

ASX ANNOUNCEMENT



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Manager of Company Announcements
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MEPS Royalty Buyback

Otto Energy Limited (ASX: OEL) advises that it has negotiated the buy back of a 5% gross overriding royalty over the production revenues generated from its petroleum interest in Service Contracts (SC) 50, SC51 and SC55 in the Philippines (**Royalty**) from Middle East Petroleum Services Limited (**MEPS**).

MEPS is a privately-held company that originally negotiated the farm-in deal for Otto Energy into the Philippines acreage in 2005. As part of the farm-in agreement, MEPS retained a 5% gross overriding royalty over NorAsian's share of the assets.

Otto will issue to MEPS 15 million shares of which 9 million shares will be escrowed for 12 months in consideration for the extinguishment of the Royalty. Under this buyback agreement, Otto will also pay MEPS a production bonus of US\$1m for SC50, and US\$1.5m each for SC51 and SC55, should the blocks produce 1.5 million barrels of oil equivalent during the term of Otto's license.

The buy back of the Royalty and proposed issue of shares to MEPS will be subject to shareholder approval at a General Meeting. A Notice of a Meeting in this regard will be sent to shareholders shortly.

Alex Parks, CEO of Otto Energy commented, "Otto believes the prospectivity of SC50, 51 & 55 is such that this deal represents good value for Otto, and it also leaves the projects now unencumbered for any farm out negotiations we may enter into as part of the recently announced farm out campaign."

Yours faithfully

Alex Parks
Chief Executive Officer

HIGHLIGHTS

- Strong board and management.
- World class portfolio across 4 countries.
- Imminent production from Galoc at 3000-4000 bopd net to Otto.
- 6-10 well exploration campaign in 2008/09.
- Opportunity rich with
 - 8 discoveries
 - 16 prospects
 - Over 60 leads in the portfolio.

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