

CASH FLOW STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS

Cash Flow Statements For the Year Ended 30 June 2009

	Note	Economic Entity		Parent Entity	
		2009 \$	2008 \$	2009 \$	2008 \$
CASH FLOWS FROM OPERATING ACTIVITIES					
Payments for exploration and evaluation		(12,839,394)	(13,219,662)	(53,501)	(4,045,623)
Payments to suppliers and employees		(6,700,626)	(4,108,091)	(5,209,301)	(3,896,997)
Interest received		773,896	441,539	55,214	136,334
Interest and other costs of finance paid		(658,058)	(1,834)	(648,183)	(214)
Income Tax Expense		(9,701)	(582,232)	-	-
Foreign exchange gain		-	12,357	-	-
Other Income		2,042,231	1,848	588,367	-
Net cash used in operating activities	27(a)	(17,391,652)	(17,456,075)	(5,267,404)	(7,806,500)
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchase of property, plant and equipment		(174,129)	(320,198)	(97,984)	(211,177)
Proceeds on sale of licence interest		-	5,381,553	-	-
Payment for purchase of subsidiary, net of cash acquired	23	-	-	(99)	-
Payment for acquisition of unlisted investments	23	-	(58,515,913)	-	-
Loan to associated company		(12,503,267)	(10,030,740)	(896,761)	-
Payment for purchase of investment in associate		(2,116,680)	-	(2,116,680)	-
Net cash used in investing activities		(14,794,076)	(63,485,298)	(3,111,524)	(211,177)
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from issue of shares		40,395,504	84,900,051	40,395,504	84,900,051
Payment of share issue costs		(2,568,571)	(3,728,958)	(2,568,571)	(3,728,958)
Loans from related parties		1,530,000	-	1,530,000	-
Repayment of loans from related parties		(1,183,420)	-	(1,183,420)	-
Proceeds from borrowings		-	36,398	-	-
Repayment of borrowings		(6,165)	(1,976)	-	-
Loan to employees		(100,000)	-	(100,000)	-
Loans to subsidiaries		-	-	(22,299,782)	(72,047,862)
Net cash provided by financing activities		38,067,348	81,205,515	15,773,731	9,123,231
Net (decrease)/ increase in cash held					
		5,881,620	264,142	7,394,803	1,105,554
Cash at beginning of financial year					
		5,033,862	5,191,230	2,915,725	1,810,171
Effect of exchange rate changes on the balances of cash held in foreign currencies at the beginning and end of the financial year					
		2,146,228	(421,510)	1,601,595	-
Cash at end of financial year					
	9	13,061,710	5,033,862	11,912,123	2,915,725

The accompanying notes form part of these financial statements.

Statement of Significant Accounting Policies

The financial report is a general purpose financial report that has been prepared in accordance with Australian Accounting Standards, Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board and the *Corporations Act 2001 (Cth)*.

The financial report covers the consolidated entity of Otto Energy Limited and controlled entities, and Otto Energy Limited as an individual parent entity. Otto Energy Limited is a listed public company, incorporated and domiciled in Australia.

The following is a summary of the material accounting policies adopted by the consolidated entity in the preparation of the financial report. The accounting policies have been consistently applied, unless otherwise stated.

Basis of Preparation

Going Concern

The ability of the consolidated entity to continue as a going concern, develop its exploration assets, commercialise its various projects, and continue its operations is dependent upon both continuing production from the Galoc Oil Field (Service Contract 14c) and the market price of oil remaining at current levels. Should production levels from the Galoc Oil Field be lower than forecast, or if the market price of oil reaches lower than expected levels, the group will be required to seek additional funding through debt, equity or other means to continue its activities.

Compliance with IFRS

Australian Accounting Standards include Australian equivalents to International Financial Reporting Standards ("AIFRS"). Compliance with AIFRS ensures that the consolidated financial report of Otto Energy Limited complies with IFRS.

Historical cost convention

The financial report has been prepared on an accruals basis and is based on historical costs modified by the revaluation of selected non-current assets, and financial assets and financial liabilities for which the fair value basis of accounting has been applied.

Critical accounting estimates

The preparation of the financial statements in conformity with AIFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving higher degree of judgement or complexity, or areas where assumptions or estimates are significant to the financial statements are referenced in note 3.

Carbon Emissions

The National Greenhouse and Energy Reporting Act 2007 (NGER) is currently subject to finalisation by the Australian Parliament with implementation due in 2010/2011. The legislation sets forth the requirements of Otto Energy under the Carbon Pollution Reduction Scheme (CPRS). As the legislation is not yet finalised, the directors are unable to reliably quantify the potential future impact of both direct and indirect costs related to this scheme. As such any costs associated with the CPRS have not been taken into account when preparing budgets, forecasts and/or valuation models for measurement of recognised amounts.