

DIRECTORS' DECLARATION

In the Directors' opinion:

- (a) the financial statements, comprising the income statement, balance sheet, cash flow statement, statement of recognised income and expense, accompanying notes, are in accordance with the Corporations Act 2001, and:
 - (i) comply with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
 - (ii) give a true and fair view of the financial position as at 30 June 2009 and of the performance for the year ended on that date of the company, and the consolidated entity.
- (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; and
- (c) The remuneration disclosures included in pages 36 to 45 of the directors' report (as part of the audited Remuneration Report), for the year ended 30 June 2009, comply with section 300A of the *Corporations Act 2001*.
- (d) The Directors have been given the declarations required by section 295A.

This declaration is made in accordance with a resolution of the Board of Directors and is signed for and on behalf of the directors by;



Mr I Macliver

Director

23 September 2009

INDEPENDENT AUDIT REPORT

Independent Audit Report to the Members of Otto Energy Limited



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INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF OTTO ENERGY LIMITED

We have audited the accompanying financial report of Otto Energy Limited, which comprises the balance sheet as at 30 June 2009, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the entity comprising the disclosing entity and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 2, the directors also state, in accordance with Accounting Standard AASB101 Presentation of Financial Statements, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001* would be in the same terms if it had been given to the directors at the time that this auditor's report was made.

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INDEPENDENT AUDIT REPORT (Cont'd)

CORPORATE GOVERNANCE STATEMENT

Independent Audit Report to the Members of Otto Energy Limited (Cont'd)

**Auditor's Opinion**

In our opinion:

- (a) the financial report of Otto Energy Limited is in accordance with the *Corporations Act 2001*, including:
- (i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2009 and of their performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 2.

Material Uncertainty Regarding Continuation as a Going Concern

Without qualification to the above, we draw attention to Note 1 in the financial report which indicates that Otto Energy Limited incurred a net loss of \$57,348,777 during the year ended 30 June 2009. The company is dependant upon cash flow generated from production of the Galoc Oil Field and repatriation of those revenues to Otto Energy Limited. If this does not occur the company may be required to seek additional funding through debt, equity or other means to continue its activities. These conditions, along with other matters as set forth in Note 1, indicate the existence of a material uncertainty which may cast significant doubt about the consolidated entity's ability to continue as a going concern and whether it will be able to realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report.

Report on the Remuneration Report

We have audited the Remuneration Report included within the Directors' Report for the year ended 30 June 2009. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's Opinion

In our opinion, the Remuneration Report of Otto Energy Limited for the year ended 30 June 2009, complies with section 300A of the *Corporations Act 2001*.

BDO Kendalls Audit and Assurance (WA) Pty Ltd

Brad McVeigh
Director

Dated this 23rd day of September 2009
Perth, Western Australia

In fulfilling its obligations and responsibilities to its various stakeholders, the Board is a strong advocate of corporate governance. This statement outlines the principal corporate governance procedures of Otto Energy Limited (Otto Energy or the Company). The Board of Directors supports a system of corporate governance to ensure that the management of Otto Energy is conducted to maximise shareholder wealth in a proper and ethical manner.

ASX Corporate Governance Council Recommendations

The Board has adopted corporate governance policies and practises consistent with the ASX Corporate Governance Council's "Corporate Governance Principles and Recommendations 2nd edition" ("Recommendations") where considered appropriate for a company of Otto Energy's size and nature. Such policies include, but are not limited to the Board Charter, Board Committee Charters, Code of Conduct, Trading in Securities, Continuous Disclosure, Shareholder Communication and Risk Management Policies. Further details in respect to the Company's corporate governance practises are summarised below and copies of Company's corporate governance policies are available of the Company's web site at www.ottoenergy.com.

The Board sets out below its "if not why not" report in relation to matters of corporate governance where the Company's practise departs from the Recommendations. All Recommendations have been applied for the financial year ended 30 June 2009 unless set out below.

Recommendation 2.4 requires listed entities to establish a nomination committee. During the year, the Company did not have a separately established nomination committee. Given the current size of the Board, the Board considers that this function is efficiently achieved with full Board support, in accordance with the guidelines set out in the Board's Charter.

Recommendation 4.2 requires the audit committee be structured such that it consists of: only non-executive directors, a majority of independent directors, is chaired by and independent chair, who is not the chair of the board and have at least three members. The Company's audit committee during the year comprised two Non-executive, independent Directors, Messrs Ian Macliver and Rick Crabb. Given the current size and technical expertise of the Board an audit committee comprising only two Directors was considered appropriate for the Company.

Recommendation 8.1 states that the board should establish a remuneration committee. During the year, the Company did not have a separately established remuneration committee. Given the number of Directors on the Board and the size of the Company, the Board considers that this function can efficiently be performed by the full Board.

In relation to the above, the Board believes it has implemented suitable practices and procedures in respect of Corporate Governance considering the size of the Board and the size and maturity of the Company. The Board wishes to acknowledge that nothing has come to its attention which would lead the Board to conclude that its current practices and procedures are not appropriate for an organisation of this size and maturity.