2010

OTTO
ENERGY

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OTTO ENERGY

annual report

2010

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corporate directory

Directors

Mr Rick Crabb – Non Executive Chairman

Mr Paul Moore – Managing Director and Chief Executive Officer

Mr Rufino Bomasang – Non Executive Director

Mr John Jetter – Non Executive Director

Mr Ian Macliver – Non Executive Director

Dr Jaap Poll – Non Executive Director

Mr Ian Boserio – Non Executive Director

Company Secretary

Mr Matthew Allen

Executive Management

Mr Matthew Allen – Chief Financial Officer

Mr Paul Senycia – Exploration Manager

Mr Richard King – Commercial Manager

Mr Ross Prasser - Philippine Country Manager

Registered and Head Office

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Website

www.ottoenergy.com

Auditors

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Share Registry

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Home Stock Exchange

Australian Securities Exchange

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2 The Esplanade, Perth WA 6000

ASX Code

OEL

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chairman's report

Dear Shareholders:

It is my pleasure to deliver my sixth annual report to shareholders as the Chairman of Otto Energy. 2009/10 will be remembered for the efforts of the company in the areas of core business development, asset consolidation and capability growth.

Otto has focused itself geographically on South East Asia and Australasia centred on the Philippines. The Company continues to mature its existing asset base whilst seeking new business opportunities in the region.

The core strategies for the Board and Management are value and growth for shareholders by unlocking the potential of our assets base and by understanding measured growth within our region of focus.

Ongoing improvements in the marine operations of our core Galoc asset has seen production now exceed 5.1 million barrels of oil and 15 cargos of crude oil safely delivered to refinery customers in the region. This performance has seen a marked improvement in Otto's balance sheet. Further investments in the asset is being contemplated with up to two new developments wells being planned, between 3 and 6 million barrels of additional oil. A potential further phase of development may be sanctioned following work currently in progress.

Our Edirne gas fields started production during the year and exploration upside was matured during our phase 2 seismic and drilling campaigns. Argentina and Italy divestments were also accomplished.

As a significant milestone will be reached at the Annual General Meeting of shareholders in November with the retirement from the Board of Dr Jaap Poll. Jaap is the founder of the Company and has a distinguished career of over 40 years in the industry. I express the gratitude of the Otto Board and all shareholders for Jaap's tireless efforts over the past 6 years in maturing the Company to this point.

It is with pleasure that we have, announced the appointment of Ian Boserio to the Otto Board with effect from 2nd September 2010. Ian is an internationally experienced explorer, previously holding Exploration Management roles in both Shell and Woodside.

I take this opportunity on behalf of the company to thank Paul Moore, his management team and all of the staff in our Perth and Manila offices for their efforts over the past year. It is through the efforts of this small group of people that Otto will realise its potential. My gratitude also goes to my fellow directors for their continued support of the company and shareholders.

The coming year will see further concentration of Otto's activities into the Philippines, with emphasis on Galoc and SC55, where I'm pleased to advise that interpretation of our 2010 3D seismic is now ongoing, with early promising results. Of course, new opportunities which meet strategic and investment objectives set by Board and Management, will also be considered.

It is with great anticipation that I look forward to the company delivering on its objectives during the 2010/11 year and being able to report another successful year to the shareholders of Otto Energy Ltd.

Rick Crabb
Chairman

chief executive officer's report

Dear Shareholders,

Our strategy during 2009/10 had three elements:

- Improving cash flow from our Galoc and Turkey assets
- Maturing our high quality Philippines exploration acreage
- Improving focus via divestiture out of non-South East Asian interests and non core Philippines interests

During the year we also hired two key staff to lead delivery in our two growth areas, namely our Exploration Manager and Philippines Country Manager positions. I welcome Messrs Paul Senycia and Ross Prasser to our leadership team. I am proud of our team of seasoned hydrocarbon industry professionals now working to add value for all shareholders.

In the Philippines our focus on the Galoc asset delivered significantly improved results, including increased uptime and strong cash-flow. Improvements in the station keeping and reconnection operational procedures which have delivered these results.

The performance of the asset has validated our reservoir understanding and we see the asset performing in line with our expectations. Production now exceeds 5.1 million barrels of oil and 15 cargoes of crude oil safely delivered to refinery customers in the region at financial year end.

Further to the recent installation of a Torpedo buoy to improve the ease of mooring and riser handling offshore, we continue to evaluate both a potential facility upgrade and second phase of development drilling. It is anticipated that the joint venture will likely be in a position to sanction this project at the completion of subsurface work currently in progress and that given sanction, Phase 2 reserves are predicted to fall in the range of 3-6 million barrels.

In Turkey, following completion of gas marketing and plant construction activities, first gas was reported in April 2010. Ahead of this achievement the joint venture had committed to further drilling activity to mature this asset. These Edirne gas fields were the foundation assets of the company. We are proud of the achievements made in Turkey.

In Exploration, Philippines offshore marine seismic was acquired and is currently being processed and interpreted as we continue to progress these permits towards future drilling.

The acquisition of extensive 3D seismic in Palawan Service Contract 55 will provide a detailed understanding of the exploration potential of this 9880 sq km licence, including our Hawkeye prospect complex and adjacent leads and will give shareholders exposure to a high potential exploration program in the prolific Palawan Basin hydrocarbon region in the coming years.

In the Visayas, 2D seismic has been acquired in Service Contract 69, a permit that Otto Energy acquired in 2008. The results of this data set will allow further understanding of this attractive frontier territory with a likelihood of progressing into the next sub-phase in the work programme.

Offshore seismic acquisition operations were successfully performed during Q1 2010 within highly sensitive marine environments safely and without environmental incident. I am proud of my team's efforts on delivering this excellent outcome.

Adopting a strategy of geographic focus enabled consolidation, achieved by relinquishment of our interests held in Argentina and Italy. This now positions Otto to grow organically and inorganically in areas within the management team's area of experience. We continue to screen new business development opportunities within the region.

Shareholders of Otto Energy can look forward to an exciting year in 2010/11. Some of the key initiatives currently underway include:

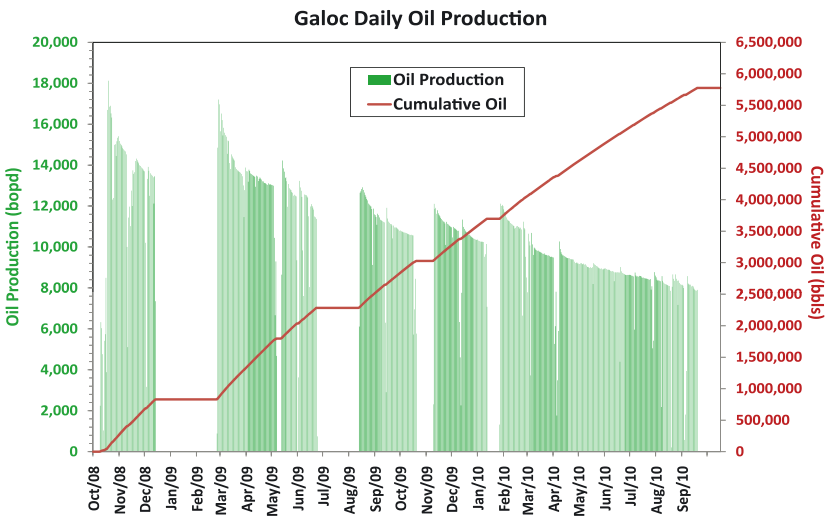
- Potential for a second phase of development at Galoc involving one or more development wells, a possible facility upgrade and a subsequent potential exploration at Galoc North.
- Processing and interpretation of recently acquired seismic in our Philippine exploration assets and the emergence of a strong prospect and leads inventory by around year end.
- Significant progress towards the drilling of at least one sizeable risk covered SC55 exploration prospect.
- Further consolidation of our asset base into those assets that the Board and management believe will deliver the greatest value impact to shareholders.

I look forward to sharing the growth story of Otto Energy with shareholders and the opportunity to provide updates on the business outcomes during the year ahead.

Paul Moore
Managing Director

The Galoc oil field is located in Palawan's proven oil and gas fairway in a water depth of approximately 290 metres (m) and started 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.

Oil production over the past financial year totalled over 2.8 million barrels (gross) at an average daily rate exceeding 7,800 barrels of oil per day (bopd), with an annualised uptime of 78% Cumulative to date production from the field exceeds 5.1 million barrels (gross). A total of 9 offtakes were delivered to Asia Pacific refinery customers in the financial year and 15 cargoes have now been delivered since production commenced.



At the time report writing, daily production was around 8,500 bopd and on natural decline from an initial peak rate of 17,000 bopd via this predominantly solution gas drive reservoir.

- **Service Contract 14C, Palawan Basin, Philippines**
- **OEL 18.78% Indirect Interest**
- **Operator: Galoc Production Company WLL (GPC)**

Successful improvements in operating procedures during the year have seen a significant increase in facility uptime through the last three quarters. The incidents that occurred during the commissioning of the field have been largely resolved and the capability of the offshore marine crew continues to improve. The following table summarises the improvements that have been observed:

	quantity bbls	uptime %	rolling 12 month average
3rd Qtr 2009	547 223	53	60
4th Qtr 2009	747 767	78	62
1st Qtr 2010	767 315	83	74
2nd Qtr 2010	796 815	100	78

The joint venture continues to work towards appraising and developing the remainder of the Galoc oil field. Reservoir development activities, including both interpretation and mapping of the recently reprocessed seismic data and future development well location ranking are currently underway. The joint venture may consider sanctioning further development activity once these activities are completed.

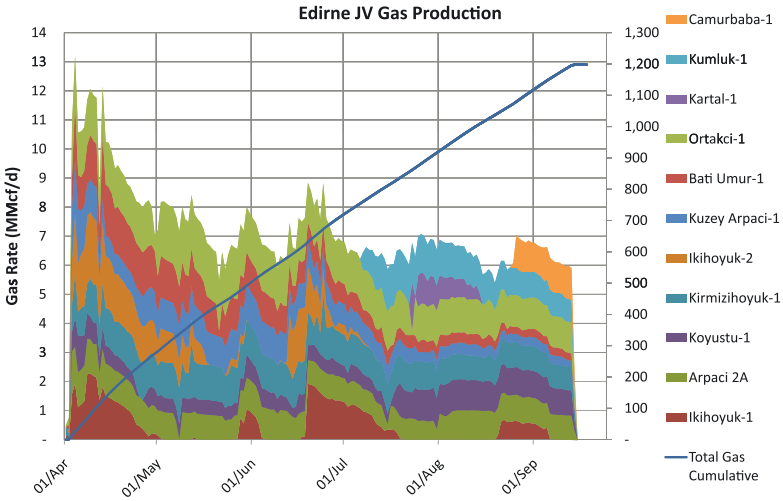
Participating interests (as at 30/6/10) in SC14C – Galoc Block are:

participant	participating interest %
Galoc Production Company W.L.L. (Operator) Owned by; Otto Energy 31.38%	59.84473
Nido Petroleum Philippines Pty Ltd	22.87952
The Philodrill Corporation	7.21495
Oriental Petroleum & Minerals Corporation/ Linapacan Oil Gas & Power Corporation	7.78505
Forum Energy Philippines Corporation	2.27575

The Edirne gas fields are located in the Tertiary Thrace Basin onshore in the European part of Turkey to the west of Istanbul and the Sea of Marmara and close to the border with Greece. The Thrace Basin is the country's most productive onshore gas province.

Edirne fields commenced production in April 2010, through the new Edirne gas plant operated jointly by Trans-Atlantic Mediterranean and Petraco.

3D seismic was initially acquired over the central part of the licence in mid 2007, which identified potential gas bearing structures. Further 3D seismic was acquired in the western area of the licence during 2009/10 and by the 30 June 2010, a total of 17 wells had been drilled in the licence.



The Edirne joint venture entered into a gas sales agreement with AKSA Dogalgaz Toptan Satis A.S (AKSA) of Turkey in December 2010. Gas produced by the Edirne Joint Venture is sold downstream of the gas plant at a 15% discount to the Industrial Interruptible Tariff benchmark set by BOTAS. During 2010, average realised gas prices were approximately US$7.40 per mscf.

- **Edirne Licence, Thrace Basin**
- **OEL 35% Interest**
- **Joint Operators: TransAtlantic Mediterranean Int. Pty Ltd (55%) and Petraco (10%)**

Otto also executed gas gathering and tolling agreements with the joint operators of the Edirne Gas Plant to process gas from the Edirne gas fields. Otto elected to not participate in the ownership of the Edirne Gas Plant to protect capital and minimise risk of ownership in a downside reserves outcome.

Seven exploration wells were drilled in 2010 continuing the 100% exploration success achieved in the permit to date. Five of these additional discoveries are currently being tied back to the Edirne Gas Plant and will be on-stream in the second half of 2010. All wells to date have been drilled on seismic amplitude anomalies which minimises risk.

First gas was produced from the Edirne gas fields in April 2010. Successful commissioning of the gas plant resulted in first gas being piped to the BOTAS national grid following a successful hot tap into the 14" main export line. Production has ranged between 6 and 14 mscf/day during the commissioning phase of operations.

First sales income from the field was received on 16 July 2010, with funds of US$685,000 remitted to Otto, this being the proceeds from gas sales during April 2010.

Ongoing development activities in the permit in the second half of 2010 include the additional perforation of producing wells and the likely installation of wellhead compression at several fields to deliver targeted plateau production rates of 6-9 MMSCF/day.

Otto will continue to review drilling proposals from the joint operators and may elect to participate in future wells. Otto has elected not to participate in the drilling of two current wells in the Edirne licence (Bademlick-1 and Musulca-1).

Edirne Block Participants:

participant	participating interest %
Edirne Energy Limited (a 100% subsidiary of Otto Energy)	35%
TransAtlantic Mediterranean Int. Pty Ltd (100% subsidiary of TransAtlantic Petroleum)	55% and Joint Operator
Petraco	10% and Joint Operator

well name	date of spud	total depth (mKB)	flow rate (Mcf/d)
Ortakci-2	19 June 2010	471	-
Buyukhoyuk-1	11 June 2010	450	-
Camurbaba-1	30 May 2010	540	-
Somurcali-1	27 March 2010	972	-
Yolboyu-1	12 February 2010	1,962	-
Kartal-1	31 January 2010	505	-
Kumluk-1	15 January 2010	550	-
Kuzey Ikihoyuk-1	01 July 2009	389	0.42
Ikihoyuk-2	12 June 2009	500	4.76
Kirmizihoyuk-1	12 May 2009	500	4.26
Arpaci-2A	21 June 2008	525	0.98
Ikihoyuk-1	26 April 2008	540	1.08
Kuzey Arpaci-1	09 April 2008	540	2.4
Ortakci-1	23 April 2008	542	2.53
Koyustu-1	27 December 2006	617	0.6
Arpaci-1	13 January 2006	509	N/A
Bati Umur-1	8 December 2005	1052	0.8

MV Pacific Explorer, SC55 Hawkeye Seismic Survey 2010

service contract 55

SC55 covers an area of 9,880 km^2 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. Otto's Calauit oil discoveries are the northern most known oil fields on this trend.

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.

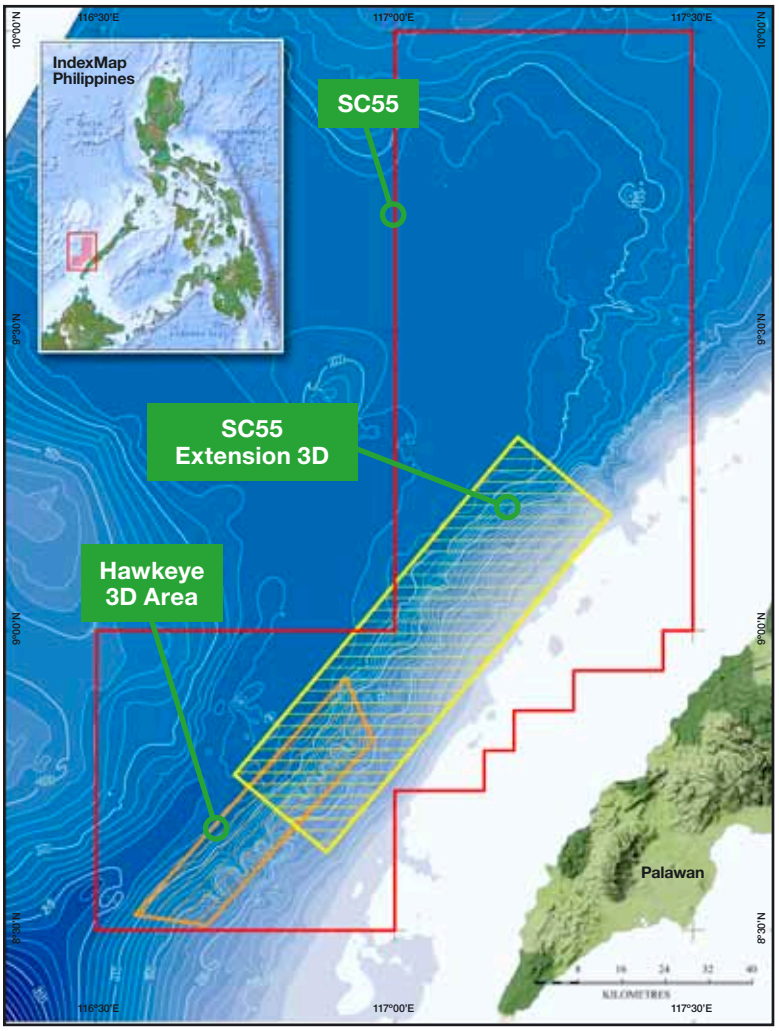
A variety of play types are present in SC55 ranging from carbonate reefs of Oligocene to Early Miocene age to folded and thrusted Mid-Miocene sediments. The later form a series of toe-thrusts which are optimally located to receive hydrocarbons from the basin axis and or from mature sediments below adjacent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

Otto has recently acquired in excess of 2,400 km^2 of new 3D seismic data parallel to the prospective thrust and fold terrain. A portion of these data have subsequently been processed and are being analysed. This subset of the data covers the Hawkeye prospect complex and leads which were first observed on regional 2D data and which presented clear direct hydrocarbon indicator.

SC55 also contains the Marantao Reef complex which is a large carbonate build up capable of reservoiring several hundred million barrels of oil.

SC55 Block Participants:

participant	participating interest %
NorAsian Energy Limited (100% subsidiary of Otto)	85% and Operator%
TransAsia Oil and Energy Development Corporation	15% (carried interest in first well)



Service Contract 55 Boundary Area with the 2010 Seismic Survey Areas

Miocene turbidites are interpreted in the basinal areas of SC55 and may form sizeable stratigraphic traps.

Some drape closures have also been mapped at this level. Correlative reservoirs in offshore Sabah are excellent reservoirs with current production.

In January 2010, Otto entered a seismic acquisition and farm-in option agreement. This agreement remains current as the parties work through processing and interpretation of the extensive 3D seismic data recently acquired.

The Department of Energy in the Philippines recently approved the request from the SC55 joint venture to revise the Work Programme for the current exploration sub-phase to allow sufficient time for the extensive 3D seismic data to be interpreted prior to the commencement of a drilling campaign. Commitment to enter the next sub-phase occurs in August 2011 which contains a drilling commitment. The licence area was also increased by 9.8% to 9,880km^2 in this licence amendment.

MV Discoverer 2, SC69 Seismic Survey 2010

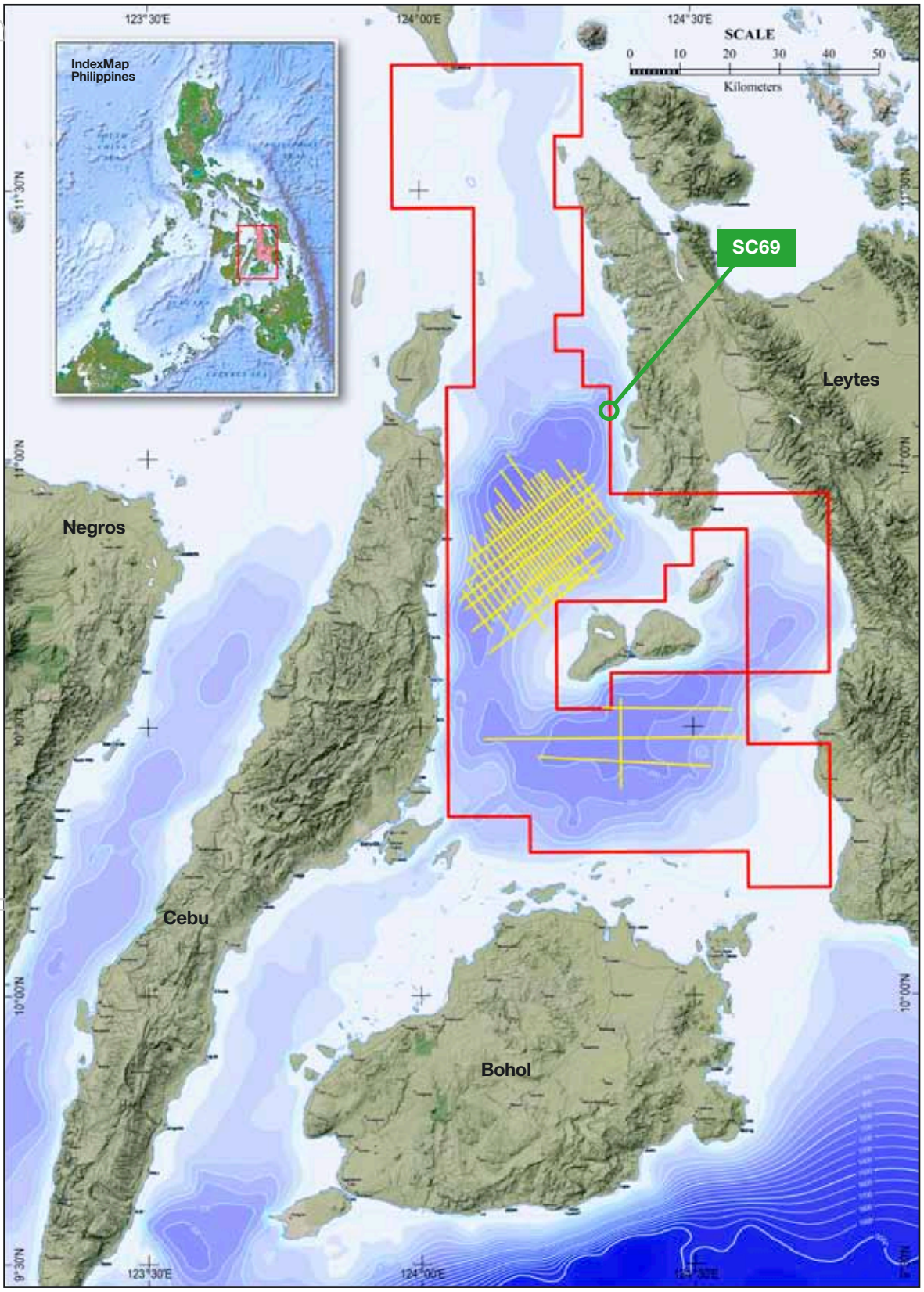
service contract 69

SC69 is Otto's most recently acquired Philippines offshore exploration licence located between the northern and southern blocks of SC51 offshore in the East Visayan Basin. The area has potential for both oil and gas.

Last year, the company reprocessed some 2,700 line-km of vintage seismic data, which validated over 20 leads within the block. Of particular interest was a basin centre carbonate build up of significant size which together with some adjacent pinnacle reefs have been the focus of additional 2D seismic infill during 2010. This new data is now being processed ahead of interpretation.

SC69 Block Participants:

participant	participating interest %
NorAsian Energy Limited (100% subsidiary of Otto)	70% and Operator
TransAsia Oil and Energy Development Corporation	30%



Service Contract 69 Boundary Area with 2010 Seismic Survey Lines

service contract 50 – calauit / calauit south oil fields

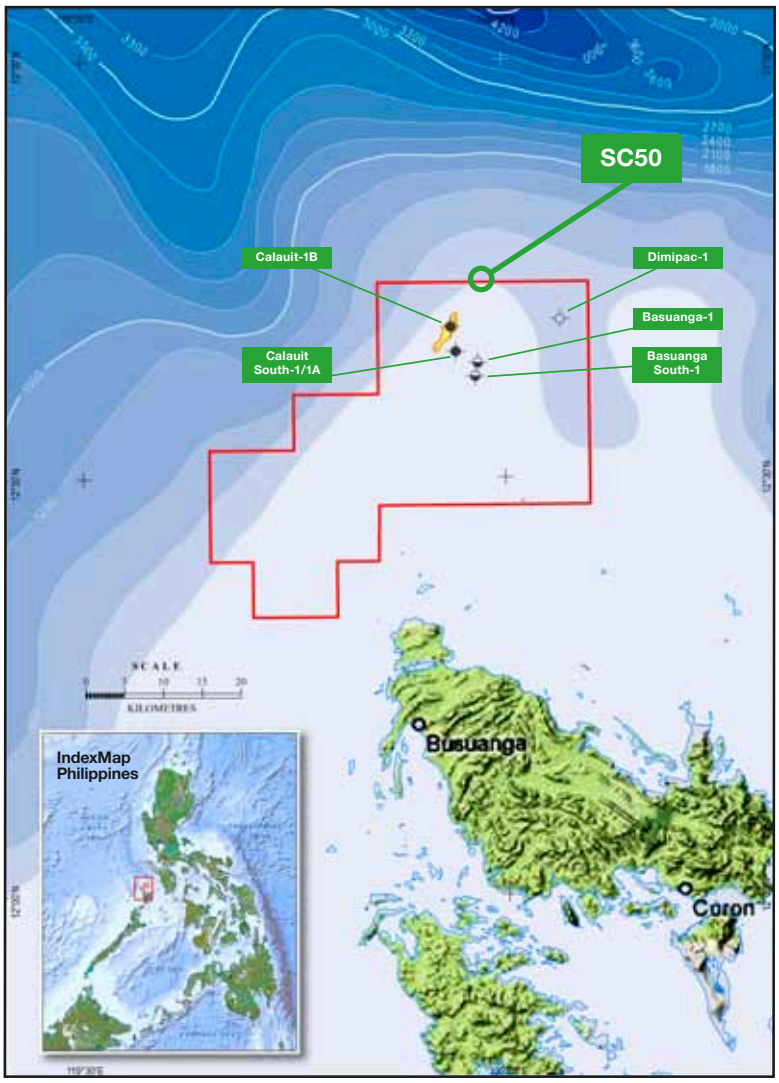
SC50 contains the Calauit and Calauit South Oil Fields which were discovered in 1991 and 1992. The fields lie in shallow water depths that range from 50m to 100m and the area is situated at the northeast of the oil and gas prolific Palawan Basin.

During the year work continued on the commercial and economic review of appraisal and development options for the Calauit oil fields.

The Company was awarded an extension to the drill commitment in the current sub-phase until March 2011 by the Philippines Department of Energy. Otto continues to seek farminees to earn an interest in Service Contract 50 in consideration of participating in the Calauit 2 drilling and EWT.

Otto/NorAsian is currently paying 100% for 99% beneficial interest in the block, carrying the Filipino partner through drilling of the first well.

Service Contract 50 Boundary Area



SC50 Block Participants:

participant	participating interest %
NorAsian Energy Limited (100% subsidiary of Otto)	85% (Beneficial Interest 99%) and Operator
RGA Resources Inc	15% (1% Overriding Royalty)

service contract 51

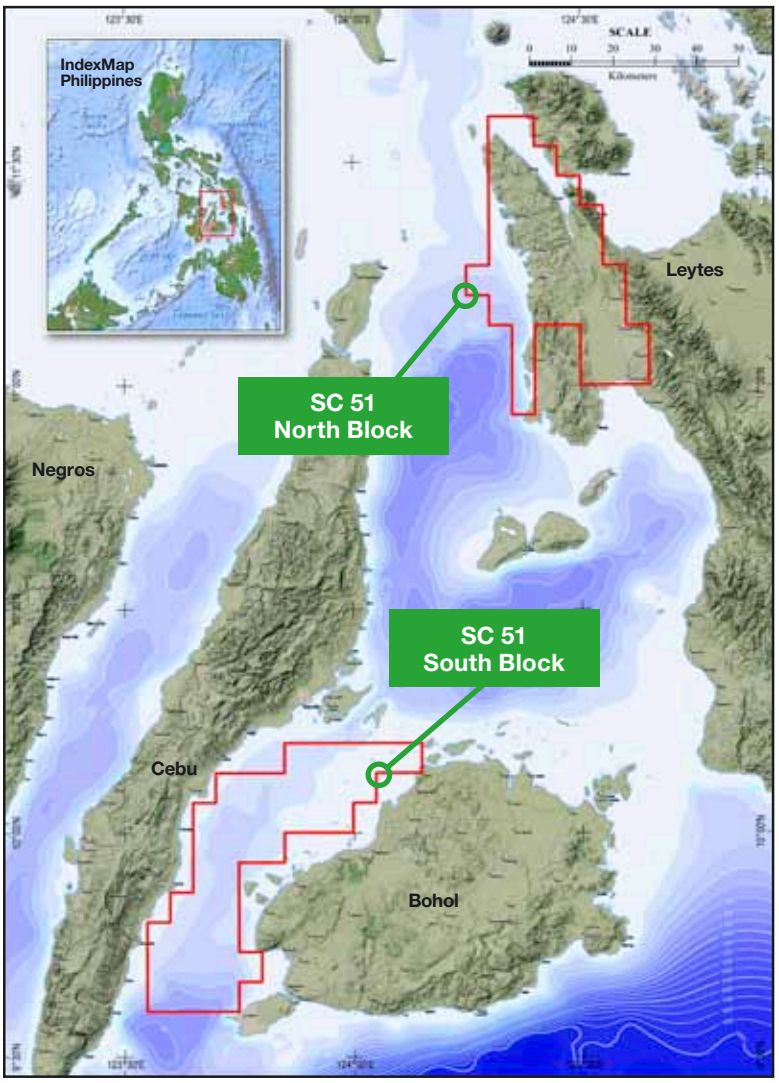
SC51 is situated in the East Visayan Basin in the central Philippines. The area consists of a northern and southern part with the two areas being separated by a distance of approximately 80km (of which the intervening area is SC69).

The Argao & Bahay offshore prospects are located in the south block and the San Isidro prospect located onshore in the northern block.

Otto continues to seek potential farminees to earn an interest in Service Contract 51 in consideration of participating in the drilling of the exploration well(s) on a "promote" basis. The Company continues to monitor the market for available rigs.

SC51 Block Participants:

participant	participating interest %
NorAsian Energy Limited (100% subsidiary of Otto)	80% and Operator
Alcorn Gold Resources Corporation	9.32% (carried interest through first well)
Trans Asia Oil and Energy Development Corporation	6.67% (carried interest through first well)
PetroEnergy Resources Corporation	15% (carried interest through first well)



Service Contract 51 Boundary Area

OTTO proved (1P) reserves as at 30 June 2010

1P Reserves [2] (Otto share) by Area				
	Crude Oil	Sales Gas	Sales Gas	Total
	Mbbl	Bcf	Mboe	Mboe
Philippines - Galoc Field [5]	0.39	0	0.00	**0.39**
Turkey - Edirne Licence	0.00	0.44	0.07	**0.07**
Total	0.39	0.44	0.07	0.46

OTTO proved and probable (2P) reserves as at 30 June 2010

Proven plus Probable (2P) Reserves [3] (Otto share) by Project Area				
	Crude Oil	Sales Gas	Sales Gas	Total
	Mbbl	Bcf	Mboe	Mboe
Philippines - Galoc Field [5]	0.91	0	0.00	**0.91**
Turkey - Edirne Licence	0.00	0.86	0.14	**0.14**
Total	0.91	0.86	0.14	1.05

OTTO contingent resources (2C) as at 30 June 2010

2C Resources [4] (Otto share) by Area				
	Crude Oil	Sales Gas	Sales Gas	Total
	Mbbl	Bcf	Mboe	Mboe
Philippines - Galoc Field [6]	1.13	0	0.00	**1.13**
Philippines - Calauit Field [6]	4.85	0	0.00	**4.85**
Turkey - Edirne Licence	0.00	1.06	0.18	**0.18**
Total	5.97	1.06	0.18	6.15

Movement in reserve and resource categories over the period 30 June 2009 to 30 June 2010

Reserves & Contingent Resources Summary						
	30 June 2009	Production	Revisions & Exploration Success	Contingent Resources converted to Reserves	Acquisitions and Divestment	30 June 2010
Galoc Field - SC14C	Mboe	Mboe	Mboe	Mboe	Mboe	Mboe
2P Reserves	1.46	0.54	(0.02)	-	-	**0.91**
2C Contingent Resources Licence	1.13	-	-	-	-	**1.13**
Total	2.59	0.54	(0.02)	-	-	2.03
Calauit Field - SC51	Mboe	Mboe	Mboe	Mboe	Mboe	Mboe
2P Reserves	-	-	-	-	-	**-**
2C Contingent Resources Licence	4.85	-	-	-	-	**4.85**
Total	4.85	-	-	-	-	4.85
Edirne Gas Project	Mboe	Mboe	Mboe	Mboe	Mboe	Mboe
2P Reserves	0.41	0.04	(0.25)	0.02	-	**0.14**
2C Contingent Resources Licence	0.09	-	0.11	(0.02)	-	**0.18**
Total	0.50	0.04	(0.14)	-	-	0.32
All Project Areas	Mboe	Mboe	Mboe	Mboe	Mboe	Mboe
2P Reserves	1.87	0.57	(0.27)	0.02	-	**1.05**
2C Contingent Resources Licence	6.06	-	0.11	(0.02)	-	**6.15**
Total	7.93	0.57	(0.16)	-	-	7.20

OTTO reserve estimates (30 June, 2010)

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 April 2010.

Otto's Reserve and Contingent resource estimates for the gas fields in the Edirne licence in Turkey are based upon internal technical assessments, and continue to be work in progress incorporating results of the most recent drilling campaign in the Edirne licence. License Reserve estimated are aggregated arithmetically from individual field volumes

Technical assessments to determine the 2C Contingent Resource estimates for the Calauit Field were undertaken by Otto.

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 30th June 2009

Galoc

The Galoc "gross" 2P Reserve estimate at 30 June 2010, was 5.56Mbbl. Of this, Otto assess that 4.85Mbbl is the "Contractor Share" (Gross) and 0.71Mbbl is the "Government Profit Oil Share" (Gross). Government share has increased since 2009 due to higher oil price forecasts going forward. Otto reports it's effective working interest of the Contractor Share of the Reserves (2P = 0.91 Mbbl).

2P Reserves & Contingent Resources in 2010 have remained the same as 2009.

Calauit

Calauit 2C Contingent Resources remain unchanged during the period at 4.85 Mbbl.

Edirne Licence

As at 30 June 2009, Otto reported "Undeveloped Reserves" from Koyustu-1, Bati Umur-1, Ortakci-1, Ikihoyuk-1 & -2, Kuzey Arpaci-1 & Arpaci-2A. Production commenced in Apr 2010 and data from these wells have indicated that Reserves are less than estimated in 2009.

Contingent Resources from Kirmizihoyuk-1 in 2009 have been moved to Reserves in 2010.

Exploration success in Kartal-1, Kumluk-1, Camurbaba-1, Ortakci-2 have added additional Reserves in 2010. Yolbyu-1 discovery has added to Contingent Resources in 2010.

Otto is not participating in the Somurcali field development as it does not meet investment evaluation criteria.

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 indirect interest (18.78%).

6 The "Government Share" has not been determined for "2C Resources" as these resources are not subject to a development plan.

7 "Mbbl" means millions (10^6) of barrels of oil at standard oilfield conditions of 14.696 psi (101.325kPa) and 60° Fahrenheit (15.56° Celsius).

8 "Bcf" means billions (10^9) 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 (10^6) 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 Petroleum Engineer, who is a full-time employee of the company. Mr. Pink has more than 12 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.

Asset /Service Contract	OEL Working Interest	Joint Venture Partners		Notes
The Philippines				
SC50 Northwest Palawan – includes Calauit & Calauit South Oil Fields	85%	RGA Resources Inc ("RGA")	15%	Otto/NorAsian currently paying 100% for 99% beneficial interest. There is a 1% Gross Overriding Royalty to RGA on Otto/NorAsian's share.
SC51 Exploration block, East Visayan Basin	80%	Alcorn Gold Resources TransAsia Oil & Energy PetroEnergy	9.32% 6.67% 4.01%	Otto/NorAsian carrying Filipino partners through drilling of first well. There is a 1% Gross Overriding Royalty to RGA on Otto/NorAsian's share.
SC55 Exploration block, Southwest PalawanBasin	85%	TransAsia Oil & Energy	15%	Otto/NorAsian carrying Filipino partner through drilling of first well. There is a 1% Gross Overriding Royalty to RGA on Otto/NorAsian's share. TransAsia also has a right to acquire an additional 5% equity.
SC69 Exploration block, East Visayan Basin	70%	TransAsia Oil & Energy	30%	Otto/NorAsian paying 70% No royalties exist
SC14C – Galoc Block Northwest Palawan	18.78% Indirect Interest	GPC (Operator) Nido Petroleum Phil Co's	59.84% 22.88% 17.3%	A subsidiary of the Vitol Group owns the remaining stake in GPC (68.62%)
Turkey				
Edirne Licence	35%	Petroleum Exploration Mediterranean Int.(PEMI) (Joint Operator) Petraco Petroleum (Joint Operator)	55%	PEMI is a wholly owned subsidiary of Incremental Petroleum, which was taken over by TransAtlantic Petroleum in March 2009. Otto carrying 3.5% of Petraco's costs through to production.

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		Otto Net Share			Gross Field		
		2009/10	2008/9	Change (%)	2009/10	2008/9	Change (%)
Galoc Oil Field (Philippines)							
Production	bbl	536,943	428,865	25.2%	2,859,120	2,283,624	25.2%
Lifting	bbl	545,127	380,074	43.4%	2,902,058	2,023,823	43.4%
Receipts from GPC	US$M	$29.474m	-	100%			
Edirne (Turkey)							
Production	Mscf	229	-	100%	655	-	100%
	boe	38,500	-	100%	109,213	-	100%
Revenue	US$M	$1.673m	-	100%	$4.780m	-	100%
Corporate							
Closing Cash	A$M	24.435	13.062	87.1%			
Shares on Issue		1,134,540,071	1,070,184,721				
Options on Issue		57,750,000	119,855,350				
Closing Share Price		$0.09	$0.077				
Market Capitalisation	A$M	$102.108	$82.404	$2.686			

(1) "bbl" means barrel

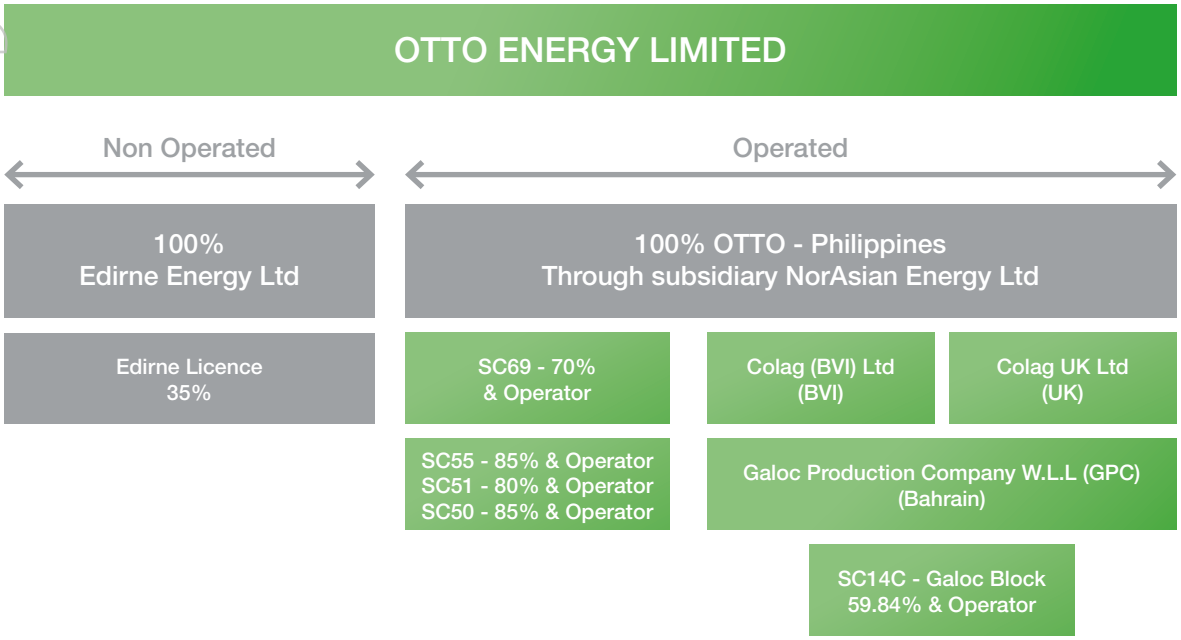
(2) "Mscf" means million standard cubic feet

(3) "mscf" means thousand standard cubic feet

(4) "boe" means barrels of oil equivalent . In common with international practice, dry gas volumes are converted to oil equivalent volumes via a constant conversion factor, for which Otto adopts 6 mcf of dry gas to one boe

(5) "$M" means millions of dollars

(6) "bopd" means barrels of oil per day



2010

Your Directors present their report on the consolidated entity ("Otto Energy"), consisting of Otto Energy Limited ("the Company") and the entities it controlled at the end of, or during, the financial year ended 30 June 2010.

Directors

The names of the Directors in office and at any time during, or since the end of the year are:

Mr Rick Crabb

Mr Paul Moore [Appointed 2 September 2010]

Mr Rufino Bomasang

Mr John Jetter

Mr Ian Macliver

Dr Jaap Poll

Mr Ian Boserio [Appointed 2 September 2010]

Mr John Zadnik (Alternate Director for Rick Crabb) [Resigned 2 September 2010]

Directors have been in office since the start of the financial year to the date of this report unless otherwise stated.

Company Secretary

The following person held the position of Company Secretary at the end of the financial year:

Ms Emma McCormack.

Mr Matthew Allen has been appointed to the role of Company Secretary subsequent to the end of the financial year. Mr Allen replaced Ms McCormack effective 14 July 2010.

Principal Activities

The principal activities of the consolidated entity during the financial year were investment in oil and gas exploration and development in Turkey, the Philippines, Italy and Argentina.

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

a) The group relinquished its 32.48% investment in Cynthia Holdings Limited and withdrew from the Santa Rosa block in Argentina for nil consideration.

b) The group withdrew from the Cento and Bastiglia blocks in Italy.

Operating Results

The consolidated loss of the consolidated entity for the financial year, after providing for income tax, amounted to $33,304,485 (2009: loss of $57,348,777). This result is after recognising an unrealised foreign exchange gain of $657,548 (2009: loss of $481,389).

Dividends Paid or Recommended

The Directors recommend that no dividend be paid for the year ended 30 June 2010, 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 Otto Energy group during the financial year and the results of those operations are set out on pages 6 to 15.

Significant Changes in State Of Affairs

No significant changes in the consolidated entity's state of affairs occurred during the financial year.

After Balance Date Events

No matters or circumstances have arisen since the end of the financial year which significantly affect the operations of the economic entity in future financial years.

Future Developments, Prospects and Business Strategies

To further improve the consolidated entity's financial position and maximise shareholders wealth, the following developments are intended to be implemented:

In the Philippines, Otto, through its wholly owned subsidiary NorAsian Energy, 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.
The Company will continue to seek farm-in partners to assist in funding the drilling programs in SC50, SC51 and SC55. A Phase II development at the Galoc Oil Field is also being reviewed and matured by the Company and GPC. This may involve an additional two wells in the northern portion of the structure to boost production and access undeveloped reserves.

In Turkey, the company continues to explore and appraise for additional gas resources in close proximity to the Edirne Gas Plant and develop new discoveries as soon as possible.

These developments are expected to assist in the achievement of the consolidated entity's short-term goals to create a successful oil company with sustained cash flow to fund its ongoing financial requirements with minimum equity dilution.

information on directors and executives

Mr Rick Crabb
Chairman (Non Executive)

Qualifications
BJuris (Hons); LLB; MBA

Experience
Mr Rick Crabb holds degrees in law and business administration from the University of Western Australia. He 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.

Interest in Shares and Options
16,995,052 ordinary shares of Otto Energy Limited and options to acquire 1,500,000 ordinary shares.

Special Responsibilities
Audit and Compliance

Directorships held in other listed entities
During the past three years Mr Crabb's directorships in other listed entitles are as a director of Royal Resources Limited from 23 February 2004 to 11 August 2009, Golden Rim Resources Limited from 22 August 2001, Ashburton Minerals Limited from 1 September 1999, Paladin Energy Limited from 8 February 1994, former director of Port Bouvard Limited from 2 December 1996 to 23 April 2009 and Thundelarra Exploration Limited from 8 September 2003 to 13 June 2007.

Mr Rufino Bomasang
Director (Non Executive)

Qualifications
BSc (Min.Eng), Master in Business Economics (Phil)

Experience
Mr Bomasang is a mining engineer, having worked in recent years as an International Energy and Mining Consultant, focusing 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 (PNOC-EC), where he was responsible for top level management of PNOC-EC's operations. 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 and as Senior Advisor to the Department of Energy Gas Office. Mr Bomasang is currently Non Executive Chairman of NorAsian Energy Limited, a subsidiary of Otto Energy Limited.

Interest in Shares and Options
Options to acquire 1,000,000 ordinary shares

Directorships held in other listed entities
Mr Bomasang has not been a director of any other Australian listed entities in the past three years.

Mr John Jetter
Director (Non Executive)

Qualifications
B. Law, B. Econ, INSEAD

Experience
Mr Jetter has extensive international finance and M&A experience being the former Managing Director, CEO and head of investment banking of JPMorgan in Germany and Austria, and a member of the European Advisory Council, JP Morgan London. He held various senior positions with JPMorgan throughout Europe, during which time he focused his attention on major corporate clients and advised on some of Europe's largest corporate transactions. He also held a number of other board positions including 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.

Interest in Shares and Options
19,089,175 ordinary shares of Otto Energy Limited and options to acquire 6,000,000 ordinary shares.

Directorships held in other listed entities
During the past three years, Mr Jetter's directorships in other listed companies are as a non-executive director of Venture Minerals Limited since 8 June 2010.

Mr Ian Macliver
Director (Non Executive)

Qualifications
B.Com, CA, F Fin, MAICD

Experience
Mr Macliver is managing director of Grange Consulting Group Pty Limited which provides specialist corporate advisory services to both listed and unlisted companies. He has many years experience as a senior executive and director of both resource and industrial companies, with particular responsibility for capital raising and other corporate initiatives. Mr Macliver is a director of various listed and unlisted companies and is the Chairman of the Company's Audit and Compliance Committee.

Interest in Shares and Options
6,306,942 ordinary shares of Otto Energy Limited and options to acquire 3,500,000 ordinary shares

Special Responsibilities
Audit and Compliance

Directorships held in other listed entities
During the past three years Mr Macliver's directorships in other listed entities are chairman of Stratatel Limited since July 2000, non-executive director of Select Vaccines Limited since September 2010, Mount Gibson Iron Limited since February 2001, Port Bouvard Limited since December 1994 and Empire Beer Group Limited since 23 May 2006 and former director of Bioprospect Limited from February 2000 to April 2007.

information on directors and executives [cont]

Dr Jaap Poll
Director (Non Executive)

Qualifications
BSc, MSc and PhD Geology

Experience
Dr Jaap Poll is a geologist with a distinguished 40 year career in petroleum exploration and production management worldwide. He has a PhD in Structural Geology, is an Accredited Member of the American Association of Petroleum Geology (AAPG), a Distinguished Member of the Petroleum Exploration Society of Australia (PESA) and is an accredited arbitrator and mediator. Dr Poll has extensive work experience in the Middle East, Europe, Central and South America, Africa, Asia and Australia and is the founder of the company.

Interest in Shares and Options
14,794,206 ordinary shares of Otto Energy Limited and options to acquire 3,000,000 ordinary shares.

Directorships held in other listed entities
Dr Poll has not been a director of any other Australian listed entities in the past three years.

Mr Paul Moore
Managing Director

Qualifications
B.Sc (2:1 hons) Civil Eng, Dipl.Eng, MBA, C.Eng (UK), FIMMM, FAICD, SPE Member

Experience
Mr Moore has extensive experience in the oil and gas industry with 28 years in operating oil and gas companies, including 18 years in executive management roles. Mr Moore has an international track record in oil/gas field developments and in new business growth.

Mr Moore has a Masters of Business Administration (MBA) from the University of Strathclyde, Scotland. He is a Member of the Society of Petroleum Engineers (SPE), Fellow of the AICD (FAICD) and of the Institute of Materials, Minerals and Mining (UK) (FIMMM) and is a Chartered Engineer (C.Eng).

Interest in Shares and Options
1,250,000 ordinary shares of Otto Energy Limited and options to acquire 7,500,000 ordinary shares.

Special Responsibilities
Chief Executive Officer

Directorships held in other listed entities
Mr Moore has not been a director of any other Australian listed entities in the past three years.

Mr Ian Boserio
Director (Non Executive)

Qualifications
B.Sc Hons (Geophysics), B.Sc Hons (Geology)

Experience
Mr Boserio brings more than 25 years international experience in the oil and gas business focusing predominantly on exploration. He has spent the majority of his career with Shell including roles in Australia, North Sea, Middle East, India and Indonesia, and five years with Woodside as the Australia exploration manager. Mr Boserio's last position at Shell was as the Australian new business manager, prior to that he led the Shell Australia and New Zealand exploration team growing its gas portfolio for LNG development.

Mr Boserio has a Bachelor of Science from the Victoria University of Wellington, New Zealand. He has honours in Geology and Geophysics.

Interest in Shares and Option
None

Special Responsibilities
None

Directorships held in other listed entities
During the past three years, Mr Boserio's directorships in other listed companies are as non-executive director of Nexus Energy Limited since November 2009.

Ms Emma McCormack
Company Secretary

Qualifications
B.Com, CA, SA Fin

Experience
Ms McCormack is a senior executive at Grange Consulting, where she specialises in providing corporate and strategic advice, due diligence investigations, corporate compliance and valuation advice. Ms McCormack has project managed the listing of a number of companies on ASX and has been involved in various private and seed capital raisings.

Prior to joining Grange Consulting, Ms McCormack was an executive at KPMG Corporate Finance where she was involved in a range of corporate advisory engagements gaining extensive experience in financial and strategic analysis, due diligence reviews, project financing and financial modelling.

Ms McCormack is a Chartered Accountant and senior associate of the Financial Services Institute of Australia.

Interest in Shares and Options
405,000 ordinary shares of Otto Energy Limited and options to acquire 500,000 ordinary shares

information on directors and executives [cont]

Name	Position Held	Key Appointment Dates	Period in Office
Mr Rick Crabb	Non-Executive Chairman	Appointed 19 November 2004	5 yrs, 10 mths
Mr Rufino Bomasang	Non-Executive Director	Appointed 18 August 2006	4 yr, 1 mth
Mr John Jetter	Non- Executive Director	Appointed 12 December 2007	2 yr, 10 mths
Mr Ian Macliver	Non-Executive Director	Appointed 7 January 2004	6 yrs, 8 mths
Dr Jaap Poll	Non-Executive Director	Appointed 19 November 2004	5 yrs, 10 mths
Mr Ian Boserio	Non-Executive Director	Appointed 2 September 2010	-
Mr John Zadnik	Alternate Director for Mr Rick Crabb	Appointed 19 November 2004 (i)	5 yrs, 10 mths
Mr Paul Moore	Managing Director	Appointed 01 July 2009	1 yr
Mr Matthew Allen	Chief Financial Officer/Company Secretary	Appointed 16 November 2009	8 mths
Mr Craig Martin	Chief Operating Officer	Appointed 01 February 2007 (i)	3 yrs, 7 mths
Mr Richard King	Commercial Manager	Appointed 28 July 2008	2 yrs
Mr Paul Senycia	Exploration Manager	Appointed 12 April 2010	3 mths
Mr Stefan Kleffmann	Geoscience Manager	Appointed 01 April 2008 (i)	2 yrs
Ms Emma McCormack	Company Secretary	Appointed 09 March 2007 (i)	3 yrs, 6 mths

(i) Details of resignation dates can be found in section B of the remuneration report on page 35.

remuneration report

The remuneration report is set out under the following main headings:

A Principles used to determine the nature and amount of remuneration
B Details of remuneration
C Service agreements
D Share-based compensation
E Additional information

The information provided in this remuneration report has been audited as required under Section 308 (3)c of the Corporations Act 2001.

A Principles used to determine the nature and amount of remuneration

The remuneration policy of Otto Energy Limited has been designed to align Director and Executives objectives with shareholder and business objectives. The Board of Otto Energy Limited believes the remuneration policy to be appropriate and effective in its ability to attract and retain the best Executives and Directors to run and manage the consolidated entity, as well as create goal congruence between Directors, Executives and shareholders.

The Board's policy for determining the nature and amount of remuneration for Board members and senior Executives of the Company is as follows:

Non executive Directors, executive Directors and senior executives receive a base salary (which is based on factors such as length of service and experience), which is calculated on a total cost basis and includes any FBT charges related to employee benefits including motor vehicles, as well as employer contributions to superannuation funds.

Executive Directors can be employed by the Company on a consultancy basis in conjunction with Board approval, with remuneration and terms stipulated in individual consultancy agreements.

The Board reviews Executive packages annually by reference to the Company's performance, Executive performance and comparable information from industry sectors and other listed companies in similar industries. In addition, external consultants may be used to provide analysis and advice to ensure the Directors and senior Executive's remuneration is competitive in the market place.

Directors and senior Executives receive a superannuation guarantee contribution required under the Australian superannuation guarantee legislation which is currently 9%. However, some individuals may choose to sacrifice a portion of their salary to increase payments towards superannuation.

All remuneration paid to Directors and Executives is valued at the cost to the Company and expensed. Shares issued to Directors and Executives as part of their remuneration are valued as the difference between the market price of the issued shares and the amount paid by the Director or Executive. Options over ordinary shares are valued using the Black-Scholes methodology.

The Employee Option Plan is designed to incentivise Directors and Employees and its subsidiaries, to provide continuity of service to the company and to increase profitability and returns to shareholders.

The Board policy is to remunerate Non-executive Directors at market rates for comparable companies based upon time, commitment and responsibilities. Non executive director remuneration is reviewed annually, based on market practice, duties and accountability. Independent external advice is sought when required. The maximum aggregate amount of fees that can be paid to non executive Directors is subject to approval by shareholders at the Annual General Meeting.

Fees for Non-executive Directors are not linked to the performance of the consolidated entity. Non-executive Directors do not receive any retirement benefits other than superannuation. The Non-executive Directors are not required to hold any shares in the Company under the Constitution of the Company; however, to align Directors' interests with shareholder interests, the Directors are encouraged to hold shares in the Company.

remuneration report [cont]

A Principles used to determine the nature and amount of remuneration [cont]

The Board believes that it has implemented suitable practices and procedures that are appropriate for an organisation of this size and maturity.

Base Salary

Base salary may include a combination of cash and prescribed non-financial benefits at the Executive's discretion.

Executives are offered a competitive base pay that comprises the fixed component of pay and rewards. Base pay for executives is reviewed annually to ensure the Executives' pay is competitive with the market. An Executive's pay is also reviewed on promotion. There are no guaranteed base pay increases included in any Executives' contracts.

Bonuses

Bonuses to Directors and Executives are paid based upon unspecified performance criteria as determined by the Board from time to time.

Remuneration Committee

During the year ended 30 June 2010, the consolidated entity did not have a separately established nomination or remuneration committee. Considering the current size of the consolidated entity and the number of Directors, the Board are of the view that these functions can be efficiently performed with full Board participation.

Remuneration Structure

In accordance with best practice corporate governance, the structure of non executive Director and senior manager remuneration is separate and distinct.

Directors' Remuneration

The Non-executive Directors are entitled to receive directors' fees of amounts determined by the shareholders of the Company at the Annual General Meeting. The Non-executive Directors of the Company are entitled to receive directors' fees in such amounts (as determined by the Directors) in aggregate not to exceed $500,000 (approved at January 2008 EGM), to be divided among non executive Directors as the Directors may agree and in the absence of agreement then equally, until otherwise determined by shareholders at the Annual General Meeting.

The Directors have resolved that Non-executive Directors' fees based in Australia are $50,000 per annum (inclusive of superannuation) for each Non-executive Director and $75,000 per annum (inclusive of superannuation) for the Non-executive Chairman. Non executive Directors may also be remunerated for additional specialised services performed at the request of the Board and reimbursed for reasonable expense incurred by Directors on Company business.

Executive Director and Key Management Personnel Remuneration

The Company aims to reward Executives with a level and mix of remuneration commensurate with their position and responsibilities within the Company and so as to:

- Reward Executives for Company performance;
- Align the interest of Executives with those of shareholders; and
- Ensure total remuneration is competitive by market standards.

Company Performance, Shareholder Wealth, Directors and Executives Remuneration

There is no direct link between Company performance, shareholder wealth and remuneration.

The table below shows the total revenue, losses and earnings per share for the previous 5 years:

	2006	2007	2008	2009	2010
	$	$	$	$	$
Revenue and other income	171,567	107,432	4,193,006	2,600,078	3,552,016
Net Loss	(1,501,857)	(2,797,839)	(10,699,873)	(57,348,777)	(33,304,485)
Earnings/(loss) per share (cents)	(2.92)	(2.19)	(3.12)	(10.06)	(3.11)
Dividends	-	-	-	-	-

B Details of remuneration

Amounts of remuneration

Details of the remuneration of the Directors, the key management personnel of the Group (as defined in AASB 124 Related Party Disclosures) and specified Executives of Otto Energy Limited and its controlled entities are set out in the following tables.

The key management personnel of the Group are the directors of Otto Energy Limited (see page 26 above).

In addition, the following persons must be disclosed under the Corporations Act 2001 as they are key management personnel:

Mr Paul Moore	Chief Executive Officer	Appointed 01 July 2009
Mr Craig Martin	Chief Operating Officer	Appointed 01 February 2007 (Resigned 09 September 2010)
Mr Matthew Allen	Chief Financial Officer	Appointed 16 November 2009
Mr Richard King	Commercial Manager	Appointed 28 July 2008
Mr Stefan Kleffmann	Geoscience Manager	Appointed 01 April 2008 (Resigned 26 March 2010)
Mr Paul Senycia	Exploration Manager	Appointed 12 April 2010
Mr Alex Parks	Chief Executive Officer	Appointed 01 December 2006 (Resigned 30 June 2009)
Ms Ida Holt	Chief Financial Officer	Appointed 01 January 2009 (Resigned 28 August 2009)

remuneration report [cont]

B Details of remuneration [cont]

Amounts of remuneration [cont]

30 June 2010 Group	Short-term Employee Benefits			Post Employ-ment	Long-Term Benefits		Share-Based Payments	Total	% Perfor-mance Related
	Salary & Fees	Cash Bonus (i)	Non Monetary	Super-annuation Pensions	Long Service Leave	Termin -ation benefits	Options (ii)		
Directors	$	$	$	$	$		$	$	%
Mr R Crabb	45,872	-	6,089	4,127	-	-	-	56,088	-
Dr J Poll	150,000	-	6,089		-	-	-	156,089	-
Mr I Macliver	45,872	-	6,089	4,127	-	-	-	56,088	-
Mr J Zadnik	22,936	-	6,089	2,064	-	-	-	31,089	-
Mr R Bomasang	97,008		6,089	-	-	-	-	103,097	-
Mr J Jetter	50,000		6,089	-	-	-	-	56,089	-
	411,688	-	36,534	10,318	-	-	-	458,540	-
Other Key Management Personnel									
Mr P Moore	481,651	-	-	43,349	-	-	375,000	900,000	-
Mr C Martin	247,706	-	-	22,294	-	-	30,000	300,000	-
Mr M Allen	177,488	-	-	15,974	-	-	62,500	255,962	-
Mr Richard King	262,217	40,000	-	23,600	-	-	59,167	384,984	10%
Mr Stefan Kleffmann	182,454	-	-	16,421	-	-	30,000	228,875	-
Mr Paul Senycia	77,188	-	-	6,947	-	-	-	84,135	-
	1,428,704	40,000	-	128,585	-	-	556,667	2,153,956	-

(i) Grant date was January 2010 in relation to performance for the year ended 31 December 2009.

(ii) Options are issued with time based vesting criteria and an exercise price that is set at a premium to the market value on grant date. This encourages continuity of service by the employee and incentivises the employee to improve both profitability and returns to shareholders.

30 June 2009 Group	Short-term Employee Benefits			Post Employ-ment	Long-Term Benefits		Share-Based Payments	Total	% Perfor-mance Related
	Salary & Fees	Cash Bonus (i)	Non Monetary	Super-annuation Pensions	Long Service Leave	Termin -ation benefits	Options (ii)		
Directors	$	$	$	$	$		$	$	%
Mr R Crabb	45,872	75,000	5,250	4,128	-	-	107,490	237,740	32%
Dr J Poll	150,000	-	5,250	-	-	-	93,882	249,132	-
Mr I Macliver	43,248	-	5,250	3,892	-	-	143,320	195,710	-
Mr J Zadnik	22,936	-	5,250	2,064	-	-	35,830	66,080	-
Mr R Bomasang	116,017		5,250	-	-	-	16,180	137,447	-
Mr J Jetter	62,560		5,250	-	-	-	-	67,810	-
	440,633	75,000	31,500	10,084	-	-	396,702	953,919	32%
Other Key Management Personnel									
Mr A Parks	331,255	-	-	29,813	-	308,860	252,707	922,635	-
Mr C Martin	247,706	-	-	22,294	-	-	103,679	373,979	-
Ms I Holt	125,000	-	-	11,250	-	-	-	136,250	-
Mr Richard King	230,875	-	-	20,778	-	-	320,833	572,486	-
Mr Stefan Kleffmann	230,941	-	-	20,784	-	-	285,071	536,796	-
	1,165,777	-	-	104,919	-	308,860	962,290	2,541,846	-

remuneration report [cont]

B Details of remuneration [cont]

Amounts of remuneration [cont]

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

Name	Fixed Remuneration		At Risk – Short Term Incentive		At Risk – Long Term Incentive	
	2010	2009	2010	2009	2010	2009
Directors						
Mr R Crabb	100%	55%	-	-	-	45%
Dr J Poll	100%	62%	-	-	-	38%
Mr I Macliver	100%	27%	-	-	-	73%
Mr J Zadnik	100%	46%	-	-	-	54%
Mr R Bomasang	100%	84%	-	-	-	16%
Mr J Jetter	100%	100%	-	-	-	-
Other Key Management Personnel						
Mr P Moore	58%	N/A	-	N/A	42%	N/A
Mr C Martin	90%	74%	-	-	10%	26%
Mr M Allen	76%	N/A	-	N/A	24%	N/A
Mr R King	75%	44%	10%	-	15%	56%
Mr S Kleffmann	87%	48%	-	-	13%	52%
Mr P Senycia	100%	N/A	-	N/A	-	N/A

C 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 polices and terms, including compensation, relevant to the office of Director.

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 provide for the provision of performance-related conditions and other major provisions of the agreements relating to remuneration are set out below.

Remuneration and other terms of employment for Dr Jaap Poll (Non Executive Director) are formalised in a consultancy agreement. The major provisions of the agreement relating to remuneration are set out below.

Dr Jaap Poll, Non Executive Director - Consultancy Agreement with Dormley Pty Limited

- Term of Agreement – The Agreement commenced on 1 October 2004 and continues until either party gives 3 months written notice of termination or is otherwise terminated in accordance with the Consultancy Agreement. This agreement was terminated effective 30 June 2010.
- Remuneration $150,000 per annum plus GST payable monthly.
- Payment of termination of the Agreement without cause – 3 months fee plus GST, subject to the requirements of ASX Listing Rule 10.19.

Remuneration and other terms of employment for Executives of the Company are formalised in an employment agreement. Major provisions of the Executives' agreements relating to remuneration are set out below.

Mr Paul Moore, Managing Director – Employment Agreement

- Term of Agreement – The Agreement commenced on 01 July 2009 and continues until either the Company gives 1 month written notice of termination (3 months notice by the Executive) or is otherwise terminated in accordance with the Employment Agreement.
- Remuneration $561,750 per annum inclusive of superannuation payable monthly.
- Payment of termination of Agreement without cause – 12 months remuneration.

Mr Craig Martin, Chief Operating Officer – Employment Agreement

- Term of Agreement – The Agreement commenced on 01 February 2007 and continues until the Company gives 3 months written notice of termination (2 months notice by the Executive) or is otherwise terminated in accordance with the Employment Agreement.
- Remuneration $270,000 per annum inclusive of superannuation payable monthly.
- Payment of termination of Agreement without cause – 4 months remuneration.
- Mr Martin resigned effective 09 September 2010 and this agreement has been terminated.

Mr Matthew Allen, Chief Financial Officer – Employment Agreement

- Term of Agreement – The Agreement commenced on 16 November 2009 and continues until the Company gives 2 months written notice of termination (2 months notice by the Executive) or is otherwise terminated in accordance with the Employment Agreement.
- Remuneration $300,000 per annum inclusive of superannuation payable monthly.
- Payment of termination of Agreement without cause – 2 months remuneration.
- Mr Allen receives a minimum $30,000 payment as compensation for lapsed incentive payments from his previous employer. It will be paid in August 2010 and disclosed in the remuneration report for next year.

Mr Richard King, Commercial Manager – Employment Agreement

- Term of Agreement – The Agreement commenced on 28 July 2008 and continues until the employee gives 2 months written notice of termination (6 months notice by the Company) or is otherwise terminated in accordance with the Employment Agreement.
- Remuneration $297,500 per annum inclusive of superannuation payable monthly.

Mr Stefan Kleffmann, Geoscience Manager – Employment Agreement

- Term of Agreement – The Agreement commenced on 01 January 2009 and continues until the Company gives 2 months written notice of termination (2 months notice by the Executive) or is otherwise terminated in accordance with the Employment Agreement.
- Remuneration $250,000 per annum inclusive of superannuation payable monthly.
- Mr Kleffmann resigned effective 26 March 2010 and this agreement has been terminated.

Mr Paul Senycia, Exploration Manager - Employment Agreement.

- Term of Agreement – The Agreement commenced on 12 April 2010 and continues until the Company gives 3 months written notice of termination (3 months notice by the Executive) or is otherwise terminated in accordance with the Employment Agreement.
- Remuneration $375,000 per annum inclusive of superannuation payable monthly.

remuneration report [cont]

D Share-based compensation

Options

Options are issued to Directors and Executives as part of their remuneration.

Details of remuneration: cash bonuses and options

Options are issued to Directors and executives as part of their remuneration. The options are used to attract and retain suitably experienced Directors and are incentives to increase long term shareholder wealth. These are issued to the majority of Directors and executives of Otto Energy Limited to increase goal congruence between executives, Directors and shareholders. The options are subject to vesting conditions and will not vest (and become exercisable) if the vesting conditions are not satisfied, hence the minimum value of the option yet to vest is nil. The maximum value of the options yet to vest has been determined as the amount of the grant date fair value of the options that is yet to be expensed.

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

Grant Date	Date vested and exercisable	Expiry Date	Exercise Price	Value per option at grant date
08 May 2007	08 May 2008	29 May 2011	$0.20	$0.11
08 May 2007	08 November 2008	29 May 2011	$0.30	$0.08
08 May 2007	08 May 2009	29 May 2011	$0.40	$0.06
17 December 2007	17 December 2008	17 December 2010	$0.30	$0.14
29 January 2008	29 January 2009	29 January 2011	$0.30	$0.12
10 April 2008	10 April 2009	10 April 2012	$0.35	$0.23
01 August 2008	01 August 2009	01 August 2012	$0.60	$0.14
1 July 2009	1 July 2010	30 June 2014	$0.12	$0.05
8 September 2009	8 September 2010	8 September 2012	$0.12	$0.02
19 January 2010	19 January 2010	19 January 2013	$0.12	$0.04
16 February 2010	16 February 2011	16 February 2013	$0.12	$0.05

Options granted under the plan carry no dividend or voting rights. Directors and employees are granted options at no cost to them.

Details of options 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 option is convertible into one ordinary share of Otto Energy Limited. Further information on the options is set out in note 31 to the financial statements.

	Number of options granted during the year		Number of options vested during the year	
Directors	2010	2009	2010 (i)	2009
Mr R Crabb	-	-	-	1,500,000
Dr J Poll	-	-	-	2,000,000
Mr I Macliver	-	-	-	2,000,000
Mr J Zadnik	-	-	-	500,000
Mr R Bomasang	-	-	-	666,666
Mr J Jetter	-	-	-	-
Other Key Management Personnel				
Mr P Moore	7,500,000	-	-	-
Mr C Martin	2,000,000	-	-	1,833,300
Mr M Allen	3,000,000	-	-	-
Mr R King	2,000,000	2,500,000	-	-
Mr S Kleffmann	2,000,000	-	-	-
Mr P Senycia	-	-	-	-

(i) The options expense recorded for the 2010 financial year is equal to the amortisation of the total calculated options expense from grant date to vesting date and does not necessarily reflect the value of options granted during the year.

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 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.

The model inputs for options granted during the year ended 30 June 2010 included:

Options are granted for no consideration and generally vest 1 year from issue date and are subject to a vesting price condition until expiry date.

Grant date	1 July 2009	8 September 2009	19 January 2010	16 February 2010
Exercise price	$0.12	$0.12	$0.12	$0.12
Expiry date	30 June 2014	8 September 2012	19 January 2013	16 February 2013
Share price at grant date	$0.08	$0.06	$0.09	$0.10
Expected volatility	81.4%	81.4%	80%	80%
Expected dividend yield	Nil	Nil	Nil	Nil
Risk free rate	5.17%	5.24%	4.95%	4.79%

remuneration report [cont]

D Share-based compensation [cont]

Shares provided on exercise of options

Details of ordinary shares in the Company provided as a result of the exercise of options to each director of Otto Energy Limited and other key management personnel of the group are set out below:

	Date of exercise of options	Amount paid per share	Number of ordinary shares issued on exercise of options during the year	
Directors		$	2010	2009
Mr R Crabb	-	-	-	-
Dr J Poll	-	-	-	-
Mr I Macliver	-	-	-	-
Mr J Zadnik	-	-	-	-
Mr R Bomasang	-	-	-	-
Mr J Jetter	-	-	-	-
Other Key Management Personnel				
Mr P Moore	-	-	-	-
Mr C Martin	-	-	-	-
Mr M Allen	-	-	-	-
Mr R King	-	-	-	-
Mr S Kleffmann	-	-	-	-
Mr P Senycia	-	-	-	-

E Additional information

	Options						Cash Bonus	
	Year Granted	Vested	Forfeited	Financial year in which options may vest	Minimum total value of grant yet to vest	Maximum total value of grant yet to vest	Paid	Forfeited
Directors		%	%		$	$	%	%
Mr R Crabb	2008	100	-	2009	nil	nil	-	-
Dr J Poll	2005	-	100	2005	nil	nil	-	-
		100	-	2007	nil	nil	-	-
	2007	100	-	2008	nil	nil	-	-
		100	-	2009	nil	nil	-	-
	2008	100	-	2009	nil	nil	-	-
Mr I Macliver	2008	100	-	2009	nil	nil	-	-
Mr J Zadnik	2008	100	-	2009	nil	nil	-	-
Mr R Bomasang	2007	100	-	2008	nil	nil	-	-
		100	-	2009	nil	nil	-	-
Mr J Jetter	2008	100	-	2008	nil	nil	-	-
Other Key Management Personnel								
Mr P Moore	2010	-	-	2011	nil	nil	-	-
Mr C Martin	2007	100	-	2008	nil	nil	-	-
		100	-	2009	nil	nil	-	-
	2008	100	-	2009	nil	nil	-	-
	2010	-	-	2011	-	10,000	-	-
Mr M Allen	2010	-	-	2011	nil	87,500	-	-
Mr R King	2008	-	-	2009	nil	nil	100%	-
	2010	-	-	2011	nil	10,000	-	-
Mr S Kleffmann	2008	100	-	2008	nil	nil	-	-
	2010	-	-	2011	nil	10,000	-	-

Shares trading policy

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.

End of the audited remuneration report

meetings of directors

During the financial year, 15 meetings of Directors and 2 meetings of the Audit and Compliance Committee were held. Attendances by each Director during the year were as follows:

	Board Meetings		Audit & Compliance Committee	
Director	Number eligible to attend	Number attended	Number eligible to attend	Number attended
Mr R Crabb	15	15	2	2
Dr J Poll	15	15	-	-
Mr I Macliver	15	15	2	2
Mr J Jetter	15	14	-	-
Mr R Bomasang	15	13	-	-
Mr J Zadnik (Alternate)	15	11	-	-

indemnifying officers or auditor

During the financial year the Company paid premiums to insure the Directors against certain liabilities arising out of their conduct while acting as an officer of the Company. The Company paid premiums to insure each of the Directors against liabilities for costs and expenses incurred by them in defending any legal proceedings arising out of their conduct while acting in the capacity as Director of the Company, other than conduct involving a wilful breach of duty in relation to the Company. Under the terms and conditions of the insurance contract the amount of the premium paid cannot be disclosed.

options

At the date of this report details of the unissued ordinary shares of Otto Energy Limited under option, are as follows:

Date of Expiry	Exercise Price	Number Under Option
15/12/2010	$0.60	2,000,000
17/12/2010	$0.30	7,750,000
25/01/2011	$0.30	11,000,000
29/05/2011	$0.20	4,000,067
29/05/2011	$0.30	3,999,967
29/05/2011	$0.40	1,999,966
10/04/2012	$0.35	1,500,000
01/08/2012	$0.60	2,500,000
08/09/2012	$0.12	6,000,000
19/01/2013	$0.12	1,000,000
16/02/2013	$0.12	5,500,000
11/8/2013	$0.12	3,000,000
30/06/2014	$0.12	7,500,000
		57,750,000

shares issued on the exercise of options

The following ordinary shares of Otto Energy Limited were issued during the year ended 30 June 2010 on the exercise of options granted under the employee share option plan. No amounts were unpaid on any of the shares.

Date options granted	Issue price of shares	Number of shares issued
-	-	-

environmental regulation and performance

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.

proceedings on behalf of company

No person has applied for Leave of Court to bring proceedings on behalf of the Company or 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 any part of those proceedings.

The Company was not a party to any such proceedings during the year.

corporate governance

In recognising the need for the highest standards of corporate behaviour and accountability, the Directors of Otto Energy Limited support and have adhered to the principles of Corporate Governance. The Company's corporate governance statement is contained in the Corporate Governance section of the Financial Report.

non-audit services

The Board of Directors, in accordance with advice from the Audit and Compliance Committee, is satisfied that the provision of non-audit services during the year is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001 (Cth). The Directors are satisfied that the services disclosed below did not compromise the external auditor's independence for the following reasons:

- all non-audit services are reviewed and approved by the Audit and Compliance Committee prior to commencement to ensure they do not adversely affect the integrity and objectivity of the auditor; and
- the nature of the services provided do not compromise the general principles relating to auditor independence as set out in the Institute of Chartered Accountants in Australia and APES 110 Code of Ethics for Professional Accountants.

The total fees for non-audit services paid to the external auditors related entity BDO Kendalls Corporate Tax (WA) Pty Limited for taxation services is $100,666 for the year ended 30 June 2010 (2009:$10,360).

auditors independence declaration

The auditor's independence declaration as required under Section 307C of the Corporations Act 2001 (Cth) for the year ended 30 June 2010 has been received and can be found on page 46 of the Directors' report.

Signed in accordance with a resolution of the Board of Directors.

Mr I Macliver
Director - 29 September 2010

BDO

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38 Station Street
Subiaco, WA 6008
PO Box 700 West Perth WA 6872
Australia

29th September 2010

The Directors
Otto Energy Limited
32 Delhi Street,
West 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 2010, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- the auditor independence requirements of the Corporations Act 2001 in relation to the 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 year.

Peter Toll
Director

BDO

BDO Audit (WA) Pty Ltd
Perth, Western Australia

statement of comprehensive income
for the year ended 30 june 2010

	Note	Consolidated 2010 $	Consolidated 2009 $
Revenue from sale of gas	5	2,000,157	-
Total revenue		2,000,157	-
Cost of sales	6	(3,373,098)	-
Gross Profit		(1,372,941)	-
Other revenue	5	1,551,859	2,600,078
Share of net profits/(losses) of associates	27	6,685,433	-
Foreign currency gains/(losses)		657,548	(481,389)
Employee benefit expense	7	(4,960,273)	(5,802,735)
Impairment expense	7	(32,924,136)	(49,431,593)
Other expenses	7	(2,932,972)	(4,223,437)
Net loss before income tax		(33,295,482)	(57,339,076)
Income tax expense	8	(9,003)	(9,701)
Net loss for the year		(33,304,485)	(57,348,777)
Other comprehensive (loss)			
Foreign currency translation differences for foreign operations		(4,501,113)	14,894,483
Other comprehensive loss for the period		**(4,501,113)**	**14,894,483**
Total comprehensive loss for the period attributable to owners of Otto Energy Limited		(37,805,598)	(42,454,294)

Earnings per share		Cents	Cents
Basic loss per share	30	(3.11)	(10.06)

Diluted loss per share has not been calculated as it does not increase the loss per share.

The accompanying notes form part of these financial statements.

statement of financial position
as at 30 june 2010

	Note	Consolidated 2010 $	Consolidated 2009 $
ASSETS			
Current Assets			
Cash and cash equivalents	9	34,863,034	13,061,710
Trade and other receivables	10	6,832,776	707,061
Other current assets	13	38,601	55,788
Total Current Assets		41,734,411	13,824,559
Non-Current Assets			
Trade and other receivables	10	10,416	39,737,289
Financial assets	11(a)	-	-
Intangible assets	11(b)	7,123,369	7,542,044
Property, plant and equipment	12	385,053	378,962
Other non-current assets	13	8,999,537	44,798,882
Investments in Associate	27	6,697,108	-
Total Non-Current Assets		23,215,483	92,457,177
TOTAL ASSETS		64,949,894	106,281,736
Current Liabilities			
Trade and other payables	14	2,185,562	6,376,233
Borrowings	16	14,460	6,527
Total Current Liabilities		2,200,022	6,382,760
Non-Current Liabilities			
Provisions	15	113,277	55,915
Total Non-Current Liabilities		113,277	55,915
TOTAL LIABILITIES		2,313,299	6,438,675
NET ASSETS		**62,636,595**	**99,843,060**
Equity			
Contributed equity	17	151,903,114	151,932,731
Reserves	18	16,821,347	20,693,710
Accumulated losses	18	(106,087,866)	(72,783,381)
TOTAL EQUITY		**62,636,595**	**99,843,060**

The accompanying notes form part of these financial statements.

statements of changes in equity
for the year ended 30 june 2010

Consolidated	Issued Capital $	Accum-ulated Losses $	Foreign Currency Translation Reserve	Option Reserve $	Share Based Payment Reserve $	Total Equity $
At 1 July 2009	151,932,731	(72,783,381)	13,708,785	2,245,250	4,739,675	99,843,060
Total comprehensive income for the year						
Profit or loss	-	(33,304,485)	-	-	-	(33,304,485)
Other comprehensive income						
Foreign currency translation differences	-	-	(4,501,113)	-	-	(4,501,113)
Total other comprehensive income	-	(33,304,485)	(4,501,113)	-	-	(37,805,598)
Total comprehensive for the year	-	(33,304,485)	(4,501,113)	-	-	(37,805,598)
Transactions with owners in their capacity as owners						
Issued options during the period	-	-	-	-	628,750	628,750
Issued shares during the period	-	-	-	-	-	-
Transaction costs	(29,617)	-	-	-	-	(29,617)
At 30 June 2010	151,903,114	(106,087,866)	9,207,672	2,245,250	5,368,425	62,636,595
At 1 July 2008	118,064,437	(15,434,604)	(1,185,698)	2,245,250	2,932,424	106,621,809
Total comprehensive income for the year						
Profit or loss	-	(57,348,777)	-	-	-	(57,348,777)
Other comprehensive income						
Foreign currency translation differences	-	-	14,894,483	-	-	14,894,483
Total other comprehensive income	-	(57,348,777)	14,894,483	-	-	14,894,483
Total comprehensive for the year	-	(57,348,777)	14,894,483	-	-	(42,454,294)
Transactions with owners in their capacity as owners						
Issued options during the period	-	-	-	-	1,807,251	1,807,521
Issued shares during the period	36,919,637	-	-	-	-	36,919,637
Transaction costs	(3,051,343)					(3,051,343)
At 30 June 2009	151,932,731	(72,783,381)	13,708,785	2,245,250	4,739,675	99,843,060

The accompanying notes form part of these financial statements.

statement of cash flows
for the year ended 30 june 2010

	Note	Consolidated 2010 $	Consolidated 2009 $
Cash flows from operating activities			
Payments for exploration and evaluation		(25,074,260)	(12,839,394)
Payments to suppliers and employees		(7,758,234)	(6,700,626)
Interest received		-	773,896
Interest and other cost of finance paid		(4,387)	(658,058)
Income Tax Expense		-	(9,701)
Other Income - Seismic Acquisition contribution		21,858,210	-
Other Income		666,874	2,042,231
Net cash used in operating activities	29(a)	**(10,311,797)**	**(17,391,652)**
Cash flows from investing activities			
Purchase of property, plant and equipment		(223,735)	(174,129)
Loan to associated company		-	(12,503,267)
Loans repaid by associates		33,144,560	-
Payment for purchase of investment in associate		-	(2,116,680)
Net cash provided by / (used in) investing activities		**32,920,825**	**(14,794,076)**
Cash flows from financing activities			
Proceeds from issue of shares		-	40,395,504
Payment of share issue costs		(30,887)	(2,568,571)
Loans from related parties		-	1,530,000
Repayment of loans from related parties		-	(1,183,420)
Repayment of borrowings		(13,797)	(6,165)
Loan to employees		100,854	(100,000)
Net cash provided by financing activities		**56,170**	**38,067,348**
Net increase in cash held		22,665,198	5,881,620
Cash at beginning of financial year		13,061,710	5,033,862
Effect of exchange rate changes on the balances of cash held in foreign currencies at the beginning and end of the financial year		(863,874)	2,146,228
Cash at end of year	9	**34,863,034**	**13,061,710**

The accompanying notes form part of these financial statements.

1 statement of significant accounting policies

The financial statements are general purpose financial statement that have been prepared in accordance with Australian Accounting Standards, Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001 (Cth).

The financial statements cover the group of Otto Energy Limited and its controlled entities. Otto Energy Limited is a listed public company, incorporated and domiciled in Australia.

The following is a summary of the material accounting policies adopted by the group in the preparation of the financial statement. The accounting policies have been consistently applied, unless otherwise stated.

Basis of Preparation

Compliance with IFRS

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

Historical cost convention

The financial statements have been prepared on an accruals basis and is based on historical costs modified by the revaluation of selected non-current assets, and financial assets and financial liabilities for which the fair value basis of accounting has been applied.

Critical accounting estimates

The preparation of the 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 higher degree of judgement or complexity, or areas where assumptions or estimates are significant to the financial statements are referenced in note 3.

Financial Statement Presentation

The group has applied the revised AASB 101 Presentation of Financial Statements which became effective on 1 January 2009. The revised standard requires the separate presentation of a statement of comprehensive income and a statement of changes in equity. All non-owner changes in equity must now be presented in the statement of comprehensive income. As a consequence, the group had to change the presentation of its financial statements. Comparative information has been re-presented so that it is also in conformity with the revised standard.

Accounting Policies

a) Principles of Consolidation

A controlled entity is any entity Otto Energy Limited has the power to control the financial and operating policies so as to obtain benefits from its activities. A list of controlled entities is contained in Note 25 to the financial statements. All controlled entities have a financial year-ending on 30 June.

All inter-company balances and transactions between entities in the group, including any unrealised profits or losses, have been eliminated on consolidation. Accounting policies of subsidiaries have been modified where necessary to ensure consistency with those policies applied by the parent entity.

Where controlled entities have entered or left the group during the year, their operating results have been included/excluded from the date control was obtained or until the date control ceased.

Non-controlling interests in the equity and results of controlled entities are shown as a separate item in the consolidated financial statements.

1 statement of significant accounting policies [cont]

Accounting Policies [cont]

b) Joint venture accounting

Jointly controlled assets

The proportionate interests in the assets, liabilities and expenses of a joint venture activity have been incorporated in the financial statements under the appropriate headings. Details of the joint venture are set out in note 26.

Transactions with the joint venture are eliminated to the extent of the group's ownership interest until such time as they are realised by the joint venture partnership on consumption or sale. However, a loss on the transaction is recognised immediately if the loss provides evidence of a reduction in the net realisable value of current assets, or an impairment loss.

c) Associate accounting policy

The Group's investment in its associates are accounting for using the equity method of accounting in the consolidated financial statements. An associate is an entity which the Group has significant influence and is neither a subsidiary nor a joint venture.

The financial statements of associates, prepared for the same reporting period as the Group and applying consistent accounting policies, are used by the Group to apply equity method. The investment in the associate is carried in the consolidated statement of financial position at cost plus post-acquisition changes in the Group's share of net assets of the associate, less any impairment in value. The income statement reflects the Group's share of the associate's after tax profit or loss from operations.

Where there has been a change recognised directly in the associates equity, the Group recognises its share of any changes and discloses this, when applicable, in the consolidated statement of changes in equity.

d) Income Tax

The charge for current income tax expense is based on the result for the year adjusted for any non-assessable or disallowed items. It is calculated using tax rates that have been enacted or are substantively enacted by the reporting date.

Deferred tax is accounted for using the liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled. Deferred tax is credited in profit or loss except where it relates to items that may be credited directly to equity, in which case the deferred tax is adjusted directly against equity.

Deferred income tax assets are recognised to the extent that it is probable that future tax profits will be available against which deductible temporary differences can be utilised.

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the group will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

e) Plant and Equipment

Each class of plant and equipment is carried at cost or fair value less, where applicable, any accumulated depreciation and impairment losses.

The carrying amount of plant and equipment is reviewed annually by Directors to ensure it is not in excess of the recoverable amount of these assets. The recoverable amount is assessed on the basis of the expected net cash flows which will be received from the assets' employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

Depreciation

The depreciable amount of all fixed assets including capitalised leased assets is depreciated on a straight-line basis over their useful lives to the group commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

The depreciation rates used for each class of depreciable asset are:

Class of Fixed Asset	Depreciation Rate
Plant and equipment	20%
Computer equipment	40%
Computer software	40%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

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.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount at the time of disposal and are included in the profit or loss.

f) Exploration and Development Expenditure

Exploration, evaluation and development expenditure incurred is accumulated in respect of each identifiable area of interest. These costs are only carried forward to the extent that they are expected to be recouped through the successful development of the area, or where activities in the area have not yet reached a stage that permits reasonable assessment of the existence of economically recoverable reserves.

Accumulated costs in relation to an abandoned area are written off in full in profit or loss in the year in which the decision to abandon the area is made.

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.

A regular review is undertaken of each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest.

Costs of site restoration are fully provided from when exploration commences and are included in the costs of that stage. Site restoration costs include the dismantling and removal of mining plant, equipment and building structures, waste removal, and rehabilitation of the site in accordance with clauses of the mining permits. Such costs have been determined using estimates of future costs, current legal requirements and technology on an undiscounted basis.

1 statement of significant accounting policies [cont]

Accounting Policies [cont]

f) Exploration and Development Expenditure [cont]

Any changes in the estimates for the costs are accounted on a prospective basis. In determining the costs of site restoration, there is uncertainty regarding the nature and extent of the restoration due to community expectations and future legislation. Accordingly the costs have been determined on the basis that the restoration will be completed within one year of abandoning the site.

g) Financial Instruments

Recognition

Financial instruments are initially measured at cost on trade date, which includes transaction costs, when the related contractual rights or obligations exist. Subsequent to initial recognition these instruments are measured as set out below.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are stated at amortised cost using the effective interest rate method.

Fair value

Fair value is determined based on current bid prices for all quoted investments. Valuation techniques are applied to determine the fair value for all unlisted securities, including recent arm's length transactions, reference to similar instruments and option pricing models.

Impairment

At each reporting date, the Group assesses whether there is objective evidence that a financial instrument has been impaired. In the case of available-for-sale financial instruments, a prolonged decline in the value of the instrument is considered to determine whether impairment has arisen. Impairment losses are recognised in the income statement. Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectable are written off by reducing the carrying amount directly.

h) Impairment of Assets

At each reporting date, the Group reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the assets carrying value. Any excess of the assets carrying value over its recoverable amount is expensed to the profit or loss.

Impairment testing is performed annually for goodwill and intangible assets with indefinite lives.

Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

i) Foreign Currency Transactions and Balances

Functional and presentation currency

The functional currency of each of the Group's entities is measured using the currency of the primary economic environment in which that entity operates. The consolidated financial statements are presented in Australian dollars which is the parent entity's functional and presentation currency. Effective 1 July 2010, the Group presentation currency has been changed to United States dollars. In conjunction, the functional currency of the parent entity has also been changed to United States dollars. This change means that the financial information in the Groups quarterly ASX reports, as well as its half year and full year accounts, will be presented in United States dollars.

It is the Boards understanding that this will provide more useful financial information to the users of the Groups financial reports and is determined on the basis of the Groups cashflows being predominantly United States dollars.

Transaction and balances

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

Transaction and balances

Exchange differences arising on the translation of monetary items are recognised in the profit or loss, except where deferred in equity as a net investment hedge.

Group companies

The financial results and position of foreign operations whose functional currency is different from the Group's presentation currency are translated as follows:

- assets and liabilities are translated at year-end exchange rates prevailing at that reporting date;
- income and expenses are translated at average exchange rates for the period; and
- retained profits are translated at the exchange rates prevailing at the date of the transaction.

Exchange differences arising on translation of foreign operations are transferred directly to the Group's foreign currency translation reserve in the statement of financial position. These differences are recognised in the profit or loss in the period in which the operation is disposed.

j) Employee Benefits

(i) Wages and salaries and Annual leave

Provision is made for the Company's liability for employee benefits arising from services rendered by employees to reporting date. Employee benefits that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled, plus related on-costs. Employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits.

(ii) Share-based payments

Share-based payments compensation benefits are provided to employees via the employee share option plan. Information relating to this scheme is set out in note 31.

The fair value of options granted under the employee share option plan is recognised as an employee benefit expense with a corresponding increase in equity. The fair value is measured at grant date and recognised over the period during which employees become unconditionally entitled to the options.

The fair value at grant date is independently determined using a Black-Scholes option pricing model which takes into account the exercise price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term if the option.

The fair value of the options granted is adjusted to reflect market vesting conditions, but excludes the impact of any non-market vesting conditions. Non-market vesting conditions are included in assumptions about the number of options that's expected to become exercisable. The employee benefit expense recognised each period takes into account the most recent estimate. The impact on the revision to original estimates, if any, is recognised in the profit or loss with a corresponding adjustment to equity.

1 statement of significant accounting policies [cont]

Accounting Policies [cont]

j) Employee Benefits [cont]

(iii) Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. The group recognises termination benefits when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after reporting date are discounted to present value.

k) Provisions

Provisions are recognised when the Group has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

l) Cash and Cash Equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within short-term borrowings in current liabilities in the statement of financial position.

m) Revenue

Revenue earned from the sale of oil and gas is recognised when the risks and rewards of ownership of the product are transferred to the customer. Interest revenue is recognised on a proportional basis taking into account the interest rates applicable to the financial assets. Dividend revenue is recognised when the right to receive a dividend has been established. Dividends received from associates are accounted for in accordance with the equity method of accounting. All revenue is stated net of the amount of goods and services tax (GST).

n) 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 and that other evidence. 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 minority 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 income statement, 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.

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 reviewed 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 an impairment are reviewed for possible reversal of the impairment at each reporting date.

o) Fair Value

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes. The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted market prices at the reporting date. The quoted market price used for financial assets held by the Group is the current bid price.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each reporting date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt instruments held. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward exchange contracts is determined using forward exchange market rates at the reporting date.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values due to their short-term nature. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

p) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the statement of financial position are shown inclusive of GST.

Cash flows are presented in the statement of cash flow on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

q) Comparative Figures

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

1 statement of significant accounting policies [cont]

Accounting Policies [cont]

r) Segment Reporting

Operating segments are reported in a manner consistent with the internal reporting provided by 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 Executive Leadership team comprising the Chief Executive Officer and direct reports to this role.

Change in accounting policy

The group has adopted AASB 8 Operating Segments from 1 July 2009. AASB 8 replaces AASB 114 Segment Reporting. The new standard requires a "management approach," under which segment information is presented on the same basis as that used for internal reporting purposes. This has resulted in Otto segment reporting being consistent with the previous periods disclosures. In addition, the segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. There has been no other impact on the measurement of the company's assets and liabilities. Comparatives for 2009 have been restated.

s) Trade and Other Payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of the financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition. They are recognised initially at fair value and subsequently at amortised cost.

t) Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are removed from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss as other income or finance costs.

Borrowings are classified as current liabilities unless the group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

u) Borrowing costs

Borrowing costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Other borrowing costs are expensed.

v) 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. Incremental costs directly attributable to the issue of new shares or options for the acquisition of a business are not included in the cost of the acquisition as part of the purchase consideration.

If the entity reacquires its own equity instruments, for example as a result of a share buy-back, those instruments are deducted from equity and the associated shares are cancelled. No gain or loss is recognised in the profit or loss and the consideration paid including any directly attributable incremental costs (net of income taxes) is recognised directly in equity.

w) Equity settled share-based payment

If the equity instruments granted vest immediately, the counterparty is not required to complete a specified period of service before becoming unconditionally entitled to those equity instruments. In the absence of evidence to the contrary, the entity shall presume that services rendered by the counterparty as consideration for the equity instruments have been received. In this case, on grant date the entity shall recognise the services received in full, with a corresponding increase in equity.

If the equity instruments granted do not vest until the counterparty completes a specified period of service, the entity shall presume that the services to be rendered by the counterparty as consideration for those equity instruments will be received in the future, during the vesting period. The entity shall account for those services as they are rendered by the counterparty during the vesting period, with a corresponding increase in equity.

For transactions measured by reference to the fair value of the equity instruments granted, an entity shall measure the fair value of equity instruments granted at the measurement date, based on market prices if available, taking into account the terms and conditions upon which those equity instruments were granted. If market prices are not available, the entity shall estimate the fair value of the equity instruments granted using a valuation technique to estimate what the price of those equity instruments would have been on the measurement date in an arm's length transaction between knowledgeable, willing parties.

2 financial risk management

Overview

The Group has exposure to the following risks from their use of financial instruments:

a) **credit risk;**
b) **liquidity risk;**
c) **market risk; and**
d) **currency risk**

This note presents information about the Group's exposure to each of the above risks, their objectives, policies and processes for measuring and managing risk, and the management of capital.

The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework. Management monitors and manages the financial risks relating to the operations of the Group through regular reviews of the risks to which the Group is subject to. The Group's financial instruments consist mainly of deposits with banks, and accounts receivable and payable.

Concentration of Risk

The Group's exposure to financial risk is concentrated in receivables that are exposed to commodity price risk and with the chosen banking provider.

(a) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers.

All cash balances held at banks are held at internationally recognised institutions. The majority of receivables are with entities associated with the Group. The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to historical information of default rates. The credit quality of financial assets that are neither past due nor impaired can be assessed by either reference to external credit ratings or internally available information.

All cash balances held at banks are held at internationally recognised institutions. The majority of receivables are with entities associated with the Group. The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to historical information of default rates. The credit quality of financial assets that are neither past due nor impaired can be assessed by either reference to external credit ratings or internally available information.

The maximum exposure to credit risk is the carrying amount of the financial assets of cash and trade and other receivables to the value of $41,706,226 (2009: $53,506,051).

	Consolidated	
	2010	2009
	$	$
Trade and other receivables - counterparties without external credit rating		
Financial assets with no defaults in past	4,390,291	606,207
Financial assets with no history (new)	2,452,901	100,854
Financial assets with some defaults (associate receivables)	-	39,737,289
Total trade and other receivables	**6,843,192**	**40,444,350**
Cash and cash equivalents		
AA S&P credit rating	**34,863,034**	**13,061,701**

Loans from associates have been repaid from cargo lifting proceeds subsequent to the reporting date. Subsequent to the end of the reporting period, receivables from new customers have all been settled.

(b) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents, combined with the availability of funding. 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. The Group therefore had no credit standby facilities or arrangements for further funding in place.

Maturities of financial liabilities

The tables below analyse the Group's financial liabilities into relevant maturity groupings based on the remaining period at the reporting date, to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

Group As at 30 June 2010	Weighted average interest rate	Less than 6 months	6-12 months	Between 1-2 years	Between 2-5 years	Over 5 years	Total contractual cashflows	Carrying Amounts
Non derivatives								
Non-interest bearing	-	2,185,562	-	-	-	-	2,185,562	2,185,562
Variable rate	-	-	-	-	-	-	-	-
Fixed rate	5.05%	14,460	-	-	-	-	14,460	14,460

Group As at 30 June 2009								
Non derivatives								
Non-interest bearing	-	6,344,813	-	-	-	-	6,344,813	6,344,813
Variable rate	-	-	-	-	-	-	-	-
Fixed rate	5.05%	15,412	12,844	-	-	-	28,256	28,256

(c) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Currency risk

The Group is exposed to currency risk on investments, purchases and borrowings that are denominated in a currency other than the respective functional currencies of Group entities, primarily the Australian dollar ("AUD"), but also the United States Dollar ("USD"). The currencies in which these transactions primarily are denominated are AUD and USD.

The Group has not entered into any derivative financial instruments to hedge such transactions and anticipated future receipts or payments that are denominated in a foreign currency.

Group's investments in its subsidiaries are not hedged as those currency positions are considered to be long term in nature.

2 financial risk management [cont]

Overview [cont]

(c) Market risk [cont]

Exposure to currency risk

The consolidated entity's operations in Turkey and the Philippines are conducted using US Dollars which is the functional currency of the group entities holding these investments. The group does not have an exposure to foreign currency risks.

In 2010 no forward exchange contracts were entered into (2009: nil).

Cash flow at interest rate risk

The Company's only interest rate risk arises from cash and cash equivalents held. Term deposits and current accounts held with variable interest rates expose the Company to cash flow interest rate risk. As shown in the table below a 50 basis points ("bps") (2009: 50 bps) strengthening at 30 June would have increased profit or loss and equity by the amounts shown below. Management have assessed the risk of a decrease in interest rates to be low and as such no sensitivity analysis has been provided. This conclusion is based upon an assessment of current and future market conditions.

Refer note 10 (i) for disclosures of interest rate terms for receivables from associates.

		+50bps	
	Carrying Amount	Equity	Profit or loss
Economic Entity	34,863,034	170,778	170,778

Interest rates are currently at record lows and are not evidencing high volatility. 50bps has been chosen as representative of near term movements.

This group is not exposed to equity price from its financial instruments.

(d) Fair value estimation

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

3 critical accounting estimates

The Directors evaluate estimates and judgements incorporated into the financial statements based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the Company. Please refer to the relevant note, where estimates and assumptions that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year, have been disclosed:

- **Estimated impairment of goodwill and reserve estimates (refer note 11(b))**
- **Rehabilitation provision (refer note 15)**
- **Recoverability of exploration expenditure (refer note 13)**
- **Reserve estimates (refer to note 11(b))**
- **Income taxes (refer note 8)**
- **Share based payment expense (refer note 31)**

4 segment reporting

a) Description of segments

Management has determined the operating segments based on the reports reviewed by the Executive Leadership Team that are used to make strategic decisions.

The Company operates wholly within the oil and gas sector and has 4 reportable segments, which are the Group's strategic geographical focus business units. These business units are managed separately and reported to management on this basis. These business units are consistent with prior year disclosure.

b) Segment information provided to the strategic steering committee

The segment information provided to the Executive Leadership Team for the reportable segments for the year ended 30 June 2010 is as follows:

2010	Australia $	Turkey $	Philippines $	Italy $	Unallocated/ Eliminations $	Consol-idated $
Revenue from sale of gas (i)	-	2,000,157	-	-	-	2,000,157
Total Revenue	**-**	**2,000,157**	**-**	**-**	**-**	**2,000,157**
Cost of Sales	-	(3,373,098)	-	-	-	(3,373,098)
Gross Profit	**-**	**(1,372,941)**	**-**	**-**	**-**	**(1,372,941)**
Other Revenue:						
- Other Revenue	744,960	-	437	-	-	745,397
- Interest received (other)	9,338	1,071	551	-	-	10,960
- Interest received from associates	-	-	795,502	-	-	795,502
Share of net profits/ (losses) of associates	-	-	6,685,433	-	-	6,685,433
Foreign currency gains/(losses)	(7,593,884)	-	(15,274)	1,110,578	7,156,128	657,545
Employee benefits expense	(4,385,016)	-	(575,257)	-	-	(4,960,273)
Impairment expense	-	(8,219,649)	(17,651,523)	-	(7,052,964)	(32,924,136)
Other expenses	(1,355,640)	(99,795)	(203,682)	150,857	(1,424,712)	(2,932,972)
Net loss before income tax	**(12,580,242)**	**(9,691,314)**	**(10,963,813)**	**1,261,435**	**(1,321,548)**	**(33,295,482)**
Income tax expense	-	(9,003)	-	-	-	(9,003)
Net loss for the year	**(12,580,242)**	**(9,700,317)**	**(10,963,813)**	**1,261,435**	**(1,321,548)**	**(33,304,485)**
Total Segment Assets						
Total Assets	**8,414,599**	**2,473,459**	**34,117,313**	**16,682**	**19,927,841**	**64,949,894**
Total Segment Liabilities						
Total Liabilities	**853,896**	**978,824**	**480,565**	**14**	**-**	**2,313,299**

(i) Revenue from gas sales is concentrated with one customer, in Turkey.
(ii) The group operates in the geographical areas as disclosed above.

4 segment reporting [cont]

b) Segment information provided to the strategic steering committee [cont]

The segment information provided to the Executive Leadership Team for the reportable segments for the year ended 30 June 2009 is as follows:

2009	Australia $	Turkey $	Philippines $	Italy $	Unallocated/ Eliminations $	Consol-idated $
Revenue from sale of gas	-	-	-	-	-	-
Total Revenue	**-**	**-**	**-**	**-**	**-**	**-**
Cost of Sales	-	-	-	-	-	-
Gross Profit	-	-	-	-	-	-
Other Revenue:						
- Other Revenue	728,229	-	-	-	-	728,229
- Interest received (other)	56,068	21,451	92,055	-	-	169,574
- Interest received from associates	-	-	1,702,275			1,702,275
Share of net profits/ (losses) of associates	-	-	-	-	-	-
Foreign currency gains/(losses)	13,313,669	-	(30,865)	-	(13,764,193)	(481,389)
Employee benefits expense	(4,840,789)	(290,618)	(671,328)	-	-	(5,802,735)
Impairment expense	(3,163,441)	-	(34,871,412)	(11,396,740)	-	(49,431,593)
Other expenses	(3,448,588)	(259,624)	(517,223)	-	1,997	((4,223,437)
Net loss before income tax	**2,645,149**	**(528,791)**	**(34,296,498)**	**(11,396,740)**	**(13,762,196)**	**(57,339,076)**
Income tax expense	-	(9,701)	-	-	-	(9,701)
Net loss for the year	2,645,149	(538,492)	(34,296,498)	(11,396,740)	(13,762,196)	(57,348,777)
Total Segment Assets						
Total Assets	641,178	10,438,118	82,140,619	114	13,061,707	106,281,736
Total Segment Liabilities						
Total Liabilities	1,205,439	791,258	180,270	4,261,708	-	6,438,675

(i) Revenue from gas sales is concentrated with one customer, in Turkey.
(ii) The group operates in the geographical areas as disclosed above.

5 revenue

	Consolidated	
	2010	2009
	$	$
Revenue from sale of gas	2,000,157	-
Other Revenue		
- Other Revenue	745,397	728,229
- Interest received (other)	10,960	169,574
- Interest received from associates	795,502	1,702,275
Total revenue from continuing operations	3,552,016	2,600,078

6 cost of sales

Gas gathering charges	566,862	-
Amortisation of oil and gas properties	2,460,292	-
Royalty and special contribution tax	345,944	-
	3,373,098	-

7 expenses

General and Administrative expenses		
Employee benefits expenses		
Wages and salaries	3,593,785	3,468,508
Superannuation expense	211,779	198,605
Share based payment expense	628,750	1,724,501
Other employee benefits	525,959	411,121
Total employee benefits expense	4,960,273	5,802,735
Business development expense	430,937	773,286
Office and other expenses	2,227,785	2,921,148
Depreciation expense	191,140	175,392
Total general and administrative expenses	7,810,135	9,672,561
Other expenses		
Exploration expenditure expended	432,461	192,839
Reversal of impairment of exploration expenditure	(341,740)	-
Impairment expense (i)	32,924,136	49,431,593
Withholding taxes	(7,751)	7,750
Loss on sale of asset	140	-
Other	-	153,023
Total Other expenses	33,007,246	49,785,205
Total expenses	40,817,381	59,457,765

(i) Refer to relevant notes for further details on impairment expenses.

8 income tax expense

	Consolidated	
	2010	2009
	$	$
a) The components of tax expense comprise:		
- Current tax	9,003	9,107
- Deferred tax	-	-
	9,003	9,107
b) The prima facie tax on the result before income tax is reconciled to the income tax as follows:		
Prime facie tax payable on the result before income tax at 30% (2009: 30%)	(11,996,881)	(17,528,176)
	(11,996,881)	(17,528,176)
Add tax effect of:		
- other non-allowable items	1,831,856	1,906,384
	(10,165,025)	(15,621,792)
Less tax effect of:		
- issue costs charged to equity	-	-
Deferred tax asset not previously recognised now brought into account	-	-
Benefits of tax losses and other temporary differences not brought to account	10,165,025	15,621,792
Income tax attributable	-	-
c) Deferred tax balances not brought to account, the benefits of which will only be realised if the conditions for deductibility set out in Note 1(d) occur.:		
- temporary differences–unrealised foreign exchange	2,163,839	-
- temporary differences–share issue costs through equity	968,569	2,798,901
- temporary differences-other	83,455	103,624
- tax losses: revenue	1,334,018	3,896,933
- tax losses: foreign	26,606,571	18,828,177
	31,156,452	25,627,635
Offset against deferred tax liabilities recognised	-	(2,074,346)
Deferred tax assets not brought to account	31,156,452	23,553,289
d) Deferred tax liabilities realised if the conditions for deductibility set out in Note 1(b) occur.:		
Temporary differences–unrealised foreign exchange	-	2,074,346
Offsets by Deferred Tax Assets recognised	-	(2,074,346)
	-	-

e) The Deferred Tax Asset not brought to account for 2010 year will only be obtained if:

i. the Company derives future assessable income of a nature and of an amount sufficient to enable the benefit to be realised;

ii. the Company continues to comply with the conditions of deductibility imposed by tax legislation; and

iii. the Company is able to meet the continuity of ownership and/or continuity off business tests

9 cash and cash equivalents

	Consolidated	
	2010	2009
	$	$
Cash at bank and in hand	34,676,647	12,552,065
Short-term bank deposits	186,387	509,645
	34,863,034	13,061,710

The effective interest rate on short-term bank deposits was 5.25% (2009: 6.39%). The above balances reconcile to cash at the end of the financial year as shown in the Statement of Cash Flows. Further information on fair values and interest rate risk are set out in Note 2.

10 trade and other receivables

CURRENT		
Other receivables	2,945,842	400,717
Employee Loan	-	100,854
Goods and services tax	131,016	205,490
Associates (i)	3,755,918	-
	6,832,776	707,061

NON-CURRENT		
Associates (i)	-	40,623,530
Provision for impairment (ii)	-	(896,761)
Other receivables	10,416	10,520
	10,416	39,737,289

Further information relating to fair values and interest rate risk are set out in Note 2.

(i) Loan conditions:

The loan bears interest of three percent above LIBOR rate compounded quarterly and is repayable within 5 years from the date of the initial loan which was September 2006. In 2010, the Group received US$29,465,820 in repayments of loans and accrued A$795,502 in additional interest.

(ii) Impaired receivables:

Loans to associates have been tested for impairment. In 2009, an impairment loss was recognised, of $896,761 related to loans to an associate entity Cynthia Holdings Limited. Management consider this portion of the loan not to be recoverable by reference to the carrying value of the net assets of Otto Energy (Europe) Limited and the abandonment of exploration activities in Argentina. No impairment loss was recognised in 2010.

(iii) Past due but not impaired:

As of 30 June 2010, there were no trade and other receivables past due but not impaired with the exception of loans to associates (refer note 10(ii)). All other trade and other receivables are not impaired or not past due based on management's assessment.

11 (a) other financial assets

There are no financial assets carried at fair value and as a result, no tiered disclosures are required.

11 (b) intangible assets

	Note	Consolidated 2010 $	Consolidated 2009 $
Goodwill on acquisition of controlled entities		7,123,369	7,542,044
Balance at the beginning of the year		7,542,044	35,425,041
Additions - acquisitions		-	-
Amortisation charge		-	-
Impairment expense		-	(34,871,412)
Exchange differences (i)		(418,675)	(6,988,415
Balance and net book value at the end of the year		**7,123,369**	**7,542,044**

(i) Exchange differences:

The goodwill on acquisition balance is held in the wholly owned subsidiary, NorAsian Energy Limited, which has a functional currency of USD, whereas the parent entity has a functional currency of AUD dollars. As a result, foreign exchange differences arise based upon movements in AUD and USD currencies and the recognition of goodwill on consolidation and the conversion to presentation currency. The exchange differences arising upon translation are recognised through the foreign currency translation reserve.

(ii) Impairment test for Goodwill:

At 30 June 2010, no impairment charge has been recognised.

The Goodwill is held within the Norasian Energy Limited group which is attributable to the acquisition of Colag BVI Limited (formerly Cape Energy Philippines SA) and Colag UK Limited (formerly Team Oil Limited) which each hold a 15.69% ownership interest in the Galoc Production Company W.L.L ("GPC"). The recoverable amount of the goodwill is determined based on value-in-use calculations. These calculations are based upon discounted cash flow forecasts covering a five year period.

(iii) The key assumptions and inputs used in the value-in-use model for the Galoc oil field were:

Discount rate: 15% (2009: 15%)

Oil price: US$75/barrel (2009: US$60/barrel)

Up time: 85% per annum (75% during typhoon season periods and 95% during non typhoon- season periods. (2009: 85% per annum)

(iv) 2009 Impairment charge:

The value-in-use model calculates the recoverable amount of the goodwill in the Norasian Energy Limited group relating to their indirect interest in the Galoc oil field to be $46,409,046. After adjusting for loans to associates of $38,631,403, the recoverable amount exceeded the carrying value of goodwill at 30 June 2009 and an impairment loss of $34,871,412 was recognised against goodwill within the Norasian Energy Limited group.

(v) Impact on 2009 impairment test of possible changes in key assumptions:

Oil price per barrel

Should the oil price utilised increase to US$65/barrel this would result in a reduction to impairment expense of approximately $6.0 million. Alternatively if US$55/barrel was used this would have resulted in an increase in the impairment expense by approximately $7.0 million.

Percentage of production "up time and down time"

The percentage "up time" and "down time" was not considered a key assumption as a change in these variables would simply defer cash flows from period to period and would unlikely result in a material change to the total cash flows of the project.

Reserve estimates

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 Petroleum Resources Management System (March 2007) The estimated quantities of proven plus probable hydrocarbon reserves utilised by the Company within the value-in-use calculation are integral to the calculation of impairment model. Estimated reserve quantities are based upon interpretation of geological and geophysical models and assessments of technical and commercial feasibility. These assessments require assumptions to be made regarding future development, production costs, commodity prices, exchange rates and fiscal regimes. The assessment of reserves may change from period to period based upon changes in economic assumptions.

12 property plant and equipment

	Consolidated	
	2010	2009
	$	$
At cost	862,534	668,419
Accumulated depreciation	(477,481)	(289,457)
	385,053	378,962

	Plant and Equipment	Motor Vehicles	Total
	$	$	$
Year Ended 30 June 2009			
Balance at the beginning of year	306,768	39,081	345,849
Additions	174,129	-	174,129
Disposals	-	-	-
Depreciation expense	(165,729)	(9,663)	(175,392)
Exchange differences (i)	26,767	7,609	34,376
Carrying amount at the end of year	341,935	37,027	378,962
Year Ended 30 June 2010			
Balance at the beginning of year	341,935	37,027	378,962
Additions	223,735	-	223,735
Disposals	-	-	-
Depreciation expense	(181,991)	(9,149)	(191,140)
Exchange differences (i)	(24,471)	(2,033)	(26,504)
Carrying amount at the end of year	359,208	25,845	385,053

(i) Exchange differences:

A portion of the property, plant and equipment balance is held in the wholly owned subsidiary, NorAsian Energy Limited, which has a functional currency of USD, whereas the parent entity has a functional currency of AUD. As a result, foreign exchange differences arise based upon movements in AUD and USD currencies and the recognition of property, plant and equipment on consolidation and the conversion to presentation currency. The exchange differences are recognised through the foreign currency translation reserve

13 other assets

	Note	Consolidated 2010 $	Consolidated 2009 $
CURRENT			
Prepayments		38,601	55,788
NON-CURRENT			
Exploration and Evaluation Assets			
At cost		11,459,829	44,798,882
Accumulated amortisation		(2,460,292)	-
Capitalised exploration and evaluation expenditure		8,999,537	44,798,882

The recoverability of the carrying amount of exploration assets is dependent on the successful development and commercial exploitation or sale of the respective mining tenements. Amortisation of the costs carried forward for the development phase is based upon proven and probable hydrocarbon reserves.

Capitalised costs amounting to $ 25,074,260 (2009:$ 12,839,394) have been included in cash flows from operating activities in the Statement of Cash Flows.

a) Movements in Carrying Amounts

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

Economic Entity:	Other Assets 2010 $	Other Assets 2009 $
Balance at beginning of year	44,798,882	31,821,586
Additions	25,074,260	18,524,826
Disposals	-	-
Seismic acquisition contribution	(21,858,210)	-
Transfers to Investments in Associates	-	(2,266,679)
Impairment expense (i)	(32,924,136)	(11,394,795)
Capitalised costs written off	-	(191,836)
Exchange differences (ii)	(3,630,967)	8,305,780
Amortisation expense	(2,460,292)	-
Carrying amount at the end of year	8,999,537	44,798,882

(i) Impairment charge:

Exploration, evaluation and development expenditure are only carried forward to the extent that they are expected to be recouped through the successful development of the area or where activities in the area have not yet reached a stage that permits reasonable assessment of the existence of economically recoverable reserves.

At 30 June 2010, expenditure capitalised in relation to service contract 50 ($11,339,902) (2009: 11,426,680) and service contract 51 ($13,387,861) (2009: $13,749,386) is determined as being not recoverable from successful developments within both permits. Capitalised expenditure has therefore been impaired.

In addition, following commencement of production from the Edirne licence and subsequent reserves reduction, the value-in-use model used to determine the recoverable amount did not support the current value of capitalised expenditure net of accumulated amortisation. An impairment loss of $8,219,649 has been recognised as at 30 June 2010.

(ii) The key assumptions and inputs used in the value-in-use model for the Edirne gas field were:

Discount rate: 15% (2009: 15%)

Gas price: US$7.50 per mscf

Production: 2P reserves profile

(iii) Impact on impairment test of possible changes in key assumptions:

Gas price per mscf

Should the gas price utilised increase to US$10.00 per mscf, this would result in a reduction to impairment expense of approximately $2.4 million. Alternatively if US$5.00 per mscf were used, this would have resulted in an increase in the impairment expense by approximately $2.5 million.

Reserves estimates

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 Petroleum Resources Management System (March 2007) The estimated quantities of proven plus probable hydrocarbon reserves utilised by the Company within the value-in-use calculation are integral to the calculation of impairment model. Estimated reserve quantities are based upon interpretation of geological and geophysical models and assessments of technical and commercial feasibility. These assessments require assumptions to be made regarding future development, production costs, commodity prices, exchange rates and fiscal regimes. The assessment of reserves may change from period to period based upon on changes in economic assumptions.

(iv) Exchange differences:

A portion of the other assets balance is held in the wholly owned subsidiary, NorAsian Energy Limited, which has a functional currency of USD, whereas the parent entity has a functional currency of AUD. As a result, foreign exchange differences arise based upon movements in AUD and USD currencies and the recognition of other assets on consolidation and the conversion to presentational currency. The exchange differences are recognised through the foreign currency translation reserve.

14 trade and other payables

		Consolidated	
		2010	2009
	Note	$	$
CURRENT			
Unsecured liabilities			
Trade payables		952,038	929,325
Sundry payables and accrued expenses (i)		1,247,984	5,453,435
		2,200,022	6,382,760

Further information on fair values and interest rate risk are set out in Note 2.

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

Other payables include accruals for annual leave. The entire obligation is presented as current, since the Group does not have an unconditional right to defer settlement. However, based on past experience, the Group does not expect all employees to take the full amount of accrued leave within the next 12 months. The amounts disclosed below reflect leave that is not expected to be taken with the next 12 months.

Non-current obligation		83,108	68,434

15 provisions

	Note	Consolidated 2010 $	Consolidated 2009 $
NON-CURRENT			
Provision for restoration		52,811	55,915
Long service leave		60,466	-
		113,277	55,915

16 borrowings

NON-CURRENT (i)		
	14,460	6,527

(i) Relates to a hire purchase agreement of the company's vehicle in Manila. Fair value, interest rate risk and security are disclosed in Note 2.

17 contributed equity

1,072,684,721 (2009:1,070,184,721) fully paid ordinary shares		
	151,903,114	151,932,731

a) Ordinary Share Capital

	Issue Price	2010 No.	2009 No.	2010 $	2009 $
At the beginning of year		1,070,184,721	476,654,632	151,932,731	118,064,437
Shares issued during year			593,530,089	-	36,919,637
- 15 April 2010	0.0001	2,500,000		250	
Transaction Costs				(29,867)	(3,051,343)
		1,072,684,721	1,070,184,271	151,903,114	151,932,731

i. 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.

b) Options

ii. For information relating to share options issued to Directors during the financial year, refer to Note 31.

Capital risk management

The Company's objectives when managing capital are to safeguard their ability to continue as a going concern, so that they can continue to provide returns to shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consolidated	Note	2010 $	2009 $
Total borrowings		-	-
Less: cash and cash equivalents	9	(34,863,034)	(13,061,710)
Net debt		-	-
Total equity		62,636,595	99,843,060
Total capital		27,773,561	86,781,350

The Group does not currently have any external debt facilities as these were repaid during the 2009 year.

18 reserves and accumulated losses

	Consolidated	
	2010 $	2009 $
RESERVES		
Foreign Currency Translation Reserve	9,207,672	13,708,785
Share Based Payment Reserve	5,368,425	4,739,675
Option Reserve	2,245,250	2,245,250
	16,821,347	20,693,710
ACCUMULATED LOSSES		
Accumulated Losses	(106,087,866)	(72,783,381)
	(106,087,866)	(72,783,381)
Foreign Currency Translation Reserve		
Balance at beginning of year	13,708,785	(1,185,698)
Currency translation differences arising during the year	(4,501,113)	14,894,483
As at end of year	9,207,672	13,708,785
Share Based Payments Reserve		
Balance at beginning of year	4,739,675	2,932,424
Share-based payments	628,750	1,807,251
As at end of year	5,368,425	4,739,675
Option Reserve		
Balance at beginning of year	2,245,250	2,245,250
Option expense	-	-
As at end of year	2,245,250	2,245,250
Accumulated Losses		
Balance at beginning of year	(72,783,381)	(15,434,604)
Loss for the year	(33,304,485)	(57,348,777)
As at end of year	(106,087,866)	(72,783,381)

18 reserves and accumulated losses [cont]

a) Foreign Currency Translation Reserve

The foreign currency translation reserve records exchange differences arising on translation of foreign controlled subsidiaries.

b) Option Reserve

The option reserve records the value attributed to the Otto Energy Limited options issued as part of the purchase consideration paid to acquire subsidiary entities.

c) Share Based Payments Reserve

The share based payment reserve records equity based compensation granted to employees.

19 key management personnel disclosures

a) Key management personnel compensation

	Consolidated	
	2010	2009
	$	$
Short-term employee benefits	1,916,925	1,679,389
Post-employment benefits	138,903	115,003
Termination benefits	-	308,860
Share-based payments	556,667	1,358,992
	2,612,495	3,462,244

Detailed remuneration disclosures are provided in sections A-C of the audited remuneration report on pages 33 to 39.

b) Equity instrument disclosures relating to key management personnel

i. Options provided as remuneration and shares issued on exercise of such options

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 section D of the remuneration report on pages 40 to 42.

ii. Option holdings

The number of options over ordinary shares in the Company, held during the financial year by the Directors and Executives of Otto Energy Limited, including their personally related parties, are set out opposite.

iii. Shareholdings

The numbers of shares in the Company held during the financial year by each Director and Executive of Otto Energy Limited, including their personally related parties, are set out on page 76:

2010	Balance at Start of Year	Granted During the Year as Compensation	Exercised During the Year	Cancelled/ Expired During the Year	Balance at End of Year	Vested and Exercisable at End of Year	Non Vested at End of Year
Directors							
Mr R Crabb	1,500,000	-	-	-	1,500,000	1,500,000	-
Dr J Poll	3,000,000	-	-	-	3,000,000	3,000,000	-
Mr I Macliver	3,500,000	-	-	-	3,500,000	3,500,000	-
Mr J Zadnik	500,000	-	-	-	500,000	500,000	-
Mr R Bomasang	1,000,000	-	-	-	1,000,000	666,667	333,333
Mr J Jetter	6,000,000	-	-	-	6,000,000	6,000,000	-
	15,500,000	-	-	-	15,500,000	15,166,667	333,333
Other Key Management Personnel							
Mr P Moore	-	7,500,000	-	-	7,500,000	-	7,500,000
Mr C Martin	2,500,000	2,000,000	-	-	4,500,000	2,166,700	2,333,300
Mr M Allen	-	3,000,000	-	-	3,000,000	-	3,000,000
Mr R King	2,500,000	2,000,000	-	-	4,500,000	-	4,500,000
Mr S Kleffmann	1,500,000	2,000,000	-	-	3,500,000	-	3,500,000
Mr P Senycia	-	-	-	-	-	-	-
	6,500,000	16,500,000	-	-	23,000,000	2,166,700	20,833,300

Ms Holt resigned effective 28 August 2009
Mr Allen was appointed effective 16 November 2009

2009	Balance at Start of Year	Granted During the Year as Compensation	Exercised During the Year	Other Changes During the Year	Balance at End of Year	Vested and Exercisable at End of Year
Directors						
Mr R Crabb	1,500,000	-	-	-	1,500,000	1,500,000
Dr J Poll	3,000,000	-	-	-	3,000,000	3,000,000
Mr I Macliver	1,500,000	-	-	2,000,000	3,500,000	3,500,000
Mr J Zadnik	500,000	-	-	-	500,000	500,000
Mr R Bomasang	1,000,000	-	-	-	1,000,000	666,667
Mr J Jetter	6,000,000	-	-	-	6,000,000	6,000,000
	13,500,000	-	-	2,000,000	15,500,000	15,166,667
Other Key Management Personnel						
Mr A Parks	6,500,000	-	-	-	6,500,000	5,500,000
Mr C Martin	2,500,000	-	-	-	2,500,000	2,166,700
Ms I Holt	-	-	-	-	-	-
Mr R King	-	2,500,000	-	-	2,500,000	-
	9,000,000	2,500,000	-	-	11,500,000	7,666,700

Mr Parks resigned effective 30 June 2009

19 key management personnel disclosures [cont]

b) Equity instrument disclosures relating to key management personnel [cont]

iii. Shareholdings [cont]

2010	Balance at Start of Year	Granted During the Year as Compen -sation	Received During the Year on the Conversion of Performance Shares	Other Changes During Year	Balance at End of Year	Held Nominally
Directors						
Mr R Crabb	13,370,052	-	625,000	3,000,000	16,995,052	969,147
Mr J Poll	13,544,206	-	1,250,000	-	14,794,206	-
Mr I Macliver	6,306,942	-	-	-	6,306,942	-
Mr J Zadnik	5,369,000	-	625,000	763,747	6,757,747	-
Mr R Bomasang	-	-	-	-	-	-
Mr J Jetter	19,089,175	-	-	-	19,089,175	-
	57,679,375	-	2,500,000	3,763,747	63,943,122	969,147
Other Key Management Personnel						
Mr P Moore	-	-	-	1,250,000	1,250,000	-
Mr C Martin	1,800,000	-	-	-	1,800,000	1,800,000
Mr M Allen	-	-	-	-	-	-
Mr R King	-	-	-	-	-	-
Mr S Kleffmann	197,385	-	-	-	197,385	197,385
Mr P Senycia	-	-	-	-	-	-
	1,997,385	-	-	1,250,000	3,247,385	1,997,385

2009	Balance at Start of Year	Granted During the Year as Compen -sation	Received During the Year on the Exercise of Options	Other Changes During Year	Balance at End of Year	Held Nominally
Directors						
Mr R Crabb	5,500,397	-	-	7,869,655	13,370,052	969,147
Mr J Poll	7,011,290	-	-	6,532,916	13,544,206	-
Mr I Macliver	3,994,737	-	-	2,312,205	6,306,942	-
Mr J Zadnik	3,068,000	-	-	2,301,000	5,369,000	-
Mr R Bomasang	-	-	-	-	-	-
Mr J Jetter	5,800,000	-	-	13,289,175	19,089,175	-
	25,374,424	-	-	31,304,951	57,679,375	969,147
Other Key Management Personnel						
Mr A Parks	-	-	-	-	-	-
Mr C Martin	1,800,000	-	-	1,800,000	1,800,000	1,800,000
Ms I Holt	-	-	-	-	-	-
Mr R King	-	-	-	-	-	-
	1,800,000	-	-	1,800,000	1,800,000	1,800,000

Performance Shares 2010	Balance at Start of Year	Granted During the Year as Compensation	Received During the Year on the Exercise of Options	Other Changes During Year	Balance at End of Year
Directors					
Mr R Crabb	625,000	-	-	(625,000)	-
Mr J Poll	1,254,000	-	-	(1,254,000)	-
Mr I Macliver	-	-	-	-	-
Mr D Riekie	-	-	-	-	-
Mr J Zadnik	625,000	-	-	(625,000)	-
Mr R Bomasang	-	-	-	-	-
Mr J Jetter	-	-	-	-	-
	2,504,000	-	-	(2,504,000)	-
Other Key Management Personnel					
Mr P Moore	-	-	-	-	-
Mr C Martin	-	-	-	-	-
Mr M Allen	-	-	-	-	-
Mr R King	-	-	-	-	-
Mr P Senycia	-	-	-	-	-
	-	-	-	-	-
2009					
Directors					
Mr R Crabb	625,000	-	-	-	625,000
Mr J Poll	1,250,000	-	-	4,000	1,254,000
Mr I Macliver	-	-	-	-	-
Mr D Riekie	-	-	-	-	-
Mr J Zadnik	625,000	-	-	-	625,000
Mr R Bomasang	-	-	-	-	-
Mr J Jetter	-	-	-	-	-
	2,500,000	-	-	4,000	2,504,000
Other Key Management Personnel					
Mr A Parks	-	-	-	-	-
Mr C Martin	-	-	-	-	-
Ms I Holt	-	-	-	-	-
Mr R King	-	-	-	-	-
	-	-	-	-	-

19 key management personnel disclosures [cont]

c) Loans to key management personnel

Details of loans made to other key management personnel of the Group, including their personally related parties, are set out below.

(i) Aggregates for key management personnel

Group	Balance at the start of the year	Interest payable for year	Interest not charged	Repayments	Balance at the end of the year	Number in Group at the end of the year
	$	$	$		$	
2010	100,855	6,500	-	(107,355)	-	-
2009	-	855	-	-	100,855	1

(ii) Individuals with loans above $100,000 during the financial year.

Mr Alex Parks owed the company $100,000 plus accrued interest costs. The loan was repaid prior to 30 June 2010 and was subject to 6.5% interest per annum. Mr Parks is not considered a key management person at 30 June 2009 or 30 June 2010 under AASB 124 Related Party Disclosures as he resigned effective from 30 June 2009, however in the interest of transparency management have elected to disclose this information.

20 auditors' remuneration

	Consolidated	
	2010	2009
	$	$
(a) Audit and Other Assurance services:		
Audit and review of financial statements		
- BDO Audit (WA) Pty Ltd	93,749	79,850
- BDO Philippines	47,854	-
- BDO UK	39,687	-
Other Assurance services		
- BDO Turkey	22,601	-
Total remuneration for audit services	203,890	79,850
Taxation Services - Compliance		
- BDO Corporate Tax (WA) Pty Ltd	12,878	10,360
- BDO Philippines	6,765	-
- BDO UK	1,839	-
Taxation Services - Consulting		
- BDO Corporate Tax (WA) Pty Ltd	74,793	-
Other Consulting Services		
- BDO Philippines	4,391	-
Total remuneration for non-audit services	100,666	10,360
Total remuneration for audit services	304,556	90,210

21 contingent liabilities and contingent assets

Contingent Recourse Commitments

The Group, through Colag UK and Colag BVI, shall each provide loans up to a maximum amount of US $12,470,000 as Contingent Recourse commitments and Sponsor Equity Completion Support commitments to the financing party of the Facility Agreement between GPC and a foreign bank. As of 30 June 2010, the Facility Agreement has been fully repaid and is no longer current.

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 SC50, SC51 and SC55 in the Philippines from Middle East Petroleum Services ("MEPS"). MEPS is a privately-held company that originally negotiated the farm in deal for Otto Energy in the Philippines acreage in 2005. As part of the farm-in agreement MEPS retained a 5% gross overriding royalty over NorAsian's share of the assets.

Under the buyback agreement, there is a contingent consideration component whereby Otto will also pay MEPS a production bonus of US$1 million for SC50, and US$1.5 million each for SC51 and SC55, should the blocks produce 1.5 million barrels of oil equivalent during the term of Otto's license.

In two separate share acquisition transactions in 2006 Otto Energy acquired 100% of the issued capital in unlisted NorAsian Energy Limited. The purchase price includes further shares in Otto Energy Limited in the event certain milestones are achieved, as follows:

- 2,000,000 shares on re-entry of the Calauit 1B well.
- 5,000,000 shares when aggregate production from the Calauit Licence area (SC 50) reaches 500,000 barrels of oil.
- 5,000,000 shares when aggregate production from the Calauit Licence area (SC 50) reaches 1,000,000 barrels of oil.

22 commitments

	Consolidated	
	2010	2009
	$	$
a) Exploration expenditure		
Committed expenditures in accordance with farmin agreements		
No longer than 1 year	9,474,836	5,133,538
Longer than 1 year and no longer than 5 years	14,082,854	33,548,708
Longer than 5 years	-	3,727,634
	23,557,690	42,409,880
b) Non-cancellable operating leases		
The Group leases corporate offices under non-cancellable operating leases expiring in 3 years. The leases have varying terms, escalation terms and renewal rights. On renewal, the terms of the leases may be renegotiated.		
No longer than 1 year	243,652	274,112
Longer than 1 year and no longer than 5 years	436,54	680,197
Longer than 5 years	-	-
	680,196	954,309

23 related party transactions

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

	Consolidated	
	2010	2009
	$	$
Key Management Personnel		
Consulting fees paid to Dormley Pty Limited, a company in which Dr Poll is a Director.	162,500	137,500
Share based payments (ordinary shares issued) to Dormley Pty Limited, a company in which Dr Poll is a Director, for the facilitation of the investment in the Santa Rosa project in Argentina.	-	150,000
Consulting fees paid to Grange Consulting Group Pty Limited, a company in which Mr Macliver is a Director, for the provision of corporate advisory, company secretarial and associated services.	175,426	204,750
Consulting and placement fees paid to Max Capital Pty Limited, a company in which Mr Macliver is a Director, for the provision of corporate advisory and capital raising services.	121,178	404,910
Share based payments (options issued) to Max Capital Pty Limited for consulting and placement fees, a company in which Mr Macliver is a Director, for the provision of capital raising services.	-	11,388
Share based payments (ordinary shares issued) to Mr J Jetter for capital raising services in May 2009.	-	405,000
Interest paid on loans from Directors (Messrs: Mr Crabb, Mr Macliver, Mr Jetter and Mr Poll). The total loans advanced from the Directors to the company were $1,530,000 and are fully repaid at 30 June 2009. Per the terms of the loan agreement interest was payable at 12% per annum. The terms of the loan were approved by the Board and considered commercial and on an arms length basis.	-	26,051
Outstanding loans receivable from GPC amounting to USD3,200,225 at 30 June 2010 (30 June 2009: USD31,972,10). The loan bears interest of 3% above LIBOR rate, compounded annually, and is repayable within 5 years from the date of the initial loan. Refer note 10 for further information.	3,755,683	39,726,769

24 business combination

Prior Year Business Combinations: 2009

On 18 May 2009, Otto Energy (Europe) Limited, a wholly owned subsidiary of Otto Energy Limited, acquired 100% of the issued capital of Otto Energy (Italy) S.r.L (formerly Sidelia 4 S.r.L)

Since acquisition Otto Energy (Italy) S.r.L has incurred $11,394,795 in net losses for the Group for the period 18 May 2009 to 30 June 2009 which is represented by the impairment write-down of the capitalised exploration.

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

	$
Purchase Consideration	
- Cash Paid	20,822
Total purchase consideration	20,822
Fair Value of net identifiable assets acquired (refer below)	20,822
Goodwill	-

The assets and liabilities arising from the acquisition are as follows:	Carrying Amount	Fair Value
	$	$
Cash and cash equivalents	20,723	20,723
Other receivables	117	117
Payables	(18)	(18)
Intangibles-exploration expenses	3,690	-
Net identifiable assets acquired	24,512	20,822

	2009
Outflow of cash to acquire controlled entities, net cash acquired	
Cash consideration	20,822
Less: Balances acquired	(20,723)
Cash paid on acquisition	99

25 controlled entities

	Country of Incorporation	Percentage Owned (%)*	
		2010	2009
PARENT ENTITY:			
Otto Energy Limited	Australia		
ULTIMATE PARENT ENTITY:			
Otto Energy Limited	Australia		
SUBSIDIARIES OF OTTO ENERGY LIMITED:			
Edirne Energy Limited	Turkey	100	100
Ottoman Energy (Philippines) Pty Limited	Australia	100	100
NorAsian Energy Limited	Bermuda	100	100
NorAsian Energy Phils. Inc.	Philippines	100	100
Colag UK Limited	United Kingdom	100	100
Colag (BVI) Limited	British Virgin Islands	100	100
Otto Energy (Europe) Limited	United Kingdom	100	100
Otto Energy (Italy) S.r.L (formerly Sidelia 4 S.r.L)	Italy	100	100
ASSOCIATES OF OTTO ENERGY LIMITED:			
Galoc Production Company W.L.L	Bahrain	31.38	31.38
Cynthia Holdings Limited	British Virgin Islands	-	32.48

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

26 joint ventures

a) Joint venture interests

The Group's interest in joint venture assets as at 30 June 2010 is detailed below. Exploration, development and production of hydrocarbons are the principal activities performed across these assets.

	Group Interest (%)	
	2010	2009
Philippines		
Service Contract 55	85	85
Service Contract 50	85	85
Service Contract 69	70	70
Service Contract 51	80	80
Turkey		
Edirne Licence	35	35

b) Jointly controlled assets

	Consolidated	
	2010	2009
	$	$
Current Assets		
Receivables	-	-
Inventories	-	-
Other Assets	-	-
Non Current Assets	-	-
Inventories	-	-
Other Assets	-	-
Exploration and evaluations assets	8,999,537	44,798,882
Oil and gas properties	-	-
	8,999,537	44,798,882

c) Commitments through jointly controlled assets

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

Capital	-	-
Exploration and other commitments	23,557,690	42,409,880
	23,557,690	42,409,880

27 investments in associates

	Consolidated	
	2010	2009
	$	$
a) Movements in carrying amounts		
Carrying amount at the beginning of the financial year		-
Investment acquired	-	2,266,680
Impairment expense	-	(2,266,680)
Revaluation	-	-
Share of profits/(losses) after income tax	6,697,108	-
Dividends received/receivable	-	-
Carrying amount at the end of the financial year	6,697,108	-

	Ownership Interest	Assets	Liabilities	Accumu-lated Losses	Revenues	Net Profit/(Loss)
	%	$	$	$	$	$
2010						
Galoc Production Company W.L.L.	31.38	8,501,121	277,979	(229,318)	80,952,663	6,685,433
Cynthia Holdings Limited	-	-	-	-	-	-
2009						
Galoc Production Company W.L.L.	31.38	39,938,750	40,669,527	(5,844,731)	1,304,918	107,106
Cynthia Holdings Limited	32.48	1,902,680	-	-	-	-

	Consolidated	
	2010	2009
	$	$
c) Contingent liabilities of associates		
Share of contingent liabilities incurred jointly with other investors		
Contingent liabilities relating to liabilities of the associate for which the Company is severally liable. In 2009 this is no longer applicable as the Company's share of the project finance debt facility relating to it's investment in Galoc Production Company W.L.L have been fully repaid during the year.	-	-
	-	-

28 events after the reporting date

No matters or circumstances have arisen since the ned of the financial year which significantly affected or may significantly affect the operations of economic entity, the results of those operations, or the state of affairs of the economic entity in future financial years.

29 cash flow information

	Consolidated	
	2010	2009
	$	$
a) Reconciliation of Cash Flow from Operations with Loss after Income Tax		
Loss after income tax	(33,304,485)	(58,436,953)
Non-cash flows in loss		
- Depreciation	191,140	175,392
- Impairment expense	32,947,412	49,431,593
- Exploration costs	(4,591,145)	(12,839,394)
- Unrealised foreign exchange gain / (loss)	657,545	481,389
- Share options expensed	-	-
- Share based payments	628,750	1,724,501
- Share of net (profits) of associate	(6,697,108)	-
- Write off exploration expenditures capitalised	(241,578)	194,836
- Reversal of impairment of exploration and evaluation	(341,740)	-
Changes in assets and liabilities, net of the effects of purchase and disposal subsidiaries		
- (Increase)/decrease in other receivables	419,026	1,324,608
- (Increase)/decrease in prepayments	17,187	46,527
- Increase/(decrease) in trade payables and accruals	3,199	505,849
Net cash outflow from operations	(10,311,797)	(17,391,652)

29 cash flow information [cont]

	Consolidated	
	2010	2009
	$	$
b) Non Cash investing and financing activities		
1. Stage one non cash consideration for MEPS right termination through issue of Otto securities.	-	4,575,000
2. Issue of Otto securities as the non cash component of the investment in associate.	-	150,000
3. Conversion of shareholder loans to Otto securities at deemed price of $0.05 each.	-	10,220,843
4. Conversion of director loans to Otto securities at deemed price of $0.05 each	-	346,281
	-	15,292,124

30 loss per share

	Consolidated	
	2010	2009
	$	$
a) Reconciliation of loss to profit or loss		
- Loss	(33,304,485)	(57,348,777)
- Loss used to calculate basic EPS	(33,304,485)	(57,348,777)
	No.	No.
b) Weighted average number of ordinary shares outstanding during the year used in calculating basic EPS	1,070,705,269	569,942,406

The Company's potential ordinary shares, being it's options granted, are not considered dilutive as the conversion of these options would result in a decrease in the net loss per share.

31 share-based payments

(a) Employee share option plan

The establishment of the Employee Share Option Plan was approved by general meeting. The Employee Option Plan is designed to provide long term incentives for senior managers and employees to deliver long term shareholder returns. Under the plan, participants are granted options based on the business 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.

Grant Date	Expiry Date	Exercise Price	Balance at start of the year	Granted during the year	Exercised during the year	Forfeited during the year	Balance at end of the year	Vested and exercis-able at end of the year
			Number	Number	Number	Number	Number	Number
08 May 2007	29 May 2011	$0.20	4,083,400	-	-	(83,333)	4,000,067	4,000,067
08 May 2007	29 May 2011	$0.30	4,333,300	-	-	(333,333)	3,999,967	3,999,967
08 May 2007	29 May 2011	$0.40	3,333,300	-	-	(1,333,334)	1,999,966	-
17 Dec 2007	17 Dec 2010	$0.30	8,000,000	-	-	(500,000)	7,500,000	7,500,000
25 Jan 2008	25 Jan 2011	$0.30	10,500,000	-	-	-	10,500,000	10,500,000
10 Apr 2008	10 Apr 2012	$0.35	2,000,000	-	-	(500,000)	1,500,000	-
01 Aug 2008	01 Aug 2012	$0.60	2,500,000	-	-	-	2,500,000	-
15 Dec 2008	15 Dec 2010	$0.60	2,000,000	-	-	-	2,000,000	2,000,000
01 Jul 2009	30 Jun 2014	$0.12	-	7,500,000	-	-	7,500,000	-
8 Sep 2009	8 Sep 2012	$0.12	-	6,000,000	-	-	6,000,000	-
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	-
Total			36,750,000	20,000,000	-	(2,750,000)	54,000,000	27,000,034
Weighted average exercise price			$0.33	$0.12	$0.00	$0.35	$0.26	$0.31

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.

No options 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 issue date and then subsequently amortised over the option vesting period. Once the share based payment has been calculated it is not able to be adjusted. As such the option expense noted above is based upon historical calculations made during a time when the share price of the company was significantly higher than its current level.

31 share-based payments [cont]

Fair value of options granted

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

Grant date	1 July 2009	8 September 2009	19 January 2010	16 February 2010
Exercise price	$0.12	$0.12	$0.12	$0.12
Expiry date	30 June 2014	8 September 2012	19 January 2013	16 February 2013
Share price at grant date	$0.08	$0.06	$0.09	$0.10
Expected volatility	81.4%	81.4%	80%	80%
Expected dividend yield	Nil	Nil	Nil	Nil
Risk free rate	5.17%	5.24%	4.95%	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 publicly available information.

Grant Date	Expiry Date	Exercise Price	Balance at start of the year	Granted during the year	Exercised during the year	Forfeited during the year	Balance at end of the year	Vested and exercis-able at end of the year
			Number	Number	Number	Number	Number	Number
14 Dec 2007	30 Nov 2009	$0.34	4,000,000	-	-	(4,000,000)	-	-
14 Dec 2007	30 Nov 2009	$0.34	4,000,000	-	-	(4,000,000)	-	-
17 Dec 2007	17 Dec 2010	$0.30	250,000	-	-	-	250,000	250,000
25 Jan 2008	25 Jan 2011	$0.30	500,000	-	-	-	500,000	500,000
23 Jun 2009	03 Jul 2010	$0.05	61,855,350	-	-	-	61,855,350	61,855,350
Total			70,605,350	-	-	(8,000,000)	62,605 ,350	62,605 ,350
Weighted average exercise price			$0.09	-	-	$0.34	$0.05	$0.05

Fair value of options granted (2009)

The assessed fair value at grant date of options granted on the 23 June 2009 was $0.001 per option. The fair value was calculated in accordance with AASB 2 Share-Based Payments in reference to the fair value of services rendered. The services received by the Company for capital raising fees were fair valued based on historical fees and market rates of 5% of total capital raised

The assessed fair value at grant date of options granted on 1 August 2008 was $0.14 per option and $0.01 for options issued on the 15 December 2008. The fair value at grant date is 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.

Options are granted for no consideration and vest based on conditions determined by the board at general meeting. Vested options issued on the 1 August 2008 are exercisable up to 1 August 2012 after vesting and;

Exercise price	$0.60
Term of the option	4 years
Underlying share price	$0.34
Standard deviation of returns	65.0%
Risk free interest rate	6.06%

Options are granted for no consideration and vest based on conditions determined by the board at general meeting. Vested options issued on the 15 December 2008 are exercisable up to 15 December 2010 after vesting and;

Exercise price	$0.60
Term of the option	2 years
Underlying share price	$0.13
Standard deviation of returns	65%
Risk free interest rate	4.35%

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

(c) Expenses arising from share based payment transactions

	Consolidated	
	2010	2009
	$	$
Options issued under employee option plan	628,750	1,724,502
Options issued to consultants and advisors (i)	-	83,019
	628,750	1,807,521

(i) The options were issued to consultants and advisors for sub-underwriting fees in relation to the capital raising during the year and were measured with reference to the fair value of the services rendered. The expense arising from the share based payment was recognised through equity as a share issue cost.

32 parent entity disclosures

As at, and throughout the financial year ended 30 June 2010, the parent company of the economic entity was Otto Energy Limited.

	Parent Entity	
	2010	2009
	$	$
Summarised Statement of Comprehensive Income		
Loss for the year after tax	(31,402,665)	(53,319,494)
Other comprehensive loss	(7,593,884)	13,313,669
Total comprehensive loss for the year	(38,996,549)	(40,005,825)
Summarised Statement of Financial Position		
Current Assets	8,198,131	12,374,195
Non Current Assets	50,494,165	81,735,121
Total Assets	58,692,296	94,109,316
Current Liabilities	793,430	5,467,114
Non Current Liabilities	60,466	-
Total Liabilities	85 3,896	5,467,114
Net Assets	57,838,400	88,642,202
Total equity of the parent entity comprising:		
Share Capital	151,903,114	151,932,731
Reserves	7,613,675	6,985,195
Retained Earnings	(101,678,389)	(70,275,724)
Total Equity	57,838,400	88,642,202

33 new accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2010 reporting periods. The group's and the parent entity's assessment of the impact of these new standards and interpretations is set out below.

Reference	Title	Summary	Application date of standard	Impact on Company Financial Report	Application date for Group
AASB 2009-5	Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 5, 8, 101, 107, 117, 118, 136 & 139]	The amendments to some Standards result in accounting changes for presentation, recognition or measurement purposes, while some amendments that relate to terminology and editorial changes are expected to have no or minimal effect on accounting except for the following: The amendment to AASB 117 removes the specific guidance on classifying land as a lease so that only the general guidance remains. Assessing land leases based on the general criteria may result in more land leases being classified as finance leases and if so, the type of asset which is to be recorded (intangible vs. property, plant and equipment) needs to be determined. The amendment to AASB 101 stipulates that the terms of a liability that could result, at anytime, in its settlement by the issuance of equity instruments at the option of the counterparty do not affect its classification. The amendment to AASB 107 explicitly states that only expenditure that results in a recognised asset can be classified as a cash flow from investing activities. The amendment to AASB 118 provides additional guidance to determine whether an entity is acting as a principal or as an agent. The features indicating an entity is acting as a principal are whether the entity: • has primary responsibility for providing the goods or service; • has inventory risk; • has discretion in establishing prices; • bears the credit risk. The amendment to AASB 136 clarifies that the largest unit permitted for allocating goodwill acquired in a business combination is the operating segment, as defined in IFRS 8 before aggregation for reporting purposes. The main change to AASB 139 clarifies that a prepayment option is considered closely related to the host contract when the exercise price of a prepayment option reimburses the lender up to the approximate present value of lost interest for the remaining term of the host contract. The other changes clarify the scope exemption for business combination contracts and provide clarification in relation to accounting for cash flow hedges.	Periods commencing on or after 1 January 2010	No impact anticipated upon group results.	1 July 2010

33 new accounting standards and interpretations [cont]

Reference	Title	Summary	Application date of standard	Impact on Company Financial Report	Application date for Group
AASB 2009-8	Amendments to Australian Accounting Standards – Group Cash-settled Share-based Payment Transactions [AASB 2]	This Standard makes amendments to Australian Accounting Standard AASB 2 Share-based Payment and supersedes Interpretation 8 Scope of AASB 2 and Interpretation 11 AASB 2 – Group and Treasury Share Transactions. The amendments clarify the accounting for group cash-settled share-based payment transactions in the separate or individual financial statements of the entity receiving the goods or services when the entity has no obligation to settle the share-based payment transaction. The amendments clarify the scope of AASB 2 by requiring an entity that receives goods or services in a share-based payment arrangement to account for those goods or services no matter which entity in the group settles the transaction, and no matter whether the transaction is settled in shares or cash.	Periods commencing on or after 1 January 2010	No impact anticipated upon group results.	1 July 2010
AASB 2009-9	Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards.	The amendments address the retrospective application of IFRSs to particular situations and are aimed at ensuring that entities applying IFRSs will not face undue cost or effort in the transition process. Specifically, the amendments: • exempt entities using the full cost method from retrospective application of IFRSs for oil and gas assets • exempt entities with existing leasing contracts from reassessing the classification of those contracts in accordance with IFRIC 4 Determining whether an Arrangement contains a Lease when the application of their national accounting requirements produced the same result.	Periods commencing on or after 1 January 2010	No impact anticipated upon group results.	1 July 2010
AASB 2009-10	Amendments to Australian Accounting Standards – Classification of Rights Issues [AASB 132]	The amendment provides relief to entities that issue rights in a currency other than their functional currency, from treating the rights as derivatives with fair value changes recorded in profit or loss. Such rights will now be classified as equity instruments when certain conditions are met.	Periods commencing on or after 1 February 2010	No impact anticipated upon group results.	1 July 2010

Reference	Title	Summary	Application date of standard	Impact on Company Financial Report	Application date for Group
AASB 9	Financial Instruments	AASB 9 includes requirements for the classification and measurement of financial assets resulting from the first part of Phase 1 of the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement (AASB 139 Financial Instruments: Recognition and Measurement). These requirements improve and simplify the approach for classification and measurement of financial assets compared with the requirements of AASB 139. The main changes from AASB 139 are described below. (a) Financial assets are classified based on (1) the objective of the entity's business model for managing the financial assets; (2) the characteristics of the contractual cash flows. This replaces the numerous categories of financial assets in AASB 139, each of which had its own classification criteria. (b) AASB 9 allows an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument. (c) Financial assets can be designated and measured at fair value through profit or loss at initial recognition if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities, or recognising the gains and losses on them, on different bases.	Periods commencing on or after 1 January 2013	No impact anticipated upon group results.	1 July 2013

33 new accounting standards and interpretations [cont]

Reference	Title	Summary	Application date of standard	Impact on Company Financial Report	Application date for Group
AASB 2009-11	Amendments to Australian Accounting Standards arising from AASB 9 [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 121, 127, 128, 131, 132, 136, 139, 1023 & 1038 and Interpretations 10 & 12]	The revised Standard introduces a number of changes to the accounting for financial assets, the most significant of which includes: • two categories for financial assets being amortised cost or fair value • removal of the requirement to separate embedded derivatives in financial assets • strict requirements to determine which financial assets can be classified as amortised cost or fair value, Financial assets can only be classified as amortised cost if (a) the contractual cash flows from the instrument represent principal and interest and (b) the entity's purpose for holding the instrument is to collect the contractual cash flows • an option for investments in equity instruments which are not held for trading to recognise fair value changes through other comprehensive income with no impairment testing and no recycling through profit or loss on derecognition • reclassifications between amortised cost and fair value no longer permitted unless the entity's business model for holding the asset changes • changes to the accounting and additional disclosures for equity instruments classified as fair value through other comprehensive income	Periods commencing on or after 1 January 2013	No impact anticipated upon group results.	1 July 2013
AASB 124 (Revised)	Related Party Disclosures (December 2009)	The revised AASB 124 simplifies the definition of a related party, clarifying its intended meaning and eliminating inconsistencies from the definition, including: (a) the definition now identifies a subsidiary and an associate with the same investor as related parties of each other; (b) entities significantly influenced by one person and entities significantly influenced by a close member of the family of that person are no longer related parties of each other; and (c) the definition now identifies that, whenever a person or entity has both joint control over a second entity and joint control or significant influence over a third party, the second and third entities are related to each other. A partial exemption is also provided from the disclosure requirements for government-related entities. Entities that are related by virtue of being controlled by the same government can provide reduced related party disclosures.	Periods commencing on or after 1 January 2011	No impact anticipated upon group results.	1 July 2011

Reference	Title	Summary	Application date of standard	Impact on Company Financial Report	Application date for Group
AASB 2009-12	Amendments to Australian Accounting Standards [AASBs 5, 8, 108, 110, 112, 119, 133, 137, 139, 1023 & 1031 and Interpretations 2, 4, 16, 1039 & 1052]	This amendment makes numerous editorial changes to a range of Australian Accounting Standards and Interpretations. In particular, it amends AASB 8 Operating Segments to require an entity to exercise judgement in assessing whether a government and entities known to be under the control of that government are considered a single customer for the purposes of certain operating segment disclosures. It also makes numerous editorial amendments to a range of Australian Accounting Standards and Interpretations, including amendments to reflect changes made to the text of IFRSs by the IASB.	Periods commencing on or after 1 January 2011	No impact anticipated upon group results.	1 July 2011
AASB 2009-13	Amendments to Australian Accounting Standards arising from Interpretation 19 [AASB 1]	This amendment to AASB 1 allows a first-time adopter may apply the transitional provisions in Interpretation 19 as identified in AASB 1048.	Periods commencing on or after 1 July 2010	No impact anticipated upon group results.	1 July 2010
AASB 2009-14	Amendments to Australian Interpretation – Prepayments of a Minimum Funding Requirement	These amendments arise from the issuance of Prepayments of a Minimum Funding Requirement (Amendments to IFRIC 14). The requirements of IFRIC 14 meant that some entities that were subject to minimum funding requirements could not treat any surplus in a defined benefit pension plan as an economic benefit. The amendment requires entities to treat the benefit of such an early payment as a pension asset. Subsequently, the remaining surplus in the plan, if any, is subject to the same analysis as if no prepayment had been made.	Periods commencing on or after 1 January 2011	No impact anticipated upon group results	1 July 2011

33 new accounting standards and interpretations [cont]

Reference	Title		Application date of standard	Impact on Company Financial Report	Application date for Group
AASB 2010-1	Amendments to Australian Accounting Standards - Limited Exemption from Comparative AASB 7 Disclosures for First-time Adopters	First-time adopters of Australian Accounting Standards are permitted to use the same transition provisions permitted for existing preparers of financial statements prepared in accordance with Australian Accounting Standards that are included in AASB 2009-2.	Periods commencing on or after 1 July 2010	No impact anticipated upon group results.	1 July 2010
AASB 1053	Application of Tiers of Australian Accounting Standards	This Standard establishes a differential financial reporting framework consisting of two Tiers of reporting requirements for preparing general purpose financial statements: (a) Tier 1: Australian Accounting Standards; and (b) Tier 2: Australian Accounting Standards – Reduced Disclosure Requirements. Tier 2 comprises the recognition, measurement and presentation requirements of Tier 1 and substantially reduced disclosures corresponding to those requirements. The following entities apply Tier 1 requirements in preparing general purpose financial statements: (a) for-profit entities in the private sector that have public accountability (as defined in this Standard); and (b) the Australian Government and State, Territory and Local Governments. The following entities apply either Tier 2 or Tier 1 requirements in preparing general purpose financial statements: (a) for-profit private sector entities that do not have public accountability; (b) all not-for-profit private sector entities; and (c) public sector entities other than the Australian Government and State, Territory and Local Governments.	Periods commencing on or after 1 July 2013	Impact has not currently been assessed.	1 July 2013
AASB 2010-2	Amendments to Australian Accounting Standards arising from reduced disclosure requirements	This Standard gives effect to Australian Accounting Standards – Reduced Disclosure Requirements. AASB 1053 provides further information regarding the differential reporting framework and the two tiers of reporting requirements for preparing general purpose financial statements.	Periods commencing on or after 1 July 2013	Impact has not currently been assessed.	1 July 2013

Reference	Title	Summary	Application date of standard	Impact on Company Financial Report	Application date for Group
AASB 2010-3	Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 3, AASB 7, AASB 121, AASB 128, AASB 131, AASB 132 & AASB 139]	Limits the scope of the measurement choices of non-controlling interest at proportionate share of net assets in the event of liquidation. Other components of NCI are measured at fair value. Requires an entity (in a business combination) to account for the replacement of the acquiree's share-based payment transactions (whether obliged or voluntarily), i.e., split between consideration and post combination expenses. Clarifies that contingent consideration from a business combination that occurred before the effective date of AASB 3 Revised is not restated. Eliminates the requirement to restate financial statements for a reporting period when significant influence or joint control is lost and the reporting entity accounts for the remaining investment under AASB 139. This includes the effect on accumulated foreign exchange differences on such investments.	Periods commencing on or after 1 July 2010	Impact has not currently been assessed.	1 July 2010
AASB 2010-4	Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 1, AASB 7, AASB 101, AASB 134 and Interpretation 13]	Emphasises the interaction between quantitative and qualitative AASB 7 disclosures and the nature and extent of risks associated with financial instruments. Clarifies that an entity will present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes to the financial statements. Provides guidance to illustrate how to apply disclosure principles in AASB 134 for significant events and transactions Clarify that when the fair value of award credits is measured based on the value of the awards for which they could be redeemed, the amount of discounts or incentives otherwise granted to customers not participating in the award credit scheme, is to be taken into account.	Periods commencing on or after 1 January 2011	No impact anticipated upon group results.	1 July 2011
Inter-pretation 19	Interpretation 19 Extinguishing Financial Liabilities with Equity Instruments	This interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability are "consideration paid" in accordance with paragraph 41 of IAS 39. As a result, the financial liability is derecognised and the equity instruments issued are treated as consideration paid to extinguish that financial liability. The interpretation states that equity instruments issued in a debt for equity swap should be measured at the fair value of the equity instruments issued, if this can be determined reliably. If the fair value of the equity instruments issued is not reliably determinable, the equity instruments should be measured by reference to the fair value of the financial liability extinguished as of the date of extinguishment.	Periods commencing on or after 1 July 2010	No impact anticipated upon group results.	1 July 2010

34 company details

The registered office of the Company is:

32 Delhi Street
West Perth WA 6005
Australia

Tel: (08) 6467 8800
Fax: (08) 6467 8801

The principal places of business are:

Australian Head Office

32 Delhi Street
West Perth WA 6008
Australia

Tel: (08) 6467 8800
Fax: (08) 6467 8801

Philippines Office
NorAsian Energy Limited

4th Floor F&M Lopez Building II
109 Carlos Palanca Street
Legaspi Village 1229 Makati City
Republic of Philippines

Turkish Representative Office
C/- Petrako Petroleum Trade & Consulting Inc.

Koza Cad.5 Sok 4/6
Cankaya, 06700, GOP Ankara,
Gaziosmanpasa
Republic of Turkey

In the Directors' opinion:

a) the financial statements, comprising the statement of comprehensive income, statement of financial position, statement of cashflows and statement of changes in equity and accompanying notes, are in accordance with the Corporations Act 2001, and:

   (i) comply with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and

   (ii) give a true and fair view of the group's financial position as at 30 June 2010 and of its performance for the year ended on that date of the group.

b) The group has included in the notes to the financial statements an explicit and unreserved statement of compliance with International Financial Reporting Standards.

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; and

d) The remuneration disclosures included in pages 33 to 43 of the directors' report (as part of the audited Remuneration Report), for the year ended 30 June 2010, comply with section 300A of the Corporations Act 2001.

e) The Directors have been given the declarations required by section 295A.

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
29 September 2010

BDO

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38 Station Street
Subiaco, WA 6008
PO Box 700 West Perth WA 6872
Australia

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 statement of financial position as at 30 June 2010, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of 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 and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements, that the Financial Statement 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. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance 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 entity's preparation and fair presentation of the financial report 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 entity'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* would be in the same terms if it had been given to the directors at the time that this auditor's report was made.

BDO

Auditor's 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 consolidated entity's financial position as at 30 June 2010 and of their performance for the year ended on that date; and
(ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and

(b) the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 1.

Report on the Remuneration Report

We have audited the Remuneration Report included in within the Director's Report for the year ended 30 June 2010. 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' Opinion

In our opinion the Remuneration Report of Otto Energy Limited for the year ended 30 June 2010 complies with section 300A of the Corporations Act 2001.

BDO Audit (WA) Pty Ltd

BDO

Peter Toll
Director

Perth, Western Australia
Dated this 29th day of September 2010

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, 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 of 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 2009 unless set out below.

Recommendation 2.4 requires listed entities to establish a nomination committee. During the year, the Company did not have a separately established 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 and independent chair, who is not the chair of the board and have at least three members. The Company's audit committee during the year comprised two Non-executive, independent Directors, Messrs Ian Macliver 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 did not have a separately established remuneration committee. Given the number of Directors on the Board and the size of the Company, the Board considers that this function can efficiently be performed by the full Board.

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 3 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. Of the five non executive Directors, four of the non-executive Directors are regarded as independent.

Dr Jaap Poll is not considered to be an independent director as he does not satisfy item 2 of the relationships affecting a Directors independence outlined in Box 2.1 of the Recommendations as within the last three years Dr Poll was employed in an executive capacity as Managing Director of the Company.

It is noted that Mr Macliver is a principal of Grange Consulting Group and Max Capital Pty Limited, which provides company secretarial, corporate advisory and financial support services to the Company. In considering whether Mr Macliver is independent, the Board took into account the principal amount of fees paid to Grange Consulting Group and Max Capital which is not considered material. It is noted that Mr Macliver did not vote on any resolution in respect of the services provided and the fees payable to Grange Consulting Group and/or Max Capital. In addition, there are no other aspects of the relationship with Grange Consulting Group and/or Max Capital that could materially interfere with or be likely to interfere with the exercise by Mr Macliver of unfettered and independent judgement as a Director.

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 Executives. 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 Executives. 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 and 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 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.

audit process

As part of the Company's commitment to safeguarding integrity in financial reporting, Otto Energy's accounts are subject to annual audit by an independent, professional auditor, who also reviews the half-yearly accounts. The Auditor attends and is available to answer questions at, the Company's annual general meetings.

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.

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 2009 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.

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, executives 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 are 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.

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.

Additional information required by the ASX Limited Listing Rules not disclosed elsewhere in this Annual Report is set out below.

1 shareholdings

The issued capital of the Company at 17 September 2010 is 1,134,540,071 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
1 – 1,000	77	16,394
1,001 – 5,000	387	1,248,992
5,001 – 10,000	569	4,830,230
10,001 – 100,000	1,795	74,184,953
100,001 and over	698	1,054,259,502
	3,526	1,134,540,071

Number holding less than a marketable parcel size of 5,682 shares at $0.088 per share	515	1,539,805

Shareholders by Location	No. of Holders	No. of Shares
Australian holders	3,233	789,102,164
Overseas holders	293	345,437,907
	3,526	1,134,540,071

2 top 20 shareholders as at 17 september 2010

		No. of Shares Held	% Held
1	Molton Holdings Ltd	241,910,757	21.32
2	Santo Holding Ag	241,910,757	21.32
3	National Nominees Limited	57,247,511	5.05
4	Citicorp Nominees Pty Limited	28,914,502	2.55
5	ANZ Nominees Limited <Cash Income A/C>	24,063,920	2.12
6	Escor Investments Pty Ltd	20,000,000	1.76
7	J P Morgan Nominees Australia Limited	19,705,333	1.74
8	John Jetter (Consolidated Relevant Interest)	19,089,175	1.68
9	Cable Nominees Pty Ltd	17,466,934	1.54
10	Rick Crabb (Consolidated Relevant Interest)	16,995,052	1.50
11	HSBC Custody Nominees (Australia) Limited	15,294,931	1.35
12	Jaap Poll (Consolidated Relevant Interest)	14,794,206	1.30
13	Yrs Investments Limited	13,520,833	1.19
14	Daly Finance Corp	8,150,000	0.72
15	Escot Finance Ltd	8,150,000	0.72
16	John Zadnik (Consolidated Relevant Interest)	6,757,747	0.60
17	Forbar Custodians Limited <Forsyth Barr Ltd-Nominee A/C>	6,336,986	0.56
18	Ian Macliver (Consolidated Relevant Interest)	6,306,942	0.56
19	William Taylor Nominees Pty Ltd	5,400,000	0.48
20	Mr David Kenneth Anderson + Mrs Charmayne Anderson <The Canterbury S/Fund A/C>	5,000,000	0.44
		777,015,586	68.49

3 substantial shareholders as at 17 september 2010

		No. of Shares Held	% Held
1	Molton Holdings Ltd	241,910,757	21.32
2	Santo Holding AG	241,910,757	21.32

4 unquoted securities

The unlisted securities of the Company as at 17 September 2010 are 57,750,000 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
31 May 2008 (*)	29 May 2011	A$0.20	4,000,067	12
30 November 2008 (*)	29 May 2011	A$0.30	3,999,967	12
31 May 2009(*)	29 May 2011	A$0.40	1,999,966	11
	15 December 2010	A$0.60	2,000,000	1
(*)	17 December 2010	A$0.30	7,750,000	7
(*)	25 January 2011	A$0.30	11,000,000	7
(*)	10 April 2012	A$0.35	1,500,000	1
(*)	01 August 2012	A$0.60	2,500,000	1
(*)	8 September 2012	A$0.12	6,000,000	3
	19 January 2013	A$0.12	1,000,000	1
(*)	16 February 2013	A$0.12	5,500,000	5
(*)	11 August 2013	A$0.12	3,000,000	1
(*)	30 June 2014	A$0.12	7,500,000	1
			57,750,000	

* subject to meeting certain share price and service hurdles

5 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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