

14 March 2008

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

By E-Lodgement

HALF YEARLY REPORT – 31 DECEMBER 2007

Please find attached the Company's Half Yearly Report for 31 December 2007.

For and on behalf of the board

Yours faithfully

A handwritten signature in black ink that reads "Emma McCormack".

Emma McCormack
Company Secretary



AND CONTROLLED ENTITIES

ABN 56 107 555 046

**FINANCIAL REPORT
FOR THE HALF YEAR ENDED
31 DECEMBER 2007**

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Corporate Directory

Directors

Mr Rick Crabb – Non Executive Chairman
Dr 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 Director for Mr Rick Crabb

Company Secretary

Ms Emma McCormack

Executive Management

Mr Alex Parks – Chief Executive Officer
Mr Craig Martin – Chief Operating Officer
Mr Bruce Elsholz – Chief Financial Officer

Registered Office

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West Perth WA 6005
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Fax: +61 8 9322 7602

Head Office

16 Thelma Street
West Perth WA 6005
Tel: +61 8 9226 0001
Fax: +61 8 9226 0007

Website

www.ottoenergy.com

Auditors

BDO Kendalls Audit & Assurance (WA)
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 Stock Exchange Limited
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 and the entities it controlled at the end of, or during, the half year ended 31 December 2007.

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)

Appointed 12 December 2007

Mr Ian Macliver (Non Executive Director)

Mr John Zadnik (Alternate for Rick Crabb)

Results and Review of Operations

The consolidated profit of the economic entity for the half year, after providing for income tax, was \$91,361 (31 December 2006 – loss of \$368,894).

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

Otto acquired an 18.28% beneficial interest in the Galoc Field, offshore Philippines. The acquisition was through the purchase of two companies each holding a 15.69% shareholding in Galoc Production Company ("GPC"). GPC is the field operator and holds a 58.29% working interest in the Galoc Field. Otto's share of certified 2P reserves in the Galoc Field is approximately 4.2 million barrels of oil.

GPC recently announced the successful drilling of the two development wells, Galoc 3 and Galoc 4.

On short term flow test, Galoc 3 and Galoc 4, tested at a combined flow rate of approximately 11,500 barrels per day. These flows were constrained by facilities on the rig including choke size on the testing equipment. Production from the field is scheduled to commence in late April 2008 at rates considerably higher than those on test.

The economic entity has acquired 2D and 3D seismic in a number of license areas offshore Philippines and onshore Turkey. Processing and interpretation of the seismic data is ongoing in preparation for active drilling programs commencing as early as April 2008 (in the case of Turkey) and during 2008/2009 (in the Philippines).

Otto also farmed into a large exploration acreage in the Po Valley in Italy and will earn up to a 50% interest in the Batiglia-Centro Exploration Permits.

In July 2007 the Company completed the sale of portion of its working interest in its three onshore Turkey licences to co-venturer Incremental Petroleum Ltd for a cash consideration of approximately \$5.2 million.

Otto raised \$75,733,008 cash from equity issues, net of share issue costs. The Company placed 262,908,241 ordinary shares at 30 cents per share and 1 million options were exercised at 25 cents per share. A further 2 million ordinary shares were issued as part of the consideration paid for the Galoc interests. Funds raised from the placement were for the acquisition of the beneficial interests in the Galoc Field with the remainder for ongoing exploration and development of the Company's assets.

Directors' Report

Events Subsequent to Reporting Date

On 25 January 2008 shareholders approved the issue of 11,000,000 Director Options. The options were issued for nil consideration for services provided and as incentive package for Directors.

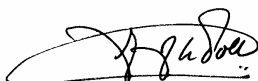
Director options have an exercise price of \$0.30 with an expiry date of 25 January 2011. The vesting condition is based upon the Company trading on ASX at or above \$0.45 for 10 consecutive days.

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 3 for the half year ended 31 December 2007.

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



Director:

Jaap Poll

Dated this 13 March 2008



13 March 2008

The Directors
Otto Energy Ltd
16 Thelma 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 2007, 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.

BG McVeigh
Director

BDO Kendalls Audit & Assurance (WA) Pty Ltd
Perth, Western Australia

Condensed Income Statement

	31 December 2007	31 December 2006
Note	\$	\$
Revenue from operating activities	198,475	29,389
Farm out income	-	879,002
Sale of licence interests in Turkey	3,324,169	-
Foreign exchange gain	-	3,750
Total revenue	3,522,644	912,141
Expenses		
Depreciation expense	20,818	13,834
Employee benefits expense	1,657,785	365,883
Consultants expense	373,442	183,933
Corporate advisory expenses	200,000	125,000
Other expenses	595,411	592,185
Total Expenses	2,847,456	1,280,835
Profit/ (loss) before income tax expense	675,188	(368,694)
Income tax expense – Turkey operations	(583,827)	-
Net profit / (loss) attributable to members of Otto Energy Limited	91,361	(368,694)
Basic earnings per share (cents per share)	0.04	(0.38)
Diluted earnings per share (cents per share)	0.04	(0.38)

The accompanying notes form part of these financial statements.

Condensed Balance Sheet

	Note	31 December 2007 \$	30 June 2007 \$
CURRENT ASSETS			
Cash and cash equivalents		15,402,292	5,191,230
Trade and other receivables		281,099	270,103
Other current assets		38,923	49,654
TOTAL CURRENT ASSETS		15,722,314	5,510,987
NON-CURRENT ASSETS			
Trade and other receivables		21,107,934	-
Property plant and equipment		117,402	94,068
Intangible asset	5	39,616,868	-
Oil and gas properties	6	26,574,411	21,754,124
TOTAL NON-CURRENT ASSETS		87,416,615	21,848,192
TOTAL ASSETS		103,138,929	27,359,179
CURRENT LIABILITIES			
Trade and other payables		720,197	3,568,225
TOTAL CURRENT LIABILITIES		720,197	3,568,225
NON-CURRENT LIABILITIES			
Provision for restoration		51,329	-
TOTAL CURRENT LIABILITIES		51,329	-
TOTAL LIABILITIES		771,526	3,568,225
NET ASSETS		102,367,403	23,790,954
EQUITY			
Issued Capital	3	103,763,428	27,392,420
Accumulated Losses		(4,643,369)	(4,734,732)
Other Reserves		3,247,344	1,133,266
TOTAL EQUITY		102,367,403	23,790,954

The accompanying notes form part of these financial statements.

Condensed Cash Flow Statement

Note	31 December 2007 \$	31 December 2006 \$
CASH FLOWS FROM OPERATING ACTIVITIES		
Payment to suppliers and employees	(2,055,889)	(1,536,942)
Payment for exploration and evaluation	(9,918,110)	(2,412,323)
Interest received	198,475	29,389
Income tax paid	(583,827)	-
Income from farm outs	-	879,002
Sale of Turkish licences	5,520,133	-
Net cash provided by (used in) operating activities	(6,839,218)	(3,040,874)
CASH FLOWS FROM INVESTING ACTIVITIES		
Payment for property, plant & equipment	(44,977)	(27,092)
Payments for purchase of subsidiaries	(58,513,913)	(2,500,000)
Cash acquired on purchase of subsidiary	-	286,548
Net cash provided by (used in) investing activities	(58,560,889)	(2,240,544)
CASH FLOW FROM FINANCING ACTIVITIES		
Proceeds from issue of shares	79,070,000	7,003,375
Payments for share issue costs	(3,336,992)	(356,003)
Repayment of borrowings	-	(500,000)
Net cash provided by (used in) financing activities	75,733,008	6,147,372
Net increase in cash held	10,332,901	865,954
Cash at 1 July 2007	5,191,230	561,169
Exchange rate variation	(121,839)	-
Cash at 31 December 2007	15,402,292	1,427,123

The accompanying notes form part of these financial statements.

Non Cash Financing and Investing Activities

During the half year ended 31 December 2007 Otto issued 2,000,000 ordinary shares at \$0.30 per share and 8,000,000 options at \$0.14 per option as part consideration for the purchase of Colag UK Ltd and Colag BVI Ltd.

Condensed Statement of Changes in Equity

Consolidated Entity 31 December 2007

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 cost	(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

Consolidated Entity 31 December 2006

Note	Issued capital	Retained earnings	Foreign Currency Translation Reserve	Option reserves	Share based payment reserve	Total equity
	\$	\$		\$	\$	\$
At 1 July 2006	9,676,816	(1,936,893)	5,971	633,750	248,909	8,628,553
Adjustment from translation of foreign controlled entities			536,522			536,522
Net income recognised directly in equity						536,522
Loss for the period	-	(368,694)	-	-	-	(368,694)
Total recognised income and expense for the year						167,828
Issued options during the period	-	-	-	187,500	30,456	217,956
Issued shares during the period	10,003,375	-	-	-	-	10,003,375
Transaction cost	(356,002)	-	-	-	-	(356,002)
At 31 December 2006	19,324,189	(2,305,587)	542,493	821,250	279,365	18,661,710

The accompanying notes form part of these financial statements.

Notes to the Financial Statements

1. Basis of Preparation

The half-year consolidated financial statements are a general purpose financial report prepared in accordance with the requirements of the *Corporations Act 2001*, Accounting Standards including AASB 134: "Interim Financial Reporting", Australian Accounting Interpretations and other authoritative pronouncements of the Australian Accounting Standards Board.

It is recommended that this financial report be read in conjunction with the annual financial report for the year ended June 2007 and any publications made by Otto Energy Limited during the half-year in accordance with continuous disclosure requirements arising under the *Corporations Act 2001*. The half-year report does not include full disclosures of the type normally included in an annual financial report.

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

2. Segment Information

The Company operates wholly within the oil and gas exploration sector.

Geographical Segments	Australia \$	Turkey \$	Philippines \$	Unallocated	Consolidated \$
31 December 2007					
Revenue					
Interest Revenue	-	-	-	198,475	198,475
Sale of licence interests	-	3,324,169	-	-	3,324,169
Results					
Segment Results	(2,413,115)	2,705,321	(399,320)	198,475	91,361
31 December 2006					
Revenue					
Interest Revenue	-	-	-	29,389	29,389
Results					
Segment Results	(901,192)	(15,252)	518,361	29,389	(368,694)

Notes to the Financial Statements

3. Issued Capital

438,812,325 (2006: 61,007,744) fully paid ordinary shares

a) Ordinary Shares	2007 No.	2006 No.	2007 \$	2006 \$
At the beginning of reporting period	172,903,994	58,116,250	27,392,420	9,676,816
Shares issued during the period		61,007,744		10,003,375
-August 2007	25,899,998		7,770,000	
-September 2007	11,008,333		3,302,500	
-November 2007	31,000,000		9,300,000	
-November 2007	195,000,000		58,500,000	
-November 2007	1,000,000		250,000	
-December 2007	2,000,000		638,000	
Transaction costs			(3,389,492)	(356,002)
	438,812,235	119,123,994	103,763,428	19,324,189

No dividends were paid or declared during the period.

4. Intangible Assets

Consolidated	Note	Goodwill \$	Total \$
Half-year ended 31 December 2007			
Carrying amount at start of period		-	-
Goodwill on acquisition of controlled entities	5	39,616,868	39,616,868
Carrying amount at end of period		39,616,868	39,616,868

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 Financial Statements

5. Business Combinations

Acquisition of Galoc Interest

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>39,616,868</u>

The assets and liabilities arising from the acquisition are 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

	Half-year	
	2007	2006
	\$	\$
Cash consideration	58,515,913	2,500,000
Less: Balances acquired	-	286,548
Bank overdraft	-	-
Net outflow of cash	<u>58,515,913</u>	<u>2,213,452</u>

2006 Comparatives:

Cash consideration, balances acquired and net outflow of cash for the December 2006 half year relate to the acquisition of the final 50% of NorAsian Energy Ltd not already owned. This acquisition was completed on 11 September 2006 thereby giving the Company 100% control of NorAsian Energy Ltd from that date.

Notes to the Financial Statements

6. Oil and Gas Properties

	2007	2006
	\$	\$
Oil and Gas Properties	26,574,411	21,754,124

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

	\$
Balance at 1 July 2007	21,754,124
Additions	6,877,671
Disposals	(2,057,384)
Carrying amount at 31 December 2007	<u>26,574,411</u>

7. 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	
	2007	2006
	\$	\$
Key Management Personnel		
Consulting fees paid to Dormley Pty Ltd, a company in which Dr Poll is a Director.	82,500	82,500
Legal fees paid to Blakiston & Crabb solicitors, a company in which Mr Crabb was a consultant.	-	16,654
Rent paid to Zadnik Holdings Pty Ltd, a company in which Mr Zadnik is a Director, for the provision of office space.	23,584	24,200
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.	106,009	80,647
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.	623,425	655,530

Notes to the Financial Statements

8. Share-Based Payments

The following share-based payment arrangements existed at 31 December 2007:

On 27 September 2005, 1,000,000 share options were granted to Dormley Pty Ltd, a company in which Dr Poll is a Director, to take up ordinary shares at an exercise price of \$0.25 each. The options are exercisable on or before 1 December 2007. The options hold no voting or dividend rights and are not transferable.

On 27 September 2005, 1,000,000 share options were granted to Dormley Pty Ltd, a company in which Dr Poll is a Director, to take up ordinary shares at an exercise price of \$0.30. The options were exercisable on or before 1 December 2007. The options hold no voting or dividend rights and are not transferable.

The options outstanding at 31 December 2007 had a weighted average exercise price of \$0.275 and a weighted average remaining contractual life of 0.42 years. Exercise prices range from \$0.25 to \$0.30 in respect of options outstanding at 31 December 2007.

Included under employee benefits expense in the income statement is \$20,304, and relates, in full, to equity-settled for this share based payment transaction.

The weighted average fair value of the options granted was \$0.13.

The price was calculated by using a Black Scholes option pricing model applying the following inputs:

Weighted average exercise price	\$0.275
Term of the option	0.42 years
Underlying share price	\$0.29
Expected share price volatility	21.3%
Risk free interest rate	5.26%

Historical volatility has been the basis for determining expected share price volatility as it assumed that this is indicative of future trends, which may not eventuate.

The life of the options is based on the historical exercise patterns, which may not eventuate in the future.

Employee Option Plan

The following share-based payment arrangements existed under an employee option plan at 31 December 2007:

On 08 May 2007 shareholders approved the issue of 4,150,067 plan options to Directors and employees, to take up ordinary shares at an exercise price of \$0.20. The options are exercisable on or before 29 May 2011. The options hold no voting or dividend rights and are not transferable. The full terms and conditions are outlined in the Company Employee Option Plan approved by shareholders at the General Meeting.

Included under employee benefits expense in the income statement is \$246,588, and relates, in full, to equity-settled for this share based payment transaction.

The fair value of the plan options (20 cents) granted during the year was \$0.11.

Notes to the Financial Statements

8. Share-Based Payments (cont'd)

The price was calculated by using a Black Scholes option pricing model applying the following inputs:

Exercise price	\$0.20
Term of the option	4.0 years
Underlying share price	\$0.225
Expected share price volatility	13.4%
Risk free interest rate	6.01%

Historical volatility has been the basis for determining expected share price volatility as it assumed that this is indicative of future trends, which may not eventuate.

The life of the options is based on the historical exercise patterns, which may not eventuate in the future.

On 08 May 2007 shareholders approved the issue of 4,149,966 plan options to directors and employees, to take up ordinary shares at an exercise price of \$0.30. The options are exercisable on or before 29 May 2011. The options hold no voting or dividend rights and are not transferable. The full terms and conditions are outlined in the Company Employee Option Plan approved by shareholders at the General Meeting.

Included under employee benefits expense in the income statement is \$119,556, and relates, in full, to equity-settled for this share based payment transactions.

The fair value of the plan options (30 cents) granted during the year was \$0.08.

The price was calculated by using a Black Scholes option pricing model applying the following inputs:

Exercise price	\$0.30
Term of the option	4.0 years
Underlying share price	\$0.225
Expected share price volatility	13.4%
Risk free interest rate	6.01%

Historical volatility has been the basis for determining expected share price volatility as it assumed that this is indicative of future trends, which may not eventuate.

The life of the options is based on the historical exercise patterns, which may not eventuate in the future.

On 08 May 2007 shareholders approved the issue of 3,149,967 plan options to Directors and employees, to take up ordinary shares at an exercise price of \$0.40. The options are exercisable on or before 29 May 2011. The options hold no voting or dividend rights and are not transferable. The full terms and conditions are outlined in the Company Employee Option Plan approved by shareholders at the General Meeting.

Included under employee benefits expense in the income statement is \$50,004, and relates, in full, to equity-settled share based payment transactions.

The fair value of the plan options (40 cents) granted during the year was \$0.06.

Notes to the Financial Statements

8. Share-Based Payments (cont'd)

The price was calculated by using a Black Scholes option pricing model applying the following inputs:

Exercise price	\$0.40
Term of the option	4.0 years
Underlying share price	\$0.225
Expected share price volatility	13.4%
Risk free interest rate	6.01%

Historical volatility has been the basis for determining expected share price volatility as it assumed that this is indicative of future trends, which may not eventuate.

The life of the options is based on the historical exercise patterns, which may not eventuate in the future.

On 17 December 2007 a further 8,250,000 plan options were issued to employees and consultants, to take up ordinary shares at an exercise price of \$0.30. The options are exercisable on or before 17 December 2010. The options hold no voting or dividend rights and are not transferable. The full terms and conditions are outlined in the Company Employee Option Plan approved by shareholders at the General Meeting.

Included under employee benefits expense in the income statement is \$96,250, and relates, in full, to equity-settled for this share based payment transaction.

The fair value of the plan options (30 cents) granted during the year was \$0.14.

The price was calculated by using a Black Scholes option pricing model applying the following inputs:

Exercise price	\$0.30
Term of the option	3.0 years
Underlying share price	\$0.330
Expected share price volatility	14.0%
Risk free interest rate	6.36%

9. Contingent Liabilities and Commitments

Farm-in Agreement

In December 2007 Otto Energy Limited entered into a farm-in agreement to acquire 50% of the Bastiglia-Cento Exploration Permits in the Po Valley, onshore Italy. At 31 December 2007 the Company had made an initial payment of \$400,000. A second contribution amount of \$3,589,147 was subsequently paid on 8 January 2008. Thereafter the Company has a commitment to pay 100% of the cost of a farm-in well. The well cost is estimated at \$6,000,000.

Performance Shares

As at the date of this report the Company has 2,500,000 Performance Shares on issue. Each Performance Share converts into one fully paid ordinary share on the achievement of the first sales of oil or gas in commercial quantities from any of the Edirne Licence, Catalca License and/or Ortakoy License ("Milestone"). No liability has been reported in respect to the Performance Shares given as at the date of this report the probability of achieving the Milestone can not be reliably measured.

Notes to the Financial Statements

9. Contingent Liabilities and Commitments (cont'd)

If the Milestone is not achieved by 20 December 2009 (5 years following the listing of the Company on ASX) the 2,500,000 Performance Shares will automatically convert into a total of four fully paid ordinary shares.

Other than described above, there have been no significant changes in contingent liabilities since the last annual reporting date, 30 June 2007.

10. Events Subsequent to Reporting Date

On 25 January 2008 shareholders approved the issue of 11,000,000 Director Options for nil consideration for services provided and as incentive package for Directors.

Director options have an exercise price of \$0.30 with an expiry date of 25 January 2011. The vesting condition is based upon the Company trading on ASX at or above \$0.45 for 10 consecutive days.

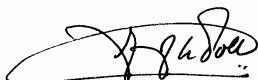
There have been no other subsequent events.

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 2007 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:

Jaap Poll

Dated this 13 March 2008

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

We have reviewed the accompanying half-year financial report of Otto Energy Limited, which comprises the condensed balance sheet as at 31 December 2007, and the condensed income statement, condensed statement of changes in equity and condensed cash flow statement for the half-year ended on that date, a description 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 in order for the disclosing entity to lodge the half-year financial report with the Australian Securities and Investments Commission.

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 designing, implementing 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 an Interim 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 2007 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 2007 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 Kendalls Audit & Assurance (WA) Pty Ltd

BDO Kendalls
BG McVeigh

BG McVeigh
Director

Perth, Western Australia
Dated this 13 day of March 2008