



18 January 2011

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

By E-Lodgement

DUHAT-1 EXPLORATION DRILLING – SC 51, PHILIPPINES

Highlights:

- **Otto executes farm-out of Service Contract 51, Offshore Visayas, Philippines**

Otto Energy Ltd (ASX: OEL) is pleased announce it has executed a farm-out of Service Contract 51 ("SC51") to SWAN Oil and Gas Ltd ("SWAN"). The agreement has been approved by the SC51 Joint Venture Partners and is awaiting Philippine Department of Energy approval.

SWAN is an unlisted Australian company whose vision is to be a long-term investor, owner and operator of oil and gas projects in Australasia.

The key terms of the agreement are as follows:

- Otto will divest 40% equity in SC51 to SWAN
- Otto will retain operatorship
- SWAN will pay the first US\$1.5 million towards the drilling of Duhat-1 in San Isidro, Onshore Leyte in the Philippines to earn this interest
- SC51 Joint Operating Agreement and Farm-in Agreement have been amended to split SC51 into a Northern and Southern block. Otto has elected to not continue in the South block, containing the Argao prospect, giving SWAN 80% working interest in the Southern block. Otto will retain a 40% working interest in the Northern block.

Otto's Managing Director Paul Moore said that the completion of the farm-in has been a key focus of the company. "Otto is moving towards drilling our first operated well in the Philippines, Duhat-1, early in 2011. By reducing our equity to our optimum working interest we have positioned Otto to participate in ongoing investment given exploration success. We are excited to be working with SWAN in drilling Duhat-1".

Yours faithfully

Paul Moore
Managing Director

Contact:

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OTTO AT A GLANCE

- ASX-listed oil and gas company with significant growth potential.
- Production from Galoc Oil Field provides cash flow.
- First operated exploration well in Philippines in 2011
- Opportunity rich with substantial exploration prospects and leads in portfolio.

COMPANY OFFICERS

Rick Crabb	Chairman
Paul Moore	Managing Director
Ian MacIver	Director
Rufino Bomasang	Director
John Jetter	Director
Ian Boserio	Director
Matthew Allen	CFO/Coy Secretary

SERVICE CONTRACT 51 OFFSHORE AND ONSHORE VISAYAS

Service Contract Summary:

- OEL (through its wholly-owned subsidiary NorAsian Energy Ltd) 80% Interest and Operator
- Area 3,320 km²
- Work commitment in the current sub-phase requires drilling of 1 exploration well by July 2011

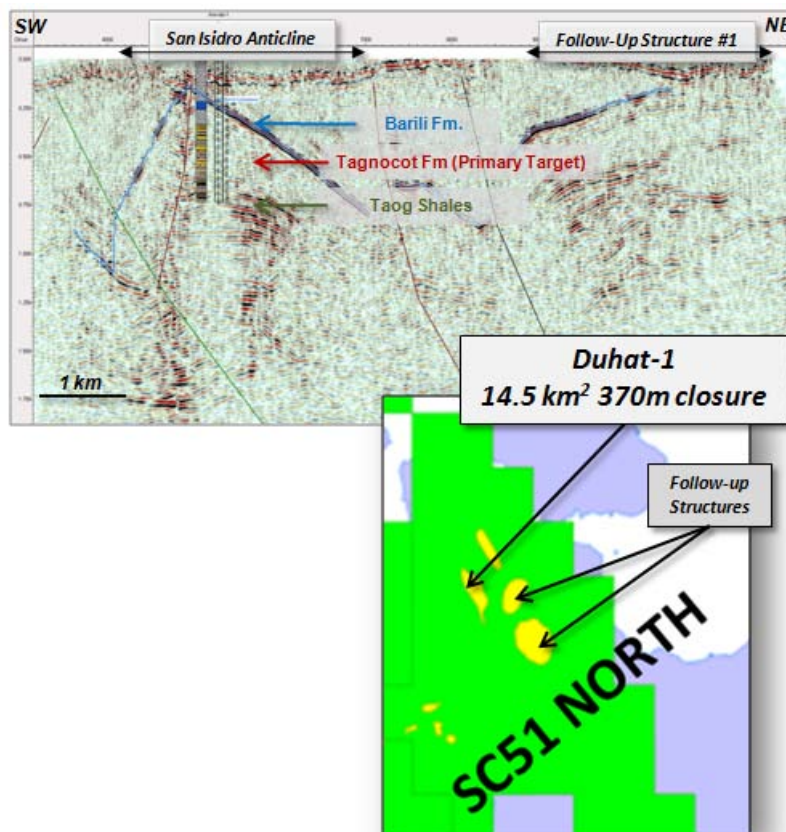
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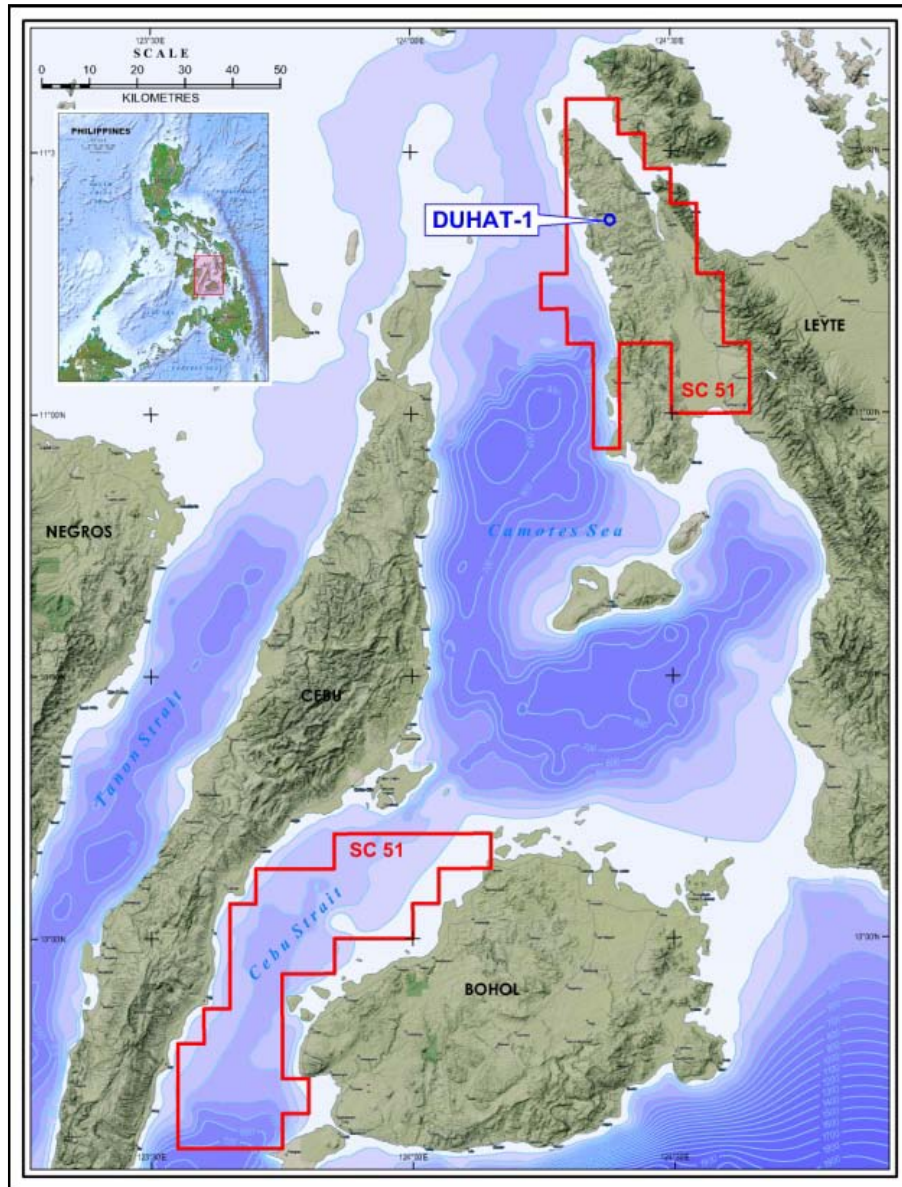
The drilling of the Duhat-1 well in San Isidro is planned to commence in March 2011. This US\$2.5 to US\$3.0 million well will be a test of an anticlinal structure with the primary target being sandstones of the Miocene Tagnocot formation. Initial volumetric estimates put the Oil Initially in Place in this structure at between 12 and 263 mmbbls with a P50 estimate of 76 mmbbls.

The minimum reserve volume for an economic discovery in this environment is less than 1 mmbbl recoverable.

Whilst the prospect is considered high risk, it sits adjacent to a number of surface oil seeps and has a very favourable volumetric upside. Success at Duhat could be followed by additional exploration drilling in the block as several look alike structures are located close by.

The Department of Energy has approved the extension of the current sub-phase of SC51 until July 2011 to allow the Duhat-1 well to be drilled and results evaluated before being required to enter the following sub-phase.





Philippines Service Contract 51: Area Map

SC51 Update: Duhat-1 Drilling Q1 2011



Duhat-1 will be the **first valid structural test conducted on the island of Leyte**, an area of well-known and documented oil seeps.

Duhat-1 Prospect: Drilling the San Isidro Anticline

Location	On-shore, NW Leyte
Proposed Well Depth	1000m
Area of Closure	14.5 km ²
STOIIP	12-76-263 MMbbls
Source	Upper Oligocene Taog shales (TOC >3%)
Present GPOS	8%
Estimated Spud Date	March 2011

Low cost commitment well with the potential to discover a new hydrocarbon province.

Many adjacent look-alike structures would be tested given success at Duhat. A low cost, high value opportunity.

