

**OTTO ENERGY LIMITED
AND CONTROLLED ENTITIES**

ABN 56 107 555 046

**INTERIM REPORT
FOR THE HALF YEAR ENDED
31 DECEMBER 2008**

Contents

Directors' Report.....	1
Auditor's Independence Declaration.....	5
Consolidated Income Statement	6
Consolidated Balance Sheet	7
Consolidated Cash Flow Statement	8
Consolidated Statement of Changes in Equity	9
Notes to the Financial Statements.....	10
Directors' Declaration	17
Auditor's Independent Review Report.....	18

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 Alex Parks – Chief Executive Officer
Mr Craig Martin – Chief Operating Officer
Ms Ida Holt – 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

Auditors

BDO Kendalls Audit & Assurance (WA) Pty Ltd
128 Hay Street
Subiaco WA 6008
Tel: +61 8 9380 8400
Fax: +61 8 9380 8499

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 on the consolidated entity of Otto Energy Limited ("Otto" or the "the Company") and the entities it controlled at the end of, or during, the half year ended 31 December 2008.

Directors

The name of the directors who held office during the half year and up to the date of this report are:

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

Results and Review of Operations

The consolidated loss of the economic entity for the half year, after providing for income tax, was \$4,804,490 (31 December 2007 – profit of \$91,361).

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

A review of the consolidated entity's projects and operations is presented below:

PHILIPPINES

Service Contract 14C – Galoc Oil Field

Otto's beneficial interest in SC14C is via a 31.38% shareholding in field operator Galoc Productions Company W.L.L ("GPC").

Production commenced at the field on 9 October 2008 with an initial average production rate of approximately 15,000 barrels of oil per day (bopd).

The first cargo of 300,000 bbls of Palawan Light Crude Oil was successfully loaded and delivered to the Petron oil refinery in Manila on 10 November 2008. A second offtake of 300,000 barrels was offloaded on 4 December 2008 and delivered to a refinery in Thailand. The third cargo of approximately 200,000 barrels was offloaded on 31 December 2008 and delivered to South Korea.

On 14 December 2008, production was temporarily suspended due to a combination of events including adverse weather conditions.

During the shutdown period, extensive work was undertaken on both re-instating the Mooring and Riser System (M&RS) and implementation of enhancements to ensure improved future performance. These enhancements include installation of a secondary mooring arrangement connected to the Floating Production Storage and Offtake (FPSO) stern, referred to as the Hold Back Mooring System (HBMS), and substantial modifications to the primary M&RS.

Production recommenced on 25 February 2009 and production rates have averaged in excess of 16,000 barrels per day. Production is likely to return to its pre-shut-in (December 2008) rates of around 13,000 to 14,000 barrels of oil per day.

Directors' Report

Results and Review of Operations (cont'd)

Service Contract 14C – Galoc Oil Field (cont'd)

As a result of the production downtime at Galoc, GPC has renegotiated its debt facility repayment to include a combination of cash sweep and up-front payments.

Otto Energy's share of the outstanding GPC debt over the Galoc Field is US\$10.4 million (net of cash collateral on deposit).

Under the "cash sweep" mechanism requiring all available GPC revenues after deducting operating costs to be applied to the repayment of the debt it is anticipated that the debt will be fully paid by the third quarter of 2009 (based on the current oil prices and forecast production rates).

Service Contract 55 – Offshore Palawan

Otto has entered into a conditional heads of agreement with BHP Billiton Petroleum Pty Limited (BHP Billiton) to farmout a 60% working interest in SC 55.

BHP Billiton has agreed to reimburse Otto for back costs and pay the full cost of a multi-prospect 3D seismic programme and the drilling of two deepwater exploration wells in consideration for the transfer of a 60% interest in SC55. Otto will retain a working interest of 25%. BHPB will be appointed Operator of SC55.

The agreement is conditional on finalising farmout and joint operating agreements and obtaining all necessary government and joint venture approvals. The Company anticipates the agreement will be finalised before 30 June 2009.

Service Contract 50 – Calait Oil Field

Otto completed a site survey of the proposed Calait 2 drilling location and continued commercial and economic review of appraisal and development options for the Calait Field.

Whilst continuing to monitor the rig market, Otto is in discussions with the Philippines Department of Energy in relation to an extension to the current sub-phase in which a commitment to drill a well and conduct an extended well test if successful.

Otto is continuing to seek farminees.

Service Contracts 51 and SC 69 – East Visayan Basin Exploration Blocks

In SC51, Otto undertook preparatory site surveys of the proposed Argao 1 and Bahay 1 drilling locations. Environmental site assessments of these locations were suspended in October 2008 at the request of the DOE whilst community consultation continued. The Environmental Survey will be completed prior to drilling commencing.

Otto is in discussions with the Philippines Department of Energy for an extension of the current sub-phase in which a commitment to drill a well is required. Otto expects an extension from the Philippines Department of Energy, which will allow the commitment exploration well to be drilled in 2010.

Otto is continuing to seek farminees.

In Service Contract 69 reprocessing of some 2700 line-km of vintage seismic data commenced in November 2008. This seismic is designed to validate over 20 leads identified within the block by previous operators.

Directors' Report

Results and Review of Operations (cont'd)

TURKEY

Planning for the commercialisation of the Edirne gas project is progressing, with first gas sales anticipated in late 2009/early 2010. The Operator, on behalf of the Joint Venture has been granted a wholesale gas licence and negotiations are ongoing with a number of parties to purchase the gas. One option is for the successful bidder to fund, build and operate the gas facility. An alternative is for the Joint Venture Partners to construct and own the plant.

Gross production of up to 10MMscf/d is anticipated with additional tie-ins of further discoveries planned so as to maintain a stable rate over a number of years. The Joint Venture drilled the Ikihoeyuk-2 appraisal well in January 2009 and two significant gas bearing intervals have been identified. The well has been completed as a potential future producer.

There was no exploration activity undertaken during the period on the Catalca and Ortakoy licences as these licences are being prepared for relinquishment.

ITALY

The drilling of the Gazzata-1 onshore gas exploration well in the Cento-Bastiglia licences of the Po Valley, Italy, is now scheduled for the second quarter of 2009. The Company has invested in excess of US\$2 million for long lead-time equipment and drill site construction.

Otto is earning a 50% working interest via the funding of Gazzata-1 well and a second well if Gazzata-1 is a significant discovery with proven reserves in excess of 10 bcf of gas. There is a cap on the expenditure for both the Gazzata-1 and the second well, above which the contribution is 50/50.

ARGENTINA

In December 2008 Otto executed agreements with joint venture partner and field Operator Oromin Explorations Limited ("Oromin") to formalise the farmin into the Santa Rosa exploration licence in Argentina. The Santa Rosa Block is a large 7,694 square kilometre onshore concession located in the oil prolific Cuyana Basin of the Mendoza Province of Argentina. The Exploration Work Program and Budget totalling US\$4.1Million has been approved with drilling scheduled for the second quarter of 2009.

Otto is required to fund the first US\$1.4 million of the approved Exploration Work Program and Budget, after which it contributes it's pro rata equity share. Under the agreements Otto will acquire a 32.48% shareholding in the Oromin-owned British Virgin Islands company, Cynthia Holdings Ltd ("Cynthia"). Cynthia wholly owns the Argentinean Company Exploraciones Oromin S.A ("EOSA"), which in turn holds 100% of the rights to explore and produce from the Santa Rosa Block.

Otto is entitled to take an equivalent direct interest in the Santa Rosa Block at anytime subject only to Argentinean government approvals.

CORPORATE

Otto secured a US\$5 million short term facility from two of the Company's major shareholders. The facility was fully drawn down during the half year to fund working capital requirements.

Presently this facility is unsecured and repayable by 31 March 2009. The loan attracts a 12% equivalent annualised interest rate which is payable on repayment of the loan. The facility may be extended to 31 August 2009, subject to the Company granting security in favour of the lenders over assets in the Company.

Directors' Report

Results and Review of Operations (cont'd)

During the half year the Company placed 769,231 ordinary shares at 39 cents per share and 250,000 options were exercised at 20 cents per share. Otto and subsidiary NorAsian Energy entered into a Royalty Buy Back Deed pursuant to which a further 15 million ordinary shares of Otto were issued as part consideration for the extinguishment of an overriding 5% Royalty assessable on NorAsian's future production revenues (if any) from SC50, SC51, SC55 and any new contracts.

Events Subsequent to Reporting Date

On 14 December 2008, production was temporarily suspended at the Galoc oil field due to a combination of events including adverse weather conditions. Production recommenced on 25 February 2009.

The Galoc oil field production milestone of 1,000,000 barrels of oil produced from the field was reached on 08 March 2009.

There have been no other subsequent events.

Auditors Independence Declaration

The Lead Auditor's independence declaration under section 307C of the Corporations Act 2001 is set out on page 5 for the half year ended 31 December 2008.

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



Director:

Ian Macliver

Dated this 16 March 2009



BDO Kendalls

BDO Kendalls Audit & Assurance (WA) Pty Ltd
128 Hay Street
SUBIACO WA 6008
PO Box 700
WEST PERTH WA 6872
Phone 61 8 9380 8400
Fax 61 8 9380 8499
aa.perth@bdo.com.au
www.bdo.com.au

ABN 79 112 284 787

16th March 2009

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

Dear Sirs,

DECLARATION OF INDEPENDENCE BY BRAD MCVEIGH TO THE DIRECTORS OF OTTO ENERGY LIMITED

As lead auditor for the review of Otto Energy Limited for the half-year ended 31 December 2008, 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
- 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.

Brad McVeigh
Director

BDO Kendalls Audit & Assurance (WA) Pty Ltd
Signed this 16th day of March 2009
Perth, Western Australia

Consolidated Income Statement For the Half Year Ended

	Note	31 December 2008 \$	31 December 2007 \$
Revenue from continuing operations		374,104	198,475
Total revenue		374,104	198,475
Sale of licence interests in Turkey		-	3,324,169
Foreign exchange gain		39,690	-
Total other income		39,690	3,324,169
Expenses			
Depreciation expense		82,640	20,818
Employee benefits expense		1,562,763	1,099,555
Finance costs		129,952	-
Consultants expense		190,723	373,442
Corporate advisory expenses		126,388	200,000
Share based payments expenses		1,306,401	558,230
Unrealised foreign exchange loss		(45,535)	-
Other expenses		1,862,057	595,411
Total Expenses		5,215,389	2,847,456
Profit/ (loss) before income tax expense		(4,801,595)	675,188
Income tax expense		(2,895)	(583,827)
Net profit / (loss) attributable to members of Otto Energy Limited		(4,804,490)	91,361
Basic earnings per share (cents per share)		(0.99)	0.04
Diluted earnings per share (cents per share)		N/A	0.04

The accompanying notes form part of these financial statements.

Consolidated Balance Sheet As At

	Note	31 December 2008 \$	30 June 2008 \$
CURRENT ASSETS			
Cash and cash equivalents		7,522,506	5,033,862
Trade and other receivables	3	5,424,403	19,198,014
Other current assets		73,060	102,315
TOTAL CURRENT ASSETS		13,019,969	24,334,191
NON-CURRENT ASSETS			
Trade and other receivables	3	35,683,356	15,820,825
Property plant and equipment		476,003	345,849
Intangible asset	7	49,326,534	35,425,041
Oil and gas properties	8	52,306,472	31,821,586
Investments in Associate	11	-	-
TOTAL NON-CURRENT ASSETS		137,792,365	83,413,301
TOTAL ASSETS		150,812,334	107,747,492
CURRENT LIABILITIES			
Trade and other payables		1,356,409	985,169
Borrowings	4	7,243,500	-
Provision for employee entitlements		122,291	69,447
TOTAL CURRENT LIABILITIES		8,722,200	1,054,616
NON-CURRENT LIABILITIES			
Trade and other payables		33,778	24,265
Provision for restoration		65,151	46,802
TOTAL CURRENT LIABILITIES		98,929	71,067
TOTAL LIABILITIES		8,821,129	1,125,683
NET ASSETS		141,991,206	106,621,809
EQUITY			
Issued Capital	5	122,944,770	118,064,437
Accumulated Losses		(20,239,094)	(15,434,604)
Other Reserves		39,285,530	3,991,976
TOTAL EQUITY		141,991,206	106,621,809

The accompanying notes form part of these financial statements.

Consolidated Cash Flow Statement For the Half Year Ended

	Note	31 December 2008 \$	31 December 2007 \$
CASH FLOWS FROM OPERATING ACTIVITIES			
Payment to suppliers and employees		(3,370,271)	(2,055,889)
Payment for exploration and evaluation		(7,430,236)	(9,918,110)
Interest received		270,190	198,475
Interest and other costs of finance paid		(3,848)	-
Income tax paid		(2,895)	(583,827)
Sale of Turkish licences		-	5,520,133
Other - Deposit refunded		1,566,000	-
Net cash provided by / (used in) operating activities		(8,971,060)	(6,839,218)
CASH FLOWS FROM INVESTING ACTIVITIES			
Payment for property, plant & equipment		(224,752)	(46,976)
Payments for purchase of subsidiaries		-	(58,513,913)
Other- Loans to associated entities		(5,741,779)	-
Net cash provided by / (used in) investing activities		(5,966,531)	(58,560,889)
CASH FLOW FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		9,302,448	79,070,000
Payments for share issue costs		(134,191)	(3,336,992)
Proceeds from borrowings		7,168,012	-
Repayment of borrowings		(6,719)	-
Net cash provided by / (used in) financing activities		16,329,550	75,733,008
Net increase in cash held		1,391,959	10,332,901
Cash at 1 July		5,033,863	5,191,230
Net exchange movement on cash		1,096,684	(121,839)
Cash at 31 December		7,522,506	15,402,292

The accompanying notes form part of these financial statements.

Non Cash Financing and Investing Activities

During the half year ended 31 December 2008 Otto issued 15,000,000 ordinary shares at \$0.3050 per share as part consideration for the buy back of the 5% gross overriding royalty assessable on future production revenues generated from the Service Contract (SC) SC50, SC51, SC55 and any new Service Contracts.

Consolidated Statement of Changes in Equity For the Half Year Ended

	Note	Issued capital	Retained earnings	Foreign Currency Translation Reserve	Option reserves	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
Adjustment from translation of foreign controlled entities				33,975,764			33,975,764
Net income recognised directly in equity							33,975,764
Profit for the period			(4,804,490)				(4,804,490)
Total recognised income and expense for the year							29,171,274
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

	Note	Issued capital	Retained earnings	Foreign Currency Translation Reserve	Option reserves	Share based payment reserve	Total equity
		\$	\$		\$	\$	\$
At 1 July 2007		27,392,420	(4,734,732)	(67,164)	821,250	379,179	23,790,955
Adjustment from translation of foreign controlled entities				131,849			131,849
Net income recognised directly in equity							131,849
Profit for the period		-	91,361	-	-	-	91,361
Total recognised income and expense for the year							232,217
Issued options during the period		-	-	-	1,424,000	558,230	1,982,230
Issued shares during the period		79,760,500	-	-	-	-	79,760,500
Transaction costs		(3,389,492)	-	-	-	-	(3,389,492)
At 31 December 2007		103,763,428	(4,643,369)	64,685	2,245,250	937,409	102,367,403

The accompanying notes form part of these financial statements.

Notes to the Financial Statements

1. Basis of Preparation of half-year report

This general purpose financial report for the interim half year reporting period ended 31 December 2008 has been prepared in accordance with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

The interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2008 and any public announcements made by Otto Energy Limited during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period.

Going Concern

The ability of the Company to continue as a going concern and to facilitate the progress of the commercialisation of its various projects and operations and to exploit its exploration assets in the future will be dependent on its ability to raise further funds.

2. Segment Information

The Company operates wholly within the oil and gas sector.

Geographical Segments	Australia \$	Turkey \$	Philippines \$	Unallocated	Consolidated \$
31 December 2008					
Revenue					
Interest Revenue	-	-	-	374,104	374,104
Sale of licence interests	-	-	-	-	-
Results					
Segment Results	<u>(4,184,834)</u>	<u>(253,500)</u>	<u>(740,260)</u>	<u>374,104</u>	<u>(4,804,490)</u>
31 December 2007					
Revenue					
Interest Revenue	-	-	-	198,475	198,475
Sale of licence interests	-	3,324,169	-	-	3,324,169
Results					
Segment Results	<u>(2,413,115)</u>	<u>2,705,321</u>	<u>(399,320)</u>	<u>198,475</u>	<u>91,361</u>

Notes to the Financial Statements

3. Trade and Other Receivables

	31 December 2008	30 June 2008
Current	\$	\$
Other Receivables	5,322,592	19,050,218
Goods and services tax	101,811	147,796
	<u>5,424,403</u>	<u>19,198,014</u>
Non-Current		
Amounts Receivable from:		
- wholly owned entities	-	-
- associates	35,667,158	15,814,075
- provision for write down	-	-
- other receivable	16,198	6,750
	<u>35,683,356</u>	<u>15,820,825</u>

4. Borrowings

The Company has secured a US\$5,000,000 short term facility from two of its major shareholders. This facility is currently unsecured and repayable by 31 March 2009. An interest rate of 12% is payable on repayment of the loan. The facility may be extended to 31 August 2009, subject to the Company granting security in favour of the lenders over assets of the Company.

5. Equity securities issued

492,673,863 (2007: 438,812,325) fully paid ordinary shares

a) Ordinary Shares	31 December 2008 Number	31 December 2007 Number	31 December 2008 \$	31 December 2007 \$
At the beginning of reporting period	476,654,632	172,903,994	118,064,437	27,392,420
Shares issued during the period		265,908,331		79,760,500
- July 2008	769,231		300,000	
- July 2008	250,000		50,000	
- October 2008	15,000,000		4,575,000	
Transaction costs			(44,667)	(3,389,492)
	<u>492,673,863</u>	<u>438,812,325</u>	<u>122,944,770</u>	<u>103,763,428</u>

No dividends were paid or declared during the period.

Notes to the Financial Statements

6. Business Combination

Current period

No acquisitions took place in the current period.

Prior period

On 14 December 2007, NorAsian Energy Ltd, a wholly owned subsidiary of Otto Energy Ltd, acquired 100% of the voting shares of Colag UK Ltd and Colag BVI Ltd, for cash consideration of \$58,475,765 plus incidental costs totalling \$40,148. 2,000,000 ordinary shares of Otto Energy Ltd valued at \$638,000 and 8,000,000 listed options of Otto Energy Ltd valued at \$1,424,000 were also issued as consideration for the entities acquired.

Details of net assets acquired and goodwill are as follows:

	\$
Purchase consideration	
Cash paid	58,475,765
Non cash consideration – equity issued	2,062,000
Direct costs relating to the acquisition	40,148
Total purchase consideration	<u>60,577,913</u>
Fair value of net identifiable assets acquired	<u>20,961,045</u>
Goodwill	<u><u>39,616,868</u></u>

The assets and liabilities arising from the acquisition were as follows:

	Consolidated	
	Acquiree's carrying amount	Fair value
	\$	\$
Deposits and loans receivable	21,101,161	21,101,161
Payables	(140,116)	(140,116)
Net identifiable assets acquired	<u>20,961,045</u>	<u>20,961,045</u>

From the date of acquisition Colag UK Ltd and Colag BVI Ltd have contributed nil revenue and nil losses to the net profit and loss of the Group to 31 December 2007.

Outflow of cash to acquire business, net of cash acquired

	31 December 2008	30 June 2008
	\$	\$
Cash consideration	-	58,515,913
Less: Balances acquired	-	-
Bank overdraft	-	-
Net outflow of cash	<u>-</u>	<u>58,515,913</u>

Notes to the Financial Statements

7. Intangible Assets

	Total \$
As At 31 December 2008	
Carrying amount at start of period	35,425,041
Foreign exchange movement	13,901,493
Carrying amount at end of period	49,326,534
	Total \$
As At 30 June 2008	
Goodwill at acquisition date 14 December 2007	39,616,868
Foreign exchange movement	(4,191,827)
Carrying amount at end of period	35,425,041

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.

8. Oil and Gas Properties

	31 December 2008 \$	30 June 2008 \$
Oil and Gas Properties	52,306,472	31,821,586

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	31,821,586	21,754,124
Additions	7,626,069	12,237,394
Disposals	-	(2,143,071)
Capitalised costs written off	(126,653)	(26,861)
Foreign exchange movement	12,985,470	-
Carrying amount at end of period	52,306,472	31,821,586

Notes to the Financial Statements

9. Related Party Transactions

Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.

Transactions with related parties:

	Half-year	
	2008	2007
	\$	\$
Key Management Personnel		
Consulting fees paid to Dormley Pty Ltd, a company in which Dr Poll is a Director.	82,500	82,500
Rent paid to Zadnik Holdings Pty Ltd, a company in which Mr Zadnik is a Director, for the provision of office space.	-	23,584
Consulting fees paid to Grange Consulting Group Pty Ltd, a company in which Messrs. Macliver is a Director, for the provision of corporate advisory, company secretarial and associated services.	56,099	106,009
Consulting and placement fees paid to Max Capital Pty Ltd, a company in which Mr Macliver is a Director, for the provision of capital raising services.	44,500	623,425

10. Contingent Liabilities and Commitments

Contingent Consideration Payable (Middle East Petroleum Services)

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.

Otto issued MEPS 15 million shares of which 9 million were escrowed for 12 months in consideration for the extinguishment of the royalty. 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.

Contingent Consideration Payable (Oromin Explorations Limited)

During the half year, Otto executed agreements with joint venture partner and field Operator Oromin Explorations Limited ("Oromin") to formalise the farmin into the Santa Rosa exploration licence in Argentina.

The Letter of Intent was formalised with Otto executing a number of agreements in which the Company will earn a 32.48% shareholding in the Oromin-owned British Virgin Islands company, Cynthia Holdings Ltd, which wholly owns the Argentinean Company Exploraciones Oromin S.A ("EOSA"), which in turn holds 100% of the rights to explore and produce from the Santa Rosa Block.

Notes to the Financial Statements

10. Contingent Liabilities and Commitments (cont'd)

Contingent Consideration Payable (Oromin Explorations Limited) (cont'd)

A number of conditions remain outstanding and are required for completion which is expected to occur by May 2009. The farm-in consideration is for Otto to fund the first US\$1.4 million of the approved Exploration Work Program and Budget, after which it contributes its pro rata equity share.

Contingent Recourse Commitments

The Group, through Colag UK Limited and Colag BVI Limited, has provided US\$12,470,000 in loans for Contingent Recourse commitments and Sponsor Equity Completion Support commitments to the financing party of the Facility Agreement between GPC and a foreign bank.

Since the end of the year a further US\$1,569,000 has been loaned and an additional US\$1,569,000 is due to be paid in late March 2009.

Legal Proceeding

NorAsian Energy Limited ("NorAsian"), a wholly owned subsidiary of Otto Energy Limited, was one of three respondents to a challenge made by a local non government organisation regarding the validity of the environmental permit issued to NorAsian by the Philippines Department of Energy and Natural Resources. The permit (Certificate of Non Coverage) allowed for the carrying out of the 2D and 3D seismic acquisition program in the Cebu-Bohol Straits. NorAsian is acknowledged to have fully complied with all permitting requirements before and during the survey.

Following the case being dismissed for lack of merit on August 15 2008, the plaintiffs applied to the Cebu Court of Appeals for reconsideration. All parties have submitted their respective memoranda, and are waiting for the court to hand down its decision. The court has 12 months to resolve the petition and, as such, a decision is expected to be handed down prior to 15 December 2009.

11. Investments in Associates

	Economic Entity	
	2008	2007
	\$	\$
a) Movements in carrying amounts		
Carrying amount at 1 July 2008	-	-
Investment acquired	-	-
Revaluation	(1,236,559)	-
Share of profits/(losses) after income tax	1,236,559	-
Dividends received/receivable	-	-
Carrying amount at 31 December 2008	-	-

Notes to the Financial Statements

11. Investments in Associates (cont'd)

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 \$
2008					
Galoc Production Company W.L.L	31.38	60,418,151	60,512,358	1,017,594	(139,334)
2007					
Galoc Production Company W.L.L	-	-	-	-	-
				Economic Entity	
				2008	2007
				\$	\$

c) Fair value of investments in associate

Galoc Production Company W.L.L	-	-
--------------------------------	---	---

d) Contingent liabilities of associates

Share of contingent liabilities incurred jointly with other investors

Contingent liabilities relating to liabilities of the associate for which the Company is severally liable	18,054,148	-
	18,054,148	-

12. Events Subsequent to Reporting Date

On 14 December 2008, production was temporarily suspended at the Galoc oil field due to a combination of events including adverse weather conditions. Production recommenced on 25 February 2009.

The Galoc oil field production milestone of 1,000,000 barrels of oil produced from the field was reached on 08 March 2009.

There have been no other 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 economic entity's financial position as at 31 December 2008 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 16 March 2009

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

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Otto Energy Limited, which comprises the balance sheet as at 31 December 2008, and the income statement, statement of changes in equity and cash flow statement 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 control 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 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 2008 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*.

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 2008 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.

Material Uncertainty Regarding Continuation as a Going Concern

Without qualifying our conclusion, we draw attention to Note 1 in the interim financial report which indicates that Otto Energy Limited incurred a net loss of \$ 4,804,490 during the half year ended 31 December 2008. The company will be required to seek additional funding through debt, equity or other means to continue its activities. These conditions, along with other matters as set forth in Note 1, indicate the existence of a material uncertainty which may cast significant doubt about the consolidated entity's ability to continue as a going concern and whether it will be able to realise its assets and extinguish its liabilities at the amounts stated in the financial report.

BDO Kendalls Audit & Assurance (WA) Pty Ltd

BDO Kendalls
BM Veigh

Brad McVeigh
Director

Dated this 16th day of March 2009
Perth, Western Australia