

ASX ANNOUNCEMENT
23 June 2017

NOTICE OF GENERAL MEETING & INDEPENDENT EXPERT'S REPORT

Attached is a Notice of General Meeting for Otto Energy Limited, including an Independent Expert's Report and proxy form, which has been despatched to shareholders today.

The meeting is to be held at 10:00 am (WST) on Tuesday, 25 July 2017 at CWA House, 1176 Hay St, West Perth WA 6005.

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Notice of Extraordinary General Meeting

Otto Energy Limited (ACN 107 555 046)

Tuesday, 25 July 2017
at 10:00 am (WST)
CWA House, 1176 Hay St, West Perth WA 6005

The business of the Meeting affects your shareholding and your vote is important.

This Notice of Meeting should be read in its entirety. If Shareholders are in doubt as to how they should vote, they should seek advice from their professional advisers prior to voting.

The Independent Expert has formed the opinion that the proposed transaction the subject of Resolutions 1 to 3 is NOT FAIR but REASONABLE to the non-associated Shareholders of Otto Energy Limited, in the absence of a superior proposal.

The Company's Directors (except Mr John Jetter who abstains from making a recommendation in respect of Resolutions 2 and 3) recommend that eligible Shareholders vote IN FAVOUR of Resolutions 1, 2 and 3.

Should you wish to discuss the matters in this Notice of Meeting please do not hesitate to contact the Company Secretary on + 61 8 6467 8800.

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Important Notices

Forward looking statements

Certain statements in this Notice of Meeting relate to the future. These statements reflect views only as of the date of this Notice of Meeting. While the Company believes that the expectations reflected in the forward looking statements are reasonable, neither the Company nor any other person gives any representation, assurance or guarantee that the occurrence of an event expressed or implied in any forward looking statements in this Notice of Meeting will actually occur.

Disclaimer

No person is authorised to give any information or make any representation in connection with the Convertible Notes or the Share Mortgage which is not contained in this Notice of Meeting. Any information or representation not contained in this Notice of Meeting, may not be relied on as having been authorised by the Company or the Board in connection with the Convertible Notes or the Share Mortgage.

Privacy

To assist the Company to conduct the Extraordinary General Meeting, the Company may collect personal information including names, contact details and shareholding of Shareholders and the names of persons appointed by Shareholders to act as proxy at the General Meeting. Personal information of this nature may be disclosed by the Company to its share registry, print and mail service providers, and the Company's agents for the purposes of issuing the Convertible Notes or implementing the Share Mortgage. Shareholders have certain rights to access their personal information that has been collected and should contact the Company Secretary if they wish to access their personal information.

Responsibility for information

The information contained in this Notice of Meeting (except for the Independent Expert's Report and information regarding Molton and its intentions) has been prepared by the Company and is the responsibility of the Company. Molton assumes no responsibility for the accuracy or completeness of that information. Information concerning Molton and its intentions has been provided by Molton. None of the Company, its associates or its advisers assumes any responsibility for the accuracy or completeness of that information.

PricewaterhouseCoopers Securities Ltd (holder of AFSL No 244572) (**PwC**) has prepared the Independent Expert's Report and has consented to the inclusion of the report, and references to it, in this Notice of Meeting. PwC takes responsibility for that report, and references to it, but is not responsible for any other information contained within this Notice of Meeting.

Shareholders are urged to read the Independent Expert's Report carefully to understand the scope of the report, the methodology of the assessment, the sources of information and the assumptions made.

ASIC and ASX involvement

A copy of this Notice of Meeting has been lodged on 14 June 2017 with ASIC pursuant to ASIC Regulatory Guide 74 and with ASX pursuant to the Listing Rules. Neither ASIC, ASX nor any of their officers take any responsibility for the contents of this Notice of Meeting and Explanatory Memorandum.

Notice of Extraordinary General Meeting

Notice is given that the extraordinary general meeting for Otto Energy Limited (ACN 107 555 046) (the **Company**) will be held on Tuesday, 25 July 2017 at 10:00 am (WST) at CWA House, 1176 Hay St, West Perth WA 6005 (the **Meeting**).

The Explanatory Memorandum, Independent Expert's Report and the Proxy Form attached to this Notice of Meeting are incorporated into and form part of this Notice of Meeting. A detailed explanation of the background and reasons for the proposed resolutions are set out in the Explanatory Memorandum.

Terms and abbreviations used in this Notice of Meeting and Explanatory Memorandum are defined in the Glossary.

Agenda

Conditional Resolutions

Resolutions 1 and 3 are interdependent. Resolution 2 is dependent on Resolutions 1 and 3. If Resolutions 1 and 3 are not passed, then none of these Resolutions will be taken to have been passed.

1 Resolution 1 – Approval to Issue Convertible Notes to Molton and Increase Voting Power

To consider and, if thought fit, to pass the following as an ordinary resolution:

"That, subject to Resolution 3 being passed, for the purposes of section 611 (item 7) of the Corporations Act and for all other purposes, Shareholders approve:

- (a) the issue of 8,000,000 Convertible Notes, and the issue of Shares on conversion of some or all of those Convertible Notes, to Molton or an Associate; and*
- (b) the increase in the voting power of Molton and its Associates to 36% (inclusive), on the further terms and conditions set out in the Explanatory Memorandum."*

Directors' Recommendation: The Directors recommend that Shareholders vote in favour of Resolution 1.

Independent Expert's Report: Shareholders should carefully consider the Independent Expert's Report prepared by PwC for the purposes of the Shareholder approval required under section 611 (item 7) of the Corporations Act. The Independent Expert's Report comments on the fairness and reasonableness of the Proposed Transaction to the Shareholders in the Company who are not associated with Molton or its Associates and has concluded that the Proposed Transaction is NOT FAIR but REASONABLE in the absence of a superior proposal.

Voting Exclusion: The Company will disregard any votes cast on this Resolution by certain persons. Details of the voting exclusions applicable to this resolution are set out in the "Voting Exclusions" section of this Notice of Meeting.

2 Resolution 2 – Approval to Issue Convertible Notes and Give Financial Benefit to Mr John Jetter

To consider and, if thought fit, to pass the following as an ordinary resolution:

"That, subject to Resolutions 1 and 3 being passed, for the purposes of Part 2E.1 of the Corporations Act, Listing Rule 10.11 and for all other purposes, Shareholders approve:

- (a) the issue of 200,000 Convertible Notes to Mr John Jetter (or his nominee); and*

- (b) *the giving of financial benefits to Mr John Jetter, being a related party of the Company, by way of the issue of 200,000 Convertible Notes, on the further terms and conditions set out in the Explanatory Memorandum."*

Directors' Recommendation: The Directors (except for Mr John Jetter, who abstains from making a recommendation) recommend that Shareholders vote in favour of Resolution 2.

Independent Expert's Report: Shareholders should carefully consider the Independent Expert's Report prepared by PwC for the purposes of the Shareholder approval required under Part 2E.1 of the Corporations Act and Listing Rule 10.11. The Independent Expert's Report comments on the fairness and reasonableness of the Proposed Transaction to the Shareholders in the Company who are not associated with Mr John Jetter or his Associates and has concluded that the Proposed Transaction is NOT FAIR but REASONABLE in the absence of a superior proposal.

Voting Exclusion: The Company will disregard any votes cast on this Resolution by certain persons. Details of the voting exclusions applicable to this resolution are set out in the "Voting Exclusions" section of this Notice of Meeting.

3 **Resolution 3 – Approval of Direct Enforcement of the Security Pursuant to Share Mortgage**

To consider and, if thought fit, to pass the following as an ordinary resolution:

"That, subject to Resolution 1 being passed, for the purposes of Listing Rule 10.1 and for all other purposes, Shareholders approve the direct enforcement of the Share Mortgage by the Security Agent on behalf of the Subscribers on the further terms and conditions set out in the Explanatory Memorandum."

Directors' Recommendation: The Directors (except for Mr John Jetter, who abstains from making a recommendation) recommend that Shareholders vote in favour of Resolution 3.

Independent Expert's Report: Shareholders should carefully consider the Independent Expert's Report prepared by PwC for the purposes of the Shareholder approval required under Listing Rule 10.1. The Independent Expert's Report comments on the fairness and reasonableness of the Proposed Transaction to the Shareholders in the Company who are not associated with Molton and its Associates or Mr John Jetter and has concluded that the Proposed Transaction is NOT FAIR but REASONABLE in the absence of a superior proposal.

Voting Exclusion: The Company will disregard any votes cast on this Resolution by certain persons. Details of the voting exclusions applicable to this resolution are set out in the "Voting Exclusions" section of this Notice of Meeting.

By order of the Board of Directors



David Rich
Company Secretary

16.06.2017

Dated

Notes

Eligibility to Vote

Regulation 7.11.37 of the *Corporations Regulations 2001* (Cth) permits the Company to specify a time, not more than 48 hours before a general meeting, at which a 'snap-shot' of Shareholders will be taken for the purposes of determining Shareholder entitlements to vote at the Meeting.

The Board has determined that the registered holders of fully paid ordinary shares at 10:00 am (WST) on Sunday 23 July 2017 will be taken to be holders of ordinary shares for the purposes of the Meeting and accordingly, will be entitled to attend and vote at the Meeting.

Voting by Person

To vote in person, attend the Meeting on Tuesday, 25 July 2017 at 10:00 am (WST) at CWA House, 1176 Hay St, West Perth WA 6005.

Voting by Proxy

An eligible Shareholder can vote in person at the Meeting or appoint a proxy or, where a Shareholder is entitled to two or more votes, two proxies. Where two proxies are appointed, a Shareholder may specify the number or proportion of votes to be exercised by each proxy appointed. If no number or proportion of votes is specified, each proxy appointed will be taken to exercise half of that Shareholder's votes (disregarding fractions).

An appointed proxy need not themselves be a Shareholder.

To be valid, the appointment of a proxy (made using a properly completed and executed Proxy Form) must be received by the Company no later than 10:00 am on Sunday, 23 July 2017, being not later than 48 hours before the commencement of the Meeting.

Proxy Forms can be submitted in four ways:

- **Online** by visiting the Link Market Services Limited website (www.linkmarketservices.com.au). Please follow the prompts and have your SRN or HIN available;
- By **mail** to Otto Energy Limited at c/- Link Market Services Limited, Locked Bag A14, Sydney South NSW 1235 using the enclosed return envelope;
- By **facsimile** to +61 2 9287 0309; or
- By **hand** to Link Market Services Limited, 1A Homebush Bay Drive, Rhodes NSW 2138 during normal business hours (Monday – Friday, 8:30am – 7:30pm (AEST)).

Instructions on how to complete the Proxy Form are on the reverse of the Proxy Form attached to this Notice.

If a Proxy Form is signed by an attorney, a shareholder must also send in the original or a certified copy of the power of attorney or other authority under which the Proxy Form is signed.

Undirected Proxies

The chair of the Meeting intends to vote undirected proxy votes in favour of all resolutions (subject to the voting exclusions below).

Voting by Corporate Representative

A Shareholder or proxy which is a corporation and entitled to attend and vote at the Meeting may appoint an individual to act as its corporate representative to vote at the Meeting. The appointment must comply

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with section 250D of the Corporations Act. The representative should bring to the Meeting evidence of his or her appointment unless it has previously been provided to Link Market Services Limited.

Voting by Attorney

A Shareholder entitled to attend and vote at the Meeting is entitled to appoint an attorney to attend and vote at the Meeting on the shareholder's behalf. An attorney need not themselves be a Shareholder.

The power of attorney appointing the attorney must be signed and specify the name of each of the shareholder, the Company and the attorney, and also specify the meeting(s) at which the appointment may be used. The appointment may be a standing one.

To be effective, the power of attorney must also be returned in the same manner, and by the same time, as specified for Proxy Forms.

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Voting Exclusions

The Corporations Act and the Listing Rules require that certain persons must not vote, and the Company must disregard any votes cast by or on behalf of certain persons, on some of the resolutions to be considered at the Meeting.

However, the Company need not disregard a vote if:

- it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- it is cast by the person chairing the Meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides (provided, in relation to Resolution 2, the person chairing the Meeting is not Mr John Jetter).

For the purposes of these voting exclusions:

- A **benefiting person (BP)** means a person who might obtain a benefit, except a benefit solely in the capacity of a Shareholder, if the resolution is passed and any associate of that person. For the purposes of:
 - Resolution 1, a BP includes Molton;
 - Resolution 2, a BP includes Mr John Jetter;
 - Resolution 3, a BP includes Molton and Mr John Jetter;
- The meaning of **associate** is the meaning given in the Listing Rules.

These voting exclusions are described in the table set out below:

Resolution no.	Resolution description	Who is excluded from voting on the resolution?		
		As a Shareholder?	As holder of a directed proxy?	As holder of an undirected proxy?
1	Resolution 1 – Approval to Issue Convertible Notes to Molton and Increase Voting Power	BP or their associate.	Proxy holder for a BP or their associate.	BP or their associate and a proxy holder for a BP or their associate.
2	Resolution 2 – Approval to Issue Convertible Notes and Give Financial Benefit to Mr John Jetter	BP or their associate.	Proxy holder for a BP or their associate.	BP or their associate and a proxy holder for a BP or their associate.
3	Resolution 3 – Approval of Direct Enforcement of the Security Pursuant to Share Mortgage	BP or their associate.	Proxy holder for a BP or their associate.	BP or their associate and a proxy holder for a BP or their associate.

The Company will also apply these voting exclusions to persons appointed as attorney by a Shareholder to attend and vote at the Meeting under a power of attorney, as if they were appointed as a proxy.

Resolutions

All items of business involving a vote by Shareholders require ordinary resolutions, which means that, to be passed, the item needs the approval of a simple majority of the votes cast by Shareholders entitled to vote on the resolution.

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Your Proxy Form is enclosed with this Notice of Meeting.

If you have any queries on how to cast your votes then call the Company's share registry, Link Market Services Limited on +61 1300 554 474 during normal business hours (Monday – Friday, 8:30am – 7:30pm (AEST)).

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Explanatory Memorandum

The information in this Explanatory Memorandum is provided to Shareholders of Otto Energy Limited in compliance with the Corporations Act, the Listing Rules and the Constitution.

This Explanatory Memorandum is despatched with and forms part of the notice of the Company's extraordinary general meeting to be held on **Tuesday, 25 July 2017 at 10:00 am (WST) at CWA House, 1176 Hay St, West Perth WA 6005** (the **Meeting**).

All Shareholders should read this Explanatory Memorandum in full. Shareholders should obtain professional advice before making any decisions in relation to the resolutions to be put to Shareholders at the Meeting.

1 Resolution 1 – Approval to Issue Convertible Notes to Molton and Increase Voting Power

Resolution 1 seeks the approval of Shareholders for the Company to issue Convertible Notes to Molton, or its Associates, and for the conversion of those Convertible Notes into Shares, which will have the effect of increasing the voting power of Molton and its Associates in the securities of the Company.

1.1 Background

The Company is the holder of a 50% working interest and 40.625% net revenue interest in the South Marsh Island Area Block 71 (**SM-71**) discovery. The Company and its joint venture partner, Byron Energy Limited, have begun modification work on a tripod platform which was purchased for use at the SM-71 location.

This modification work will see the platform installed as a manned facility with the capacity to produce 4,500 bopd and 5.0 Mmcf of gas per day. The SM-71 joint venture plans to initially complete the 2016 SM-71 #1 well in the D5 sand with expectations of recording initial gross flow rates of between 1500 to 2000 bopd. After completion of this well, there is potential to drill up to four additional development wells, some of which will be able to intersect additional target sands that have the potential to double the present reserve base of the SM-71 lease.

As set out below in section 1.3 of this Explanatory Memorandum, proceeds from the Convertible Notes will be used to fund costs associated or connected with the two well development project at SM-71 (**SM-71 Project**) and provide contingent funding for costs associated or connected with a third well to be drilled in the initial development of SM-71 Project.

1.2 Convertible Notes

As set out in an ASX announcement dated Monday, 29 May 2017, the Company has entered into binding convertible note subscription agreements (**Subscription Agreements**) with Molton and Mr John Jetter (together, the **Subscribers**) pursuant to which the Subscribers have agreed (subject to certain Shareholder approvals) to provide the Company with the required funding support through an issue of secured convertible notes (**Convertible Notes**), each with a maturity date of 30 June 2019 (**Maturity Date**). The Subscription Agreements are subject to customary conditions regarding termination events.

(a) Subscription amounts and issue of Convertible Notes

The Convertible Notes comprise a secured convertible loan of US\$8.2 million, advanced by the Subscribers as follows:

- (i) Molton – US\$8,000,000, 8,000,000 Convertible Notes or 97.56% (**Molton Notes**); and

- (ii) Mr John Jetter - US\$200,000, 200,000 Convertible Notes or 2.44% (**Related Party Notes**),

(each a **Subscription Amount** and together, the **Subscription Amounts**).

Payment of the Subscription Amounts is conditional on:

- (iii) Shareholder approval of Resolutions 1 and 3;
- (iv) execution of the pledge agreement entered into between, among others, the Subscribers, the Bank of New York Mellon (the **Security Agent**) and Otto Energy (USA) Inc., a Delaware corporation and wholly owned subsidiary of the Company (**Otto USA**), (the **Share Mortgage Document**); and
- (v) the Company providing evidence satisfactory to Molton's counsel, Baker & McKenzie, of the authority and capacity of Otto USA to enter into the Share Mortgage Document, and copies of the by-laws of:
 - (A) Otto Energy (Louisiana) LLC, a Delaware limited liability company and wholly owned subsidiary of the Company (**Otto Louisiana**);
 - (B) Otto Energy (Gulf One) LLC, a Delaware limited liability company and wholly owned subsidiary of the Company (**Otto Gulf One**); and
 - (C) Otto Energy (Gulf Two) LLC, a Delaware limited liability company and wholly owned subsidiary of the Company (**Otto Gulf Two**),

(together, the **Conditions Precedent**).

Each Subscription Amount is payable by the relevant Subscriber on the date that is five Business Days after the date of satisfaction (or waiver) of the Conditions Precedent (being, the **Payment Date**).

Within two Business Days of the Payment Date, the Company must issue the Convertible Notes to the Subscriber (the date of issue being, the **Issue Date**).

Note if Resolution 2 is not passed, Mr John Jetter will have no obligation to pay the Subscription Amount in relation to the Related Party Notes, and the Company will not issue the Related Party Notes to John Jetter.

(b) Consequences of non-satisfaction of the Conditions Precedent

If the Conditions Precedent are not satisfied or waived, on or before 30 August 2017:

- (i) the Subscribers will have no further obligations to subscribe for the Convertible Notes or to pay the Subscription Amounts;
- (ii) the Company must pay within 2 Business Days of demand the reasonable costs of the technical report commissioned by Molton and prepared by Collarini Energy Experts, based in Houston Texas, USA; and
- (iii) the Company must pay Molton's legal costs arising out of negotiation, preparation and execution of its Subscription Agreement to an aggregate cap of US\$75,000.

(c) Structuring fee

Molton is entitled to be paid a structuring fee of US\$200,000, which is to be paid in immediately available funds by electronic funds transfer and on the Payment Date.

(d) Commitment Fee

Molton will be entitled to be paid a commitment fee computed at a rate of 14% per annum on its Subscription Amount from the date of Shareholder approval of Resolutions 1 and 3 until the Payment Date. The commitment fee will be paid by the Company in arrears, in

immediately available United States dollars, on the last day of each calendar month until the Issue Date and on the Issue Date.

(e) Security

The Convertible Notes will be secured through the security interest created over the shares in Otto Louisiana, Otto Gulf One and Otto Gulf Two (the **Share Mortgage**), under the Share Mortgage Document. The terms of the Share Mortgage Document are summarised in section 3 of this Explanatory Memorandum.

(f) Interest

The Aggregate Convertible Notes Amount Outstanding will accrue interest at a rate of 14% per annum to be compounded monthly, calculated on the basis of a 365 day year and paid in arrears on each 30 June and 31 December after the Payment Date (each such date being an **Interest Payment Date**).

During the period commencing on the Payment Date and ending on the date that occurs 60 days after the date on which there has been 30 continuous days of steady state production of hydrocarbons from the SM-71 Project into the sales export pipeline (**First Oil**) (the **Deferred Interest Period**), the Company is relieved from the obligation to pay interest, and any interest that has accrued but is not paid on an Interest Payment Date occurring during the Deferred Interest Period must be repaid in two equal instalments on the two Interest Payment Dates immediately following the Deferred Interest Period.

(g) Success Fee

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

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

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

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

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

(h) Additional terms and conditions

The Convertible Notes are subject to additional terms and conditions. The material additional terms, which deal with conversion, redemption and transferability of the Convertible Notes, are set out in Schedule 1 to this Explanatory Memorandum.

(i) No formal disclosure document

Subject to Shareholder approval being obtained, the Convertible Notes will be offered by the Company to the Subscribers without a formal disclosure document (ie prospectus) in reliance on section 708A(12C) of the Corporations Act, as modified by ASIC Corporations (Sale Offers: Securities Issued on Conversion of Convertible Notes) Instrument 2016/82.

(j) Shareholder approval

Molton and its Associates currently hold 20.39% of the issued Shares in the Company.

Following the issue of the Convertible Notes, the maximum number of Shares that may be issued pursuant to conversion of Convertible Notes by Molton is such that it and its Associates' voting power in the Company may increase up to 36% (inclusive) (the **36% Threshold**) (as further set out in section 1.5(b) of this Explanatory Memorandum). Any conversion of any Convertible Notes that would result in Molton and its Associates' voting power breaching the 36% Threshold will be prohibited and such Convertible Notes will be redeemed for cash instead of converted. The Company is seeking Shareholder approval for this increase in voting power pursuant to Resolution 1.

1.3 Use of Funds

The Company intends to use the funds raised by the issue of the Convertible Notes to fund costs associated or connected with the two well SM-71 Project and provide contingent funding for costs associated or connected with a third well to be drilled in the initial development of the SM-71 Project.

1.4 Corporations Act Prohibition

Section 606

Section 606 of the Corporations Act prohibits a person acquiring a relevant interest in issued voting shares in a listed company if, as a result of the acquisition that person's or someone else's voting power in the company increases from 20% or below, to more than 20%, or from a starting point that is above 20% and below 90%.

Generally, under section 608 of the Corporations Act, a person has a relevant interest in securities if they:

- are the holder of the securities;

- have power to exercise, or control the exercise of, a right to vote attached to securities; or
- have power to dispose of, or control the exercise of a power to dispose of, the securities.

It does not matter how remote the relevant interest is or how it arises. If two or more people can jointly exercise one of these powers, each of them is taken to have that power.

The voting power of a person is determined under section 610 of the Corporations Act. It involves calculating the number of voting shares in the company in which the person and the person's Associates have a relevant interest.

A person (**second person**) will be an "Associate" of the other person (**first person**) if:

- (a) the first person is a body corporate and the second person is:
 - (i) a body corporate the first person controls;
 - (ii) a body corporate that controls the first person; or
 - (iii) a body corporate that is controlled by an entity that controls the first person;
- (b) the second person has entered or proposes to enter into a relevant agreement with the first person for the purposes of controlling or influencing the composition of the company's board or the conduct of the company's affairs; or
- (c) the second person is a person with whom the first person is acting, or proposing to act, in concert in relation to the company's affairs.

A person's relevant interest or voting power includes only issued voting shares (in the case of the Company, ordinary shares). The Convertible Notes, by themselves, will not be counted as part of a Noteholder's relevant interest or voting power in Shares of the Company. A Noteholder's relevant interest or voting power will only increase if and when Convertible Notes are converted, and Shares are issued to the Noteholder (or its nominee, provided that nominee is an Associate of the Noteholder) on conversion.

Exceptions to the section 606 prohibition

There are various exceptions to the prohibition in section 606 of the Corporations Act. Section 611 of the Corporations Act contains a table setting out circumstances in which acquisitions of relevant interests are exempt from the prohibition. Item 7 of this table provides an exemption where the acquisition is approved by a resolution passed at a general meeting of the company before the acquisition is made. The parties involved in the acquisition and their Associates are not able to cast a vote on the resolution.

The purpose of Resolution 1 is to obtain Shareholder approval for the issue of Convertible Notes and Shares on conversion of the Convertible Notes to Molton or an Associate pursuant to item 7 of section 611 of the Corporations Act such that Molton and its Associates' voting power in the Company may increase up to the 36% Threshold. By passing Resolution 1, Molton will not be prohibited from acquiring Shares (including Shares on conversion of the Convertible Notes) to the 36% Threshold.

1.5 Information required by item 7 of section 611 of the Corporations Act and ASIC Regulatory Guide 74

The following paragraphs set out information required to be provided to Shareholders under ASIC Regulatory Guide 74 and item 7 in the table in section 611 of the Corporations Act.

Shareholders are also referred to the Independent Expert's Report set out at Appendix A to this Notice.

(a) Identities of the persons proposing to make the acquisition, their Associates and any other persons acquiring a relevant interest

The Molton Notes and the Shares issued on conversion of the Molton Notes will be issued to Molton (or its nominee), and both Molton and Dr Otto Happel, who is Molton's Associate, will be deemed to have a relevant interest in any such Shares.

(b) Increase in Molton's voting power in the Company resulting from the conversion of the Molton Notes

As at the date of this Notice, Molton has a relevant interest in 241,910,757 Shares and the current voting power of Molton and each of its Associates in the Company is 20.39% based on 1,186,298,324 Shares on issue.

Molton's voting power in the Company resulting from the conversion of the Molton Notes is subject to fluctuations in the A\$/US\$ exchange rate, whether Molton or the Company elects to redeem some or all of the Molton Notes, and whether Molton elects to sell or transfer any of the Molton Notes.

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If Molton elects to convert the Molton Notes to the fullest extent possible (subject to the 36% Threshold), the possible effect of the acquisition of the Molton Notes by Molton at different A\$/US\$ exchange rates is summarised in the following table, which outlines the proposed shareholding of Molton and its Associates in the Company:

		Maximum number of Shares to be issued to Molton or its nominee	Total Shares to be held by Molton and its Associates	Total Shares on issue where Molton and all other Noteholders convert at the same time	Percentage voting power where Molton and all other Noteholders convert at the same time	Total Shares on issue where Molton converts and no other Noteholders convert at the same time	Percentage voting power where Molton converts and no other Noteholders convert at the same time
Position if Molton Notes are converted to the fullest extent possible at the Maturity Date at a A\$/US\$ exchange rate of	0.95	153,110,048	395,020,805	1,343,236,123	29.4%	1,339,408,372	29.5%
	0.85	171,122,995	413,033,752	1,361,699,394	30.3%	1,357,421,319	30.4%
	0.76¹	191,387,560	433,298,317	1,382,470,573	31.3%	1,377,685,884	31.5%
	0.75	193,939,394	435,850,151	1,385,086,203	31.5%	1,380,237,718	31.6%
	0.65	223,776,224	465,686,981	1,415,668,953	32.9%	1,410,074,548	33.0%
	0.55	264,462,810	506,373,567	1,457,372,704	34.7%	1,450,761,134	34.9%

Note: The figures in the above table have been calculated based on the assumption that Resolutions 1 to 3 are all passed, no other Shares or options are issued by the Company, and the shareholding of Molton and its Associates in the Company does not change. Shareholders should be aware that Molton and its Associates are entitled to increase their shareholding in the Company in the manner permitted under the Corporations Act.

¹ 0.7616 is the Bid Exchange Rate for 15 June 2017 rounded to 0.76.

(c) Future intentions of Molton for the Company

Molton has informed the Company that its intentions mentioned in this section are based on the facts and information regarding the Company, its business and the general business environment which are known to Molton as at the date of the Notice, which is limited to publicly available information. Any future decisions regarding these matters will only be made based on all material information and circumstances at the relevant time. Accordingly, the statements set out below are statements of current intention only which, if circumstances change or new information becomes available in the future, could change accordingly.

No change to the composition of the Company's Board is currently proposed by Molton or the Company.

Other than as disclosed above or elsewhere in this Explanatory Memorandum, Molton:

- (i) has no current intention of making any significant changes to the existing business of the Company;
- (ii) has no current intention to inject further capital into the Company;
- (iii) has no current intention of making changes regarding the future employment of the Company's present employees;
- (iv) does not currently intend for any assets to be transferred between the Company and itself or any person associated with it;
- (v) has no current intention to otherwise redeploy the fixed assets of the Company; and
- (vi) has no current intention to significantly change the Company's existing financial or dividend policies.

(d) Material terms of the proposed acquisition and contracts conditional on Shareholder approval of Resolution 1

The terms of the proposed acquisition of Convertible Notes by Molton under the Convertible Notes are summarised in section 1.2 of this Explanatory Memorandum above. The terms of the security granted under the Share Mortgage for the benefit of the Subscribers are set out in section 3.1 of this Explanatory Memorandum.

Other than the Convertible Notes and the Share Mortgage Document, there are no other contracts or proposed contracts between the Subscribers and the Company or any of their Associates which are conditional upon, or directly or indirectly dependent on, Shareholder approval of Resolution 1.

(e) Timing of the proposed acquisition

The timing of the proposed acquisition of the Molton Notes and any Shares issued on conversion of such Convertible Notes is set out in section 1.2 of this Explanatory Memorandum.

(f) Reasons for the proposed acquisition

An explanation of the reasons for the proposed acquisition is set out in section 1.1 of this Explanatory Memorandum.

(g) Directors' interests and recommendations

The current Directors of the Company are Mr John Jetter, Mr Ian Macliver, Mr Ian Boserio and Mr Matthew Allen.

Each Director recommends that Shareholders vote in favour of Resolution 1 for the following reasons:

- (i) the Convertible Notes provide funding to allow the Company to fund costs associated or connected the SM-71 Project, while still being able to pursue new venture opportunities;
- (ii) the financing costs and terms associated with the Convertible Notes are competitive when compared to other alternative financing options; and
- (iii) should Resolution 1 (and Resolution 3) not be approved, the Company may be unable to fund the full cost of the SM-71 Project without raising new capital or alternatively will need to curtail the pursuit of new ventures until further funding is forthcoming.

No votes can be cast on Resolution 1 by Molton or any of its Associates.

(h) Independent Expert's Report as to whether the acquisition by Molton is fair and reasonable

Accompanying this Notice is an Independent Expert's Report prepared by PwC. The Independent Expert's Report considers whether the potential acquisition of Shares by Molton through future conversion of the Molton Notes, and the corresponding potential increase in the voting power of Molton and its Associates to the 36% Threshold pursuant to Resolution 1, as part of the overall Proposed Transaction, are fair and/or reasonable to the Shareholders not associated with Molton.

The report concludes that the Proposed Transaction is NOT FAIR but REASONABLE to the Shareholders not associated with Molton, in the absence of a superior proposal.

Please refer to the Independent Expert's Report of this Notice at Appendix A for further details and in particular the advantages and disadvantages of the Proposed Transaction. This assessment is designed to assist all Shareholders in reaching their voting decision. It is recommended that all Shareholders read the Independent Expert's Report in full.

(i) Interdependency

If either Resolution 1 or 3 is not passed, the issue of Molton Notes pursuant to Resolution 1 will not proceed, and the Company may be unable to fund the full cost of the SM-71 Project without raising new capital or alternatively will need to curtail the pursuit of new ventures until further funding is forthcoming.

(j) Placement capacity

Approval pursuant to Listing Rule 7.1 is not required in order to issue the Molton Notes as approval is being obtained under item 7 of section 611 of Corporations Act. Accordingly, the issue of the Molton Notes will not be included in the calculation of the Company's annual 15% placement capacity pursuant to Listing Rule 7.1 or its 10% placement capacity pursuant to Listing Rule 7.1A.

2 Resolution 2 – Approval to Issue Convertible Notes and Give Financial Benefit to Mr John Jetter

This Resolution seeks the approval of Shareholders for the Company to issue the Related Party Notes to Mr John Jetter (or his nominee), who is a Related Party of the Company.

2.1 Related Party transaction

For a public company, or an entity that the public company controls, to give a financial benefit to a Related Party of the public company, the public company or entity must:

(a) obtain the approval of the public company's shareholders in the manner set out in sections 217 to 227 of the Corporations Act; and

(b) give the benefit within 15 months following such approval,

unless the giving of the financial benefit falls within an exception set out in sections 210 to 216 of the Corporations Act.

The Directors are Related Parties of the Company. The issue of Convertible Notes to a Director requires the Company to obtain Shareholder approval because this constitutes giving a financial benefit.

In addition, Listing Rule 10.11 requires Shareholder approval to be obtained where an entity issues, or agrees to issue, securities to a Related Party, or a person whose relationship with the entity or a Related Party is, in ASX's opinion, such that approval should be obtained unless an exception in Listing Rule 10.12 applies.

It is the view of the Company that the exceptions set out in sections 210 to 216 of the Corporations Act and Listing Rule 10.12 do not apply in the current circumstances. Accordingly, Shareholder approval is sought for the issue of the Related Party Notes to Mr John Jetter (or his nominee).

2.2 Disclosure requirements – Part 2E.1 of the Corporations Act and Listing Rule 10.11

Pursuant to and in accordance with the requirements of section 219 of the Corporations Act and Listing Rule 10.13, the following information is provided in relation to the proposed issue of Convertible Notes to the Related Party:

(a) the Related Party is Mr John Jetter and he is a Related Party by virtue of being a Director;

(b) the maximum number of Related Party Notes (being the nature of the financial benefit being provided) proposed to be issued under Resolution 2 to the Related Party is 200,000 Convertible Notes;

(c) the issue price of each Related Party Note is the Face Value;

(d) Mr John Jetter will receive a financial benefit in exchange for his subscription for the Related Party Notes of US\$200,000, which has been valued independently by PwC and includes:

(i) coupon payments of US\$28,000 per annum payable quarterly;

(ii) a potential success fee of up to a maximum of US\$25,000 subject to Cumulative Oil Production; and

(iii) a total option value of approximately A\$30,921 associated with the convertible nature of the Related Party Notes. The total option value has been calculated using the Black-Scholes option pricing method and on the assumptions set out below.

Assumptions	
Market price of Shares	A\$0.030
Conversion price	A\$0.055
Expiry date (length of time from issue)	2 years
Risk free interest rate	1.60%
Volatility (discount)	70%
Indicative option value (rounded)	0.65 cents
Total number of the Related Party Notes	200,000
Estimated* number of options associated with the Related Party Notes	4,784,689
Total option value of the Related Party Notes	A\$30,921

*Based on the US\$200,000 face value of the notes, an assumed foreign exchange rate of US\$0.76² and the conversion price of A\$0.055 per Otto share.

These terms are consistent with and no better than the terms offered to and accepted by Molton.

- (e) the terms and conditions of the Related Party Notes are summarised in section 1.2 of this Explanatory Memorandum above. The terms of the security granted under the Share Mortgage for the benefit of the Subscribers (including Mr John Jetter) are set out in section 3.1 of this Explanatory Memorandum;
- (f) the trading history of the Shares on ASX in the 12 months before the date of this Notice of Meeting is as follows:
- Highest \$0.063 on 21 July 2016
 - Lowest \$0.027 on 10 May 2017
 - Last \$0.029 on 15 June 2017
- (g) the Related Party currently has an interest in the following securities in the Company:
- Shares – 16,589,175
 - Options – Nil
- (h) Mr John Jetter currently receives remuneration of A\$125,000 per year;
- (i) if the Related Party Notes granted to Mr John Jetter were fully converted, this would not have a material dilutionary effect on the existing Shareholder's interests;
- (j) the timing of the proposed acquisition of the Related Party Notes and any Shares issued on conversion of such Convertible Notes is set out in section 1.2 of this Explanatory Memorandum;
- (k) the intended use of the funds raised from the issue of the Related Party Notes is set out in section 1.3 of this Explanatory Memorandum;
- (l) the Board does not consider that there are any opportunity costs to the Company or benefits foregone by the Company in issuing the Related Party Notes upon the terms proposed; and

² 0.7616 is the Bid Exchange Rate for 15 June 2017 rounded to 0.76.

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- (m) the Board is not aware of any other information that would be reasonably required by Shareholders to allow them to make a decision whether it is in the best interests of the Company to pass Resolution 2.

Approval pursuant to Listing Rule 7.1 is not required in order to issue the Related Party Notes to the Related Party as approval is being obtained under Listing Rule 10.11. Accordingly, the issue of Related Party Notes to the Related Party will not be included in the calculation of the Company's annual 15% placement capacity pursuant to Listing Rule 7.1 or its additional 10% placement capacity pursuant to Listing Rule 7.1A.

2.3 Directors' recommendation

Mr John Jetter declines to make a recommendation to Shareholders in relation to Resolution 2 due to his material personal interest in the outcome of the Resolution. The other Directors, who do not have an interest in the outcome of Resolution 2, recommend that Shareholders vote in favour of Resolution 2 for the following reasons:

- (a) the Convertible Notes provide funding to allow the Company to fund costs associated or connected with the SM-71 Project, while still being able to pursue new venture opportunities; and
- (b) the financing costs and terms associated with the Convertible Notes are competitive when compared to other alternative financing options.

2.4 Independent Expert's Report as to whether the Proposed Transaction is fair and/or reasonable

Accompanying this Notice is an Independent Expert's Report prepared by PwC. The Independent Expert's Report considers whether the potential acquisition of Shares by Mr John Jetter through future conversion of the Related Party Notes pursuant to Resolution 2, as part of the overall Proposed Transaction, is fair and/or reasonable to the Shareholders not associated with Mr John Jetter.

The report concludes that the Proposed Transaction is NOT FAIR but REASONABLE to the Shareholders not associated with Mr John Jetter, in the absence of a superior proposal.

Please refer to the Independent Expert's Report of this Notice at Appendix A for further details and in particular the advantages and disadvantages of the Proposed Transaction. This assessment is designed to assist all Shareholders in reaching their voting decision. It is recommended that all Shareholders read the Independent Expert's Report in full.

3 Resolution 3 – Approval of Direct Enforcement of the Security Pursuant to Share Mortgage

3.1 General

The Convertible Notes will be secured through the Share Mortgage, under the Share Mortgage Document.

Under the Share Mortgage Document, Otto USA grants a security interest in favour of the Security Agent over the equity interests it owns in Otto Louisiana, Otto Gulf One and Otto Gulf Two, books and records relating to such equity interests and all proceeds of such property (the **Secured Assets**).

The Security Agent is appointed agent of the Subscribers and Noteholders under the Share Mortgage Document, for the purposes of holding the benefit of the Share Mortgage and taking certain actions on behalf of the Noteholders (including enforcement action).

If an Event of Default occurs and is not remedied, the Security Agent can, under the Share Mortgage Document, enforce the Share Mortgage by taking ownership of the Secured Assets and/or selling the Secured Assets and recovering the proceeds. The Share Mortgage Document prescribes how the Security Agent should distribute such proceeds. In summary, these can firstly be applied by the Security Agent to pay fees, costs and charges owing to it, then secondly to the Noteholders to repay money owing to them under the Convertible Notes and, thirdly, any surplus is returned to Otto USA.

The Events of Default are set out in the Terms and Conditions and include, in respect of the Company or Otto USA:

- (a) default on any payment or other term or condition in respect of the Convertible Notes;
- (b) default on, in respect of Noteholder, any obligation under the Deed Poll or the Share Mortgage Document;
- (c) any financial indebtedness of a member of the Group in excess of US\$1 million or its equivalent currency;
- (d) an insolvency event in relation to a member of the Group;
- (e) any warranty given by the Company under its Subscription Agreement and/or the Company or Otto USA under the Share Mortgage Document being incorrect or misleading in any material respect at the time given;
- (f) delisting, or suspension for ten consecutive days, of the Company's shares
- (g) the SM-71 lease expires, other than in circumstances where, immediately prior to its expiry, a replacement lease covering a materially similar area is granted;
- (h) any event or circumstance, or series or combination of events or circumstances whether related or not, occurs, which has or is reasonably likely to have a material adverse effect on:
 - (i) the business, assets, property, operations, condition (financial or otherwise) of the Company or member of the Group's ownership or operation of the SM-71 Project;
 - (ii) the validity, legality, binding effect or enforceability against the Company of the Deed Poll or any Subscription Agreement;
 - (iii) the ability of any Noteholder to enforce any of its material rights and remedies under its Subscription Agreement, the Deed Poll or the Share Mortgage Document;
 - (iv) the ranking or applicable priority of the Share Mortgage; or
 - (v) the ability of the Company to perform its payment obligations and other material obligations under the Subscription Agreements, the Deed Poll and/or the Share Mortgage Document.

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

3.2 Application of Listing Rule 10.1

Listing Rule 10.1 provides that approval of holders of an entity's ordinary securities is required where an entity proposes to dispose of or agree to dispose of a substantial asset to:

- a Related Party of the entity; or

- a second entity that is a substantial shareholder or an Associate of a substantial shareholder of that second entity.

For these purposes:

- (a) a person is a Related Party of the entity if the person is a Director of the entity;
- (b) a person is a substantial holder if the person and the person's Associates have a relevant interest, or had a relevant interest at any time in the 6 months before the transaction, in at least 10% of the total votes attached to an entity's voting securities; and
- (c) an asset is a substantial asset if its value, or the value of the consideration for it, is 5% or more of the equity interests of the company as set out in the latest accounts of the company given to ASX under the Listing Rules.

The Subscribers include a Related Party and a substantial Shareholder of the Company. The Related Party is Mr John Jetter and he is a Related Party by virtue of being a Director. Molton is the substantial Shareholder because Molton and its Associates currently have 20.39% of the voting power of the Company.

The Company's half yearly accounts for the period ended 31 December 2016 (as lodged with ASX on 1 March 2017) show that its equity interests were approximately US\$19.943 million. The value of the assets the subject of the Share Mortgage would exceed 5% of the Company's equity interests as shown in its last consolidated financial statements.

ASX deems the granting of a security interest over an asset to be a disposal of that asset. As such the granting of security by the Company for the benefit of the Subscribers may be deemed under Listing Rule 10.1 to be a disposal of a substantial asset (ie the assets subject to the Share Mortgage), on the basis that the Subscribers include a Related Party and a substantial Shareholder in the Company. As the value of the debt secured by the Share Mortgage is greater than 5% of the equity interests of the Company as set out in its last accounts given to ASX, the Company is seeking Shareholder approval and ratification of the Share Mortgage Document pursuant to Listing Rule 10.1.

3.3 Independent Expert's Report

In accordance with Listing Rule 10.1, accompanying this Notice is an Independent Expert's Report prepared by PwC. As part of its consideration of the Proposed Transaction, the Independent Expert's Report has considered whether the Subscribers' direct enforcement of the Share Mortgage is fair and/or reasonable to the Shareholders who are not associated with Molton or Mr John Jetter. The report has concluded that the Proposed Transaction is NOT FAIR but REASONABLE to the non-associated Shareholders, in the absence of a superior proposal.

Please refer to the Independent Expert's Report of this Notice at Appendix A for further details and in particular the advantages and disadvantages of the Proposed Transaction. This assessment is designed to assist all Shareholders in reaching their voting decision. It is recommended that all Shareholders read the Independent Expert's Report in full.

3.4 Directors' recommendation

Each Director (apart from Mr John Jetter, who abstains from making a recommendation) recommends that Shareholders vote in favour of Resolution 3.

Glossary

In the attached Notice of Meeting and Explanatory Memorandum the following words and expressions have the following meanings:

36% Threshold	has the meaning given in section 1.2 of the Explanatory Memorandum.
AEST	means Australian Eastern Standard Time.
A\$	means Australian dollars, the lawful currency of the Commonwealth of Australia.
Aggregate Convertible Notes Amount Outstanding	means, in respect of a Noteholder, the sum total of the Face Values of those Convertible Notes that are held by the Noteholder, which (as of the time as of which the Aggregate Convertible Notes Amount Outstanding is determined) have not been duly converted into Shares, or duly repaid by the Company, in accordance with the Terms and Conditions.
Amount Outstanding	means, in respect of a Noteholder (as of the time as of which the Amount Outstanding is determined) the aggregate of: <ul style="list-style-type: none">(a) the Aggregate Convertible Notes Amount Outstanding in respect of the Noteholder; and(b) any other amounts that are due by the Company to the Noteholder.
ASIC	means the Australian Securities and Investments Commission.
Associate	has the meaning given in the Listing Rules.
ASX	means ASX Limited (ACN 008 624 691) or, as the context requires, the market it operates.
Australian Dollar Equivalent	means the amount determined by dividing the Conversion Amount by the Bid Exchange Rate quoted on the Business Day immediately prior to the receipt by the Company of the relevant Partial Conversion Notice or Maturity Conversion Notice.
Bbls	means barrels of oil.
Board	means the current board of Directors of the Company.
Bopd	means barrels of oil per day.
Bid Exchange Rate	means the US dollar exchange rate published by the Reserve Bank of Australia or, if for any reason no rate is published for a relevant Business Day, the US dollar exchange rate published by the Reserve Bank of Australia on the immediately preceding Business Day.
Business Day	has the meaning given to that term in the Listing Rules.
Company or Otto Energy	means Otto Energy Limited (ACN 107 555 046).
Conditions Precedent	has the meaning given in section 1.2 of the Explanatory Memorandum.
Constitution	means the constitution of the Company from time to time.
Conversion Date	has the meaning given in clause 1.1 of Schedule 1.
Conversion Notice	has the meaning given in clause 1.1 of Schedule 1.
Conversion Price	has the meaning given in clause 1.1 of Schedule 1.
Convertible Notes	has the meaning given in section 1.2 of the Explanatory Memorandum.

Corporations Act	means the <i>Corporations Act 2001</i> (Cth).
Cumulative Oil Production	has the meaning given in section 1.2 of the Explanatory Memorandum.
Deed Poll	means the deed poll attached as a schedule to each Subscription Agreement.
Deferred Interest Period	has the meaning given in section 1.2 of the Explanatory Memorandum.
Direct Competitor	has the meaning given in clause 3 of Schedule 1.
Directors	means the directors of the Company from time to time, and Director means any one of them.
Face Value	means US\$1.00.
First Oil	has the meaning given in section 1.2 of the Explanatory Memorandum.
Equity Securities	has the meaning given in the Listing Rules.
Explanatory Memorandum	means the explanatory memorandum to and forming part of the Notice of Meeting contained in this booklet.
Extraordinary General Meeting or Meeting	means the extraordinary general meeting of the Company to be held on Tuesday, 25 July 2017.
Group	means the Company and its Related Bodies Corporate.
Independent Expert's Report	means the independent expert's report prepared by PwC set out in Appendix A to this Notice of Meeting.
Interest Payment Date	has the meaning given in section 1.2 of the Explanatory Memorandum.
Issue Date	has the meaning given in section 1.2 of the Explanatory Memorandum.
Listing Rules	means the official listing rules of ASX and Listing Rule means any one of them.
Maturity Conversion	has the meaning given in clause 1.2 of Schedule 1.
Maturity Conversion Amount	has the meaning given in clause 1.2 of Schedule 1.
Maturity Conversion Shares	has the meaning given in clause 1.2 of Schedule 1.
Maturity Date	has the meaning given in section 1.2 of the Explanatory Memorandum.
Mmcf	means a million cubic feet
Molton	means Molton Holdings Limited, a company incorporated in the British Virgin Islands, of C/O Romasco Place, Wickhams Cay 1, PO Box 3140, Road Town, Tortola, British Virgin Islands and having the Company Number 1439728.
Molton Notes	has the meaning given in section 1.2 of the Explanatory Memorandum.
Noteholder	means a holder of any Convertible Notes from time to time.
Notice or Notice of Meeting	means this notice of Extraordinary General Meeting including the Explanatory Memorandum, its Appendices and Schedules, and the Proxy Form.
Otto Gulf One	has the meaning given in section 1.2 of the Explanatory Memorandum.

Otto Gulf Two	has the meaning given in section 1.2 of the Explanatory Memorandum.
Otto Louisiana	has the meaning given in section 1.2 of the Explanatory Memorandum.
Otto USA	has the meaning given in section 1.2 of the Explanatory Memorandum.
Payment Date	has the meaning given in section 1.2 of the Explanatory Memorandum.
Premium	has the meaning given in clause 2.3 of Schedule 1.
Proposed Transaction	means the proposed transaction the subject of Resolutions 1 to 3.
Proxy Form	means the proxy form attached to this Notice of Meeting.
PwC	PricewaterhouseCoopers Securities Ltd (holder of AFSL No 244572).
Quarterly Conversion	has the meaning given in clause 1.1 of Schedule 1.
Quarterly Conversion Amount	has the meaning given in clause 1.1 of Schedule 1.
Quarterly Conversion Shares	has the meaning given in clause 1.1 of Schedule 1.
Redemption	has the meaning given in clause 2.1 of Schedule 1.
Redemption Amount	has the meaning given in clause 2.1 of Schedule 1.
Redemption Date	has the meaning given in clause 2.1 of Schedule 1.
Redemption Notice	has the meaning given in clause 2.1 of Schedule 1.
Redemption Notice Date	has the meaning given in clause 2.1 of Schedule 1.
Related Body Corporate	has the meaning given to that term in section 50 of the Corporations Act.
Related Party	has the meaning given to that term in the Listing Rules.
Related Party Notes	has the meaning given in section 1.2 of the Explanatory Memorandum.
Resolutions	means the resolutions set out in this Notice of Meeting and Resolution means any one of them.
Scheme Booklet	has the meaning given in clause 2.3 of Schedule 1.
Secured Assets	has the meaning given in section 3.1 of the Explanatory Memorandum.
Security Agent	has the meaning given in section 1.2 of the Explanatory Memorandum.
Share	means a fully paid ordinary share in the capital of the Company.
Share Mortgage	has the meaning given in section 1.2 of the Explanatory Memorandum.
Share Mortgage Document	has the meaning given in section 1.2 of the Explanatory Memorandum.
Shareholders	means the holders of the Shares from time to time.
SM-71	has the meaning given in section 1.1 of the Explanatory Memorandum.
SM-71 Project	has the meaning given in section 1.1 of the Explanatory Memorandum.
Subscribers	means Molton and Mr John Jetter.
Subscription Agreements	has the meaning given in section 1.2 of the Explanatory Memorandum.
Subscription Amount	has the meaning given in section 1.2 of the Explanatory Memorandum.

Subscription Amounts	has the meaning given in section 1.2 of the Explanatory Memorandum.
Takeover Offer Date	has the meaning given in clause 2.3 of Schedule 1.
Takeover Redemption Date	has the meaning given in clause 2.3 of Schedule 1.
Takeover Redemption Notice	has the meaning given in clause 2.3 of Schedule 1.
Terms and Conditions	means the terms of the Convertible Notes, which will be set out in Schedule 1 of the Deed Poll.
US\$	means United States dollars, the lawful currency of the United States of America.
WST	means Western Standard Time, Perth, Western Australia.

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Schedule 1 Additional terms and conditions of the Convertible Notes

1 Conversion

1.1 Conversions at election of Noteholder

- (a) A Noteholder may, after the first anniversary of the Issue Date, elect in its discretion to convert some or all of its Convertible Notes (each, a **Quarterly Conversion**) into Shares on any 30 June, 30 September, 31 December and 31 March (each a **Conversion Date**) by providing the Company with notice not less than 20 Business Days before the requested Conversion Date (each, a **Conversion Notice**), specifying:
- (i) the number and that part of the Aggregate Convertible Notes Amount Outstanding corresponding to such number (the **Quarterly Conversion Amount**);
 - (ii) the Australian Dollar Equivalent of the Quarterly Conversion Amount;
 - (iii) the number of Shares that the Company must issue to the Noteholder in respect of the Conversion (the **Quarterly Conversion Shares**). That number must be determined by dividing the Australian Dollar Equivalent of the Quarterly Conversion Amount by the price of A\$0.055 (**Conversion Price**). If the resultant number contains a fraction, the number must be rounded up to the next highest whole number;
 - (iv) the Conversion Date; and
 - (v) the details of the Noteholder's CHESS Account into which the relevant Shares are to be delivered in accordance with the Terms and Conditions,

and, following the receipt of a Conversion Notice, the Company must effect the conversion of the Quarterly Conversion Amount specified in that Conversion Notice by issuing to the Noteholder in accordance with the Terms and Conditions, the Quarterly Conversion Shares on the Conversion Date specified in that Conversion Notice.

- (b) A Noteholder may only convert Convertible Notes into Conversion Shares if there is an aggregate of at least 1,000,000 Convertible Notes held by the Noteholders being converted on the Conversion Date (regardless of whether such Convertible Notes are held by only one or more Noteholders).

1.2 Conversion at maturity

To the extent that as of the Maturity Date there is an Aggregate Convertible Notes Amount Outstanding in respect of a Noteholder, the Noteholder may elect in its discretion to convert such Convertible Notes to Shares on the Maturity Date (**Maturity Conversion**), by notice to the Company not less than 20 Business Days before the Maturity Date, specifying:

- (a) the number of Convertible Notes being converted corresponding to the Aggregate Convertible Notes Amount Outstanding (the **Maturity Conversion Amount**);
- (b) the Australian Dollar Equivalent of the Maturity Conversion Amount;
- (c) the number of Shares that the Company must issue to the Noteholder in respect of the Maturity Conversion (the **Maturity Conversion Shares**). That number must be determined by dividing the Australian Dollar Equivalent of the Maturity Conversion Amount by the Conversion Price. If the resultant number contains a fraction, the number must be rounded up to the next highest whole number; and
- (d) the details of the Noteholder's CHESS Account into which the relevant Shares are to be delivered in accordance with the Terms and Conditions,

and, following the receipt of the notice, the Company must effect the conversion of the Maturity Conversion Amount specified in that notice by issuing to the Noteholder in accordance with the Terms and Conditions, the number of Maturity Conversion Shares on the Maturity Date.

2 Redemption

2.1 Redemption

(a) The Company may, after the first anniversary of the Issue Date, elect in its discretion to redeem some or all of a Noteholder's Convertible Notes (each, a **Redemption**) and pay to that Noteholder an amount equal to the value of those Convertible Notes on any 30 June, 30 September, 31 December and 31 March (each, a **Redemption Date**) by providing the Noteholder with notice not less than 20 Business Days before the requested Redemption Date (each, a **Redemption Notice** and each date of such notice, a **Redemption Notice Date**), specifying:

- (i) the number, which must not be less than 2,000,000, of Convertible Notes to be redeemed on the Redemption Date and the amount in US Dollars corresponding to the Convertible Notes being redeemed (the **Redemption Amount**); and
- (ii) the Redemption Date,

and, following the receipt of a Redemption Notice, the Noteholder may elect to:

- (iii) do nothing, in which case the Company will pay the Redemption Amount on the Redemption Date into an account nominated by the Noteholder; or
 - (iv) have the Redemption Amount converted into Shares by providing a notice substantially in the form of a Conversion Notice except that such notice must be provided to the Company within 5 Business Days of the relevant Redemption Notice Date.
- (b) If option (a)(iv) above is chosen by the Noteholder, the procedure described in clauses 1.1(a)(i) to 1.1(a)(v) and at the end of clause 1.1(a) will apply in respect of the issuance of the corresponding Conversion Shares.
- (c) Any existing or remaining Amount Outstanding must be paid by the Company to the Noteholder on the relevant Redemption Date if after the Redemption (or the Conversion of the Convertible Notes to Shares in accordance with paragraph 2.1(a)(iv) above) that Noteholder no longer holds any Convertible Notes.

2.2 Redemption at maturity

To the extent that as of the Maturity Date there is an Amount Outstanding in respect of a Noteholder and subject to the Noteholder not providing a notice under clause 1.2, the Company must by not later than the first Business Day following the Maturity Date pay to that Noteholder an amount equal to that Amount Outstanding.

2.3 Redemption on receipt of a takeover offer

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

- (i) the Company may provide the Noteholder on or after the Takeover Offer Date with notice of not less than 20 Business Days (**Takeover Redemption Notice**) that it elects to redeem all of the Convertible Notes held by the Noteholder and pay to that Noteholder an amount equal to that Amount Outstanding at the end of the 20 Business Day notice period (**Takeover Redemption Date**); and
- (ii) if the Takeover Redemption Date is within the initial 12 month period after the Issue Date, the Company must pay a premium of 14% (being an amount equal to 14% of the Amount Outstanding) (**Premium**), which is to be offset against any interest already paid by the Company.
- (b) Following the receipt of a Takeover Redemption Notice, the Noteholder may elect to:
- (i) do nothing, in which case the Company will pay an amount equal to the Amount Outstanding (including, if applicable, the Premium) on the Redemption Date into an account nominated by the Noteholder; or
- (ii) have the Aggregate Convertible Notes Amount Outstanding converted into Shares by providing a notice substantially in the form of a Conversion Notice except that such notice must be provided to the Company within five Business Days of the relevant Takeover Redemption Notice.
- (c) If option (b)(ii) above is chosen by the Noteholder:
- (i) the procedure described in clauses 1.1(a)(i) to 1.1(a)(v) and at the end of clause 1.1(a) will apply (with any necessary changes to reflect the specific circumstances of clause 2.3(b)(ii)) in respect of the issuance of the corresponding Conversion Shares, except that, for the purposes of clause 2.3(b)(ii) only, the Conversion Date will be the Takeover Redemption Date;
- (ii) the Company must pay the Premium to the Noteholder in the circumstance described in clause 2.3(a)(ii); and
- (iii) any remaining Amount Outstanding (including any Premium, if applicable) must be paid by the Company to that Noteholder on the Takeover Redemption Date.

3 Transferability

- (a) Subject to paragraphs (b) and (c), each Noteholder is entitled to transfer without the consent of the Company some or all of their Convertible Notes to any other party at any time after they are issued, on 5 Business Days' prior notice to the Company. Each Convertible Note may be transferred separately from any other Convertible Note.
- (b) A Noteholder may not, without the express written consent of the Company (which may be withheld in its absolute discretion), transfer any of its Convertible Notes to a third party transferee where such transfer would be to a third party transferee which is
- (i) an entity whose securities are quoted on the ASX and whose primary business is to develop and extract hydrocarbons;
- (ii) an entity whose primary business is to develop and extract hydrocarbons in jurisdictions in which the Company operates; or
- (iii) an oil and gas company with assets in similar jurisdictions to the Company, (being, a **Direct Competitor**).
- (c) A transfer of a Convertible Note will only be effective if the proposed transferee has delivered to the Company an executed notice in form and substance reasonably satisfactory to the Company pursuant to which a proposed transferee acknowledges the

terms of the Share Mortgage Document and agrees to be bound by the Share Mortgage Document as Noteholder on and from the date of transfer of the relevant Convertible Note(s).

- (d) Where the prior consent of the Company is required for the transfer of Convertible Notes in accordance with paragraph (b) above, and the Company rejects such a transfer, the Company must, within 60 days of receipt of the notice under paragraph (a), provide the Noteholder with an alternative third party transferee that is willing to acquire by transfer the relevant Convertible Notes on comparable or better terms than the rejected offer.
- (e) If the Company fails to present an alternative third party pursuant to paragraph (d) above, the Noteholder will be permitted to transfer any such Convertible Notes to the interested Direct Competitor notwithstanding the provisions of paragraph (b) above.
- (f) At the written request of a Noteholder (or former Noteholder), the Company must immediately update the register of Convertible Notes to reflect a transfer of a Convertible Note by that Noteholder (or former Noteholder).
- (g) No fee or other charge is payable to the Company in respect of the transfer or registration of transfer of any Convertible Note.

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Appendix A – Independent Expert's Report

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Independent Expert's Report

Otto Energy Limited

*Prepared for the
Directors of Otto
Energy Limited in
relation to the
proposed issue of
convertible notes*

16 June 2017

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The Directors
Otto Energy Limited
32 Delhi Street
West Perth WA 6005

16 June 2017

Dear Directors

Proposed issue of convertible notes

Introduction

1. Otto Energy Limited (Otto, you or the Company) is seeking shareholder approval to raise US\$8.2 million via the issue of convertible notes (the Notes) to certain parties (the Noteholders) (the Proposed Transaction).
2. Otto is the holder of a 50% working interest and 40.625% net revenue interest in the South Marsh Island Area Block 71 (SM-71) discovery, located offshore in the Gulf of Mexico. The Proposed Transaction will enable the Company to fund its share of costs required to develop SM-71 while still being able to pursue other opportunities using its existing funds.
3. As announced to the Australian Securities Exchange (ASX) on 29 May 2017, the Company has entered into binding convertible note subscription agreements (Subscription Agreements) with Molton Holdings Limited (Molton) and Mr John Jetter (together, the Subscribers). Molton holds a 20.39% interest in the share capital of Otto and Mr John Jetter is the current Chairman of Otto.
4. As the Proposed Transaction could, upon potential conversion of the Notes, give rise to Molton (which already has a greater than a 20% interest in the share capital of Otto) increasing its shareholding and due to the proposed issue of Notes to Mr John Jetter constituting a related party transaction, the Directors of Otto have sought an independent expert report to assist the non-associated shareholders of Otto (the Non-associated Shareholders) to assess the merits of the Proposed Transaction.
5. There is also a requirement for an independent expert's report pursuant to the provisions of the ASX Listing Rule 10.1. Listing Rule 10.1 provides that the approval of shareholders is required when an entity proposes to dispose of or agree to dispose of a substantial asset to either a Related Party or a substantial shareholder. The ASX deems the granting of a security interest over an asset to be a disposal of that asset. As such, the granting of security over the shares in Otto Energy (Louisiana) LLC (OEL LLC), Otto Energy (Gulf One) LLC (Otto Gulf One) and Otto Energy (Gulf Two) LLC (Otto Gulf Two) held by Otto Energy (USA) Inc. (Otto USA) for the ultimate benefit of the Subscribers under the terms of the Notes is deemed to be a disposal of a substantial asset under Listing Rule 10.1.
6. PricewaterhouseCoopers Securities Ltd (PwC Securities) has been engaged to prepare an independent expert's report setting out whether, in its opinion, the Proposed Transaction is fair

PricewaterhouseCoopers Securities Ltd, ACN 003 311 617, ABN 54 003 311 617, Holder of Australian Financial Services Licence No 244572

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and reasonable to the Non-associated Shareholders and to state the reasons for that opinion. In preparing our report, we have had regard to the Corporations Act 2001 (Cth) (the Corporations Act) and Australian Securities and Investment Commission (ASIC) Regulatory Guide 111 (RG111) *Content of expert reports*.

7. We note that where a potential issue of shares is approved under item 7 of section 611 which would otherwise be prohibited under section 606 of the Corporations Act and the effect on the company shareholding is comparable to a takeover bid, RG 111 states that the transaction should be considered as if it was a takeover bid. Therefore, due to the potential for Molton to increase its relevant interests in Otto (upon the potential future conversion of the Notes), we have evaluated the Proposed Transaction similarly to that of a takeover bid and formed an opinion as to whether the Proposed Transaction is “fair and reasonable”. We note that this is the same form of opinion that is required to be provided in accordance with the Related Party transaction provisions contained in sections 218 to 221 of the Corporations Act and under Listing Rule 10.1.
8. This letter contains a summary of the opinion and main conclusions of PwC Securities and is extracted from the full independent expert’s report, a copy of which (including this summary letter) will accompany the Notice of General Meeting and Explanatory Memorandum (the Notice of Meeting) to be sent to shareholders on, or about 23 June 2017.

Summary of Opinion

The Proposed Transaction is Not Fair but Reasonable

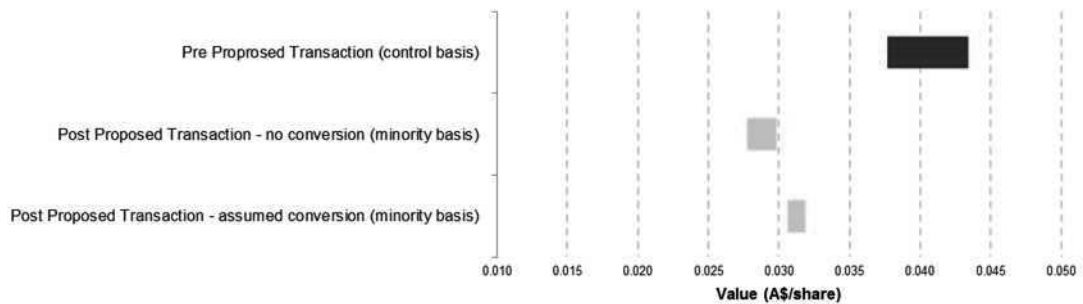
9. Our assessment of the Proposed Transaction has been undertaken in accordance with the principles of ASIC RG111. The reasons for our opinion are set out below and should be read in conjunction with our detailed report which sets out our scope and findings.

The Proposed Transaction is not fair

10. To assess the fairness of the Proposed Transaction we have considered the value of a share in Otto prior to the Proposed Transaction on a controlling interest basis and compared this to the assessed value of a share in Otto on a minority interest basis immediately post the Proposed Transaction.
11. We have assessed the pro forma value of a share in Otto immediately post the Proposed Transaction (on a minority interest basis) under two scenarios - assuming the full conversion of the Notes and assuming that the Notes are not converted.
12. We have assessed the fair market value of a share in Otto (on a controlling interest basis) as at the date of this report to be in a range from \$0.038 to \$0.043 with a preferred (midpoint) value of \$0.041.
13. We have assessed the potential value of a share in Otto post the Proposed Transaction (on a minority interest basis) assuming the full conversion of the Notes to be in a range from \$0.031 to \$0.032 with a preferred (midpoint) value of \$0.031 and assuming that the Notes are not converted to be in a range from \$0.028 to \$0.030 with a preferred (midpoint) value of \$0.029.



Assessed values



On the basis that under each of the scenarios considered, the assessed value of a share in Otto prior to the Proposed Transaction on a controlling interest basis is greater than our valuation range for a fully paid ordinary share in Otto post the Proposed Transaction on a minority interest basis, we consider that it is not fair.

The Proposed Transaction is reasonable

14. In accordance with RG111.12, if an offer is considered to be fair it is also considered to be reasonable. However, an offer may also be considered to be reasonable, if despite not being considered fair, the expert considers that there are sufficient reasons for the relevant security holders to accept the offer, in the absence of a superior proposal.
15. We consider the Proposed Transaction to be reasonable for the following reasons.

The Proposed Transaction provides Otto with a level of certainty regarding its ability to fund the development of its SM-71 discovery and to pursue growth

16. If the Non-associated Shareholders vote to approve the Proposed Transaction, the funds raised will provide Otto with the ability and certainty to fund the cost of the SM-71 project, which is a near-term development asset with defined oil and gas reserves and is anticipated by Otto to start commercial production by the end of 2017.
17. However, if the Non-associated Shareholders decide not to vote in favour of the Proposed Transaction, Otto will be unable to fund the full cost of the SM-71 project without raising new capital or without diminishing its continued ability to advance existing opportunities in its portfolio as well as pursuing other growth opportunities as they present in the market, consistent with Otto's strategy.

Most cost effective option relative to available funding alternatives identified as part of a strategic review

18. As part of a strategic review, Otto considered a range of funding options before deciding the Notes issue to be the most cost effective form of finance available to fund the development of SM-71.
19. Debt finance is typically cheaper than issuing equity or hybrid finance instruments and is non-dilutive. However, Otto has not been able to secure asset backed debt funding due to the size of Otto and scale of the SM-71 project development which is characterised by the low level of



proved reserves and lack of cash flows to support conventional debt funding due to the relative early stage of development.

20. An alternative strategy considered was to issue new equity via a capital raising. Although this strategy could potentially improve liquidity, especially if Otto were to consider a dual listing, the pricing of an equity raising would likely be at a significant discount to Otto's recent traded share price and therefore is potentially more dilutive to existing shareholders having regard to the terms of the Convertible Note including coupon payment and success fee components. In addition, the cost of an equity capital raising could be higher than the costs associated with the Proposed Transaction, further reducing shareholder value if this option was pursued at this time.
21. Therefore, we are not aware of any alternative proposals which may provide a greater benefit to the Non-associated Shareholders at the date of this report.

The key terms of the Notes have been negotiated between Otto and the Subscribers on an arm's length basis

22. In determining the key terms of the Notes, Otto considered recent convertible notes issued by companies with similar stage petroleum assets. A direct comparison of the terms attached to the Notes to terms of convertible notes which have been issued by other companies is somewhat limited due to the convertible nature of the notes and the relative prospects and associated risk relating to the issuer companies. However, our analysis indicates that when compared to other convertible notes issued by resource companies listed on the ASX over the past twelve months with similar stage assets, the coupon attached to the Notes of 14% is within the range of (and not inconsistent with) coupon rates observed in other recent convertible note issues.
23. However, when the coupon rate is considered in conjunction with the potential additional payment of up to US\$1.025 million (the Success Payment which is based on the cumulative production from SM-71) the effective annual rate of return to Noteholders could increase from 14% to over 19%, which is higher than pre-conversion returns noted in our analysis of other convertible note issues.
24. Otto explored a range of potential financing options and engaged with a range of potential investors as part of the finance raising process before deciding on the Proposed Transaction. Through this process Otto negotiated the terms of the Notes with potential investors, including Molton (being an experienced investor with existing knowledge of Otto's assets). These negotiations were conducted over a number of weeks before final terms were agreed, subject to Board approvals. No party was compelled to accept the proposed terms under any position of duress therefore the agreed terms are considered to be reflective of available market rates of return.
25. Once the terms were substantially agreed (albeit still subject to requisite and respective Board approvals), the agreed terms were offered to Mr John Jetter. Therefore, despite the related party nature of the issue of Notes to Mr John Jetter, we consider the key terms of the Notes to have been agreed on an arm's length basis.



The Notes are convertible into shares in Otto at an exercise price of A\$0.055 per share, being a 72% and 88% premium to the 90 day and 30 day volume weighted average price (VWAP) of Otto, respectively

26. The conversion price attached to the Notes is \$0.055 per share which reflects a 72% and 88% premium when compared to the 90 day and 30 day VWAP of Otto at 28 May 2017, being prior to the announcement of the Proposed Transaction. The existence of a premium above the recent traded price of Otto shares is considered to be to the benefit to the Non-associated Shareholders.
27. The extent of the premium offsets to a certain degree the relative pre-conversion return when compared to other recent convertible note issues.
28. We also note that any decision to convert the Notes is likely only to be made if the share price of Otto is above the exercise price attached to the Notes, being above \$0.055 per share. In this event, all shareholders would be considered to have benefited from the increase in the share price. Further, we note that if the Notes are converted, the debt associated with the Notes is consequently extinguished and the level of gearing will decrease to nil.

Ability for Otto to redeem the Notes and seek alternate financing

29. If Otto's share price increases during the development timeframe, funds may potentially be able to be raised by Otto at a lower cost to existing shareholders either through the increased ability to secure conventional debt funding or through being able to issue equity at a higher share price (and / or lower cost) than is currently considered possible. In such an event the Company can elect to redeem the Notes, subject to certain conditions as described in Section 1 of this report (and in more detail in the Notice of Meeting).
30. We note that whilst this may trigger the conversion of the Notes by the Noteholders, it removes future optionality available to the Noteholders at the expense of the Non-associated Shareholders and also reduces aggregate coupon payments and the quantum of any additional Success Payment due to early conversion or redemption.

Molton's interest in Otto will only increase if it exercises the right to convert the Notes into shares in Otto

31. Only if Molton exercises its conversion rights will additional shares be issued to it. We note that if Molton exercises its conversion rights in full, its holding in Otto will increase to approximately 32%, if no other Noteholder converts and no other shares are issued.
32. Molton currently holds approximately 20.39% of the outstanding shares on issue and is not related to any other Subscriber, therefore Molton already has a significant interest in the future success of the Company. Arguably, the level of influence Molton would be able to exert following a potential increased shareholding in Otto of approximately 32% is not substantially different to that currently afforded under its current 20.39% interest in Otto. We also note that Molton will not derive any additional rights upon the potential conversion of the Notes which may impact the level of influence it is able to exert, such as the ability to appoint a director to the Board of Otto (apart from blocking a special resolution which requires 75% approval).
33. We also note that Molton has stated independently that it has no intention of influencing the operational and financing decisions of the Company, please refer to the Notice of Meeting.



Restricted ability of the Noteholders to transfer the Notes to third parties

34. The Noteholders are entitled to transfer some or all of the Notes to any other party at any time after they are issued. However, a Noteholder may not, without the express written consent of the Company (which may be withheld in its absolute discretion), transfer any of its Notes to a third party transferee who is a direct competitor. In the event that the Company does not provide consent to the transfer of Notes to a direct competitor, it has 60 days to find an alternative third party transferee.
35. As such, this term seeks to protect the interests of the Company and the Non-associated Shareholders by restricting the ability of any party gaining a substantial holding in Otto via the election of the Noteholders to transfer the Notes.

By obtaining shareholder approval under Listing Rule 7.1, the Company will retain the flexibility to issue up to 25% of its issued capital, if required, in the next 12 months without the need to obtain further shareholder approval

36. As shareholder approval is being sought pursuant to item 7 of section 611 of Corporations Act, the issue of Notes to Molton will not be included in the calculation of the Company's annual 15% placement capacity pursuant to Listing Rule 7.1 or its 10% placement capacity pursuant to Listing Rule 7.1A.

If the Proposed Transaction is not accepted, the Otto share price may be adversely impacted

37. If the Proposed Transaction is not approved we consider that the share price of Otto could be adversely impacted, having regard to the perceived ability of Otto to be able to fully fund the development of SM-71 and pursue growth through other existing or new projects.

We have also considered the potential disadvantages to the Non-associated Shareholders if the Proposed Transaction is approved but consider that the benefits to the Non-associated Shareholders outweigh the potential disadvantages. A summary of the potential disadvantages considered includes:

- The effective aggregate return (inclusive of the full potential amount of the contingent Success Payment) to Noteholders is considered to be high when compared to other recent note issues. The Notes attract a net coupon rate of 14% per annum and a Success Payment of up to US\$1.025 million is payable to Noteholders upon the project reaching cumulative oil production of 1.8 MMBbls by the maturity date of the Notes on 30 June 2019. In addition, Molton is entitled to a Structuring Fee of US\$0.2 million upon issue of the Notes. Offsetting this disadvantage to a certain extent is the premium payable on conversion relative to the current share price which is high compared to recent note issues;
- The potential increased shareholding of Molton (if the Notes are converted) may be deemed to result in increased influence without a control premium having been paid, for instance with regard to the potential ability to block a special resolution which requires 75% approval;
- The Notes are to be secured through a share mortgage, under which Otto USA grants security over the equity interests it owns in Otto Gulf One, Otto Gulf Two and in OEL LLC (which holds Otto's interest in the SM-71 development and other Gulf of Mexico new ventures), therefore Otto's ability to repay the Notes plus any accumulated interest is linked to the success of SM-71. If Otto is unable to repay the Notes upon the maturity date (being 30 June 2019) through any reason, then the Non-associated Shareholders will lose exposure to SM-71;



- Existing shareholders' interests will be diluted upon potential conversion of the Notes, albeit conversion will mean the share price has increased considerably from the current traded share price;
- There is a currency exposure to the extent that the notes are denominated in US dollars but Otto shares are traded in Australian dollars which could impact the number of shares which are issued on conversion;
- The issue of Notes provides option value to the Noteholders which reduces equity value to the Non-associated Shareholders; and
- There is no opportunity for the Non-associated Shareholders to participate in the Proposed Transaction.

38. After consideration of the aforementioned factors, in our opinion the advantages of the Proposed Transaction outweigh the potential disadvantages. Therefore, in the absence of a superior proposal, we consider that the Proposed Transaction is reasonable to the Non-associated Shareholders.

Other matters

39. In preparing this independent expert's report we have considered relevant regulatory guides issued by ASIC, with particular reference to RG111, RG112 *Independence of experts* and Australian Professional and Ethical Standard (APES) 225 *Valuation Services*.
40. The decision to accept or not to vote in favour of the Proposed Transaction is a matter for individual shareholders based on each shareholder's view as to value, their expectations about future market conditions and their particular circumstances including risk profile, liquidity preference, investment strategy, portfolio structure and tax position. In particular, taxation consequences may vary from shareholder to shareholder. If in any doubt as to the action they should take in relation to the Proposed Transaction, shareholders may wish to obtain personal financial product advice from the holder of an Australian Financial Services Licence to assist in this assessment.
41. This independent expert's report has been prepared solely for the benefit of the Directors of Otto and for the benefit of the Non-associated Shareholders. Neither PwC Securities nor its employees, officers and agents undertake responsibility to any person, other than the Directors of Otto or the Non-associated Shareholders, in respect of the independent expert's report, including any errors or omissions howsoever caused.
42. Otto has indemnified PwC Securities, PwC and its employees, officers and agents against any claim, liability, loss or expense, cost or damage, including legal costs on a solicitor client basis, arising out of reliance on any information or documentation provided by Otto, which is false and misleading or omits any material particulars or arising from a failure to supply relevant documentation or information.
43. Our assessment was completed using available information as at 16 June 2017. We have reviewed publicly available information subsequent to 16 June 2017 to the date of this letter and do not consider this to alter our opinion presented above.
44. A draft of this report (excluding our consideration of the merits of the Proposed Transaction) was provided to the Directors of Otto for factual checking on 5 April 2017 and a final draft (excluding our consideration of the merits of the Proposed Transaction) was provided to Otto on



26 May 2017. Although there were a number of changes to the Proposed Transaction and to the terms attaching to the Notes between these two dates, no changes to our opinion arose as a result of these reviews.

This letter must be read in conjunction with the remainder of this independent expert's report, including the appendices attached.

Yours faithfully

A handwritten signature in black ink that reads 'Paul Hennessy' in a cursive script.

Paul Hennessy
Authorised Representative
PricewaterhouseCoopers Securities Ltd

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1 Overview of the Proposed Transaction

Overview of the Proposed Transaction

45. Otto has entered into Subscription Agreements with Molton and Mr John Jetter pursuant to which the Subscribers have agreed (subject to certain shareholder approvals) to provide Otto with required project funding via the issue of the Notes.
46. The total face value of the Notes proposed to be issued is US\$8.2 million and the amount of Notes subscribed for by each of the Noteholders is as follows:
 - US\$8.0 million to Molton - an investment holding company incorporated in the British Virgin Islands which has been a substantial shareholder in Otto since December 2007; and
 - US\$0.2 million to Mr John Jetter (Chairman of Otto).
47. Otto has agreed to put the Proposed Transaction to the Non-associated Shareholders and the Directors of Otto who are independent for the purposes of the Proposed Transaction have unanimously recommended that Non-associated Shareholders vote in favour of the Proposed Transaction in the absence of a superior proposal.
48. The Directors of Otto have engaged PwC Securities to prepare an independent expert's report setting out whether, in its opinion, the Proposed Transaction is fair and reasonable to the Non-associated Shareholders and to state reasons for that opinion.

Use of Funds

49. Otto is the holder of a 50% working interest and 40.625% net revenue interest in the SM-71 discovery. The Company and its joint venture partner, Byron (Operator), have begun modification work on a tripod platform which was purchased for use at the SM-71 location. The planned modification work will result in a manned facility with the capacity to produce 4,500 barrels of oil per day (bopd) and 5.0 million cubic feet (mmcf) of gas per day once installed on location.
50. The SM-71 joint venture plans to complete the SMI-71 #1 well for production and anticipates recording initial gross flow rates of between 1,500 to 2,000 bopd (gross field production). After completion of this initial well, we understand that there is the potential to drill up to four additional development wells, and Otto considers that some of these wells will be able to intersect additional target sands which have the potential to increase the present reserve base of the SM-71 lease.
51. Otto intends to use the funds raised by the issue of the Convertible Notes to fund costs associated or connected with the development of the SM-71 Project.

Terms of the Notes

52. Full details of the Notes is provided in the Notice of Meeting. We have summarised the key terms of the Notes below:
 - The Notes mature on 30 June 2019.
 - A coupon rate of 14% per annum (net of any withholding tax), compounded monthly, will attach to the Notes. The payment of interest is to be deferred during the development of SM-71 and payment of interest is to commence 60 days after the commencement of delivery of hydrocarbon production in commercial quantities from SM-71, with the deferred interest being paid in two equal instalments.
 - On the maturity of the Notes (being 30 June 2019), a Success Payment will become due and payable to the Noteholders. This Success Payment effectively provides Noteholders with an additional return on their investment which is linked to the success of the project based on production being in line with a production profile based on 2P reserves. The amount payable is based on the cumulative production achieved from SM-71 to 30 June 2019 as shown in the table below:

Cumulative Oil Production (100%) to 30 June 2019 (MMbbls)	<1.4	1.4	1.5	1.6	1.7	1.8	>1.8
Success Payment (US\$m)	Nil	0.2	0.4	0.6	0.8	1.0	1.0

Source: Company Information

- Should the notes be redeemed or converted earlier than the maturity date, the Success Payment will be adjusted to reflect the length of time that the Notes have been held up to the date of redemption or conversion. It is noted that no Success Payment will become payable where the cumulative oil production from SM-71 has not reached 1.4 MMbbls by 30 June 2019.
- The Notes are convertible at the election of the Noteholder into Otto shares at the prevailing US\$:A\$ foreign exchange rate and a conversion price of A\$0.055 per share. The conversion of some or all of the Notes is permitted after the first 12 months in minimum amounts of US\$1.0 million at each quarter, being 30 June, 30 September, 31 December and 31 March.
- The Notes are redeemable at the election of the Company:
 - if not converted prior to the Maturity Date, on the Maturity Date;
 - upon receipt of a takeover offer (if a takeover offer is received within 12 months after the issue a redemption premium of 14% is payable, offset by any interest already paid); and
 - in full at any time after the first 12 months or partially (subject to a minimum amount of US\$2.0 million) at each quarter, being 30 June, 30 September, 31 December and 31 March.
- On receipt of a redemption notice from Otto, the Noteholders may elect to convert all or part of the Notes subject to the redemption notice.
- The Notes are to be secured through a share mortgage, under which Otto USA grants security over the equity interests it owns in Otto Gulf One, Otto Gulf Two and in OEL LLC (which holds Otto's interest in the SM-71 development and new Gulf of Mexico ventures) in favour of an appointed agent (the Security Agent) of the Subscribers and Noteholders. The Security Agent is to be appointed as agent of the Subscribers and Noteholders for the purposes of holding the benefit of the Share Mortgage and taking certain actions on behalf of the Noteholders (including enforcement action).
- If an event of default occurs (refer section 3 of the Notice of Meeting) which is not remedied, the Security Agent can, under the Share Mortgage Document, enforce the Share Mortgage by taking ownership of the secured assets and/or selling the secured assets and recovering the proceeds to repay money owing to the Noteholders under the Convertible Notes (with any surplus being returned to Otto USA).
- The Notes are unlisted but are transferable to parties that are not considered to be competitors of Otto (being ASX listed oil and gas companies with assets in similar jurisdictions to Otto), unless approved by Otto. Where the consent of Otto is required to effect the transfer of the Notes and Otto rejects the request, Otto is obligated to provide the transferee with an alternate purchaser of the Notes subject to the transfer request within 60 days on comparable or better terms, otherwise the transfer to the competitor may proceed.

53. Molton is entitled to a structuring fee of US\$200,000 to be paid in cash on the date the Notes are issued.

54. Molton is also entitled to a commitment fee equal to 14% per annum of the face value of the Notes each subscribed for, from the date shareholder approval is obtained to the date that the Notes are issued. This commitment fee is to be paid in US dollars, monthly in arrears.

Comparison to market information

55. We note that Otto considered a range of funding options before deciding the Notes issue to be the most cost effective form of finance available to fund the development of SM-71.

56. Otto negotiated key terms of the Notes with a range of potential investors, including Molton (being an experienced investor with existing knowledge of Otto's assets) over a number of weeks before terms were agreed, subject to Board approvals. We note that no party was compelled to accept the proposed terms under any position of duress.

57. To consider the terms on which the Notes are to be issued, we have analysed the key terms of convertible notes that have been issued by companies listed on the ASX over the past twelve months with similar stage assets. A direct comparison of the terms attached to the Notes to terms of convertible notes which have been issued by other companies is somewhat limited due to the convertible nature of the notes and the relative prospects and associated risk relating to the issuer companies.

58. The key terms of the seven convertible notes observed are summarised in the following table:

Company Name	Date Issued	Amount (US\$m)	Term (years)	Interest Rate	Conversion Price	Premium / (discount) to 30 day VWAP prior to announcement
Byron Energy	22 July 16	6.0	3.0	12.0%	10% discount to 30 day VWAP	n/a
Petsec Energy	23 Aug 16	15.0	1.4	10.0%	0.15 / 0.3 / 0.4	(16.2%), 67.5%, 123.3%
Lanka Graphite	3 Oct 16	1.4	1.0	10.0%	0.13	49.5%
Armour Energy	21 Nov 16	35.0	2.9	15.0%	0.11	33.2%
Orion Gold NL	7 Feb 17	8.0	2.0	12.0%	0.03	37.8%
Graphite Corp	2 Mar 17	15.5	1.1	10.0%	0.60	(2.8%)

59. Based on the data observed, the convertible notes identified had conversion prices that were at a premium to the company's share price the day before the date the issues were announced in the range of 9.6% to 95.1%, with one conversion price representing a discount to the trading price. When the premium is calculated using the VWAP 30 days prior to the announcement, the premiums range from 33.2% to 123.3%, with a tranche of the Petsec convertible note issue and one other note issue at a discount. In comparison, the Notes are convertible into shares in Otto at an exercise price of \$0.055 per share, being a 72% premium to the 90 day VWAP and a 88% premium to the 30 day VWAP of Otto as at 28 May 2017. Therefore, the premium of the conversion price relative to the recent traded price of Otto is considered of benefit to the Non-associated Shareholders of Otto.

60. While the conversion price is one of the key terms of the Notes, other relevant factors include the term and the interest rate attached to the Notes. As shown in the table, the interest rates of the convertible notes ranged from 10% to 15%. The terms of the notes ranged from one year to three years.

61. Therefore, when compared to other convertible notes issued by resource companies listed on the ASX over the past twelve months with similar stage assets our analysis indicates that the coupon attached to the Notes of 14% is within the range (and not inconsistent with) coupon rates observed in other recent convertible note issues. However, we note that when the coupon rate is considered in conjunction with the contingent Success Payment of up to US\$1.025 million the effective annual rate of return to Noteholders could be as high as 19%, which is higher than any of pre-conversion returns noted in our analysis of other convertible note issues albeit that this is offset to a certain extent by a relatively high conversion premium.

Financial Benefit to Mr John Jetter

62. Mr John Jetter will receive a financial benefit in exchange for his subscription for Notes of US\$200,000 which includes:

- coupon payments of US\$28,000 per annum (compounded monthly);
- potential success fee of up to a maximum of US\$25,000 subject to cumulative production from SMI-71; and

Overview of the Proposed Transaction

- option value of approximately A\$32,000 associated with the convertible nature of the Notes. The option value has been calculated using the Black-Scholes option pricing method, an assumed volatility of 70%, an A\$:US\$ exchange rate of US\$0.74:A\$1, an exercise price 5.5c and share price 3.0c per share.

63. These terms are consistent with and no better than the terms offered to and accepted by Molton.

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2 Scope of independent expert's report

Scope of independent expert's report

64. As the Proposed Transaction could, upon potential conversion of the Notes, give rise to Molton (which already has a greater than a 20% interest in the share capital of Otto) increasing its shareholding to a level greater than 20% but below 90% and also due to the proposed issue of Notes to Mr John Jetter constituting a related party transaction, the Directors of Otto have sought an independent expert report to assist the Non-associated Shareholders to assess the merits of the Proposed Transaction and provide an opinion as to whether the Proposed Transaction is considered fair and reasonable to the Non-associated Shareholders.
65. There is also a requirement for an independent expert's report pursuant to the provisions of the ASX Listing Rules as the granting of security over the equity held by Otto USA in Otto Gulf One, Otto Gulf Two and in OEL LLC (which holds Otto's interest in the SM-71 development plus Gulf of Mexico new ventures) for the ultimate benefit of the Subscribers is deemed to be a disposal of a substantial asset under ASX Listing Rule 10.1.

Issue of shares pursuant to item 7 of section 611 of the Corporations Act which would otherwise be prohibited under section 606

66. Section 606 of the Corporations Act prohibits a person acquiring a relevant shareholding in a listed company if, as a result of the acquisition, that person's (or their Associates) voting power in the company increases from 20% or below, to more than 20%, or from a starting point that is above 20% and below 90%.
67. There are various exceptions to the prohibition in section 606 of the Corporations Act. Item 7 of section 611 of the Corporations Act provides an exemption where the acquisition is approved by a resolution passed at a general meeting of the company before the acquisition is made. The parties involved in the acquisition and their Associates are not able to cast a vote on the applicable resolution(s).
68. As at the date of this report, Molton holds (a relevant interest in) 241.9 million shares in Otto being a 20.39% interest based on 1,186.3 million shares currently on issue.
69. Molton's increased voting power in the Company which may arise from the issue and subsequent conversion of the Notes is subject to movement in the US\$:A\$ foreign exchange rate and whether Molton decides to convert some or all of the Notes or the Company elects to redeem some or all of the Notes.
70. If Molton elects to convert the Notes in full, and based on an exchange rate of US\$0.74:A\$1, Molton's interest in Otto would increase from 20.39% to approximately 32%, if no other Noteholder converts and no other shares are issued. A table outlining the potential interest in Otto that could result upon full conversion at various US\$:A\$ foreign exchange rates is summarised in the Notice of Meeting.
71. This report assesses whether the issue of shares to Molton on potential conversion of the Notes which could result in Molton increasing its voting interest in Otto from the current level of 20.39% to potentially as much as 36% is fair and reasonable to the Non-associated Shareholders.

Related Party Transaction

72. Pursuant to section 208 of the Corporations Act, for an ASX listed company (or an entity that the listed company controls) to give a financial benefit to a related party, the company must obtain the approval of the company's shareholders, unless the giving of the financial benefit falls within an exception set out in sections 210 to 216 of the Corporations Act.
73. The Directors are related parties of the Company and the Directors of Otto have determined that the exceptions set out in sections 210 to 216 of the Corporations Act and Listing Rule 10.12 do not apply in the current circumstances. Therefore, the issue of Notes to Mr John Jetter (or his nominee) requires Otto to obtain shareholder approval because this constitutes the giving of a financial benefit.

74. This report assesses whether the proposed issue of Notes to Mr John Jetter is fair and reasonable to the Non-associated Shareholders.

Listing Rule 10.1

75. Listing Rule 10.1 provides that shareholder approval is required where an entity proposes to dispose of or agree to dispose of a substantial asset to:
- a related party;
 - a substantial shareholder; or
 - an Associate of either of the above.
76. The Notes are to be secured through a Share Mortgage, under which Otto USA grants security over the equity interests it owns in Otto Gulf One, Otto Gulf Two and in OEL LLC, a Delaware limited liability company and wholly owned subsidiary of Otto, which hold Otto's interests in SM-71 and Gulf of Mexico new ventures. The terms of the security arrangement are set out in Section 3 of the Notice of Meeting.
77. ASX deems the granting of a security interest over an asset to be a disposal of that asset. As the face value of the Notes over which the security is to be given is greater than 5% of the equity interests of the Company as set out in its last accounts provided to ASX, the effective granting of security over SM-71 is considered to be a disposal of a substantial asset.
78. Further, as the granting of security is for the ultimate benefit of the Noteholders (comprising a related party and an existing substantial shareholder of the Company) the Directors consider that shareholder approval is also required under Listing Rule 10.1.
79. This report considers whether the potential for the Noteholders to enforce their effective security over shares in Otto Gulf One, Otto Gulf Two and OEL LLC in certain circumstances is fair and reasonable to the shareholders who are not associated with Molton or Mr John Jetter.

Our approach

80. We have prepared this independent expert's report for the purpose of stating, in our opinion, whether or not the Proposed Transaction is considered fair and reasonable to the Non-associated Shareholders, and to set out our reasons for that opinion. This report has been prepared in accordance with the Corporations Act and ASIC RG111.
81. RG111 discusses the separate concepts of "fair" and "reasonable" to be applied by an independent expert assessing an offer. An offer is regarded as "fair" if the value of the offer price or consideration is equal to or greater than the value of the securities the subject of the offer. An offer is "reasonable" if it is "fair" or despite not being "fair", but after considering other significant factors, shareholders should accept the offer in the absence of any higher bid before the close of the offer.
82. RG111.11 requires that the assessment of fairness of a control transaction assumes 100% ownership of the target, irrespective of whether the consideration is made by way of scrip or cash, and therefore reflects ASIC's underlying philosophy that the premium for control of a company subject to a takeover be shared by all members of that company.
83. Accordingly, our assessment of the value of Otto's ordinary shares prior to the Proposed Transaction is assessed on a controlling interest basis and our assessment of the value of Otto's ordinary shares immediately post the Proposed Transaction is on a minority interest basis.
84. In assessing fairness, we use the following definition of fair market value:
- "the price which would reasonably be negotiated by an informed, willing but not anxious purchaser and an informed, willing but not anxious seller acting at arm's length and within a reasonable timeframe".*
85. In evaluating the reasonableness of the Proposed Transaction, we have considered whether the advantages afforded to the Non-associated Shareholders in approving the Proposed Transaction

outweigh the potential disadvantages, the likelihood of an alternate funding proposal on better terms being received by the Company and the likely position of shareholders if the Proposed Transaction is rejected.

Sources of information

86. In preparing this report, we have used and relied on the information set out in Appendix B and representations made by Otto.
87. We have conducted checks, enquiries and analyses of the information provided to us which we regard as appropriate for the purposes of this report. Based on these procedures, we believe that the information used as the basis for forming the opinions in this report is accurate, complete and not misleading and we have no reason to believe that material information relevant to our report has been withheld by Otto. Whilst our work has involved an analysis of financial information and accounting records, it does not constitute an audit or review of Otto in accordance with Australian Auditing Standards, and accordingly no such assurance is given in this report.
88. The achievement of prospective financial information prepared by Otto has been relied on by PwC Securities for the purposes of our assessment of the Proposed Transaction and is not warranted or guaranteed by us. This information is based on predictions of future events, many of which are outside the control of management, and is therefore inherently uncertain. Actual results and outcomes may differ materially from the forward looking information provided to us and reflected in this report.
89. Our assessment has been made as at the date of our report. Economic conditions, market factors and changes in exploration or development potential may result in the report becoming outdated. We reserve the right to review our assessments and, if we consider it necessary, to issue an addendum to our report, in the light of any relevant material information which subsequently becomes known to us prior to the closure of the Proposed Transaction.
90. All value amounts in the report are denominated in Australian dollars (\$) unless otherwise stated. Financial tables may be subject to rounding.
91. We have provided a draft copy of this independent expert's report to the Directors of Otto for their comments as to factual accuracy, as opposed to opinions, which are our responsibility alone. The review by Directors has not caused us to change our methodology or conclusions herein.

General advice

92. In preparing this report, we have considered the interests of the Non-associated Shareholders taken as a whole. This report contains only general financial product advice and does not consider the personal objectives, financial situation or needs of individual shareholders. An individual's decision in relation to accepting or not accepting the Proposed Transaction may be impacted by the individual's particular circumstances and shareholders may wish to obtain personal financial product advice from their financial adviser.

Scope exclusions

93. This report has been prepared solely for the purpose of assisting the Non-associated Shareholders to consider whether or not to approve the Proposed Transaction. This report has not been prepared to provide information to parties considering the purchase or sale of securities in Otto. Accordingly, we do not assume any responsibility or liability for any losses suffered as a result of the use of this report contrary to the provisions of this paragraph

3 Overview of Otto

Profile of Otto

94. Otto was established in 2004 and is an ASX listed oil and gas exploration and development company headquartered in Perth, Western Australia. Otto's objective is to develop a robust and substantial upstream exploration and production (E&P) program through maximising the value of existing assets and developing a balanced portfolio of exploration, development and production opportunities.

Company history

95. We have listed below a summary of key events in Otto's history since listing on the ASX:

Date	Event
2004	<ul style="list-style-type: none">• Otto Energy listed on the ASX
2008	<ul style="list-style-type: none">• Announces first oil from the Philippines Galoc Oil Field project (Galoc)• Otto enters into conditional farm-out agreement with BHP Billiton regarding Service Contract 55 (SC55)
2009	<ul style="list-style-type: none">• Capital raising announced of approximately A\$35 million via an institutional placement and underwritten entitlement issue• Edirne Joint Venture 5 year Gas Sale Agreement secured
2010	<ul style="list-style-type: none">• First gas announced from the Edirne license• Sold its Edirne license in Turkey, a producing natural gas asset to Valeura Energy Inc for US\$3.1 million
2011	<ul style="list-style-type: none">• BHP Billiton (BHPB) exercises its option to farm in to SC55 and Otto transfers a 60% working interest to BHP• Otto increases its stake in Galoc from an indirect 18.78% to direct 33.0% interest through the acquisition of the remaining 68.62% interest in the Galoc Production Company from Vitol Group for US\$18.7 million
2012	<ul style="list-style-type: none">• Enters into US\$37.4 million binding financing agreement with BNP Paribas• Otto increases its equity in the Service Contract 51 North Joint Venture, located in the Philippines, to 80%• Secured interests in two onshore Tanzanian production sharing agreements
2013	<ul style="list-style-type: none">• BHPB advises Otto of its intention to withdraw from SC55. BHPB agrees to fund US\$24.5 million of drilling costs as part of the termination agreement and paid US\$3.0 million immediately• First oil from Galoc Phase 2 announced• Positive resource assessments of Otto's Tanzanian prospect (Kilosa-Kilombero license) announced
2014	<ul style="list-style-type: none">• Completed repayment of US\$37.4 million financing facility to BNP Paribas
2015	<ul style="list-style-type: none">• Divested 100% interest in Galoc Production Company, holder of Otto's 33% interest in Galoc to Nido Petroleum (Nido) for US\$108.0 million• Acquired interest in Alaska North Slope acreage• Otto announces the SC55 Hawkeye-1 exploration well intersected a sub-commercial hydrocarbon discovery• Otto secured a staged farm-in with Byron Energy for interests in a multi-asset portfolio covering onshore Louisiana and offshore Gulf of Mexico (including SM-71) prospects
2016	<ul style="list-style-type: none">• Maiden Gulf of Mexico discovery at SM-71• Entered into an agreement to purchase and construct SM-71 production facility with Laredo Construction

Source: Otto ASX Announcements

Overview of key assets

Gulf of Mexico / Louisiana

96. In December 2015, Otto entered into a binding participation agreement (PA) through its wholly owned subsidiary OEL LLC with Byron. The PA covers three of Byron's existing exploration projects: SMI-70/71, Bivouac Peak and SMI-6, with Otto contributing to drilling costs and past expenditure recovery as part of a staged farm-in.
97. In addition, we understand that Otto has the option to participate in one additional prospect proposed by Byron Energy on terms consistent with its other farm-ins.

South Marsh Island 6

98. The South Marsh Island 6 (SMI-6) well was drilled to a depth of 2,464 metres in March 2016 and was temporarily plugged and abandoned. After extensive reviews, Otto and Byron concluded that it was not viable to deepen the well and a decision was made not to continue with the project. As such, Otto did not earn a working interest in SMI-6 and was not required to reimburse Byron for past costs and is not exposed to related abandonment liabilities apart from an amount of US\$120,000.

South Marsh Island 70/71

99. In 2016 Otto earned a 50% participating interest (equal to a 40.625% net revenue interest) in the SMI-70 and SM-71 leases located in the Gulf of Mexico via a staged farm-in with Byron.
100. To earn its 50% interest in SMI-70/71, Otto contributed c.US\$3.0 million towards the total costs of the #1 well and reimbursed Byron for US\$0.9 million of costs predominantly associated with the acquisition and processing of 3D seismic surveys used to define the target at the SMI-71 #1 well. The #1 well has now been completed and suspended awaiting tie-in to production infrastructure.
101. As part of the development of this asset Byron entered into a purchase and construction agreement with Laredo Construction Inc. in August 2016 for a tripod platform and commenced work to modify the facility for use at the SM-71 location. Further analysis undertaken by the joint venture participants led to a proposal to modify the design concept to a manned platform from the previously proposed unmanned facility. The proposed tripod facility is capable of accommodating six wells and has the capacity to produce 4,500 bopd and 5.0 million cubic feet per day (mmcfpd) of gas. Access to adjacent oil and gas sales trunk lines are available and are intended to be used for oil and gas export once production commences.
102. Development construction / modification has been scheduled for the first half of 2017 with a first production target towards the end of 2017, with an initial rate of 1,500 to 2,000 bopd (gross field production from first well).
103. We have shown a summary of Net Reserves attributable to Otto's interest in SM-71 in the table below:

SM-71 Reserves – Net to Otto	Oil (Mbbls)	Gas (MMcf)	Total Mboe (6:1)
1P	582	404	649
2P	2,027	1,462	2,271
3P	2,567	1,835	2,873
Net Prospective Resources	2,043	1,990	2,375

Source: Otto ASX announcement dated 20 July 2016

Bivouac Peak

104. Otto also has the option under a staged farm-in agreement with Byron to acquire a 45% working interest (33.53% net revenue interest) in the Bivouac Peak opportunity which covers approximately 2,500 acres of prospective acreage in the transitional zone onshore southern Louisiana.

105. Otto has the ability to earn the 45% working interest through the funding of 60% of the cost of the first well drilled at Bivouac Peak. Any costs above US\$6.0 million in respect of the first well and all future expenditure will be in accordance with Otto's participating interest (being 45%).
106. Multiple prospects have been identified and follow up drilling options have been identified that could increase the scale of the potential opportunity. Additional geological and geophysical work is to be undertaken by the joint venture prior to drilling of the first well.
107. With the existence of nearby infrastructure, any successful well at Bivouac Peak is considered by the joint venture partners to be capable of being brought into production within a period of six to twelve months.
108. An independent prospective resource estimate (net to Otto) has been compiled. The following estimate is subject to Otto agreeing to participate in the first well drilled in the Bivouac Peak Acreage

Bivouac Peak – Net to Otto	Oil (Mbbbls)	Gas (MMcf)	Total Mboe (6:1)
Prospective Resource (net to Otto)	5,361	59,562	15,288

Source: Otto ASX announcement dated 25 July 2016

109. As noted above, we understand that Otto has the option to participate in one further Byron prospect on terms consistent with its other farm-ins which will provide Otto with the opportunity to grow its business in the Gulf of Mexico.

Alaska North Slope

110. Through agreements with Great Bear Petroleum LLC (Great Bear), Otto acquired an 8% and 10.8% working interest (equivalent to 58,334 acres) in two areas of Alaska North Slope exploration acreage for c.US\$14.4 million.
111. Great Bear has undertaken significant exploration work on the acreage since 2011 with a cumulative spend in excess of US\$200 million. The conventional fields produce light oil and the acreage is considered by Otto to be well positioned for exploration having extensive modern 3D seismic coverage and considering its proximity to existing infrastructure.
112. Due to existing 3D seismic coverage, development of a prospect portfolio has been completed with four well targets. Further risking and ranking of projects and well plans are forecast for 2017 with the aim to drill one to two wells in financial year 2018 (FY18).
113. Otto's exposure on the first three wells is limited to US\$2.6 million per well and it only has an obligation to participate in the first well.

Tanzania

114. Otto had a direct 50% interest in both the Pangani and Kilosa-Kilombero Product Sharing Agreements (PSAs) through its wholly owned subsidiary Otto Energy (Tanzania) Pty Ltd (Otto Tanzania). Otto's partner in the PSAs was Swala Oil and Gas (Tanzania) plc (Swala Tanzania), who also was the operator under separate Joint Operating Agreements (JOAs). The PSAs were awarded by the Government of the United Republic of Tanzania on 20 February 2012, with the overall Kilosa-Kilombero and Pangani acreage covering a gross area of approximately 34,000 km².
115. In 2016, an application was made to relinquish the Pangani PSA without conducting any further work. We understand that this request is still being processed by the regulator and that final Government agreement to terminate the PSA is expected to be received shortly. Otto has noted that the Pangani PSA contains a minimum work commitment to drill one exploration well and that Otto Tanzania's share of this commitment estimated to be a minimum of US\$3.0 million, although Otto anticipates that the Pangani PSA will be terminated without penalty.
116. In May 2016, Otto Tanzania commenced legal action seeking to recover \$1.0 million relating to the Pangani licence in the Federal Court against Swala Energy Limited, Swala Tanzania and their respective

current and former directors. On 26 May 2017, Otto and Swala Tanzania announced that they had entered into a settlement regarding the claims and counter claims concerning the Pangani licence under which Otto will receive a net sum of US\$800,000 on or before 31 August 2017 and proceedings will be discontinued.

117. Otto's main focus to date in Tanzania has been on the Kilosa-Kilombero licence. During the June 2016 quarter, Otto successfully secured a farm-out of a 25% participating interest in the Kito-1 exploration well to MV Upstream Tanzania Ltd. However, due to delays in obtaining necessary permits, the 2016 weather window to drill the exploration well was missed and completion of the farm-out agreement is pending subject to the terms being reassessed. In March 2017, a one year extension was granted by the Tanzanian Minister for Energy and Minerals for the Kilosa-Kilombero license until 22 February 2018.
118. In July 2016, Otto announced to the ASX that Otto Tanzania had issued various notices to Swala Tanzania pursuant to the Pangani and Kilosa-Kilombero JOAs. The matters raised in these notices are unrelated to the aforementioned Federal Court proceedings. Otto released an update to the ASX on 29 March 2017 notifying its shareholders that Swala Tanzania had issued a notice to Otto Tanzania purporting to require Otto Tanzania to withdraw from the JOA and issuing a cash call for the entire 2017 work program. Swala Tanzania also demanded that Otto Tanzania provide security in relation to the minimum work commitment under the Kilosa-Kilombero PSA.
119. On 26 May 2017, Otto and Swala Tanzania announced that in respect of the various disputes between Otto Tanzania and Swala Tanzania in relation to the Kilosa-Kilombero Licence, the parties had agreed on the withdrawal of Otto Tanzania from the JOA with Swala Tanzania assuming its 50% participating interest and that Otto Tanzania will pay third party creditors US\$249,016. As part of the settlement, Swala Tanzania and Otto have also entered into a royalty agreement under which Swala Tanzania has granted to Otto a gross overriding royalty equal to 2% of revenue derived from Otto's former interest.

Historical financial information

Historical profit and loss

120. The reported operating performance of Otto for the two financial years ended 30 June 2015 and 2016 (audited) and the six month period to 31 December 2016 (reviewed) is summarised in the table below:

Consolidated Statement of Profit or Loss (US\$ '000)	FY15 Audited	FY16 Audited	H1 FY17 Reviewed
Other net income	(159.0)	26,994.0	7.0
Operating expenses	(6,217.0)	(5,593.0)	(2,001.0)
Exploration expenditure	(10,281.0)	(41,479.0)	(614.0)
EBITDA	(16,657.0)	(20,078.0)	(2,608.0)
Depreciation and amortisation	(235.0)	(88.0)	(26.0)
EBIT	(16,892.0)	(20,166.0)	(2,634.0)
Net interest income / (expense)	503.0	82.0	47.0
Profit before tax	(16,389.0)	(20,084.0)	(2,587.0)
Income tax expense	-	(2.0)	(51.0)
Profit after income tax from continuing operations	(16,389.0)	(20,086.0)	(2,638.0)
Profit after tax for the year from discontinued operations	32,793.0	-	-
Net profit/loss for the period	16,404.0	(20,086.0)	(2,638.0)

Source: Otto Annual and Half-year Financial Reports

121. In relation to the historical financial performance of Otto, we note:

- Otto's FY16 Annual Financial Report was prepared on the basis of a retrospective application of a voluntary change in accounting policy relating to the treatment of exploration and evaluation expenditure. In previous reporting periods, the exploration costs were capitalised to the Statement of Financial Position. As of 1 July 2015, Otto adopted a new accounting policy whereby exploration expenditure (including the cost of acquisition) is now expensed in the year in which it is incurred. Evaluation and development costs continue to be accounted for adopting the same policy as in previous reporting periods, being capitalised to the Statement of Financial Position;
- At 30 June 2016, exploration expenditure of \$10.28 million was retrospectively recognised as FY15 exploration expenditure after no expenditure had previously been recognised in the year ending 30 June 2015. Net profit after tax previously reported at 30 June 2015 has decreased by US\$9.6 million and been restated as US\$16.4 million; and
- Otto entered into a sale and purchase agreement (SPA) to divest 100% of the shares in its wholly owned subsidiary, Galoc Production Company W.L.L (GPC). The sale occurred on 17 February 2015 and the profit from the sale was classified under profit after tax for the year from discontinued operations in FY15.

Other Income

122. The reported other income of Otto for the two financial years ended 30 June 2015 and 2016 (audited) and the six month period to 31 December 2016 (reviewed) is summarised in the table below:

Other Income (US\$ '000)	FY15 Audited	FY16 Audited	H1 FY17 Reviewed
BHPB reimbursement for Hawkeye expenditure	-	23,732.0	-
Farm in option with Pryce Gases	-	2,310.0	-
Profit / (loss) on sale of PPE	(112.0)	13.0	2.0
Foreign currency losses	(901.0)	(30.0)	(6.0)
Other income	854.0	969.0	11.0
Total Other Income	(159.0)	26,994.0	7.0

Source: Otto Annual and Half-year Financial Reports

123. Other income over the period assessed comprised:

- US\$23.4 million was received from BHP Billiton (BHPB) as part of its Termination Deed in relation to drilling costs for the Hawkeye-1 exploration well located in the Philippines. This represented the majority of BHPB's total US\$24.5 million contribution. The well was plugged and abandoned by Otto as hydrocarbons found were not considered economic to develop;
- On 30 July 2015, Otto signed a farm-in option agreement with Pryce Gases Inc. (Pryce Gases) to earn a 10% working interest in the SC55 Hawkeye exploration well located in the Philippines. Otto received US\$2.3 million in FY16 as a result of the farm-in agreement;
- Foreign currency losses relate to the translation of United States dollars into Australian dollars to return capital back to shareholders; and
- Other income also includes recharges from SC14C Galoc field joint venture (JV), recharges relating to the SC55 Hawkeye exploration well and the sub-lease of the West Perth office.

Exploration Expenditure and Acquisition Costs

124. The reported acquisition costs of Otto for the two financial years ended 30 June 2015 and 2016 (audited) and the six month period to 31 December 2016 (reviewed) is summarised in the table below:

Exploration Expenditure & Acquisition Costs (US\$ '000)	FY15 Audited	FY16 Audited	H1 FY17 Reviewed
Exploration Expenditure			
Philippines	3,123.0	17,290.0	179.0
Tanzania	7,158.0	1,382.0	170.0
Louisiana	-	7,897.0	189.0
Alaska North Slope	-	447.0	76.0
Acquisition costs			
Alaska North Slope	-	14,463.0	-
Total Exploration Expenditure	10,281.0	41,479.0	614.0

Source: Otto Annual and Half-year Financial Reports

125. An overview of exploration expenditure and acquisition costs incurred by Otto over the historical period assessed is provided below:
- In FY16, Otto spent a total of US\$14.5 million in acquisition costs to acquire an 8% and 10.8% working interest in two separate areas relating to the Alaska North Slope Project from Great Bear Petroleum Operating LLC (Great Bear);
 - A further US\$17.3 million was incurred in respect of exploration expenditure on the Hawkeye-1 exploration well in license SC-55 (which was funded by the BHPB payment). Otto later withdrew from this acreage after meeting all work commitments due to a non-commercial discovery; and
 - Otto also spent US\$7.9 million of exploration expenditure on the South Marsh Island assets in Louisiana. Drilling of the SMI-6 well resulted in two pipe incidents which led to a decision to abandon the well. The remaining expenditure included drilling costs relating to the successful SMI-71 #1 well.

Operating Expenditures

126. The reported operating expenditure of Otto for the two financial years ended 30 June 2015 and 2016 (audited) and the six month period to 31 December 2016 (reviewed) is summarised in the table below:

Operating Expenditures (US\$ '000)	FY15 Audited	FY16 Audited	H1 FY17 Reviewed
Employee benefits expenses	218.0	160.0	74.0
Share based payment expense	265.0	252.0	105.0
Other employee benefits expenses	3,525.0	2,430.0	949.0
Business development	486.0	412.0	82.0
Corporate and other costs	1,723.0	2,339.0	791.0
Total Operating Expenditure	6,217.0	5,593.0	2,001.0

Source: Otto Annual and Half-year Financial Reports

127. The main constituents of other employee benefits comprise salaries and wages, director's fees and leave expenses. Corporate and other costs include consulting fees, rental costs and other office costs.

Statement of financial position

128. The financial position of Otto as at 30 June 2015 (audited), 30 June 2016 (audited) and as at 31 December 2016 (reviewed) is set out in the following table:

Consolidated Statement of Financial Position (US\$ '000)	30 June 2015 (Audited)	30 June 2016 (Audited)	31 December 2016 (Reviewed)
Cash and cash equivalents	41,206.0	20,309.0	16,952.0
Trade and other receivables	-	107.0	84.0
Inventories	2,422.0	-	-
Other current assets	701.0	414.0	502.0
Total current assets	44,329.0	20,830.0	17,538.0
Other assets	6.0	-	175.0
Property, plant and equipment	151.0	73.0	51.0
Oil and gas properties	-	2,717.0	3,391.0
Total non-current assets	157.0	2,790.0	3,617.0
Total assets	44,486.0	23,620.0	21,155.0
Trade and other payables	2,800.0	722.0	749.0
Provisions - current	98.0	197.0	261.0
Total current liabilities	2,898.0	919.0	1,010.0
Provisions – non-current	68.0	224.0	202.0
Total non-current liabilities	68.0	224.0	202.0
Total liabilities	2,966.0	1,143.0	1,212.0
Net assets	41,520.0	22,477.0	19,943.0

Source: Otto Annual and Half-year Financial Reports

129. A discussion of Otto's key balance sheet items as at 31 December 2016 is set out below:
- Cash on hand at 31 December 2016 was US\$16.95 million and was held in US dollars;
 - Other current assets include prepayments and other current assets;
 - Other non-current assets relates to an exploration bond paid by Otto in August 2016 in respect of SM-71; and
 - Provisions relate to employee benefits and a decommissioning fund. The current portion of provisions relate to employee benefits expected to be settled within the next 12 months. The provision for the decommissioning fund relates to the present value of the costs to decommission the well for permit SM-71, which is expected to be settled at the end of the field life for SM-71.

Oil and Gas Properties

130. Total oil and gas properties had a net carrying value of US\$3.4 million at 31 December 2016. All capitalised development and evaluation costs as at 30 June 2016 and 31 December 2016 relate to SM-71 completion equipment installed during the drilling campaign, evaluation undertaken to assess the

technical commercial viability of extracting a resource and the purchase and modification of the Tripod facility.

131. The movement in the balance of oil and gas properties for the two financial years ended 30 June 2015 and 2016 (audited) and the six month period to 31 December 2016 (reviewed) is summarised in the table below:

	30 June 2015 (Audited)	30 June 2016 (Audited)	31 December 2016 (Reviewed)
Evaluation and development assets at cost			
At 1 July	-	-	2,717.0
Additions	-	2,717.0	674.0
Net Carrying Value	-	2,717.0	3,391.0

Source: Otto Annual and Half-year Financial Reports

Statement of cash flows

132. The cash flow statements of Otto for the two financial years ended 30 June 2015 and 2016 and the six month period to 31 December 2016 is summarised in the table below:

Statement of Cash Flows (US\$ '000)	FY15	FY16	H1 FY17
Cash flows from Operating Activities			
EBITDA	(16,657.0)	(20,078.0)	(2,608.0)
Profit from discontinued operations	32,793.0	-	-
Interest income	503.0	82.0	47.0
Gain on sale after income tax from discontinued operations	(10,339.0)	-	-
Movement in balance sheet items	(312.0)	343.0	90.0
Other non-cash items	4,436.0	1,013.0	342.0
Net cash provided by operating activities	10,424.0	(18,640.0)	(2,129.0)
Cash flows from Investing Activities			
Payments for / proceeds from sale of PP&E	(3.0)	28.0	(2.0)
Payments for development and evaluation	-	(2,277.0)	(1,045.0)
Loan to other entities	165.0	-	-
Net proceeds from sale of controlled entities (net of cash disposed)	80,400.0	-	-
Bond for development asset	-	-	(175.0)
Net cash (inflow)/outflow from investing activities	80,562.0	(2,249.0)	(1,222.0)
Cash flows from Financing Activities			
Dividends paid	(6,832.0)	-	-
Return of capital	(50,703.0)	-	-
Net cash outflow from financing activities	(57,535.0)	-	-
Net (decrease)/increase in cash and cash equivalents	33,451.0	(20,889.0)	(3,351.0)

Statement of Cash Flows (US\$ '000)	FY15	FY16	H1 FY17
Cash and cash equivalents at the beginning of the financial year	7,735.0	41,206.0	20,309.0
Effects of exchange rate changes on cash	20.0	(8.0)	(6.0)
Cash and cash equivalents at end of year	41,206.0	20,309.0	16,952.0

Source: Otto Annual and Half-year Financial Reports and Company analysis

133. In relation to Otto's historical cash flows shown above, we note that:

- Profit from discontinued operations of \$32.8 million relates to the operations of Galoc before its sale in FY15 to Nido Petroleum;
- Net proceeds from the sale of controlled entities in FY15 relates to the sale of Galoc;
- Payments for development and evaluation relate to SM-71 completion equipment installed during the drilling campaign and evaluation undertaken to assess the technical commercial viability of extracting a resource associated with SM-71; and
- In FY15, Otto returned a portion of the proceeds from the Galoc sale to shareholders through a 5.6 cents per share return of capital. Otto paid an additional unfranked dividend of 0.76 cents per share on the same date.

Capital structure

Ownership

134. As at 14 June 2017, Otto had a market capitalisation of \$33.2 million and the issued capital of Otto comprised 1,186.3 million ordinary shares.
135. The top 10 shareholders include the two significant shareholdings of long-term investors Molton and Santo Holding AG together with Mr John Jetter who holds approximately 1.4% of the outstanding shares in Otto. Outside of Molton and Santo Holding AG, the next top eight shareholders only hold approximately 10.7% of the outstanding shares in Otto.
136. The top 10 shareholders and their respective holdings (as at 31 March 2017) are set out in the table below:

Rank	Holder	Shares (millions)	% held
1	Molton	241.9	20.4%
2	Santo Holding AG	241.9	20.4%
3	Mr Andrej Jancik	32.5	2.7%
4	Mr Salvador P Escano	21.8	1.8%
5	Mr John Jetter	16.1	1.4%
6	CIMC Raffles Investments	13.5	1.1%
7	Mr Antonio A Ilomin	11.0	0.9%
8	Mr & Mrs Peter J Jones	10.5	0.9%
9	Mr Rick Crabb	10.4	0.9%
10	Sphinx Holdings Ltd	10.2	0.9%

Rank	Holder	Shares (millions)	% held
Top 10 shareholders		610.4	51.5%
Remaining shareholders		575.9	48.5%
Total		1,186.3	100.0%

Source: Orient Capital, as at 31 March 2017

137. A brief overview of Molton is contained in Section 1 of this report and a description of Molton and its history with Otto is contained in the Notice of Meeting.

Recent share price analysis

138. The figure below illustrates the trading performance of Otto shares from 31 December 2014 to 28 May 2017 together with historical volumes traded and key influencing items:

Otto share price and trading volume 31 December 2014 - 28 May 2017



Key influencing items

1	Sale of interest in Galoc	17 February 2015	Otto Energy completes the sale of its interest in Galoc to Nido Petroleum for US\$108.0 million
2	Distribution of special dividend	9 June 2015	A resolution to return capital to shareholders was passed, resulting in a 5.6 cents per share return being paid to shareholders following the successful sale of Galoc. An additional 0.76c unfranked dividend was announced to be paid with the 5.6c capital return
3	Hawkeye-1 project abandoned	17 August 2015	Otto announces that the Hawkeye-1 exploration well in SC55 is to be plugged and abandoned as it is not economic to develop
4	SMI-6 operations	16 February 2016	Operations commenced on the SM-6 #2 well
5	SMI-6 results	8 March 2016	ASX announcement indicating encouraging results from the SM-6 well, with progress

			remaining on target at the intermediate casing point
6	SMI-6 update	30 March 2016	SMI-6 rig demobilised prior to reaching primary target due to stuck pipe
7	SM-71 results	20 April 2016	Positive results announced from drilling at SM-71, with preliminary results indicating a commercial discovery
8	SM-71	7 July 2016	Reserve report released reporting positive results from the SM-71 discovery, also noting that additional drilling opportunities had been identified nearby Otto announces it will not proceed with the SMI-6 lease following the decision not to re-enter the well
8	Bivouac Peak participation	7 July 2016	Otto Energy exercises its option to enter into the Bivouac Peak opportunity
9	Update on Tanzania Joint Venture Dispute	29 March 2017	Operator of the Kilosa-Kilombero joint venture claims to have required Otto Tanzania to withdraw from the joint venture (updated by a subsequent announcement on 26 May 2017)

Source: Capital IQ and ASX Announcements

Liquidity

139. Otto's shares are considered to have a moderate level of trading liquidity on the ASX, with approximately 4.2% of the total number of securities changing hands each month during 2016.

Calendar Year	Days Traded	Average Daily Price (\$)	Average Daily Volume Traded (millions)	% of Shares Traded Monthly	% of Shares Traded Monthly (exc. Top 2 holders)
2014	251	0.091	1.53	2.8%	4.7%
2015	251	0.070	1.95	3.5%	6.0%
2016	248	0.039	2.33	4.2%	7.1%
2017 (to 28 May)	109	0.033	0.58	1.1%	1.9%

Source: Capital IQ, PwC Securities Analysis

140. The above table presents the trading liquidity of Otto stock over the past three years. The table presents two metrics, the first outlining the percentage of total shares traded monthly and the second showing the percentage of shares traded monthly excluding the top two shareholders, who hold a combined 41% of total shares. In FY16, an average of 7.1% of the total shares were traded per month excluding the shares held by the top two shareholders. We note that the volume of shares traded monthly has reduced somewhat over recent months but we still consider trading in the shares of Otto to be liquid.

Performance Rights

141. Performance Rights have been issued to Directors and senior management. Vesting of the Performance Rights are subject to an absolute 10% per annum total shareholder return (TSR) hurdle. Once vested, the performance rights are automatically converted into shares.

142. The following table sets out the performance rights outstanding as at 31 March 2017:

Grant Date	Expiry Date	Vesting Condition	Number of Rights
3 Oct 2014	31 Dec 2018	TSR performance over 3 year period	1,686,666
23 Apr 2015	31 Dec 2019	TSR performance over 3 year period	4,899,999
14 Aug 2015	31 Dec 2019	TSR performance over 3 year period	1,400,000
Total			7,986,665

Source: Company Information

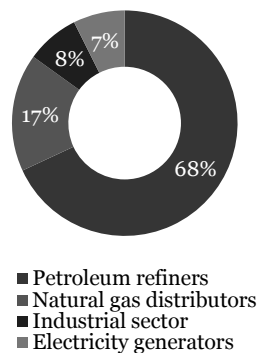
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4 Industry overview

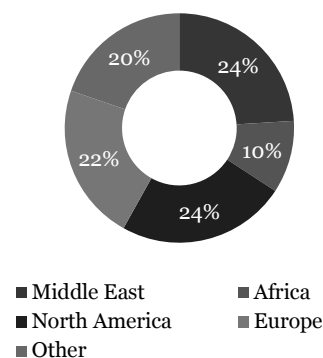
Introduction

143. The upstream oil and gas sector is involved in exploration, development and production activities associated with finding and producing hydrocarbon products including crude oil, condensate, natural gas, LNG and LPGs.

End Product - Market Segmentation



Global Oil and Gas Production



Source: IBIS world – Global Oil & Gas – Jan-17

Market Participants - Oil

144. The suppliers of oil can be split into two groups being state owned producers who are members of the Organisation of Petroleum Exporting Countries (OPEC), corporate entities and other state owned producers outside of OPEC.
145. OPEC is an intergovernmental energy cartel that regulates and coordinates energy policies of its member countries. OPEC is currently comprised of thirteen member countries, Algeria, Angola, Ecuador, Gabon, Iran, Iraq, Kuwait, Libya, Nigeria, Qatar, Saudi Arabia, United Arab Emirates and Venezuela. OPEC manages crude oil production levels in its member countries to ensure steady supply and price levels. OPEC member countries produce about 40% of the world's crude oil and exports around 60% of the total petroleum traded internationally.
146. The corporate E&P sector is made up of multi-national vertically integrated public and private companies, mid-tier boutique E&P companies and private equity investors.
147. The large scale of the E&P industry means that very few companies contribute more than 5.0% of industry revenue and is therefore considered to have a low level of market share concentration. The largest crude oil producer and exporter worldwide is Saudi Aramco which provides 8.6% of total global production and manages nearly all of Saudi Arabia's hydrocarbon assets, comprising about 25% of global oil reserves. The largest players in the industry outside of Aramco include Gazprom OAO, PetroChina Company Ltd, The National Iranian Oil Company and Exxon Mobil Corp.

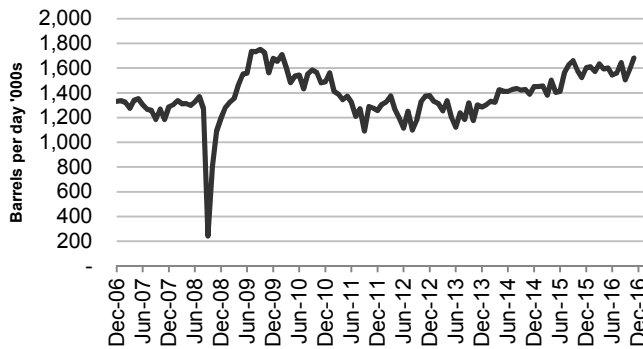
Key E&P Regions

148. The production of oil and gas reflects the geographic distribution of the most accessible oil and gas resources. North America produces 23.7% of the world's oil and gas (on an oil-equivalent basis). The United States (the US) accounts for almost two-thirds of North American output. The most prolific oil and gas region in the US is the Gulf of Mexico.

Gulf of Mexico

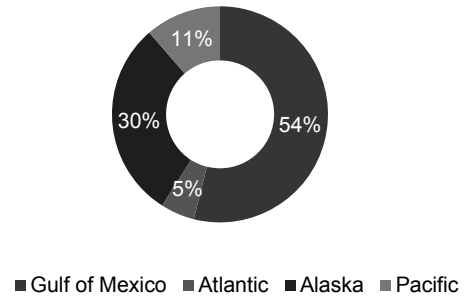
- 149. The Gulf of Mexico has been a major source of oil and natural gas in the US. The western and central areas of the Gulf which include Texas, Louisiana, Mississippi and Alabama have been the biggest petroleum producing areas in North America with offshore production from US federal waters in the Gulf accounting for approximately 17.0% of crude oil production and over 45% of total US petroleum refining capacity located along the Gulf coast.
- 150. Since 2013, oil production in the Gulf of Mexico has increased year on year and it is expected that production will increase to 1.9 million bopd by the end of 2017.

Oil Production in the Gulf of Mexico



Source: EIA Report 2017

Undiscovered oil resources for the US Outer Continental Shelf



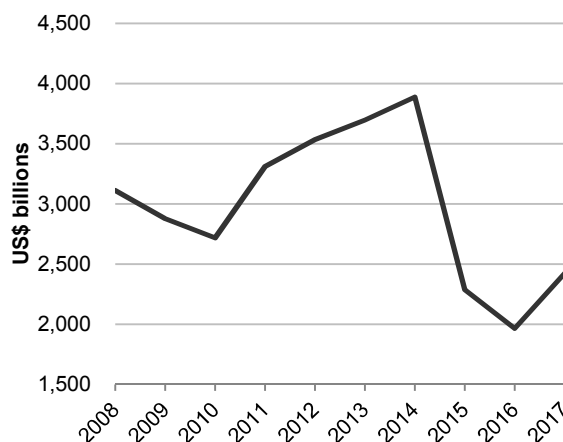
Source: BOEM Fact Sheet 2017

- 151. E&P participants in the US are considered to currently have the opportunity to benefit from an oil industry friendly US Government. The US government has flagged the potential for royalty rate reductions in the Gulf of Mexico, an ease of bonding requirements relating to abandonment expenses and the extension of leases which currently require drillers to begin operations in five years to 10 years. The Trump Administration has also offered 73 million acres for auction in the Gulf of Mexico for E&P activities.

Recent Industry Trends

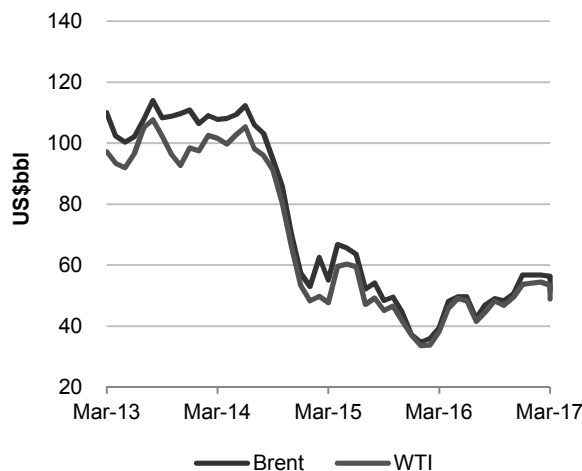
- 152. Over the past five years the global E&P industry is anticipated by IBISworld to have declined from \$3.5 trillion in revenue in FY12 to an expected \$2.4 trillion in FY17, a decline in industry revenue of over 31%. The main factor driving the recent fall in activity in the E&P industry is the sharp decline in the global price of oil which began in mid-2014 and continued through 2015 and into the beginning of 2016. At its lowest point in January 2016, the price of Brent crude oil had fallen to just below US\$30 a barrel.

Global E&P Industry Revenue



Source: IBIS world – Global Oil & Gas – Jan-17

Historical Oil Prices



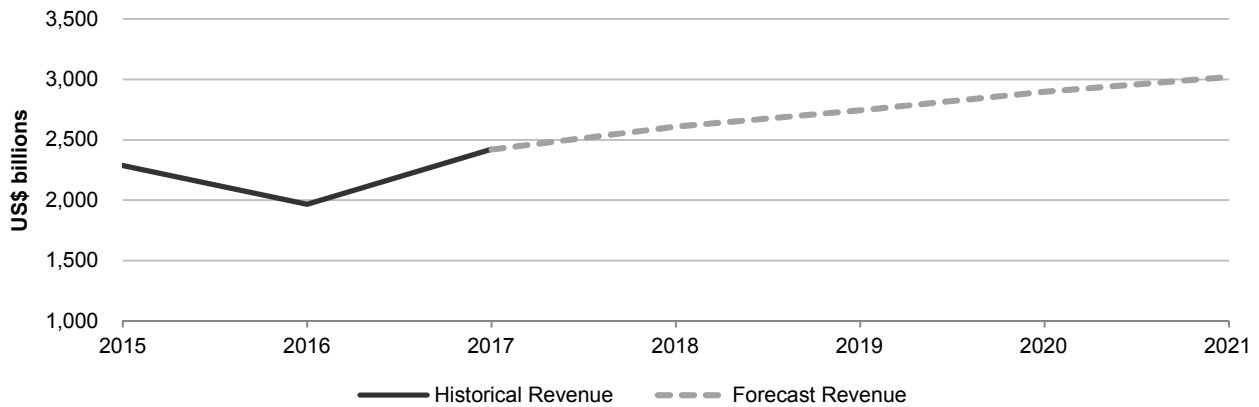
Source: CapitalIQ

153. Between 2010 and 2014 the demand for oil was robust due to the rapid industrialisation of China and India partly as a result of the growing use of automobiles by the middle class. In addition, political instability in the Middle East, particularly in Syria, Libya and Egypt, helped to support prices amid persistent fears of supply constraints. As illustrated above, global E&P industry revenue grew significantly in 2010 to 2014 as market participants took advantage of strong prices and increased production. As prices remained strong, projects were fast tracked into production, particularly in the US shale regions, adding to global supply.
154. The sharp decline in the price of oil in 2014 and 2015 was driven by a combination of weaker demand and sustained supply. Slowing growth in emerging markets, particularly China, along with subdued economic growth in developed regions led to a decrease in the demand for energy. As lower demand put pressure on the oil price, production continued at all-time high levels as additional US shale projects continued to come into production, Iran increased production to pre-sanction levels and OPEC members failed to reach an agreement on reducing supply. Oil prices remained subdued through 2016 and despite a slight rebound in 2017 are still significantly below the levels seen since c. 2005 and any material recovery in prices is likely to attract latent US supply back into the market.

Industry outlook

155. The global E&P industry’s performance is projected by IBISworld to be less volatile over the next five years. Over the five years to 2022, industry revenue is forecast to grow at an annualised rate of 5.7% to \$3.2 trillion, notably still below the level of revenue and activity experienced in 2012. Revenue from the industry is anticipated by IBISworld to increase by c.23.1% in 2017 as oil and gas prices recover from their 2016 lows and as production nominally increases.
156. The E&P industry is also considered likely to be affected by an increased focus on alternative energy sources such as solar, biofuel and wind power generation. Whilst these energy substitutes offer notable benefits in terms of environmental impact and sustainability, the shift to renewable sources is costly and will take considerable time to implement.

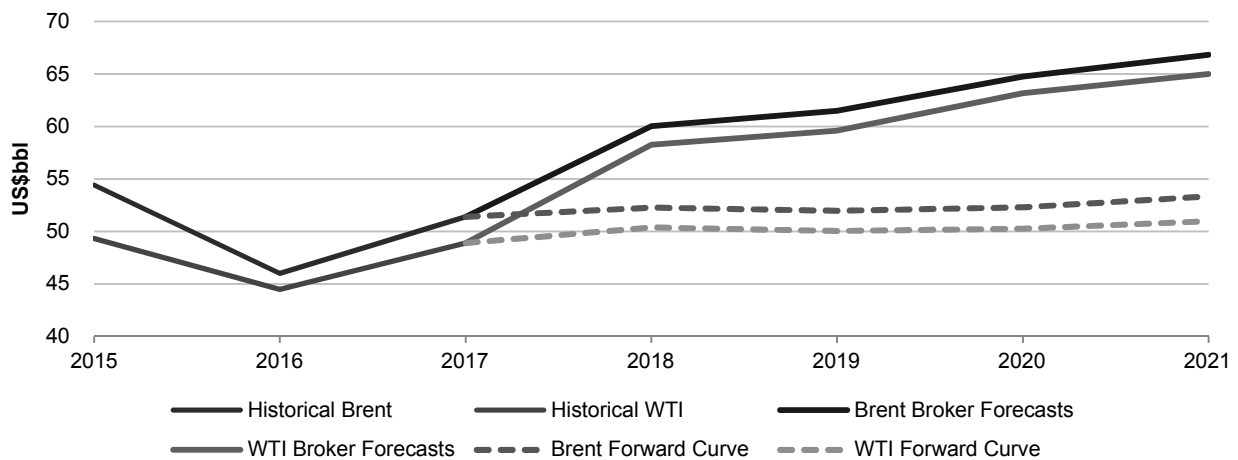
Global E&P Industry Revenue



Source: IBIS world – Global Oil & Gas – Jan-17

- 157. Whilst there are continued headwinds facing the E&P industry principally from sustained supply causing pressure on oil prices and the threat of alternative energy sources, oil prices are expected to recover over the medium term. Economic growth is forecast to improve in developing nations, particularly in India as a larger percentage of the population moves into the middle class, increasing the demand for energy.
- 158. Over the next five years, US production levels are expected to be strong and the removal of export restrictions in the US could further encourage increased E&P activity. We also note that the early stages of the Trump Administration has provided strong support to the E&P industry in the US as the administration has flagged plans to lower regulatory burdens. Developments in shale deposits in the United States will continue to add to global supply.
- 159. The Trump Administration is also expected to explore the possibility of reinstating sanctions previously lifted in the nuclear accord with Iran. As Iran has regained its status as a major exporter of oil, potential sanctions, if reintroduced, could materially reduce the global supply of oil.
- 160. It is expected that the Middle East will continue to face political tensions which will affect supply of oil and gas from (and in) the region and support higher oil prices. OPEC's production is likely to continue at strong levels ensuring high levels of oil supply in global markets.

Forecast Oil Prices: Broker and Forward Curve



Source: Capital IQ, Consensus Economics, Bloomberg

5 *Evaluation of the Proposed Transaction and Opinion*

Our approach

161. Convertible notes provide the holder with a future right (but not an obligation) to exchange the principal amount of the debt component of the notes for shares in the issuing entity. In the case of the Proposed Transaction, each Noteholder has the right to convert the face value of the Notes in full or in part, subject to the conditions set out in the Notice of Meeting and summarised in Section 2 of this report. Accordingly, whilst the Noteholders have the right to convert there is no certainty that these rights will be exercised and, if exercised, when this may occur.
162. It is considered reasonable that a rational investor would only exercise their right and convert the debt to shares in Otto if the conversion price was lower than the prevailing trading share price of Otto. Therefore, it would be reasonable to assume that for the Notes to be converted, the trading share price of Otto would have to be at, or above, \$0.055 per share (being the conversion price) or there was a strong likelihood of that occurring on a sustainable basis.
163. In considering the potential impact to the Non-associated Shareholders, the most appropriate date to assess the value of shares in Otto post the Proposed Transaction is at or around the time when the Notes are assumed to be converted and the associated voting rights of Molton increases. As at the date of this report, we are unable to predict when, and indeed if, the Notes will be converted and further, cannot predict the underlying share price of Otto at that unknown date.
164. As such, we consider that at the date of this report the strategic rationale for the Proposed Transaction, together with consideration of the relativity of the conversion price compared to the recent trading share price of Otto and of the wider terms of the Notes and the consideration of the relative advantages afforded by approving the Proposed Transaction, to be of more relevance to the Non-associated Shareholders.
165. However, in accordance with RG111, to assess the fairness of the Proposed Transaction we have considered the value of a share in Otto prior to the issue of Notes on a controlling interest basis and compared this to the pro forma minority interest value of a share in Otto immediately post the Proposed Transaction under two scenarios, being no conversion and full conversion.
166. It follows from the above that, if the assessed value of a share in Otto prior to the issue of Notes on a controlling interest basis is lower than the assessed pro forma minority interest value of a share in Otto immediately post the Proposed Transaction under the two scenarios, the Proposed Transaction would be considered to be fair and as such reasonable.

Consideration of Fairness

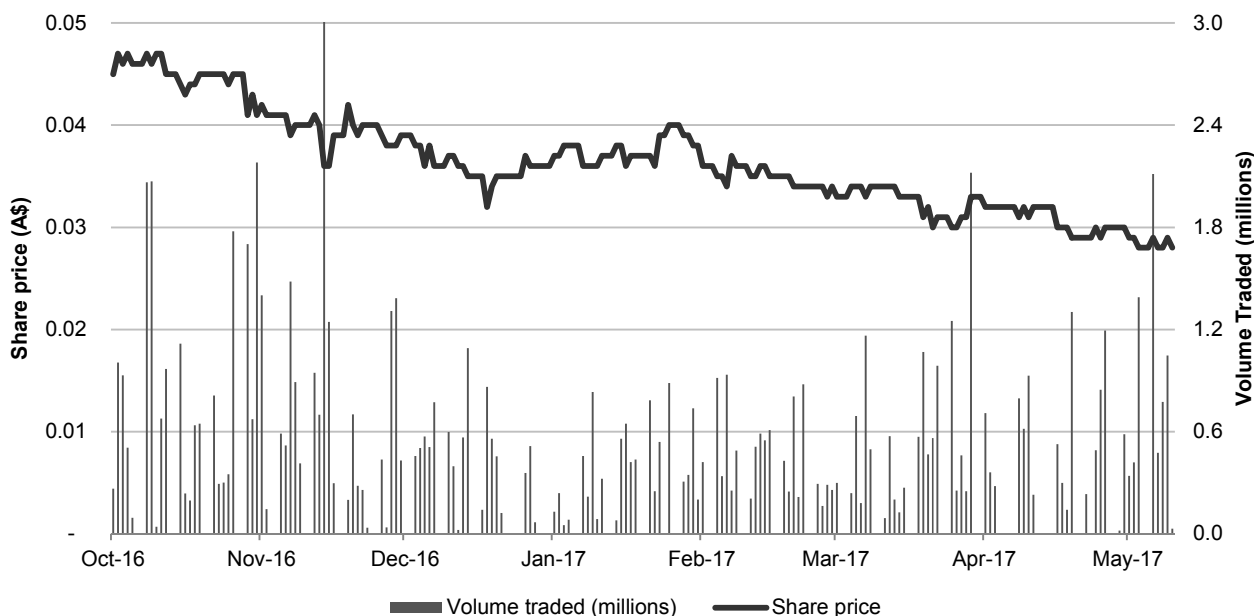
167. We have assessed the value of a share in Otto prior to the Proposed Transaction and potential value immediately post the Proposed Transaction by reference to the recent trading price of Otto shares on the ASX. Key factors influencing our preferred approach include:
 - Trading in Otto shares is considered liquid, with approximately 50% of Otto's shares traded in the 12 months to 31 December 2016;
 - Otto's key assets are early stage development and exploration assets. The value of such assets is considered to be highly subjective and will depend on a number of assumptions regarding future events which may or may not eventuate; and
 - The actual price at which shares trade in a regulated and well informed market is generally considered to be a fair reflection of value (on a minority interest basis).

168. In addition to the share price analysis, Otto management provided us with a cash flow projection for the company. However, given the significant development and exploration activity and the risk associated with such plans, it is difficult to assess with much certainty, a value as of the current date based on discounted future cash flows. We also considered a resource multiple analysis which provided a wide range of values. We considered this information for a cross-check in the background only, however it does broadly support our valuation conclusions.
169. We have presented below a summary of our assessments of the value of a share in Otto on a controlling interest basis prior to the issue of the Notes and comparison to the assessed pro forma value of a share in Otto immediately post the issue of Notes on a minority interest basis.

Valuation assessment pre the Proposed Transaction

170. To consider the recent trading price of Otto shares we have analysed the last six months of trading activity.
171. As shown in the graph below, over this time shares in Otto have traded in a relatively narrow range of between \$0.028 and \$0.047 per share over the period from 1 October 2016 to 28 May 2017 and that this range has narrowed over the more recent three month period.

Otto share price and trading volume - 1 October 2016 - 28 May 2017



172. We have also calculated the VWAP of Otto shares at 28 May 2017 (being prior to the announcement of the Proposed Transaction) on a 90, 60, 30 and 5 day basis and presented this in the table below.

Period to 28 May 2017	90 days	60 days	30 days	5 days
VWAP (\$/share)	0.032	0.031	0.029	0.030

173. Based on the above analysis we consider a share price of between \$0.029 and \$0.031 to be reflective of the market value of a share in Otto (on a minority interest basis) as at the date of this report.
174. The traded share price of Otto is reflective of the prices paid for small parcels of shares and as such does not include a premium for control. We have therefore considered and have applied an equity control premium to the observed recent traded price of Otto shares to reflect that in a takeover situation purchasers are normally willing to pay a premium in order to obtain control of a company.

175. A premium for control is applicable when the acquisition for control of a company would give rise to benefits such as:
- Control of the Board of Directors of the company;
 - Control of all the decision making and strategy;
 - Access to cash flows; and
 - Access to tax consolidation benefits.
176. Publicly available research indicates that the average equity takeover premium in Australia for full control has been in the order of 20% to 40%, however this varies widely depending on the nature of industry and circumstances and may, in some circumstances, include an element reflecting a strategic premium paid by purchasers.
177. We have assessed an appropriate premium for control to apply to the minority equity value of Otto to lie in the range of between 30% and 40% based on our analysis of the level of premiums observed in historical transactions in the oil and gas extraction industry and after consideration of there being a wide distribution of Otto shareholders (outside of the interests held by Molton and Santo Holding AG).
178. Applying the assumed control premium to our assessed value of a share in Otto on a minority interest basis derives a value per share on a controlling interest basis of between \$0.038 and \$0.043 and a midpoint preferred value of \$0.041 per share.

Pre Proposed Transaction	Low	High	Preferred
Trading price (A\$/share)	0.029	0.031	0.030
Control Premium	30%	40%	35%
Value per share (100% control basis) (A\$/share)	0.038	0.043	0.041
Outstanding shares (million)	1,186	1,186	1,186
Equity Value (100% control basis) (A\$m)	44.7	51.5	48.0

Valuation assessment post the Proposed Transaction – assumed no conversion

179. We have then assessed the pro forma value of a share in Otto on a minority interest basis assuming that the Notes have been issued and that no conversion has occurred.
180. The steps we have taken to assess this value are as follows:
- Determined the value of 100% of the equity on a controlling interest basis by multiplying the assessed range of share values on a controlling interest basis by the number of shares outstanding;
 - Adjusted the equity value determined in the aforementioned step by the amount of cash received from the issue of the notes (less amounts relating to the estimated cost of the Proposed Transaction), translated to Australian dollars at the prevailing exchange rate at 1 May 2017;
 - Deducted the value of the debt taken on by the Company through the issue of the Notes to derive an ‘Adjusted Equity Value’ on a controlling interest basis;
 - Deducted the estimated option value provided to Noteholders through the conversion terms;
 - Applied a minority discount (consistent with the premium for control applied previously) to derive an ‘Adjusted Equity Value’ on a minority interest basis; and
 - Calculated an implied pro forma value of a share in Otto by dividing the ‘Adjusted Equity Value’ on a minority interest basis by the number of shares outstanding.

181. Adopting the approach described above, we have assessed the pro forma value of a share in Otto on a minority interest basis assuming that the Notes have been issued and that no conversion has occurred to be between \$0.028 and \$0.030 and a midpoint preferred value of \$0.029 per share. We have shown our calculation in the table presented below.

Post Proposed Transaction - no conversion	Low	High	Preferred
Equity Value (100% control basis) (A\$m)	44.7	51.5	48.0
Notes Issue (US\$m)	8.2	8.2	8.2
A\$:US\$	0.74	0.74	0.74
Notes Issue (A\$m)	11.1	11.1	11.1
less: estimated transaction costs (A\$m)	(0.6)	(0.6)	(0.6)
Additional cash received (A\$m)	10.5	10.5	10.5
Debt (Con notes)	(11.1)	(11.1)	(11.1)
Option Value*	(1.3)	(1.3)	(1.3)
Adjusted Equity Value (100% control basis) (A\$m)	42.8	49.6	46.1
Minority Discount	23%	29%	26%
Adjusted Equity Value (minority interest) (A\$m)	32.9	35.4	34.2
Outstanding shares (million)	1,186	1,186	1,186
Adjusted value per share (minority interest)	0.028	0.030	0.029

*Option value calculated using the Black-Scholes option pricing method, an assumed volatility of 70%, an exercise price 5.5c and share price 3.0c per share. Option value excludes any value attributed to the contingent Success Payment which has been considered in our assessment of the reasonableness of the Proposed Transaction.

Valuation assessment post the Proposed Transaction – assumed full conversion

182. We have then assessed the pro forma value of a share in Otto on a minority interest basis assuming that the Notes have been fully converted immediately post the Proposed Transaction.
183. The additional steps we have taken to assess this value are as follows:
- Removed the amount of debt taken on by the Company through the issue of the Notes (as assumed to have been replaced by equity);
 - Adjusted the number of shares outstanding by the number of new shares assumed to have been issued upon full conversion of the Notes (at the prevailing exchange rate at 12 May 2017); and
 - Calculated an implied pro forma value of a share in Otto by dividing the ‘Adjusted Equity Value’ on a minority interest basis by the adjusted number of shares outstanding post the assumed conversion of the Notes.
184. Adopting the approach described above, we have assessed the pro forma value of a share in Otto on a minority interest basis assuming that the Notes have been issued and that conversion has now occurred to be between \$0.031 and \$0.032 and a midpoint preferred value of \$0.031 per share (rounded to nearest 0.1 of a cent). We have shown our calculation in the table presented below.

Post Proposed Transaction - full conversion	Low	High	Preferred
Equity Value (100% control basis)	44.7	51.5	48.0
Notes Issue (US\$m)	8.2	8.2	8.2
A\$:US\$	0.74	0.74	0.74
Notes Issue (A\$m)	11.1	11.1	11.1
less: estimated transaction costs (A\$m)	(0.6)	(0.6)	(0.6)
Additional cash received (A\$m)	10.5	10.5	10.5
Adjusted Equity Value (100% control basis) (A\$m)	55.2	61.9	58.5
Minority Discount	23%	29%	26%
Adjusted Equity Value (minority interest) (A\$m)	42.4	44.2	43.3
Outstanding shares (million)	1,186	1,186	1,186
Additional shares issued (@ A\$0.055/share)	201	201	201
Adjusted shares outstanding	1,388	1,388	1,388
Adjusted value per share (A\$, minority interest)	0.031	0.032	0.031

Opinion

Assessment of fairness

185. To assess the fairness of the Proposed Transaction we have considered the value of a share in Otto prior to the Proposed Transaction on a controlling interest basis and compared this to the assessed value of a share in Otto on a minority interest basis post the Proposed Transaction. As discussed above, we have assessed the pro forma value of a share in Otto post the Proposed Transaction (on a minority interest basis) under two scenarios, assuming the full conversion of the Notes and assuming that the Notes are not converted.
186. We have assessed the fair market value of a share in Otto (on a controlling interest basis) as at the date of this report to be in a range from \$0.038 to \$0.043 with a preferred (midpoint) value of \$0.041.
187. We have assessed the potential value of a share in Otto post the Proposed Transaction (on a minority interest basis) assuming the full conversion of the Notes to be in a range from \$0.031 to \$0.032 with a preferred (midpoint) value of \$0.031 and assuming that the Notes are not converted to be in a range from \$0.028 to \$0.030 with a preferred (midpoint) value of \$0.029.
188. On the basis that the assessed value of a share in Otto prior to the Proposed Transaction on a controlling interest basis is greater than our valuation range for a fully paid ordinary share in Otto post the Proposed Transaction on a minority interest basis under each of the scenarios considered, we consider that it is not fair.

Assessment of reasonableness

189. In accordance with RG111.12, if an offer is considered to be fair it is also considered to be reasonable. However, an offer may also be considered to be reasonable, if despite not being considered fair, the expert considers that there are sufficient reasons for the relevant security holders to accept the offer, in the absence of a superior proposal.

190. A number of qualitative issues are generally considered in assessing reasonableness. These issues broadly comprise:

- Whether the Proposed Transaction includes a premium for control;
- The likely consequences for the Non-associated Shareholders if the Proposed Transaction is accepted;
- The likely consequences for the Non-associated Shareholders if the Proposed Transaction is not accepted; and
- The likelihood of another funding proposal arising that is on better terms under the current Proposed Transaction from the perspective of the Non-associated Shareholders.

191. We consider the Proposed Transaction to be reasonable for the following reasons.

The Proposed Transaction provides Otto with a level of certainty regarding its ability to fund the development of its SM-71 discovery and to pursue growth

192. If the Non-associated Shareholders vote to approve the Proposed Transaction, the funds raised will provide Otto with the ability and certainty to fund the cost of the SM-71 project, which is a near-term development asset with defined oil and gas reserves and is anticipated by Otto to start commercial production by the end of 2017.

193. However, if the Non-associated Shareholders decide not to vote in favour of the Proposed Transaction, Otto will be unable to fund the full cost of the SM-71 project without raising new capital or without diminishing its continued ability to advance existing opportunities in its portfolio as well as pursuing other growth opportunities as they present in the market, consistent with Otto's strategy.

Most cost effective option relative to available funding alternatives identified as part of a strategic review

194. As part of a strategic review, Otto considered a range of funding options before deciding the Notes issue to be the most cost effective form of finance available to fund the development of SM-71.

195. Debt finance is typically cheaper than issuing equity or hybrid finance instruments and is non-dilutive. However, Otto has not been able to secure asset backed debt funding due to the size of Otto and scale of the SM-71 project development which is characterised by the low level of proved reserves and lack of cash flows to support conventional debt funding due to the relative early stage of development.

196. An alternative strategy considered was to issue new equity via a capital raising. Although this strategy could potentially improve liquidity, especially if Otto were to consider a dual listing, the pricing of an equity raising would likely be at a significant discount to Otto's recent traded share price and therefore is potentially more dilutive to existing shareholders having regard to the terms of the Convertible Note including coupon payment and success fee components. In addition, the cost of an equity capital raising could be higher than the costs associated with the Proposed Transaction, further reducing shareholder value if this option was pursued at this time.

197. Therefore, we are not aware of any alternative proposals which may provide a greater benefit to the Non-associated Shareholders at the date of this report.

The key terms of the Notes have been negotiated between Otto and the Subscribers on an arm's length basis

198. In determining the key terms of the Notes, Otto considered recent convertible notes issued by companies with similar stage petroleum assets. A direct comparison of the terms attached to the Notes to terms of convertible notes which have been issued by other companies is somewhat limited due to the convertible nature of the notes and the relative prospects and associated risk relating to the issuer companies. However, our analysis indicates that when compared to other convertible notes issued by resource companies listed on the ASX over the past twelve months with similar stage assets, the coupon attached to the Notes of 14% is within the range of (and not inconsistent with) coupon rates observed in other recent convertible note issues.

199. However, when the coupon rate is considered in conjunction with the potential additional payment of up to US\$1.025 million (the Success Payment which is based on the cumulative production from SM-71) the effective annual rate of return to Noteholders could increase from 14% to over 19%, which is higher than pre-conversion returns noted in our analysis of other convertible note issues.

200. Otto explored a range of potential financing options and engaged with a range of potential investors as part of the finance raising process before deciding on the Proposed Transaction. Through this process Otto negotiated the terms of the Notes with potential investors, including Molton (being an experienced investor with existing knowledge of Otto's assets). These negotiations were conducted over a number of weeks before final terms were agreed, subject to Board approvals. No party was compelled to accept the proposed terms under any position of duress therefore the agreed terms are considered to be reflective of available market rates of return.

201. Once the terms were substantially agreed (albeit still subject to requisite and respective Board approvals), the agreed terms were offered to Mr John Jetter. Therefore, despite the related party nature of the issue of Notes to Mr John Jetter, we consider the key terms of the Notes to have been agreed on an arm's length basis.

The Notes are convertible into shares in Otto at an exercise price of A\$0.055 per share, being a 72% and 88% premium to the 90 day and 30 day volume weighted average price (VWAP) of Otto, respectively

202. The conversion price attached to the Notes is \$0.055 per share which reflects a 72% and 88% premium when compared to the 90 day and 30 day VWAP of Otto at 28 May 2017, being prior to the announcement of the Proposed Transaction. The existence of a premium above the recent traded price of Otto shares is considered to be to the benefit to the Non-associated Shareholders.

203. The extent of the premium offsets to a certain degree the relative pre-conversion return when compared to other recent convertible note issues.

204. We also note that any decision to convert the Notes is likely only to be made if the share price of Otto is above the exercise price attached to the Notes, being above \$0.055 per share. In this event, all shareholders would be considered to have benefited from the increase in the share price. Further, we note that if the Notes are converted, the debt associated with the Notes is consequently extinguished and the level of gearing will decrease to nil.

Ability for Otto to redeem the Notes and seek alternate financing

205. If Otto's share price increases during the development timeframe, funds may potentially be able to be raised by Otto at a lower cost to existing shareholders either through the increased ability to secure conventional debt funding or through being able to issue equity at a higher share price (and / or lower cost) than is currently considered possible. In such an event the Company can elect to redeem the Notes, subject to certain conditions as described in Section 1 of this report (and in more detail in the Notice of Meeting).

206. We note that whilst this may trigger the conversion of the Notes by the Noteholders, it removes future optionality available to the Noteholders at the expense of the Non-associated Shareholders and also reduces aggregate coupon payments and the quantum of any additional Success Payment due to early conversion or redemption.

Molton's interest in Otto will only increase if it exercises the right to convert the Notes into shares in Otto

207. Only if Molton exercises its conversion rights will additional shares be issued to it. We note that if Molton exercises its conversion rights in full, its holding in Otto will increase to approximately 32%, if no other Noteholder converts and no other shares are issued.

208. Molton currently holds approximately 20.39% of the outstanding shares on issue and is not related to any other Subscriber, therefore Molton already has a significant interest in the future success of the Company. Arguably, the level of influence Molton would be able to exert following a potential increased shareholding in Otto of approximately 32% is not substantially different to that currently afforded under its current 20.39% interest in Otto. We also note that Molton will not derive any additional rights upon the potential conversion of the Notes which may impact the level of influence it is able to exert, such as the ability to appoint a director to the Board of Otto (apart from blocking a special resolution which requires 75% approval).

209. We also note that Molton has stated independently that it has no intention of influencing the operational and financing decisions of the Company, please refer to the Notice of Meeting.

Restricted ability of the Noteholders to transfer the Notes to third parties

210. The Noteholders are entitled to transfer some or all of the Notes to any other party at any time after they are issued. However, a Noteholder may not, without the express written consent of the Company (which may be withheld in its absolute discretion), transfer any of its Notes to a third party transferee who is a direct competitor. In the event that the Company does not provide consent to the transfer of Notes to a direct competitor, it has 60 days to find an alternative third party transferee.
211. As such, this term seeks to protect the interests of the Company and the Non-associated Shareholders by restricting the ability of any party gaining a substantial holding in Otto via the election of the Noteholders to transfer the Notes.

By obtaining shareholder approval under Listing Rule 7.1, the Company will retain the flexibility to issue up to 25% of its issued capital, if required, in the next 12 months without the need to obtain further shareholder approval

212. As shareholder approval is being sought pursuant to item 7 of section 611 of Corporations Act, the issue of Notes to Molton will not be included in the calculation of the Company's annual 15% placement capacity pursuant to Listing Rule 7.1 or its 10% placement capacity pursuant to Listing Rule 7.1A.

If the Proposed Transaction is not accepted, the Otto share price may be adversely impacted

213. If the Proposed Transaction is not approved we consider that the share price of Otto could be adversely impacted, having regard to the perceived ability of Otto to be able to fully fund the development of SM-71 and pursue growth through other existing or new projects.

We have also considered the potential disadvantages to the Non-associated Shareholders if the Proposed Transaction is approved but consider that the benefits to the Non-associated Shareholders outweigh the potential disadvantages. A summary of the potential disadvantages considered includes:

- The effective aggregate return (inclusive of the full potential amount of the contingent Success Payment) to Noteholders is considered to be high when compared to other recent note issues. The Notes attract a net coupon rate of 14% per annum and a Success Payment of up to US\$1.025 million is payable to Noteholders upon the project reaching cumulative oil production of 1.8 MMBbls by the maturity date of the Notes on 30 June 2019. In addition, Molton is entitled to a Structuring Fee of US\$0.2 million upon issue of the Notes. Offsetting this disadvantage to a certain extent is the premium payable on conversion relative to the current share price which is high compared to recent note issues;
 - The potential increased shareholding of Molton (if the Notes are converted) may be deemed to result in increased influence without a control premium having been paid, for instance with regard to the potential ability to block a special resolution which requires 75% approval;
 - The Notes are to be secured through a share mortgage, under which Otto USA grants security over the equity interests it owns in Otto Gulf One, Otto Gulf Two and in OEL LLC (which holds Otto's interest in the SM-71 development and other Gulf of Mexico new ventures), therefore Otto's ability to repay the Notes plus any accumulated interest is linked to the success of SM-71. If Otto is unable to repay the Notes upon the maturity date (being 30 June 2019) through any reason, then the Non-associated Shareholders will lose exposure to SM-71;
 - Existing shareholders' interests will be diluted upon potential conversion of the Notes, albeit conversion will mean the share price has increased considerably from the current traded share price;
 - There is a currency exposure to the extent that the notes are denominated in US dollars but Otto shares are traded in Australian dollars which could impact the number of shares which are issued on conversion;
 - The issue of Notes provides option value to the Noteholders which reduces equity value to the Non-associated Shareholders; and
 - There is no opportunity for the Non-associated Shareholders to participate in the Proposed Transaction.
214. After consideration of the aforementioned factors, in our opinion the advantages of the Proposed Transaction outweigh the potential disadvantages. Therefore, in the absence of a superior proposal, we consider that the Proposed Transaction is reasonable to the Non-associated Shareholders.

Conclusion

215. On the basis that the assessed value of a share in Otto prior to the Proposed Transaction on a controlling interest basis is greater than our valuation of a fully paid ordinary share in Otto post the Proposed Transaction on a minority interest basis under each of the scenarios considered, we consider that the Proposed Transaction is not fair.
216. However, despite not being considered fair, we consider that the Proposed Transaction is reasonable on the basis that there are sufficient reasons for the Non-associated Shareholders to accept the offer, in the absence of a superior proposal.

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Appendix A Statement of qualifications and declarations

Qualifications

PwC Securities is beneficially owned by the partners of PricewaterhouseCoopers Australia, a member firm of the PricewaterhouseCoopers (PwC) network. PwC Securities holds an Australian Financial Services Licence under the Corporations Act.

Paul Hennessy is a partner in our Perth valuations practice where he specialises in valuations and transactions work as well as being an authorised representative of PwC Securities. Paul is a graduate of the University of Limerick, a Fellow of the Institute of Actuaries and an Affiliate Member of the Institute of Chartered Accountants in Australia and New Zealand. Paul has over 19 years' experience with the Australian and UK firms of PwC including three years in the UK firm's Valuation & Strategy team in London where he worked on a large number of international oil and gas assignments.

Darryl Norville is a director in PwC and is a graduate of the University of Western Australia and a Member of the Institute of Chartered Accountants in Australia and New Zealand. Darryl has extensive experience in the preparation of corporate valuations, independent expert's reports and the provision of corporate financial advisory services to corporations involved in takeovers, capital raisings and mergers and acquisitions.

Declarations

Prior to accepting this engagement, we considered our independence with respect to Otto by reference to ASIC Regulatory Guide 112 Independence of Experts. In our opinion, we are independent of Otto and the outcome of the Transaction.

Neither PwC Securities nor PwC has any interest in the outcome of the Proposed Transaction. PwC Securities is entitled to receive a fee for the preparation of this Independent Expert's Report based on time spent at our normal hourly rates for this type of work and will be reimbursed for out of pocket expenses incurred. The fee payable to us is payable regardless of the outcome of the Proposed Transaction. None of PwC Securities, PwC, Messrs Hennessy and Norville holds securities in Otto and have not held any such beneficial interest in the previous two years.

A draft of this report (excluding our consideration of the merits of the Proposed Transaction) was provided to the Directors of Otto for factual checking on 5 April 2017 and a final draft (excluding our consideration of the merits of the Proposed Transaction) was provided to Otto on 26 May 2017. Although there were a number of changes to the Proposed Transaction and to the terms attaching to the Notes between these two dates, no changes to our opinion arose as a result of these reviews.

Purpose of report

This Independent Expert's Report has been prepared at the request of the Directors of Otto and should not be used for any other purpose. In particular, it is not intended that this Independent Expert's Report should serve any purpose other than an expression of our opinion on whether the Proposed Transaction is fair and reasonable to the Non-associated Shareholders. This Independent Expert's Report has been prepared solely for the benefit of the Directors of Otto and for the benefit of the existing Non-associated Shareholders. Neither the whole nor any part of this Independent Expert's Report nor any reference to it may be included in or attached to any document, circular, resolution, letter or statement without our prior written consent to the form and context in which it appears.

Special note regarding forward-looking statements and forecast financial information

Certain statements in this Independent Expert's Report may constitute forward-looking statements. Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance and achievements of Otto to be materially different from any future

results, performance or achievements expressed or implied by such forward-looking statements. Such factors include, among other things, the following:

- General economic conditions;
- The future movements in interest rates and taxes;
- The impact of terrorism and other related acts on broader economic conditions;
- Changes in laws, regulations or governmental policies or the interpretation of those laws or regulations to Otto in particular; and
- Other factors referenced in this Independent Expert's Report.

Indemnity

In preparing this Independent Expert's Report, Otto has indemnified PwC Securities, PwC and its employees, officers and agents against any claim, liability, loss or expense, cost or damage, including legal costs on a solicitor client basis, arising out of reliance on any information or documentation provided by Otto which is false and misleading or omits any material particulars or arising from a failure to supply relevant documentation or information.

In addition, Otto has agreed that if it makes any claim against PwC or PwC Securities for loss as a result of a breach of our contract, and that loss is contributed to by its own actions, then liability for its loss will be apportioned having regard to the respective responsibility for the loss, and the amount Otto may recover from PwC Securities will be reduced by the extent of its contribution to that loss.

Consent

PwC Securities has consented in writing to this Report in the form and context in which it appears being included in the Notice of Meeting which will be issued by the Directors of Otto and which will be distributed to Otto shareholders.

Neither PwC Securities nor PricewaterhouseCoopers has authorised or caused the issue of all or any part of the Notice of Meeting other than this report. Neither the whole nor any part of this report nor any reference to it may be included in or with or attached to any other document, circular, resolution, letter or statement without the prior consent of PwC Securities to the form in which it appears.

APES 225 Valuation Services

This Independent Expert Report has been prepared in accordance with APES 225 *Valuation Services*.

Appendix B Sources of information

In preparing this Independent Expert's Report, we have had access to and relied upon major sources of information, including:

- The Convertible Note Subscription Agreement;
- The Convertible Notes Deed Poll;
- The Notice of Meeting (including earlier drafts);
- ASX announcements for Otto;
- Otto Annual Reports (audited) for the two years ended 30 June 2015 and 30 June 2016;
- Otto Half-yearly Reports (reviewed) for the six month periods ended 31 December 2015 and 31 December 2016;
- Otto Quarterly Report for the three months ended 31 March 2017;
- Discussions with management and the advisers to Otto;
- Other information provided by management of Otto;
- Internal strategy document prepared for the Board of Otto which included an assessment of alternative sources of capital;
- Financial model prepared by Otto detailing anticipated near term cash flow requirements and indicative valuation analysis of prospects;
- Information obtained from Bloomberg, Capital IQ and IBISWorld Industry Reports; and
- Other publicly available information including information from websites.

We have not performed an audit, review or any other verification of the information presented to us. Accordingly, we express no opinion on the reliability of the information supplied to us.

In forming our opinion, PwC Securities has assumed that:

- matters such as compliance with laws and regulations and contracts in place are in good standing and will remain so and that there are no material legal proceedings, other than as publicly disclosed;
- the information set out in the Notice of Meeting sent by Otto to its shareholders is complete, accurate and fairly presented in all material aspects; and
- the publicly available information relied on by PwC Securities in its analysis was accurate and not misleading.

In addition, PwC Securities assumes no responsibility and offers no legal opinion or interpretation on any issue in respect of legal issues relating to assets, properties, or business interests or issues regarding compliance with applicable laws, regulations and policies.

Appendix C Summary of Valuation Methodologies

There are a number of commonly adopted methodologies that could be used to assess the value of the underlying business (or enterprise value) or equity value of Otto. Widely accepted methodologies include:

- **Discounted cash flow** – This method indicates the value of a business based on the present value of the cash flows that the business can be expected to generate in the future. Such cash flows are discounted at a discount rate (the cost of capital) that reflects the time value of money and the risks associated with the cash flows;
- **Capitalisation of future maintainable earnings** – This method involves multiplying an estimation of a level of sustainable earnings (or profits) of a business by a multiple that is reflective of the underlying risks and growth prospects of the business. The estimation of future maintainable earnings is considered a surrogate for the future cash flows of the business and the process of multiplication is referred as the ‘capitalisation’ of earnings;
- **Net realisable value of assets** – This approach indicates the market value of the equity of an entity by adjusting the asset and liability balances on the subject company’s balance sheet to their market value equivalents. The net assets approach has a number of variants. Typically the approach can be applied using a going concern premise which uses the concept of replacement cost as an indicator of value; and
- **Market based assessments** – Market based assessments relate to the valuation of a business, shares or assets using observed prices at which comparable businesses, shares or assets have been exchanged in arm’s length transactions. This is often the most reliable evidence of market value but in the case of valuation of companies it can be difficult to find directly comparable transactions.

For companies whose shares are publicly traded, the relevant share price is considered indicative of the market value of the shares, if there is sufficient liquidity. However, such market prices usually reflect the prices paid for small parcels of shares and as such do not include a premium for control.

Each methodology is appropriate in certain circumstances and the decision as to which methodology to apply generally depends on the nature of the business being valued, the maturity of the business, commonly adopted approaches used to value similar businesses and the availability of information.

Appendix D Glossary

Term	Definition
\$, or AUD	Australian dollars
AFSL	Australian Financial Services Licence
APES	Accounting Professional and Ethical Standards
ASIC	Australian Securities and Investments Commission
Associate	has the meaning given in the Listing Rules
ASX	Australian Securities Exchange
Board	means the current board of Directors of the Company
bopd	Barrels of oil per day
CAANZ	Chartered Accountants Australia and New Zealand
the Company	Otto Energy Limited
Corporations Act	Corporations Act 2001 (Cth)
CY	Calendar Year
Directors	means the directors of the Company
EBIT	Earnings Before Interest and Tax
EBITDA	Earnings Before Interest, Tax, Depreciation and Amortisation
EV	Enterprise Value
Explanatory Memorandum	means the explanatory memorandum to and forming part of the Notice of Meeting contained in the Notice of Meeting
Extraordinary General Meeting or Meeting	means the extraordinary general meeting of the Company to be held on, or about, 25 July 2017
FSG	Financial Services Guide
FY	Fiscal Year (1 July to 30 June)
Listing Rules	means the official listing rules of ASX and Listing Rule means any one of them
M or Mm	Millions
Maturity Date	30 June 2019
Mboe	Thousand barrels of oil equivalent
Mbbls	Thousand barrels
MMbbls	Million barrels of oil
MMcf	Million cubic feet
Molton	Molton Holdings Limited
Non-associated	All of the holders of outstanding shares in Otto that are not party to the issue

Term	Definition
Shareholders	of convertible notes subject to the Proposed Transaction
Noteholder	means a holder of any Convertible Notes from time to time
Notice of Meeting	The notice sent to shareholders of Otto containing the explanatory statement required by the Corporations Act
Otto	Otto Energy Limited
Otto Gulf One	Otto Energy (Gulf One) LLC, a Delaware limited liability company which is a wholly owned subsidiary of Otto USA
Otto Gulf Two	Otto Energy (Gulf Two) LLC, a Delaware limited liability company which is a wholly owned subsidiary of Otto USA
OEL LLC	Otto Energy (Louisiana) LLC, a Delaware limited liability company and wholly owned subsidiary of the Company
Otto USA	Otto Energy (USA) Inc.
PP&E	Property, Plant & Equipment
PwC Securities	PricewaterhouseCoopers Securities Ltd
Related Party	has the meaning given to that term in the Listing Rules
RG111	Regulatory Guide 111 Content of expert reports
RG112	Regulatory Guide 112 Independence of Experts
Proposed Transaction	The proposed issue of convertible notes to Molton and Mr John Jetter
Shareholders	means the holders of shares in Otto
SM-71	South Marsh Island development asset
Subscribers	Molton and Mr John Jetter
Subscription Agreements	Agreements signed by Molton and Mr John Jetter pertaining to the issue of the Notes
VWAP	Volume Weighted Average Price
US\$	United States dollars

Appendix E Financial services guide

PricewaterhouseCoopers Securities Ltd

This Financial Services Guide (FSG) is dated 16 June 2017.

About us

PwC Securities (ABN 54 003 311 617, Australian Financial Services Licence No 244572) has been engaged by Otto Energy Limited to provide a report in the form of an independent expert's report (IER) for inclusion in the Notice of Meeting.

You have not engaged us directly but have been provided with a copy of the IER as a retail client because of your connection to the matters set out in the IER.

This financial services guide

This FSG is designed to assist retail clients in their use of any general financial product advice contained in the IER. This FSG contains information about PwC Securities generally, the financial services we are licensed to provide, the remuneration PwC Securities may receive in connection with the preparation of the IER, and how complaints against us will be dealt with.

Financial services we are licensed to provide

Our Australian Financial Services Licence allows us to provide a broad range of services, including providing financial product advice in relation to various financial products such as securities, interests in managed investment schemes, derivatives, superannuation products, foreign exchange contracts, insurance products, life products, managed investment schemes, government debentures, stocks or bonds and deposit products.

General financial product advice

The IER contains only general financial product advice. It was prepared without taking into account your personal objectives, financial situation or needs.

You should consider your own objectives, financial situation and needs when assessing the suitability of the IER to your situation. You may wish to obtain personal financial product advice from the holder of an Australian Financial Services Licence to assist you in this assessment.

Fees, commissions and other benefits we may receive

PwC Securities charges fees to produce reports, including this IER. These fees are negotiated and agreed with the entity who engages PwC Securities to provide a report. Fees are charged on an hourly basis or as a fixed amount depending on the terms of the agreement with the person who engages us. In the preparation of this Report our fees are charged on a fixed basis and are approximately \$45,000.

Directors, authorised representatives or employees of PwC Securities, PricewaterhouseCoopers (PwC), or other associated entities, may receive partnership distributions, salary or wages from PwC.

Associations with issuers of financial products

PwC Securities and its authorised representatives, partners, employees and associates may from time to time have relationships with the issuers of financial products. For example, PwC may be the auditor of, or PwC Securities may provide financial advisory services to, the issuer of a financial product in the ordinary course of its business.

Complaints

If you have a complaint, please raise it with us first, using the contact details listed below. We will endeavour to satisfactorily resolve your complaint in a timely manner. In addition, a copy of our internal complaints handling procedure is available upon request. If we are not able to resolve your complaint to your satisfaction within 45

days of your written notification, you are entitled to have your matter referred to the Financial Ombudsman Service (FOS), and external complaints resolution service. FOS can be contacted by calling 1300 780 808. You will not be charged for using the FOS service.

Compensation arrangements

PwC Securities has professional indemnity insurance in place that satisfies the compensation arrangement requirements under section 912B of the Corporations Act. This insurance will cover claims in relation to the conduct of representatives and employees who no longer provide services to PwC Securities (but who did at the time of the relevant conduct).

Contact details

PwC Securities can be contacted by sending a letter to the following address:

Mr Paul Hennessy
Authorised Representative
PricewaterhouseCoopers Securities Ltd
GPO Box D198
PERTH WA 6840

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LODGE YOUR VOTE

ONLINE
www.linkmarketservices.com.au

BY MAIL
Otto Energy Limited
C/- Link Market Services Limited
Locked Bag A14
Sydney South NSW 1235 Australia

BY FAX
+61 2 9287 0309

BY HAND
Link Market Services Limited
1A Homebush Bay Drive, Rhodes NSW 2138

ALL ENQUIRIES TO
Telephone: +61 1300 554 474



X99999999999

PROXY FORM

I/We being a member(s) of Otto Energy Limited and entitled to attend and vote hereby appoint:

APPOINT A PROXY

the Chairman of the Meeting (mark box)

OR if you are **NOT** appointing the Chairman of the Meeting as your proxy, please write the name of the person or body corporate you are appointing as your proxy

or failing the person or body corporate named, or if no person or body corporate is named, the Chairman of the Meeting, as my/our proxy to act on my/our behalf (including to vote in accordance with the following directions or, if no directions have been given and to the extent permitted by the law, as the proxy sees fit) at the Extraordinary General Meeting of the Company to be held at **10.00am (WST) on Tuesday, 25 July 2017 at CWA House, 1176 Hay St, West Perth WA 6005.** (the **Meeting**) and at any postponement or adjournment of the Meeting.

The Chairman of the Meeting intends to vote undirected proxies in favour of each item of business.

VOTING DIRECTIONS

Proxies will only be valid and accepted by the Company if they are signed and received no later than 48 hours before the Meeting. Please read the voting instructions overleaf before marking any boxes with an

Resolutions

	For	Against	Abstain*
1 Approval to Issue Convertible Notes to Molton and Increase Voting Power	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2 Approval to Issue Convertible Notes and Give Financial Benefit to Mr John Jetter	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3 Approval of Direct Enforcement of the Security Pursuant to Share Mortgage	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

* If you mark the Abstain box for a particular Item, you are directing your proxy not to vote on your behalf on a show of hands or on a poll and your votes will not be counted in computing the required majority on a poll.

SIGNATURE OF SHAREHOLDERS – THIS MUST BE COMPLETED

Shareholder 1 (Individual)	Joint Shareholder 2 (Individual)	Joint Shareholder 3 (Individual)
<input type="text"/>	<input type="text"/>	<input type="text"/>
Sole Director and Sole Company Secretary	Director/Company Secretary (Delete one)	Director

This form should be signed by the shareholder. If a joint holding, either shareholder may sign. If signed by the shareholder's attorney, the power of attorney must have been previously noted by the registry or a certified copy attached to this form. If executed by a company, the form must be executed in accordance with the company's constitution and the *Corporations Act 2001* (Cth).

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STEP 1

STEP 2

STEP 3



HOW TO COMPLETE THIS SHAREHOLDER PROXY FORM

YOUR NAME AND ADDRESS

This is your name and address as it appears on the Company's share register. If this information is incorrect, please make the correction on the form. Shareholders sponsored by a broker should advise their broker of any changes. **Please note: you cannot change ownership of your shares using this form.**

APPOINTMENT OF PROXY

If you wish to appoint the Chairman of the Meeting as your proxy, mark the box in Step 1. If you wish to appoint someone other than the Chairman of the Meeting as your proxy, please write the name of that individual or body corporate in Step 1. A proxy need not be a shareholder of the Company.

DEFAULT TO CHAIRMAN OF THE MEETING

Any directed proxies that are not voted on a poll at the Meeting will default to the Chairman of the Meeting, who is required to vote those proxies as directed. Any undirected proxies that default to the Chairman of the Meeting will be voted according to the instructions set out in this Proxy Form.

VOTES ON ITEMS OF BUSINESS – PROXY APPOINTMENT

You may direct your proxy how to vote by placing a mark in one of the boxes opposite each item of business. All your shares will be voted in accordance with such a direction unless you indicate only a portion of voting rights are to be voted on any item by inserting the percentage or number of shares you wish to vote in the appropriate box or boxes. If you do not mark any of the boxes on the items of business, your proxy may vote as he or she chooses. If you mark more than one box on an item your vote on that item will be invalid.

APPOINTMENT OF A SECOND PROXY

You are entitled to appoint up to two persons as proxies to attend the Meeting and vote on a poll. If you wish to appoint a second proxy, an additional Proxy Form may be obtained by telephoning the Company's share registry or you may copy this form and return them both together.

To appoint a second proxy you must:

- on each of the first Proxy Form and the second Proxy Form state the percentage of your voting rights or number of shares applicable to that form. If the appointments do not specify the percentage or number of votes that each proxy may exercise, each proxy may exercise half your votes. Fractions of votes will be disregarded; and
- return both forms together.

SIGNING INSTRUCTIONS

You must sign this form as follows in the spaces provided:

Individual: where the holding is in one name, the holder must sign.

Joint Holding: where the holding is in more than one name, either shareholder may sign.

Power of Attorney: to sign under Power of Attorney, you must lodge the Power of Attorney with the registry. If you have not previously lodged this document for notation, please attach a certified photocopy of the Power of Attorney to this form when you return it.

Companies: where the company has a Sole Director who is also the Sole Company Secretary, this form must be signed by that person. If the company (pursuant to section 204A of the *Corporations Act 2001*) does not have a Company Secretary, a Sole Director can also sign alone. Otherwise this form must be signed by a Director jointly with either another Director or a Company Secretary. Please indicate the office held by signing in the appropriate place.

CORPORATE REPRESENTATIVES

If a representative of the corporation is to attend the Meeting the appropriate "Certificate of Appointment of Corporate Representative" should be produced prior to admission in accordance with the Notice of Meeting. A form of the certificate may be obtained from the Company's share registry or online at www.linkmarketservices.com.au.

LODGEMENT OF A PROXY FORM

This Proxy Form (and any Power of Attorney under which it is signed) must be received at an address given below by **10:00am (WST) on Sunday, 23 July 2017**, being not later than 48 hours before the commencement of the Meeting. Any Proxy Form received after that time will not be valid for the scheduled Meeting.

Proxy Forms may be lodged using the reply paid envelope or:



ONLINE

www.linkmarketservices.com.au

Login to the Link website using the holding details as shown on the Proxy Form. Select 'Voting' and follow the prompts to lodge your vote. To use the online lodgement facility, securityholders will need their "Holder Identifier" (Securityholder Reference Number (SRN) or Holder Identification Number (HIN) as shown on the front of the Proxy Form).



BY MAIL

Otto Energy Limited
C/- Link Market Services Limited
Locked Bag A14
Sydney South NSW 1235
Australia



BY FAX

+61 2 9287 0309



BY HAND

delivering it to Link Market Services Limited*
1A Homebush Bay Drive
Rhodes NSW 2138

* During business hours (Monday to Friday, 9:00am–5:00pm)



COMMUNICATION PREFERENCE

We encourage you to receive all your shareholder communication via email. This communication method allows us to keep you informed without delay, is environmentally friendly and reduces print and mail costs.



ONLINE

www.linkmarketservices.com.au

Login to the Link website using the holding details as shown on the Proxy Form. Select 'Communications' and click the first button to receive all communications electronically and enter your email address. To use the online facility, securityholders will need their "Holder Identifier" (Securityholder Reference Number (SRN) or Holder Identification Number (HIN) as shown on the front of the Proxy Form).

**IF YOU WOULD LIKE TO ATTEND AND VOTE AT THE EXTRAORDINARY GENERAL MEETING, PLEASE BRING THIS FORM WITH YOU.
THIS WILL ASSIST IN REGISTERING YOUR ATTENDANCE.**