



ANNUAL REPORT



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Chairman's REPORT

Dear Shareholders:

It is my pleasure to deliver my eighth annual report to shareholders as the Chairman of Otto Energy.

The Board and Management remains focused on creating value for shareholders through unlocking the potential of our diverse asset base and achieving sustainable growth within our regions of focus. During the year, that growth included a new focus for Otto on the highly prospective East Africa Rift Valley region, with the company acquiring its first interests in Tanzania in February 2012. The opportunity to complement our core Philippines portfolio with growth opportunities onshore or near shore East Africa will become an increasingly important part of our strategy in the future.

I would like to take this opportunity on behalf of the Board to thank the Management team and all of the staff in our Perth and Manila offices for their efforts over the past year. It is through the dedicated efforts of this group of highly experienced and dedicated individuals that Otto has achieved its track record of delivery, and will realise its future potential. My gratitude also goes to my fellow directors for their guidance and support during a particularly eventful period. My appreciation extends also to shareholders for their support of the Company, during a year in which Otto's share price outperformed many of its peers in a volatile share market environment.

We anticipate another busy period in FY2013, with the execution of drilling on a number of opportunities in our Philippines acreage including:

- Two development wells in the Galoc field, offshore Palawan;
- An exploration well at the Galoc North prospect, offshore Palawan;
- The high impact ultra-deepwater Cinco-1 well in SC55, offshore southern Palawan; and
- The Duhat-2 well in SC51, onshore Leyte, to follow-up the 2011 promising result of the Duhat-1 well.

It is with great anticipation that I look forward to Otto Energy delivering on its objectives again during FY2013, reporting another year of strong financial and operational performance and creating additional value for our shareholders.



RICK CRABB | CHAIRMAN

A handwritten signature in black ink, appearing to read 'Rick Crabb', written in a cursive style.

Chief Executive Officer's REPORT

Dear Shareholders:

Welcome to Otto Energy's Annual Report for FY2012, a year which has also been my first as Chief Executive Officer having joined the company in November 2011. I'd like to thank our shareholders, staff and the Board for supporting me as I have assumed this exciting role. This Annual Report highlights several key achievements delivered by the team at Otto Energy in each of the exploration, development and production aspects of our business. These milestones have set a strong platform for future growth, and position Otto Energy to deliver three exploration wells, two development wells and establish new production infrastructure that will double our current production. We plan to deliver these outcomes before the end of the calendar year 2013.

All of our objectives for 2012 were set within the context of a clear and credible strategy which is consistent with our balance sheet, organisation and quality of our current portfolio. The key elements of our strategy are;

- **Build an integrated petroleum company.** We will deliver a balanced risk profile with multiple, high value exploration targets whilst managing near-term funding through exposure to producing and near-term development opportunities. We will also seek to ensure a balance within the portfolio between high potential offshore targets, and lower cost onshore exploration plays
- **Grow our operating capability.** We will assume the role of operator where it makes sense and therefore ensure we take the lead on moving our business forward. Where we are non-operator, we ensure we place this role in the hands of those with specific skills relevant to the asset
- **Maintain focus on South East Asia and onshore East Africa.** We will leverage the collective experience and skills of our organisation. Our target countries for investment are characterised by good fiscal terms supported by stable and transparent legislation
- **Build an exploration portfolio in proven hydrocarbon provinces.** We will seek early entry into basins with significant remaining potential. We enter these opportunities holding a material initial equity but manage financial exposure relative to technical risk

In everything we do, we place the highest priority on the safety of our staff and contractors. We ensure that we preserve the environment and respect the communities where we operate.

Our key achievements during financial year 2012 across each of the lifecycle phases have been:

Production

In August 2011, we increased our working interest in the Galoc oil field from 19% to 33% through the acquisition of an interest previously held by our former joint venture partner, Vitol. This, as a result, positioned Otto Energy as operator of Service Contract (SC) 14C in which the Galoc field is located. This has been a timely boost to our ability to generate revenue and also allows us to take a leading role in realising increased value from the asset.

In April 2012, we completed a significant upgrade to the FPSO that has provided increased operating reliability through the installation of a permanent mooring system as well as general facility upgrades. This investment will support increased production and an extended field life resulting from the Phase II development planned for 2013.

We produced approximately 0.5 MMbbls (Net Otto share) of oil from Galoc during the 12-month period. This safe and reliable operation continues to generate funds that will be invested in new exploration and development opportunities.

Development

The Front End Engineering & Design (FEED) for the Galoc Phase II development was successfully executed through FY2012. In parallel with FEED activities, we safely executed a high resolution 3D seismic survey across the Galoc field which has been incorporated into detailed geological and reservoir models. We executed all of this work as operator on behalf of the joint venture and it has been critical to the subsequent successful Final Investment Decision for Phase II and a substantial increase in our reserves at both 1P and 2P levels.

Exploration

We have replenished our exploration portfolio with the acquisition of two new production sharing agreements onshore Tanzania. This represents the first tangible measure of success for the onshore East Africa component of our growth strategy.

In the Philippines, we progressed the acquisition of a new 2D seismic programme onshore Leyte in preparation for drilling an exploration well on the Duhat prospect in 2013. Both of these onshore assets represent lower cost exploration opportunities with the potential to commercialise subsequent discoveries in short timeframes.

In SC55, offshore Palawan, we have identified drill-ready prospects that have the potential to yield large volumes of natural gas. All detailed joint venture agreements were executed and approved by the Philippines government that bind BHP Billiton to funding the commitment well



GREGOR MCNAB | CEO

Chief Executive Officer's REPORT (cont)

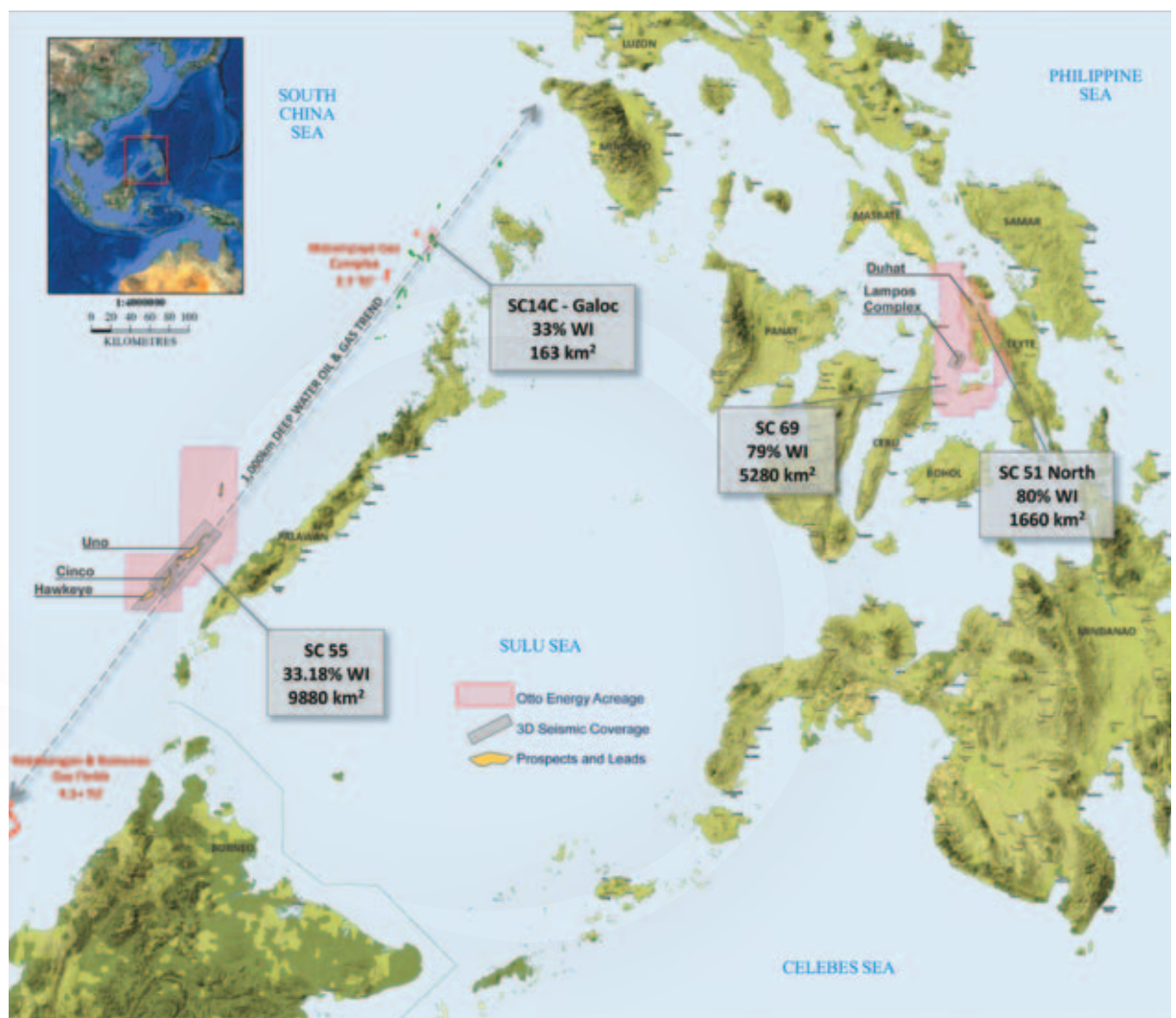
in SC55. BHP Billiton, as operator, progressed work to secure an ultra deepwater rig to deliver the commitment well in 2013.

Our balance sheet remained strong through 2012, underpinned by cash and ongoing production revenue from Galoc. After funding all our commitments, we closed out the year with a cash balance of \$28.3 million and reported a profit of US\$14.787 million. As we move forward, we will maintain the same operating discipline that ensures we grow our business consistent with our balance sheet.

Looking ahead, FY2013 is expected to yield a number of exciting milestones for Otto. These include delivering increased production from Galoc through two new

development wells as part of the Phase II scope, testing the potential of our acreage with three exploration wells, maturing new prospects in our existing acreage and restocking our inventory with new acreage positions. I look forward to delivering on these opportunities over the coming year.

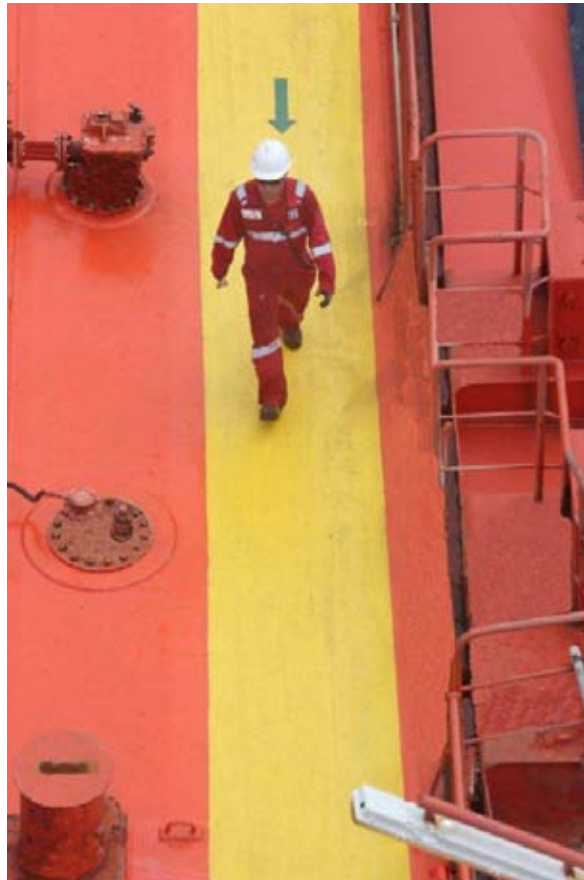
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Throughout FY2012, Otto Energy Ltd ("Otto") has continued to focus on its core portfolio of high quality exploration assets, complemented by oil production from the Galoc field.

Highlights:

- Acquisition of the remaining 68.6% shareholding in Galoc Production Company WLL, increasing Otto's working interest in the Galoc oil field to 33.0% direct working interest
- Galoc production of 1.45 MMbbl (0.48 MMbbl net to Otto) during the year
- Successful installation and commissioning of an improved mooring and riser system for the FPSO Rubicon Intrepid in April 2012
- Acquisition of 184 km² of new 3D seismic covering the Galoc field and adjacent Galoc North exploration prospect
- Commencement of Front End Engineering and Design for Galoc Phase II project with Final Investment Decision achieved in September 2012
- Acquisition of two large Production Sharing Agreements, each covering an area more than 17,000 km² in Tanzania, expanding Otto's portfolio into the East African Rift Valley



Production

Since the start-up of production in October 2008, the Galoc Oil Field has produced a total of 9 million barrels of crude oil (as at 30th June 2012), and delivered 26 offtakes to refinery customers. As at the end of the June 2012 quarter, production averaged approximately 6,000 barrels of oil per day.

Otto has commenced pre-planning activities for the further development of the Galoc field with a decision on Phase II achieved in September 2012.

Exploration and Development

Interpretation of the recently acquired 3D seismic from SC55, offshore Palawan, has matured the amplitude-supported Hawkeye prospect and a series of large Nido level carbonate prospects. The permit contains a significant number of high quality, large volume prospects that are being quickly matured for drilling by Otto and its partners. The JV has recently elected to enter the next permit sub-phase which requires a commitment well to be drilled prior to August 2013.

Production GALOC OIL FIELD

FY2012 Highlights:

- Production of 1.45 MMbbl gross (0.48 MMbbl net to Otto)
- Delivery of four offtakes to Asia Pacific refinery customers
- Successful Installation and commissioning of an improved mooring and riser system for the FPSO Rubicon Intrepid in April 2012
- Acquisition of 184 km² of new 3D seismic covering the Galoc field and adjacent Galoc North exploration prospect
- Commencement of Front End Engineering and Design for Galoc Phase II project with Final Investment Decision achieved in September 2012

Joint Venture Partners:

Name	Percentage
Galoc Production Company WLL (Operator) (Wholly owned subsidiary of Otto Energy Ltd)	33.0%
Galoc Production Company (2) Pte Ltd	26.8%
Nido Petroleum Philippines Pty Ltd	22.9%
The Philodrill Corporation	7.2%
Oriental Petroleum & Minerals Corporation/ Linapacan Oil Gas & Power Corporation	7.8%
Forum Energy Philippines Corporation	2.3%

Background

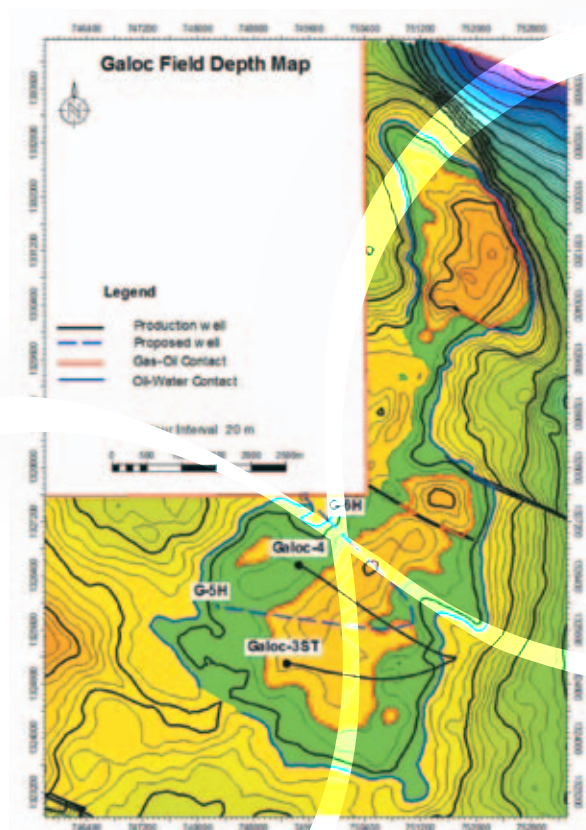
The Galoc Oil Field is located in Palawan's proven oil and gas fairway in a water depth of approximately 290 metres and commenced production in October 2008. Galoc crude is a 35° API oil existing in a turbidite sandstone reservoir at depths below sea level of approximately 2,100 metres and is produced via two horizontal production wells.

Operations Summary

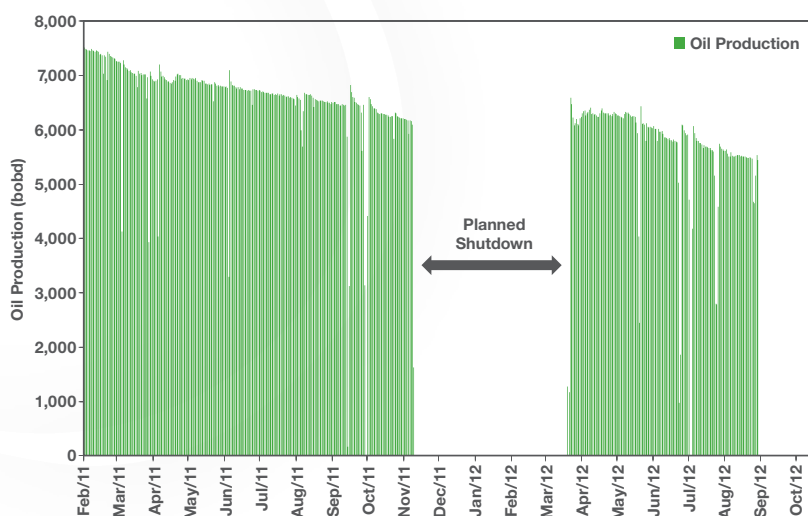
Oil production over FY2012 totalled more than 1.45 million barrels (gross) at an average daily rate 6,250 barrels of oil per day (bopd). Cumulative to date production from the field exceeds 9 million barrels (gross). A total of four offtakes were delivered to Asia Pacific refinery customers in the financial year and 26 cargoes have now been delivered since production commenced.

Production from the Galoc oil field was temporarily shut down on 23 November 2011, following which the FPSO Rubicon Intrepid sailed to Singapore for planned re-certification, maintenance, inspection and turret installation work. The FPSO returned to the field during March 2012 and production successfully recommenced on 2 April 2012. Subsequent performance of the FPSO and new mooring system has delivered the expected production uptime improvement and the first offtake was completed at the end of May 2012.

At the time of report writing, daily production averaged approximately 5,600 bopd and on natural decline from an initial peak rate of 17,000 bopd via this solution gas drive reservoir.



Galoc Daily Oil Production



Summary of operating results are contained in the table below:

	Production bbls		Lifting's bbls		Uptime %
	Gross	Net	Gross	Net	
3rd Qtr 2011	595,423	196,490	353,322	116,596	98
4th Qtr 2011	317,972	104,931	702,257	231,745	95
1st Qtr 2012	–	–	–	–	–
2nd Qtr 2012	534,405	176,354	325,546	107,430	99

Further Development

The joint venture commenced the engineering design work in late 2011 with the Final Investment Decision ("FID") delivered in September 2012.

The scope of FEED work, included detailed subsurface modelling of the reservoir, drilling and completion design, subsea engineering and tie-back design for new wells as well as joint venture financing considerations.

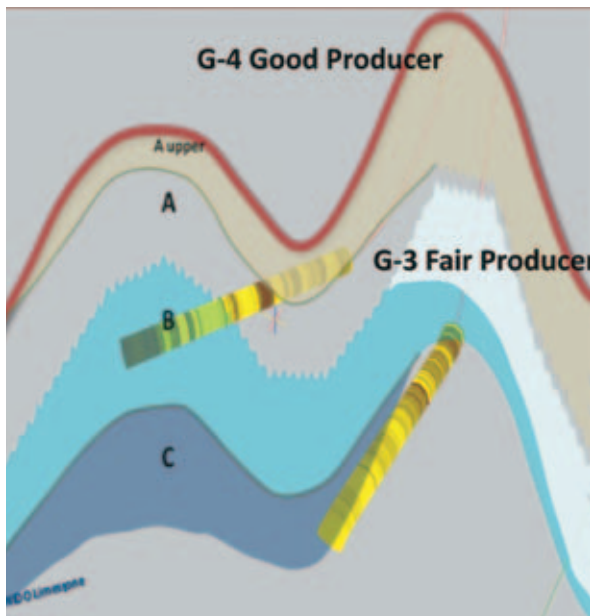
The FEED work was undertaken in Perth primarily, with support from Otto Energy's Manila-based Galoc Production Company personnel.

Acquisition of 3D Seismic

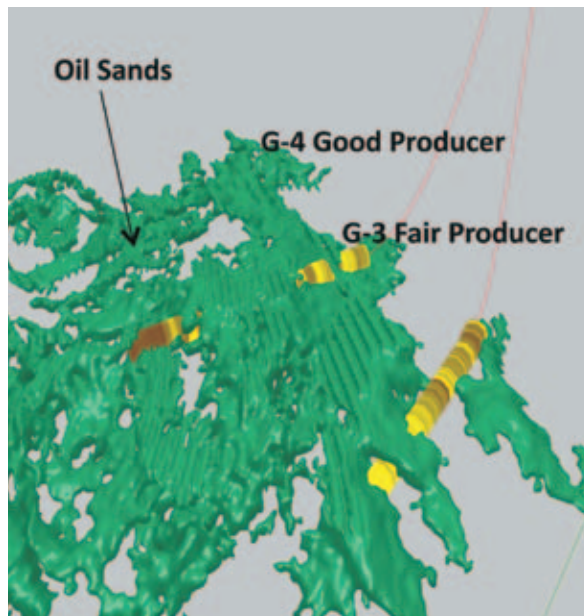
In addition to engineering and design works, the acquisition of 184 km² of new 3D seismic data was completed in late 2011, covering the Galoc field and adjacent Galoc North exploration prospect.

The new 3D seismic will support the placement of Phase II wells in the reservoir and de-risk this major capital expenditure. In addition, it will also allow full evaluation of the Galoc North exploration prospect, which may realise further development opportunities for the Galoc field.

Old reservoir model



New reservoir model



New 3D Seismic provides a significantly enhanced reservoir model for the Galoc field.

FY2012 Highlights

- Preparation for commencement of drilling the Cinco-1 well undertaken; Operator, BHP Billiton currently in the process of securing a drilling rig.
- Ongoing evaluation of 3D seismic to support further exploration in SC55.

Joint Venture Partners

Name	Percentage
BHP Billiton Petroleum	60.0% (Operator)
OEL (through 100% subsidiary Otto Energy Investments Ltd (formerly NorAsian Energy Ltd))	33.2%
Trans-Asia Oil & Energy Development Corporation	6.8%

Work Program

Sub-Phase	Date	Commitment
4	Aug 11 – Aug 13	1 Deepwater Well
5	Aug 13 – Aug 14	1 Deepwater Well
Extension Period	Further 1 year allowed	

Prospectivity

A robust, diverse and extensive portfolio of exploration prospects and leads has emerged from the recent analysis of more than 2,400 km² of 3D seismic acquired in 2010. This portfolio has significant depth and variety and will present a high impact exploration drilling program for Otto over the remaining term of the exploration licence.

The recent 3D seismic data provides clear evidence of a new hydrocarbon bearing play fairway being present over much of the licence area with direct hydrocarbon indicators ("DHI's") being observed in multiple locations. This area of South West Palawan has seen little historical offshore exploration drilling, and no deepwater offshore drilling has occurred to date. This is an exciting new frontier that has significant scale and potential, sitting between proven oil and gas fields to both the north and south.

Oil prospects identified to date contain an estimated unrisks mean in place resource of 680 MMbbls. Gas prospects and leads identified to date contain an estimated unrisks mean recoverable resource of up to 19 Tcf plus a further 670 MMbbls of associated condensate. Importantly, the diversity in play types identified in the licence area will allow the drilling of multiple independent wells to test the prospectivity and potential of this block.

Importantly SC55 contains both carbonate and sandstone reservoir targets in a variety of settings. The Hawkeye and Cinco prospects provide an indication of this diversity of play type and are the two most drill mature in the present portfolio.

Hawkeye Prospect

The Hawkeye prospect is interpreted to be a large, relatively undeformed Miocene aged toe thrust, analogous to offset discoveries in Malaysia. The Miocene turbidite reservoir is likely to be tested by a well sitting in approximately 1,700m of water. The prospect was first identified on vintage 2D seismic data which was later followed up by the recent 3D seismic acquisition in early 2010. The 3D data has further matured the prospect to drillable status. Hawkeye is a well imaged, toe thrust structure of more than 500m vertical relief, 50kms area with attendant DHI's. Multiple flat spots are evident with an associated oil column consistent with detailed rock property analysis.

Resource estimates at Hawkeye for oil in place range from 87 MMbbl to 1,539 MMbbl with a mean of 680 MMbbls.

Cinco Prospect

The Cinco prospect is interpreted to be a large Nido level reef/platform carbonate build-up, which sits on a regional high block in water depth of approximately 1,400 metres. The reservoir is predicted at 3,120 metres sub sea floor. The recent 3D seismic acquired in early 2010 has identified a significant number of similar structures. A clear gas escape chimney is observed on seismic adjacent to Cinco reducing the risk of hydrocarbon charge into the structure. Success at Cinco would high grade many of the adjacent large analogue structures in the block and in combination they have the potential to unlock a large new gas province of LNG proportions.

There are a number of similarities between the Cinco prospect and the largest gas and condensate discovery in the Philippines, at Malampaya, which has been developed as the country's largest gas to power project. Both have Nido carbonate reservoir, sit on regional high blocks and have similar seismic character and volumetric capacity. Resource estimates at Cinco for in place gas range from 0.9 to 6.3 Tcf with a mean of 3.2 Tcf. Associated condensate would range from 21 to 151 MMbbls with a mean of 75 MMbbls.

Permit Background

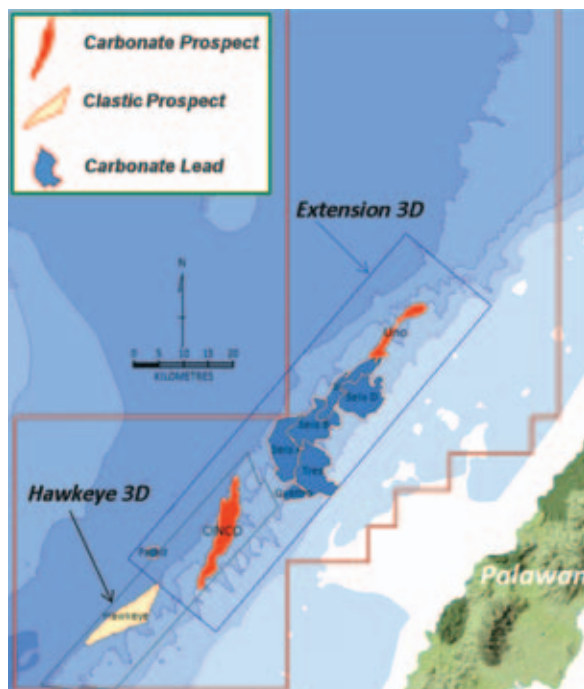
Licence

Service Contract 55 was awarded to Otto Energy Investments Ltd (formerly NorAsian Energy Ltd) in 2005. Two important deepwater exploration wells are committed to be drilled prior to the expiry of the initial period of the licence, with a possible two-year extension.

SC55 covers an area of 9,880 km² located in the southwest Palawan Basin. It is a deepwater block in the middle of a proven regional oil and gas fairway that extends from the productive Borneo offshore region in the southwest to the offshore Philippine production assets northwest of Palawan.

The exercise of an option to farm-in to SC55 by BHP Billiton was announced in May 2011. This significant commitment by BHP Billiton provides Otto with access to a proven deepwater offshore operator. The terms of the farm-in agreement will see Otto relinquish 60% working interest and operatorship to BHP Billiton, in return for a carry on two deepwater offshore wells and reimbursement of prior costs incurred in the contract area.

Notice has been issued by the joint venture to the Department of Energy to enter sub-phase 4 commencing August 2011 and committing to the drilling of the first deepwater offshore well. This well is required to be drilled prior to August 2013.



Geology

The primary petroleum system in southwest Palawan comprises Eocene to Lower Miocene source rocks deposited in sub-basins that have expelled oil and gas into Oligocene and younger reservoirs of various trap styles.

A variety of play types are present in SC55 ranging from carbonate reefs of Oligocene to Early Miocene age to folded and thrustured Mid-Miocene sediments. The latter form a series of toe-thrusts which are optimally located to receive hydrocarbons from the basin axis and/or from mature sediments below adjacent imbricate thrusts. The toe-thrust area is analogous to several of the prolific hydrocarbon producing areas in West Africa and more locally Malaysia.

Otto has recently acquired in excess of 2,400 km² of new 3D seismic data parallel to the prospective thrust and fold terrain. With the completion of processing and interpretation of these data, a large number of attractive carbonate and sandstone reservoir targets have been identified in a variety of structural settings. This is complemented by the appearance of a number of DHI's on seismic ranging from extensive flat spots, gas chimneys and sea floor pock marks which reduce hydrocarbon charge risk significantly.

Reefal build ups at Cinco and adjacent features are analogous to those presently producing at Malampaya, and Hawkeye has all the attributes of a significant discovery similar to those now developed in offshore Sabah.

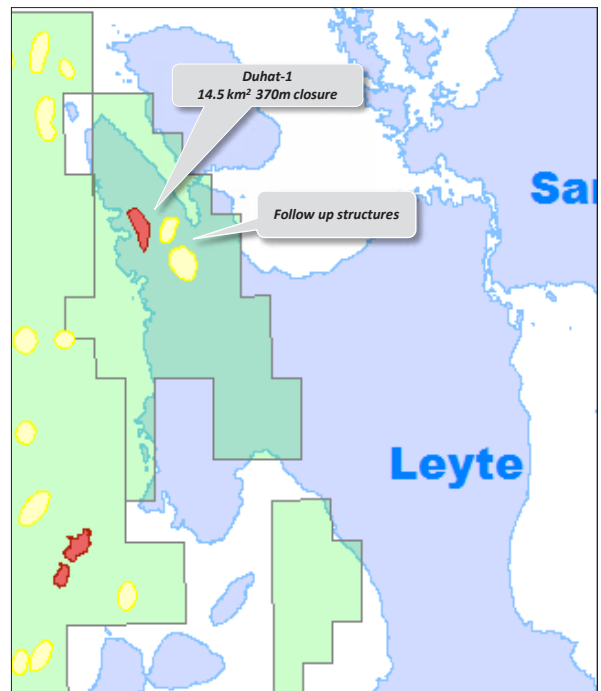
Significant Regional Projects

- Malampaya gas and condensate project, operated by Shell, offshore Palawan, Philippines
 - Offshore gas and condensate project commissioned in 2001, produces approximately 2,700 megawatts of power for the main island of the Philippines, Luzon
- Kikeh oil project, operated by Murphy Oil Corporation, offshore Sabah, Malaysia
 - Initial production in 2007 from Kikeh was 120,000 bbl per day – there are significant similarities between Hawkeye and the Kikeh development
- Keababangan cluster of gas and condensate fields, operated by Keababangan Petroleum Operating Company (Petronas, Shell and ConocoPhillips), offshore Sabah, Malaysia
 - Large gas aggregation offshore Sabah with export to the Bintulu LNG plant, first gas expected by 2014 producing approximately 130,000 to 140,000 boe per day.

Service Contract 51

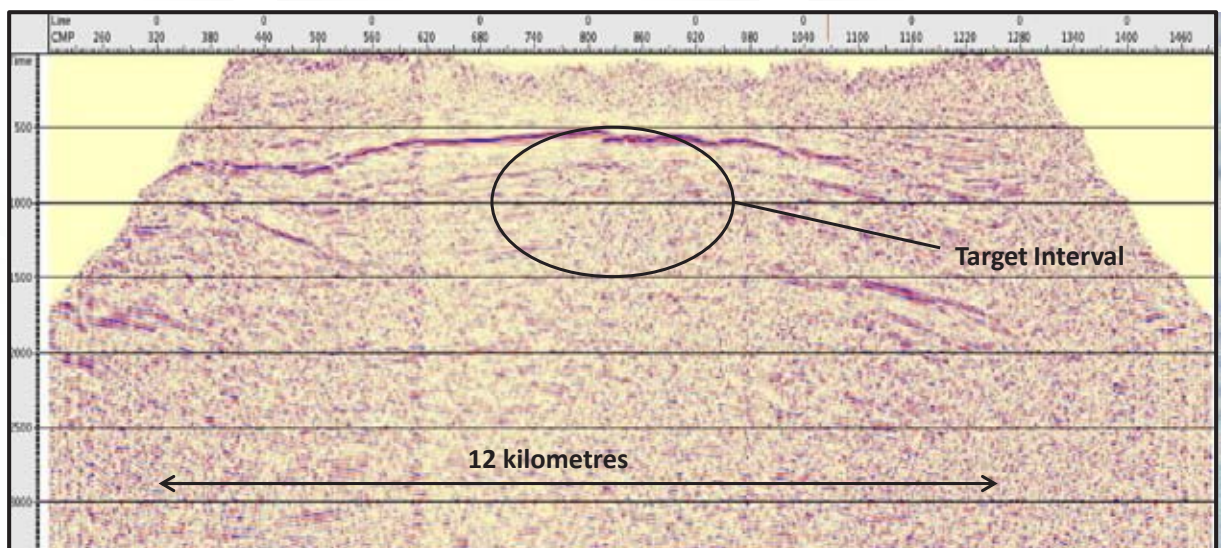
Service Contract 51 North is situated predominately on-shore, on the northern tip of Leyte. Northern Leyte has been described by geologists as containing the most natural oil seeps in the Philippine archipelago, yet remains largely under-explored. In April 2011, the exploration well Duhat-1 was drilled to test the Middle Miocene reservoirs of the San Isidro anticline. Mechanical issues in combination with unstable hole conditions ultimately led to the premature plugging and abandonment of the wellbore at shallow depth, yet provided valuable and encouraging data on the petroleum system in the area.

Whilst drilling Duhat-1 significant oil and gas shows were observed. These shows provided an additional incentive to undertake new 2D seismic acquisition which is presently being recorded in order to support further drilling on the Duhat prospect. Early results from this new acquisition are encouraging and confirm the presence of a sizable opportunity in the vicinity of an active petroleum province. Local oil seeps adjacent to the prospect have been further confirmed by the presence of oil in seismic shotholes.



SC51 Block Participants

	North	South
Otto Energy Investments Ltd (formerly NorAsian Energy Limited) (100% subsidiary of Otto)	80.0% and Operator	Operator
Alcorn Gold Resources Corporation	9.3%	46.5%
Trans-Asia Oil and Energy Development Corporation	6.7%	33.5%
PetroEnergy Resources Corporation	4.0%	20.0%



Brute stack seismic line through Duhat prospect. NW - SE strike line.

Service Contract 69

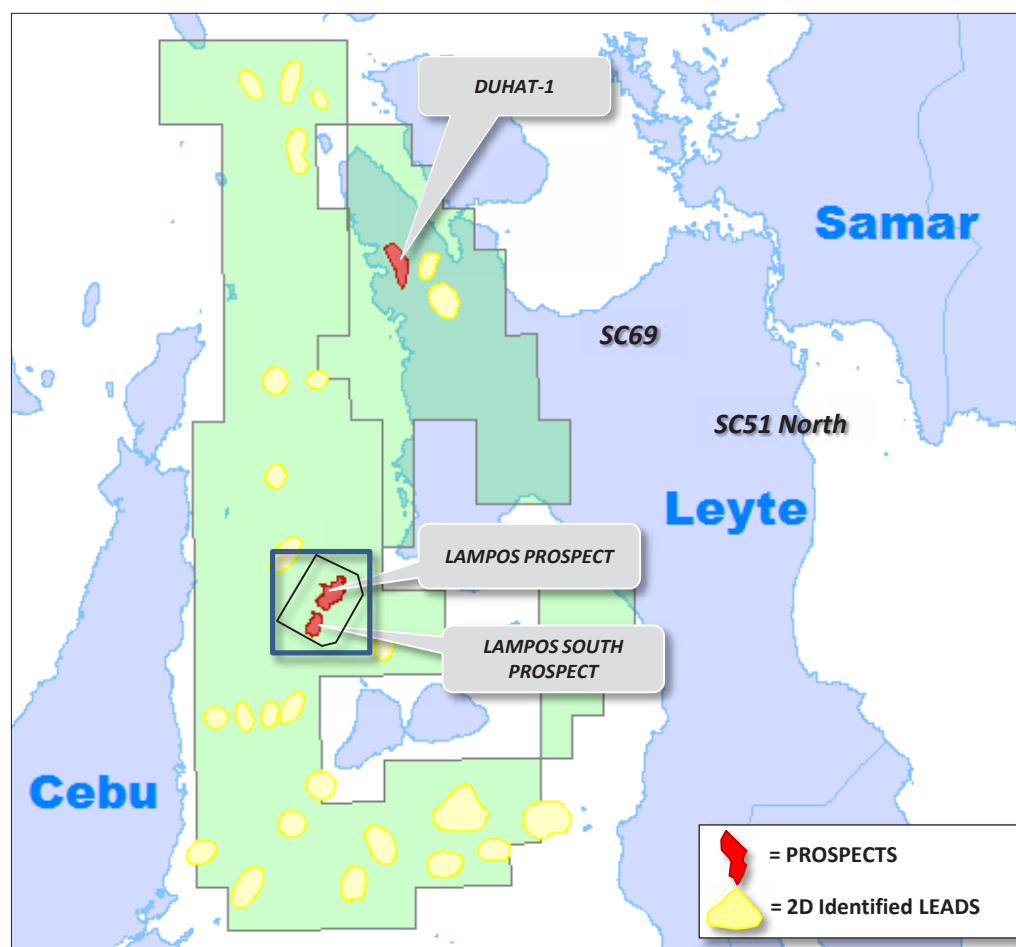
Service Contract 69 is Otto's most recently acquired Philippines offshore exploration licence, located in the East Visayan Basin. Abundant oil seeps on the islands of Cebu and Leyte, was the focus of on-shore exploration in the 1950's to 1980's, with many drills exhibiting hydrocarbon shows. Whilst numerous wells have been drilled both on and off-shore, many have been drilled on poor quality 2D seismic data or are not valid tests, highlighting the under-explored nature of the East Visayan Basin.

In 2010, Otto acquired 760km of 2D seismic over two carbonate build-ups identified from a previous seismic re-processing program. The data acquired from the successful 2D seismic campaign confirmed the presence of two sizeable reef structures, Lamos and Lamos South, in close proximity to the Calangaman Trough, modelled to generate both oil and gas. With a current geological probability of success (GPOS) at 14%, Otto's desire to de-risk these prospects to 'drillable' status led to the successful acquisition of 210 km² of 3D seismic in June of 2011. This seismic data is presently being processed.

Shown below are estimates for both Lamos and Lamos South prospects combined. These numbers are consistent with what has been previously published.

SC69 Block Participants		
Otto Energy Philippines Inc (formerly NorAsian Energy Philippines Inc) (100% subsidiary of Otto)	79.0% and	Operator
Trans-Asia Oil and Energy Development Corporation	6.0%	
Frontier Gasfields Pty Ltd	15.0%	

Estimates for Lamos and Lamos South Prospects		
	OIL in place	GAS in place
P90	52MMbbls	74BcF
Mean	503MMbbls	720BcF
P10	1,169MMbbls	1,682BcF



Tanzania

Tanzania

Otto acquired interests in the Kilosa-Kilombero and Pangani onshore Production Sharing Agreements in February 2012.

PANGANI PSA

The Pangani block is believed to be a potential arm of a triple point junction on the eastern branch of the East African Rift System. At the top of which, Tullow Oil recently discovered a 100m net oil column at their Ngamia-1 well.

The committed work program activity in the first 12 months includes: airborne gravity and/or magnetic surveying; satellite and photogeology works; and geochemical sampling.

KILOSA-KILOMBERO PSA

Kilosa-Kilombero is a large licence covering the Kilosa and Kilombero Mesozoic and Cenozoic basins, formed during two phases of rifting which also constitutes the huge Selous basin (Mesozoic). The Cenozoic rifting may be linked with the greater (western) rift system of the East Africa Rift. The Kilosa and Kilombero basins may contain several thousand metres of prospective sediment fill in a lacustrine setting similar to that of the Albertine graben.

Similar to the Pangani block, the committed work program activity in the first 12 months includes: airborne gravity and/or magnetic surveying; satellite and photogeology works; and geochemical sampling.

Kilosa-Kilombero and Pangani Block Participants

Otto Energy (Tanzania) Pty Ltd (100% subsidiary of Otto)	50.0%
Swala Oil and Gas (Tanzania) Limited	50.0% (Operator)



Reserves AND CONTINGENT RESOURCES ESTIMATE

Otto Proved (1P) Reserves as at 30 June 2012

Proven (1P) Entitlement Reserves ⁽²⁾ (Otto Entitlement share) by Area				
	Crude Oil	Sales Gas	Sales Gas	Total
	Million bbls	Bcf	Million bbls	Million bbls
Philippines – Galoc Field (5)	2.9	0.00	0.00	2.9
TOTAL	2.9	0.00	0.00	2.9

Otto Proved and Probable (2P) Reserves as at 30 June 2012

Proven plus Probable (2P) Entitlement Reserves ⁽³⁾ (Otto Entitlement share) by Project Area				
	Crude Oil	Sales Gas	Sales Gas	Total
	Million bbls	Bcf	Million bbls	Million bbls
Philippines – Galoc Field (5)	4.4	0.00	0.00	4.4
TOTAL	4.4	0.00	0.00	4.4

Movement in 2P Reserve and 2C Resource Categories over the period 1 January 2012 to 1 July 2012

Reserves & Contingent Resources Summary						
	1-Jan-12	Production	Revisions & Exploration Success	Contingent Resources converted to Reserves	Acquisitions and Divestment	1-Jul-12
Galoc Field – SC14C	Million bbls	Million bbls	Million bbls	Million bbls	Million bbls	Million bbls
2P Reserves	1.9	(0.2)	0.5	2.2	–	4.4
2C Contingent Resources	1.5	–	–	(1.5)	–	–

All Project Areas	Million bbls	Million bbls	Million bbls	Million bbls	Million bbls	Million bbls
2P Reserves	1.9	(0.2)	0.5	2.2		4.4
2C Contingent Reserves	0.9	–	–	(0.9)		–

■ Numbers have been rounded to 1 decimal place

Reserves AND CONTINGENT RESOURCES ESTIMATE

Otto Reserve Estimates (30 June 2012)

Otto reports its petroleum reserve and resource estimates using definitions and guidelines published in the Society of Petroleum Engineers Inc./World Petroleum Congresses/American Association of Petroleum Geologists/Society of Petroleum Evaluation Engineers (SPE/WPC/AAPG/SPEE) Petroleum Resources Management System (March 2007).

Estimates of Galoc Reserves & Contingent resources are estimated by internal technical assessments and are supported by RISC independent audits undertaken in March 2011.

Otto reports reserves net of the petroleum required for processing and transportation to the customer, and in the case of Service Contracts (such as the Philippines), net of the "Government Share". Reserves reported are based on, and accurately reflect, information compiled by full-time employees of the Company who have the requisite qualifications and experience prescribed by the ASX Listing Rules.

Rounding errors can occur in aggregation of numbers.

Revision may result from previous estimates of oil & gas volumes which have been altered due to changing economic conditions and/or the addition of new technical data or new technical interpretations.

Major Changes since 30 June 2012

Galoc

The Galoc "gross" 2P Reserve estimate at 30 June 2012, was 16.0 Mbbbl. Of this, Otto assess that 13.4 Mbbbl is the "Contractor Share" (Gross) and 2.6 Mbbbl is the "Government Profit Oil Share" (Gross). Government share has increased since 2011 due to higher oil price forecasts going forward. Otto reports it's effective working interest of the Contractor Share of the Reserves (2P = 4.4 Mbbbl).

Reserves & Contingent Resources in 2012 have been adjusted to reflect the latest reservoir modelling and predicted outcomes from the approved Phase II development.

Notes TO THE RESERVES STATEMENT

1. Reserves are those quantities of petroleum anticipated to be commercially recoverable by application of development projects to known accumulations from a given date forward under defined conditions. Reserves must further satisfy four criteria: they must be discovered, recoverable, commercial, and remaining (as of the evaluation date) based on the development project(s) applied.
2. Proven (1P) reserves are those reserves that, to a high degree of certainty (90% confidence), are recoverable. There is relatively little reservoir risk associated with these reserves. Proven developed reserves are reserves that can be recovered from existing wells with existing infrastructure and operating methods. Proven undeveloped reserves require development.
3. Proven plus Probable (2P) reserves are those reserves that analysis of geological and engineering data suggests are more likely than not to be recoverable. There is a circa 50% probability that reserves recovered will exceed Proven plus Probable reserves.
4. Contingent Resources are those quantities of hydrocarbons which are estimated, on a given date, to be potentially recoverable from known accumulations, but which are not currently considered to be commercially recoverable. Contingent Resources may be of a significant size, but still have constraints to development. These constraints, preventing the booking of reserves, may relate to lack of gas marketing arrangements or to technical, environmental or political barriers. 2C Contingent Resources are where there is circa 50% probability that the quantities exceed this estimate. Contingent Resources do not always mature to Reserves and do not necessarily represent future Reserves bookings.
5. The Philippines "Government Share" of Galoc 1P and 2P Reserves has been deducted from Otto's working interest (33.00%).
6. The "Government Share" has not been determined for "2C Resources" as these resources are not subject to a development plan.
7. "Mbbbl" means millions (10⁶) of barrels of oil at standard oilfield conditions of 14.696 psi (101.325kPa) and 60°Fahrenheit (15.56° Celsius).
8. "Bcf" means billions (10⁹) of cubic feet of gas at standard oilfield conditions of 14.696 psi (101.325kPa) and 60°Fahrenheit (15.56° Celsius).
9. "Mboe" means millions (10⁶) of barrels of oil equivalent. In common with international practice, dry gas volumes are converted to oil equivalent volumes via a constant conversions factor, for which Otto adopts 6 Bcf of dry gas to one Mboe.
10. Unless otherwise stated, Reserve and resource estimates are net to Otto.

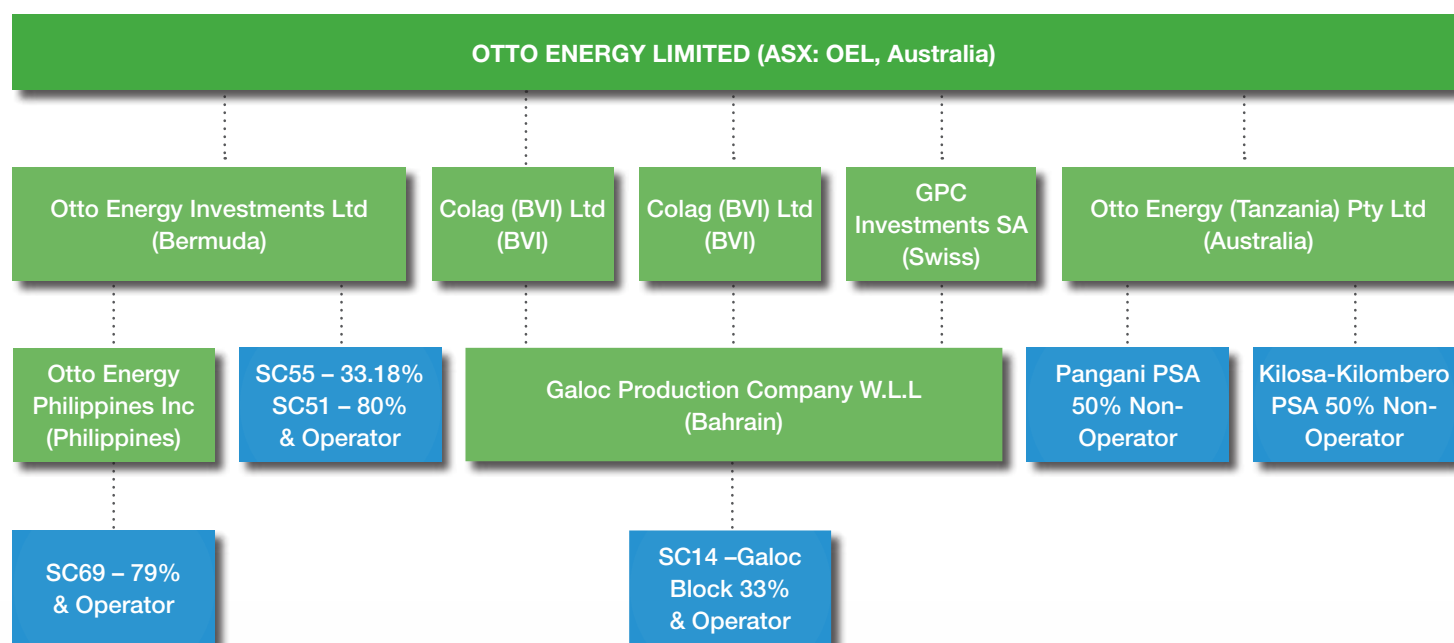
Governance

The Reserve Statement has been compiled by Mr. Nick Pink, Otto's Senior Reservoir Engineer, who is a full-time employee of the company. Mr. Pink has more than 13 years of relevant experience and is qualified in accordance with the ASX Listing Rule 5.11. Mr Pink has consented to the form and context that this statement appears.

Summary of Assets

Asset/Service Contract	OEL Working Interest	Joint Venture Partners		Notes
The Philippines				
SC51	80%	Alcorn Gold	9.32%	Otto and SWAN Oil and Gas are carrying Filipino partners through acquisition of a minimum 100 line kilometres of onshore 2D seismic in the Northern Block. If a decision to enter Sub-Phase 5 is made, the Filipino partners will be carried through drilling of an onshore well.
Exploration block, East Visayan Basin	(Northern Block) (Operator)	Trans-Asia Oil & Energy	6.67%	
		PetroEnergy	4.01%	
There is a 1% Gross Overriding Royalty to RGA on Otto's share				
SC55	33.18%	BHPB	60%	Otto carrying Filipino partner through drilling of two wells.
Exploration block, Southwest Palawan Basin		Petroleum (Operator)		BHP Billiton has exercised an option to farm-in for 60% equity.
		Trans-Asia Oil & Energy	6.82%	BHP Billiton to carry 100% of first well and 85% of second well. BHPB may elect to not drill the second well in which case 30% equity and Operatorship are returned to Otto.
There is 1% Gross Overriding Royalty to RGA on Otto share.				
Trans-Asia also has a right to acquire an additional 5% equity from Otto.				
SC69	79% (Operator)	Trans-Asia Oil & Energy	6%	Otto carrying 6% of Filipino partners equity through 50% of 3D seismic survey in 2011 and first well.
Exploration Block, East Visayan Basin		Frontier Gasfields	15%	No royalties exist.
SC14C – Galoc Block	33% (Operator)	GPC (2)	26.84%	
		Nido Petroleum	22.88%	
Northwest Palawan		Philodrill	7.21%	
		Oriental	7.79%	
		Forum	2.28%	
Tanzania				
Kilosa-Kilombero	50%	Swala Oil and Gas (Tanzania)	50%	Permit acquired in February 2012
Pangani	50%	Swala Oil and Gas (Tanzania)	50%	Permit acquired in February 2012

Corporate STRUCTURE





Directors

Mr. Rick Crabb – Non-Executive Chairman
Mr. Rufino Bomasang – Non-Executive Director
Mr. John Jetter – Non-Executive Director
Mr. Ian MacIver – Non-Executive Director
Mr. Ian Boserio – Non-Executive Director

Company Secretary

Mr. Matthew Allen

Key Management Personnel

Mr. Gregor McNab – Chief Executive Officer
Mr. Matthew Allen – Chief Financial Officer
Mr. Paul Senyica – Exploration Manager

Notice of Annual General Meeting

The Annual General Meeting of Otto Energy Limited will be held at UWA Club, Hackett Drive, Crawley at 3pm on Monday 26 November 2012. A formal Notice of Meeting is enclosed.

Principal Registered Office in Australia

32 Delhi Street
West Perth WA 6005
Tel: +61 8 6467 8800
Fax: +61 8 6467 8801

Share Register

Link Market Services Limited
178 St Georges Terrace
Perth WA 6000
Tel: +61 8 9211 6670
Fax: +61 2 9287 0303

Auditors

BDO Audit (WA) Pty Ltd
38 Station Street
Subiaco WA 6008
Tel: +61 8 6382 4600
Fax: +61 8 6382 4601

Stock Exchange Listings

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

Banks

Westpac Banking Corporation
Level 17, 109 St Georges Terrace,
Perth WA 6000
Tel: +61 8 9426 2595
Fax: +61 8 9426 2288

HSBC
188-190 St Georges Terrace
Perth WA 6000
Tel: +61 8 9320 9822
Fax: +61 8 9320 9820

Website Address

www.ottoenergy.com

Your Directors present their report on the consolidated entity (referred to hereafter as the group) consisting of Otto Energy Limited and the entities it controlled at the end of, or during, the year ended 30 June 2012.

Directors

The names of Directors in office at any time during the financial period or since the end of the financial period are:

Mr Rick Crabb

Mr Rufino Bomasang

Mr John Jetter

Mr Ian MacIver

Mr Ian Boserio

Directors have been in office from 1 July 2011 until the date of this report unless otherwise stated.

Principal Activities

The principal activity of the Group continued to be investment in oil and gas exploration, development and production in the Philippines and East Africa.

The following significant change in the nature of the activities of the group occurred during the year:

- On 30th September 2011, the Group acquired an additional 68.62% interest in the Galoc Production Company WLL ("GPC"), the operator of the Galoc Joint Venture, from Vitol Group, increasing Otto's interest in GPC from 31.38% to 100%.

Dividends – Otto Energy Limited

The Directors recommend that no dividend be paid for the year ended 30 June 2012, nor have any amounts been paid or declared by way of dividend since the end of the previous financial year.

Review of Operations

A review of the operations of the group during the financial year and the results of those operations will be set out in the annual report refer to pages 4 – 21.

Significant changes in state of affairs

Significant changes in the state of affairs of the group during the financial year were as follows:

- On 30th September 2011, the Group entered into a Farmout agreement with Galoc Production Company (2) Pte Ltd for 26.84473% participating interest of the Galoc Joint Venture working interest for \$28,406,028 reducing the JV working interest from 59.84473% to 33%.
- Otto Energy Group acquired interests in Tanzania from joint venture partner Swala Oil and Gas (Tanzania) Limited. The interests are held by Otto subsidiary, Otto Energy (Tanzania) Pty Ltd.

Matters subsequent to the end of the Financial Year

Otto Energy Ltd advises that the Galoc joint venture commenced the engineering design work for Phase II in the Galoc Oil Field offshore Philippines in late 2011, that achieved the Final Investment Decision ("FID") in September 2012. The new 3D seismic data acquired in late 2011 will support the placement of Phase II wells in the reservoir and de-risk the project. In addition, it will also allow full evaluation of the Galoc North exploration prospect, which may realise further development opportunities for the Galoc field.

Likely developments and expected results of Operations

Likely developments in the operations of the group constituted by Otto Energy Limited and the entities it controls from time to time that were not finalised at the date of this report included:

- In the Philippines, Otto, through its wholly owned subsidiary Otto Energy Investments Ltd, will continue with exploration programs in each of its Service Contract areas. These programs include both drilling and where appropriate, further seismic acquisition and interpretation work, and
- The Galoc joint venture commenced the engineering design work for Phase II in late 2011, that achieved the Final Investment Decision ("FID") in September 2012.

Additional comments on expected results of certain operations of the group are included in this annual report under the review of operations and activities on pages 2-17.

Further information on likely developments in the operations of the group and the expected results of operations have not been included in this annual financial report because the directors believe it would be likely to result in unreasonable prejudice to the group.

Environmental Regulation

So far as the Directors are aware, there have been no breaches of environmental conditions of the Company's exploration or production licences. Procedures are adopted for each exploration program to ensure that environmental conditions of the Company's tenements are met.

Information on Directors and Other Key Management Personnel

Mr Rick Crabb

Chairman (Non-Executive)
BJuris (Hons), LLB, MBA

Date appointed

19 November 2004

Experience and expertise

Formerly practised as a solicitor from 1980 to 2004, specialising in resources, corporate and commercial, with considerable offshore experience. Mr Crabb now focuses on his public company directorships and investments.

Other current Directorships

Director of Golden Rim Resources Limited from 22 August 2001, Ashburton Minerals Limited from 1 September 1999, and Paladin Energy Limited from 8 February 1994

Former Directorships in last 3 years

Director of Royal Resources Limited from 23 February 2004 to 11 August 2009.

Special responsibilities

Audit and Compliance

Interests in shares and options

17,495,052 ordinary shares of Otto Energy Limited

Mr John Jetter

BLaw, BEcon, INSEAD – Director (Non-Executive)

Date appointed

10 December 2007

Experience and expertise

Former Managing Director, CEO and head of investment banking of JP Morgan in Germany and Austria, and a member of the European Advisory Council, JP Morgan London. Held senior positions with JP Morgan throughout Europe, focusing his attention on major corporate clients advising on some of Europe's largest corporate transactions. Formerly Chairman of the Board of Rodenstock AG, Germany, Deputy Chairman of the Board of European Business School and Chairman of the Finance Facility, Oestrich-Winkel, Germany.

Other current Directorships

Non-Executive Director of Venture Minerals Limited since 8 June 2010.

Former Directorships in last 3 years

None

Special responsibilities

None

Interests in shares and options

19,089,175 ordinary shares of Otto Energy Limited and Options to acquire 3,000,000 Ordinary shares.

Mr Ian Macliver

BCom, CA, F Fin, MAICD – Director (Non-Executive)

Date appointed

7 January 2004

Experience and expertise

Managing Director of Grange Consulting Group Pty Ltd that provides specialist corporate advisory services to listed and unlisted companies. Former senior executive and Director of both resource and industrial companies, specifically responsible for capital raising and other corporate initiatives.

Other current Directorships

Non-Executive Director of Stratatel Limited since May 2012, Non-Executive Director of Select Vaccines Limited since September 2010, and Western Areas NL since October 2011.

Former Directorships in last 3 years

Chairman of Stratatel Limited July 2000 to May 2012, Non-Executive Director of Mount Gibson Iron Limited February 2011 to November 2011, Non-Executive Director of Car Parking Technologies Limited (formerly Empire Beer Group Limited) May 2006 to February 2011, and Non-Executive Director of Port Bouvard Ltd from December 1994 to April 2012.

Special responsibilities

Audit and Compliance

Interests in shares and options

4,549,721 ordinary shares of Otto Energy Limited

Mr Ian Boserio

BSc Hons (Geophysics), BSc Hons (Geology) – Director (Non-Executive)

Date appointed

2 September 2010

Experience and expertise

Formerly at Shell as the Australian new business manager, prior to that he led the Shell Australia and New Zealand exploration team developing its gas portfolio for LNG development. Worked with Shell internationally including roles in Australia, North Sea, Middle East, India and Indonesia. Worked for five years with Woodside as the Australia exploration manager.

Other current Directorships

Non-Executive Director of Nexus Energy Limited since November 2009.

Former Directorships in last 3 years

None

Special responsibilities

None

Interests in shares and options

330,000 ordinary shares of Otto Energy Limited and options to acquire 3,000,000 ordinary shares

Mr Rufino Bomasang

BSc (Min.Eng), Master in Business Economics (Phil) – Director (Non-Executive)

Date appointed

18 August 2006

Experience and expertise

Formerly a mining engineer, having worked in recent years as an International Energy and Mining Consultant, focused on the development of untapped indigenous energy resources in the Philippines. From 1996 to 2004 Mr Bomasang was President and CEO of Philippine National Oil Company – Exploration Corporation. Mr Bomasang previously worked with the United States Agency for International Development as an Energy Consultant, providing technical assistance to the Philippine Department of Energy.

Other current Directorships

Non-Executive Chairman of Otto Energy Investments Limited, a subsidiary of Otto Energy Limited.

Former Directorships in last 3 years

None

Special responsibilities

None

Interests in shares and options

Nil

Mr Gregor McNab

BSc (Offshore Eng) – Chief Executive Officer

Date appointed

1 November 2011

Experience and expertise

Formerly the Vice President External Affairs, Houston, USA accountable for all investor, media and government relations across BHP Billiton's global Petroleum business. He spent the early part of his career with Shell and Bechtel and moved to BHP Billiton in various executive management roles both in Australia and the United States. Mr McNab has international experience in the upstream petroleum industry. Mr McNab has valuable experience in the areas of project evaluation, commercial negotiations, joint venture management and government relations across the full life cycle of exploration, development and operations and has worked on a number of international postings.

Other current Directorships

None

Former Directorships in last 3 years

None

Special responsibilities

None

Interests in shares and options

15,000,000 performance rights of Otto Energy Limited

Mr Matthew Allen

BBus, FCA, F Fin, GAICD – Chief Financial Officer and Company Secretary

Date appointed

9 November 2009

Experience and expertise

With exposure in Australia, the Middle East and North/West Africa and 19 years experience in the management of listed corporations including corporate governance processes in public practice, aviation and oil and gas industry. Formerly at Woodside Energy Ltd and responsible for many facets of finance in upstream oil and gas, including joint venture management, treasury risk management, debt capital raising, insurance and risk management, financial control and reporting. Experience with the execution of corporate acquisitions and divestments and joint venture farm in/out transactions.

Other current Directorships

None

Former Directorships in last 3 years

None

Special responsibilities

None

Interests in shares and options

Options to acquire 7,000,000 ordinary shares of Otto Energy Limited and performance rights of 6,000,000.

Company Secretary

The company secretary is Mr Matthew Allen BBus, FCA, F Fin and GAICD. Mr Allen was appointed to the position of company secretary in 2010.

Directors **REPORT**

Meetings of Directors

The numbers of meetings of the Company's Board of Directors and of each Board Committee held during the year ended 30 June 2012, and the numbers of meetings attended by each director were:

Director	Full meetings of directors		Meetings of audit committee	
	Number eligible to attend	Number attended	Number eligible to attend	Number attended
Mr R Crabb	8	8	3	3
Mr R Bomasang	8	8	–	–
Mr J Jetter	8	8	–	–
Mr I MacIver	8	7	3	3
Mr I Boserio	8	8	–	–

Remuneration Report (Audited)

This remuneration report sets out remuneration information for Otto Energy Limited's Non-Executive Directors, Executive Directors and Other Key Management Personnel.

Directors and Key Management Personnel disclosed in this report;

Directors

Mr Rick Crabb	Non-Executive Chairman
Mr Rufino Bomasang	Non-Executive Director
Mr John Jetter	Non-Executive Director
Mr Ian MacIver	Non-Executive Director
Mr Ian Boserio	Non-Executive Director

Key Management Personnel

Mr Gregor McNab	Chief Executive Officer
Mr Matthew Allen	Chief Financial Officer/ Company Secretary
Mr Paul Senyica	Exploration Manager

Role of the Nomination and Remuneration Committee

The Nomination and Remuneration Committee is a sub-committee of the Board. It is primarily responsible for making recommendations to the board on:

- Non-Executive Director fees
- remuneration levels of Executive Directors and Other Key Management Personnel
- the over-arching executive remuneration framework and operation of the incentive plan, and
- key performance indicators and performance hurdles for the executive team.

Their objective is to ensure that remuneration policies and structures are fair and competitive and aligned with the long-term interests of the company.

The Corporate Governance Statement provides further information on the role of this committee.

Non-Executive Director Remuneration Policy

Fees and payments to Non-Executive Directors reflect the demands which are made on, and the responsibilities of, the Directors. Non-Executive Directors' fees and payments are reviewed annually by the Board. The Board has also considered the advice of independent remuneration consultants to ensure Non-Executive Directors' fees and payments are appropriate and in line with the market. The Chair's fees are determined independently to the fees of Non-Executive Directors based on comparative roles in the external market.

Non-Executive Directors do not receive performance-based pay.

Directors' fees

The current base fees were last reviewed with effect from 1 January 2011. Non-Executive Directors' fees are determined within an aggregate Directors' fee pool limit, which is periodically recommended for approval by shareholders. The maximum currently stands at A\$500,000 per annum and was approved by shareholders at the Annual General Meeting in January 2008.

The following fees have applied:

	From 1 July 2011 to 30 June 2012	From 1 January 2011 to 30 June 2011
Base fees	A\$	A\$
Chair	125,000	125,000
Other Non-Executive Directors	75,000	75,000
Other Non-Executive Directors - Philippines (US\$)	85,000	75,000
Other Non-Executive Directors - Switzerland	85,000	75,000
Additional fees		
Audit Committee	10,000	10,000

Retirement Allowances for Non-Executive Directors

In line with ASX Corporate Governance Council Non-Executive Directors' remuneration does not include retirement allowances. Superannuation contributions required under the Australian superannuation guarantee legislation continue to be made and are deducted from the directors' overall fee entitlements.

Executive Remuneration Policy and Framework

In determining executive remuneration, the Board aims to ensure that remuneration practices are:

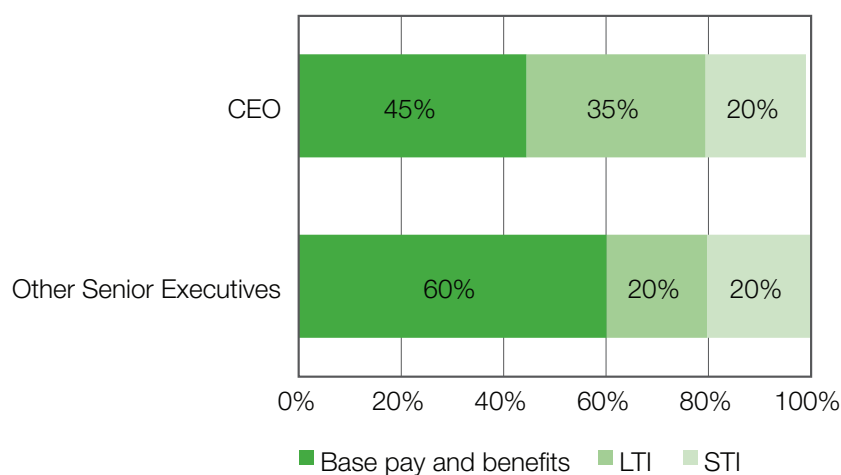
- competitive and reasonable, enabling the Company to attract and retain key talent
- aligned to the Company's strategic and business objectives and the creation of shareholder value
- transparent, and
- acceptable to shareholders.

The Executive Remuneration Framework has three components:

- base pay and benefits, including superannuation
- short-term performance incentives, and
- long-term incentives through participation in the Otto Energy Limited Employee Option Plan and/or Performance Rights Plan.

Executive Remuneration Mix

In accordance with the Company's objective to ensure that Executive Remuneration is aligned to company performance, a significant portion of the Executives' target pay is "at risk". The following chart sets out the Executives' target remuneration mix:



Base Pay and Benefits

Executives receive their base pay and benefits structured as a total employment cost (TEC) package which may be delivered as a combination of cash and prescribed non-financial benefits at the executives' discretion.

Executives are offered a competitive base pay that comprises the fixed component of pay and rewards. Independent remuneration consultants provide analysis and advice to ensure base pay is set to reflect the market for a comparable role. Base pay for executives is reviewed annually to ensure the executive's pay is competitive with the market. An executive's pay is also reviewed on promotion.

There is no guaranteed base pay increases included in any executives' contracts.

Superannuation

Retirement benefits are delivered under the employees' superannuation fund. This fund provides defined lump sum benefits based on years of service and final average salary.

Short-term incentives

Executives have the opportunity to earn an annual short-term incentive (STI) if predefined targets are achieved. The CEO has a target STI opportunity of 20% of TEC and other members of the executive team have an STI opportunity of approximately 20% of TEC. The targets are reviewed annually.

STI awards for the executive team in the 2012 financial year were based on the scorecard measures and weightings as disclosed below. These targets were

Performance category	Weighting
Business Development	30%
Existing project execution	30%
Development project execution	20%
Leadership	10%
Board and Governance	5%
HSEC	5%

The Remuneration Committee is responsible for assessing whether the KPIs are met. To assist in this assessment, the committee receives detailed reports on performance from management. The committee has the discretion to adjust short-term incentives downwards in light of unexpected or unintended circumstances.

Long-term incentives

Long-term incentives are provided to certain employees via the Otto Energy Limited Employee Performance Rights and Options Plan which was approved by shareholders at the 2010 annual general meeting.

The Otto Energy Limited Employee Performance Rights and Options Plan are designed to provide long-term incentives for executives to deliver long-term shareholder returns. Under the plan, participants are granted performance rights or options which only vest if certain performance conditions are met and the employees are still employed by the group at the end of the vesting period. Participation in the plan is at the Board's discretion and no individual has a contractual right to participate in the plan or to receive any guaranteed benefits.

Vesting of the performance rights is subject to Otto Energy Limited's total shareholder return (TSR), including share price growth, dividends and capital returns, compared to the TSR of 24 selected peer companies that are listed on the ASX over a three-year period. Vesting will occur based on the company's ranking within the peer group, as follows:

TSR rank	Proportion of options that vest
Less than 50th% percentile	0%
50th percentile	50%
Between 50th and 75th percentile	50% plus 2% for each additional percentile ranking above 50th percentile
At or above 75th percentile	100%

Once vested, the performance rights are exercisable for a period of two years. Performance rights are granted under the plan for no consideration.

For the performance rights granted on 3 October 2011 and 1 November 2011, the peer group includes the following companies:

AMU – Amadeus Energy Ltd	HZN – Horizon Oil Ltd	MEL – Metgasco Ltd
AUT – Aurora Oil and Gas Ltd	PPP – Pan Pacific Petroleum Ltd	STX – Strike Energy Ltd
AZZ – Antares Energy Ltd	ROC – Roc Oil Ltd	CVN – Carnarvon Petroleum Ltd
BRU – Buru Energy Ltd	SXY – Senex Energy Ltd	NDO – Nido Petroleum
CUE – Cue Energy Resources Ltd	TAP – Tap Oil Ltd	BUY – Bounty Oil & Gas NL
DLS – Drillsearch Energy Ltd	TDO – 3D Oil Energy Ltd	COE – Cooper Energy Ltd
KIK – Kairiki Energy Ltd	RFE – Red Fork Energy Ltd	BUU – Bounty Oil & Gas Ltd
NZO – New Zealand Oil & Gas Co.	PVE – Po Valley Energy Ltd	NVS – News Energy Ltd

Share trading policy

The trading of shares issued to participants under any of the company's employee equity plans is subject to, and conditional upon, compliance with the company's employee share trading policy (see page 32). Executives are prohibited from entering into any hedging arrangements over unvested options under the company's employee option plan. The Company would consider a breach of this policy as gross misconduct which may lead to disciplinary action and potentially dismissal.

Voting and comments made at the company's 2011 Annual General Meeting

Otto Energy Limited received more than 85% of "yes" votes on its remuneration report for the 2011 financial year. The Company did not receive any specific feedback at the AGM or throughout the year on its remuneration practices.

Use of remuneration consultants

In August 2011, Otto Energy Limited's remuneration committee employed the services of Gerard Daniels Australia (GDA) to review its existing remuneration policies and to provide recommendations in respect of both executive short-term and long-term incentive plan design.

These recommendations also covered the group's key management personnel. Under the terms of the engagement, GDA provided remuneration recommendations as defined in section 9B of the Corporations Act 2001 and was paid A\$16,500 for these services.

GDA has confirmed that the above recommendations have been made free from undue influence by members of the group's key management personnel.

The following arrangements were made to ensure that the remuneration recommendations were free from undue influence:

- GDA was engaged by, and reported directly to, the chair of the remuneration committee. The agreement for the provision of remuneration consulting services was executed by the chair of the remuneration committee under delegated authority on behalf of the board.
- The report containing the remuneration recommendations was provided by GDA directly to the chair of the remuneration committee; and
- GDA was permitted to speak to management throughout the engagement to understand company processes, practices and other business issues and obtain management perspectives. However, GDA was not permitted to provide any member of management with a copy of their draft or final report that contained the remuneration recommendations.

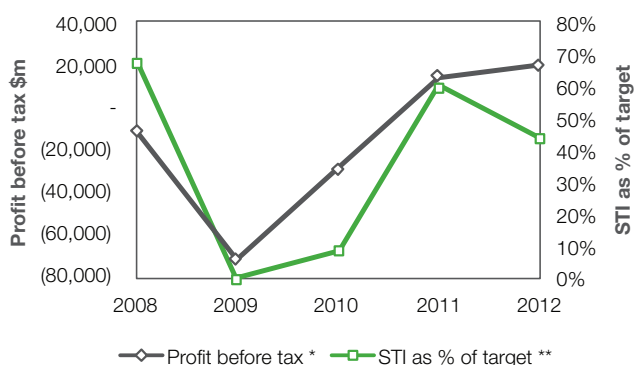
As a consequence, the board is satisfied that the recommendations were made free from undue influence from any members of the key management personnel.

In addition to providing remuneration recommendations, GDA also provided recruitment services. For these services GDA was paid a total of A\$40,454.

Performance of Otto Energy Limited

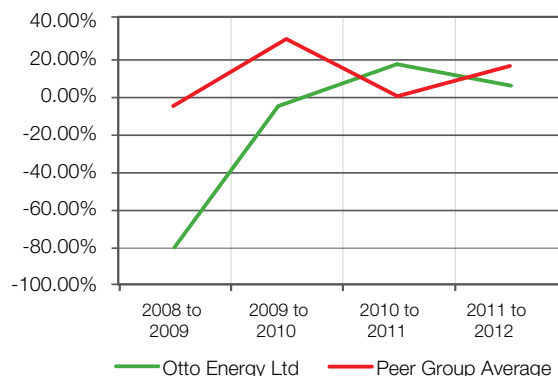
The two graphs below illustrate two of the key links between Key Management Personnel remuneration and Otto Energy Limited's performance.

The first graph illustrates the link between Otto Energy Limited's profit before tax and payments made under the STI plan.



- * Profit before tax is profit from continuing operations before income tax expense
- ** STI % of target reflects the percentage of the target STI pool that was paid out to executives.

The second graph illustrates the operation of the long-term incentive plan by comparing Otto Energy Limited's Year on Year Share Price Movement of the 24 ASX listed peer companies (see above) over the last five years.



Details of Remuneration

The following tables show details of the remuneration received by the Directors and the Key Management Personnel of the Group for the current and previous financial year.

Remuneration and other terms of employment for the Chief Executive Officer and Other Key Management Personnel are formalised in service agreements. Each of these agreements provides for performance-related conditions and agreements relating to remuneration are set out below. Remuneration and other terms of employment for Other Key Management Personnel of the Company are formalised in an employment agreement.

Major provisions of the Other Key Management Personnel agreements relating to remuneration are set out below.

2012	Short-term Employee Benefits		Post Employment	Share-Based Payments Options and Performance Rights	Total
	Salary & Fees	Cash Bonus	Superannuation Pensions		
	A\$	A\$	A\$	A\$	A\$
Directors					
Mr R Crabb	114,679	–	10,321	–	125,000
Mr I MacIver	77,982	–	7,018	–	85,000
Mr I Boserio	68,807	–	6,193	–	75,000
Mr J Jetter	82,500	–	–	–	82,500
Mr R Bomasang	81,797	–	–	–	81,797
	425,764	–	23,532	–	449,296
Other Key Management Personnel					
Mr G McNab (i)	305,810	–	27,523	115,056	448,389
Mr M Allen	308,103	101,200	36,837	89,500	535,640
Mr Paul Senyica	388,953	77,400	41,972	89,500	597,825
	1,002,866	178,600	106,332	294,056	1,581,854
	1,428,630	178,600	129,864	294,056	2,031,150

(i) Mr McNab commenced employment 1 November 2011

2011	Short-term Employee Benefits		Post Employment	Share-Based Payments Options and Performance Rights	Total
	Salary & Fees	Cash Bonus	Superannuation Pensions		
	A\$	A\$	A\$	A\$	A\$
Directors					
Mr R Crabb	91,743	–	8,257	–	100,000
Mr P Moore	558,976	–	46,383	406,250	1,011,609
Mr R Bomasang	103,092	–	–	–	103,092
Mr J Jetter	64,583	–	–	120,000	184,583
Mr J Zadnik	3,999	–	360	–	4,359
Mr I MacIver	64,603	–	5814	–	70,417
Mr I Boserio	51,253	–	4,613	120,000	175,866
Dr J Poll	19,113	–	1,720	–	20,833
	957,362	–	67,147	646,250	1,670,759
Other Key Management Personnel					
Mr C Martin	161,226	–	8,031	10,000	179,257
Mr Richard King	160,610	37,500	15,657	10,000	223,767
Mr M Allen	285,551	129,083	31,917	160,000	606,551
Mr Paul Senyacia	355,863	42,188	35,825	280,000	713,876
	963,250	208,771	91,430	460,000	1,723,451
	1,920,612	208,771	158,577	1,106,250	3,394,210

The relative proportions of remuneration that are linked to performance and those that are fixed are as follows:

Name	Fixed remuneration		At risk – STI		At risk – LTI *	
	2012	2011	2012	2011	2012	2011
Executive Directors of Otto Energy Limited						
Mr R Crabb	100%	100%	–	–	–	–
Mr I MacIver	100%	100%	–	–	–	–
Mr I Boserio	100%	100%	–	–	–	–
Mr J Jetter	100%	100%	–	–	–	–
Mr R Bomasang	100%	100%	–	–	–	–
Other Key Management Personnel of the Group						
Mr G McNab	74%	–	–	–	26%	–
Mr M Allen	64%	52%	19%	21%	17%	26%
Mr P Senyacia	72%	55%	13%	6%	15%	39%

* Since the long-term incentives are provided exclusively by way of performance rights or options, the percentages disclosed also reflect the value of remuneration consisting of performance rights and options, based on the value of performance rights or options expensed during the year.

Service Agreements

On appointment to the board, all Non-Executive Directors enter into a service agreement with the Company in the form of a letter of appointment. The letter summarises the Board policies and terms, including remuneration, relevant to the office of Director.

Remuneration and other terms of employment for the Chief Executive Officer, Chief Financial Officer and the Other Key Management Personnel are also formalised in service agreements. Each of these agreements provide for the provision of performance related cash bonuses, and participation when eligible, in the Otto Energy Limited Employee Performance Rights or Options Plan. Other major provisions of the agreements relating to remuneration are set out below.

All contracts with executives may be terminated early by either party with either two or three months notice, per individual agreement subject to termination payments as detailed below.

Name	Commencement of contract	Base salary including superannuation*	Termination benefit**
Mr Gregor McNab – Chief Executive Officer	1 November 2011	\$500,000	12 months base salary
Mr Matthew Allen – Chief Financial Officer	16 November 2009	\$340,000	2 months base salary
Mr Paul Senyica – Exploration Manager	12 April 2010	\$430,000	3 months base salary

* Base salaries quoted are for the year ended 30 June 2012; they are reviewed annually by the Remuneration Committee.

** Termination benefits are payable on early termination by the Company, other than for gross misconduct.

Share-Based Compensation

The terms and conditions of each grant of options affecting remuneration in the current or a future reporting period are as follows:

Grant date	Vesting and exercise date	Expiry date	Exercise price	Value per option at grant date	Performance achieved	% Vested
1/10/2011	1/04/2013	1/04/2014	–	0.0184	Vesting and testing date post balance date	n/a
1/10/2011	1/11/2013	1/11/2014	–	0.0207	Vesting and testing date post balance date	n/a
1/11/2011	31/03/2013	31/12/2014	–	0.0203	Vesting and testing date post balance date	n/a
1/10/2011	31/03/2013	31/12/2014	–	0.0790	Vesting and testing date post balance date	n/a
1/10/2011	30/09/2013	31/12/2014	–	0.0203	Vesting and testing date post balance date	n/a
1/11/2011	30/09/2013	31/12/2014	–	0.0203	Vesting and testing date post balance date	n/a
1/11/2011	30/09/2014	31/12/2014	–	0.0790	Vesting and testing date post balance date	n/a
1/10/2011	1/04/2014	1/04/2015	–	0.0215	Vesting and testing date post balance date	n/a

Performance rights granted under the plan carry no dividend or voting rights.

When exercisable, each performance right is convertible into one ordinary share immediately. The exercise price of performance rights is nil.

Details of performance rights over ordinary shares in the Company provided as remuneration to each Director of Otto Energy Limited and each of the Key Management Personnel of the parent entity and the Group are set out below. When exercisable, each performance rights or option is convertible into one ordinary share of Otto Energy Limited. Further information on the performance rights and options are set out in note 32 to the financial statements.

	Number of performance rights granted	Value of performance rights at grant date A\$	Number of performance rights vested during the year	Number of performance rights lapsed during the year	Value at lapse date A\$
--	--------------------------------------	---	---	---	-------------------------

Other Key Management Personnel of the group

Mr M Allen	6,000,000	239,200	–	–	–
Mr P Senyia	6,000,000	239,200	–	–	–
Mr G McNab	15,000,000	303,000	–	–	–

The assessed fair value at grant date of options granted to the individuals is allocated equally over the period from grant date to vesting date, and the amount is included in the remuneration tables above. Fair values at grant date are independently determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option.

Shares under Option

Unissued ordinary shares of Otto Energy Limited under option at the date of this report are as follows:

Date Granted	Date of Expiry	Exercise price of performance rights or options A\$	Number
OPTIONS			
1-Aug-08	1-Aug-12	0.60	2,500,000
8-Sep-09	8-Sep-12	0.12	4,000,000
19-Jan-10	19-Jan-13	0.12	1,000,000
16-Feb-10	16-Feb-13	0.12	5,500,000
11-Aug-10	11-Aug-13	0.12	3,000,000
26-Nov-10	26-Nov-13	0.12	9,000,000
30-Nov-10	30-Nov-13	0.13	6,000,000
13-Oct-11	13-Oct-14	0.12	1,250,000
5-Jan-12	5-Jan-15	0.12	2,500,000
			<u>34,750,000</u>
PERFORMANCE RIGHTS			
1-Nov-11	1-Apr-14	–	5,000,000
1-Nov-11	1-Nov-14	–	5,000,000
1-Nov-11	1-Apr-14	–	5,000,000
3-Oct-11	31-Dec-14	–	2,000,000
3-Oct-11	31-Dec-14	–	2,000,000
3-Oct-11	31-Dec-14	–	2,000,000
3-Oct-11	31-Dec-14	–	2,000,000
3-Oct-11	31-Dec-14	–	2,000,000
3-Oct-11	31-Dec-14	–	2,000,000
			<u>27,000,000</u>

No option holder has any right under the options to participate in any other share issue of the company or any other entity.

Included in these performance rights or options were performance rights or options granted as remuneration to the Directors and the five most highly remunerated officers during the year. Details of options granted to Key Management Personnel are disclosed on pages 30 to 31 above.

Shares issued on the exercise of Options and Performance Rights

There were 3,750,000 ordinary shares of Otto Energy Limited issued on 1 July 2011 on the exercise of performance rights granted as remuneration.

This is the end of the Remuneration Report (Audited).

Insurance of Officers and Indemnity of Auditors

During the financial year, the Company paid a premium of A\$43,000 to insure the Directors and Officers of the Company and its Australian-based controlled entities, and the managers of each of the divisions of the Group.

The liabilities insured are legal costs that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as officers of entities in the Group, and any other payments arising from liabilities incurred by the officers in connection with such proceedings. This does not include such liabilities that arise from conduct involving a wilful breach of duty by the officers or the improper use by the officers of their position or of information to gain advantage for them or someone else or to cause detriment to the Company. It is not possible to apportion the premium between amounts relating to the insurance against legal costs and those relating to other liabilities.

Proceedings on Behalf of Company

No person has applied to the Court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party, for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings.

No proceedings have been brought or intervened in on behalf of the Company with leave of the Court under section 237 of the Corporations Act 2001.

Non-Audit Services

The Company may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the Company and/or the Group are important. Details of the amounts paid or payable to the auditor (BDO) for audit and non-audit services provided during the year are set out below.

The Board of Directors has considered the position and, in accordance with advice received from the Audit Committee, is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The Directors are satisfied that the provision of non-audit services by the auditor, as set out below, did not compromise the auditor independence requirements of the Corporations Act 2001 for the following reasons:

- all non-audit services have been reviewed by the Audit Committee to ensure they do not impact the impartiality and objectivity of the auditor
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants.

During the year the following fees were paid or payable for non-audit services provided by the auditor of the parent entity, its related practices and non-related audit firms:

	2012 US \$	2011 US \$
BDO Australian firm:		
Audit of regulatory returns	128,945	86,260
Total remuneration for other assurance services	128,945	86,260
Tax compliance services	16,448	12,457
International tax consulting and tax advice on mergers and acquisitions	85,065	70,242
Total remuneration for taxation services	101,513	82,699
Total remuneration for non-audit services	230,458	82,699

Auditors Independence Declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 34.

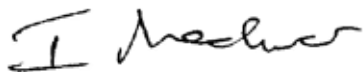
Rounding

The Company is of a kind referred to in Class Order 98/100, issued by the Australian Securities and Investments Commission, relating to the 'rounding off' of amounts in the directors' report. Amounts in the directors' report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, to the nearest dollar.

Auditor

BDO continues in office in accordance with section 327 of the Corporations Act 2001.

This report is made in accordance with a resolution of directors.



MR I MACLIVER | DIRECTOR

29 September 2012

Auditor's INDEPENDENCE DECLARATION



Tel: +8 6382 4600
Fax: +8 6382 4601
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38 Station Street
Subiaco, WA 6008
PO Box 700 West Perth WA 6872
Australia

28 September 2012

The Board of Directors
Otto Energy Limited
32 Delhi Street, West Perth
PERTH WA 6005

Dear Sirs,

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

As lead auditor of Otto Energy Limited for the year ended 30 June 2012, 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 audit;
and
- any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Otto Energy Limited and the entities it controlled during the period.

A handwritten signature in blue ink, appearing to read 'Peter Toll', with a stylized flourish at the end.

Peter Toll
Director

BDO Audit (WA) Pty Ltd
Perth, Western Australia

BDO Audit (WA) Pty Ltd ABN 79 112 284 787 is a member of a national association of independent entities which are all members of BDO (Australia) Ltd ABN 77 050 110 275, an Australian company limited by guarantee. BDO Audit (WA) Pty Ltd and BDO (Australia) Ltd are members of BDO International Ltd, a UK company limited by guarantee, and form part of the international BDO network of independent member firms. Liability limited by a scheme approved under Professional Standards Legislation (other than for the acts or omissions of financial services licensees) in each State or Territory other than Tasmania.

Corporate GOVERNANCE STATEMENT

In fulfilling its obligations and responsibilities to its various stakeholders, the Board is a strong advocate of corporate governance. This statement outlines the principal corporate governance procedures of Otto Energy Limited (Otto Energy or the Company). The Board of Directors supports a system of Corporate Governance to ensure that the management of Otto Energy is conducted to maximise shareholder wealth in a proper and ethical manner.

ASX Corporate Governance Council Recommendations

The Board has adopted Corporate Governance policies and practises consistent with the ASX Corporate Governance Council's "Corporate Governance Principles and Recommendations 2nd edition" ("Recommendations") where considered appropriate for a Company of Otto Energy's size and nature. Such policies include, but are not limited to the Board Charter, Board Committee Charters, Code of Conduct, and Trading in Securities, Continuous Disclosure, Shareholder Communication and Risk Management Policies. Further details in respect to the Company's Corporate Governance practises are summarised below and copies of Company's Corporate Governance policies are available on the Company's web site at www.ottoenergy.com. The Board sets out below its "if not why not" report in relation to matters of Corporate Governance where the Company's practise departs from the Recommendations. All Recommendations have been applied for the financial year ended 30 June 2012 unless set out below.

Recommendation 2.4 requires listed entities to establish a Nomination Committee. During the year, the Company established a Nomination Committee. Given the current size of the Board, the Board considers that this function is efficiently achieved with full Board support, in accordance with the guidelines set out in the Board's Charter.

Recommendation 4.2 requires the Audit Committee be structured such that it consists of: only Non-Executive Directors, a majority of independent Directors, is chaired by an independent Chair, who is not the Chair of the Board and has at least three members. The Company's Audit Committee during the year comprised two Non-Executive, independent Directors, Messrs Ian MacIver and Rick Crabb. Given the current size and technical expertise of the Board an Audit Committee comprising only two Directors was considered appropriate for the Company.

Recommendation 8.1 states that the Board should establish a Remuneration Committee. During the year, the Company established a remuneration committee.

In relation to the above, the Board believes it has implemented suitable practices and procedures in respect of Corporate Governance considering the size of the Board and the size and maturity of the Company. The Board wishes to acknowledge that nothing has come to its attention which would lead the Board to conclude that its current practices and procedures are not appropriate for an organisation of this size and maturity.

Roles of the Board and Management

The Board considers that the essential responsibilities of the Directors are to oversee Otto's activities for the benefit of its shareholders, employees and other stakeholders and to protect and enhance shareholder value. The Board has a Charter, which clearly establishes the relationship between the Board and management and describes their functions and responsibilities.

The key responsibilities of the Board include:

- contributing to the development of and approving corporate strategy;
- appoint and review the performance of the Managing Director/Chief Executive Officer;
- reviewing and approving business plans, the annual budget and financial plans including available resources and major capital expenditure initiatives;
- arrange for effective budgeting and financial supervision;
- ensure that effective and appropriate reporting systems in place will, in particular, assure the Board that financial, operational, compliance and risk management controls function adequately;
- ensure that appropriate audit arrangements are in place; and
- reporting to shareholders.

Board Structure

The composition of the Board shall be determined in accordance with the following principles and guidelines:

- the Board shall comprise at least three Directors, increasing where additional expertise is considered desirable in certain areas;
- the Chairman should be Non-Executive;
- the Board should not comprise a majority of Executive Directors; and
- Directors should bring characteristics which allow a mix of qualifications, skills and experience.

The terms and conditions of the appointment and retirement of Directors are set out in a letter of appointment which covers remuneration, expectations, terms, the procedures for dealing with conflicts of interest and the availability of independent professional advice.

The Chairman reviews the performance of all Directors each year.

Director Independence

Directors are expected to bring independent views and judgement to the Board's deliberations. In response to the ASX Principles, the Board Charter requires the Board to include a majority of Non-Executive independent Directors and a Non-Executive independent Chairman. In considering whether a Director is independent, the Board has had regard to the independence criteria outlined in Recommendation 2.1 and other facts, information and circumstances that the Board considers to be material. All of the Non-Executive Directors are regarded as independent.

Meetings of the Board

The Board meets at least six times a year to consider the business of Otto Energy, its financial performance and other operational issues.

Retirement and Re-election

The Constitution of the Company requires one third of the Directors to retire from office at each Annual General Meeting. Directors who have been appointed by the Board are required to retire from office at the next Annual General Meeting and are not taken into account in determining the number of Directors to retire at that Annual General Meeting. Directors cannot hold office for a period in excess of three years or later than the third Annual General Meeting following their appointment without submitting themselves for re-election (excluding the Managing Director). Retiring Directors are eligible for re-election by shareholders.

When a vacancy exists, for whatever reason, or where it is considered that the Board would benefit from the services of a new Director with particular skills, the Board will select appropriate candidates with relevant qualifications, skills and experience. External advisers may be used to assist in such a process. The Board will then appoint the most suitable candidate who must stand for election at the next general meeting of shareholders.

Nomination and Appointment of New Directors

Recommendations of candidates for new Directors are made by the Board as a whole.

Review of Performance

The Board reviews its performance and composition on an annual basis to ensure that it has the appropriate mix of expertise and experience. Given the size and nature of the Company's activities the Board reviews the performance of Directors and the composition of the Board, at regular intervals during the year.

Directors' Remuneration

The remuneration of Non-Executive Directors is different to that of Other Key Management Personnel. Executive Directors receive a salary and may receive other benefits.

Non-Executive Directors receive a set fee per annum, in addition to their statutory superannuation entitlements, and are fully reimbursed for any out of pocket expenses necessarily incurred in carrying out their duties. When reviewing Director's fees the Board takes into account any changes in the size and scope of Otto Energy's activities.

The Board will review the remuneration and policies applicable to all Directors on an annual basis. Remuneration levels will be competitively set to attract the most qualified and experienced Directors and senior Other Key Management Personnel. Where necessary the Board will obtain independent advice on the appropriateness of remuneration packages.

The structure and disclosure of the Company's remuneration policies for Directors are set out in the Directors Report.

Board Access to Information

All Directors have unrestricted access to all employees of the Company and, subject to the law, access to all company records and information held by only employee/s and/or external advisers. The Board receives regular detailed financial and operational reports to enable it to carry out its duties.

Each Director may, with the prior written approval of the Chairman, obtain independent professional advice to assist the Director in the proper exercise of powers and discharge of duties as a Director or as a member of a Board Committee. The Company will reimburse the Director for the reasonable expense of obtaining that advice.

Board Committees

The Board, where appropriate, may establish a number of committees to assist in carrying out its responsibilities in an effective and efficient manner.

The Board has established a Remuneration & Nomination Committee to assist the Board in the discharge of its responsibilities and is governed by the Remuneration & Nomination Committee Charter, as approved by the Board.

The Board has established an Audit Committee to assist the Board in the discharge of its responsibilities and is governed by the Audit Committee Charter, as approved by the Board.

Audit Committee

The Board has an Audit Committee. The Committee monitors internal control policies and procedures designed to safeguard Company assets and to maintain the integrity of financial reporting. The role of the Committee is to provide a direct link between the Board and the external auditors.

It will also give the Board of Directors additional assurance regarding the quality and reliability of financial information prepared for use by the Board in determining policies or for inclusion in financial statements.

The responsibilities of the Audit Committee include:

- reviewing and reporting to the Board on the annual and half year financial reports, the financial section of quarterly reports and all other financial information published by the Company prior to release to members and other public forums;
- assisting the Board in reviewing the effectiveness of the organisation's internal control environment covering effectiveness and efficiency of operations, reliability of financial reporting, compliance with applicable laws and regulations and monitoring of corporate risk assessment processes;
- co-ordinating the audit with the external auditor including reviews of internal control measures;
- reviewing and approving any significant non-mandatory accounting policy change; and
- recommending to the Board the appointment, removal and remuneration of the external auditors, and review the terms of their engagement, the scope and quality of the audit and the auditor's independence, and consider if appropriate, the rotation of audit partners.

The Audit Committee will review the performance of the external auditors on an annual basis and meet with them at least twice during the year. Nomination of auditors will be at the discretion of the Committee. The Audit Committee also meets with and receives reports from the external auditors concerning any matters which arise in connection with the performance of their respective roles, including the adequacy of internal controls.

The members of the Audit and Compliance Committee at the date of this report are Mr Ian Macliver (Chairman) and Mr Rick Crabb.

Remuneration & Nomination Committee

The Board has a Remuneration & Nomination Committee.

The role of the Committee is to provide a general methodology for compensation and oversee the development and implementation of the compensation regime.

The responsibilities of the Nomination and Remuneration Committee include:

- review and recommend to the Board the overall strategies in relation to executive remuneration policies;
- review and make recommendations to the Board in respect of the compensation arrangements for all Non Executive Directors, the Chief Executive Officer and all other senior executives;
- review the effectiveness of performance incentive plans;
- review and make recommendations to the Board in respect of all equity based remuneration plans.
- review and make recommendations to the Board in respect of the Company's recruitment, retention and termination policies and superannuation arrangements;
- review the composition of the Board and ensure that the Board has an appropriate mix of skills and experience to properly fulfil its responsibilities; and
- ensure that the Board is comprised of directors who contribute to the successful management of the Company and discharge their duties having regard to the law and the highest standards of corporate governance.
- review and make recommendations to the Board in respect of the succession plans of senior executives (other than executive Directors) and ensuring the performance of senior executives is reviewed at least annually;
- consider nominations for potential candidates to act as Directors.

Ultimate responsibility for the Company's nomination and remuneration policies remains with the Board.

Auditor Independence

The Company has implemented procedures to monitor the independence and competence of the Company's external auditors. Details of the amounts paid for both audit work and non-audit services are set out in this annual report.

The Board requires that adequate hand-over occurs in the year prior to rotation of an audit partner to ensure an efficient and effective audit under the new partner.

Business Risks

The Company is committed to the identification; monitoring and management of risks associated with its business activities and has embedded in its management and reporting systems a number of risk management controls. The Board is charged with implementing appropriate risk management systems within the Company.

The Board will monitor and receive advice on areas of operational and financial risk, and consider strategies for appropriate risk management arrangements.

Corporate GOVERNANCE STATEMENT

Specific areas of risk identified initially and which will be regularly considered at Board meetings include operating risks, commodity price volatility and exchange rate risks, environmental risks, title risks, competition, statutory compliance and continuous disclosure obligations.

The Board has received the declaration in accordance with section 295A of the Corporations Act in respect to the financial accounts for the year ended 30 June 2012 which is founded on a sound system of risk management and internal controls and these systems are operating effectively in all material respects in relation to the financial reporting risks.

Share Trading

Under the Company's Share Trading Policy, all employees and Directors of the Company and its related companies are prohibited from trading in the Company's shares or other securities if they are in possession of "inside information". Subject to this condition and in light of the ASX's continuous disclosure requirements, trading can occur at any time but subject to conditions surrounding periods prior to the publication of financial results and disclosure documents.

In addition, in order to trade, employees and Directors must advise the Audit Committee of their intention to trade and must also have been advised by one of the Audit Committee Directors that there is no known reason to preclude them trading in the Company's shares or other securities.

Diversity

The Company recognises that a talented and diverse workforce is a key competitive advantage. The Company is committed to an inclusive workplace that embraces diversity and values, respects and leverages the unique contributions of people with diverse backgrounds, experiences and perspectives. Under the Company's Diversity policy it is a requirement to recruit and manage on the basis of competence and performance regardless of age, nationality, race, gender, religious beliefs, sexuality, physical ability or cultural background. It is essential that we have the right person for the right job and that we deliver at a high level of performance.

Continuous Disclosure

The Company understands and respects that timely disclosure of price sensitive information is central to the efficient operation of the ASX securities market and has adopted a comprehensive policy covering announcements to the Australian Securities Exchange, prevention of selective or inadvertent disclosure, conduct of investor and analysts briefings, media communications, commenting on expected earnings, communications black-out periods and review of briefings and communications. The policy is reviewed periodically and updated as required.

The Company Secretary has responsibility for overseeing and coordinating disclosure of information to the Australian Securities Exchange. The Company Secretary also liaises with the Chairman in relation to continuous disclosure matters. The Chief Executive Officer is responsible for overseeing and coordinating disclosure of information to analysts, brokers and shareholders.

Ethical Standards

All Directors, Other Key Management Personnel and employees are charged with the responsibility to act with the utmost integrity and objectivity, striving at all times to enhance the reputation and performance of the Company.

It is the Board's responsibility to ensure that all staff is aware of the Company's Code of Conduct and to ensure that any individual who does not adhere to these ideals is dealt with appropriately by executive management. Appropriate action may be counselling, disciplinary action or termination of employment.

The Board is responsible for setting the tone of legal, ethical and moral conduct to ensure that the Company is considered reputable by the industry and other outside entities. This involves considering the impact of the Company's decisions on the industry, colleagues and the general community.

Communications with Shareholders

The Board aims to ensure that shareholders are kept informed of all major developments affecting Otto Energy. Information is communicated to shareholders through the distribution of annual reports; and by presentation to shareholders at the Annual General Meeting, which they are encouraged to attend.

Further information about the Company's Corporate Governance practices is provided on the Company's website at www.ottoenergy.com. Information published on the Company's website includes charters (for the Board and its sub-committees), the Company's Code of Conduct and other policies and procedures relating to the Board and its responsibilities. In addition, all reports, including quarterly reports and releases made by Otto Energy throughout the year with respect to its activities are distributed widely via the Australian Securities Exchange and posted on the Company's website located at www.ottoenergy.com.

Consolidated STATEMENT OF COMPREHENSIVE INCOME

For the Year Ended 30 June 2012

	Note	2012 US\$'000	2011 US\$'000
Revenue from sale of oil	5	30,589	–
Cost of production	6	(15,521)	–
Gross Profit		15,068	–
Other revenue		3,407	1,636
Profit /(Loss) on Sale of Associate		20,193	–
Profit on disposal of working interest		322	–
Other expenses from ordinary activities			
Employee benefit expense	7	(6,219)	(6,672)
Depreciation & Amortisation	7	(12,512)	(235)
Impairment expense		–	(35)
Other expenses	7	(2,468)	(4,375)
Foreign currency gains/(losses)	7	(361)	34
Share of net losses of associates	29	(1,987)	22,771
Profit before income tax		15,443	13,123
Income tax expense	8	(656)	–
Net profit for the year from continuing operations		14,787	13,123
Discontinued Operations			
Loss for the year from discontinued operation		–	(719)
Net profit for the year		14,787	12,404
Other Comprehensive Income			
Foreign currency translation difference		–	(3,631)
Other comprehensive income for the year net of tax		–	(3,631)
Total comprehensive profit for the year attributable to owners of Otto Energy Limited		14,787	8,773
Earnings per share for profit from continuing operations attributable to the ordinary equity holders of the company:		Cents	Cents
Basic earnings per share	32	1.30	1.16
Diluted earnings per share	32	1.24	1.11
Earnings per share for profit attributable to the ordinary equity holders of the company:			
Basic earnings per share	32	1.30	1.09
Diluted earnings per share	32	1.24	1.05

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

Consolidated STATEMENT OF FINANCIAL POSITION

As at 30 June 2012

	Note	2012 US\$'000	2011 US\$'000
Current Assets			
Cash and cash equivalents	9	28,325	35,584
Trade and other receivables	10	2,044	267
Other current assets	11	10,351	24
Inventory	12	5,321	–
Total Current Assets		<u>46,041</u>	<u>35,875</u>
Non-Current Assets			
Trade and other receivables	10	6,721	10
Intangible assets	16	–	6,049
Property, plant and equipment	13	818	702
Exploration and Evaluation Assets	14	13,740	13,831
Oil and Gas Properties	15	38,167	–
Deferred Tax Asset	8	1,937	–
Investments in Associate	29	–	14,400
Total Non-Current Assets		<u>61,383</u>	<u>34,992</u>
Total Assets		<u>107,424</u>	<u>70,867</u>
Current Liabilities			
Trade and other payables	17	6,210	4,749
Provision for Income Tax Payable	8	739	–
Total Current Liabilities		<u>6,949</u>	<u>4,749</u>
Non-Current Liabilities			
Deferred tax liabilities	8	11,246	60
Provisions	17	6,717	–
Total Non-Current Liabilities		<u>17,963</u>	<u>60</u>
Total Liabilities		<u>24,912</u>	<u>4,809</u>
NET ASSETS		<u>82,512</u>	<u>66,056</u>
EQUITY			
Contributed equity	19	131,577	131,577
Reserves	20	13,832	12,162
Accumulated losses	20	(62,987)	(77,683)
TOTAL EQUITY		<u>82,512</u>	<u>66,056</u>

The above consolidated statement of financial position should be read in conjunction with the accompanying notes.

Consolidated STATEMENT OF CHANGES IN EQUITY

For the Year Ended 30 June 2012

	Attributable to owners of Otto Energy Limited			
	Issued Capital US\$'000	Accumulated Losses US\$'000	Other Reserves US\$'000	Total Equity US\$'000
Balance at 1 July 2010	128,992	(90,087)	14,284	53,189
Total comprehensive income for the year				
Profit or loss	–	12,404	–	12,404
Other comprehensive income				
Foreign currency translation differences	–	–	(3,631)	(3,631)
Total other comprehensive income	–	–	(3,631)	(3,631)
Total comprehensive for the year	–	12,404	(3,631)	8,773
Transactions with owners in their capacity as owners				
Issued options during the period	–	–	1,509	1,509
Issued shares during the period	2,593	–	–	2,593
Transaction costs	(8)	–	–	(8)
Balance as at 30 June 2011	131,577	(77,683)	12,162	66,056
Total comprehensive income for the year				
Profit or loss	–	14,787	–	14,787
Other comprehensive income				
Foreign currency translation differences	–	–	–	–
Total other comprehensive income	–	14,787	–	14,787
Total comprehensive for the year	–	14,787	–	14,787
Transactions with owners in their capacity as owners				
Statutory Reserve – Bahrain	–	–	1,325	1,325
Issued options during the period	–	–	61	61
Issued rights during the period	–	–	284	284
Balance as at 30 June 2012	131,577	(62,896)	13,832	82,512

The above consolidated statement of changes in net equity should be read in conjunction with the accompanying notes.

Consolidated STATEMENT OF CASH FLOWS

For the Year Ended 30 June 2012

	Note	2012 US\$'000	2011 US\$'000
Cash flows from operating activities			
Receipts from customers (inclusive of goods and services tax)		30,881	4,096
Payments to suppliers and employees (inclusive of goods and services tax)		(21,739)	(9,373)
Interest received		23	–
Interest paid		(20)	–
Income Taxes Paid		(6,156)	(22)
Net cash inflow/(outflow) from operating activities	31	2,989	(5,299)
Cash flows from investing activities			
Dividend Received		6,872	14,058
Payments for property, plant and equipment		(634)	(610)
Payments for exploration and evaluation		(6,541)	(12,630)
Payment for oil & gas properties		(5,566)	–
Proceeds from farm down		28,406	1,500
Proceeds from farm in		2,300	2,993
Payments for purchase of subsidiaries		(51,735)	–
Purchase of subsidiary net cash acquired		14,150	–
Repayment of loans repaid by associates		2,500	3,200
Net cash inflow/(outflow) from investing activities		(10,248)	8,511
Cash flows from financing activities			
Proceeds from issues of shares and other equity securities		–	2,787
Share issue and buy-back transaction costs		–	(8)
Repayment of borrowings		–	(12)
Net cash (outflow) from financing activities		–	2,767
Net increase/(decrease) in cash and cash equivalents		(7,259)	5,979
Cash and cash equivalents at the beginning of the financial year		35,584	29,605
Cash and cash equivalents at end of year	9	28,325	35,584

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

1. Statement of Significant Accounting Policies

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements are for the consolidated entity consisting of Otto Energy Limited and its subsidiaries.

(a) Basis of Preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and interpretations issued by the Australian Accounting Standards Board and the Corporations Act 2001. Otto Energy Limited is a for-profit entity for the purpose of preparing the financial statements.

(i) Compliance with IFRS

The consolidated financial statements of the Otto Energy Limited group also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

(ii) New and amended standards adopted by the group

In the current year the Group has adopted all of the new and revised Standards and Interpretations issued by the AASB that are relevant to its operations and effective for the current reporting period. These have been set out below.

(iii) Critical accounting estimates

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 3.

(iv) Changes to presentation – classification of expenses

Otto Energy Limited decided in the current financial year to change the classification of its expenses in the income statement from a classification by nature to a functional classification. We believe that this will provide more relevant information to our stakeholders as it is more in line with common practice in the industry. The comparative information has been reclassified accordingly.

(b) Principles of Consolidation

(i) Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Otto Energy Limited ('company' or 'parent entity') as at 30 June 2012 and the results of all subsidiaries for the year then ended. Otto Energy Limited and its subsidiaries together are referred to in this financial report as the group or the consolidated entity.

Subsidiaries are all entities (including special purpose entities) over which the group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are de-consolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the group (refer to note 1(ii)).

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the group.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated income statement, statement of comprehensive income, statement of changes in equity and statement of financial position respectively.

(ii) Associates

Associates are all entities over which the group has significant influence but not control or joint control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting, after initially being recognised at cost. The group's investment in associates includes goodwill identified on acquisition (refer to note 28).

The group's share of its associates' post-acquisition profits or losses is recognised in profit or loss, and its share of post-acquisition other comprehensive income is recognised in other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. Dividends receivable from associates are recognised as reduction in the carrying amount of the investment.

When the group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured long-term receivables, the group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the group and its associates are eliminated to the extent of the group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the group.

Notes TO THE CONSOLIDATED FINANCIAL STATEMENTS

(iii) Joint ventures

Jointly controlled assets

The Group's share of the assets, liabilities, revenues and expenses of joint venture operations have been incorporated into the financial statements in the appropriate items of the consolidated statement of comprehensive income and consolidated statement of financial position. Details of joint ventures are set out in note 30.

(v) Changes in ownership interests

The group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognised in a separate reserve within equity attributable to owners of Otto Energy Limited.

When the group ceases to have control, joint control or significant influence, any retained interest in the entity is remeasured to its fair value with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, jointly controlled entity or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

If the ownership interest in a jointly-controlled entity or an associate is reduced but joint control or significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

(c) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the board. Management has determined that based on the report reviewed by the Board and used to make strategic decisions, that the Group has one reportable segment being oil and gas exploration and production in the Philippines.

(d) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in United States dollars, which is Otto Energy Limited's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

(e) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable to the extent that it is probable that economic benefits will flow to the Group and the revenue can be reliably measured.

(i) Sale of oil

Revenue from the sale of natural oil is recognised when title passes based on the sales method, with revenue recognised on actual volumes sold to purchasers. There is a ready market for oil, with sales occurring soon after production.

(ii) Interest revenue

Interest income is recognised on a time proportionate basis that takes into account the effective yield on the financial asset.

(iii) Dividends

Dividends are recognised as revenue when the right to receive payment is established.

(f) Income tax

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit nor loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where the company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

(g) Leases

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the group as lessee are classified as operating leases (note 24). Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

(h) Business combinations

The purchase method of accounting is used to account for all business combinations, including business combinations involving entities or businesses under common control, regardless of whether equity instruments or other assets are acquired. Cost is measured as the fair value of the assets given, equity instruments issued or liabilities incurred or assumed at the date of exchange. Where equity instruments are issued in an acquisition, the fair value of the instruments is their published market price as at the date of exchange unless, in rare circumstances, it can be demonstrated that the published price at the date of exchange is an unreliable indicator of fair value. Any directly attributable costs of acquisition are expensed.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the Group's share of the fair value of the identifiable net assets of the subsidiary acquired, the difference is recognised directly in the statement of comprehensive income, but only after a reassessment of the identification and measurement of the net assets acquired.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

(i) Impairment of assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

(j) Cash and cash equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(k) Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. Trade receivables are generally due for settlement within 30 days. They are presented as current assets unless collection is not expected for more than 12 months after the reporting date. Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off by reducing the carrying amount directly. An allowance account (provision for impairment of trade receivables) is used when there is objective evidence that the group will not be able to collect all amounts due according to the original terms of the receivables.

Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

The amount of the impairment loss is recognised in profit or loss within other expenses. When a trade receivable for which an impairment allowance had been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against other expenses in profit or loss.

(l) Inventories

(i) Oil

Inventories consist of hydrocarbon stocks. Inventories are valued at the lower of cost and net realisable value. Cost is determined on a weighted average basis and includes direct costs and an appropriate portion of fixed and variable production overheads where applicable.

(ii) Fuel

Fuel purchased for use is valued at the lower of cost and net realisable value. Cost comprises of direct materials and is accounted for and accounted for on a FIFO (first in, first out) basis. Fuel held in inventory will be expensed once issued at cost to the income statement.

(m) Discontinued operations

A discontinued operation is a component of the entity that has been disposed of or is classified as held for sale and that represents a separate major line of business or geographical area of operations, is part of a single co-ordinated plan to dispose of such a line of business or area of operations, or is a subsidiary acquired exclusively with a view to resale. The results of discontinued operations are presented separately in the income statement.

(n) Other financial assets

Classification

The group classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and, in the case of assets classified as held-to-maturity, re-evaluates this designation at the end of each reporting date.

(i) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the reporting period which are classified as non-current assets.

Recognition and derecognition

Regular purchases and sales of financial assets are recognised on trade-date being the date on which the group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the group has transferred substantially all the risks and rewards of ownership.

Measurement

Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Impairment

The group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

(i) Assets carried at amortised cost

For loans and receivables, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in profit or loss.

(o) Property, plant and equipment

Property, plant and equipment other than Oil and Gas Properties are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains or losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Depreciation is calculated using the straight-line method to allocate their cost over their estimated useful lives to estimate residual value. The following estimated useful lives are used in the calculation of depreciation:

Plant and equipment	5 years
Furniture and equipment	3 – 10 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 1(h)).

(o) Property, plant and equipment (cont'd)

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in profit or loss. When revalued assets are sold, it is group policy to transfer any amounts included in other reserves in respect of those assets to retained earnings.

(p) Non-operator interests in oil and gas properties

(i) Exploration and evaluation expenditure

Expenditure on exploration and evaluation is accounted for in accordance with the area of interest method.

This approach is strongly linked to the Company's oil and gas reserves determination and reporting process and is considered to most fairly reflect the results of the Company's exploration and evaluation activity because only assets with demonstrable value are carried on the statement of financial position.

Upon the production of commercial quantities of oil and gas, capitalised exploration and evaluation costs are transferred to Oil and Gas Properties – Producing Projects and amortisation commences.

This method allows the costs associated with the acquisition, exploration and evaluation of a prospect to be aggregated on the Consolidated Statement of Financial Position and matched against the benefits derived from commercial production once this commences.

(ii) Costs

Exploration lease acquisition costs relating to oil and gas exploration provinces are expensed as incurred while the costs incurred in relation to established or recognised oil and gas provinces are initially capitalised and then amortised over the shorter term of the lease or the expected life of the project.

All other exploration and evaluation costs, including general permit activity, geological and geophysical costs and new venture activity costs are charged as expenses as incurred except where:

- the expenditure relates to an exploration discovery that, at the reporting date, had not been recognised as an area of interest as an assessment of the existence or otherwise of economically recoverable reserves has not yet been completed; or
- where there exists an economically recoverable reserve, and it is expected that the capitalised expenditure will be recouped through exploitation of the area of interest, or alternatively, by its sale.

Areas of interest are recognised at field level. Subsequent to the recognition of an area of interest, all further costs relating to the area of interest are initially capitalised. Each area of interest is reviewed at least bi-annually to determine whether economic quantities of reserves exist or whether further exploration and evaluation work is required to support the continued carry forward of capitalised costs. To the extent it is considered that the relevant expenditure will not be recovered, it is written off.

The costs of drilling exploration and evaluation wells are initially capitalised pending the results of the well. Costs are expensed where the well does not result in the discovery of economically recoverable hydrocarbons. To the extent that it is considered that the relevant expenditure will not be recovered, it is immediately expensed.

In the statement of cash flows, those cash flows associated with the capitalised exploration and evaluation expenditure are classified as cash flows used in investing activities. Exploration and evaluation expenditure expensed is classified as cash flows used in operating activities.

(iii) Prepaid drilling and completion costs

Where the Company has a non-operator interest in an oil or gas property, it may periodically be required to make a cash contribution for its share of the operator's estimated drilling and/or completion costs, in advance of these operations taking place.

Where these contributions relate to a prepayment for exploratory or early stage drilling activity, prior to a decision on the commerciality of a well having been made, the costs are capitalised as prepaid drilling costs within Exploration and Evaluation and/or Development Projects.

Where these contributions relate to a prepayment for well completion, these costs are capitalised as prepaid completion costs within Exploration and Evaluation.

(p) Non-operator interests in oil and gas properties (cont'd)

As the operator notifies the Company as to how funds have been expended, the costs are reclassified from prepaid costs to the appropriate expenditure category.

(iv) Transfer of capitalised exploration and evaluation expenditure to producing projects (oil and gas properties)

When a well demonstrates commercial feasibility or comes into commercial production, accumulated exploration and evaluation expenditure for the relevant area of interest is transferred to producing projects and amortised on a units of production basis.

(q) Operator interests in oil and gas properties

(i) Development projects

When the technical and commercial feasibility of an undeveloped oil or gas field has been demonstrated the field enters its development phase.

(ii) Producing projects

Producing projects are stated at cost less accumulated amortisation and impairment charges. Producing projects include construction, installation or completion of production and infrastructure facilities such as pipelines, transferred exploration and evaluation assets, development wells and the provision for restoration.

(iii) Amortisation and depreciation of producing projects

The Consolidated Entity uses the "units of production" ("UOP") approach when amortising and depreciating field-specific assets. Using this method of amortisation and depreciation requires the Consolidated Entity to compare the actual volume of production to the reserves and then to apply this determined rate of depletion to the carrying value of depreciable asset.

Capitalised producing projects costs relating to commercially producing wells are depreciated/amortised using the UOP basis once commercial quantities are being produced within an area of interest. The reserves used in these calculations are the Proved plus Probable reserves and are reviewed at least annually.

(iv) Future restoration costs

The Consolidated Entity's aim is to avoid or minimise environmental impact resulting from its operations.

Provision is made in the statement of financial position for the estimated cost of legal and constructive obligations to restore operating locations in the period in which the obligation arises. The estimated costs are capitalised as part of the cost of the related project where recognition occurs upon acquisition of an interest in the operating locations. The carrying amount capitalised is amortised on a unit of production basis during the production phase of the project.

Work scope and cost estimates for restoration are reviewed annually and adjusted to reflect the expected cost of restoration.

Restoration costs are based on the latest estimated future costs, determined on a discounted basis, which are reassessed regularly and exclude any allowance for potential changes in technology or material changes in legislative requirements.

The Group accounts for changes in cost estimates on a prospective basis.

Assets in Development

When the technical and commercial feasibility of an undeveloped oil or gas field has been demonstrated the field enters its development phase. The costs of oil and gas assets are transferred from exploration and evaluation expenditure and reclassified into oil and gas properties and include past exploration and evaluation costs.

Producing assets

The costs of oil and gas assets in production are separately accounted for as tangible assets, and include past exploration and evaluation costs, pre-production development costs and the ongoing costs of continuing to develop reserves for production and to expand or replace plant and equipment and any associated land and buildings. When production commences, the accumulated costs for the relevant area of interest are amortised over the life of the area according to the rate of depletion of the economically recoverable reserves.

Provisions for future restoration are made where there is a present obligation as a result of development or production activity, and is capitalised as a component of the cost of those activities. The provision for restoration policy is discussed in Note 3.

(r) Intangible Assets

(i) Goodwill

Goodwill is measured as described in note 1(i). Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is not amortised but it is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose, identified according to operating segments (note 4).

(s) Trade and other payables

These amounts represent liabilities for goods and services provided to the group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition. Trade and other payables are presented as current liabilities unless payment is not due within 12 months from the reporting date. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method

(t) Provisions

Provisions are recognised when the group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

(u) Employee benefits

Provision is made for benefits accruing to employees in respect of employee entitlements when it is probable that settlement will be required and these benefits can be measured reliably. These benefits included wages, salaries, annual leave and long service leave.

Provisions made in respect of employment benefits expected to be settled within 12 months are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Provisions made in respect of employee entitlements which are not expected to be settled within 12 months are measured as the present value of the estimated future cash outflows to be made by the consolidated entity in respect of services provided by employees up to reporting date.

(v) Share Based Payments

The Group has provided benefits to its employees and consultants (including key management personnel) in the form of share-based payments, whereby services were rendered partly or wholly in exchange for shares or rights over shares. The Remuneration Committee has also approved the grant of options or performance rights as incentives to attract executives and to maintain their long term commitment to the Company. These benefits were awarded at the discretion of the board, or following approval by shareholders (equity-settled transactions).

The costs of these equity-settled transactions are measured by reference to the fair value of the equity instruments at the date on which they are granted. The fair value of performance rights granted is determined using a risked statistical analysis, further details of which are disclosed in note 33. The fair value of options granted is determined by using a Black-Scholes option pricing technique.

The costs of these equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and / or service conditions are fulfilled (the vesting period), ending on the date on which the relevant employees become fully entitled to the equity instrument (vesting date).

At each subsequent reporting date until vesting, the cumulative charge to the income statement is the product of (i) the fair value at grant date of the award; (ii) the current best estimate of the number of equity instruments that will vest, taking into account such factors as the likelihood of employee turnover during the vesting period and the likelihood of non-market performance conditions being met and (iii) the expired portion of the vesting period.

The charge to the income statement for the period is the cumulative amount as calculated above less the amounts already charged in previous periods. There is a corresponding credit to equity.

Until an equity instrument has vested, any amounts recorded are contingent and will be adjusted if more or fewer equity instruments vest than were originally anticipated to do so. Any equity instrument subject to a market condition is considered to vest irrespective of whether or not that market condition is fulfilled, provided that all other conditions are satisfied.

If the terms of an equity-settled award are modified, as a minimum, an expense is recognised as if the terms had not been modified. An additional expense is recognised for any modification that increases the total fair value of the share based payment arrangement, or is otherwise beneficial to the recipient of the award, as measured at the date of modification.

If an equity-settled transaction is cancelled (other than a grant cancelled by forfeiture when the vesting conditions are not satisfied), it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new equity instrument is substituted for the cancelled award and designated as a replacement award on the date that it is granted, the cancelled and new equity instrument are treated as if they were a modification of the original award, as described in the preceding paragraph.

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share (see note 32).

Notes TO THE CONSOLIDATED FINANCIAL STATEMENTS

(w) Contributed equity

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Where any group company purchases the company's equity instruments, for example as the result of a share buy-back or a share-based payment plan, the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the owners of Otto Energy Limited as treasury shares until the shares are cancelled or reissued. Where such ordinary shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, and is included in equity attributable to the owners of Otto Energy Limited.

(x) Earnings per share

(i) Basic earnings per share

Basic earnings per share are calculated by dividing:

- the profit attributable to owners of the company, excluding any costs of servicing equity other than ordinary shares
- by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year and excluding treasury shares (note 32).

(ii) Diluted earnings per share

Diluted earnings per share adjust the figures used in the determination of basic earnings per share to take into account:

- the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and
- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

(y) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flows.

(z) Rounding of amounts

The company is of a kind referred to in Class Order 98/100, issued by the Australian Securities and Investments Commission, relating to the 'rounding off' of amounts in the financial statements. Amounts in the financial statements have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, the nearest dollar.

(aa) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory and chosen not to adopt early for 30 June 2012 reporting periods. The group's assessment of the impact of these new standards and interpretations is set out below.

(i) AASB 9 Financial Instruments, AASB 2009-11 Amendments to Australian Accounting Standards arising from AASB 9 and AASB 2010-7 Amendments to Australian Accounting Standards arising from AASB 9 (December 2010) (effective from 1 January 2013*)

AASB 9 Financial Instruments addresses the classification, measurement and derecognition of financial assets and financial liabilities. The standard is not applicable until 1 January 2013* but is available for early adoption. When adopted, the standard will affect in particular the group's accounting for its available-for-sale financial assets, since AASB 9 only permits the recognition of fair value gains and losses in other comprehensive income if they relate to equity investments that are not held for trading. Fair value gains and losses on available-for-sale debt investments, for example, will therefore have to be recognised directly in profit or loss. In the current reporting period, the group recognised 16,000 of such gains in other comprehensive income.

There will be no impact on the group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the group does not have any such liabilities. The derecognition rules have been transferred from AASB139 Financial Instruments: Recognition and Measurement and have not been changed. The group has not yet decided when to adopt AASB 9.

*In December 2011, the IASB delayed the application date of IFRS 9 to 1 January 2015. The AASB is expected to make an equivalent amendment to AASB 9 shortly.

(ii) AASB 10 Consolidated Financial Statements, AASB 11 Joint Arrangements, AASB 12 Disclosure of Interests in Other Entities, revised AASB 127 Separate Financial Statements and AASB 128 Investments in Associates and Joint Ventures and AASB 2011-7 Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards (effective 1 January 2013)

In August 2011, the AASB issued a suite of five new and amended standards which address the accounting for joint arrangements, consolidated financial statements and associated disclosures. AASB 10 replaces all of the guidance on control and consolidation in AASB 127 Consolidated and Separate Financial Statements, and Interpretation 12 Consolidation – Special Purpose Entities. The core principle that a consolidated entity presents a parent and its subsidiaries as if they are a single economic entity remains unchanged, as do the mechanics of consolidation. However, the standard introduces a single definition of control that applies to all entities. It focuses on the need to have both power and rights or exposure to variable returns. Power is the current ability to direct the activities that significantly influence returns. Returns must vary and can be positive, negative or both. Control exists when the investor can use its power to affect the amount of its returns. There is also new guidance on participating and protective rights and on agent/principal relationships. While the group does not expect the new standard to have a significant impact on its composition, it has yet to perform a detailed analysis of the new guidance in the context of its various investees that may or may not be controlled under the new rules.

AASB 11 introduces a principles based approach to accounting for joint arrangements. The focus is no longer on the legal structure of joint arrangements, but rather on how rights and obligations are shared by the parties to the joint arrangement. Based on the assessment of rights and obligations, a joint arrangement will be classified as either a joint operation or a joint venture. Joint ventures are accounted for using the equity method, and the choice to proportionately consolidate will no longer be permitted. Parties to a joint operation will account their share of revenues, expenses, assets and liabilities in much the same way as under the previous standard.

AASB 11 also provides guidance for parties that participate in joint arrangements but do not share joint control. The group's investment in the joint venture partnership will be classified as a joint venture under the new rules. As the group already applies the equity method in accounting for this investment, AASB 11 will not have any impact on the amounts recognised in its financial statements. AASB 12 sets out the required disclosures for entities reporting under the two new standards, AASB 10 and AASB 11, and replaces the disclosure requirements currently found in AASB 127 and AASB 128.

Application of this standard by the group will not affect any of the amounts recognised in the financial statements, but will impact the type of information disclosed in relation to the group's investments. Amendments to AASB 128 provide clarification that an entity continues to apply the equity method and does not remeasure its retained interest as part of ownership changes where a joint venture becomes an associate, and vice versa. The amendments also introduce a "partial disposal" concept. The group is still assessing the impact of these amendments. The group does not expect to adopt the new standards before their operative date. They would therefore be first applied in the financial statements for the annual reporting period ending 30 June 2014.

(iii) AASB 13 Fair Value Measurement and AASB 2011-8 Amendments to Australian Accounting Standards arising from AASB 13 (effective 1 January 2013)

AASB 13 was released in September 2011. It explains how to measure fair value and aims to enhance fair value disclosures. The group has yet to determine which, if any, of its current measurement techniques will have to change as a result of the new guidance. It is therefore not possible to state the impact, if any, of the new rules on any of the amounts recognised in the financial statements. However, application of the new standard will impact the type of information disclosed in the notes to the financial statements. The group does not intend to adopt the new standard before its operative date, which means that it would be first applied in the annual reporting period ending 30 June 2014.

(iv) Revised AASB 119 Employee Benefits, AASB 2011-10 Amendments to Australian Accounting Standards arising from AASB 119 (September 2011) and AASB 2011-11 Amendments to AASB 119 (September 2011) arising from Reduced Disclosure Requirements (effective 1 January 2013)

In September 2011, the AASB released a revised standard on accounting for employee benefits. It requires the recognition of all re-measurements of defined benefit liabilities/assets immediately in other comprehensive income (removal of the so-called 'corridor' method) and the calculation of a net interest expense or income by applying the discount rate to the net defined benefit liability or asset. This replaces the expected return on plan assets that is currently included in profit or loss. The standard also introduces a number of additional disclosures for defined benefit liabilities/assets and could affect the timing of the recognition of termination benefits. The amendments will have to be implemented retrospectively. Had the group adopted the new rules in the current reporting period, profit or loss would have been lower and other comprehensive income higher by approximately US\$54,000. The Group has not yet decided when to adopt the new standard.

Notes TO THE CONSOLIDATED FINANCIAL STATEMENTS

There are no other standards that are not yet effective and that are expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

(ab) Parent entity financial information

The financial information for the parent entity, Otto Energy Limited, disclosed in note 34 has been prepared on the same basis as the consolidated financial statements, except as set out below.

(i) Investments in subsidiaries, associates and joint venture entities

Investments in subsidiaries, associates and joint venture entities are accounted for at cost in the financial statements of Otto Energy Limited. Dividends received from associates are recognised in the parent entity's profit or loss, rather than being deducted from the carrying amount of these investments.

(ii) Tax consolidation legislation

Otto Energy Limited and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation. The head entity, Otto Energy Limited, and the controlled entities in the tax consolidated group account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidated group continues to be a standalone taxpayer in its own right.

In addition to its own current and deferred tax amounts, Otto Energy Limited also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group.

The entities have also entered into a tax funding agreement under which the wholly-owned entities fully compensate Otto Energy Limited for any current tax payable assumed and are compensated by Otto Energy Limited for any current tax receivable and deferred tax assets relating to unused tax losses or unused tax credits that are transferred to Otto Energy Limited under the tax consolidation legislation. The funding amounts are determined by reference to the amounts recognised in the wholly-owned entities' financial statements.

The amounts receivable/payable under the tax funding agreement is due upon receipt of the funding advice from the head entity, which is issued as soon as practicable after the end of each financial year. The head entity may also require payment of interim funding amounts to assist with its obligations to pay tax instalments.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as current amounts receivable from or payable to other entities in the group.

Any difference between the amounts assumed and amounts receivable or payable under the tax funding agreement are recognised as a contribution to (or distribution from) wholly-owned tax consolidated entities.

(iii) Share-based payments

The grant by the company of options over its equity instruments to the employees of subsidiary undertakings in the group is treated as a capital contribution to that subsidiary undertaking. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity.

(ac) New Standards and Amendments

(i) New standards and amendments – applicable 1 July 2011

The following standards and interpretations apply for the first time to financial reporting periods commencing on or after 1 July 2011:

Reference and Title	Summary	Application date of standard	Impact on Otto Energy Ltd financial statements
<i>Financial Instruments - AASB 9 (issued December 2009 and amended December 2010)</i>	Amends the requirements for classification and measurement of financial assets. The available-for-sale and held-to-maturity categories of financial assets in AASB 139 have been eliminated. AASB 9 requires that gains or losses on financial liabilities measured at fair value are recognised in profit or loss, except that the effects of changes in the liability's credit risk are recognised in other comprehensive income.	Periods beginning on or after 1 January 2015	Adoption of AASB 9 is only mandatory for the year ending 30 June 2016. The [Entity] has not yet made an assessment of the impact of these amendments.
<i>Consolidated Financial Statements - AASB 10 (issued August 2011)</i>	Introduces a single 'control model' for all entities, including special purpose entities (SPEs), whereby all of the following conditions must be present: • Power over investee (whether or not power used in practice) • Exposure, or rights, to variable returns from investee • Ability to use power over investee to affect the [Entity]'s returns from investee. • Introduces the concept of 'defacto' control for entities with less than 50% ownership interest in an entity, but which have a large shareholding compared to other shareholders. This could result in more instances of control and more entities being consolidated.	Annual reporting periods commencing on or after 1 January 2013	When this standard is first adopted for the year ended 30 June 2014, there will be no impact on transactions and balances recognised in the financial statements because the [Entity] does not have any special purpose entities. The 'Entity' does not have 'defacto' control of any entities with less than 50% ownership interest in an entity.
<i>Joint Arrangements - AASB 11 (issued August 2011)</i>	Joint arrangements will be classified as either 'joint operations' (where parties with joint control have rights to assets and obligations for liabilities) or 'joint ventures' (where parties with joint control have rights to the net assets of the arrangement).	Annual reporting periods commencing on or after 1 January 2013	When this standard is first adopted for the year ended 30 June 2014, there will be no impact on transactions and balances recognised in the financial statements because Otto Energy Ltd has not entered into any joint arrangements.
<i>Fair Value Measurement - AASB 13 (issued September 2011)</i>	AASB 13 establishes a single framework for measuring fair value of financial and non-financial items recognised at fair value in the statement of financial position or disclosed in the notes in the financial statements. Additional disclosures required for items measured at fair value in the statement of financial position, as well as items merely disclosed at fair value in the notes to the financial statements. Extensive additional disclosure requirements for items measured at fair value that are 'level 3' valuations in the fair value hierarchy that are not financial instruments	Annual reporting periods commencing on or after 1 January 2013	When this standard is adopted for the first time for the year ended 30 June 2014, additional disclosures will be required about fair values.

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Reference and Title	Summary	Application date of standard	Impact on Otto Energy Ltd financial statements
<i>Employee Benefits - AASB 119 (reissued September 2011)</i>	Employee benefits expected to be settled (as opposed to due to settled under current standard) wholly within 12 months after the end of the reporting period are short-term benefits, and therefore not discounted when calculating leave liabilities. Annual leave not expected to be used wholly within 12 months of end of reporting period will in future be discounted when calculating leave liability.	Annual periods commencing on or after 1 January 2013	When this standard is first adopted for 30 June 2014 year end, annual leave liabilities will be recalculated on 1 July 2012 as long-term benefits because they are not expected to be settled wholly within 12 months after the end of the reporting period. This will result in a reduction of the annual leave liabilities recognised on 1 July 2012, and a corresponding increase in retained earnings at that date
<i>Amendments to Australian Accounting Standards – Deferred Tax: Recovery of Underlying Assets (AASB 112) - AASB 2010-8 (issued December 2010)</i>	For investment property measured using the fair value model, deferred tax assets and liabilities will be calculated on the basis of a rebuttable presumption that the carrying amount of the investment property will be recovered through sale.	Periods commencing on or after 1 January 2012	Otto Energy Ltd does not have any investment property measured using the fair value model. There will therefore be no impact on the financial statements when these amendments are first adopted.
<i>Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirement - AASB 2011-4 (issued July 2011)</i>	Amendments to remove individual key management personnel (KMP) disclosure requirements from AASB 124 to eliminate duplicated information required under the Corporation Act 2001	Annual periods commencing on or after 1 July 2013	When this standard is first adopted for the year ended 30 June 2014 the [Entity] will show reduced disclosures under Key Management Personnel note to the financial statements
<i>Amendments to Australian Accounting Standards - Presentation of Items of Other Comprehensive Income - AASB 2011-9 (issued September 2011)</i>	Amendments to align the presentation of items of other comprehensive income (OCI) with US GAAP. Various name changes of statements in AASB 101 as follows: 1 statement of comprehensive income – to be referred to as 'statement of profit or loss and other comprehensive income' 2 statements – to be referred to as 'statement of profit or loss' and 'statement of comprehensive income'. - OCI items must be grouped together into two sections: those that could subsequently be reclassified into profit or loss and those that cannot	Annual periods commencing on or after 1 July 2012	When this standard is first adopted for the year ended 30 June 2013, there will be no impact on amounts recognised for transactions and balances for 30 June 2013 (and comparatives).

Reference and Title	Summary	Application date of standard	Impact on Otto Energy Ltd financial statements
<i>Stripping Costs in the Production Phase of a Surface Mine - Interpretation 20 (issued November 2011)</i>	Clarifies that costs of removing mine waste materials (overburden) to gain access to mineral ore deposits during the production phase of a mine must be capitalised as inventories under AASB 102 Inventories if the benefits from stripping activity is realised in the form of inventory produced. Otherwise, if stripping activity provides improved access to the ore, stripping costs must be capitalised as a non-current, stripping activity asset if certain recognition criteria are met.	Annual periods commencing on or after 1 January 2013	The [Entity] does not operate a surface mine. There will therefore be no impact on the financial statements when this interpretation is first adopted.
<i>Annual Improvements to Australian Accounting Standards 2009-2011 Cycle - AASB 2012-5 (issued June 2012)</i>	Non-urgent but necessary changes to IFRSs (IAS1, IAS 16 & IAS 32)	Periods commencing on or after 1 January 2013	When this standard is first adopted for the year ended 30 June 2013, there will be no material impact.
<i>Mandatory Effective Date of IFRS 9 and Transition Disclosures - IFRS (issued December 2011)</i>	Entities are no longer required to restate comparatives on first time adoption. Instead, additional disclosures on the effects of transition are required	Annual reporting periods commencing on or after 1 January 2015	As comparatives are no longer required to be restated, there will be no impact on amounts recognised in the financial statements. However, additional disclosures will be required on transition, including the quantitative effects of reclassifying financial assets on transition.

Notes TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. Financial Risk Management

The group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, interest rate risk and commodity price risk), credit risk and liquidity risk. The group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the group. The group uses different methods to measure different types of risk to which it is exposed.

The Board performs the duties of a risk management committee and receives reports as required from the CFO and management through which it reviews the effectiveness of the process implemented and the appropriateness of the objectives and policies it sets. The Board oversee how management monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by Otto.

These disclosures are not, nor are they intended to be an exhaustive list of risks to which Otto is exposed.

(a) Market risk

Market risk arises from Otto's exposure to commodity price risk and the use of interest bearing and foreign currency financial instruments. It is a risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in interest rates (interest rate risk), foreign exchange rates (currency risk) or oil prices (commodity price risk).

(i) Foreign Exchange risk

The Group source currency for the majority of revenue and costs in US Dollars. Given the location of the Group offices, there is a small exposure to foreign exchange risk arising from the fluctuations in the US dollar - Australian dollar, and US dollar and Philippines peso on cash balances.

Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities denominated in a currency that is not the entity's functional currency. The exposure to risk is measured using sensitivity analysis and cash flow forecasting.

As at reporting date, the Board has formed the view that it would not be beneficial for the Group to purchase forward contracts or other derivative financial instruments to hedge this foreign exchange risk. Factors which the Board considered in arriving at this position included the expense of purchasing such instruments and the inherent difficulties associated with forecasting the timing and quantum of cash inflows and outflows compared to the relatively low volume and value of commercial transactions and recognised assets and liabilities denominated in a currency which is not US dollars.

	30 June 2012			
	USD US\$'000	AUD US\$'000	PHP US\$'000	Total US\$'000
Financial Assets				
Cash and Cash Equivalents	27,279	1,040	6	28,325
Trade and other receivables	8,013	752	–	8,765
Total Financial Assets	35,292	1,792	6	37,090
Financial Liabilities				
Trade and other payables	5,338	872	–	6,210
Total Financial Liabilities	5,338	872	–	6,210

A hypothetical change of 10% in the Australian Dollar and Philippine Peso exchange rate was used to calculate the Group's sensitivity to foreign exchange rates movements as this is Management estimate of possible rate movements over the coming year taking into account current market conditions and past volatility (30 June 2011 10%). At 30 June 2012, The Group's exposure to foreign exchange movements is not material (2011 - not material) therefore no analysis provided.

Group sensitivity

At 30 June 2012, the Group's exposure to foreign exchange movements is not material (2011 – not material) therefore no further analysis provided.

(ii) Commodity Price risk

As a result of its operations the Group is exposed to commodity price risk arising due to fluctuations in the prices of crude oil. The demand for, and prices of crude oil are dependent on a variety of factors, including:

- Supply and demand;
- The level of consumer product demand;
- Weather conditions;
- The price and availability of alternative fuels;
- Actions taken by governments and international cartels; and
- Global economic and political developments.

As at reporting date, the Board has formed the view that it would not be beneficial for the Group to purchase forward contracts or other derivative financial instruments to hedge this commodity price risk. Factors which the Board considered in arriving at this position included the expense of purchasing such instruments and the inherent difficulties associated with forecasting future production levels while the Consolidated Entity is primarily at the exploration stage of realising the value of its oil and gas assets. As development of these assets progresses and it becomes possible to forecast future production levels with a greater degree of certainty or to support and finance future production developments, the Board may reconsider its position with regard to hedging against commodity price risk in the future.

Group sensitivity

The following table demonstrates the estimated sensitivity to a US\$10 increase / decrease in the oil price, with all other variables held constant, on post tax profit and equity at 30 June 2012. These sensitivities should not be used to forecast the future effect of movement in the oil price on future cash flows.

	2012 US\$'000	2011 US\$'000
Impact on post-tax profits		
US \$ oil price + \$10	2,589	1,978
US \$ oil price – \$10	(2,589)	(1,978)
Impact on equity		
US \$ oil price + \$10	2,589	1,978
US \$ oil price – \$10	(2,589)	(1,978)

(iii) Interest rate risk

At 30 June 2012 the Group had interest bearing assets, being liquid funds on deposit. As such, the Group's income and operating cash flows are somewhat dependent of changes in market interest rates. The Board manages the Group's exposure to interest rate risk by assessing the company's exposure, taking into account funding requirements and selecting appropriate investments to manage its exposure. The Group's exposure to interest rate risk and the effective weighted average interest rate for each class of financial assets.

	2012 US\$'000	2011 US\$'000
Financial assets		
Cash assets Floating rate*	28,325	35,584

* Weighted average effective interest rate of funds on deposit is Nil (2011: Nil)

The Group's policy is to maximise the return on cash held through the use of high interest deposit accounts and term deposits where possible.

Notes TO THE CONSOLIDATED FINANCIAL STATEMENTS

Group sensitivity

At 30 June 2012, the Group's exposure to interest movements is not material (2011 – not material) therefore no further analysis provided.

(b) Credit risk

Credit risk is managed on a group basis. Credit risk arises from cash and cash equivalents, deposits with banks and financial institutions, as well as credit exposures to wholesale and retail customers.

The maximum exposure to credit risk at the reporting date is the carrying amount of the financial assets as summarised below, none of which are impaired or past due.

	2012 US\$'000	2011 US\$'000
Trade and other receivables	8,765	277
Cash and cash equivalents	28,325	35,584
	<u>37,090</u>	<u>35,861</u>

To manage credit risk from cash and cash equivalents financial assets, it is the Group's policy to only deposit with banks maintaining a minimum independent rating of 'AA'. Due to some of the operating environments in the Philippines, it is not currently possible for all the deposit cash with financial institutions that have an 'AA' rating. To mitigate this risk, the cash held is deposited only with financial institutions that carry the 100% Government Guarantee.

	2012 US\$'000	2011 US\$'000
Cash and cash equivalents		
AA Rated	4,784	32,611
BB Rated	-	2,948
BBB Unrated	23,532	16
Unrated	9	8
	<u>28,325</u>	<u>35,584</u>

The Group trades only with recognised, trustworthy third parties. It is the Group's policy to perform credit verification procedures in relation to any customers wishing to trade on credit terms with the Group. These include taking into account the customers' financial position and any past experience to set individual risk limits as determined by the Board.

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents, availability of funding and access to capital markets. It is the policy of the Board to ensure that the Group is able to meet its financial obligations and maintain the flexibility to pursue attractive investment opportunities through ensuring the Group has sufficient working capital and preserving the 15% share issue limit available to the Company under the ASX Listing Rules. The Group manages liquidity risk by continuously monitoring forecast and actual cash flows. As at reporting date the Group had sufficient cash reserves to meet its current requirements.

(d) Fair value measurements

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement and/or disclosure purposes.

The Directors consider that the carrying amount of financial assets and financial liabilities recorded in the financial statements approximate their fair values.

(e) Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the potential return to shareholders.

The capital structure of the Group consists of cash and cash equivalents and equity attributable to equity holders of the parent. None of the Group's entities are subject to externally imposed capital requirements.

3. Critical Accounting Estimates

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

(a) Critical accounting estimates and assumptions

Share based payments

The Group measures the cost of equity-settled transactions with employees and consultants by reference to the fair value of the equity instruments as at the date which they are granted. The fair value is determined using a risked statistical analysis or a Black Scholes Option Pricing Model, using the assumptions detailed in note 33.

Restoration Provision

The Group estimates the future expenditure to decommission the wells. In most instances, removal of assets occurs many years into the future. This requires judgemental assumptions regarding removal date, future environmental legislation, the extent of restoration activities and the future removal technology available and liability specific discount rates to determine the present value of these cash flows. As at 30 June 2012, restoration provisions have a carrying value of US\$6,600,000 (30 June 2011: Nil)

Reserves Estimates

Estimation of reported recoverable quantities of Proven and Probable reserves include judgemental assumptions regarding commodity prices, exchange rates, discount rates and production and transportation costs for future cash flows. It also requires interpretation of complex geological and geophysical models in order to make an assessment of size, shape, depth and quality of reservoirs and their anticipated recoveries.

These factors used to estimate reserves may change from period to period.

Reserve estimates are used to calculate the amortisation of producing assets and therefore a change in reserve estimates impacts the carrying value of assets and the recognition of deferred tax assets due to the changes in expected future cash flows.

Impairment of assets

In the absence of readily available market prices, the recoverable amounts of assets are determined by discounting the expected future net cash flows from production and comparing these to the carrying value of the relevant asset or group of assets to determine the asset's net present value. The calculation of net present value is based on assumptions concerning discount rates, reserves, future production profiles, commodity prices and costs.

Impairment of goodwill

The group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in note 1(r). The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of assumptions. Refer to note 23 for details of these assumptions and the potential impact of changes to the assumptions.

Amortisation

In relation to the amortisation of capitalised exploration and evaluation expenditure, the Consolidated Entity uses the units of production reserve depletion method to calculate amortisation. This method of amortisation necessitates the estimation of the oil and gas reserves over which the carrying value of the relevant assets will be expensed to the profit and loss account. The calculation of oil and gas reserves is extremely complex and requires management to make judgements about commodity prices, future production costs and geological structures. The nature of reserve estimation is such that reserves are not intended to be 100% accurate but rather provide a statistically probable outcome in relation to the economically recoverable reserve. As the actual reserve can only be accurately determined once production has ceased, amortisation expensed during the production may not on a year to year basis accurately reflect the actual percentage of reserve depleted. However, over the entire life of the producing assets all capitalised costs will be expensed to the statement of comprehensive income.

Depreciation of oil & gas properties

Property, plant and equipment related to oil and gas producing properties is stated at cost less accumulated depreciation. Depreciation is charged on a straight line basis over the expected useful life for each asset group. The estimated useful lives, residual values and depreciation method are reviewed at the end of each annual reporting period.

The following estimated useful lives are used in the calculation of depreciation;

Property, plant and equipment	10 – 20 years
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Income taxes

The group is subject to income taxes in Australia and jurisdictions where it has foreign operations. Significant judgement is required in determining the worldwide provision for income taxes. There are certain transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The group estimates its tax liabilities based on the group's understanding of the tax law. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

Notes TO THE CONSOLIDATED FINANCIAL STATEMENTS

(b) Critical judgements in applying the entity's accounting policies

In addition, the group has recognised deferred tax assets relating to carried forward tax losses to the extent there are sufficient taxable temporary differences (deferred tax liabilities) relating to the same taxation authority and the same subsidiary against which the unused tax losses can be utilised. However, utilisation of the tax losses also depends on the ability of the entity, which is not part of the tax consolidated group, to satisfy certain tests at the time the losses are recouped.

4. Segment Information

(a) Description of segments

Management has determined the operating segments based on the reports reviewed by the Board, to make strategic decisions. The board monitors the performance of the group from a geographical perspective. These activities are currently performed in Tanzania and the Philippines. The board monitors the performance of these two regions separately. The Tanzanian exploration have been included in the other section as the segment does not meet the quantitative thresholds of AASB 8, management have concluded that this segment not be reported. The Group has one reportable segment being the oil and gas exploration and production in the Philippines.

(b) Segment information provided to the Board

The segment information provided to the board for the reportable segments for the year ended 30 June 2012 is as follows:

2012	Other \$'000	Philippines \$'000	Consolidation Adjustments \$'000	Consolidated \$'000
Revenue from sale of oil	–	30,589	–	30,589
Cost of Sales	–	(15,521)	–	(15,521)
Other Revenue	–	2,180	1,227	3,407
Share of net profits/(losses) of associates	–	–	(1,987)	(1,987)
Profit / (Loss) on Sale of Investment	–	–	–	–
Profit / (Loss) on Sale of Asset	–	332	(11)	322
Profit / (Loss) on Sale of Associate	–	–	20,193	20,193
Foreign currency gains/(losses)	(7)	(217)	(137)	(361)
Employee benefit expense	(5,234)	(985)	–	(6,219)
Depreciation – general	–	(12,079)	(433)	(12,512)
Other expenses	(1,340)	(1,272)	145	(2,468)
Net loss before income tax	(6,581)	3,027	18,997	15,443
Income tax expense	219	(826)	(49)	(656)
Net profit/(loss) for the year from continuing operations	(6,362)	2,201	18,948	14,787
Loss for the year from discontinued operation	–	–	–	–
Net profit/(loss) for the year	(6,362)	2,201	18,948	14,787
Property, plant and equipment	–	5,321	–	5,321
Exploration and Evaluation Assets	7,890	5,850	–	13,740
Oil and Gas Properties	–	38,167	–	38,167
Deferred Tax Asset	–	1,937	–	1,937
Other Assets	1,517	35,735	11,007	48,258
Total Segment Assets	9,407	87,010	11,007	107,424
Total Segment Liabilities	26	24,014	872	24,912

The segment information provided to the board for the reportable segments for the year ended 30 June 2011 is as follows:

2011	Other \$'000	Philippines \$'000	Consolidation Adjustments \$'000	Consolidated \$'000
Revenue from sale of oil	1,446	–	(1,446)	–
Cost of Sales	(734)	(7)	741	–
Interest Income	12,159	476	(11,029)	1,607
Other Income	29	–	–	–
Share of net profits/(losses) of associates	14,058	11,844	(3,131)	22,771
Profit / (Loss) on Sale of Investment	–	–	–	–
Profit / (Loss) on Sale of Asset	–	–	–	–
Profit / (Loss) on Sale of Associate	–	–	–	–
Foreign currency gains/(losses)	14	20	–	34
Employee benefit expense	(5,818)	(854)	–	(6,672)
Depreciation – general	(200)	(50)	15	(235)
Impairment expense	(1,258)	(1,458)	2,680	(35)
Other expenses	(5,529)	70	1,083	(4,375)
Net loss before income tax	14,167	10,041	(11,086)	13,123
Income tax expense	(23)	–	23	–
Net profit/(loss) for the year from continuing operations	14,144	10,041	(11,064)	12,404
Loss for the year from discontinued operation	931	–	(1,650)	(719)
Net profit/(loss) for the year	15,075	10,041	(12,714)	12,404
Property, plant and equipment	597	105	–	702
Exploration and Evaluation Assets	–	13,824	7	13,831
Oil and Gas Properties	–	–	–	–
Deferred Tax Asset	–	–	–	–
Other Assets	56,880	(42,635)	43,804	58,049
Total Segment Assets	57,476	(28,706)	43,811	72,582
Total Segment Liabilities	674	6,010	(1,875)	4,809

5. Revenue

	2012 \$'000	2011 \$'000
From continuing operations		
Sales revenue		
Sale of oil	30,589	–
	<u>30,589</u>	<u>–</u>
Other revenue		
Interest	37	62
Other Income	34	69
Interest from associates	3,336	1,505
	<u>3,407</u>	<u>1,636</u>
	<u>33,996</u>	<u>1,636</u>

Notes TO THE CONSOLIDATED FINANCIAL STATEMENTS

6. Cost of Sales

	2012 US\$'000	2011 US\$'000
Gathering and production charges	13,611	–
Depletion of Decommissioning Cost	491	–
Depletion of Deferred Cost	1,419	–
	<u>15,521</u>	<u>–</u>

7. Expenses

	2012 US\$'000	2011 US\$'000
Profit before income tax includes the following specific expenses:		
Employee benefits expenses		
Defined contribution superannuation expense	336	269
Share based payment expense	345	1,509
Other employee benefits expenses	5,538	4,893
Total employee benefits expenses	<u>6,219</u>	<u>6,672</u>
Depreciation & Amortisation		
Property, Plant and equipment	546	235
Oil & Gas Properties	11,966	–
Total depreciation & amortisation	<u>12,512</u>	<u>235</u>
Impairment expenses		
Impairment Expense (evaluation and exploration)	–	35
Total Impairment expenses	<u>–</u>	<u>35</u>
Other Expenses		
Business Development	849	970
Office Expenses	1,619	3,406
Total Other Expenses	<u>2,408</u>	<u>4,376</u>

8. Income Tax Expense

	Consolidated	
	2012 US\$'000	2011 US\$'000
a) The components of tax expense comprise:		
– Current tax	4,434	–
– Deferred tax	(3,778)	–
	<u>656</u>	<u>–</u>

	Consolidated	
	2012 US\$'000	2011 US\$'000
Profit/(loss) before income tax	14,787	12,404
Tax at the Australian rate of 30% (2011: 30%)	4,436	3,721
Add tax effect of – other non-allowable items	(1,019)	(565)
Benefits of tax losses and other temporary differences not brought to account	(2,761)	(3,156)
Income tax expense	656	–

c) Deferred tax assets

Unrealised foreign exchange	37	–
Share issue costs through equity	156	534,443
Other timing differences	208	2,515,149
Timing differences - foreign	2,095	–
Tax losses: revenue	2,496	3,049,592
Tax losses: foreign	6,811	1,942,049
	26,837	26,836,908
	36,144	31,828,549
	(162)	(23,824)
	34,045	31,804,725
	1,937	–

d) Deferred Tax Liabilities

Unrealised foreign exchange	–	22,696
Accrued income	4	1,128
Timing differences - foreign	158	–
Development Asset	11,245	–
Offset by deferred tax assets recognised	(162)	(23,824)
Deferred Tax Liabilities brought to account	11,245	–

9. Cash and Cash Equivalents

	2012 US\$'000	2011 US\$'000
Cash at bank and in hand	23,781	35,379
Short-term bank deposits	4,544	205
	28,325	35,584

(a) Risk exposure

The group's exposure to interest rate risk is discussed in note 2. The maximum exposure to credit risk at the end of the reporting period is the carrying amount of each class of cash and cash equivalents mentioned above.

Notes TO THE CONSOLIDATED FINANCIAL STATEMENTS

10. Trade and Other Receivables

	2012 US\$'000	2011 US\$'000
Current		
Other receivables	2,044	232
Goods and services tax	–	35
Loan to associates	–	–
	<u>2,044</u>	<u>267</u>
Non-Current		
Other receivables	6,721	10
	<u>6,721</u>	<u>10</u>

No Group trade receivables were past due or impaired as at 30 June, 2012 (30 June, 2011: Nil) and there is no indication that amounts recognised as trade and other receivables will not be recovered in the normal course of business. Refer to the Credit Risk Note 2(c).

11. Other Assets

	2012 US\$'000	2011 US\$'000
Cash Calls - SC14	9,422	–
Cash Calls - SC69	138	–
Cash Calls - SC51	358	–
FBT Instalment	9	–
Bonds - Leases	7	–
Prepayments	417	24
	<u>10,351</u>	<u>24</u>

12. Inventories

	2012 US\$'000	2011 US\$'000
Raw materials		
Oil (Held in storage)	5,105	–
Fuel	216	–
	<u>5,321</u>	<u>–</u>

(a) Inventory expense

Inventories recognised as expense during the year ended 30 June 2012 and included in cost of sales in profit or loss.

13. Property Plant and Equipment

	Plant & Equipment US\$'000	Furniture Equipment US\$'000	Total US\$'000
At 1 July 2010			
Cost or fair value	41	682	724
Accumulated depreciation	(17)	(379)	(396)
Net book value	24	303	328
Year ended 30 June 2011			
Balance at the beginning of year	24	304	328
Additions	2	619	621
Disposals	–	(1)	(1)
Depreciation expense	(9)	(237)	(246)
Closing net book amount	17	685	702
At 1 July 2011			
Cost or fair value	43	1,300	1,343
Accumulated depreciation	(26)	(615)	(641)
Net book value	17	685	702
Year ended 30 June 2012			
Balance at the beginning of year	17	685	702
Additions	–	665	665
Disposals	–	(3)	(3)
Depreciation expense	(11)	(535)	(546)
Closing net book amount	6	813	818
At 1 July 2012			
Cost or fair value	43	1,962	2,005
Accumulated depreciation	(37)	(1,150)	(1,187)
Net book value	6	813	818

14. Exploration and Evaluation Assets

	2012 US\$'000	2011 US\$'000
At Cost		
As at 1 July	13,831	5,823
Additions	2,761	8,043
Farm-in Contribution	(2,852)	–
Impairment write-down	–	(35)
Net carrying value	13,740	13,831

The recoverability of the carrying amount of exploration assets is dependent on the successful development and commercial exploitation or sale of the respective oil and gas areas of interest.

Notes TO THE CONSOLIDATED FINANCIAL STATEMENTS

15. Oil and Gas Properties

	2012 US\$'000	2011 US\$'000
Oil and Gas properties – at cost	38,167	–
Net book value	38,167	–
As at 1 July	–	–
Additions	78,207	–
Farm down payment (i)	(28,074)	–
Amortisation	(11,966)	–
Net carrying value	38,167	–

- (i) On 30th September 2011, the Group entered into a Farmout agreement with Galoc Production Company (2) Pte Ltd for 26.84473% participating interest of the Galoc Joint Venture working interest for 28,406,028 reducing the JV working interest from 59.84473% to 33%. The current value of the Galoc Joint Venture interest in Galoc Production Company WLL (“GPC”) is \$28,073,754 and the gain on farm down is \$332,274.

16. Intangible Assets

	2012 US\$'000	2011 US\$'000
Goodwill on acquisition of controlled entities	–	6,049
Net book value	–	6,049
As at 1 July	6,049	6,404
Currency translation differences	–	(355)
Disposal on investment in associate (i)	(6,049)	–
Net carrying value	–	6,049

- (i) On 30th September 2011, the Group acquired a 68.62% interest in the Galoc Production Company WLL (“GPC”), the operator of the Galoc Joint Venture, from Vitol Group, increasing Otto's interest in GPC from 31.38% to 100%. The increase in equity to 100% classifies the investment in GPC as a subsidiary effective from this date. A deemed sale occurred on this date and associate goodwill of \$6,049 was written off and a profit on \$12,069 was recognised.

17. Trade and Other Payables

	2012 US\$'000	2011 US\$'000
Trade payables	3,768	464
Other payables	2,442	4,287
	6,210	4,751

(a) Risk exposure

Information about the group's exposure to foreign exchange risk is provided in note 2. Amounts are expected to be settled within 12 months.

18.Provisions

	2012 US\$'000	2011 US\$'000
Employee benefits (i)	118	60
Decommissioning Fund (SC14C)	6,600	–
	6,718	60

(i) Amounts not expected to be settled within the next 12 months

The current provision for employee benefits includes all unconditional entitlements where employees have completed the required period of service and also those where employees are entitled to pro-rata payments for long service leave.

(a) Decommissioning fund provision

A provision has been recognised for the present value of the estimated expenditure required to decommission the wells. These costs have been capitalised as part of the cost of oil & gas properties and are amortised over the shorter of the term of the lease or the useful life of the assets.

(b) Movements in provisions

Movements in each class of provision during the financial year, other than employee benefits, are set out below:

	Decommissioning	
	Fund US\$'000	Total US\$'000
Carrying amount at start of year – 1 July 2011	–	–
Additional provision recognised – charged to oil & gas properties	6,600	6,600
Carrying amount at end of year – 30 June 2012	6,600	6,600

19.Contributed Equity

a) Share Capital

	2012 No.	2011 No.	2012 \$'000	2011 \$'000
At the beginning of year	1,134,540,071	1,072,684,721	131,577	128,992
Shares issued during year 6 July 2011 (Share issue price: Nil)	3,750,000	61,855,350	–	2,593
Transaction Costs			–	(8)
	1,138,290,071	1,134,540,071	131,577	131,577

Notes TO THE CONSOLIDATED FINANCIAL STATEMENTS

b) Ordinary Shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number and amount paid on the shares held. On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote. The ordinary shares have no par value and the company does not have a limited amount of authorised capital.

c) Options

Information relating to the Otto Energy Employee Option Plan, including details of options issued, exercised and lapsed during the financial year and options outstanding at the end of the reporting period, is set out in note 33.

d) Performance Rights

Information relating to the Otto Energy Employee Performance Rights Plan, including details of performance rights issued, exercised and lapsed during the financial year and options outstanding at the end of the reporting period, is set out in note 33.

20. Other Reserves and Retained Earnings

(a) Other Reserves

	2012 US\$'000	2011 US\$'000
Reserves		
Foreign Currency Translation Reserve	4,188	4,188
Share Based Payment Reserve	6,413	6,068
Statutory Reserve	1,325	–
Option Reserve	1,907	1,907
	<u>13,832</u>	<u>12,162</u>
Foreign Currency Translation Reserve		
Balance at beginning of year	4,188	7,819
Currency translation differences	–	(3,631)
As at end of year	<u>4,188</u>	<u>4,188</u>
Statutory Reserve		
Balance at beginning of year	–	–
Capital allocation	1,325	–
As at end of year	<u>1,325</u>	<u>–</u>
Share Based Payments Reserve		
Balance at beginning of year	6,068	4,559
Share-based payments	345	1,509
As at end of year	<u>6,413</u>	<u>6,068</u>

(a) Other Reserves

	2012 US\$'000	2011 US\$'000
Option Reserve		
Balance at beginning of year	1,907	1,907
Option expense	–	–
As at end of year	1,907	1,907

(b) Retained Earnings

Movements in retained earnings were as follows:

	2012 US\$'000	2011 US\$'000
Balance 1 July	(77,683)	(90,087)
Net profit for the year	14,787	12,404
Balance 30 June	(62,896)	(77,683)

(c) Nature and purpose of Other Reserves

(i) Foreign Currency Translation Reserve

Exchange differences arising on translation of the foreign controlled entity are recognised in other comprehensive income as described in note 1(d) and accumulated in a separate reserve within equity. The cumulative amount is reclassified to profit or loss when the net investment is disposed of.

(ii) Option Reserve

The option reserve records the value attributed to Otto Energy Limited share options and performance rights issued as part of consideration for acquisitions.

(iii) Share Based Payments Reserve

The share-based payments reserve is used to recognise:

- the grant date fair value of options and performance rights issued to employees
- the grant date fair value of rights issued to employees but not exercised

21. Key Management Personnel Disclosures

(a) Key Management Personnel Compensation

	2012 US\$	2011 US\$
Short-term employee benefits	1,632,193	1,938,331
Post-employment benefits	132,233	156,689
Share-based payments	283,970	1,207,254
	2,048,396	3,302,274

Detailed remuneration disclosures are provided in the remuneration report on pages 24 to 32.

Notes TO THE CONSOLIDATED FINANCIAL STATEMENTS

(b) Equity instrument disclosures relating to Key Management Personnel

(i) Options provided as remuneration

Details of options provided as remuneration and shares issued on the exercise of such options, together with terms and conditions of the options, can be found in the remuneration report on pages 24 to 32.

ii) Option Holdings

The numbers of options over ordinary shares in the Company held during the financial year by each Director of Otto Energy Limited and Other Key Management Personnel of the Group, including their personally related parties, are set out below.

2012	Balance at Start of Year	Granted as Compensation	Exercised other changes	Balance at End of Year	Vested and Exercisable	Unvested
Directors of Otto Energy Limited						
Mr J Jetter	3,000,000	–	–	3,000,000	3,000,000	–
Mr I Boserio	3,000,000	–	–	3,000,000	3,000,000	–
Mr P Moore (i)	11,500,000	–	(11,500,000)	–	–	–
	17,500,000	–	(11,500,000)	6,000,000	6,000,000	–
Other Key Management Personnel of the Group						
Mr M Allen	7,000,000	–	–	7,000,000	7,000,000	–
Mr P Senyica	7,000,000	–	–	7,000,000	7,000,000	–
	14,000,000	–	–	14,000,000	14,000,000	–

2011	Balance at Start of Year	Granted as Compensation	Exercised other changes	Balance at End of Year	Vested and Exercisable	Unvested
Directors of Otto Energy Limited						
Mr R Crabb	1,500,000	–	(1,500,000)	–	–	–
Mr P Moore (i)	7,500,000	4,000,000	–	11,500,000	11,500,000	–
Mr R Bomasang	1,000,000	–	(1,000,000)	–	–	–
Mr J Jetter	6,000,000	3,000,000	(6,000,000)	3,000,000	3,000,000	–
Mr I MacIver	3,500,000	–	(3,500,000)	–	–	–
Mr I Boserio	–	3,000,000	–	3,000,000	3,000,000	–
Dr J Poll	3,000,000	–	(3,000,000)	–	–	–
Mr J Zadnik	500,000	–	(500,000)	–	–	–
	23,000,000	10,000,000	(15,500,000)	17,500,000	17,500,000	–
Other Key Management Personnel of the Group						
Mr M Allen	3,000,000	4,000,000	–	7,000,000	7,000,000	–
Mr P Senyica	–	7,000,000	–	7,000,000	7,000,000	–
Mr R King	4,500,000	–	(4,500,000)	–	–	–
Mr C Martin	4,500,000	–	(4,500,000)	–	–	–
	12,000,000	11,000,000	(9,000,000)	14,000,000	14,000,000	–

(i) Mr P. Moore resigned 1 July 2011.

iii) Performance Rights Holdings

The numbers of performance rights over ordinary shares in the company held during the financial year by each Director of Otto Energy Limited and Other Key Management Personnel of the Group, including their personally related parties, are set out below.

2012	Balance at Start of Year	Granted as Compensation	Exercised other changes	Balance at End of Year	Lapsed/ Expired	Vested and Exercisable	Unvested
Directors of Otto Energy Limited							
Mr P Moore	10,000,000	–	10,000,000	–	–	–	–
Other Key Management Personnel of the Group							
Mr G McNab	–	15,000,000	–	15,000,000	–	–	15,000,000
Mr M Allen	–	6,000,000	–	6,000,000	–	–	6,000,000
Mr P Senyica	–	6,000,000	–	6,000,000	–	–	6,000,000
	10,000,000	27,000,000	(10,000,000)	27,000,000	–	–	27,000,000

2011	Balance at Start of Year	Granted as Compensation	Exercised other changes	Balance at End of Year	Lapsed/ Expired	Vested and Exercisable	Unvested
Directors of Otto Energy Limited							
Mr P Moore	–	10,000,000	–	10,000,000	–	3,750,000	6,250,000
	–	10,000,000	–	10,000,000	–	3,750,000	6,250,000

iii) Share holdings

The numbers of shares in the Company held during the financial year by each Director of Otto Energy Limited and Other Key Management Personnel of the Group, including their personally related parties, are set out below. There were no shares granted during the reporting period as compensation.

2012	Balance at Start of Year	Granted During the Year	Received During the Year	Other Charges	Balance at End of Year
Directors of Otto Energy Limited					
Mr R Crabb	16,995,052	–	–	500,000	17,495,052
Mr J Jetter	19,089,175	–	–	–	–
Mr I MacIver	6,306,942	–	–	–	19,089,175
Mr I Boserio	330,000	–	–	(1,757,221)	4,549,721
Mr P Moore (i)	1,250,000	–	–	3,750,000	5,000,000
	43,971,169	–	–	2,492,779	46,463,948

(i) Mr P. Moore resigned on 1 July 2011.

2011	Balance at Start of Year	Granted During the Year	Received During the Year	Other Charges	Balance at End of Year
Directors of Otto Energy Limited					
Mr R Crabb	16,995,052	–	–	–	16,995,052
Mr P Moore	1,250,000	–	–	–	1,250,000
Mr J Poll	14,794,206	–	–	(14,794,206)	–
Mr I MacIver	6,306,942	–	–	–	6,306,942
Mr I Boserio	–	–	–	330,000	330,000
Mr J Zadnik	6,757,747	–	–	(6,757,747)	–
Mr J Jetter	19,089,175	–	–	–	19,089,175
	57,679,375	–	–	(21,221,953)	43,971,169

Notes TO THE CONSOLIDATED FINANCIAL STATEMENTS

22. Auditors' Remuneration

During the year the following fees were paid or payable for services provided by the auditor of the parent entity, its related practices and non-related audit firms:

	2012 US\$	2011 US\$
(a) BDO Australia		
(i) Audit and Other Assurance services:		
(a) Audit and review of financial statements	128,945	86,260
Total remuneration for audit and other assurance services	128,945	86,260
(ii) Taxation services:		
(a) Tax compliance services	16,448	12,457
(b) International tax consulting and tax advice on mergers and acquisitions	85,065	70,242
Total remuneration for taxation services	101,513	82,699
Total remuneration of BDO Australia	230,458	168,959
(b) Network firms of BDO Australia		
(i) Audit and Other Assurance services:		
(a) Audit and review of financial statements	28,108	53,453
(a) Other assurance services	–	2,604
Total remuneration for audit and other assurance services	28,108	56,057
(ii) Taxation services:		
(a) Tax compliance services	15,957	12,816
(b) International tax consulting and tax advice on mergers and acquisitions	–	1,784
Total remuneration for taxation services	15,957	14,600
Total remuneration of network firms of BDO Australia	44,065	70,657
(cb) Non-BDO Australia		
(i) Audit and Other Assurance services:		
(a) Audit and review of financial statements	22,000	–
Total remuneration for audit and other assurance services	22,000	–
(ii) Taxation services:		
(a) Tax compliance services	10,000	–
Total remuneration for taxation services	10,000	–
Total remuneration of non BDO audit firms	32,000	–
Total auditors' remuneration	306,524	239,616

It is the group's policy to employ BDO on assignments additional to their statutory audit duties where BDO's expertise and experience with the group are important. These assignments are principally tax advice and due diligence reporting on acquisitions, or where BDO is awarded assignments on a competitive basis. It is the group's policy to seek competitive tenders for all major consulting projects.

23. Contingent Liabilities and Contingent Assets

Contingent Consideration Payable (Middle East Petroleum Services)

In 2008 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 SC51 and SC55 in the Philippines from Middle East Petroleum Services ("MEPS"). MEPS are 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 Otto Energy Investment's share of the assets.

Under the buyback agreement referred to above, there is a contingent consideration component whereby Otto will also pay MEPS a production bonus of 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.

24. Commitments

(a) Capital commitments

Capital expenditure contracted for at the reporting date but not recognised as liabilities is as follows:

	2012 US\$'000	2011 US\$'000
Committed exploration expenditures in accordance with farming agreements.		
No longer than 1 year	750	3,750
Longer than 1 year and no longer than 5 years	–	9,750
	<u>750</u>	<u>13,500</u>

(b) Lease commitments: Group as lessee

The Group leases corporate offices under non-cancellable operating leases expiring in 2 years. The leases have varying terms, escalation terms and renewal rights. On renewal, the terms of the leases may be renegotiated.

Non-cancellable operating leases

Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:

No longer than 1 year	525	385
Longer than 1 year and no longer than 5 years	284	300
	<u>809</u>	<u>685</u>

25. Related Party Transactions

(a) Parent entity

The ultimate parent entity and ultimate controlling party is Otto Energy Limited (incorporated in the Australia) which at 30 June 2012 owns 100% (2011 – 100%) of the issued ordinary shares.

(b) Subsidiaries

Interests in subsidiaries are set out in note 27.

(c) Key Management Personnel

Disclosures relating to Key Management Personnel are set out in note 21.

	2012 US\$	2011 US\$
Consulting and placement fees paid to Max Capital Pty Limited, a company in which Mr MacIver is a Director, for the provision of corporate advisory and capital raising services.	–	(30,000)
Sub-lease of property including outgoings and IT services provided for Pathfinder Pty Ltd of which Mr Boserio is a Director.	10,569	–

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

(e) Outstanding balances arising from sales/purchases of goods and services

The following balances are outstanding at the end of the reporting period in relation to transactions with related parties \$10,569 (2011: Nil).

Notes TO THE CONSOLIDATED FINANCIAL STATEMENTS

26. Business Combinations

Acquisition of Galoc Production Company W.L.L

On 30th September 2011, the Group acquired a 68.62% interest in the Galoc Production Company WLL ("GPC"), the operator of the Galoc Joint Venture, from Vitol Group, increasing Otto's interest in GPC from 31.38% to 100%.

Details of the purchase consideration, the net assets acquired and goodwill are as follows:

	US\$'000
Purchase consideration:	
Deemed Investment Held (31.38%)	23,658
Cash paid (68.62%)	51,735
Total purchase consideration	75,393

The acquisition was completed on 30 September 2011 and the consideration paid was \$51,734,635. Details of the assets and liabilities recognised as a result of the acquisition are as follows;

	Fair value US\$'000
Cash and cash equivalents	18,102
Trade and other receivables	2,312
Other current assets – prepayments	358
Inventory	3,224
Oil & Gas Properties	60,734
Borrowings	75,569
Deferred Tax Liabilities	(14,835)
Trade and other payables	(4,026)
Income Tax Payable	(2,191)
Deferred Tax Asset	817
Net identifiable assets and liabilities	75,393
Net assets acquired	75,393

Revenue and profit contribution

The acquired business contributed revenues of \$35,599,752 and net profit of \$11,440,586 to the group for the period 1 October 2011 to 30 June 2012.

If the acquisition had occurred on 1 July 2011, consolidated revenue and profit for the year ended 30 June 2012 would have been \$41,303,413 and \$13,530,852 respectively. These amounts have been calculated using the group's accounting policies and by adjusting the results of the subsidiary to reflect the additional depreciation and amortisation that would have been charged assuming the fair value adjustment to oil and gas properties had applied from 1 July 2011, together with the consequential tax effects.

(a) Purchase consideration – cash outflow

	US\$'000
Outflow of cash to acquire subsidiary, net of cash acquired	
Cash consideration	51,735
Less: Balances acquired	
Cash	18,102
Outflow of cash – investing activity	33,633

Legal fees, advisory costs, stamp duties and other acquisition-related costs of US\$429,000 have been included in professional fees in the profit or loss.

27. Subsidiaries and transactions with non-controlling interests

(a) Significant investments in subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following principal subsidiaries in accordance with the accounting policy described in note 1(b):

	Country of Incorporation	Class of shares	Equity holding *	
Subsidiaries of Otto Energy Limited:			2012	2011
Otto Energy (Tanzania) Pty Limited	Australia	Ordinary	100	100
Otto Energy Investments Limited (ii)	Bermuda	Ordinary	100	100
Otto Energy Philippines Inc. (ii)	Philippines	Ordinary	100	100
Colag (UK) Limited	United Kingdom	Ordinary	100	100
Colag (BVI) Limited	British Virgin Islands	Ordinary	100	100
Otto Energy (Galoc Investment 1) Aps	Denmark	Ordinary	100	–
Otto Energy (Galoc Investment 2) Aps	Denmark	Ordinary	100	–
GPC Investments SA	Switzerland	Ordinary	100	–
Galoc Production Company W.L.L (i)	Bahrain	Ordinary	100	31.38
Galoc Marine Asia Limited	Bermuda	Ordinary	100	–

* The proportion of ownership interest is equal to the proportion of voting power held.

- (i) On 30th September 2011, the Group acquired a 68.62% interest in the Galoc Production Company WLL ("GPC"), the operator of the Galoc Joint Venture, from Vitol Group, increasing Otto's interest in GPC from 31.38% to 100%. The increase in equity to 100% classifies the investment in GPC as a subsidiary effective from this date.
- (ii) During the year Norasian Energy Limited changed its name to Otto Energy Investment Ltd also Norasian Energy Philippines Incorporated changed its name to Otto Energy Philippines Incorporated.

28. Investments in Associates

(a) Movements in carrying amounts

	2012 US\$'000	2011 US\$'000
Carrying amount at the beginning of the financial period	14,400	5,687
Share of profits/(losses) after income tax	(1,987)	22,771
Dividends received/receivable	(6,872)	(14,058)
Carrying amount at the 30 September 2011	5,541	14,400
Goodwill on investment	6,049	–
Profit / (Loss) on deemed disposal of associate (i)	12,069	–
Transfer to Investments in Subsidiary	(23,659)	–
Carrying amount at the 30 June 2012	–	14,400

- (i) On 30th September 2011, the Group acquired a 68.62% interest in the Galoc Production Company WLL ("GPC"), the operator of the Galoc Joint Venture, from Vitol Group, increasing Otto's interest in GPC from 31.38% to 100%. The increase in equity to 100% classifies the investment in GPC as a subsidiary effective from this date. A deemed sale occurred on this date and associate goodwill of US\$6,049,000 was written off and a profit on US\$12,069,000 was recognised.

Notes TO THE CONSOLIDATED FINANCIAL STATEMENTS

(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 %	Assets \$'000	Liabilities \$'000	Group's Share of: Accumulated Profit/ (Losses) \$'000	Revenues \$'000	Net Profit/ (Loss) \$'000
30 September 2011						
Galoc Production Company W.L.L	31.38	5,923	1,951	(144)	17,284	(1,987)
30 June 2011						
Galoc Production Company W.L.L	31.38	13,814	983	8,712	57,717	22,771

29. Interests in joint ventures

a) Joint venture interests

The Group's interest in joint venture assets as at 30 June 2012 is detailed below. Exploration, development and production of hydrocarbons are the principal activities performed across these assets.

		Group Interest (%)	Group Interest (%)
Philippines		2012	2011
Service Contract 14c	Philippines	33	–
Service Contract 51	Philippines	40	40
Service Contract 55	Philippines	33.18	93.18
Service Contract 69	Philippines	79	79
Kilosa-Kilombero	Tanzania	50	–
Paganini	Tanzania	50	–

b) Jointly controlled assets

The group's interests in the assets employed in the joint venture are included in the balance sheet, in accordance with the accounting policy described in note 1(b), under the following classifications:

	2012 \$'000	2011 \$'000
Non Current Assets		
Exploration and evaluations assets	13,740	13,831
Oil and gas properties	38,167	–
	<u>51,907</u>	<u>13,831</u>

c) Commitments through jointly controlled assets

The aggregate of the Group's commitments through jointly controlled assets is as follows:

Exploration and other commitments	750	13,500
	<u>750</u>	<u>13,500</u>

30.Events occurring after the reporting period

Otto Energy Ltd advises that the Galoc joint venture commenced the engineering design work for Phase II in the Galoc Oil Field offshore Philippines in late 2011, which achieved the Final Investment Decision ("FID") in September 2012. The new 3D seismic data acquired in late 2011 will support the placement of Phase II wells in the reservoir and de-risk the project. In addition, it will also allow full evaluation of the Galoc North exploration prospect, which may realise further development opportunities for the Galoc field.

31.Reconciliation of profit after income tax to net cash inflow from operating activities

	2012 \$'000	2011 \$'000
Profit for the year	14,787	12,404
Non-cash items		
Depreciation and Amortisation	12,512	235
Net exchange differences	361	(34)
Impairment of Goodwill	6,049	–
Share of profits of associates and joint venture partnership	20,193	(22,771)
Non-cash employee benefits expense – share-based payments	345	1,509
Statutory Reserve - Bahrain	(1,325)	–
Change in operating assets and liabilities, net of effects from		
Decrease/(Increase) in trade debtors	(8,488)	2,370
Decrease/(Increase) in other operating assets	(31,928)	7
Decrease/(Increase) in work in progress	(5,321)	–
Decrease/(Increase) in deferred tax assets	(1,937)	(1,937)
(Decrease)/Increase in trade creditors	1,461	971
(Decrease)/Increase in provision for income taxes payable	739	–
(Decrease)/Increase in employee provisions	6,717	10
(Decrease)/Increase in deferred tax liabilities	(11,186)	–
Net cash inflow (outflow) from operating activities	2,989	(5,299)

32.Earnings per Share

a) Reconciliation of earnings

	2012 \$'000	2011 \$'000
Basic earnings per share		
Profit/(loss) used in calculating basic earnings per share:		
– Profit/(loss) from continuing operations	14,787	13,123
– Profit/(loss) from discontinued operations	–	(719)
	14,787	12,404
Diluted earnings per share		
Profit/(loss) used in calculating diluted earnings per share:		
– Profit/(loss) from continuing operations	14,787	13,123
– Profit/(loss) from discontinued operations	–	(719)
	14,787	12,404

The Company's potential ordinary shares, being it's options and performance rights granted, were considered dilutive as the conversion of these options and rights would result in a decrease in the net profit per share.

Notes TO THE CONSOLIDATED FINANCIAL STATEMENTS

	Number \$'000	Number \$'000
b) Weighted average number of shares		
Weighted average number of shares used as the denominator in calculating basic earnings per share	1,138,290,596	1,133,317,804
Adjustment for calculation of diluted earnings per share (Options)	51,677,754	49,927,397
Weighted average number of shares used as the denominator in calculating diluted earnings per share	1,189,968,350	1,183,245,201

33.Share-Based Payments

(a) Employee Share Option and Performance Rights Plan

The establishment of the Employee Share Option Plan and Performance Rights Plan was approved by shareholders at the 2010 annual general meeting. The Employee Option Plan and Performance Rights Plan are designed to provide long term incentives for senior managers and employees to deliver long term shareholder returns. Under the plan, participants are granted options or rights based on the Company meeting certain growth and acquisition targets. Participation in the plan is at the Board's discretion and no individual has a contractual right to participate in the plan or to receive any guaranteed benefits.

The amount of performance rights that will vest depends on Otto Energy Limited's total return to shareholders (TSR), including share price growth, dividends and capital returns, ranking within a peer group of 24 selected companies that are listed on the ASX over a three year period. Once vested, the performance rights remain exercisable for a period of two years. Performance Rights are granted under the plan for no consideration.

Options and rights granted under the plan carry no dividend or voting rights.

The exercise price of options is based on the weighted average price at which the company's shares are traded on the Australian Securities Exchange (ASX) during the week up to and including the date of the grant.

Set out below are summaries of options granted under the plan:

2012		Exercise Price	Balance at start of the year	Granted during the year	Exercised during the year	Expired / Forfeited during the year	Balance at end of the year	Vested and exercisable at end of the year
Grant Date	Expiry Date	A \$	Number	Number	Number	Number	Number	Number
10 Apr 2008	10 Apr 2012	0.35	1,500,000	–	–	(1,500,000)	–	–
1 Aug 2008	1 Aug 2012	0.60	2,500,000	–	–	–	2,500,000	–
1 Jul 2009	30 Jun 2014	0.12	7,500,000	–	–	(7,500,000)	–	–
8 Sep 2009	8 Sep 2012	0.12	4,000,000	–	–	–	4,000,000	4,000,000
19 Jan 2010	19 Jan 2013	0.12	1,000,000	–	–	–	1,000,000	1,000,000
16 Feb 2010	16 Feb 2013	0.12	5,500,000	–	–	–	5,500,000	5,500,000
11 Aug 2010	11 Aug 2013	0.12	3,000,000	–	–	–	3,000,000	3,000,000
26 Nov 2010	26 Nov 2013	0.12	13,000,000	–	–	(4,000,000)	9,000,000	9,000,000
30 Nov 2010	30 Nov 2013	0.13	6,000,000	–	–	–	6,000,000	6,000,000
16 Mar 2011	16 Mar 2014	0.13	4,000,000	–	–	(4,000,000)	–	1,250,000
13 Oct 2011	13 Oct 2014	0.12	–	1,250,000	–	–	–	1,250,000
5 Jan 2012	5 Jan 2015	0.12	–	2,500,000	–	–	2,500,000	1,250,000
Total			48,000,000	3,750,000	–	(17,000,000)	34,750,000	32,250,000
Weighted average exercise price – A\$			0.16	0.12	–	0.14	0.16	0.12

2011 Grant Date	Expiry Date	Exercise Price A \$	Balance at start of the year Number	Granted during the year Number	Exercised during the year Number	Expired / Forfeited during the year Number	Balance at end of the year Number	Vested and exercisable at end of the year Number
8 May 2007	29 May 2011	0.20	4,000,067	–	–	(4,000,067)	–	–
8 May 2007	29 May 2011	0.30	3,999,967	–	–	(3,999,967)	–	–
8 May 2007	29 May 2011	0.40	1,999,966	–	–	(1,999,966)	–	–
17 Dec 2007	17 Dec 2010	0.30	7,500,000	–	–	(7,500,000)	–	–
25 Jan 2008	25 Jan 2011	0.30	10,500,000	–	–	(10,500,000)	–	–
10 Apr 2008	10 Apr 2012	0.35	1,500,000	–	–	–	1,500,000	–
1 Aug 2008	1 Aug 2012	0.60	2,500,000	–	–	–	2,500,000	–
15 Dec 2008	15 Dec 2010	0.60	2,000,000	–	–	(2,000,000)	–	–
1 Jul 2009	30 Jun 2014	0.12	7,500,000	–	–	–	7,500,000	7,500,000
8 Sep 2009	8 Sep 2012	0.12	6,000,000	–	–	(2,000,000)	4,000,000	4,000,000
19 Jan 2010	19 Jan 2013	0.12	1,000,000	–	–	–	1,000,000	1,000,000
16 Feb 2010	16 Feb 2013	0.12	5,500,000	–	–	–	5,500,000	5,500,000
11 Aug 2010	11 Aug 2013	0.12	–	3,000,000	–	–	3,000,000	3,000,000
26 Nov 2010	26 Nov 2013	0.12	–	13,000,000	–	–	13,000,000	13,000,000
30 Nov 2010	30 Nov 2013	0.13	–	6,000,000	–	–	6,000,000	6,000,000
16 Mar 2011	16 Mar 2014	0.13	–	4,000,000	–	–	4,000,000	4,000,000
Total			54,000,000	26,000,000	–	(32,000,000)	48,000,000	44,000,000
Weighted average exercise price – A \$			0.26	0.12	–	0.29	0.16	0.12

An option may only be exercised after that option has vested and any other conditions imposed by the Board on exercise are satisfied. Options are granted under the plan for no consideration. Options granted under the plan carry no dividend or voting rights.

When exercisable, shares allotted pursuant to the exercise of options will be allotted following receipt of all the relevant documents and payments and will rank equally with all other shares. The exercise price of options is based on the weighted average price at which the Company's shares are traded on the Australian Securities Exchange during the five trading days immediately before the options are granted.

There were 13,000,000 options that expired during the periods covered by the above tables. The weighted average remaining contractual life of share options outstanding at the end of the year was 2 years.

The above amounts representing options granted as part of remuneration are calculated in accordance with AASB 2 Share Based Payments. AASB 2 requires that the expense associated with a share based payment is calculated at grant date and then subsequently amortised over the option vesting period.

Notes TO THE CONSOLIDATED FINANCIAL STATEMENTS

During the period ended on 30 June 2012 the Group issued 3,750,000 options over unissued capital of the Company pursuant at an exercise price of A\$0.12 that are exercisable before 13 October 2013 and 5 January 2015 in accordance with the terms and conditions of the Employee Share Option Plan:

Fair value of options granted

The assessed fair values at grant date of options granted to employees are detailed below;

2012		
Grant date	13 October 2011	5 January 2012
Exercise price – A\$	0.12	0.12
Expiry date	13 October 2013	5 January 2015
Share price at grant date – A\$	0.07	0.09
Expected volatility	45%	45%
Expected dividend yield	Nil	Nil
Risk free rate	3.79%	3.25%

2011				
Grant date	11 August 2010	26 November 2010	30 November 2010	16 March 2011
Exercise price – A\$	0.12	0.12	0.13	0.13
Expiry date	11 August 2013	26 November 2013	30 November 2013	16 March 2013
Share price at grant date – A\$	0.09	0.09	0.09	0.10
Expected volatility	80%	80%	80%	45%
Expected dividend yield	Nil	Nil	Nil	Nil
Risk free rate	4.79%	4.79%	4.79%	4.79%

The expected price volatility is based upon the historic volatility (based on the remaining life of the options), adjusted for any expected changes to future volatility due to publically available information.

(b) Options and Performance Rights: Key Management Personnel

Refer to note 21 for options and performance rights granted to Key Management Personnel.

(c) Expenses arising from share based payment transactions

	2012 \$'000	2011 \$'000
Options	61	1,266
Performance rights	284	343
Share-based payments expensed	345	1,509

34. Parent Entity Disclosures

As at, and throughout the financial year ended 30 June 2012, the parent company of the Group was Otto Energy Limited.

	Parent Entity	
	2012 US\$'000	2011 US\$'000
Summarised Statement Of Comprehensive Income		
Loss for the year after tax	1,720	(933)
Other comprehensive loss		—
Total comprehensive loss for the year	1,720	(933)
Summarised Statement of Financial Position		
Current Assets	3,607	15,964
Non Current Assets	50,150	38,937
Total Assets	53,757	54,901
Current Liabilities	754	581
Non Current Liabilities	118	60
Total Liabilities	872	641
Net Assets	52,885	54,261
Total equity of the parent entity comprising:		
Share Capital	131,577	131,577
Reserves	8,437	8,092
Retained Earnings	(87,129)	(85,409)
Total Equity	52,885	54,261

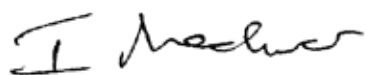
Director's DECLARATION

In the Directors' opinion:

- a) The financial statements and accompanying notes are in accordance with the Corporations Act 2001, including:
 - (i) complying with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements
 - (ii) giving a true and fair view of the group's financial position as at 30 June 2012 and of its performance for the year ended on that date
- b) The financial statements and notes comply with International Financial Reporting Standards as disclosed in note 1.
- c) There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

The Directors have been given the declarations required by section 295A of the Corporations Act 2001.

This declaration is made in accordance with a resolution of the Board of Directors and is signed for and on behalf of the Directors by:



MR I MACLIVER | DIRECTOR

28 September 2012

to the Members of Otto Energy Limited



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

Report on the Financial Report

We have audited the accompanying financial report of Otto Energy Limited, which comprises the consolidated statements of financial position as at 30 June 2012, the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the company and the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit, 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.

BDO Audit (WA) Pty Ltd ABN 79 112 284 787 is a member of a national association of independent entities which are all members of BDO (Australia) Ltd ABN 77 050 110 275, an Australian company limited by guarantee. BDO Audit (WA) Pty Ltd and BDO (Australia) Ltd are members of BDO International Ltd, a UK company limited by guarantee, and form part of the international BDO network of independent member firms. Liability limited by a scheme approved under Professional Standards Legislation (other than for the acts or omissions of financial services licensees) in each State or Territory other than Tasmania.



Opinion

In our opinion:

- (a) the financial report of Otto Energy Limited is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2012 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- (b) the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 1.

Report on Other Legal and Regulatory Requirements

Report on Remuneration Report

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2012. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's Opinion

In our opinion, the Remuneration Report of Otto Energy Limited for the year ended 30 June 2012, complies with section 300A of the *Corporations Act 2001*.

BDO Audit (WA) Pty Ltd

Peter Toll
Director

Perth, Western Australia
Dated this 28th day of September 2012

The shareholder information set out below was applicable as at 19 September 2012.

A. Distribution of equity securities

The issued capital of the Company at 19 September 2012 is 1,138,290,071 ordinary fully paid shares. All ordinary shares carry one vote per share. There are no listed options.

Ordinary Shares	No. of Holders	No. of Shares
100,001 and over	621	1,066,002,946
10,001 – 100,000	1,567	67,032,683
5,001 – 10,000	493	4,210,381
1,001 – 5,000	321	1,026,342
1 – 1,000	89	17,719
	3,091	1,138,290,071

Number holding less than a marketable parcel size of 5,319 shares at A0.095 per share	410	1,044,061
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Ordinary Shares	No. of Holders	No. of Shares
Shareholders by Location		
Australian holders	2,815	823,351,200
Overseas holders	276	314,938,871
	3,091	1,138,290,071

B. Equity security holders

Twenty largest quoted equity security holders.

The names of the twenty largest holders of quoted equity securities are listed below:

Name	Ordinary Shares	
	Number Held	% of issued shares
1 Molton Holdings Ltd	241,910,757	21.25%
2 Santo Holding AG	241,910,757	21.25%
3 Acorn Capital Limited	83,889,340	7.37%
4 National Nominees Limited	43,832,858	3.85%
5 HSBC Custody Nominees (Australia) Limited	30,011,162	2.64%
6 J P Morgan Nominees Australia Limited	19,108,238	1.68%
7 John Jetter (Consolidated Relevant Interest)	19,089,175	1.68%
8 Citicorp Nominees Pty Limited	17,604,952	1.55%
9 Rick Crabb (Consolidated Relevant Interest)	17,495,052	1.54%
10 ESCOR Investments Pty Ltd	15,915,000	1.40%
11 Citicorp Nominees Pty Limited (C/Wlth Bank Off Super A/C)	14,801,550	1.30%
12 DBS Vickers Securities (Singapore) Pte Ltd	14,020,833	1.23%
13 Navigator Australia Ltd	8,946,695	0.79%
14 ESCOT Finance Ltd	8,150,000	0.72%
15 JP Morgan Nominees Australia Limited (Cash Income A/C)	7,833,121	0.69%
16 Middle East Petroleum Services Ltd	6,159,402	0.54%
17 HSBC Custody Nominees (Australia) Limited	8,202,509	0.72%
18 Daly Finance Corp	5,763,250	0.51%
19 Forsyth Barr Custodians Ltd (Forsyth Barr Ltd-Nominee A/C)	5,478,394	0.48%
20 Mr David Kenneth Anderson & Mrs Charmayne Anderson	5,000,000	0.44%
	815,123,045	71.61%

C. Substantial shareholders

	No. of Shares Held	% Held
1 Molton Holdings Ltd	241,910,757	21.25%
2 Santo Holding AG	241,910,757	21.25%
3 Acorn Capital Limited	83,889,340	7.37%

D. Unquoted Securities

The unlisted securities of the Company as at 19 September 2012 are 28,250,000 Options. The Options do not carry a right to vote at a general meeting of shareholders.

Unlisted Options				
Vesting Date	Expiry Date	Exercise Price	No. of Options	No. of Holders
19 January 2010	19 January 2013	A0.12	1,000,000	1
16 February 2010	16 February 2013	A0.12	5,500,000	5
11 August 2010	11 August 2013	A0.12	3,000,000	1
26 November 2010	26 November 2013	A0.13	9,000,000	6
30 November 2010	30 November 2013	A0.12	6,000,000	2
13 October 2011	13 October 2014	A0.12	1,250,000	4
5 January 2012	5 January 2015	A0.12	2,500,000	2
			<u>28,250,000</u>	

Unlisted Performance Rights				
Vesting Date	Expiry Date	Exercise Price	No. of Options	No. of Holders
1 November 2011	1 April 2014	A0.00	5,000,000	1
1 November 2011	1 November 2014	A0.00	5,000,000	1
1 November 2011	1 April 2015	A0.00	5,000,000	1
3 October 2011	31 December 2014	A0.00	2,000,000	1
3 October 2011	31 December 2014	A0.00	2,000,000	1
3 October 2011	31 December 2014	A0.00	2,000,000	1
3 October 2011	31 December 2014	A0.00	2,000,000	1
3 October 2011	31 December 2014	A0.00	2,000,000	1
3 October 2011	31 December 2014	A0.00	2,000,000	1
			<u>27,000,000</u>	

*Subject to meeting certain share price and service hurdles

E. Voting Rights

In accordance with the Company's Constitution, on a show of hands every shareholder present in person or by proxy, attorney or representative of a shareholder has one vote and on a poll every shareholder present in person or by proxy, attorney or representative of a shareholder has in respect of fully paid shares, one vote for every share held. No class of option holder has a right to vote, however the shares issued upon exercise of options will rank pari passu with the then existing issued fully paid ordinary shares.





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