

31 January 2008

Manager of Company Announcements
Australian Stock Exchange Limited
Level 6, 20 Bridge Street
SYDNEY NSW 2000

By E-Lodgement

**QUARTERLY REPORT FOR THE QUARTER ENDED 31 DECEMBER 2007 AND
APPENDIX 5B**

Please find attached the Company's quarterly report for the period ended
31 December 2007 together with an Appendix 5B.

For and on behalf of the Board.

Yours faithfully



Alex Parks
Chief Executive Officer

OTTO ENERGY LIMITED

Quarterly Report and Appendix 5B for the Quarter ended 31 December 2007

The Board is pleased to provide the following commentary to be read in conjunction with the Appendix 5B attached.

HIGHLIGHTS

Otto acquired an 18.28% beneficial interest in the Galoc Field, offshore Philippines. The Company's share of certified 2P reserves in the Galoc Field is approximately 4 million barrels of oil.

The Galoc Field Operator announced the successful drilling of the two Galoc development wells.

Otto farmed into a large exploration acreage in the Po Valley in Italy and will earn up to a 50% interest in the Batiglia-Cento Exploration Permits.

In Turkey Otto and its joint venture partners announced plans for a five well drilling campaign to commence in March 2008.

The Company raised approximately \$ 68 million through the placement of 226 million shares at \$0.30 per share. A significant portion of the placement was to two European institutional investors. Funds raised from this placement are primarily for the acquisition of the beneficial interests in the Galoc Field with the remainder, together with the previous raising, for ongoing exploration and development of the Company's assets.

Otto has appointed Mr John Jetter as a non-executive director of the Company.

EXPLORATION AND DEVELOPMENT ACTIVITIES

(i) PHILIPPINES

(Otto's current working interests in the Filipino Service Contracts, are held through its 100% owned subsidiary, NorAsian Energy Limited, ("NorAsian").

SC14C (Galoc Oil Field) (Otto 18.28%)

(Service Contract 14C is situated offshore Northern Palawan in a proven oil and gas fairway which also contains Philippines largest oil and gas field Malampaya . Water depth at the Galoc Oil Field is around 290 metres.)

The Galoc Oil Field has Gaffney Cline certified gross 2P reserves of 23.4 million barrels

Galoc Production Company ("GPC"), Operator of the Galoc Field, recently announced the successful drilling of the two horizontal Galoc development wells. The wells have now been completed according to the batched well construction program and well clean up will follow. On completion of the well construction activity, installation of the subsea equipment will be undertaken in time for the arrival and hook up of the FPSO. Otto expects first oil to be in April 2008.

On predrill estimates the Field is expected to commence production at a gross production rate of 18,000 bopd. Otto's beneficial share will be approximately 3,300 bopd. Based on these numbers, Otto estimates its share of the profits generated from the Galoc Field production in 2008 will be over US\$30 million.

The provisional analysis of the data gathered during drilling suggests both wells have exceeded predrill expectations, however this will need to be confirmed during the clean up flowing and subsequent production of the two wells.

SC50 (Calait Oil Field) (Otto 98%)

(Service Contract 50 is situated at the north east end of the oil and gas prolific Palawan Basin. Water depths range from 50 metres to 150 metres.)

Processing and interpretation of the 116 sq. km of 3D seismic data continued throughout the Quarter. Planning for the extended well testing at Calait has been ongoing with a scheduled start up in late 2008.

SC51 (Otto 80%)

(Service Contract 51 consists of two sub-blocks over the East Visayan Basin).

Activity during the Quarter concentrated on the processing and interpretation of the 145 sq. kms of 3D offshore seismic data acquired on the southern sub-block of the contract in the previous Quarter.

In addition to this seismic work, the Joint Venture also undertook initial reconnaissance and planning for a 150 to 200km onshore 2D seismic program on Leyte Island. Acquisition of the onshore seismic is expected during the next (June) Quarter. Other activity during the Current

Quarter included engineering studies, well design and licencing, and the reprocessing of previously acquired seismic data.

SC55 (Otto 85%)

(Service Contract SC55 covers an area of 9,000 sq. km and is the first ultra deepwater block awarded by the Philippines Department of Energy.)

The 954 kms of 2D seismic data acquired in the June 2007 Quarter has been processed and interpretation is underway. This seismic was designed to assess additional structures along the deep water margin of the contract area and the block's turbidite sand potential.

In addition the Company continued with geotechnical and engineering studies and interpretation of the 2006 2D seismic data and reprocessing of earlier seismic. The 2006 program was prospective specific closed space 2D over the Marantao reef structure.

Otto intends to farm down from an equity position of 85% for carry through what will likely be an extensive 3D seismic and drilling program.

Area 8 (Otto 70%)

(Area 8 lies between the islands of Cebu, Bohol and Leyte and substantially covers the Vsayan Basin over an area of 7,440 sq. kms. The block lies between the two sub blocks of SC51 where NorAsian currently has an 80% interest.)

As reported in the previous Quarter, NorAsian and co-venturer TransAsia Oil & Energy were advised by the Department of Energy in the Philippines they had been ranked as the preferred bidder for Area 8 for award as an exploration Service Contract, the term of which will be for a seven year period. Area 8 is expected to be assigned over the coming weeks as the formal terms, work commitments and schedules are negotiated and finalized.

Given the blocks location adjoining SC51 this area offers significant follow up potential in additional structures if NorAsian has success in the drilling in the adjoining SC51.

(ii) TURKEY - Onshore Thrace Basin

Edirne Licence (Otto 35%)

A 149 km 3D seismic survey was completed during the previous Quarter. Exploration activity during the Current Quarter focused on seismic interpretation of that newly acquired data. The 3D survey was designed to optimally cover the central and so far most prospective part of the permit. Approximately 15 targets have been identified in the 3D area with four locations already approved by the Joint Venture with a decision on the fifth well location expected shortly.

The Joint Venture plans to drill five wells in the 2008 drilling program. The Group has previously drilled three gas discoveries within the nearby area. All of the 2008 prospects are shallow and therefore low cost to drill. The high gas price, good quality reservoirs and low cost of drilling generate excellent economics for these shallow plays.

Gas marketing studies are ongoing and the JV Group has agreed to apply for a gas sales licence.

Catalca and Ortakoy Licences (Otto 20%)

There was no exploration activity on the Catalca and Ortakoy licences during the Quarter.

(iii) ARGENTINA - Cuyana Basin / Santa Rosa Licence (Otto earning 32.48%)

As previously announced Otto will initially earn a 32.48% working interest in the Santa Rosa Block in the onshore Cuyana Basin of the Mendoza Province of Argentina, with the option to increase its interest to 41.24%.

As formal award of the licence was deferred to beyond the end of the Current Quarter there has been no exploration activity during the Quarter. Preparations for drilling of the giant Santa Rosa Dome will follow immediately upon award. It is expected that 2 wells will be drilled on Santa Rosa within 12 months of licence award.

(iv) ITALY

(The Bastiglia-Cento Permits are located in the Po Valley in Northern Italy. The Po Valley is a proven hydrocarbon Basin with over 13Tcf of gas and 342 MMbbls of oil discovered to date. The Bastiglio- Cento Permit is surrounded by a number of substantial oil and gas fields that are currently on production. There is a good infrastructure of roads and pipelines criss-crossing the permits.)

Otto will acquire 50% of the Bastiglia-Cento Exploration Permits from AIM-listed Ascent Resources Plc ("Ascent"). This is a three-way farm in agreement between Otto, Ascent and Deltana Energy Limited ("Deltana"), who had originally agreed to acquire up to 50% interest in the Bastiglia-Cento Block.

To earn the 50% Otto:

- has contributed Euro.2.15 million (A\$3.65 million) in January 2008 for the purchase of seismic data,
- has reimbursed Deltana for direct costs of A\$400,000,
- will pay 100% of the cost of drilling and testing the Gazzata-1 well estimated at A\$6million,
- in the event of a significant commercial gas discovery at Gazzata-1, Otto will also fund 100% of the cost of drilling and testing of a second well.

Deltana have retained an option to acquire a 15% working interest from Otto which is exercisable up to 31 March 2008, by sharing the terms of the farm in on a pro-rata basis.

CORPORATE

(i) Acquisition of an 18% beneficial interest in the Galoc Oil Field

The Company acquired an 18.28% beneficial interest in the Galoc Field through the purchase of two companies each holding a 15.69% shareholding in Galoc Production Company ("GPC"). Vitol Holdings Limited is the other shareholder with 68.62%. GPC is the field operator and holds a 58.29% working interest in the Galoc Field.

Terms of the transaction:

The shares acquired in GPC were held by Team Oil Limited ("Team") and Cape Energy Philippines SA ("Cape") (15.69% each). Team was a wholly owned subsidiary of Granby Oil and Gas plc ("Granby"). Cape was a wholly owned subsidiary of Cape Energy SA ("Cape SA").

The consideration paid to each of Granby and Cape SA was :

- US\$25.5 million cash;
- 1 million Otto shares (to be held in escrow for a period of 12 months); and
- 4 million unlisted options over Otto shares at an exercise price of A\$0.34 per share. The options are subject to a 12 month escrow period and must be exercised with 24 months of their issue.

The cash consideration included approximately US\$6.3 million to replace deposits on security for project financing. The deposit amounts (approximately US\$12.6 million in total) are recoverable by Otto from the financier when the project loans are repaid.

(ii) Capital Structure and Fund Raising

During the Quarter Otto placed 226 million shares at an issue price of \$0.30 per share raising \$67.8 million. A significant portion of the placement was taken by two European institutional investors joining the Otto share register. The balance was placed with clients of Euroz Securities Limited. Funds raised from this placement are primarily for the acquisition of the beneficial interests in the Galoc Field with the remainder, together with the previous raising, for ongoing exploration and development of the Company's assets.

A further 3 million shares were issued during the Quarter. Two million shares (voluntarily escrowed to 14 December 2008) were issued to the vendors as part of the Galoc transaction and director Dr. Jaap Poll exercised one million options for one million shares. The exercise price for the options exercised by Dr Poll was \$0.25 per share, thereby Otto received \$250,000.

Subsequent to the end of the Quarter, shareholders have approved the issue of 11 million options to directors of the Company. The options have an exercise price of 30 cents and are exercisable within three years of their issue date subject to their vesting conditions.

At the date of this report, the Capital structure of Otto is:

| | <u>Number</u> |
|--|--------------------|
| <i>Listed:</i> | |
| Ordinary fully paid shares | <u>438,812,325</u> |
| <i>Unlisted:</i> | |
| Performance shares | 2,500,000 |
| Vendor options issued as part of the Galoc transaction (34 cents: 30 November 2009) | 8,000,000 |
| Director Options (30 cents : 25 January 2011) | 11,000,000 |
| Employee Plan Options (20, 30 & 40 cents: 29 May 2011) | 11,450,000 |
| Employee Plan Options (30 cents : 17 December 2010) | 8,000,000 |
| Consultant Options (20, 30&40 cents: 29 May 2011) | 1,000,000 |
| Consultant Options (30 cents: 17 December 2010) | <u>250,000</u> |
| | <u>42,200,000</u> |

(iii) Appointment of Additional Director

The Company was pleased to announce the appointment of Mr John Jetter as a non executive director of the Company.

Mr Jetter has extensive international finance and M&A experience being the former Managing Director, CEO and head of investment banking of JP Morgan in Germany and Austria. He joined JP Morgan in 1992 and has held various senior positions with the company throughout Europe. Mr Jetter remains a board member of JP Morgan AG, Germany and a member of the European Advisory Council, JP Morgan London. He also holds a number of board positions with other entities.

Mr Jetter is currently based between Europe and Australia. He is a solicitor and barrister, Supreme Court of Victoria and member of the Australian Law Society and Law Institute of Victoria.

The financial contacts and international business experience that Mr Jetter brings to the Board compliment the skill set of the existing board members and will add value as Otto moves through its next growth phase to international recognition.

| |
|---|
| <p>Attribution: The technical content of this release was provided by Otto's Director, Dr Jaap Poll, a Certified Member of the American Association of Petroleum Geologists (AAPG) and a Distinguished Member of the Petroleum Exploration Society of Australia (PESA). Dr Poll is a competent person as defined in the 2004 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Dr Poll consents to the inclusion of the matters based on his information in the form and context in which it appears.</p> |
|---|

Appendix 5B

Mining exploration entity quarterly report

Introduced 1/7/96. Origin: Appendix 8. Amended 1/7/97, 1/7/98, 30/9/2001.

Name of entity

OTTO ENERGY LIMITED

ABN

56 107 555 046

Quarter ended ("current quarter")

31 December 2007

Consolidated statement of cash flows

| | Current quarter \$A'000 | Year to date \$A'000 |
|---|----------------------------|-------------------------|
| Cash flows related to operating activities | | |
| 1.1 Receipts from product sales and related debtors | - | - |
| 1.2 Payments for | | |
| (a) exploration and evaluation | (1,009) | (9,881) |
| (b) development | - | - |
| (c) production – Bareboat Charter Payment | - | - |
| (d) administration | (1,301) | (2,294) |
| 1.3 Dividends received | - | - |
| 1.4 Interest and other items of a similar nature received | 157 | 199 |
| 1.5 Interest and other costs of finance paid | - | - |
| 1.6 Income taxes paid - Turkey | (583) | (583) |
| 1.7 Other –Sale of Turkish licences, net of VAT Other | - | 5,520 |
| Net Operating Cash Flows | (2,736) | (7,039) |
| Cash flows related to investing activities | | |
| 1.8 Payment for purchases of: | | |
| (a)prospects | - | - |
| (b)equity investments | (58,516) | (58,516) |
| (c) other fixed assets | (7) | (45) |
| 1.9 Proceeds from sale of: | | |
| (a)prospects | - | - |
| (b)equity investments | - | - |
| (c)other fixed assets | - | - |
| 1.10 Loans to other entities | - | - |
| 1.11 Loans repaid by other entities | - | - |
| 1.12 Other (Cash on acquisition of subsidiary) | - | - |
| Net investing cash flows | (58,523) | (58,561) |
| 1.13 Total operating and investing cash flows (carried forward) | (61,259) | (65,600) |

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

| | | | |
|------|--|---------------|---------------|
| 1.13 | Total operating and investing cash flows (brought forward) | (61,259) | (65,600) |
| | Cash flows related to financing activities | | |
| 1.14 | Proceeds from issues of shares, options, etc. | 68,054 | 79,088 |
| 1.15 | Proceeds from sale of forfeited shares | - | - |
| 1.16 | Proceeds from borrowings | - | - |
| 1.17 | Repayment of borrowings | - | - |
| 1.18 | Dividends paid | - | - |
| 1.19 | Costs associated with issue of shares | (2,710) | (3,333) |
| | Net financing cash flows | 65,344 | 75,755 |
| | Net increase (decrease) in cash held | 4,085 | 10,155 |
| 1.20 | Cash at beginning of quarter/year to date | 11,261 | 5,191 |
| 1.21 | Exchange rate adjustments to item 1.20 | 56 | 56 |
| 1.22 | Cash at end of quarter | 15,402 | 15,402 |

Payments to directors of the entity and associates of the directors

Payments to related entities of the entity and associates of the related entities

| | | Current quarter \$A'000 |
|------|--|----------------------------|
| 1.23 | Aggregate amount of payments to the parties included in item 1.2 and 1.7 | 339 |
| 1.24 | Aggregate amount of loans to the parties included in item 1.10 | - |

1.25 Explanation necessary for an understanding of the transactions

| | |
|--|-----|
| Payment of Consultancy to the Executive Director | 41 |
| Payments of Directors Fees | 52 |
| Payments to Director Related Companies (note 1) | 246 |
| 1. Includes capital raising fees during the quarter. | |

Non-cash financing and investing activities

- 2.1 Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows

Nil

- 2.2 Details of outlays made by other entities to establish or increase their share in projects in which the reporting entity has an interest

Nil

+ See chapter 19 for defined terms.

Financing facilities available

Add notes as necessary for an understanding of the position.

| | Amount available \$A'000 | Amount used \$A'000 |
|---------------------------------|-----------------------------|------------------------|
| 3.1 Loan facilities | Nil | Nil |
| 3.2 Credit standby arrangements | Nil | Nil |

Estimated cash outflows for next quarter

| | \$A'000 |
|--------------------------------|--------------|
| 4.1 Exploration and evaluation | 5,500 |
| 4.2 Development | 400 |
| Total | 5,900 |

Reconciliation of cash

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.

| | Current quarter \$A'000 | Previous quarter \$A'000 |
|--|----------------------------|-----------------------------|
| 5.1 Cash on hand and at bank | 12,529 | 7,708 |
| 5.2 Deposits at call | 2,873 | 3,553 |
| 5.3 Bank overdraft | - | - |
| 5.4 Other – Term Deposit | - | - |
| Total: cash at end of quarter (item 1.22) | 15,402 | 11,261 |

Changes in interests in mining tenements

| | Tenement reference | Nature of interest (note (2)) | Interest at beginning of quarter | Interest at end of quarter |
|-----|---|----------------------------------|--|----------------------------------|
| 6.1 | Interests in mining tenements relinquished, reduced or lapsed | Nil | None | |
| 6.2 | Interests in mining tenements acquired or increased | SC14 Galoc | Indirect Working Interest | - |
| | | | | 18.28% |

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

Issued and quoted securities at end of current quarter

Description includes rate of interest and any redemption or conversion rights together with prices and dates.

| | Total number | Number quoted | Issue price per security (see note 3) (cents) | Amount paid up per security (see note 3) (cents) |
|--|--|--|---|--|
| 7.1 Preference securities <i>(description)</i> | Nil | Nil | | |
| 7.2 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions | Nil | Nil | | |
| 7.3 +Ordinary securities | 438,812,325 | 438,812,325 | | |
| 7.4 Changes during quarter (a) - Increases through issues (b) Decreases through returns of capital, buy-backs | 226,000,000 1,000,000 2,000,000 Nil | 226,000,000 1,000,000 2,000,000 Nil | \$0.30 \$0.25 Implied price \$0.30 | \$0.30 \$0.25 Implied price \$0.30 |
| 7.5 +Convertible debt securities <i>(description)</i> | Nil | Nil | | |
| 7.6 Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted | Nil | Nil | | |

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

| | | | | | |
|------|--|------------------------|-----|--|---|
| 7.7 | Options <i>(description and conversion factor)</i> | 28,700,000 Unlisted | Nil | 4,483,400 Exercise Price 20 cents | On or before 29 May 2011 |
| | | | | 4,483,300 Exercise Price 30 cents | On or before 29 May 2011 |
| | | | | 3,483,300 Exercise Price 40 cents | On or before 29 May 2011 |
| | | | | 8,000,000 Exercise Price 34 cents | On or before 30 Nov 2009 |
| | | | | 8,250,000 Exercise Price 30 cents | On or before 17 Dec 2010 |
| 7.8 | Issued during quarter | 16,250,000 | Nil | 8,000,000 Exercise Price 34 cents | On or before 30 Nov 2009 |
| | | | | 8,250,000 Exercise Price 30 cents | On or before 17 Dec 2010 |
| 7.9 | Exercised during quarter | 1,000,000 | Nil | Exercise Price 25 cents | On or before 01 Dec 2007 |
| 7.10 | Expired during quarter | 1,000,000 | Nil | Exercise Price 30 cents | On or before 01 Dec 2007 |
| 7.11 | Debentures <i>(totals only)</i> | Nil | Nil | | |
| 7.12 | Unsecured notes <i>(totals only)</i> | Nil | Nil | | |
| | Performance Based Shares | 2,500,000 | Nil | 2,500,000 Issue Price \$0.0001 cents | 2,500,000 issue Price \$0.0001 cents |
| | Changes during quarter (a) Increases | Nil | Nil | | |

Compliance statement

- 1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act or other standards acceptable to ASX (see note 4).
- 2 This statement does give a true and fair view of the matters disclosed.

Alex Parks
Chief Executive Officer
31 January 2008

+ See chapter 19 for defined terms.

Notes

- 1 The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.
- 2 The "Nature of interest" (items 6.1 and 6.2) includes options in respect of interests in mining tenements acquired, exercised or lapsed during the reporting period. If the entity is involved in a joint venture agreement and there are conditions precedent which will change its percentage interest in a mining tenement, it should disclose the change of percentage interest and conditions precedent in the list required for items 6.1 and 6.2.
- 3 **Issued and quoted securities** The issue price and amount paid up is not required in items 7.1 and 7.3 for fully paid securities.
- 4 The definitions in, and provisions of, *AASB 1022: Accounting for Extractive Industries* and *AASB 1026: Statement of Cash Flows* apply to this report.
- 5 **Accounting Standards** ASX will accept, for example, the use of International Accounting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.

== == == == ==