

## CHAIRMAN'S LETTER



Dear Shareholders,

During 2008/09, we experienced notable successes and some disappointments. However, I am pleased to report that we are now in a good position, both financially and managerially.

The share price came under pressure over the past financial year due to both external and internal factors. Clearly, the impact of severe weather conditions with unfortunate timing had the result of Galoc production failing to meet forecasts and Otto's share price suffered accordingly. Moreover, following the collapse of the oil price and due no doubt to the general economic crisis experienced worldwide, investors re-adjusted valuations back to earnings fundamentals and away from future exploration expectations. This continues to impact Otto notwithstanding improved consistent production from Galoc and an improved oil price.

Otto raised approximately \$31.5 million during the financial year from a capital raising comprising two share placements and a pro-rata entitlement issue to shareholders, which was completed in June 2009. The fact that the Company was able to successfully raise such a significant sum during poor market conditions, is testament to the support of shareholders and I thank you for the faith shown.

The Galoc Production Company WLL project debt over the Galoc Field was also fully repaid during the year, resulting in Otto having no debt and cash reserves of \$13 million at 30 June 2009.

Going forward, we will continue to receive cash flow from Galoc which is producing at 11,000 bbls/day on a natural decline. Furthermore, the technical and commercial fundamentals of the Galoc field remain strong and planning for further appraisal and potential incremental development is currently underway.

Taking further steps to add production, generate cash flow and unlock the value of current discoveries is core to the growth of Otto. To this end the Company continues to progress the development of the Edirne gas fields in the onshore Thrace Basin in Turkey. Bringing these fields on stream is within the Company's current funding capability and was

envisioned at the time of the June capital raising. The assets in Turkey formed the basis of the Company's float on the ASX in December 2004, and it will be pleasing to see these assets come into commercial fruition shortly. Edirne gas will become Otto's second revenue-generating asset after Galoc oil.

In the year ahead, I expect to see our offshore Philippines exploration portfolio farmed down and the Company's development portfolio progressing.

We have significantly repositioned our management team during 2009. Our new CEO, Paul Moore has some 27 years experience in all aspects of upstream E&P business with Shell International, Fletcher Challenge Energy, Santos Ltd and Woodside Energy Ltd. His production and project development experience will be particularly helpful for the Board to progress Otto's vision of becoming internationally recognised as one of the best mid tier oil and gas companies.

I am confident that under Paul Moore's leadership and with our motivated and experienced management team, 2010 will be an active and successful year for Otto Energy and its shareholders.

A handwritten signature in black ink, appearing to read 'Rick Crabb'. The signature is stylized and cursive.

Rick Crabb  
Non Executive Chairman