

**OTTO ENERGY LIMITED  
AND CONTROLLED ENTITIES**

*ABN 56 107 555 046*

**INTERIM REPORT  
FOR THE HALF YEAR ENDED  
31 DECEMBER 2010**

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## CORPORATE DIRECTORY

### Directors

Mr Rick Crabb – Non Executive Chairman  
Mr Paul Moore – Managing Director  
Mr Rufino Bomasang – Non Executive Director  
Mr John Jetter – Non Executive Director  
Mr Ian Macliver – Non Executive Director  
Mr Ian Boserio – Non Executive Director

Company Secretary  
Mr Matthew Allen

### Executive Management

Mr Paul Moore – Managing Director  
Mr Matthew Allen – Chief Financial Officer  
Mr Paul Senyucia – Exploration Manager  
Mr Ross Prasser – Philippine Country Manager

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Fax: +61 8 6467 8801

Website  
[www.ottoenergy.com](http://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  
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Perth WA 6000  
Tel: +61 8 9323 2000  
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### Home Stock Exchange

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

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## 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 2010 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
<b>Non-Executive</b>	
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
Mr Ian Boserio	Director since 2010 (Appointed 02 September 2010)
Mr Paul Moore	Director since 2010 (Appointed 02 September 2010)
Dr Jaap Poll	Directors since 2004 (Resigned 22 November 2010)
Mr John Zadnik (Alternate for Mr Rick Crabb)	Alternate since 2004 (Resigned 02 September 2010)

### REVIEW OF OPERATIONS

#### Financial Performance

The Group incurred a consolidated profit after income tax of \$4,286,866 for the half year (31 December 2009: loss of \$2,957,536). Cash and cash equivalents held by the Group at the end of half year \$30,064,891 (30 June 2010: cash and cash equivalents of \$29,230,214). The net increase in cash and cash equivalents held is mainly due to repayments of shareholder loan, Galoc Production Company (GPC) dividend payment, Edirne revenues and proceeds from the conversion of options received in the half year by the Group.

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 focused portfolio of Philippine assets and containing both high quality exploration and current production.

The Company's key achievements in the six months were:

- Continued production of 1,130,590 bbls of crude oil (gross) (net 212,324 bbls) achieved by the Galoc Oil Field. Three offtakes delivered to customers with uptime of 84% (rolling 12 month average). Repayments of shareholder loans from production of \$3,702,840 were received from GPC and dividend income of \$473,605 by the Group from GPC after deduction of operating/lifting costs.
- Sale of Edirne interests in Turkey to Valeura Energy Inc of Canada for US\$3.1m.
- Gas Sales production with AKSA Dogalgaz Toptan Satis A.S (AKSA) of Turkey from the Edirne Licence delivered production income of \$1,446,123 before the sale to Valeura Energy Inc.
- SC55 3D Seismic interpretation supports ongoing exploration program by maturing the Hawkeye prospect and identifying several large Nido formation leads.
- Farm-out of 40% equity in SC51 to SWAN Oil and Gas Ltd for US\$1.5m contribution to drill Duhat-1 well.
- Rig contract executed with DESCO for drilling of the Duhat-1 well in San Isidro, Onshore Leyte.

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

## DIRECTORS' REPORT

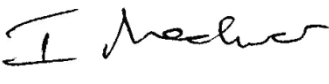
### EVENTS SUBSEQUENT TO REPORTING DATE

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 2010.

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

Director:   
\_\_\_\_\_  
**Ian Macliver**

Dated this 15 March 2011

15 March 2011

Board of Directors  
Otto Energy Limited  
32 Delhi Street  
WEST PERTH WA 6005

Dear Sirs,

**DECLARATION OF INDEPENDENCE BY PETER TOLL TO THE BOARD OF DIRECTORS OF OTTO ENERGY LIMITED**

As lead auditor of Otto Energy Limited for the period ended 31 December 2010, 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.



**Peter Toll**  
Director



**BDO Audit (WA) Pty Ltd**  
Perth, Western Australia

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE HALF YEAR ENDED 31 DECEMBER 2010

	Note	31 December 2010 \$	31 December 2009 \$
<b>Continuing operations</b>			
Revenue		97,380	171,320
<b>Total revenue</b>		<b>97,380</b>	<b>171,320</b>
Other income		10,690	474,032
Share of net profits of associates		14,856,488	-
Foreign currency gains/(losses)		(6,149,756)	(591,008)
Employee benefits expense		(2,146,161)	(1,597,428)
Impairment (expense)/reversal		(35,425)	317,485
Other expense		(2,684,720)	(1,599,109)
<b>Results from operating activities</b>		<b>3,851,116</b>	<b>(2,996,028)</b>
<b>Profit/ (loss) before income tax</b>		<b>3,948,496</b>	<b>(2,824,708)</b>
Income tax expense		(200,632)	(132,828)
<b>Profit/ (loss) for the period from continuing operations</b>		<b>3,747,864</b>	<b>(2,957,536)</b>
<b>Discontinued Operations</b>			
Profit for the period from discontinued operation	9	539,002	-
<b>Profit/ (loss) for the period attributable to owners of Otto Energy Limited</b>		<b>4,286,866</b>	<b>(2,957,536)</b>
<b>Other comprehensive income</b>			
Foreign currency translation differences for foreign operations		-	(5,381,349)
<b>Other comprehensive income for the period</b>		<b>-</b>	<b>(5,381,349)</b>
<b>Total comprehensive income for the period attributable to owners of Otto Energy Limited</b>		<b>4,286,866</b>	<b>(8,338,885)</b>
<b>Earnings/ (loss) per share</b>			
Basic earnings/ (loss) per share (cents per share)		0.40	(0.28)
Diluted earnings/ (loss) per share (cents per share)		0.40	N/A

The accompanying notes form part of these financial statements.

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2010

	Note	31 December 2010 \$	30 June 2010 \$
<b>CURRENT ASSETS</b>			
Cash and cash equivalents		30,064,891	29,230,214
Trade and other receivables	8	4,372,054	5,728,804
Other current assets		52,326	32,365
<b>TOTAL CURRENT ASSETS</b>		<b>34,489,271</b>	<b>34,991,383</b>
<b>NON-CURRENT ASSETS</b>			
Trade and other receivables	8	-	8,733
Intangible asset	10	6,069,837	5,972,446
Property plant and equipment	11	433,530	322,840
Other non-current assets	12	7,319,139	7,545,482
Investments in Associate	13	14,382,883	5,615,056
<b>TOTAL NON-CURRENT ASSETS</b>		<b>28,205,389</b>	<b>19,464,557</b>
<b>TOTAL ASSETS</b>		<b>62,694,660</b>	<b>54,455,940</b>
<b>CURRENT LIABILITIES</b>			
Trade and other payables		2,028,826	1,832,441
Borrowings		3,671	12,124
<b>TOTAL CURRENT LIABILITIES</b>		<b>2,032,497</b>	<b>1,844,565</b>
<b>NON-CURRENT LIABILITIES</b>			
Provisions		58,693	94,975
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>58,693</b>	<b>94,975</b>
<b>TOTAL LIABILITIES</b>		<b>2,091,190</b>	<b>1,939,540</b>
<b>NET ASSETS</b>		<b>60,603,470</b>	<b>52,516,400</b>
<b>EQUITY</b>			
Issued Capital	14	129,945,242	127,360,128
Other Reserves		15,113,057	14,103,522
Accumulated Losses		(84,454,829)	(88,947,250)
<b>TOTAL EQUITY</b>		<b>60,603,470</b>	<b>52,516,400</b>

The accompanying notes form part of these financial statements.



## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE HALF YEAR ENDED 31 DECEMBER 2010

	Issued Capital	Accumulated Losses	Foreign Currency Translation Reserve	Option Reserve	Share Based Payment Reserve	Total Equity
	\$	\$	\$	\$	\$	\$
At 1 July 2010	127,360,128	(88,947,250)	7,719,988	1,882,485	4,501,049	52,516,400
Adjustment for change in accounting policy	-	205,554	-	-	-	205,554
<b>Total comprehensive income for the half year</b>						
Profit or loss	-	4,286,866	-	-	-	4,286,866
<b>Other comprehensive income</b>						
Foreign currency translation differences	-	-	-	-	-	-
Total other comprehensive income	-	4,286,866	-	-	-	4,286,866
<b>Total comprehensive for the half year</b>	-	4,286,866	-	-	-	4,286,866
<b>Transactions with owners in their capacity as owners</b>						
Issued options during the period	-	-	-	-	1,009,535	1,009,535
Issued shares during the period	2,585,114	-	-	-	-	2,585,114
Transaction costs	2,585,114	-	-	-	1,009,535	3,594,649
<b>At 31 December 2010</b>	<b>129,945,242</b>	<b>(84,454,829)</b>	<b>7,719,988</b>	<b>1,882,485</b>	<b>5,510,584</b>	<b>60,603,470</b>

The accompanying notes form part of these financial statements.

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE HALF YEAR ENDED 31 DECEMBER 2010

	Issued Capital	Accumulated Losses	Foreign Currency Translation Reserve	Option Reserve	Share Based Payment Reserve	Total Equity
	\$	\$		\$	\$	\$
<b>At 1 July 2009</b>	<b>127,384,960</b>	<b>(61,023,770)</b>	<b>11,493,857</b>	<b>1,882,485</b>	<b>3,973,886</b>	<b>83,711,418</b>
<b>Total comprehensive income for the half year</b>						
Profit or loss	-	(2,957,536)	-	-	-	(2,957,536)
<b>Other comprehensive income</b>						
Foreign currency translation differences	-	-	(5,381,575)	-	-	(5,381,575)
Total other comprehensive income	-	-	(5,381,575)	-	-	(5,381,575)
<b>Total comprehensive for the half year</b>	<b>-</b>	<b>(2,957,536)</b>	<b>(5,381,575)</b>	<b>-</b>	<b>-</b>	<b>(8,339,111)</b>
<b>Transactions with owners in their capacity as owners</b>						
Issued options during the period	-	-	-	-	206,813	206,813
Issued shares during the period	-	-	-	-	-	-
Transaction costs	(23,620)	-	-	-	-	(23,620)
<b>At 31 December 2009</b>	<b>127,361,340</b>	<b>(63,981,306)</b>	<b>6,112,282</b>	<b>1,882,485</b>	<b>4,180,699</b>	<b>75,555,500</b>

The accompanying notes form part of these financial statements.

## CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE HALF YEAR ENDED 31 DECEMBER 2010

	Note	31 December 2010 \$	31 December 2009 \$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from customers		4,024,778	-
Payment to suppliers and employees		(4,865,020)	(3,126,592)
Payment for exploration and evaluation		(5,644,652)	(4,410,014)
Interest received		16,335	-
Interest and other costs of finance paid		(829)	(3,678)
Income tax paid		259,477	-
Other Income – Recharges		-	276,236
Other Income - Deposit refunded		-	-
<b>Net cash (used in) operating activities</b>		<b>(6,209,911)</b>	<b>(7,264,048)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Payment for property, plant & equipment	11	(195,037)	(65,548)
Payments for purchase of subsidiaries		26,562	-
Other – Loans repaid by associated entities		3,702,840	12,379,239
<b>Net cash provided by / (used in) investing activities</b>		<b>3,534,365</b>	<b>12,313,691</b>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>			
Proceeds from issue of shares	14	2,593,069	-
Payments for share issue costs	14	(7,955)	(23,620)
Repayment of borrowings		(7,381)	(7,440)
<b>Net cash provided by / (used in) financing activities</b>		<b>2,577,733</b>	<b>(31,060)</b>
<b>Net increase in cash held</b>		<b>(97,813)</b>	<b>5,018,583</b>
Cash at 1 July		29,230,214	10,951,330
Net exchange movement on cash		932,490	(689,433)
<b>Cash at 31 December</b>		<b>30,064,891</b>	<b>15,280,480</b>

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 2010 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 2010 are available at [www.ottoenergy.com](http://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 2010.

These consolidated interim financial statements were approved by the Board of Directors on the 15 March 2011.

### 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 2010, except as follows:

#### **Foreign Currency Translation**

##### **Functional and presentation currency**

Effective from 1 July 2010, the Group presentation currency has changed to United States dollars. In conjunction, the functional currency of the parent entity has also changed to United States dollars. This change means that the financial information in the Groups quarterly, half yearly and full year accounts, will be presented in United States dollars.

Otto has identified the US dollar as its functional and presentation currency for the following reasons:

- the majority of Otto's activities are denominated in US dollars;
- a significant portion of Otto's assets and liabilities are denominated in US dollars; and  
US dollars are the primary global currency used in the oil industry.

##### **Transaction and balances**

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the end of reporting period's exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when the fair value was determined.

## 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. Estimates and judgements are consistent with those disclosed in the consolidated financial statements as at year ended 30 June 2010.

### 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 2010.

### 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 2010						
Revenue						
Interest Revenue	15,685	875	96	-	28,853	45,509
Results						
Segment Results	<u>(8,915,414)</u>	<u>539,002</u>	<u>(197,752)</u>	<u>-</u>	<u>12,861,029</u>	<u>4,286,866</u>

#### Half year ended 31 December 2009

#### Revenue

Interest Revenue	-	-	474,032	-	171,320	645,352
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#### Results

Segment Results	<u>(2,258,476)</u>	<u>(52,158)</u>	<u>58,815</u>	<u>317,485</u>	<u>(1,023,202)</u>	<u>(2,957,536)</u>
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#### Geographical Segments

	Australia \$	Turkey \$	Philippines \$	Italy \$	Unallocated \$	Consolidated \$
As At 31 December 2010						
Total Assets	<u>8,530,782</u>	<u>4,575,619</u>	<u>29,114,868</u>	<u>16,952</u>	<u>20,456,440</u>	<u>62,694,661</u>
As At 30 June 2010						
Total Assets	<u>7,055,052</u>	<u>2,073,822</u>	<u>28,604,979</u>	<u>13,987</u>	<u>16,708,100</u>	<u>54,455,940</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 2010	30 June 2010
	\$	\$
<b>Current</b>		
Other Receivables	614,894	2,469,882
Other Receivables – Discontinued operations	3,611,697	-
Associates	-	3,149,074
Fringe benefit tax	20,175	-
Goods and services tax	125,288	109,848
	<u>4,372,054</u>	<u>5,728,804</u>
<b>Non-Current</b>		
Other Receivables	-	8,733
	<u>-</u>	<u>8,733</u>

### 9. Disposal of Turkey Interest

Otto Energy Ltd has executed an asset sale agreement to sell its producing natural gas assets in the Edirne licence in Turkey to Valuera Energy Inc. The Edirne licence interests are owned by Edirne Enerji Petrol Arama Uretim Ve Ticaret Limited Sirketi ("Edirne"), which is a wholly-owned subsidiary of Otto Energy Ltd.

As at 31 December 2010, no physical cash had been received and an accrual has been recognised.

The profit for the period from the discontinued operation is analysed as follows:

	31 December 2010	30 June 2010
	\$	\$
Net loss for the period	(365,201)	-
Gain in sale of asset	904,203	-
	<u>539,002</u>	<u>-</u>

## NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

### 9. Disposal of Turkey Interest (cont'd)

The following were the results for the period:

	31 December 2010
	\$
Revenue from Gas Sales	1,446,123
Cost of sales	(1,791,613)
Other income	88,580
Operating expenses	(77,547)
Income tax expense	(30,744)
<b>Net loss after income tax</b>	<u><u>(365,201)</u></u>

The net assets of Edirne at the date of disposal were as follows:

Net asset disposed	1,819,172
Gain on disposal	904,203
VAT	376,625
<b>Total consideration</b>	<u><u>3,100,000</u></u>

A gain of USD904,203 was recognised on disposal of Edirne Interest 3839.  
This is an accrual and no cash has been received to date.

### 10. Intangible assets

Goodwill	Total
	\$
<hr/>	
<b>As At 31 December 2010</b>	
Carrying amount at 1 July 2010	5,972,446
Foreign exchange movement	97,391
<b>Carrying amount at 31 December 2010</b>	<u><u>6,069,837</u></u>
	Total
	\$
<hr/>	
<b>As At 30 June 2010</b>	
Carrying amount at 1 July 2009	5,972,446
Impairment expense	-
Foreign exchange movement	-
<b>Carrying amount at 30 June 2010</b>	<u><u>5,972,446</u></u>

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.

## NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

### 11. Property, plant and equipment

During the six months ended 31 December 2010 the Group acquired assets with a cost of \$195,037 (six months ended 31 December 2009 \$65,548).

### 12. Oil and Gas Properties

	31 December 2010	30 June 2010
	\$	\$
Oil and Gas Properties	7,319,139	7,545,482
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	7,545,482	37,560,727
Additions	2,293,808	21,023,012
Disposals	(1,819,172)	-
Seismic acquisition contribution	-	(18,326,579)
Impairment (expense) / reversal	(35,425)	(27,604,583)
Foreign exchange movement	-	(3,044,312)
Amortisation expense	(665,554)	(2,062,783)
Carrying amount at end of period	<u>7,319,139</u>	<u>7,545,482</u>

### 13. Investments in Associates

	31 December 2010	30 June 2010
	\$	\$
a) Movements in carrying amounts		
Balance at start of period		
Investment acquired		
Revaluation		
Share of profits/(losses) after income tax	14,856,488	5,615,056
Dividends received/receivable	(473,605)	-
Carrying amount at end of period	<u>14,382,883</u>	<u>5,615,056</u>



## NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

### 13. 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 Profits/(Losses)
	%	\$	\$	\$	\$
<b>31 December 2010</b>					
Galoc Production Company W.L.L	31.38	19,677,201	3,498,527	14,554,782	12,062,964
<b>30 June 2010</b>					
Galoc Production Company W.L.L	31.38	7,243,822	236,867	68,979,926	(195,402)

### 14. Share Capital

Ordinary Shares	Half Year		Half Year	
	31 December 2010	31 December 2009	31 December 2010	31 December 2009
	Number	Number	\$	\$
<b>As At 1 July</b>	1,072,684,721	1,070,184,721	127,360,128	127,384,960
Shares issued during the period	61,855,350	-	2,593,069	-
Shares issued upon exercise of options	-	-	-	-
Shares issued through capital raising	-	-	-	-
Transaction costs	-	-	(7,955)	(23,620)
<b>As At 31 December</b>	<b>1,134,540,071</b>	<b>1,070,184,721</b>	<b>129,945,242</b>	<b>127,361,340</b>

No dividends were paid or declared during the period.

## NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

### 15. Share based payments

During the six month period ended on 31 December 2010 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 11 August 2010	3,000,000	0.12	Options will vest (and therefore become exercisable) on 11 August 2013	3 years
Options granted to key management personnel on 26 November 2010	13,000,000	0.12	Options will vest (and therefore become exercisable) on 26 November 2013	3 years
Options granted to directors on 30 November 2010	6,000,000	0.125	Options will vest (and therefore become exercisable) on 30 November 2013	3 years

Fair value of options granted during the six month ended 31 December 2010 has been determined using the following assumptions;

#### Options

Fair value at measurement date	\$0.04
Share price	\$0.88 to \$0.93
Exercise price	\$0.12 to \$0.125
Expected volatility	80%
Option life	3 years
Expected dividends	-
Risk-free interest rate	4.35% to 4.79%

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

### 16. Contingent Liabilities and Commitments

#### Contingent Consideration Payable (Middle East Petroleum Services)

In 2009 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.

### 17. Related Party Transactions

During the half-year period the company issued a total of 22,000,000 unlisted options to various executives of the company subject to the terms and conditions of the Employee Share Option Plan. All options are exercisable between 12 to 12.5 cents, with 3,000,000 options expiring on 11 August 2013, 13,000,000 options expiring 26 November 2013 and 6,000,000 options expiring on 30 November 2013.

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 2010.

### 18. 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 2010 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.

This declaration is made in accordance with a resolution of the Board of Directors made pursuant to s.303(5) of the Corporation Act 2001.

Director:   
Ian Macliver

Dated this 15 March 2011

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

### Report on the Half-Year Financial Report

We have reviewed the accompanying consolidated half-year financial report of Otto Energy Limited, which comprises the statement of financial position as at 31 December 2010 and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the six month period ended on that date, and notes comprising a statement of accounting policies and other explanatory information and the directors' declaration.

### Directors' Responsibility for the Half-Year Financial Report

The directors of the disclosing entity are responsible for the preparation of the half-year financial report in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

### 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 a Financial Report 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 2010 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*, which has been given to the directors of Otto Energy Limited, would be in the same terms if given to the directors as at the time of this auditor's report.



## 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 disclosing entity's financial position as at 31 December 2010 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

A handwritten signature in blue ink, appearing to read 'Peter Toll', with the BDO logo written above it.

**Peter Toll**  
Director

Signed in Perth, Western Australia  
Dated this the 15<sup>th</sup> day of March 2011