

STRONG H1 FY23 FINANCIAL RESULTS

Otto Energy Limited (ASX:OEL) (**Otto** or the **Company**) is pleased to provide its financial results for the half year ended 31 December 2022.

Strong Financial Outcomes

- Revenue +18% pcp to US\$21.4 million (H1 FY22: US\$18.1 million) driven by higher production due to new discoveries brought online and higher oil and natural gas prices.
- EBITDAX of US\$15.0 million (H1 FY22: US\$17.2 million) affected by decrease in mark-to-market value of Pantheon Resources plc (LSE: PANR) shares held.
- Adjusted EBITDAX (excludes non-cash items) of US\$13.6 million effectively unchanged on pcp.
- NPAT +7% pcp to US\$11.9 million (H1 FY22: US\$11.1 million).
- Operating cashflow (pre-exploration) +4% pcp to US\$10.6 million (H1 FY22: US\$10.2 million).
- Positive free cashflow (operating less investing) of US\$1.1 million incorporates substantial investment in development of three new producing wells and partial GC 21 recompletion.
- December 2022 quarter represented eighth consecutive quarter of positive free cashflow.

Further Enhanced Liquidity

- Hedge book completely rolled off delivering full access to current prices; hedge-free.
- Final repayment made under existing credit facility; debt-free.
- Balance date cash of US\$25.5 million.
- Existing \$30 million credit facility matures on 31 December 2023; remains available for potential prospects and/or PDP acquisition(s).
- Residual equity interest in Pantheon Resources plc (LSE: PANR) valued at US\$1.7 million¹ at balance date, plus an additional 0.5% ORRI in the Talitha Unit within Pantheon's holdings.

Robust Operational Performance

- H1 FY23 production of 464.8 Mboe (+4% pcp), on a working interest basis.
- Includes 87.5 Mboe from three new assets (Mosquito Bay West, Oyster Bayou South, and Vick #1).
- Completed recompletion activities at SM 71 F-2 well under budget and on schedule.
- Continued recompletion activities at GC 21, which is expected to resume production in Q1 CY2023.
- On track to meet full year FY23 production and cost guidance.

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1. Based on prevailing PANR share price of 42.52 pence and a 1.21 US\$ to GBP exchange rate as of 31 Dec 2022.

OPERATIONAL OVERVIEW

- New discoveries brought into production at Mosquito Bay West, Oyster Bayou South, and Vick #1 in August/September 2022, combined with base production from South Marsh 71 and Lightning which continue to deliver at or above expectations, helped deliver a robust 2,526 Boe/d for the period.
- Resource progression efforts at Lightning continue, with drill cost estimates, seismic data, and specific development drilling site mapping ongoing in preparation for a well proposal for Green #3 and future drilling locations.
- On 5 February 2023, the Sevan Louisiana drilling rig returned to location at Green Canyon 21 to recommence the DTR-10 sand recompletion. See Significant Events after Balance Sheet Date for additional information.
- Otto continues to evaluate prospects, assets, and corporate entities with respect to whether a purchase and/or consolidation would be a good fit within its portfolio.

	H1 FY23	H1 FY22	% Change
Total Oil (Bbls)	234,938	231,234	2%
Total Gas (Mcf)	1,159,052	1,096,649	6%
Total NGLs (Bbls)	36,673	33,287	10%
Total BOE	464,786	447,295	4%
Total (Boe/d)	2,526	2,431	4%
Percent Liquids (%)	58%	59%	-1%
Total WI Revenue (US\$MM)	\$ 28.8	\$ 22.6	27%

FY 2023 GUIDANCE

- Otto is on track to meet full year FY23 production and cost guidance (which was first released on 16 November 2022).

Performance Category	FY 23 Guidance Range	H1 FY23 Results
Production (WI) (MMBOE)	0.90 - 1.05	0.465
Capex spend (US\$MM)	15.0 - 20.0	12.3
Opex FLC spend (US\$MM)	5.5 - 7.0	1.9
NFLC spend (US\$MM)	5.0 - 6.0	2.1

COMMENT FROM EXECUTIVE CHAIRMAN AND CEO, MIKE UTSLER

“The December 2022 half represents the first period of production contribution from our three new assets. The results highlight the increased financial and operational strength delivered by our diverse portfolio of high-quality operating assets. Total output is expected to lift further during the

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current half as we benefit from a full half's contribution from Mosquito Bay West, Oyster Bayou South, and Vick #1, as well as anticipated first volumes following expected recompletion of GC 21."

"Otto continues to deliver a disciplined approach to capital management, which is complemented by a strong, debt-free balance sheet and US\$25 million cash. This positions us well to weather future cyclical variation and take advantage of new drilling and/or development opportunities that offer clear risk-weighted value to our shareholders."

OTTO AT A GLANCE

Otto is an ASX-listed oil and gas exploration and production company focused on the Gulf of Mexico region. Otto currently has oil production from its SM 71 and GC 21 fields in the Gulf of Mexico and gas/condensate production from its Lightning asset in onshore Matagorda County, Texas. Cashflow from its producing assets underpins its strategy and financial stability.

DIRECTORS

Michael Utsler – Chairman & CEO
 John Jetter – Non-Executive
 John Madden – Non-Executive
 Geoff Page – Non-Executive
 Paul Senyca – Non-Executive

CHIEF FINANCIAL OFFICER

Sergio Castro

COMPANY SECRETARY

Kaitlin Smith (AE Administrative Services)

ASX Code: OEL

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Definitions

"bbl" = barrel

"bbls" = barrels

"bopd" = barrels of oil per day

"Mbbbl" = thousand barrels

"Mscf" = 1000 standard cubic feet

"NGLs" = natural gas liquids

"MMscf" = million standard cubic feet

"Mmbtu" = million British thermal units

"Mboe" = thousand barrels of oil equivalent ("boe") with a boe determined using a ratio of 6,000 cubic feet of natural gas to one barrel of oil – 6:1 conversion ratio is based on an energy equivalency conversion method and does not represent value equivalency

"MMboe" = million barrels of oil equivalent ("boe") with a boe determined on the same basis as above

"NRI" means Net Revenue Interest

"WI" means Working Interest

This announcement is approved for release by the Board of Otto Energy Limited.

Appendix 1 - Reconciliation of non-IFRS financial information

Where indicated, this announcement also contains some non-IFRS financial information, including in the H1 FY23 Highlights. Below is a reconciliation of non-IFRS financial information to reviewed IFRS financial information. EBITDAX (earnings before interest, tax, depreciation, depletion, exploration, and evaluation), EBITDA (earnings before interest, tax, depreciation, and depletion), EBIT (earnings before interest and tax), and Adjusted EBITDAX and Adjusted EBITDA (EBITDAX and EBITDA, respectively, less non-cash items such as impairment, unrealized gain (loss) on derivatives, and unrealized gain on investments) are non IFRS measures that are presented to provide investors with further information and perspective on the overall financial performance and operations of the Company. The non-IFRS financial information is not reviewed, however, the numbers have been extracted from the reviewed financial statements. The reviewed Half Year Financial Report accompanies this summary release and is available on the Otto Energy website at www.ottoenergy.com. Please refer to the reviewed financial statements for the IFRS information.

	US\$(000)		\$/Boe	
	H1 FY23	H1 FY22	H1 FY23	H1 FY22
Operating revenue, net of royalties	21,371	18,128	45.98	40.53
Gathering and production charges (opex)	(2,928)	(2,420)	(6.30)	(5.41)
Cash Operating Gross Profit	18,443	15,708	39.68	35.12
Gain/(loss) on derivatives	1,501	(1,154)	3.23	(2.58)
Net admin costs (G&A) *	(2,905)	(2,791)	(6.25)	(6.24)
New ventures and business development costs	(179)	(239)	(0.39)	(0.53)
(Loss)/gain on investments at fair value	(1,873)	5,714	(4.03)	12.77
Impairment losses	-	-	-	-
Other income	-	8	-	0.02
EBITDAX	14,987	17,246	32.24	38.56
Exploration expenditures	(2,844)	(1,220)	(6.12)	(2.73)
EBITDA	12,143	16,026	26.13	35.83
Amortisation of capitalised developments	(2,091)	(2,319)	(4.50)	(5.18)
Depreciation - admin	(33)	(104)	(0.07)	(0.23)
EBIT	10,019	13,603	21.56	30.41
Finance income/(costs)	(815)	(1,144)	(1.75)	(2.56)
Net income (loss) before tax	9,204	12,459	19.80	27.85
Tax	2,743	(1,344)	5.90	(3.00)
Net income (loss) after tax	11,947	11,115	25.70	24.85
* Net admin costs (G&A) includes:				
employee benefits	(1,997)	(2,358)	(4.30)	(5.27)
corporate costs	(904)	(498)	(1.94)	(1.11)
FX losses	(4)	65	(0.01)	0.15
Net admin costs (G&A)	(2,905)	(2,791)	(6.25)	(6.24)
Adjusted EBITDAX **	13,550	13,578	29.15	30.36
Adjusted EBITDA **	10,706	12,358	23.03	27.63
** Adjusted EBITDAX and Adjusted EBITDA are EBITDAX and EBITDA above, respectively, less non-cash items below				
Non Cash Items				
Non-cash component of (loss)/gain on investment:	(1,873)	1,560	(4.03)	3.49
Non-cash component of loss on derivatives	3,310	2,108	7.12	4.71
Impairment losses	-	-	-	-
Non cash items	1,437	3,668	3.09	8.20
Reconciliation of net cash outflow from operating activities				
Operating cash flows from operating activities before exploration	10,605	10,218	22.82	22.84
Payments for exploration and evaluation	(2,591)	(1,072)	(5.57)	(2.40)
Net cash outflow from operating activities	8,014	9,146	17.24	20.45



OTTO ENERGY

OTTO ENERGY LIMITED

ABN: 56 107 555 046

Half-year financial report

31 December 2022

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CORPORATE DIRECTORY

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

DIRECTORS' REPORT

For the half-year ended 31 December 2022

The Directors present their report together with the consolidated financial statements of the Group comprising Otto Energy Limited (referred to as 'Otto' or the 'Company') and its subsidiaries for the half-year ended 31 December 2022 (the 'Group').

Directors

The Directors in office at any time during the half-year and until the date of this report are set out below. All Directors were in office for the entire period.

Mr Michael Utsler
Mr John Jetter
Mr John Madden (Appointed 1 July 2022)
Mr Geoff Page
Mr Paul Senyca

Company Secretary

Ms Kaitlin Smith

Operating and Financial Review

Financial Position

As at 31 December 2022, the Company had total assets of US\$74.6 million (June 2022: US\$72.2 million) and total liabilities of US\$7.2 million (June 2022: US\$16.7 million), resulting in net assets of US\$67.4 million (June 2022: US\$55.5 million). Included in these amounts were cash of US\$25.5 million (June 2022: US\$26.8 million) and borrowings, net of transaction costs, of nil (June 2022: US\$1.9 million).

Production and Development

Summary Production Volumes Table (WI)

	H1 FY23	H1 FY22	% Change
Total Oil (Bbls)	234,938	231,234	2%
Total Gas (Mcf)	1,159,052	1,096,649	6%
Total NGLs (Bbls)	36,673	33,287	10%
Total BOE	464,786	447,295	4%
Total (Boe/d)	2,526	2,431	4%
Percent Liquids (%)	58%	59%	-1%
Total WI Revenue (US\$MM)	\$ 28.8	\$ 22.6	27%
Oil revenue (\$millions)	\$ 20.3	\$ 16.3	24%
Avg oil price (\$/Bbl)	\$ 86.25	\$ 70.68	22%
Gas revenue (\$millions)	\$ 7.4	\$ 5.2	43%
Avg gas price (\$/Mmbtu)	\$ 6.08	\$ 4.59	32%
NGL revenue (\$millions)	\$ 1.1	\$ 1.1	-1%
Avg NGL price (\$/Bbl)	\$ 29.91	\$ 33.37	-10%
Total revenue (\$millions)	\$ 28.8	\$ 22.6	27%
Avg WA price (\$/Boe)	\$ 61.89	\$ 50.58	22%

DIRECTORS' REPORT

For the half-year ended 31 December 2022

The figures reported above and below are on a working interest basis. On a net revenue interest basis, after accounting for royalties and taxes, total net revenue for the Company for H1 FY23 and H1 FY22 was US\$21.4 million and US\$18.1 million, respectively, as shown on the Consolidated Statement of Profit or Loss.

The increase in production is attributable to new discoveries at Oyster Bayou South, Mosquito Bay West, and Eaves, which began producing during the current half-year, partially offset by decreased production at South Marsh 71, Lightning, and Green Canyon 21 due to normal field decline and downtime for various maintenance items (SM 71) and recompletion activities (SM 71 and GC 21).

Operating Results

Consolidated net profit from operations after income tax for the half-year ended 31 December 2022 was US\$11.9 million (2021:US\$11.1 million). This improvement was primarily driven by current period higher sales revenues, lower finance costs, a gain on derivatives, and a reversal of accrued US income tax expense, partially offset by higher cost of sales, higher exploration expenditures, and a loss on investments.

Net revenue for the current half-year was US\$21.4 million (2021: US\$18.1 million), an increase attributable to increased production, a 22% increase in crude oil prices and a 32% increase in natural gas prices, partially offset by a 10% decrease in natural gas liquids prices.

Financing costs for the current half-year were US\$0.8 million (2021: US\$1.1 million), a decrease due to a lower average balance on the Company's credit facility with Macquarie Bank, which was paid off in September 2022.

Gain on derivatives for the current half-year was US\$1.5 million (2021: Loss of US\$1.2 million), an increase due to a fall in commodity prices during July, August, and September 2022, resulting in the reversal of previously booked mark-to-market losses.

Cost of sales for the current half-year was US\$5.0 million (2021: US\$4.7 million), an increase associated with the increase in production for the current period.

Exploration expenditures during the current half-year were US\$2.8 million (2021: US\$1.2 million), an increase associated with drilling Mosquito Bay West and Oyster Bayou South during the current period.

Loss on investments (net of transaction costs) for the current half-year was US\$1.9 million (2021: Gain of US\$5.7 million), which was attributable to a decrease in the value of the 3,272,492 shares of Pantheon Resources Plc (LSE: PANR) held by the Company. See Pantheon Shareholding section below for additional information.

Income tax expense for the current half-year was a benefit of US\$2.7 million (2021: Expense of US\$1.3 million). This gain is associated with the reversal of US federal income tax expense booked for the fiscal year ended 30 June 2022, as a result of the Company being able to utilize previously incurred net operating losses.

Administrative expenses for the current half-year were US\$3.1 million (2021:US\$3.1 million), which is consistent with the prior half-year.

Commodity Price Risk Management

All hedges rolled off as of 30 September 2022, therefore as of 31 December 2022, Otto did not have any open hedge positions.

Asset Level Summary Performance

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

Production from the SM 71 F Platform in the Gulf of Mexico commenced in March 2018, with the F1 and F3 wells producing in the primary D5 Sand reservoir and the F2 well producing from the B55 Sand. Otto owns a 50% WI (40.63% NRI) in this field, with production for the half-year ended 31 December 2022 and 2021 as follows:

DIRECTORS' REPORT

For the half-year ended 31 December 2022

SM 71 Production Volumes		H1 FY23	H1 FY22	% Change
WI (50.0%)	Oil (bbls)	166,440	198,942	-16%
	Gas (Mscf)	127,477	154,422	-17%
	Total (Boe)	187,686	224,679	-16%
	Total (Boepd)	1,020	1,221	-16%
NRI (40.6%)	Oil (bbls)	135,232	161,640	-16%
	Gas (Mscf)	103,575	125,468	-17%
	Total (Boe)	152,495	182,552	-16%
	Total (Boepd)	829	992	-16%

SM 71 Sales Prices		H1 FY23	H1 FY22	% Change
	Oil - \$ per bbl	\$ 86.79	\$ 70.56	23%
	Gas - \$ per Mmbtu	\$ 6.63	\$ 4.95	34%
WI (50.0%)	Total - US\$million	\$ 15.4	\$ 14.9	3%

Production volumes for the current half-year were below production volumes for the prior half-year due to normal field decline. Additionally, The F2 well was shut in for 27 days during the current half-year for recompletion operations. All three wells had 14 days of partial downtime due to installing gas lift at F1 and F2 as well as for compressor issues. Despite the decrease in production, sales revenues for the current half-year slightly increased as a result of the 23% increase in crude oil prices received and the 34% increase in natural gas prices received.

Beginning in late June 2022, the F3 began producing water, consistent with Otto's mapping and reservoir modelling. The F1, updip to the F3, continues to produce water-free. The field was partially shut-in as of 31 December 2022 for compressor issues mainly related to winter weather.

The SM 71 lease ranks number 2 of all currently active oil producing leases on the US Gulf of Mexico shelf with the SM 71 F3 and F1 ranked as the number 1 and number 3 active oil producing wells.

Texas Gulf Coast – Lightning Field

The first well in the Lightning field, the Green #1, commenced production in May 2019, while the Green #2 began production in February 2020. Otto owns a 37.5% WI (27.8% NRI) in this field, with production for the half-year ended 31 December 2022 and 2021 as follows:

Lightning Volumes		H1 FY23	H1 FY22	% Change
WI (37.5%)	Oil (bbls)	26,088	30,369	-14%
	Gas (Mscf)	804,127	932,147	-14%
	NGLs (bbls)	28,274	32,737	-14%
	Total (Boe)	188,384	218,464	-14%
	Total (Boepd)	1,024	1,187	-14%
NRI (27.8%)	Oil (bbls)	19,498	22,849	-15%
	Gas (Mscf)	601,078	701,316	-14%
	NGLs (bbls)	21,137	24,630	-14%
	Total (Boe)	140,815	164,365	-14%
	Total (Boepd)	765	893	-14%

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DIRECTORS' REPORT

For the half-year ended 31 December 2022

Lightning Sales Prices		H1 FY23	H1 FY22	% Change
	Oil - \$ per bbl	\$ 87.96	\$ 71.60	23%
	Gas – \$ per Mmbtu	\$ 6.03	\$ 4.53	33%
	NGLs – \$ per bbl	\$ 32.24	\$ 33.38	-3%
WI (37.5%)	Total – US\$million	\$ 8.1	\$ 7.5	8%

Production volumes for the current half-year were lower than production volumes for the prior half-year due to normal field declines. Despite the decrease in production, sales revenues for the current half-year increased as a result of the 23% increase in crude oil prices received and the 33% increase in natural gas prices received. Natural gas liquids prices decreased 3% when compared to the prior half-year. On a working interest basis, production was approximately 904 Boe/d as of 31 December 2022.

The Lightning prospect was initially leased in excess of 99% of the mineral interests making up the prospect's unit. For the unleased interest, in accordance with the laws of co-tenancy, the parties owning the unleased interest were carried for the drilling of the two wells. Prior to payout, the WI parties earned a share of production in relation to their WI and share in relation to their carried WI attributable to the unleased mineral interest. At payout, the carried WI share of production has reverted to the unleased interests. Going forward, Otto's NRI in relation to Green #1 and Green #2 will be 27.84%, compared to the prior 28.21%, factoring in this change.

Reinterpretation of the 3D seismic by the operator confirms that there are multiple levels of hydrocarbon pay in the Lightning field. While production is currently from the upper Tex Miss 1 zone, the lower Tex Miss 2/3 zone was tested in both wells while they were being drilled. The Tex Miss 2/3 zone appears to be aurally significantly larger and potentially thicker but indicates lower permeability. Future wells (i.e. Green #3 in FY2023) might test the ability to stimulate the Tex Miss 2/3 zone and unlock its significant upside potential.

Gulf of Mexico (State of Louisiana waters) – Oyster Bayou South

The Oyster Bayou South prospect was spud in June 2022 in state waters in Terrebonne Parish, Louisiana, and encountered proved net gas pay of 68 feet TVT (True Vertical Thickness) Miocene pay. This was consistent with Otto's expectations. Production began in September 2022. Otto owns a 30% WI (22.8% NRI before payout and 22.65% after payout) in this field, with production for the half-year ended 31 December 2022 as follows:

Oyster Bayou South Production Volumes		H1 FY23	H1 FY22	% Change
WI (30%)	Oil (bbls)	34,420	n/a	100%
	Gas (Mscf)	91,026	n/a	100%
	NGLs (bbls)	3,412	n/a	100%
	Total (Boe)	53,003	n/a	100%
	Total (Boepd)	288	n/a	100%

NRI (22.8%)	Oil (bbls)	26,159	n/a	100%
	Gas (Mscf)	69,180	n/a	100%
	NGLs (bbls)	2,593	n/a	100%
	Total (Boe)	40,282	n/a	100%
	Total (Boepd)	219	n/a	100%

Oyster Bayou South Sales Prices		H1 FY23	H1 FY22	% Change
	Oil - \$ per bbl	\$ 82.75	n/a	100%
	Gas – \$ per Mmbtu	\$ 6.51	n/a	100%
	NGLs – \$ per bbl	\$ 21.55	n/a	100%
WI (30%)	Total – US\$million	\$ 3.5	n/a	100%

DIRECTORS' REPORT

For the half-year ended 31 December 2022

Gulf of Mexico (State of Louisiana waters) – Mosquito Bay West

The Mosquito Bay West prospect was spud in May 2022 in state waters in Terrebonne Parish, Louisiana, and encountered a proved net gas pay of 111 feet TVT (True Vertical Thickness) across five separate Miocene intervals, plus another 10 feet TVT potential pay in one other sand that is considered probable or possible. This represents a higher net pay count than Otto was originally expecting. Production began in August 2022. Otto owns a 30% WI (22.4% NRI) in this field, with production for the half-year ended 31 December 2022 as follows:

Mosquito Bay West Production Volumes		H1 FY23	H1 FY22	% Change
WI (30%)	Oil (bbls)	7,582	n/a	100%
	Gas (Mscf)	126,762	n/a	100%
	NGLs (bbls)	4,756	n/a	100%
	Total (Boe)	33,465	n/a	100%
	Total (Boepd)	182	n/a	100%
NRI (22.4%)	Oil (bbls)	5,649	n/a	100%
	Gas (Mscf)	94,438	n/a	100%
	NGLs (bbls)	3,543	n/a	100%
	Total (Boe)	24,932	n/a	100%
	Total (Boepd)	135	n/a	100%

Mosquito Bay West Sales Prices		H1 FY23	H1 FY22	% Change
	Oil - \$ per bbl	\$ 84.1	n/a	100%
	Gas – \$ per MMBtu	\$ 6.6	n/a	100%
	NGLs – \$ per bbl	\$ 21.7	n/a	100%
WI (30%)	Total – US\$million	\$ 1.6	n/a	100%

Gulf of Mexico – Green Canyon 21

The Green Canyon 21 well commenced production from the deeper MP Sand in October 2020, with production averaging approximately 21 boe/d (net to Otto) over the past year. In August 2022, recompletion operations began in the shallower DTR-10 sand. Otto owns a 16.67% WI (13.34% NRI) in this field, with production for the half-year ended 31 December 2022 and 2021 as follows:

GC 21 Production Volumes		H1 FY23	H1 FY22	% Change
WI (16.67%)	Oil (bbls)	378	1,922	-80%
	Gas (Mscf)	3,730	10,079	-63%
	NGLs (bbls)	230	550	-58%
	Total (Boe)	1,230	4,152	-70%
	Total (Boepd)	7	23	-70%
NRI (13.3%)	Oil (bbls)	302	1,538	-80%
	Gas (Mscf)	2,984	8,063	-63%
	NGLs (bbls)	184	440	-58%
	Total (Boe)	984	3,322	-70%
	Total (Boepd)	5	18	-70%

DIRECTORS' REPORT

For the half-year ended 31 December 2022

GC 21 Sales Prices		H1 FY23	H1 FY22	% Change
	Oil - \$ per bbl	\$ 92.49	\$ 69.21	34%
	Gas - \$ per Mmbtu	\$ 5.52	\$ 4.62	19%
	NGLs - \$ per bbl	\$ 37.01	\$ 32.37	14%
WI (16.67%)	Total - US\$million	\$ 0.07	\$ 0.20	-66%

Production volumes and revenue for the current half-year were significantly lower than those of the prior half-year due to shutting in the well in August 2022 to begin recompletion operations. During the recompletion, two separate sections of the shallower DTR-10 sand were recompleted, including perforating and frac packing a lower interval, then isolating this interval and perforating an upper interval, running a frac pack on this segment and then setting a production packer above the two intervals. Tracer logs were run across both zones confirming the fracs were effective. However, an issue was discovered with the casing hanger in the wellhead caused by strong loop currents affecting the remaining operations. Due to additional equipment being required, the Operator temporary suspended the well.

On 5 February 2023, recompletion operations resumed. See Significant Events after Balance Sheet Date for additional information. Current field estimates are approximately US\$17 million (Otto share), compared to the original AFE estimate of US\$5.9 million (Otto share). Of this, approximately US\$9.8 MM has already been paid by Otto as of 31 December 2022, with the remaining portion to be funded from Otto's existing cash reserves over the residual duration of the operations.

Texas Gulf Coast - Eaves Field

The Vick #1 well, within the Eaves Prospect in Lavaca County, Texas, was spud in December 2021 and was logged and cored across multiple intervals, encountering a total of 12 feet of net pay in the shallower Yegua formation as expected, and 16 feet of net pay in the deeper Wilcox sand. A completion attempt in the Wilcox section was not successful and this section was plugged back while the well was completed in the Yegua interval. Production began in September 2022. Otto owns a 10.3% WI (7.7% NRI) in this field, with production for the half-year ended 31 December 2022 as follows:

Vick #1 Production Volumes		H1 FY23	H1 FY22	% Change
WI (10.3%)	Oil (bbls)	30	n/a	100%
	Gas (Mscf)	5,930	n/a	100%
	Total (Boe)	1,018	n/a	100%
	Total (Boepd)	6	n/a	100%
NRI (7.7%)	Oil (bbls)	23	n/a	100%
	Gas (Mscf)	4,447	n/a	100%
	Total (Boe)	764	n/a	100%
	Total (Boepd)	4	n/a	100%

Vick #1 Sales Prices		H1 FY23	H1 FY22	% Change
	Oil - \$ per bbl	\$ 82.57	n/a	100%
	Gas - \$ per MMBtu	\$ 5.65	n/a	100%
WI (10.3%)	Total - US\$million	\$ 0.04	n/a	100%

DIRECTORS' REPORT

For the half-year ended 31 December 2022

Exploration

South Timbalier 48 Lease

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

Pantheon Shareholding (LSE: PANR)

The Company owns 3,272,592 shares of Pantheon Resources Plc (LSE: PANR) (Pantheon) valued at US\$1.7 million as at 31 December 2022 (June 2022: US\$3.6 million), as well as a 0.5% of 8/8ths overriding royalty interest (ORRI) in any future production from the Talitha Unit in Alaska, which is operated by Pantheon.

Liquidity and Debt

Otto's cash on hand at 31 December 2022 was approximately US\$25.5 million (June 2022: US\$26.8 million), with the Company having zero drawn debt (June 2022: US\$2.3 million).

In November 2019, the Company entered into a secured US\$55 million facility with Macquarie Bank Limited ("Macquarie") (the "Credit Facility"), made up of Tranche A1 (US\$25 million), Tranche A2 (US\$10 million), and Tranche B (US\$20 million, subject to further credit approval).

As of 31 December 2022, the Company had drawn and repaid the entire US\$25 million available under Tranche A1, resulting in a closing debt balance of nil. Tranche A1 is therefore no longer available to borrow. Tranche A2 remains undrawn and is available until 30 September 2023 (with a final maturity of 31 December 2023). As of 31 December 2022, the Company was in compliance with all its financial covenants. The Credit Facility is secured by substantially all of the Company's oil and gas producing assets.

Option Issue

In addition to customary upfront fees payable to Macquarie, the Company issued to Macquarie 42.5 million options with an issue date of 6 November 2019 to subscribe for fully paid ordinary shares in the Company at an exercise price of A\$0.08 to access Tranche A1. A further 42.5 million options will be issued on initial draw of Tranche A2 and will expire four years after issue date.

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

Significant Events after Balance Sheet Date

On 5 February 2023, the Sevan Louisiana drilling rig returned to location at Green Canyon 21 to recommence the DTR-10 sand recompletion. The Operator will drill out the shallow isolation plugs, run a 9 7/8" tieback string to bottom to isolate the 14" parted casing and pressure test the well. The 3 1/2" production tubing and accessories will then be run and via an overshot will seal onto the existing stub above the production packer and the well will be prepared for unloading and flowback. The recompletion and first production continue to be expected during calendar Q1 2023.

In January 2023, Otto and the operator of GC 21, both filed a Control of Well event claim with their respective insurance carriers regarding the recompletion at GC 21 and are both being reviewed by the same insurance

DIRECTORS' REPORT

For the half-year ended 31 December 2022

adjuster. During the recompletion, the tubing string, control lines, casing and clamps were damaged. A review is underway to determine how increased loop eddy currents may have contributed to these failures. The insurance carriers are evaluating the merit of the claims and the Otto Directors believe that a favourable outcome is probable. However, the contingent asset has not been recognised as a receivable as at 31 December 2022 as the outcome remains uncertain.

No other matters or circumstances have arisen since 31 December 2022 that would have a material impact on the Group's operations.

Rounding of amounts

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

Auditor's independence declaration

The auditor's independence declaration is included on page 10 of this report. This report is made in accordance with a resolution of Directors.



Mr Michael J. Utsler
Executive Chairman and Chief Executive Officer

10 March 2023

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

As lead auditor for the review of Otto Energy Limited for the half-year ended 31 December 2022, I declare that, to the best of my knowledge and belief, there have been:

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

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



Phillip Murdoch
Director

BDO Audit (WA) Pty Ltd
Perth, 10 March 2023

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CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the half-year ended 31 December 2022

	Note	31/12/2022 US\$'000	31/12/2021 US\$'000
Operating revenue (net)	5	21,371	18,128
Cost of sales	6	(5,019)	(4,739)
Gross Profit		16,352	13,389
Other income	5	-	8
Exploration expenditure	7	(2,844)	(1,220)
Gains/(losses) on investments at fair value	8	(1,873)	5,714
Finance costs	9	(815)	(1,144)
Gains/(losses) on derivatives	14	1,501	(1,154)
Administration and other expenses	9	(3,117)	(3,134)
Profit before income tax		9,204	12,459
Income tax (expense)/reversal	10	2,743	(1,344)
Profit after income tax for the period		11,947	11,115
Other comprehensive income that may be recycled to profit or loss			
Total other comprehensive income		-	-
Total comprehensive income for the period		11,947	11,115
Earnings per share			
Basic income/(loss) per share (US cents)		0.25	0.23
Diluted income/(loss) per share (US cents)		0.25	0.23

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

For the half-year ended 31 December 2022

	Note	31/12/2022 US\$'000	30/06/2022 US\$'000
Current assets			
Cash equivalents	11	25,512	21,764
Restricted cash	11	-	5,000
Trade and other receivables		3,248	5,191
Financial assets at fair value through profit or loss		1,684	3,558
Prepayments		1,569	3,289
Other assets		78	98
Total current assets		32,091	38,900
Non-current assets			
Oil and gas properties	12	41,494	32,774
Property, plant and equipment		114	147
Other assets		925	375
Total non-current assets		42,533	33,296
Total assets		74,624	72,196
Current liabilities			
Trade and other payables		1,741	3,375
Borrowings (net of transaction costs)	13	-	1,949
Derivative financial instruments	14	-	3,310
Provisions		1,443	4,358
Total current liabilities		3,184	12,992
Non-current liabilities			
Provisions		4,041	3,752
Total non-current liabilities		4,041	3,752
Total liabilities		7,225	16,744
Net assets		67,399	55,452
Equity			
Contributed equity	15	133,170	133,170
Reserves		10,506	10,506
Accumulated losses		(76,277)	(88,224)
Total equity		67,399	55,452

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the half-year ended 31 December 2022

	Contributed equity	Share-based payments reserve	Foreign currency translation reserve	Accumulated losses	Total
	US\$000	US\$000	US\$000	US\$000	US\$000
Balance at 1 July 2021	133,223	10,414	-	(103,738)	39,899
Profit for the period	-	-	-	11,115	11,115
Total comprehensive income for the period	-	-	-	11,115	11,115
Transactions with owners in their capacity as owners:					
Equity benefits issued to Advisors	-	86	-	-	86
Equity benefits issued to employees	-	6	-	-	6
Balance at 31 December 2021	133,223	10,506	-	(92,623)	51,106
Balance at 1 July 2022	133,170	10,506	-	(88,224)	55,452
Profit for the period	-	-	-	11,947	11,947
Total comprehensive income for the period	-	-	-	11,947	11,947
Transactions with owners in their capacity as owners:					
Equity benefits issued to Advisors	-	-	-	-	-
Equity benefits issued to employees	-	-	-	-	-
Balance at 31 December 2022	133,170	10,506	-	(76,277)	67,399

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the half-year ended 31 December 2022

	31/12/2022	31/12/2021
	US\$'000	US\$'000
Cash flows from operating activities		
Oil and gas sales (net of royalties)	23,300	18,493
Payments to suppliers and employees	(10,460)	(4,394)
Payments for exploration and evaluation	(2,591)	(1,072)
Payments on settlement of derivative financial instruments	(1,809)	(3,262)
Interest paid (net of interest received)	(405)	(616)
Other expenses	(21)	(3)
Net cash inflow from operating activities	8,014	9,146
Cash flows from investing activities		
Payments for property, plant and equipment	-	(104)
Payments for (purchase)/sale of investments	(500)	10,479
Net of (payments)/credits for development	(6,413)	174
Bond for development asset	(50)	-
Net cash inflow/(outflow) used in investing activities	(6,963)	10,549
Cash flows from financing activities		
Repayment of borrowings	(2,300)	(4,600)
Net cash outflow from financing activities	(2,300)	(4,600)
Net increase/(decrease) in cash and cash equivalents	(1,249)	15,095
Cash and cash equivalents at the beginning of the half-year	26,764	11,100
Effects of exchange rate changes on cash	(3)	-
Cash and cash equivalents at the end of the half-year	25,512	26,195

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the half-year ended 31 December 2022

1. Corporate information

The half-year consolidated financial report of the Group for the six months ended 31 December 2022 was authorised for issue in accordance with a resolution of the Directors on 8 March 2023.

Otto Energy Limited is a company incorporated and domiciled in Australia whose shares are publicly traded. The principal activities of the Group are described in the consolidated financial statements of the Group for the year ended 30 June 2022 which are available at www.ottoenergy.com.

2. Basis of preparation

The half-year consolidated financial report for the six months ended 31 December 2022 has been prepared in accordance with AASB 134 Interim Financial Reporting.

The half-year consolidated financial report does not include all the information and disclosures required in the annual financial report and should be read in conjunction with the Group's financial report for the year ended 30 June 2022 which is available at www.ottoenergy.com.

3. Changes to the Group's accounting policies

There are no new or amended standards adopted by Otto Energy Limited for the 31 December 2022 half-year consolidated financial report.

4. Segment information

The Group has identified its operating segments based on the internal management reports that are reviewed and used by the executive management team in assessing performance and in determining the allocation of resources. The operating segments identified by management are based on the geographical locations of the business which are as follows: Gulf of Mexico (USA) and Other. Discrete financial information about each of these operating segments is reported to the executive management team on at least a monthly basis. The segment information for the reportable segments for the half-year ended 31 December 2022 and comparable period is as follows:

31 December 2022	Gulf of Mexico (USA)	Other	Consolidated
	US\$'000	US\$'000	US\$'000
Operating revenue	21,371	-	21,371
Cost of sales	(5,019)	-	(5,019)
Gross profit	16,352	-	16,352
Exploration expenditure	(2,844)	-	(2,844)
Gain on investments at fair value	-	(1,873)	(1,873)
Finance costs	(812)	(3)	(815)
Administration and other expenses	(2,205)	(912)	(3,117)
Gains/Losses on derivatives	1,501	-	1,501
Profit/(loss) before income tax	11,992	(2,788)	9,204
Income tax (expense)/reversal	2,898	(155)	2,743
Profit/(loss) after income tax for the period	14,890	(2,943)	11,947
31 December 2022			
Total non-current assets	42,532	1	42,533
Total assets	62,154	12,470	74,624
Total liabilities	5,380	1,845	7,225

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the half-year ended 31 December 2022

4. Segment information (continued)

31 December 2021	Gulf of Mexico (USA)	Other	Consolidated
	US\$'000	US\$'000	US\$'000
Operating revenue	18,128	-	18,128
Cost of sales	(4,739)	-	(4,739)
Gross profit	13,389	-	13,389
Other income	8	-	8
Exploration expenditure	(1,220)	-	(1,220)
Gain on investments at fair value	-	5,714	5,714
Finance costs	(1,140)	(4)	(1,144)
Administration and other expenses	(2,666)	(468)	(3,134)
Gains/Losses on derivatives	(1,154)	-	(1,154)
Profit before income tax	7,217	5,242	12,459
Income tax expense	-	(1,344)	(1,344)
Profit after income tax for the period	7,217	3,898	11,115
30 June 2022			
Total non-current assets	33,294	2	33,296
Total assets	52,791	19,405	72,196
Total liabilities	14,908	1,836	16,744

	31/12/2022 US\$'000	31/12/2021 US\$'000
5. Revenue and other income		
South Marsh 71 (SM 71) Sales⁽ⁱ⁾		
Oil Sales	14,437	14,033
Gas Sales	1,004	877
Total Sales	15,441	14,910
Less: Royalties ⁽ⁱ⁾	(2,884)	(2,788)
SM 71 Operating Revenue (Net)	12,557	12,122
Lightning Sales⁽ⁱⁱ⁾		
Oil Sales	1,570	1,562
Gas Sales	3,287	3,108
Natural Gas Liquids Sales	816	1,179
Lightning Operating Revenue (Net)	5,673	5,849
GC 21 Sales⁽ⁱⁱⁱ⁾		
Oil Sales	35	133
Gas Sales	26	41
Natural Gas Liquids Sales	17	20
Total Sales	78	194
Less: Royalties ⁽ⁱⁱⁱ⁾	(14)	(37)
GC 21 Operating Revenue (Net)	64	157

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the half-year ended 31 December 2022

	31/12/2022 US\$'000	31/12/2021 US\$'000
5. Revenue and other income (continued)		
Mosquito Bay West Sales⁽ⁱⁱⁱ⁾		
Oil Sales	358	-
Gas Sales	549	-
Natural Gas Liquids Sales	64	-
Mosquito Bay West Revenue (Net)	971	-
Oyster Bayou South Sales⁽ⁱⁱ⁾		
Oil Sales	1,643	-
Gas Sales	403	-
Natural Gas Liquids Sales	45	-
Oyster Bayou South Operating Revenue (Net)	2,091	-
Vick #1 Sales⁽ⁱⁱ⁾		
Gas Sales	15	-
Vick #1 Revenue (Net)	15	-
Total Operating Revenue (Net)	21,371	18,128
Other income	-	8
	-	8

- (i) SM 71 operating revenue is shown net of royalty payments payable to the (USA) Office of Natural Resources Revenue. Royalty payments are 18.75% of revenue under the terms of the SM 71 lease.
- (ii) Proceeds from the sale of oil and gas from the Lightning field, Mosquito Bay West, Oyster Bayou South and Vick#1 wells are received net of royalty payments.
- (iii) GC 21 operating revenue is shown net of royalty payments totalling 20%.
- (iv) Interest income is recognised using the effective interest rate method.

Recognition and measurement

Revenue is recognised when or as the Group transfers control of goods or services to a customer at the amount to which the Group expects to be entitled. If the consideration promised includes a variable component, the Group estimates the expected consideration for the estimated impact of the variable component at the point of recognition and re-estimated at every reporting period.

Sale of oil & gas (new wells)

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the half-year ended 31 December 2022

	31/12/2022	31/12/2021
	US\$'000	US\$'000
6. Cost of Sales		
Gathering and Production charges	2,928	2,420
Depreciation of capitalised developments	2,091	2,319
Total Cost of Sales	<u>5,019</u>	<u>4,739</u>

	31/12/2022	31/12/2021
	US\$'000	US\$'000
7. Exploration expenditure		
Exploration expenditure – Gulf of Mexico/Gulf Coast	2,844	1,220
	<u>2,844</u>	<u>1,220</u>

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

	31/12/2022	31/12/2021
	US\$'000	US\$'000
8. Gain/(loss) on investments at fair value		
Gain/(loss) on fair value of Pantheon Resources Plc shares (net of transaction costs)	(1,873)	5,714
Total Gain/(loss) on fair value of investments	<u>(1,873)</u>	<u>5,714</u>

The Company owns 3,272,592 shares of Pantheon Resources Plc (London Stock Exchange: PANR), as a result of its 2021 sale of Borealis Alaska LLC to acreage operator Pantheon Resources (Pantheon), which are valued at approximately US\$1.7 million as at 31 December 2022. The Company also owns a 0.5% of 8/8ths overriding royalty interest (ORRI) in any future production from the Talitha Unit in Alaska, which is operated by Pantheon.

Loss on investments (net of transaction costs) for the current half year was US\$1.9 million which was attributable to the 3,272,492 shares of PANR held by the Company. Prior year gain (net of transactions costs) was \$5.7 million of which \$1.6 million related to the remaining 3,272,492 PANR shares.

	31/12/2022	31/12/2021
	US\$'000	US\$'000
9. Other expenses		
Finance costs		
Interest and commitment fees on borrowings	408	628
Interest expense leases	-	(14)
Amortisation of borrowing costs	378	516
Accretion of decommissioning fund	29	14
Total finance costs	<u>815</u>	<u>1,144</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the half-year ended 31 December 2022

	31/12/2022 US\$'000	31/12/2021 US\$'000
9. Other expenses (continued)		
Administration and other expenses		
<i>Employee benefits expense</i>		
Defined contribution superannuation	25	31
Share based payment expense	-	92
Other employee benefits expenses	1,972	2,235
Total employee benefits expense	1,997	2,358
<i>Depreciation expense</i>		
<i>Right-of-use assets</i>		
Right-of-use assets - buildings	-	70
Total depreciation expense right-of-use assets	-	70
<i>Property, plant and equipment</i>		
Furniture and equipment	33	34
Total depreciation expense	33	104
<i>Other expenses</i>		
Corporate and other costs (net of recharges)	904	498
Business development	179	239
Foreign currency (gains)/losses	4	(65)
Total other expenses	1,087	672
Total Administration and other expenses	3,117	3,134

	31/12/2022 US\$'000	31/12/2021 US\$'000
10. Income tax		
Danish corporate income tax expense ⁽ⁱ⁾	150	1,315
US corporate tax expense accrual reversal ⁽ⁱⁱ⁾	(2,898)	-
Other	5	29
Total income tax expense/(reversal)	(2,743)	1,344

⁽ⁱ⁾Income tax expense relates to the controlled foreign company income of Otto Energy (Galoc Investment 2) ApS.

⁽ⁱⁱ⁾Reversal of accrued 30 June 2022 US Corporate taxes (US\$2.9 million) after completion of US carried forward tax analysis completed in the half year resulting in the Company being able to utilise previously incurred net operating losses.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the half-year ended 31 December 2022

	31/12/2022	30/06/2022
	US\$'000	US\$'000
11. Cash and cash equivalents		
Cash at bank	25,512	21,764
Restricted cash - Debt Service Reserve Account (DSRA)	-	5,000
Balance at end of period	<u>25,512</u>	<u>26,764</u>

In November 2019, the Company entered into a senior secured US\$55 million term debt facility (Facility) with Macquarie Bank Limited (Macquarie). Under the current terms of the Facility, a Debt Service Reserve Account (DSRA) balance of US\$3.0 million is required only if Tranche A2 is utilized. The DSRA may only be applied in reduction of the loan.

	31/12/2022	30/06/2022
	US\$'000	US\$'000
12. Oil and gas properties		
Producing and development assets		
At cost		
SM 71 balance at beginning of period	11,298	14,960
SM 71 expenditure for the period	798	(104)
SM 71 amortisation of assets	(1,494)	(3,558)
SM 71 balance at end of period	<u>10,602</u>	<u>11,298</u>
Lightning balance at beginning of period	3,446	4,640
Lightning expenditure for the period	-	16
Lightning amortisation of assets	(441)	(1,210)
Lightning balance at end of period	<u>3,005</u>	<u>3,446</u>
GC 21 balance at beginning of period	17,899	17,363
GC 21 expenditure for the period	8,667	683
GC 21 impairment of assets	-	-
GC-21 amortisation of assets	-	(147)
GC 21 balance at end of period	<u>26,566</u>	<u>17,899</u>
Vick #1 at beginning of period	96	-
Vick #1 expenditure for the period	4	96
Vick #1 amortisation of assets	(16)	-
Vick #1 balance at end of period	<u>84</u>	<u>96</u>
Mosquito Bay West at beginning of period	35	-
Mosquito Bay West expenditure for the period	664	35
Mosquito Bay West amortisation of assets	(60)	-
Mosquito Bay West balance at end of period	<u>639</u>	<u>35</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the half-year ended 31 December 2022

	31/12/2022	30/06/2022
	US\$'000	US\$'000
12. Oil and gas properties (continued)		
Oyster Bayou at beginning of period	-	-
Oyster Bayou expenditure for the period	678	-
Oyster Bayou amortisation of assets	(80)	-
Oyster Bayou balance at end of period	598	-
Total oil and gas properties	41,494	32,774

Capitalised development and evaluation costs as at 31 December 2022 relate to well developments at GC 21, Mosquito Bay West, Oyster Bayou South and SM 71 F2 well recompletion operations in the Gulf of Mexico (including provision for decommissioning).

Impairment

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

The Company assessed each cash generating unit (CGU) for indicators of impairment. Impairment indicators were identified on the GC 21 CGU in relation to cost overruns on the DTR-10 recompletion.

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

The basis of reserves in the VIU model was 2P reserve volumes for the DTR-10 well. Gross (100%) oil 7,295 Mbbbl/Gross (100%) gas 4,377MMcf.

Estimates of future commodity prices are based on the Group's best estimate of future market prices with reference to external market analyst's forecasts, current spot prices and forward curves. Weighted average estimates are \$68.42/Bbl oil and \$4.69/MMBtu gas.

The discount rates applied to the future forecast cash flows are based on the weighted average cost of capital. The pre-tax discount rates that has been applied to non-current assets is 17%.

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

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

At 31 December 2022, the Group has assessed the GC 21 Bulleit cash generating unit and determined that there is no impairment loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the half-year ended 31 December 2022

	31/12/2022	30/06/2022
	US\$'000	US\$'000
13. Interest bearing loans and borrowings		
<u>Borrowings</u>		
<i>Current Secured</i>		
Principal outstanding	-	2,300
Less: Facility transaction costs – at cost	-	(351)
Balance at the end of the period	-	1,949

In November 2019, the Company entered into a senior secured US\$55 million term debt facility (Facility) with Macquarie Bank Limited (Macquarie) made up of Tranche A1 (US\$25 million), Tranche A2 (US\$10 million), and Tranche B (US\$20 million), subject to further credit approval. The key terms of the facility were disclosed in the 30 June 2020 Annual Report and ASX announcements dated 21 January 2021, 23 August 2021 and 3 October 2022.

As of 31 December 2022, the Company had drawn and repaid the entire US\$25 million available under Tranche A1, resulting in a closing debt balance of nil. Tranche A1 is therefore no longer available to borrow. Tranche A2 remains undrawn and is available until 30 September 2023 (with a final maturity of 31 December 2023). Under the Facility, Otto issued to Macquarie 42.5 million options to subscribe for fully paid ordinary shares in the Company. These options have vested and were amortised over the original three-year life of the facility.

The facility agreement has certain financial covenants that the Company has to comply with. All such financial covenants have been complied with in accordance with the facility agreement.

	31/12/2022	30/06/2022
	US\$'000	US\$'000
14. Derivative financial instruments		
<i>Current</i>		
Balance at the beginning of the period	3,310	4,703
Unrealised gains on oil and natural gas price fixed swaps	(3,310)	(1,393)
Current oil price fixed swaps – held at fair value through profit or loss	-	3,310
<i>Non-Current</i>		
Balance at the beginning of the period	-	809
Unrealised gains on oil and natural gas price fixed swaps	-	(809)
Non-current oil and natural gas price fixed swaps – held at fair value through profit or loss	-	-
Total derivative financial instrument liabilities	-	3,310
Realised gains/(losses) on oil and natural gas price fixed swaps	(1,809)	(3,262)
Unrealised gains on oil and natural gas price fixed swaps	3,310	2,108
Total gain/(loss) on derivative financial instruments	1,501	(1,154)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the half-year ended 31 December 2022

14. Derivative financial instruments (continued)

Recognition and measurement

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

15. Contributed equity

a) Share capital

	31/12/22 Number	30/06/22 Number	31/12/22 US\$'000	30/06/22 US\$'000
Balance at beginning of period	4,795,009,773	4,795,009,773	133,170	133,223
Issue of shares (net of transaction costs)	-	-	-	(53)
Balance at end of period	4,795,009,773	4,795,009,773	133,170	133,170

16. Share-based payments

There were no performance rights issued to employees or directors for the half year ending 31 December 2022 (31 December 2021: nil).

For the half year ended 31 December 2022, the Group recognised a share-based payments expense of nil in the Consolidated Statement of Profit or Loss and Other Comprehensive Income (31 December 2021: \$91,969).

17. Fair value measurement

a) Fair values

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

Financial assets measured at fair value		31/12/2022 US\$'000	30/06/2022 US\$'000
Financial assets at fair value through profit and loss ⁽ⁱ⁾	Level 1	1,684	3,558
Financial assets at fair value through profit and loss	Level 2	-	-
Financial assets at fair value through profit and loss	Level 3	-	-
Total financial assets measured at fair value		1,684	3,558

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the half-year ended 31 December 2022

		31/12/2022	30/06/2022
		US\$'000	US\$'000
17. Fair value measurement (continued)			
Financial liabilities measured at fair value			
Derivative financial liabilities at fair value through profit and loss	Level 1	-	-
Derivative financial liabilities at fair value through profit and loss	Level 2	-	3,310
Derivative financial liabilities at fair value through profit and loss	Level 3	-	-
Total financial liabilities measured at fair value		-	3,310

- (i) The fair value of equity investments was determined based on a “mark to market” approach, calculated based on the closing price of PANR shares as at 31 December 2022.

Fair value hierarchy

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

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

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

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

18. Contingent assets and liabilities

Otto maintains a 0.5% of 8/8ths ORRI in any future production from the Talitha unit in Alaska.

In January 2023, Otto and the operator of GC 21, both filed a Control of Well event claim with their respective insurance carriers regarding the recompletion at GC 21 and are both being reviewed by the same insurance adjuster. During the recompletion, the tubing string, control lines, casing and clamps were damaged. A review is underway to determine how increased loop eddy currents may have contributed to these failures. The insurance carriers are evaluating the merit of the claims and the Otto Directors believe that a favourable outcome is probable. However, the contingent asset has not been recognised as a receivable as at 31 December 2022 as the outcome remains uncertain.

There are no contingent liabilities at balance date.

19. Commitments

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

	31/12/2022	31/12/2021
	US\$'000	US\$'000
Not later than one year	103	147
Later than one year but not later than five years	43	146
	<u>146</u>	<u>294</u>
	31/12/2022	31/12/2021

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the half-year ended 31 December 2022

19. Commitments (continued)

US\$'000

US\$'000

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

Not later than one year	7,198	5,853
	<u>7,198</u>	<u>5,853</u>

Capital expenditure commitments at reporting date relate to committed development costs on GC 21 Bulleit. Commitments are disclosed net of the amount of GST recoverable from, or payable to, the tax authority.

20. Related parties

There are no related party transactions for the reporting period.

21. Events after the reporting period

On 5 February 2023, the Sevan Louisiana drilling rig returned to location at Green Canyon 21 to recommence the DTR-10 sand recompletion. The Operator will drill out the shallow isolation plugs, run a 9 7/8" tieback string to bottom to isolate the 14" parted casing and pressure test the well. The 3 1/2" production tubing and accessories will then be run and via an overshot will seal onto the existing stub above the production packer and the well will be prepared for unloading and flowback. The recompletion and first production continue to be expected during calendar Q1 2023.

In January 2023, Otto and the operator of GC 21, both filed a Control of Well event claim with their respective insurance carriers regarding the recompletion at GC 21 and are both being reviewed by the same insurance adjuster. During the recompletion, the tubing string, control lines, casing and clamps were damaged. A review is underway to determine how increased loop eddy currents may have contributed to these failures. The insurance carriers are evaluating the merit of the claims and the Otto Directors believe that a favourable outcome is probable. However, the contingent asset has not been recognised as a receivable as at 31 December 2022 as the outcome remains uncertain.

No other matters or circumstances have arisen since 31 December 2022 that would have a material impact on the Group's operations.

DIRECTORS' DECLARATION

For the half-year ended 31 December 2022

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

1. In the opinion of the Directors:
 - a. the financial statements and notes of Otto Energy Limited for the half-year ended 31 December 2022 are in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the Group's financial position as at 31 December 2022 and of its performance for the half-year ended on that date; and
 - (ii) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.
 - b. There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

On behalf of the Board



Mr M Utsler
Director
10 March 2023

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INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of Otto Energy Limited

Report on the Half-Year Financial Report

Conclusion

We have reviewed the half-year financial report of Otto Energy Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 31 December 2022, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the half-year ended on that date, a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the accompanying half-year financial report of the Group does not comply with the *Corporations Act 2001* including:

- (i) Giving a true and fair view of the Group's financial position as at 31 December 2022 and of its financial performance for the half-year ended on that date; and
- (ii) Complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Basis for conclusion

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*. Our responsibilities are further described in the *Auditor's Responsibilities for the Review of the Financial Report* section of our report. We are independent of the Company in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to the audit of the annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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

Responsibility of the directors for the financial report

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

Auditor's responsibility for the review of the financial report

Our responsibility is to express a conclusion on the half-year financial report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 31 December 2022 and its financial performance for the half-year ended on that date and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

BDO Audit (WA) Pty Ltd

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

Philip Murdoch

Director

Perth, 10 March 2023