



21 January 2010
Manager of Company Announcements
ASX Limited
Level 6, 20 Bridge Street
SYDNEY NSW 2000

By E-Lodgement

QUARTERLY REPORT FOR THE PERIOD ENDED 31 DECEMBER 2009

The quarter ended 31 December 2009 has seen Otto Energy Ltd ("Otto") make substantial progress in delivering shareholder value.

The Galoc oil field has now produced a total of 3.6 mmbbls of crude oil and delivered 10 offtakes to customers. The field continues to produce in line with expectations and Otto is working with the Operator to continue to improve facility performance and plan for the appraisal of the remainder of the field.

First production from the Edirne licence in Turkey is expected towards the end of the first quarter of 2010. The Edirne Joint Venture has secured a Gas Sales Agreement to sell all gas produced from the licence to AKSA.

Otto recently entered into a seismic acquisition and farm-in option agreement with BHP Billiton in Service Contract 55 in the Philippines. The commitment by BHP Billiton to fund between 1,000km² and 2,000km² of new 3D seismic will provide valuable exploration data and allow Otto to establish a comprehensive subsurface understanding of this highly prospective permit area. Otto is pleased to be working with BHP Billiton to acquire and process the additional 3D seismic and working towards securing a farm-in to the SC 55 permit.

The farm-out market for the Company's remaining Philippines permits continues to strengthen and Otto has received numerous expressions of interest in this acreage. Otto is confident that it will secure further farm-outs of our acreage in 2010.

The narrowing of our geographic focus has seen Otto exit the investment in the Santa Rosa block in Argentina. Continued review of existing assets to refine the geographic focus will occur in 2010.

Otto is debt free, has equity in one producing oil field with production expected from the Edirne gas field in the coming quarter. Otto has a significant interest in high potential Philippine acreage that is attracting attention from the farm-out market. 2010 holds significant promise for our shareholders.

Attached is Otto's Quarterly Report for the period ended 31 December 2009.

All enquiries are to be addressed to Matthew Allen, Chief Financial Officer on +61 8 6467 8800 or e-mail info@ottoenergy.com.

OTTO AT A GLANCE

- ASX-listed oil and gas company with significant growth potential.
- Production from Galoc Oil Field provides cash flow.
- Development of gas field in Turkey to become second revenue-generating asset.
- Opportunity rich with substantial exploration prospects and leads in portfolio.

COMPANY OFFICERS

Rick Crabb
Chairman

Jaap Poll
Non-exec Director

Ian Macliver
Non exec Director

Rufino Bomasang
Non exec Director

John Jetter
Non exec Director

Paul Moore
CEO

Matthew Allen
CFO

Emma McCormack
Company Secretary

**QUARTERLY ACTIVITIES REPORT
FOR THE QUARTER ENDED 31 DECEMBER 2009**

OPERATIONAL HIGHLIGHTS

Galoc Production

- Production of 747,767 bbls of crude oil (gross) achieved by the Galoc Oil Field. Two offtakes delivered to customers. Payments of US\$10.355m received by Otto from Galoc Production Company (GPC) after deduction of operating/lifting costs
- Seismic reprocessing completed. Development planning for potential Phase 2 infill wells be undertaken by Operator

Turkey Development

- 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
- Gas Gathering Agreement negotiations nearing completion with anticipated closure in Q1 2010 ahead of first production
- First gas to be delivered in towards the end of Q1 2010 from the Edirne Gas Plant

Exploration and Development

- Seismic acquisition and farm-in option agreement signed with BHP Billiton (BHPB) on 14 January 2010
- 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 nil consideration

FINANCIAL HIGHLIGHTS

| | | December 2009 Quarter | September 2009 Quarter | Movement | Change % |
|---|-------|--------------------------------------|---------------------------------------|-----------------|-----------------|
| Production (net to Otto) | bbl | 140,431 | 102,768 | 37,663 | 36.6% |
| Lifting's (net to Otto) ⁽¹⁾ | bbl | 129,327 | 101,252 | 28,075 | 27.7% |
| Receipts from GPC | US\$m | 10.355 | 2.793 | 7.562 | 270.7% |
| Outstanding GPC Receivable | US\$m | 19.311 | 29.468 | (10.157) | (34.7%) |
| Closing Cash Position | A\$m | 18.763 | 10.554 | 8.209 | 77.8% |
| Expenditure (excl GPC costs) ⁽²⁾ | A\$m | 2.308 | 6.681 | (4.373) | (34.5%) |

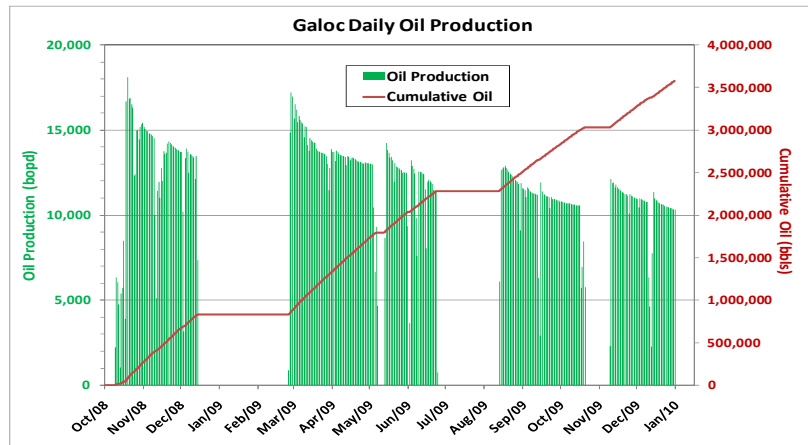
⁽¹⁾ Receipts from GPC are subject to timing and payment conditions on oil deliveries and may therefore not correspond to lifting's sold in the quarter

⁽²⁾ Expenditure is net of GPC costs. GPC costs are deducted prior to remitting funds Otto

PRODUCTION AND DEVELOPMENT ASSETS

GALOC OIL FIELD

- Service Contract 14C, Palawan Basin, Philippines
- OEL 18.78% Indirect Interest (Held via 31.38% interest in GPC which has a 59.84% interest in the Galoc Block SC14C)
- Operator: Galoc Production Company WLL (GPC)



Production:

- Continued high facility uptime was experienced in the December quarter (78%) despite an issue with the export hose in October 2009 that necessitated a temporary suspension of production.
- Production to date from the Galoc field is 3.6 mmbbl gross (0.67 mmbbl to Otto)

Offtakes:

- Two offtakes of Galoc crude oil were completed in the quarter with approximately 688,000 barrels (gross) being delivered to customers. The difference between offtake and production volumes represent movements in crude oil inventories on the Rubicon Intrepid FPSO (Floating Production Storage and Offtake) vessel at the end of the quarter

Phase 1 Facilities Upgrade Options:

- Otto continues to work with the Operator GPC to determine the most effective options to increase facility reliability and uptime

Phase 2:

- Seismic reprocessing was undertaken in the quarter by Operator. Planning has commenced for potential Phase 2 infill drilling

PRODUCTION AND DEVELOPMENT ASSETS (CONTINUED)

TURKEY

- *Edirne Licence, Thrace Basin*
- *OEL 35% Interest*
- *Joint Operators: Transatlantic Mediterranean Int. (55%) and Petraco (10%)*

Gas Sales Agreement

- 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. The agreement is for 5 years
- The gas produced by the EJV will be sold downstream of the gas plant at a 15% discount to the Industrial Interruptible Tariff benchmark set by BOTAS. Otto expects that the discounted gas price in the short to medium term will be between US\$7.00 to US\$8.00/ GJ. The discounted gas price will change over time reflecting amendments in the tariffs set by BOTAS.

Gas Gathering (Tolling) Agreement

- Otto has elected to not participate in the construction or ownership of the Gas Plant and is negotiating access with the Joint Operators (PEMI and Petraco) to process gas owned by Otto. This agreement is expected to be signed in Q1 2010
- First gas from the Edirne Gas Plant is expected to be delivered towards the end of Q1 2010

Exploration

- 3D seismic survey covering 100 km² completed by the Joint Operators
- Drilling of the Kumluk-1 exploration well commenced on 15 January 2010 with potential for up to 6 more exploration/appraisal wells to be completed in the current drilling programme.

| Well | Target | Working Interest (%) | Remarks |
|-------------|--------|----------------------|-------------|
| Kumluk-1 | Gas | 35.00 | Exploration |
| Kartal-1 | Gas | 35.00 | Exploration |
| Somurcali-1 | Gas | 35.00 | Exploration |
| Ortakci-2 | Gas | 35.00 | Exploration |
| Yolboyu-1 | Gas | 35.00 | Exploration |
| Bademlik-1 | Gas | 35.00 | Exploration |
| Ortakci-3 | Gas | 35.00 | Appraisal |

EXPLORATION ASSETS

PHILIPPINES

Service Contract 55

- *OEL 85% Interest and Operator*
- *Area 9,000 km²*
- *Work commitments in current sub-phase completed. Next sub-phase commences August 2010 and includes drilling of one deepwater exploration well by August 2011*

600km² 3D seismic program successfully completed covering the Hawkeye prospect in December 2009 and January 2010.

Otto has signed a Seismic Acquisition and Farm-in Option Agreement with BHPB. Under the agreement, Otto is required to secure seismic services providing for the commencement of the seismic acquisition. BHPB will fund the acquisition and processing of a minimum of 1,000 km² and up to 2,000 km² of 3D seismic in SC55. In consideration Otto has agreed to grant BHPB exclusivity to review the entire seismic data base and exercise an option to farm-in to SC55.

The farm in option provides BHPB with an exclusive right to elect to earn a 60% net participating interest in SC55 through funding the drilling of the two deepwater exploration wells and the reimbursement of Otto's past costs. BHPB will also be assigned operatorship in the event that it elects to farm in to SC55. If BHPB elects to drill only the first deepwater exploration well then BHPB will transfer back 30% interest and operatorship of SC55 to Otto.

Service Contract 50

- *OEL 85% Interest and Operator*
- *Area 1,280 km²*
- *Work commitment in the current sub-phase requires two wells in the Calait field by March 2011*

Several development concepts, including extended well tests, are being evaluated by Otto to develop the 1.50 mmbbl (1C Contingent Resource) to 15.00 mmbbl (3C Contingent Resource) Calait field. Ongoing activities include monitoring rig market and actively seeking partners to participate in this development.

Service Contract 51

- *OEL 80% Interest and Operator*
- *Area 3,320 km²*
- *Work commitment in the current sub-phase requires drilling of 1 Exploration well by December 2010*

SC51 contains the Argao prospect which is a drill-ready prospect. Otto is actively seeking partners to participate in drilling this prospect.

EXPLORATION ASSETS (CONTINUED)

PHILIPPINES (CONTINUED)

Service Contract 69

- OEL 70% Interest and Operator
- Area 7,040 km²
- Work commitment in the current sub-phase requires undertaking a 2D Seismic programme by November 2010

Otto is undertaking an Information and Education Campaign in the Visaya region of the Philippines ahead of a programme to gather approximately 980 line km's of 2D Seismic expected to commence in the first quarter of 2010. Contracting for service providers for this seismic survey is currently in progress.

ITALY

- Centro Bastiglia Permits, Po Valley
- OEL Earning 50% Interest
- Operator Ascent Resources Plc (50%)

Otto continues to evaluate the Centro Bastiglia permit to determine if it will participate in future exploration activities

ARGENTINA

- Santa Rosa Permit
- OEL 0% Interest; Non-operated

During the quarter, Otto relinquished its 32.48% shareholding in Cynthia Holdings Ltd. This terminates Otto's interest in the Santa Rosa block.

The Reserve and Contingent Resource estimates outlined in this announcement have been compiled by Mr Craig Martin. Mr Martin is the Chief Operating Officer of Otto and a full time employee. Mr Martin has more than 20 years of relevant experience and is qualified in accordance with ASX Listing Rule 5.11. Mr Martin has consented to the form and context that this statement appears.

CORPORATE

SHAREHOLDERS

Otto's issued capital as at 31 December 2009

| Class | Number |
|---------------------------------|---------------|
| Fully paid ordinary shares | 1,070,184,721 |
| Unlisted Options ¹ | 110,105,350 |
| Performance Shares ² | 2,500,000 |
| Converting Performance Shares | 4,000 |

1 Exercisable between 5 and 60 cents per share

2 Convert to 2.5m shares if Edirne gas sales occur prior to 30 June 2010

OTTO ENERGY LIMITED

ORDINARY SHARES (GROUPED) As of 31 Dec 2009

| Rank | Name | Units | % of Units |
|------|--|----------------------|----------------|
| 1 | MOLTON HOLDING LTD | 210,983,082 | 19.71% |
| 2 | SANTO HOLDING AG | 210,983,082 | 19.71% |
| 3 | ANZ NOMINEES LIMITED <CASH INCOME A/C> | 44,407,430 | 4.15% |
| 4 | CITICORP NOMINEES PTY LIMITED | 24,625,486 | 2.30% |
| 5 | CABLE NOMINEES PTY LTD | 19,666,934 | 1.84% |
| 6 | JOHN JETTER (CONSOLIDATED RELEVANT INTEREST) | 19,089,175 | 1.78% |
| 7 | RICK CRABB (CONSOLIDATED RELEVANT INTEREST) | 16,370,052 | 1.53% |
| 8 | JAAP POLL (CONSOLIDATED RELEVANT INTEREST) | 13,544,206 | 1.27% |
| 9 | YRS INVESTMENTS LIMITED | 13,520,833 | 1.26% |
| 10 | HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED | 11,503,710 | 1.07% |
| 11 | DALY FINANCE CORP | 8,150,000 | 0.76% |
| 12 | ESCOT FINANCE LTD | 8,150,000 | 0.76% |
| 13 | BERNE NO 132 NOMINEES PTY LTD <376804 A/C> | 8,000,000 | 0.75% |
| 14 | J P MORGAN NOMINEES AUSTRALIA LIMITED | 7,361,663 | 0.69% |
| 15 | IAN MACLIVER (CONSOLIDATED RELEVANT INTEREST) | 6,306,942 | 0.59% |
| 16 | JOHN ZADNIK (CONSOLIDATED RELEVANT INTEREST) | 6,132,747 | 0.57% |
| 17 | FORBAR CUSTODIANS LIMITED <FORSYTH BARR LTD-NOMINEE A/C> | 5,466,240 | 0.51% |
| 18 | NATIONAL NOMINEES LIMITED | 5,318,650 | 0.50% |
| 19 | MERRILL LYNCH (AUSTRALIA) NOMINEES PTY LIMITED | 5,248,108 | 0.49% |
| 20 | PAN AUSTRALIAN NOMINEES PTY LIMITED | 4,639,956 | 0.43% |
| | TOTAL TOP 20 SHAREHOLDERS | 649,468,296 | 60.69% |
| | OTHER SHAREHOLDERS | 420,716,425 | 39.31% |
| | TOTAL SHARES ON ISSUE | 1,070,184,721 | 100.00% |

ESTIMATED CASH OUTFLOWS

Otto's cash reserves at the end of the quarter were \$18.763m (30 September: \$10.554 million).

Expected cash outflows in the coming quarter are as follows:

| | March 2010 Quarter US\$m | December 2009 Quarter US\$m | September 2009 Quarter US\$m |
|----------------|--------------------------------|-----------------------------------|------------------------------------|
| Philippines | 6.2 | 0.1 | 0.5 |
| Turkey | 1.8 | 0.5 | 1.5 |
| Italy | 0.1 | 0.0 | 2.8 |
| Argentina | 0.0 | 0.1 | 0.0 |
| Administration | 1.2 | 1.5 | 1.9 |
| Total | 9.3 | 2.3 | 6.7 |

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 2009

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 | (472) | (5,260) |
| (b) development | - | - |
| (c) production | - | - |
| (d) administration | (1,836) | (3,729) |
| 1.3 Dividends received | - | - |
| 1.4 Interest and other items of a similar nature received | - | - |
| 1.5 Interest and other costs of finance paid | - | (4) |
| 1.6 Tax expenses | - | - |
| 1.7 Other – Recharge income | 158 | 329 |
| Net Operating Cash Flows | (2,150) | (8,664) |
| Cash flows related to investing activities | | |
| 1.8 Payment for purchases of: | | |
| (a) prospectus | - | - |
| (b) equity investments | - | - |
| (c) other fixed assets | (33) | (78) |
| 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 | 11,427 | 14,765 |
| 1.12 Other – Loans to associated entities | - | - |
| Net investing cash flows | 11,394 | 14,687 |
| 1.13 Total operating and investing cash flows (carried forward) | 9,244 | 6,023 |

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

| | | | |
|------|--|---------|--------|
| 1.13 | Total operating and investing cash flows (brought forward) | 9,244 | 6,023 |
| | Cash flows related to financing activities | | |
| 1.14 | Proceeds from issues of shares, options, etc. | - | - |
| 1.15 | Proceeds from sale of forfeited shares | - | - |
| 1.16 | Proceeds from borrowings | - | - |
| 1.17 | Repayment of borrowings | (4) | (9) |
| 1.18 | Loan to Employee | - | - |
| 1.19 | Costs associated with issue of shares | (20) | (29) |
| | Net financing cash flows | (24) | (37) |
| | Net increase (decrease) in cash held | 9,220 | 5,985 |
| 1.20 | Cash at beginning of quarter/year to date | 10,554 | 13,062 |
| 1.21 | Exchange rate adjustments to item 1.20 | (1,549) | (822) |
| 1.22 | Cash at end of quarter | 18,225 | 18,225 |

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 | 301 |
| 1.24 | Aggregate amount of loans to the parties included in item 1.10 | - |
| 1.25 | Explanation necessary for an understanding of the transactions | |
| | Payments of Directors Fees | 221 |
| | Payments to Director Related Companies | 80 |
| | | |

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

Estimated cash outflows for next quarter

| | | \$A'000 |
|--------------|----------------------------|--------------|
| 4.1 | Exploration and evaluation | 8,100 |
| 4.2 | Development | 1,200 |
| Total | | 9,300 |

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 | 17,781 | 10,079 |
| 5.2 | Deposits at call | - | - |
| 5.3 | Bank overdraft | - | - |
| 5.4 | Other – Term Deposit | 444 | 475 |
| Total: cash at end of quarter (item 1.22) | | 18,225 | 10,554 |

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 | 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 | 1,070,184,721 | 1,070,184,721 | | |
| 7.4 | Changes during quarter (a) - Increases through issues | Nil | Nil | | |
| | (b) Decreases through returns of capital, buy-backs | Nil | Nil | | |
| 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> | 110,105,350 Unlisted | Nil | 4,000,067 Exercise Price \$0.20 3,999,967 Exercise Price \$0.30 1,999,966 Exercise Price \$0.40 7,750,000 Exercise Price \$0.30 11,000,000 Exercise Price \$0.30 1,500,000 Exercise Price \$0.35 2,500,000 Exercise Price \$0.60 2,000,000 Exercise Price \$0.60 61,855,350 Exercise Price \$0.05 7,500,000 Exercise Price \$0.12 6,000,000 Exercise Price \$0.12 | On or before 29 May 2011 On or before 29 May 2011 On or before 29 May 2011 On or before 17 Dec 2010 On or before 25 Jan 2011 On or before 10 Apr 2012 On or before 01 Aug 2012 On or before 15 Dec 2010 On or before 3 July 2010 On or before 30 June 2014 On or before 08 September 2012 |
| 7.8 | Issued during quarter | Nil | Nil | | |
| 7.9 | Exercised during quarter | Nil | Nil | | |
| 7.10 | Expired during quarter | 8,000,000 Unlisted | Nil | Exercise Price \$0.34 | On or before 30 November 2009 |
| 7.11 | Debentures <i>(totals only)</i> | Nil | Nil | | |
| 7.12 | Unsecured notes <i>(totals only)</i> | Nil | Nil | | |
| | Performance Based Shares | 2,504,000 | Nil | 2,500,000 Issue Price \$0.0001 cents 4,000 Converting Performance Shares | 2,500,000 Issue Price \$0.0001 cents 4,000 Converting Performance Shares |
| | Changes during quarter (a) Increases | Nil | Nil | 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.

Paul Moore
Chief Executive Officer
21 January 2010

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.

== == == == ==