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29 October 2008

## OTTO ENERGY QUARTERLY REPORT FOR THE PERIOD ENDED 30 SEPTEMBER 2008

### Highlights

- Galoc Oil Field commissioned and production from both wells has commenced.
- Expressions of interest have been received for farm-out of Philippines acreage; bid review and negotiations are underway.
- Turkey Erdine Gas Project field development progressing with Front End Engineering and Design; first gas expected mid-2009.
- Confirmed exploration schedule for Gazatta-1 well in Italy, to begin drilling in Q1 2009.
- Exploration work program for drilling in Argentina underway with expected spud date by mid 2009.

CEO of Otto Energy, Mr Alex Parks said, "Otto Energy had another very busy quarter as we gear up for an active exploration program to commence in the New Year. Most notably the commencement of production at Galoc Oil Field was a milestone for the company transforming us from pure explorer to explorer/producer. We look forward to the first crude cargo in the coming month and the subsequent revenue generated for Otto to pursue its growth strategy through the drill bit."

Yours faithfully,



**Alex Parks**  
 Chief Executive Officer

### Otto Energy at a Glance

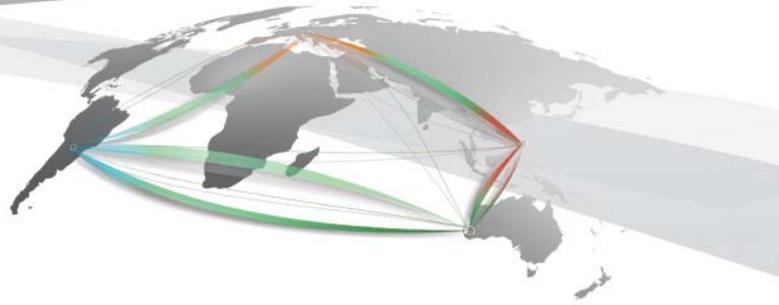
- ASX-listed oil and gas company with significant growth potential
- Strong Board & Management team
- World class projects across 4 countries
- Galoc Oil Field production to provide income for future exploration
- Opportunity rich with 8 discoveries, 20+ prospects, and over 60 leads
- Series of upcoming events including farm-outs and drilling, which offer significant value creation potential for investors

### CAPITAL STRUCTURE

ASX CODE	OEL
Shares on issue	492,673,863 plus 43.5M unlisted ops
Share Price	16.5c - 53c
Year Low-High	
Top 20	Own 65%

### BOARD OF DIRECTORS

Rick Crabb	Chairman
Jaap Poll	Non exec Dir
Ian Macliver	Non exec Dir
Rufino Bomasang	Non exec Dir
John Jetter	Non exec Dir
Alex Parks	CEO
Emma McCormack	Comp Secretary



## OPERATIONS SUMMARY

### PHILIPPINES

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

#### **SC14C – Galoc Oil Field (Otto 18.28% indirect interest)**

The Galoc Oil Field is located in Service Contract 14C, offshore northwest Palawan, Philippines in a proven oil and gas fairway. Water depth is approximately 290 metres (m). Otto has a 31.38% shareholding in GPC, which holds a 58.29% working interest in the field. This gives Otto an 18.28% indirect interest in the Galoc oil field.

During the Quarter, additional activities were undertaken by the Operator and its FPSO Contractor, Rubicon (Rubicon Offshore Inc "ROI") crew to repair the mooring and riser system which had been damaged as a result of an emergency disconnect during Typhoon Fengshen prior to the commissioning of the field. A new retrieval line and new riser section was mobilised to the field from Singapore and field work concentrated on repair of the riser.

A number of tropical storms and typhoons continued to pass through the region, causing further delays to completing the work. During commissioning corrosion was identified in several fittings in a subsea component and this component was brought to the surface for repairs. Additional support vessels were mobilised to assist with the repairs, including the CSO Venturer, which arrived at the Galoc Field on 26 September 2008, and subsequently completed the reinstallation of the subsea components.

Function testing of the umbilical and wellhead valves was also undertaken as part of the integrity and systems safety check prior to production commencing on 9 October 2008.

Both wells, Galoc-3 and Galoc-4, have now been in production for over 18 days. Overall field performance is consistent with expectations and following some initial testing the field is currently producing within a range of 15,000 – 18,000 barrels per day (bpd). To-date, over 185,000 barrels have been produced from the field.

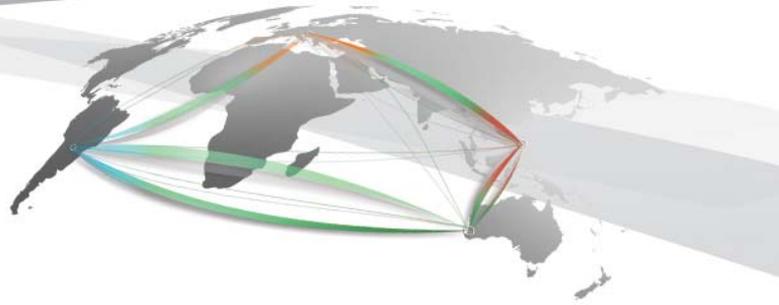
#### **SC50 - (Otto beneficial interest 99%)**

Service Contract 50 is situated in the northwest of the oil and gas prolific Palawan Basin. Water depths range from 50m to 150m. The Contract Area contains the Calautit and Calautit South oil fields, which were discovered in 1991/92.

Fugro completed a pre-drill geotechnical site survey over the Calautit field during August 2008. A preliminary appraisal phase drilling program has been prepared with long lead items, equipment delivery times, equipment lists and costings identified. Tenders for long lead items were issued with the objective of procuring the equipment for a 2009 drilling campaign, and the Company continues to monitor the market for available rigs.

#### **SC51 (Otto 80%) and SC69 (Otto 70%)**

Service Contract 51 consists of two sub-blocks over the East Visayan Basin. It is an exciting exploration block in ~300m of water with two "ready to drill" prospects that are de-risked by Direct Hydrocarbon Indicators (DHI's) on seismic and new 3D seismic data completed by Otto in 2007. A preliminary drilling program has been prepared for the Argao-1 prospect in the SC51 south block, with long lead items, equipment lists, timeframes and costings identified. The Company continues to monitor the market for available rigs and tenders for long lead items were distributed with the



objective of procuring the equipment for drilling in 2009.

Fugro completed a pre-drill geotechnical site survey in October 2008. Environmental baseline work will be completed prior to drilling. In cooperation with the Philippines Department of Energy the Information, Education and Communication program in the Cebu/Bohol Strait region is ongoing in the lead up to drilling, which is anticipated in 2009.

Service Contract 69 is an offshore block that is adjacent and between the north and south blocks of SC51. The area has potential for both oil and gas accumulations. Currently all available data is being collated for SC69 to assess the prospectivity of the area. Otto's interpretation of technical work by previous explorers led to over 20 leads being identified. The Company intends to add more value to the block through geotechnical work and possibly further seismic before moving to the drilling phase.

### **SC55 (Otto 85%) - Deepwater Exploration Block, Southwest Palawan**

Service Contract 55 is a deep-water block offshore Palawan situated along a highly prospective regional trend approximately half-way between the giant discoveries offshore Sabah to the south and the Philippine production assets to the north.

Geotechnical studies were undertaken during the Quarter. Large carbonate platform and reefal structures have been delineated that provide potential for multi-Tcf gas discoveries. Additional potential exists in Miocene turbidites which have been successful exploration targets offshore Borneo. Future work will be focused on preparation for deep-water drilling.

### **Philippines Farm-Out Update**

Having completed the interpretation of seismic data acquired in 2007, Otto announced in July 2008 that it would seek farm-in partners for a drilling program in blocks SC50, SC51 and SC55. Otto has received farm-in offers and is currently evaluating these with the aim to conclude a farm-in agreement before year-end.

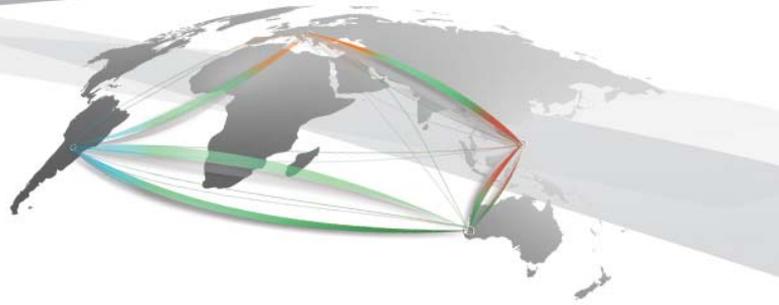
## **TURKEY**

### **Edirne Licence (Otto 35%)**

Following the successful drilling campaign that was completed in June 2008, the Operator's parent company Incremental Petroleum (ASX: IPM), has commenced Front End Engineering and Design (FEED) for the development of the Edirne gas project. The Joint Venture anticipates gross production of up to 10MMscf/d with additional tie-in of further discoveries to maintain a stable rate over a number of years.

During the Quarter, the Turkish Energy Market Regulatory Authority advised that the Operator, on behalf of the Joint Venture, has fulfilled all of the requirements necessary to be granted a wholesale gas licence. The Operator expects first gas in mid 2009.

There was no exploration activity undertaken during the Quarter on the Catalca and Ortakoy licences (Otto interest is 20% in each).



## ITALY

### **Cento-Bastiglia Exploration Permits (Otto earning 50%)**

The field operator, Ascent Resources Plc (AIM: AST) continues planning for the drilling of the Gazzata-1 well in Italy in the first Quarter of 2009. The Gazzata-1 well is to be drilled utilising the new Perazzoli Drilling HH-200 drilling rig. Otto is earning a 50% working interest via the funding of the Gazzata-1 well and a second well should Gazzata-1 be a significant discovery. Gazzata-1 targets prospective gas resources of over 100 Bscf.

## ARGENTINA

### **Santa Rosa Licence (Otto initially earning 32.48%)**

An "Evaluation of Prospective Resources" report on the Santa Rosa Exploration Permit located in the Cuyana Basin in the Province of Mendoza, Argentina, was released by the field Operator, Oromin Explorations Limited (TSX: OLE) in July 2008.

The independent report concluded that the unrisks probabilistic oil resource potential for the Santa Rosa dome ranges from 45 million barrels to 380 million barrels of oil and set out 131.5 million barrels of oil as the most likely unrisks recoverable resource on the prospect. Environmental permitting is underway and a preliminary drilling program is being prepared with a view to commence drilling in the first half of 2009.

## CORPORATE

In August 2008, Otto Energy negotiated to buy back a 5% gross overriding royalty over future potential production revenues generated from its petroleum interest in SC50, SC51 and SC55 in the Philippines. The royalty was held by Middle East Petroleum Services Limited (MEPS). MEPS is a privately-held company that originally negotiated the farm-in deal that Otto accepted upon entry into the Philippines licences in 2005.

Otto has issued MEPS 15 million shares (of which 9 million are escrowed for 12 months) in consideration for the royalty. Otto will also pay MEPS a production bonus of US\$1 million for SC50, and US\$1.5 million each for SC51 and SC55, should the blocks produce 1.5 million barrels of oil equivalent during the term of Otto's licences. Otto believes the prospectivity of these blocks is such that the buyback represents good value to the Company and also now leaves the projects unencumbered for farm-out negotiations.

The number of shares on issue now stands at 492,673,863 with approximately 43,500,000 unlisted options.

The annual report and Notice of Meeting was lodged on the ASX on 22 October 2008. The Annual General Meeting will be held at 2:30pm at the UWA Club in Perth, Western Australia, on 27 November 2008.

# 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")

30 September 2008

### Consolidated statement of cash flows

	Current quarter \$A'000	Year to date \$A'000
<b>Cash flows related to operating activities</b>		
1.1 Receipts from product sales and related debtors	-	-
1.2 Payments for		
(a) exploration and evaluation	(3,510)	(3,510)
(b) development	-	-
(c) production – Bareboat Charter Payment	-	-
(d) administration	(1,661)	(1,661)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	215	215
1.5 Interest and other costs of finance paid	(3)	(3)
1.6 Income taxes paid - Turkey	(2)	(2)
1.7 Other – Bareboat Charter Deposit Refunded	1,566	1,566
<b>Net Operating Cash Flows</b>	<b>(3,396)</b>	<b>(3,396)</b>
<b>Cash flows related to investing activities</b>		
1.8 Payment for purchases of:		
(a) prospectus	-	-
(b) equity investments	-	-
(c) other fixed assets	(145)	(145)
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 – Loans to associated entities	(3,653)	(3,653)
<b>Net investing cash flows</b>	<b>(3,798)</b>	<b>(3,798)</b>
1.13 Total operating and investing cash flows (carried forward)	<b>(7,194)</b>	<b>(7,194)</b>

+ See chapter 19 for defined terms.

**Appendix 5B**  
**Mining exploration entity quarterly report**

1.13	Total operating and investing cash flows (brought forward)	(7,194)	(7,194)
	<b>Cash flows related to financing activities</b>		
1.14	Proceeds from issues of shares, options, etc.	9,302	9,302
1.15	Proceeds from sale of forfeited shares	-	-
1.16	Proceeds from borrowings	-	-
1.17	Repayment of borrowings	(3)	(3)
1.18	Dividends paid	-	-
1.19	Costs associated with issue of shares	(120)	(120)
	<b>Net financing cash flows</b>	9,179	9,179
	<b>Net increase (decrease) in cash held</b>	1,985	1,985
1.20	Cash at beginning of quarter/year to date	5,034	5,034
1.21	Exchange rate adjustments to item 1.20	478	478
1.22	<b>Cash at end of quarter</b>	7,497	7,497

**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	141
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	55
Payments of Directors Fees	32
Payments to Director Related Companies	54

**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	-
3.2 Credit standby arrangements	Nil	-

### Estimated cash outflows for next quarter

	\$A'000
4.1 Exploration and evaluation	3,500
4.2 Development	1,800
<b>Total</b>	<b>5,300</b>

### 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	6,286	3,348
5.2 Deposits at call	1,211	1,685
5.3 Bank overdraft	-	-
5.4 Other – Term Deposit	-	-
<b>Total: cash at end of quarter</b> (item 1.22)	<b>7,497</b>	<b>5,033</b>

### 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	Nil	None	

+ 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 <b>Preference + securities</b> <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 <b>+Ordinary securities</b>	477,673,863	477,673,863		
7.4 Changes during quarter (a) - Increases through issues	1,019,231	1,019,231		
(b) Decreases through returns of capital, buy-backs	Nil	Nil		
7.5 <b>+Convertible debt securities</b> <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	<b>Options</b> <i>(description and conversion factor)</i>	43,500,000 Unlisted	Nil	4,083,400 Exercise Price 20 cents  4,333,300 Exercise Price 30 cents  3,333,300 Exercise Price 40 cents  8,000,000 Exercise Price 34 cents  8,250,000 Exercise Price 30 cents  11,000,000 Exercise Price 30 cents  2,000,000 Exercise Price 35 cents  2,500,000 Exercise Price 60 cents	On or before 29 May 2011  On or before 29 May 2011  On or before 29 May 2011  On or before 30 Nov 2009  On or before 17 Dec 2010  On or before 25 Jan 2011  On or before 10 Apr 2012  On or before 01 Aug 2012
7.8	Issued during quarter	2,500,000	Nil	2,500,000 Exercise Price 60 cents	On or before 01 Aug 2012
7.9	Exercised during quarter	250,000	Nil	250,000 Exercise Price 20 cents	On or before 29 May 2011
7.10	Expired during quarter	Nil	Nil		
7.11	<b>Debentures</b> <i>(totals only)</i>	Nil	Nil		
7.12	<b>Unsecured notes</b> <i>(totals only)</i>	Nil	Nil		
	<b>Performance Based Shares</b>	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		

+ See chapter 19 for defined terms.

## **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  
29 October 2008

## 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.

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