In conjunction with our valuation specialist, considering the appropriateness of the discount rate used; • Benchmarking and analysing management's oil and gas price assumptions against external market data; • Reviewing and analysing the appropriateness of forecasted operating and production costs contained within managements model against actuals and source documentation where possible; and • Performing sensitivity analysis on the commodity pricing, reserves and discount rates. • Reviewing the Director's minutes and ASX announcements for evidence of consistency of information with management's assessment of the carrying value of GC-21; and • Assessing the adequacy of the related disclosures in note 13 to the financial report. |

INDEPENDENT AUDIT REPORT TO THE MEMBERS OF OTTO ENERGY LIMITED

For the year ended 30 June 2023



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 2023, 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.

INDEPENDENT AUDIT REPORT TO THE MEMBERS OF OTTO ENERGY LIMITED

For the year ended 30 June 2023



Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included on pages 38 to 51 of the directors' report for the year ended 30 June 2023.

In our opinion, the Remuneration Report of Otto Energy Limited, for the year ended 30 June 2023, 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

A handwritten signature in black ink, appearing to read 'P. Murdoch', written over a horizontal line. The signature is written in a cursive style.

Phillip Murdoch

Director

Perth, 28 September 2023

ADDITIONAL ASX INFORMATION

As at 12 September 2023

Distribution of shareholdings

| Range | Number of holders | Number of shares |
|------------------|-------------------|------------------|
| 1 – 1,000 | 170 | 23,783 |
| 1,001 – 5,000 | 193 | 582,860 |
| 5,001 – 10,000 | 388 | 3,226,911 |
| 10,001 – 100,000 | 1,638 | 71,858,540 |
| 100,001 and over | 1,173 | 4,719,317,679 |
| Total | 3,562 | 4,795,009,773 |

Shareholders by location

| | Number of holders | Number of shares |
|--------------------|-------------------|------------------|
| Australian holders | 3,355 | 4,437,856,587 |
| Overseas holders | 207 | 357,153,186 |
| | 3,562 | 4,795,009,773 |

Unmarketable parcels

There were 1,370 shareholders holding less than a marketable parcel of shares.

Twenty largest shareholders

| | Name | Ordinary shares | |
|----|--|------------------|--------|
| | | Number of shares | % |
| 1 | HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED | 2,329,472,944 | 48.58% |
| 2 | BNP PARIBAS NOMS PTY LTD | 259,524,162 | 5.41% |
| 3 | MONEX BOOM SECURITIES (HK) LTD CLIENT A/C | 180,652,398 | 3.77% |
| 4 | GLOBAL MOSAIC PTY LTD | 128,031,883 | 2.67% |
| 5 | BNP PARIBAS NOMINEES PTY LTD | 108,839,406 | 2.27% |
| 6 | MR KENNETH JOSEPH HALL | 86,000,000 | 1.79% |
| 7 | BNP PARIBAS NOMINEES PTY LTD ACF CLEARSTREAM | 83,032,249 | 1.73% |
| 8 | MONEX BOOM SECURITIES (HK) LTD CLIENT A/C | 77,197,101 | 1.61% |
| 9 | CITICORP NOMINEES PTY LIMITED | 72,963,308 | 1.52% |
| 10 | MERRILL LYNCH (AUSTRALIA) NOMINEES PTY LIMITED | 53,784,446 | 1.12% |
| 11 | PALM BEACH NOMINEES PTY LIMITED | 44,599,999 | 0.93% |
| 12 | MR DOUGAL JAMES FERGUSON | 29,340,000 | 0.61% |
| 13 | MR NEIL DAVID OLOFSSON & MRS BELINDA OLOFSSON | 25,050,000 | 0.52% |
| 14 | MR ANASTASIOS MAZIS | 23,807,812 | 0.50% |
| 15 | SHENTON JAMES PTY LTD | 23,000,000 | 0.48% |
| 16 | TROPICAL INVESTMENTS WA PTY LTD | 22,555,555 | 0.47% |
| 17 | MR JOHN PHILIP DANIELS | 20,485,823 | 0.43% |
| 18 | BNP PARIBAS NOMS(NZ) LTD | 18,278,668 | 0.38% |
| 19 | MR DANIEL LEE | 18,211,778 | 0.38% |
| 20 | DANIEL LEE PTY LTD | 17,771,431 | 0.41% |
| | | 3,622,598,963 | 75.55% |

ADDITIONAL ASX INFORMATION

ADDITIONAL ASX INFORMATION

As at 12 September 2023

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 21,156,000 performance rights. The performance rights do not carry a right to vote at a general meeting of shareholders.

Performance Rights

| Grant date | Expiry date | Issued to | Exercise price | Number of performance rights | Number of holders |
|------------------|------------------|----------------|----------------|------------------------------|-------------------|
| 15 November 2018 | 15 November 2023 | Directors | A\$0.00 | 1,785,000 | 2 |
| 21 December 2018 | 15 November 2023 | Executives | A\$0.00 | 7,352,000 | 1 |
| 21 December 2018 | 15 November 2023 | Non-executives | A\$0.00 | 12,019,000 | 1 |
| | | | | 21,156,000 | |

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 2023 held by two separate parties.

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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