

**OTTO ENERGY LIMITED
AND CONTROLLED ENTITIES**

ABN 56 107 555 046

**INTERIM REPORT
FOR THE HALF YEAR ENDED
31 DECEMBER 2009**

CONTENTS

DIRECTORS' REPORT	1
AUDITOR'S INDEPENDENCE DECLARATION.....	3
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME	4
CONSOLIDATED STATEMENT OF FINANCIAL POSITION	5
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY	6
CONSOLIDATED STATEMENT OF CASH FLOWS	8
NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS	9
DIRECTORS' DECLARATION	16
AUDITOR'S INDEPENDENT REVIEW REPORT	17

CORPORATE DIRECTORY

Directors

Mr Rick Crabb – Non Executive Chairman
Mr Rufino Bomasang – Non Executive Director
Mr John Jetter – Non Executive Director
Mr Ian Macliver – Non Executive Director
Dr Jaap Poll – Non Executive Director
Mr John Zadnik – Alternate Director for Mr Rick Crabb

Company Secretary

Ms Emma McCormack

Executive Management

Mr Paul Moore – Chief Executive Officer
Mr Craig Martin – Chief Operating Officer
Mr Matthew Allen – Chief Financial Officer

Registered Office

945 Wellington Street
West Perth WA 6005
Tel: +61 8 9322 7600
Fax: +61 8 9322 7602

Head Office

32 Delhi Street
West Perth WA 6005
Tel: +61 8 6467 8800
Fax: +61 8 6467 8801

Website

www.ottoenergy.com

Auditor

BDO Audit (WA) Pty Ltd
38 Station Street
Subiaco WA 6008
Tel: +61 8 6382 4600
Fax: +61 8 6382 4601

Share Registry

Computershare Investor Services Pty Ltd
Level 2, Reserve Bank Building
2 The Esplanade
Perth WA 6000
Tel: +61 8 9323 2000
Fax :+61 8 9323 2033

Home Stock Exchange

Australian Securities Exchange
Level 2, Exchange Plaza
2 The Esplanade
Perth WA 6000
ASX Code: OEL

DIRECTORS' REPORT

Your directors present their report together with the consolidated financial report of Otto Energy Ltd ("Otto" or the "Company") and of the consolidated entities (the "Group") for the six months ended 31 December 2009 and the review report thereon.

DIRECTORS

The directors of the Company at any time during or since the end of the interim period are detailed below. All directors were in office for this entire period.

Name	Period of Directorship
Non-Executive	
Mr Rick Crabb (Chairperson)	Director since 2004
Mr Rufino Bomasang	Director since 2006
Mr John Jetter	Director since 2007
Mr Ian Macliver	Director since 2004
Dr Jaap Poll	Directors since 2004
Mr John Zadnik (Alternate for Mr Rick Crabb)	Alternate Director since 2004

REVIEW OF OPERATIONS

Financial Performance

The Group incurred a consolidated loss after income tax of \$3,527,469 for the half year (31 December 2008: loss of \$4,804,490). The loss is mainly due to expensed exploration, employee benefits expense and non capitalised general and administration costs. Cash and cash equivalents held by the Group increased in the half year by \$5,985,691 to \$18,225,111 (31 December 2008: cash and cash equivalents of \$ 7,522,506). The net increase in cash and cash equivalents held is mainly due to payments of \$14,764,785 (US\$13.1 million) received in the half year by the Group from Galoc Production Company (GPC).

The directors recommend that no dividend be paid for the half year and no amount has been paid or declared in prior financial periods.

Operations

Otto Energy is a listed company with a diversified portfolio of interests in the Philippines, Turkey and Italy. The Company's achievements in the six months were:

- Production of 1,294,990 bbls of crude oil (gross) achieved by the Galoc Oil Field. Four offtakes delivered to customers. Payments of \$14,764,785 (US\$13.1 million) received by the Group from GPC after deduction of operating/lifting costs
- Gas Sales Agreement signed with AKSA Dogalgaz Toptan Satis A.S (AKSA) of Turkey for the sale of all gas produced from the Edirne Licence
- 600 km² 3D seismic acquisition completed in Service Contract (SC) 55 satisfying the current sub-phase work programme commitments
- Otto withdrew from the Santa Rosa block in Argentina, relinquishing its 32.48% shareholding in Cynthia Holdings Ltd for consideration of \$1.

Further details can be obtained from ASX announcements available on the Otto website.

DIRECTORS' REPORT

EVENTS SUBSEQUENT TO REPORTING DATE

There have been no subsequent events.

AUDITORS INDEPENDENCE DECLARATION

The Lead Auditor's independence declaration under section 307C of the Corporations Act 2001 is set out on page 3 for the half year ended 31 December 2009.

This report is made in accordance with a resolution of the Board of Directors.

Director:


Ian Macliver

Dated this 15 March 2010

15 March 2010

The Directors
Otto Energy Limited
Level 1, 32 Delhi Street
WEST PERTH WA 6005

Dear Sirs,

DECLARATION OF INDEPENDENCE BY PETER TOLL TO THE DIRECTORS OF OTTO ENERGY LTD

As lead auditor of Otto Energy Ltd for the half-year ended 31 December 2009, I declare that to the best of my knowledge and belief, there have been:

- No contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the review; and
- No contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Otto Energy Limited and the entities it controlled during the period.



Peter Toll
Director



BDO Audit (WA) Pty Ltd
Perth, Western Australia

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE HALF YEAR ENDED

	31 December 2009	31 December 2008
	\$	\$
Continuing operations		
Revenue	204,334	161,433
Total revenue	204,334	161,433
Other income	8	565,381
Employee benefits expense	(1,905,261)	(1,562,763)
Depreciation expense	(90,532)	(82,640)
Exploration expenditure written off	(479,050)	(130,745)
Reversal of impairment of exploration expenditure	378,666	-
Share based payments expenses	(246,667)	(1,306,401)
Finance costs	6,419	(129,952)
Consultants expense	(267,226)	(190,723)
Corporate advisory expenses	(60,000)	(126,388)
Unrealised foreign exchange gain	3,168	45,535
Realised foreign exchange (loss) / gain	(708,067)	39,690
Other expenses	(770,209)	(1,731,312)
Results from operating activities	(3,573,378)	(4,963,028)
Profit/ (loss) before income tax	(3,369,044)	(4,801,595)
Income tax expense	(158,425)	(2,895)
Profit/ (loss) for the period attributable to owners of Otto Energy Limited	(3,527,469)	(4,804,490)
Other comprehensive income		
Foreign currency translation differences for foreign operations	(6,418,364)	33,975,764
Other comprehensive income for the period	(6,418,364)	33,975,764
Total comprehensive income for the period attributable to owners of Otto Energy Limited	(9,945,833)	29,171,274
Earnings/ (loss) per share		
Basic earnings/ (loss) per share (cents per share)	(0.33)	(0.99)
Diluted earnings/ (loss) per share (cents per share)	N/A	N/A

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	31 December 2009 \$	30 June 2009 \$
CURRENT ASSETS			
Cash and cash equivalents		18,225,111	13,061,710
Trade and other receivables	8	497,323	707,061
Other current assets		41,391	55,788
TOTAL CURRENT ASSETS		18,763,825	13,824,559
NON-CURRENT ASSETS			
Trade and other receivables	8	21,521,432	39,737,289
Intangible asset	9	6,761,467	7,542,044
Property plant and equipment	10	332,368	378,962
Other non-current assets	11	47,267,262	44,798,882
Investments in Associate	12	-	-
TOTAL NON-CURRENT ASSETS		75,882,529	92,457,177
TOTAL ASSETS		94,646,354	106,281,736
CURRENT LIABILITIES			
Trade and other payables		4,415,120	6,376,233
Borrowings		7,789	6,527
TOTAL CURRENT LIABILITIES		4,422,909	6,382,760
NON-CURRENT LIABILITIES			
Trade and other payables		57,866	-
Provisions		50,127	55,915
TOTAL CURRENT LIABILITIES		107,993	55,915
TOTAL LIABILITIES		4,530,902	6,438,675
NET ASSETS		90,115,452	99,843,060
EQUITY			
Issued Capital	13	151,904,559	151,932,731
Other Reserves		14,521,743	20,693,710
Accumulated Losses		(76,310,850)	(72,783,381)
TOTAL EQUITY		90,115,452	99,843,060

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE HALF YEAR ENDED

	Issued Capital	Accumulated Losses	Foreign Currency Translation Reserve	Option Reserve	Share Based Payment Reserve	Total Equity
	\$	\$	\$	\$	\$	\$
At 1 July 2009	151,932,731	(72,783,381)	13,708,785	2,245,250	4,739,675	99,843,060
Total comprehensive income for the half year						
Profit or loss	-	(3,527,469)	-	-	-	(3,527,469)
Other comprehensive income						
Foreign currency translation differences	-	-	(6,418,634)	-	-	(6,418,364)
Total other comprehensive income	-	-	(6,418,634)	-	-	(6,418,364)
Total comprehensive for the half year	-	(3,527,469)	(6,418,634)	-	-	(9,945,833)
Transactions with owners in their capacity as owners						
Issued options during the period	-	-	-	-	246,667	246,667
Issued shares during the period	-	-	-	-	-	-
Transaction costs	(28,172)					(28,172)
At 31 December 2009	151,904,559	(76,310,850)	7,290,151	2,245,250	4,986,342	90,115,452

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE HALF YEAR ENDED

	Issued Capital	Accumulated Losses	Foreign Currency Translation Reserve	Option Reserve	Share Based Payment Reserve	Total Equity
	\$	\$		\$	\$	\$
At 1 July 2008	118,064,437	(15,434,604)	(1,185,698)	2,245,250	2,932,424	106,621,809
Total comprehensive income for the half year						
Profit or loss	-	(4,804,490)	-	-	-	(4,804,490)
Other comprehensive income						
Foreign currency translation differences	-	-	33,975,764	-	-	33,975,764
Total other comprehensive income	-	-	33,975,764	-	-	33,975,764
Total comprehensive for the half year	-	(4,804,490)	33,975,764	-	-	29,171,274
Transactions with owners in their capacity as owners						
Issued options during the period	-	-	-	-	1,317,789	1,317,789
Issued shares during the period	4,925,000	-	-	-	-	4,925,000
Transaction costs	(44,667)	-	-	-	-	(44,667)
At 31 December 2008	122,944,770	(20,239,094)	32,790,066	2,245,250	4,250,213	141,991,205

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE HALF YEAR ENDED

	Note	31 December 2009 \$	31 December 2008 \$
CASH FLOWS FROM OPERATING ACTIVITIES			
Payment to suppliers and employees		(3,729,102)	(3,370,271)
Payment for exploration and evaluation		(5,259,848)	(7,430,236)
Interest received		-	270,190
Interest and other costs of finance paid		(4,387)	(3,848)
Income tax paid		-	(2,895)
Other Income – Recharges		329,468	-
Other Income - Deposit refunded		-	1,566,000
Net cash (used in) operating activities		(8,663,869)	(8,971,060)
CASH FLOWS FROM INVESTING ACTIVITIES			
Payment for property, plant & equipment		(78,179)	(224,752)
Payments for purchase of subsidiaries		-	-
Other – Loans repaid by associated entities	8	14,764,785	-
Other- Loans to associated entities		-	(5,741,779)
Net cash provided by / (used in) investing activities		14,686,606	(5,966,531)
CASH FLOW FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		-	9,302,448
Payments for share issue costs		(28,172)	(134,191)
Proceeds from borrowings		-	7,168,012
Repayment of borrowings		(8,874)	(6,719)
Net cash provided by / (used in) financing activities		(37,046)	16,329,550
Net increase in cash held		5,985,691	1,391,959
Cash at 1 July		13,061,710	5,033,863
Net exchange movement on cash		(822,290)	1,096,684
Cash at 31 December		18,225,111	7,522,506

The accompanying notes form part of these financial statements.

Non Cash Financing and Investing Activities

There are no non cash financing and investing activities.

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1. Reporting entity

Otto Energy Limited (the "Company") is a company domiciled in Australia. The consolidated half year financial statements of the Company as at and for the six months ended 31 December 2009 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interests in associates and jointly controlled entities.

The consolidated financial statements of the Group as at and for the year ended 30 June 2009 are available at www.ottoenergy.com.

2. Statement of compliance

These consolidated interim financial statements have been prepared in accordance with Accounting Standard 134 *Interim Financial Reporting*. They do not include all of the information required for full annual financial statements, and should be read in conjunction with the consolidated financial statements of the Group as at and for the year ended 30 June 2009.

These consolidated interim financial statements were approved by the Board of Directors on the 15 March 2010.

3. Significant Accounting policies

The accounting policies applied by the Group in these consolidated half year financial statements are the same as those applied by the Group in its consolidated financial statements as at and for the year ended 30 June 2009, except as follows:

Determination and presentation of operating segments

As of 1 July 2009 Otto determined and presented operating segments based on the information that internally is provided to the Board of Directors, which is the chief operating decision maker. This change in accounting policy is due to the adoption of AASB 8 Operating Segments. Previously operating segments were determined and presented in accordance with AASB 114 Segment Reporting. The new accounting policy in respect of segment operating disclosures is presented as follows.

Otto concluded that the operating segments determined in accordance with AASB 8 are geographically focused being Turkey, Philippines, Italy and Australia.

An operating segment is a component of Otto that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of Otto's other components. An operating segment's operating results are reviewed regularly by the Board to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available. Since the changes in accounting policy only impacts presentation and disclosure aspects, there is no impact on earnings per share.

Comparative segment information has been re-presented in conformity with the transitional requirements of AASB 8.

Presentation of financial statements

Otto applied revised AASB 101 Presentation of Financial Statements, which became effective for annual reporting periods beginning on or after 1 January 2009. As a result, Otto presents in the consolidated statement of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the consolidated statement of comprehensive income. This presentation has been applied in these consolidated half year financial statements as of and for the six months ended 31 December 2009. Comparative information has been re-presented so that it also is in conformity with the revised standard.

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

4. Estimates

The preparation of half year financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. There has been no significant or material estimates and judgements used in the preparation of these half year financial statements except for share based assumptions which are set out at note 14.

5. Financial risk management

The Group's financial risk management and objectives and policies are consistent with those disclosed in the consolidated financial statements as at and for the year ended 30 June 2009.

6. Segment Information

The Company operates wholly within the oil and gas sector and has 4 reportable segments, which are the Group's strategic geographical focus business units. These business units are managed separately and reported to management on this basis.

Geographical Segments

	Australia \$	Turkey \$	Philippines \$	Italy \$	Unallocated \$	Consolidated \$
Half year ended 31 December 2009						
Revenue						
Interest Revenue	-	-	565,381	-	204,334	769,715
Results						
Segment Results	<u>(2,693,697)</u>	<u>(62,209)</u>	<u>70,149</u>	<u>378,666</u>	<u>(1,220,378)</u>	<u>(3,527,469)</u>

Half year ended 31 December 2008

Revenue

Interest Revenue	-	-	301,790	-	72,314	374,104
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Results

Segment Results	<u>(4,184,834)</u>	<u>(253,500)</u>	<u>(438,470)</u>	<u>-</u>	<u>72,314</u>	<u>(4,804,490)</u>
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Geographical Segments

	Australia \$	Turkey \$	Philippines \$	Italy \$	Unallocated \$	Consolidated \$
As At 31 December 2009						
Total Assets	<u>474,424</u>	<u>11,353,212</u>	<u>64,593,503</u>	<u>104</u>	<u>18,225,111</u>	<u>94,646,354</u>
As At 30 June 2009						
Total Assets	<u>641,178</u>	<u>10,438,118</u>	<u>82,140,619</u>	<u>114</u>	<u>13,061,707</u>	<u>106,281,736</u>

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

7. Income tax expense

Income tax expense is recognised based on management's best estimate of the weighted average annual income tax rate expected for the full financial year applied to the pre-tax income of the half year period.

8. Trade and Other Receivables

	31 December 2009	30 June 2009
	\$	\$
Current		
Other Receivables	288,122	400,717
Employee Loan	104,131	100,854
Goods and services tax	105,070	205,490
	<u>497,323</u>	<u>707,061</u>
Non-Current		
Receivable from associates (i)	21,511,545	40,623,530
Less Provision for non recoverable	-	(896,761)
Other Receivables	9,887	10,520
	<u>21,521,432</u>	<u>39,737,289</u>

(i) Movement in Receivable from Associates between the beginning and the end of the current financial year.

	\$	\$
Balance at start of period	40,623,530	35,667,158
Accrued interest	565,381	1,489,603
Additional Shareholder Loan	-	7,673,377
Receipts from GPC	(14,764,785)	-
Foreign exchange movement	(4,912,581)	(4,206,608)
Carrying amount at end of period	<u>21,511,545</u>	<u>40,623,530</u>

Receivables from Associates are Shareholder Loans due from Galoc Production Company W.L.L ("GPC"). Funds were used in the construction of the Galoc Oil Project and are repayable from proceeds of crude oil sales with payments to Otto commencing in July 2009. The receivable attracts interest of 3% above LIBOR compounded quarterly and is repayable within five years from the date of the initial loan. During the six months ended 31 December 2009 the Group received receipts from GPC of \$14,764,785 (US\$13.1 million).

9. Intangible assets

Goodwill	Total \$
As At 31 December 2009	
Carrying amount at 1 July 2009	7,542,044
Foreign exchange movement	(780,577)
Carrying amount at 31 December 2009	<u>6,761,467</u>

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

9. Intangible assets (cont'd)

	Total \$
As At 30 June 2009	
Carrying amount at 1 July 2008	35,425,041
Impairment expense	(34,871,412)
Foreign exchange movement	6,988,415
Carrying amount at 30 June 2009	7,542,044

The goodwill represents intangible assets purchased through the effect of a business combination. The useful life of the goodwill was estimated as indefinite and the cost method was utilised for measurement. An impairment assessment was carried out at period end and no impairment loss was recognised.

10. Property, plant and equipment

During the six months ended 31 December 2009 the Group acquired assets with a cost of \$78,179 (six months ended 31 December 2008 \$157,141).

11. Oil and Gas Properties

	31 December 2009 \$	30 June 2009 \$
Oil and Gas Properties	47,267,262	44,798,882

Movement in the carrying amounts for exploration expenditure capitalised between the beginning and the end of the current financial year.

	\$	\$
Balance at start of period	44,798,882	31,821,586
Additions	5,512,895	18,524,826
Transfers to investments in associate	-	(2,266,679)
Impairment (expense) / reversal	378,666	(11,394,795)
Capitalised costs written off	(479,050)	(191,836)
Foreign exchange movement	(2,944,131)	8,305,780
Carrying amount at end of period	47,267,262	44,798,882

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

12. Investments in Associates

	31 December 2009 \$	30 June 2009 \$
a) Movements in carrying amounts		
Balance at start of period	-	-
Investment acquired	-	2,266,680
Revaluation	-	(2,266,680)
Share of profits/(losses) after income tax	-	-
Dividends received/receivable	-	-
Carrying amount at end of period	-	-

b) Summarised financial information of associates

The Group's share of the results of its principal associate and its aggregated assets (including goodwill) and liabilities are as follows:

	Ownership Interest %	Group's Share of:			
		Assets \$	Liabilities \$	Revenues \$	Accumulated Losses \$
31 December 2009					
Galoc Production Company W.L.L	31.38	26,746,843	24,026,739	52,150,999	4,031,974
Cynthia Holdings Limited *	-	-	-	-	-
30 June 2009					
Galoc Production Company W.L.L	31.38	39,938,750	33,585,027	1,304,918	107,106
Cynthia Holdings Limited	32.48	1,902,680	-	-	-

* The Company relinquished its 32.48% shareholding in Cynthia Holdings Limited during the half year period. This terminated Otto's interest in the Santa Rosa block.

	31 December 2009 \$	30 June 2009 \$
c) Fair value of investments in associate		
Galoc Production Company W.L.L	-	-
Cynthia Holdings Limited	-	-
d) Share of contingent liabilities of associates		
Galoc Production Company W.L.L	-	-
Cynthia Holdings Limited	-	-

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

13. Share Capital

Ordinary Shares	Half Year		Half Year	
	31 December	31 December	31 December	31 December
	2009	2008	2009	2008
	Number	Number	\$	\$
As At 1 July	1,070,184,721	476,654,632	151,932,731	118,064,437
Shares issued during the period				
Shares issued upon exercise of options	-	250,000	-	50,000
Shares issued through capital raising	-	15,769,231	-	4,875,000
Transaction costs			(28,172)	(44,667)
As At 31 December	1,070,184,721	492,673,863	151,904,559	122,944,770

No dividends were paid or declared during the period.

14. Share based payments

During the six month period ended on 31 December 2009 the Group issued the following options over unissued capital of the Company pursuant to the terms and conditions of the Employee Share Option Plan:

Grant date / employees entitled	Number of instruments	Exercise Price	Vesting Conditions	Contractual life of options
Options granted to key management personnel on 01 July 2009	7,500,000	\$0.12	Options will vest (and therefore become exercisable) on 1 July 2010	5 years
Options granted to key management personnel on 08 September 2009	6,000,000	\$0.12	Options will vest (and therefore become exercisable) on 8 September 2010	3 years

Fair value of options granted during the six month ended 31 December 2009 has been determined using the following assumptions;

Options	
Fair value at measurement date	\$0.02 to \$0.05
Share price	\$0.06 to \$0.07
Exercise price	\$0.12
Expected volatility	81.4%
Option life	3 to 5 years
Expected dividends	-
Risk-free interest rate	5.17% to 5.24%

The fair value of the options is calculated at the date of grant using the Black-Scholes Model

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

15. Contingent Liabilities and Commitments

Contingent Consideration Payable (Middle East Petroleum Services)

In 2008 the Company's shareholders approved an arrangement to buy back a 5% gross overriding royalty over the production revenues generated from its petroleum interests in SC50, SC51 and SC55 in the Philippines from Middle East Petroleum Services ("MEPS"). MEPS is a privately-held company that originally negotiated the farm in deal for Otto Energy in the Philippines acreage in 2005. As part of the farm-in agreement MEPS retained a 5% gross overriding royalty over NorAsian's share of the assets.

Under the buyback agreement, there is a contingent consideration component whereby 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 license.

In two separate share acquisition transactions in 2006 Otto Energy acquired 100% of the issued capital in unlisted NorAsian Energy Limited. The purchase price includes further shares in Otto Energy Limited in the event certain milestones are achieved, as follows:

- 2,000,000 shares on re-entry of the Calait 1B well.
- 5,000,000 shares when aggregate production from the Calait Licence area (SC 50) reaches 500,000 barrels of oil.
- 5,000,000 shares when aggregate production from the Calait Licence area (SC 50) reaches 1,000,000 barrels of oil.

16. Related Party Transactions

During the half-year period the company issued a total of 13,500,000 unlisted options to various executives of the company subject to the terms and conditions of the Employee Share Option Plan. All options are exercisable at 12 cents, with 7,500,000 options expiring on 30 June 2014 and 6,000,000 options expiring on 8 September 2012.

The Company entered into a new service agreement during the half year period and details are outlined below:

Mr Paul Moore, Chief Executive Officer – Employment Agreement

- Term of Agreement – The Agreement commenced on 01 July 2009 and continues until the Company gives 30 days written notice of termination (Employee to give 90 days) or is otherwise terminated in accordance with the Employment Agreement.
- Remuneration \$525,000 per annum inclusive of superannuation payable monthly.
- Payment of termination of Agreement without cause – 12 months remuneration.

All other arrangements with related parties continue to be in place. For details of these arrangements, refer to the consolidated annual financial statement of the Company as at and for the year ended 30 June 2009.

17. Events Subsequent to Reporting Date

There have been no subsequent events.

DIRECTORS' DECLARATION

The directors of the company declare that:

1. The financial statements and notes;
 - (a) Comply with the Accounting Standard AASB 134: Interim Financial Reporting and the Corporations Regulations; and
 - (b) Give a true and fair view of the consolidated entity's financial position as at 31 December 2009 and of its performance for the half-year ended on that date.
2. In the directors' opinion there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.
3. The directors have been given the declarations by the Chief Executive Officer and the Chief Financial Officer required by s295A.

This declaration is made in accordance with a resolution of the Board of Directors.

Director:



Ian Macliver

Dated this 15 March 2010

INDEPENDENT AUDITOR'S REVIEW REPORT TO THE MEMBERS OF OTTO ENERGY LTD

Matters Relating to the Electronic Presentation of the Half-Year Financial Report

This auditor's report relates to the half-year financial report of Otto Energy Limited for the period ended 31 December 2009 included on Otto Energy Limited's web site. The disclosing entity's directors are responsible for the integrity of Otto Energy Limited's web site. We have not been engaged to report on the integrity of Otto Energy Limited's web site. The auditor's review report refers only to the statements named below. It does not provide an opinion on any other information which may have been hyperlinked to/from these statements. If users of this half-year report are concerned with the inherent risks arising from electronic data communications, they are advised to refer to the hard copy of the reviewed half-year financial report to confirm the information included in the reviewed half-year financial report presented on this web site.

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Otto Energy Limited, which comprises the statement of financial position as at 31 December 2009, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, a statement of accounting policies, other selected explanatory notes and the directors' declaration of the consolidated entity comprising the disclosing entity and the entities it controlled at the half-year end or from time to time during the half-year.

Directors' Responsibility for the Half-Year Financial Report

The directors of the disclosing entity are responsible for the preparation and fair presentation of the half-year 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 half-year 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.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of an Interim and Other Financial Reports Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the disclosing entity's financial position as at 31 December 2009 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Otto Energy Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, 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 review report was made.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Otto Energy Limited is not in accordance with the *Corporations Act 2001* including:

- (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2009 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and Corporations Regulations 2001.

BDO Audit (WA) Pty Ltd



Peter Toll
Director

Signed in Perth, Western Australia
Dated this 15th day of March, 2010