2013

OTTO ENERGY

ANNUAL REPORT

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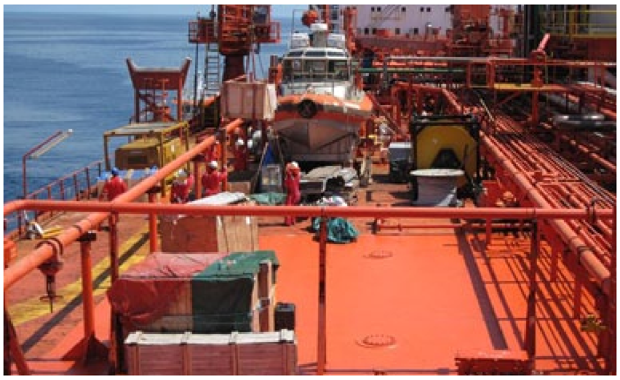

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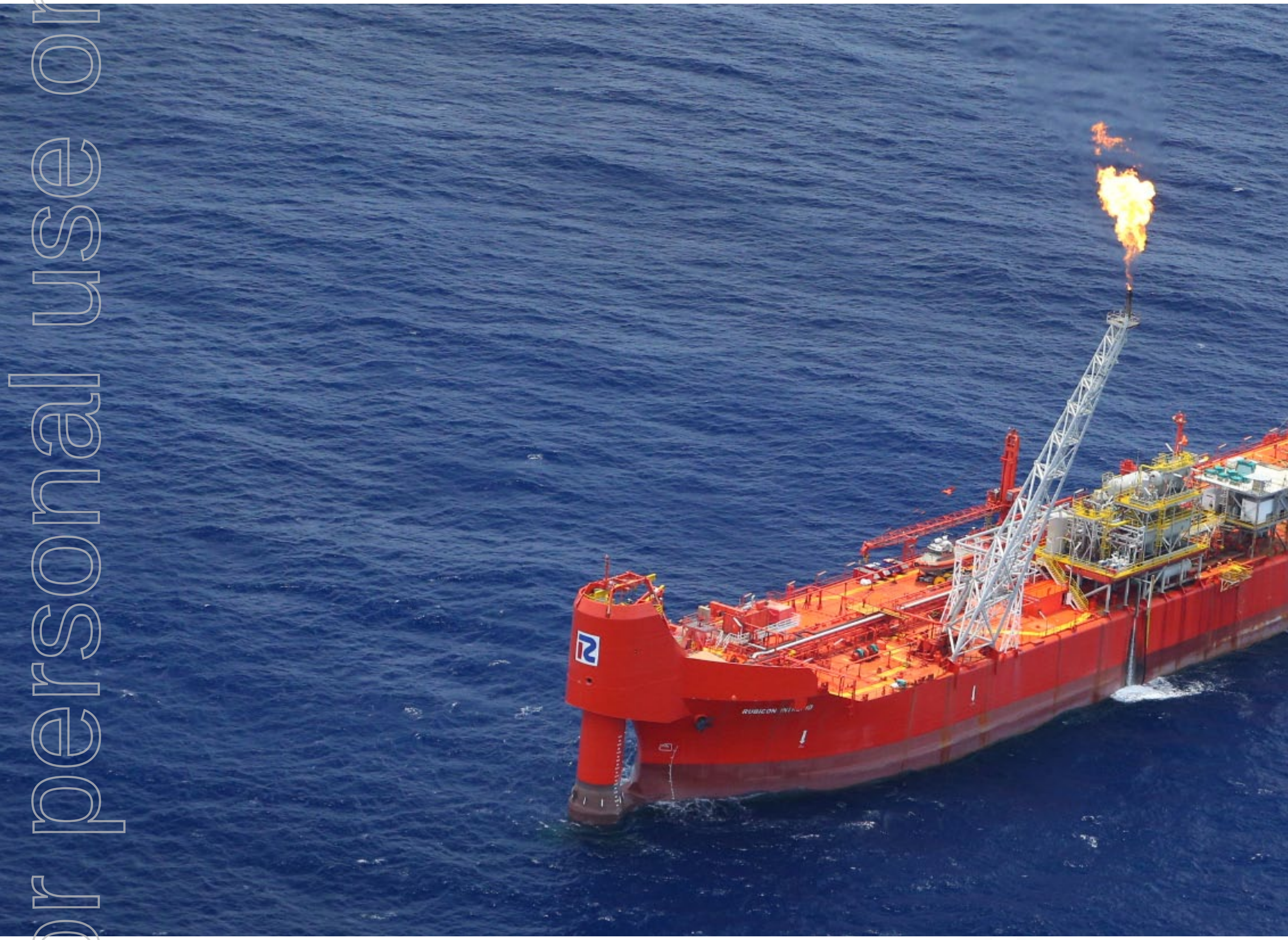


Chairman's REPORT

Dear Shareholders:

It is my pleasure to present the ninth Annual Report to shareholders as Chairman of Otto Energy at the close of a year that has seen unprecedented activity for our Company.

All that we have achieved this year has been founded in the key elements of our strategy to which the Board, our Management team and our staff are aligned. We have made several key decisions through FY2013 which have been based on strong technical and financial analysis and achieved through a close working relationship between the Board and Management team. The most significant commitment this year has been our Final Investment Decision for the Galoc Phase II development. This will position Otto Energy in an enviable position of financial strength among our peers. We have maintained our commitment to longer term growth through our exploration portfolio and have matured our understanding of both our Philippines and Tanzania acreage by acquisition of new seismic and through drilling.

As I look forward to the coming financial year, Otto Energy plans to maintain the current high levels of activity. Highlights for the coming period include:

- Deliver first oil from Galoc Phase II in November 2013;
- Complete acquisition of a 500km seismic survey in Tanzania; and
- Drill the high impact Cinco exploration well in the ultra-deepwater SC55 offshore the Philippines.

The expected increased cash-flow from Galoc augers well for Otto Energy's capacity to capture opportunities for FY2015 and beyond and early identification of such opportunities will also be a focus in FY2014. The core goal of the Board and Management is to create sustainable long term value for all our shareholders.

I thank you, our shareholders, for your continued support through this past year and as we move forward. I also thank my fellow Directors, Management team and staff in Perth and overseas for their continued commitment.

RICK CRABB | CHAIRMAN

Chief Executive Officer's REPORT

Dear Shareholders:

Welcome to Otto Energy's Annual Report for FY2013. Our report reflects a significant year for our Company that has taken us substantially towards delivering our strategic long term goals. This year's operating activity levels have been the highest experienced by our Company to date and I appreciate the continued support of our shareholders, staff and Board as we have moved through this period of high activity that has been both challenging and rewarding. In everything we have done, we have been guided by the key elements of our strategy:

Our priority is zero harm. We work to protect the safety of our people, preserve the environment and respect the communities in which we operate.

An integrated petroleum company. We aim to deliver material shareholder growth from our high impact exploration portfolio. We balance the risks of exploration by delivering near term value from our production and development opportunities.

Focus on South East Asia and Onshore East Africa. We will build our business in basins with significant remaining exploration potential. Our focus countries for investment have good fiscal terms supported by stable and transparent legislation. The value of our skills and experience are leveraged by having a deep understanding of our focus areas.

Lead as an Operator and support as a non-operator. We deliver on our commitments to our host governments and to our joint venture partners where we are the Operator. We operate where our skills allow us to lead, and support as a non-operator where others operate.

Our key achievements during FY2013 across each of the lifecycle phases were:

Production

Otto Energy's operated 33% interest in the Galoc oil field has been fundamental to our continued strong financial position through FY2013. Our operations team has safely delivered 99% system reliability from the wellhead through to the production facility and has continued the exceptional uptime performance since delivering a major facility upgrade in April 2012. Our strong technical understanding of subsurface issues has delivered production volumes consistent with forecasts. This performance has allowed us to realise maximum asset value in a time of continued high oil prices and strong demand for Galoc crude from Asian refineries.

Total net production attributable to Otto Energy was 593,100 bbls, which in turn generated cashflow from sales of US$60.181 million. As we move forward into FY2014, we will maintain the same operating and financial discipline to maximise value as field production rates increase nearly threefold from the current 4,500 BOPD at year end.

Chief Executive Officer's REPORT

Development

In September 2012, Otto Energy announced the Final Investment Decision for the Phase II development of the Galoc field. The US$62 million capital commitment (net Otto share) is a major investment for our Company. As the Operator, we have progressed the project safely and consistent with the original budget and schedule.

We have been able to fully fund all development activities from existing cash, ongoing production revenue and project finance debt through BNP Paribas. Our ability to fund such a significant programme through these sources is a key advantage at a time when capital markets continue to be challenging.

By year-end FY2013, all equipment orders were close to delivery and drilling operations were underway. We remain on track to meet our November 2013 goal for first oil production from the two additional subsea wells via the existing FPSO.

Exploration

Exploration is critical to the growth of any oil & gas company, and so we have continued to drill and to restock our inventory of prospects throughout FY2013.

In Tanzania, Otto Energy has continued to build on its highly significant entry into East Africa announced in early 2012. East Africa is an emerging, but already significant, petroleum province and we plan to build our exploration portfolio there further during the coming year. We have already acquired an extensive airborne gravity magnetic survey across both areas and by year-end FY2013 we were preparing to commence acquisition of approximately 500km of 2D seismic to define prospective basins in both areas.

In Service Contract 55 in the Philippines, we continue to support the Operator BHP Billiton toward securing final approvals to drill the very high impact Cinco prospect.

In addition to the Phase II development work occurring at Galoc, we have also matured plans to drill in the block and test its near-field exploration potential. We will incorporate the technical data from our ongoing Phase II drilling programme ahead of finalising decisions on further Galoc exploration drilling in the coming year.

Elsewhere, we continued to mature our existing exploration prospect inventory in the Philippines, including drilling of the Duhat-2 well in Service Contract 51 in early FY2014. Unfortunately the well encountered a high pressure water bearing interval which led to early abandonment of the well. We acquired valuable data from the well which will be considered in our future plans.

Lastly, as part of our ongoing effort to restock the inventory, in February we received notice from the Philippine Department of Energy that Otto Energy had been named as the preferred bidder for Area 7 under the latest Philippine Energy Contracting Round.

Corporate

Our balance sheet has remained strong through FY2013 with a closing cash position of US$31.854 million at year end. This is a major achievement given the very significant investment programme we continue to deliver across the full production, development and exploration life cycle. Our asset base remains strong with a 98% reserves replacement ratio for 2P reserves through FY2013 achieving reported entitlement reserves of 4.3 MMbbls.

As we look towards FY2014, we will deliver increased production volumes, mature our exploration drilling programmes and continue to restock our exploration position to deliver value to our shareholders.

Thank you once again for your ongoing support of Otto Energy.

GREGOR MCNAB | CHIEF EXECUTIVE OFFICER

Asset Overview

Throughout FY2013, Otto Energy Ltd ("Otto") has continued to focus on its core portfolio of high quality exploration assets, complemented by oil production from the Galoc field.

Highlights:

- Galoc production of 1.80 MMbbls (0.59 MMbbls net to Otto) during the year;
- Galoc Phase II project with Final Investment Decision achieved in September 2012;
- Drilling of Galoc Phase II development wells commenced in June 2013; and
- Acquisition of over 22,000km of aero magnetic and aero gravity data on Tanzanian acreage, leading to a decision to enter second year work program and acquire over 500km of 2D seismic.

Production

Since the start-up of production in October 2008, the Galoc oil field has produced a total of 10.8 million barrels of crude oil (as at 30th June 2013), and delivered 31 offtakes to refinery customers. As at the end of the June 2013 quarter, production averaged approximately 4,500 barrels of oil per day.

Otto, as Operator, is currently drilling two horizontal development wells as part of the Phase II project.

Exploration and Development

Interpretation of the recently acquired 3D seismic from SC55, offshore Palawan, has matured the amplitude-supported Hawkeye prospect and a series of large Nido level carbonate prospects. The permit contains a significant number of high quality, large volume prospects that are being quickly matured for drilling by Otto and its partners.

The joint venture has elected to enter the next permit sub-phase which requires a commitment well to be drilled, planned as the Cinco-1 well.

Production – Galoc Oil Field

FY2013 Highlights

- Production of 1.80 MMbbls gross (0.59 MMbbls net to Otto);
- Delivery of five offtakes to Asia Pacific refinery customers;
- Commencement of Front End Engineering and Design for Galoc Phase II project with Final Investment Decision achieved in September 2012; and
- Drilling of Galoc Phase II development wells commenced on 4th June 2013.

Joint Venture Partners

Name	Percentage
Galoc Production Company WLL (Operator) (Wholly owned subsidiary of Otto Energy Ltd)	33.0%
Galoc Production Company (No. 2) Pte Ltd	26.8%
Nido Production (Galoc) Pty Ltd	22.9%
The Philodrill Corporation	7.2%
Oriental Petroleum & Minerals Corporation/ Linapacan Oil Gas & Power Corporation	7.8%
Forum Energy Philippines Corporation	2.3%

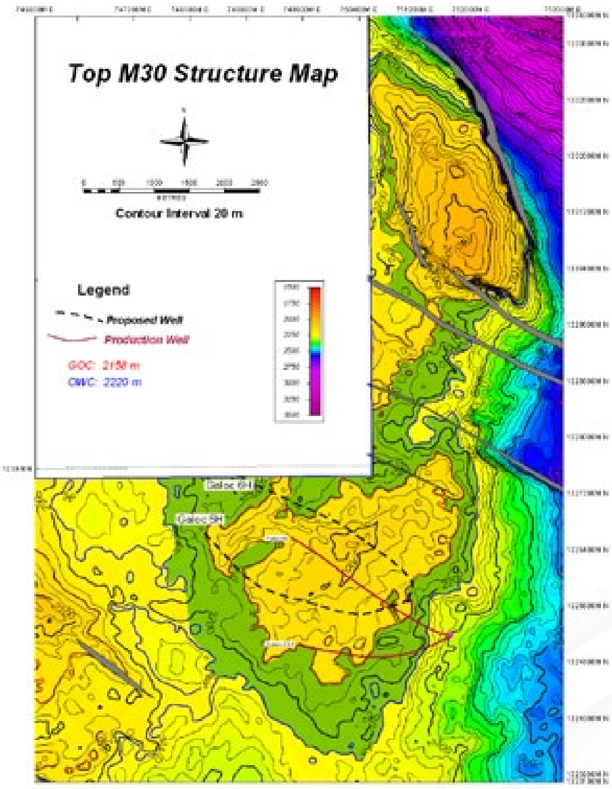
Background

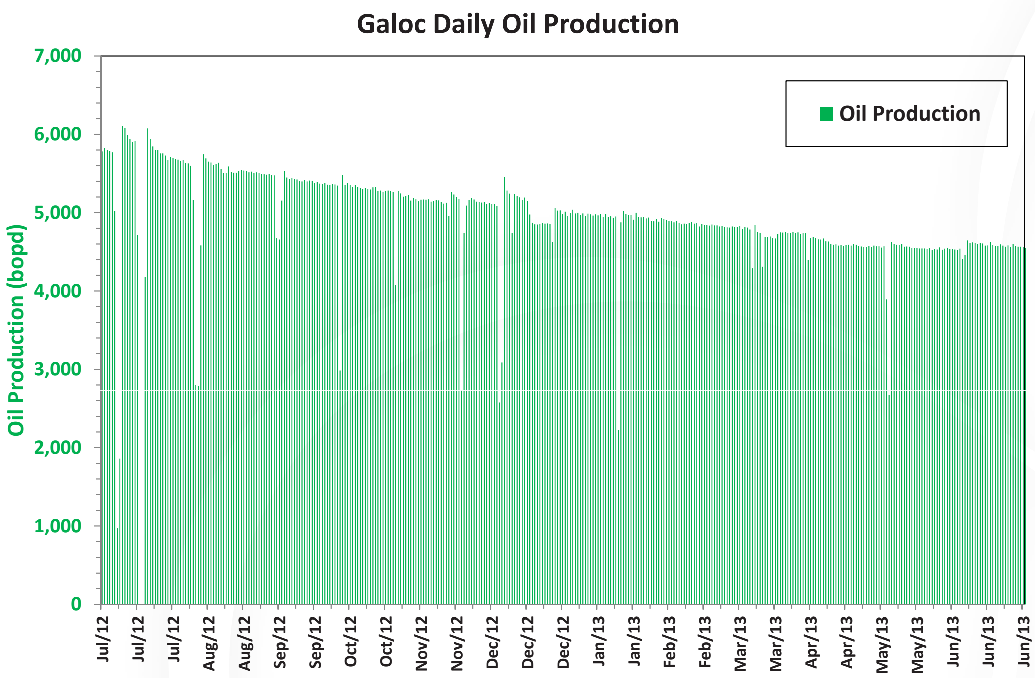
The Galoc oil field is located in Palawan's proven oil and gas fairway in a water depth of approximately 290 metres and commenced production in October 2008. Galoc crude is a 35° API oil existing in a turbidite sandstone reservoir at depths below sea level of approximately 2,100 metres and is produced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

Operations Summary

Oil production over FY2013 totalled more than 1.80 million barrels (gross) at an average daily rate of 4,900 barrels of oil per day (bopd). Cumulative to date production from the field exceeds 10.8 million barrels (gross). A total of five offtakes were delivered to Asia Pacific refinery customers in the financial year and 31 cargoes have now been delivered since production commenced.

At the time of writing this report, daily production averaged approximately 4,500 bopd with small volumes of water, and on natural decline from an initial peak rate of 17,000 bopd.





Service Contract 14C

Summary of operating results are contained in the table below:

	Production bbls		Lifting's bbls		Uptime %
	Gross	Net	Gross	Net	
3rd Qtr 2012	483,807	159,656	370,058	122,119	98
4th Qtr 2012	464,051	153,137	705,298	232,806	99
1st Qtr 2013	434,801	143,484	365,621	120,655	100
2nd Qtr 2013	414,614	136,823	340,379	112,325	100

Further Development

Final Investment Decision was taken in September 2012 for the Phase II development, consisting of two additional subsea horizontal development wells tied back to the existing FPSO.

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

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

Drilling of the two wells is currently underway.

Geoscience Activity

After interpretation of the new 3D seismic data acquired in late 2011, covering the Galoc field and adjacent Galoc North prospect, a detailed reservoir model was constructed. On the basis of this model the location for two new horizontal wells GH-5 and GH-6 were determined and drilling prospects developed. Several interesting exploration drilling opportunities which lie to the north of the present field have been evaluated and are being contemplated for drilling during 2014/2015.

EXPLORATION Philippines Offshore Palawan Basin

Service Contract 55

FY2013 Status

- BHP Billiton, as Operator of the SC55 permit, has lodged a notice of force majeure to suspend the timing of current permit obligations and preserve all permit rights
- Notice of force majeure has been lodged following delays in receiving the Strategic Environmental Plan ("SEP") clearance from the Palawan Provincial Council for Sustainable Development.

Joint Venture Partners

Name	Percentage
BHP Billiton Petroleum (Philippines) Corporation	60.0% (Operator)
OEL (through 100% subsidiary Otto Energy Investments Ltd (formerly NorAsian Energy Ltd))	33.2%
Palawan 55 Exploration and Production Corporation (formerly Trans-Asia Oil & Energy Development Corporation)	6.8%

Work Program

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

Note: Above commitment dates will be revised upon resolution of SEP clearance.

Prospectivity

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

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

Aggregated volumes for ten gas prospects and leads identified to date contain an estimated P50 GIIP of ~ 17 Bscf plus a further prospective reserve of 403 MMbbls of associated condensate. Arithmetic aggregation has been used, which results in a lower aggregated P90 and a higher aggregated P10, than if aggregated probabilistically.

Importantly, the diversity in play types identified in the licence area will allow the drilling of multiple independent wells to test the prospectivity and potential of this block.

SC55 contains both carbonate and sandstone reservoir targets in a variety of settings. The Hawkeye (oil) and Cinco (gas) prospects provide an indication of this diversity of play type and are the two most drill mature in the present portfolio. Net Prospective Resources Estimated below are calculated as WI net of government profit oil.

SC55 Portfolio - Gas. Arithmetric Aggregation

Bscf	P90	P50	P10
GIIP	2,325	17,141	71,064
Gross Prospective Resource	1,545	11,527	48,207
Net Prospective Resource	436	3,253	13,604

Hawkeye Prospect

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

Hawkeye STOIIP estimates range from 87 MMbbls to 1,539 MMbbls with a P50 of ~ 480 MMbbls, and Net Prospective Resource range of 5 to 113 MMbbls.

Cinco Prospect

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

There are a number of similarities between the Cinco prospect and the largest gas and condensate discovery in the Philippines, at Malampaya, which has been developed as the country's largest gas to power project. Both have Nido carbonate reservoir, sit on regional high blocks and have similar seismic character and volumetric capacity. Cinco GIIP ranges from 0.9 to 6.3 Tscf, with a P50 GIIP of 2.4 Tscf, and Net Prospective Resources range of 165 to 1,220 Bcsf, plus 16 MMbbls associated condensates at the P50 Net Prospective Resource level.

Permit Background - Licence

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

SC55 covers an area of 9,880km^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.

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

The SC55 Operator, BHP Billiton Petroleum (Philippines) Corporation (BHPB) (ASX:BHP), and joint venture partners are focused on delivering the Cinco-1 well in SC55 in accordance with the contractual work programme commitments to the Philippine Department of Energy.

The declaration of force majeure comes amid delays in receiving the Strategic Environmental Plan Clearance ("SEP Clearance") for SC55 from the Palawan Provincial Council for Sustainable Development ("PCSD"), as detailed in Otto's previous ASX announcement dated 13 April 2013. The SEP Clearance would ordinarily have been expected to be received in September 2012 and the notice of force majeure seeks a suspension of permit obligations from this date until the receipt of the SEP Clearance.

The Sangguniang Panlalawigan (Palawan Provincial Board) has requested the submission by BHP Billiton, as the Operator, of a comprehensive socio-economic development programme for the Province of Palawan prior to recommending endorsement of the SEP Clearance by the PCSD. This is not a requirement under Philippine Law, nor has it been required for exploration approvals in the past.

The effect of issuing the notice of force majeure is to suspend the obligations under the current Fourth Sub-Phase of SC55, including the drilling of the Cinco-1 well, and to preserve the remaining time under the exploration period of SC55 until the SEP Clearance is received. The Operator, the SC55 joint venture and the Philippine Department of Energy will continue to work towards securing the SEP Clearance and in doing so, remove the cause of the force majeure.

Following receipt of the SEP Clearance, BHP Billiton will subsequently finalise securing an appropriate deepwater drilling rig in order to undertake drilling of the Cinco-1 well.

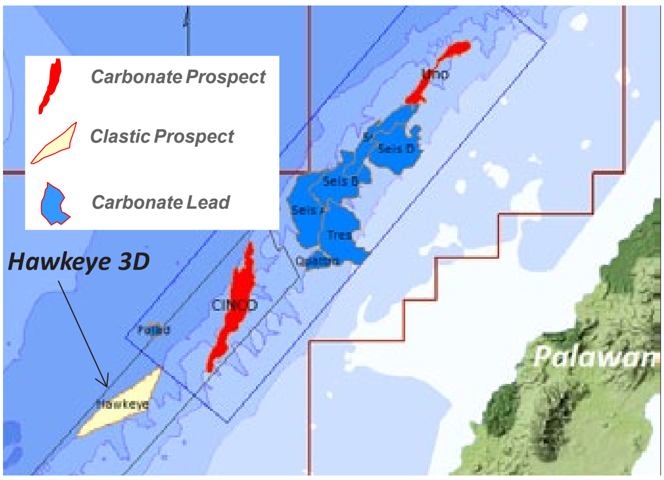
Geology

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

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

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

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



Significant Regional Projects

- Malampaya gas and condensate project, operated by Shell, offshore Palawan, Philippines. Currently produces 400 MMscf per day.
- Kikeh oil project, operated by Murphy Oil Corporation, offshore Sabah, Malaysia. Initial production (2007) 120,000 bbl per day.
- Kebabangan cluster of gas and condensate fields, operated by Kebabangan Petroleum Operating Company (Petronas, Shell and ConocoPhillips), offshore Sabah, Malaysia. First gas expected 2014, producing approximately up to 140,000 boe per day.

Service Contract 51

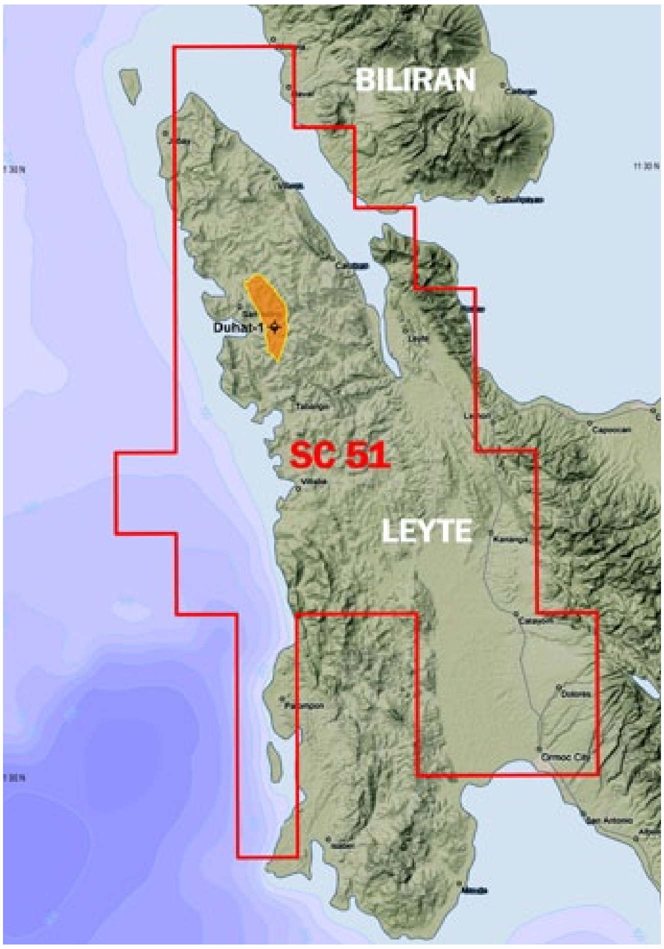
Service Contract 51 North is situated predominately onshore, on the northern tip of Leyte. Northern Leyte has been described by geologists as containing the most natural oil seeps in the Philippine archipelago, yet remains largely under-explored. In April 2011, the exploration well Duhat-1 was drilled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

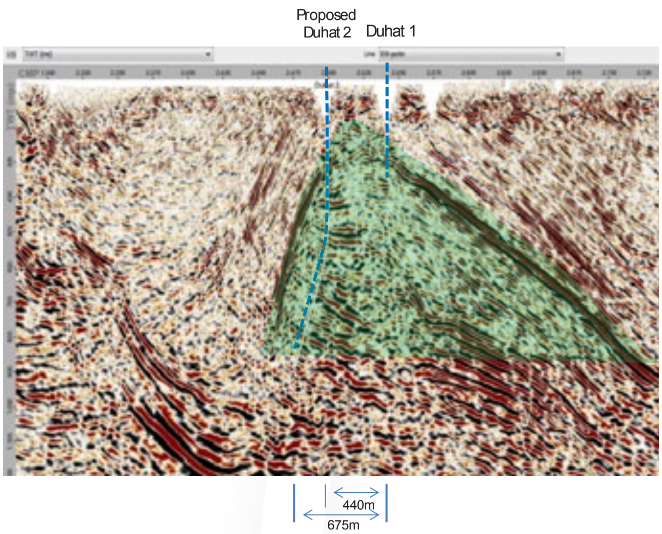
Whilst drilling Duhat-1 significant oil and gas shows were observed. These shows provided an additional incentive to undertake new 2D seismic acquisition which was completed in 2012 and confirmed the robustness of the Duhat prospect. Further encouragement that an active petroleum system was present adjacent to the Duhat prospect was provided when oil was recovered from seismic shot holes. Preparations to drill a second well, Duhat-2, some 400m west of Duhat-1 commenced in early 2013. Duhat-2 is programmed to be drilled to 1000m and targeted sands of the Miocene Tagnocot Formation.

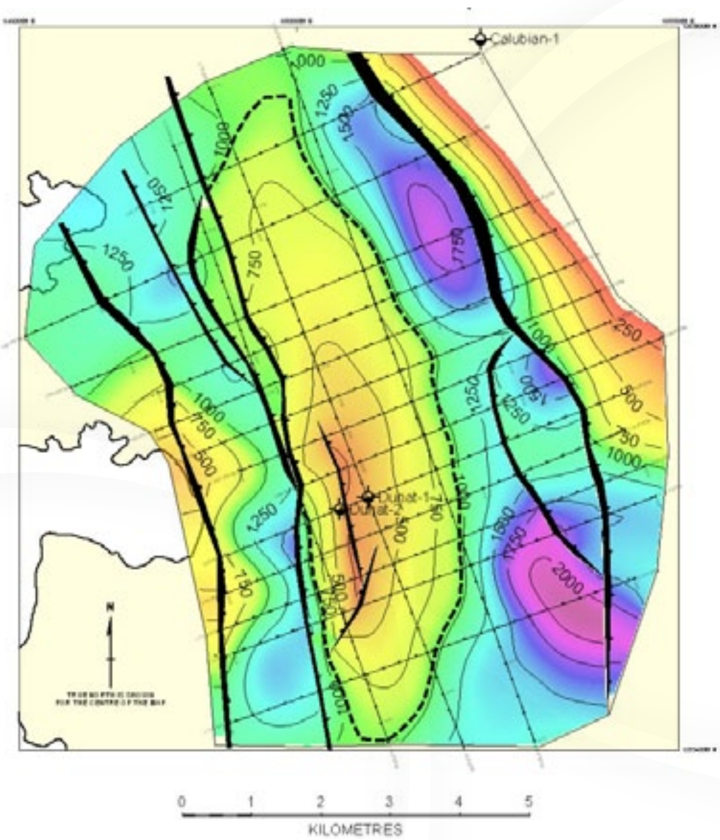
Unfortunately, the well encountered a high pressure water bearing interval which led to early abandonment of the well. We acquired valuable data from the well which will be considered in our future plans.

SC51 Block Participants

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







Service Contract 69

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

In 2010, Otto acquired 760km of 2D seismic over two carbonate build-ups identified from a previous seismic re-processing program. The data acquired from the successful 2D seismic campaign confirmed the presence of two sizeable reef structures, Lampos and Lampos South, in close proximity to the Calangaman Trough, modelled to generate both oil and gas. Otto's desire to de-risk these prospects to 'drillable' status led to the successful acquisition of 210km^2 of 3D seismic in June 2011. Interpretation of this data confirmed the robustness of these prospects and in mid-2012 Otto commenced a farmout process to help secure funding for a future drilling campaign.

Shown here are estimates for both Lampos and Lampos South prospects combined.

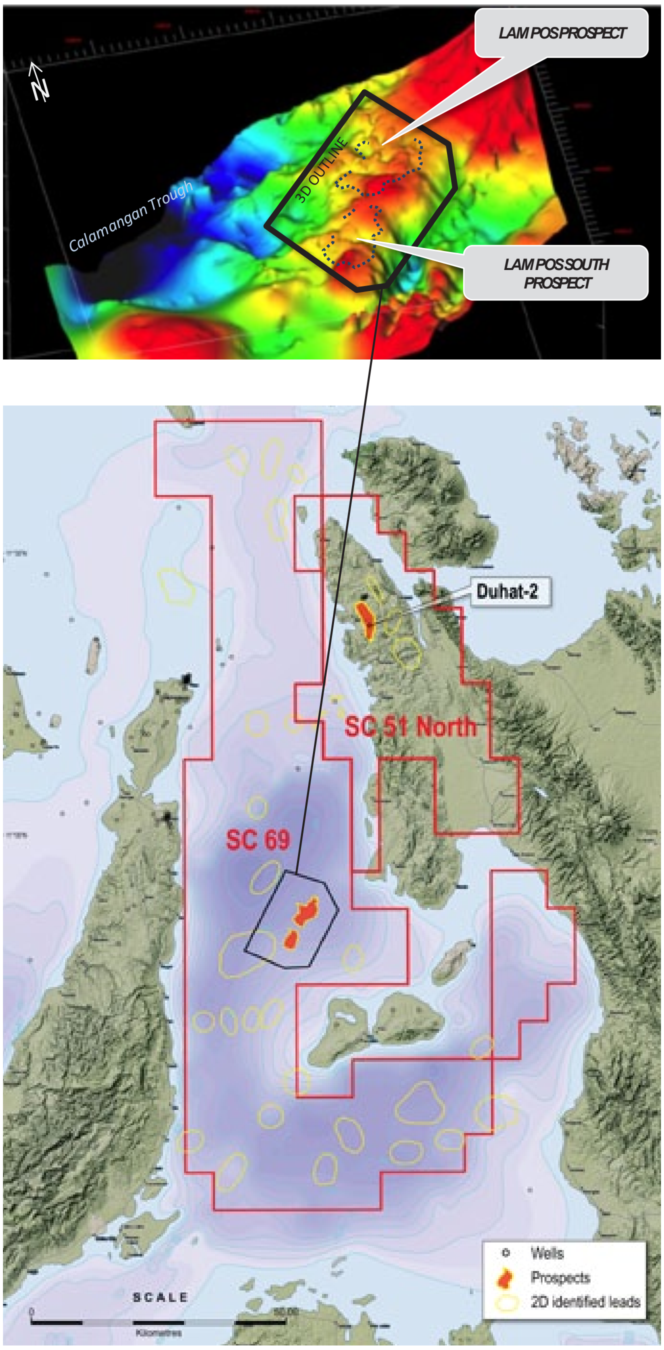
SC69 Block Participants	
Otto Energy Philippines Inc (formerly NorAsian Energy Philippines Inc) (100% subsidiary of Otto)	79.0% and Operator
Trans-Asia Petroleum Corporation (formerly Trans-Asia Oil and Energy Development Corporation)	6.0%
Frontier Gasfields Pty Ltd	15.0%

Lampos and Lampos South Prospects – Oil Case

	STOIIP	Net Prospective Resource
P90	51 MMbbls	9 MMbbls
P50	269 MMbbls	54 MMbbls
P10	1,169 MMbbls	262 MMbbls

Lampos and Lampos South Prospects – Gas Case

	GIIP	Net Prospective Resource
P90	74 Bscf	32 Bscf
P50	388 Bscf	173 Bscf
P10	1,682 Bscf	757 Bscf



Service Contract 73 (FORMERLY AREA 7)

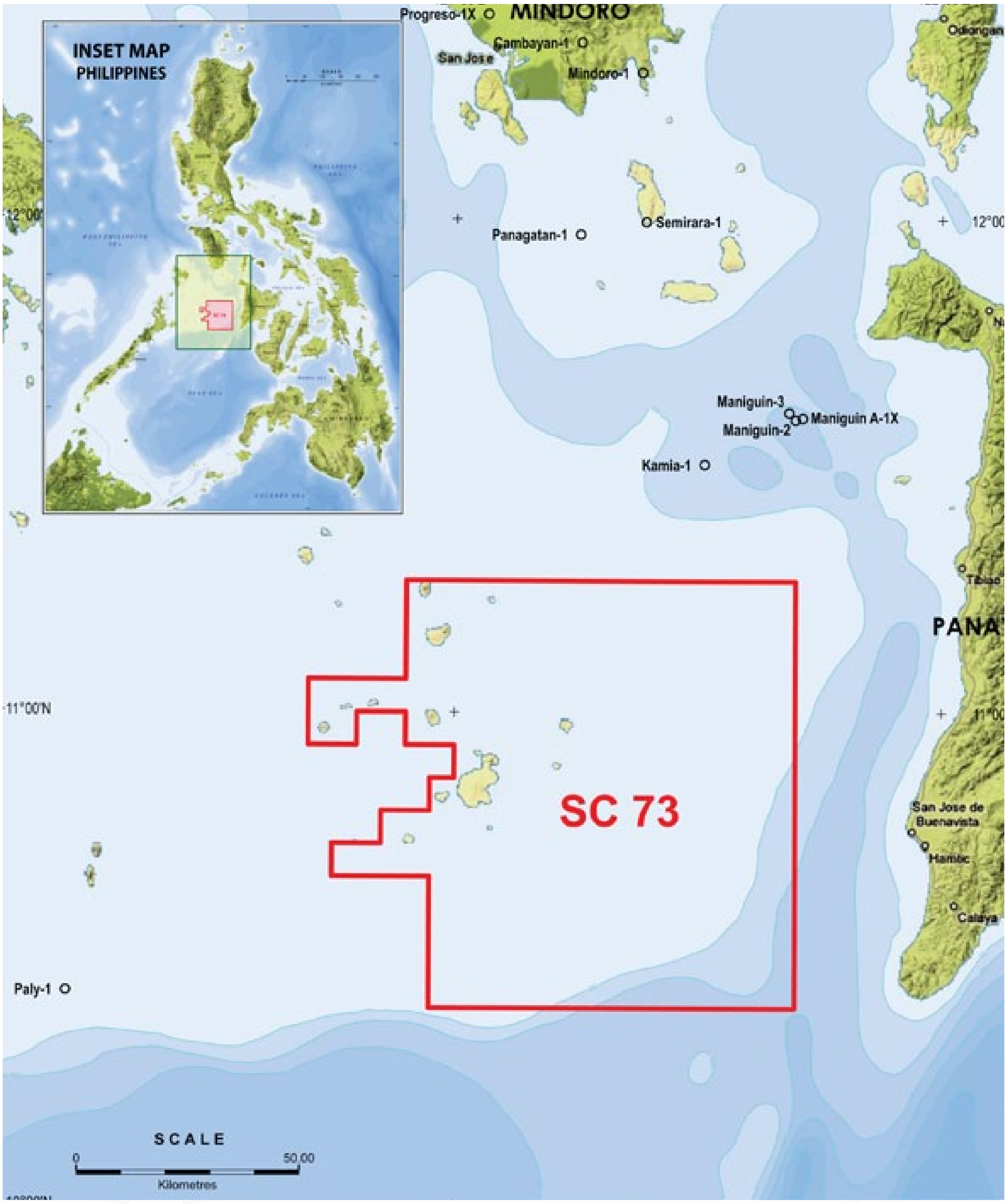
Otto Energy has been awarded Service Contract 73 (formerly Area 7) under the latest Philippine Energy Contracting Round. The award of this service contract is a reflection of Otto's significant expertise in the Philippine oil and gas industry.

Otto will now commence a program involving the reprocessing of existing seismic data within a minimum financial commitment of US$0.5 million within an initial period of 18 months.

SC73 is an offshore block located in the southern part of the Mindoro Basin – Cuyo Platform, a continental rift basin located offshore the Philippines. It covers around 8,440km^2 with water depths ranging from 100 metres to 1,300 metres. There is an existing 2D seismic data set of over 3,000 kilometres covering the block.

The petroleum play types identified in SC73 are reef build-ups, fault blocks and anticlines. The reservoir intervals are Early Miocene to Pliocene carbonates and Early to Late Miocene carbonates and clastics. Source rocks are coaly and organic-rich claystones of Eocene to Middle Miocene. Middle Miocene carbonates and clastics provide the seal for the system.

Oil has been discovered with an Extended Production Test conducted in 1994 at the Maniguin wells near the block. The occurrence of oil seepages in the Mindoro Island region also confirms the presence of an active petroleum system in the area.



Tanzania

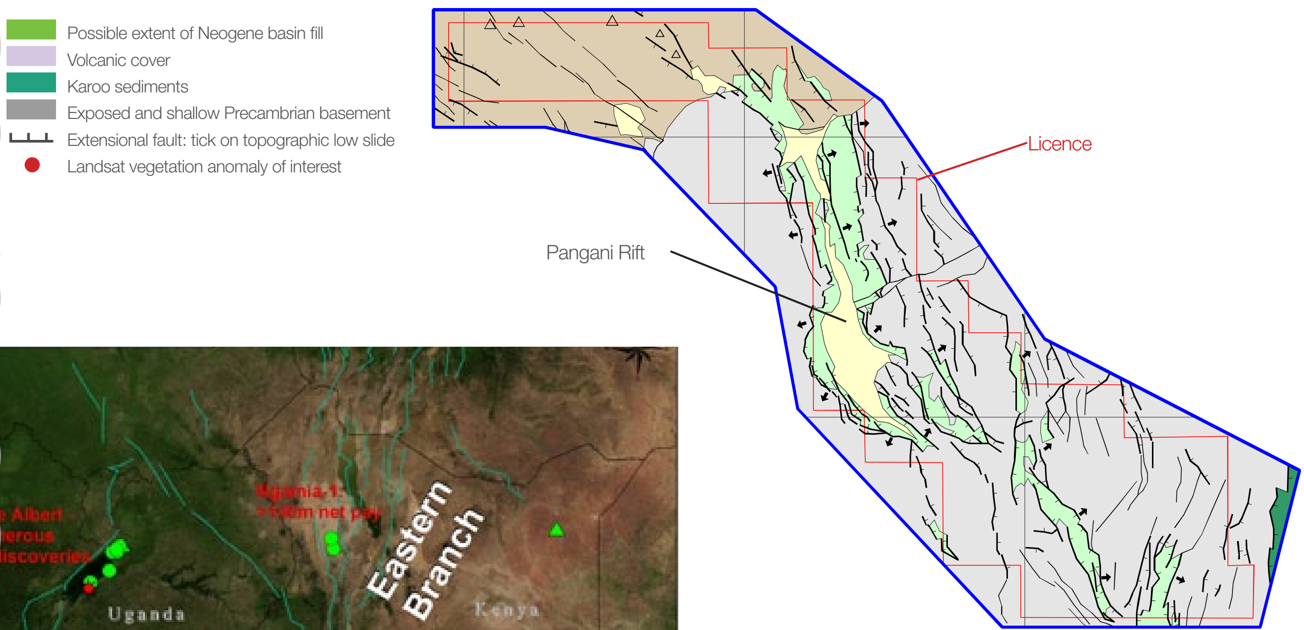
Otto acquired interests in the Kilosa-Kilombero and Pangani onshore Production Sharing Agreements in February 2012.

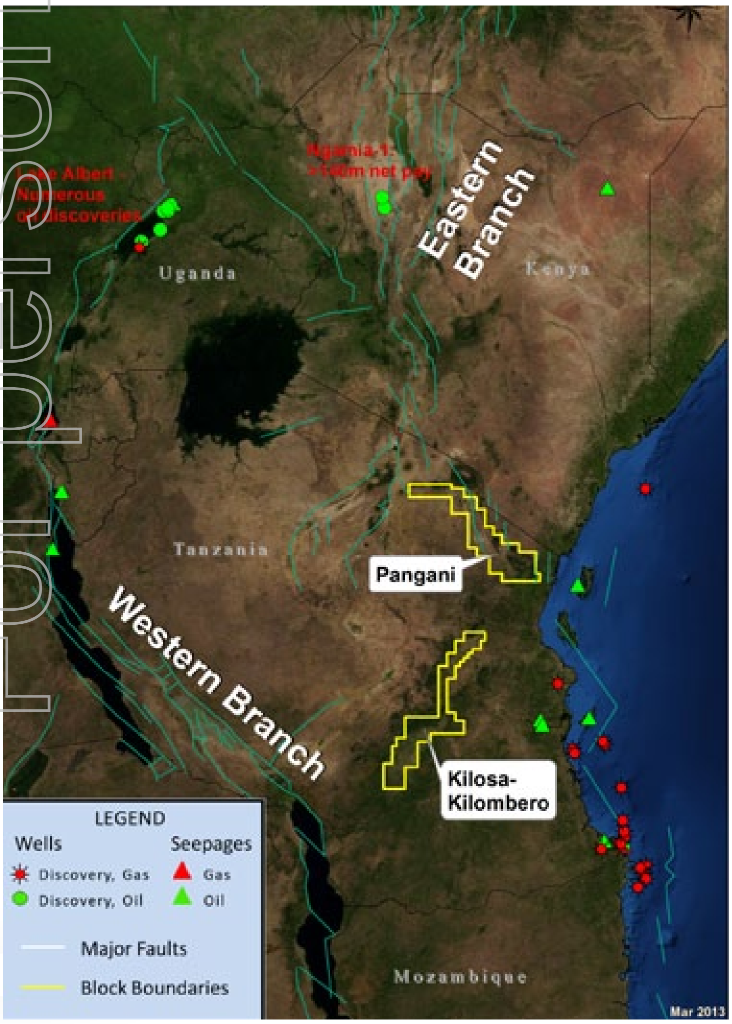
Pangani PSA

The Pangani block is believed to be a potential arm of a triple point junction on the eastern branch of the East African Rift System, at the top of which Tullow Oil and its partners have recently discovered in excess of 250 MMbbls of recoverable oil.

The committed work program activity in the first 12 months included airborne gravity and/or magnetic surveying, satellite and photogeology works and geochemical sampling. The commitment activities were completed by October 2012. The final airborne survey recovered more than 8,000km of data through efficient use of the combined gravity and separate magnetic surveys. The results of this work confirm the presence of two sedimentary basins, each of about 2,000km^2 in area. The depth modelling from gravity and magnetic data indicates the basins may contain several thousand metres of Neogene sediments (2.5 – 23 million years). The geometry of the basin fill will be identified by the seismic acquisition planned for Q3/4 2013.

The joint venture has committed to enter the second contract year, during which they will acquire up to 200km of new 2D seismic and gather geochemical samples.





East Africa

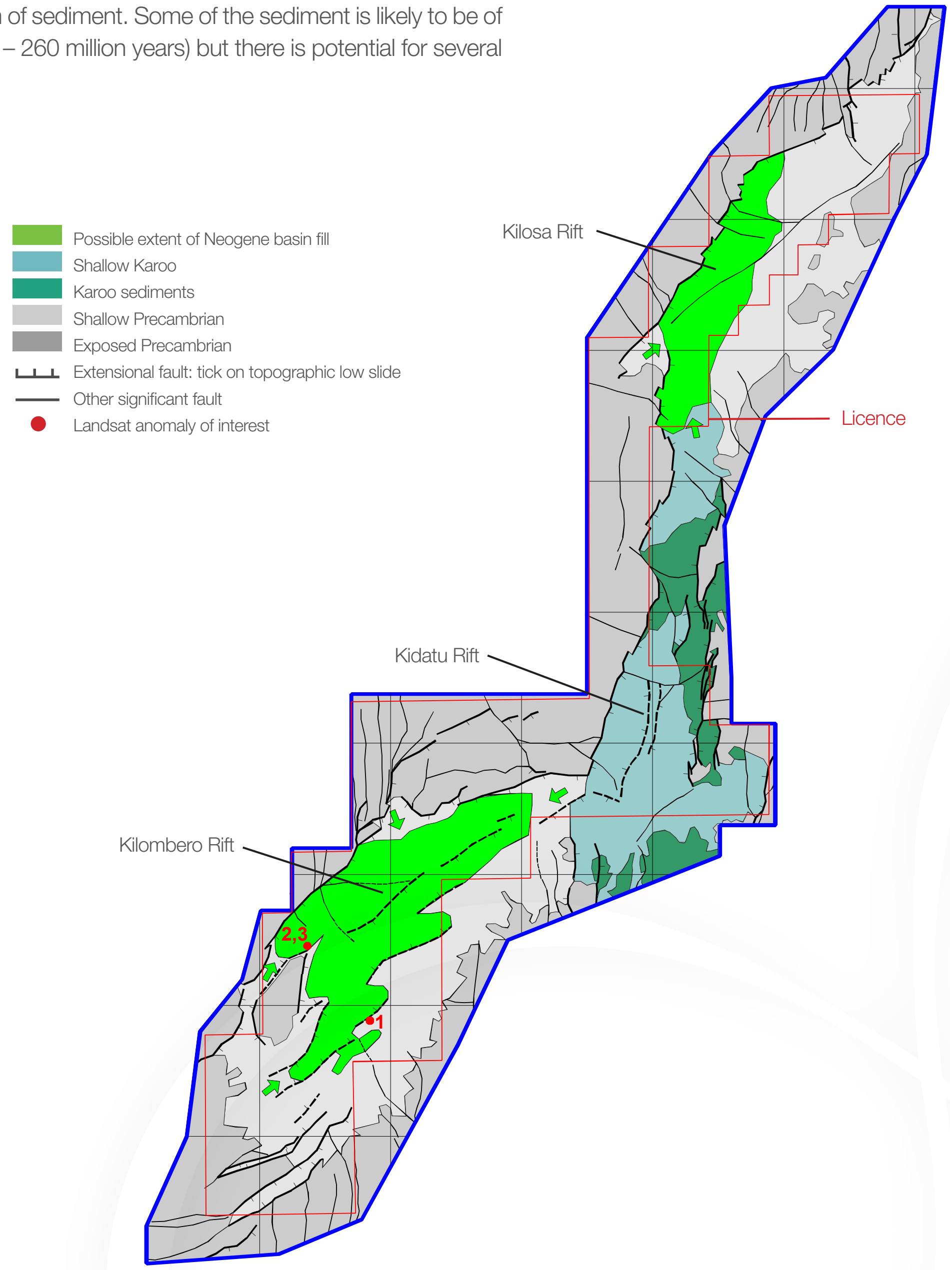
Kilosa-Kilombero PSA

Kilosa-Kilombero is a large licence covering the Kilosa and Kilombero Mesozoic and Cenozoic basins, formed during two phases of rifting which also constitutes the huge Selous basin (Mesozoic). The Cenozoic rifting may be linked with the greater (western) rift system of the East Africa Rift.

Similar to the Pangani block, the committed work program activity in the first 12 months included airborne gravity and/or magnetic surveying, satellite and photogeology works and geochemical sampling. The commitment activities were completed by October 2012. The final airborne survey recorded more than 14,000km of data through efficient use of the combined gravity and separate magnetic surveys. The results of this work confirm the presence of three sedimentary basins, each of about 2,000km^2 in area. The northern two basins at Kilosa and Kidatu are estimated to contain 6,000 – 7,000m of sediment. Some of the sediment is likely to be of Karoo age (100 – 260 million years) but there is potential for several thousand metres of Neogene fill. The southern Kilombero basin is believed to be predominantly Neogene in age and it also exhibited anomalous stressed vegetation identified as being potentially caused by hydrocarbon seeps. The geometry of the basin fill will be identified by the seismic acquisition planned for Q3/4 2013.

The joint venture has committed to enter the second contract year, during which they will acquire 300km of new 2D seismic and gather geochemical samples.

Kilosa-Kilombero and Pangani Block Participants	
Otto Energy (Tanzania) Pty Ltd (100% subsidiary of Otto)	50.0%
Swala Oil and Gas (Tanzania) Limited	50.0% (Operator)



Reserves & Contingent Resources

Otto Proved (1P) Reserves as at 30 June 2013

Proven (1P) Entitlement Reserves [(2)] (Otto Entitlement share) by Area

	Crude Oil	Sales Gas	Sales Gas	Total
	Million bbls	Bcf	Million bbls	Million bbls
Philippines – Galoc Field (5)	3.1	0.0	0.0	3.1
TOTAL	3.1	0.0	0.0	3.1

Otto Proved and Probable (2P) Reserves as at 30 June 2013

Proven plus Probable (2P) Entitlement Reserves [(3)] (Otto Entitlement share) by Project Area

	Crude Oil	Sales Gas	Sales Gas	Total
	Million bbls	Bcf	Million bbls	Million bbls
Philippines – Galoc Field (5)	4.1	0.0	0.0	4.1
TOTAL	4.1	0.0	0.0	4.1

Movement in 2P Reserve and 2C Resource Categories over the period 1 July 2012 to 30 June 2013

Reserves & Contingent Resources Summary

	1 July 12	Production	Revisions & Exploration Success	Contingent Resources converted to Reserves	Acquisitions and Divestment	30 June 13
Galoc Field – SC14C	**Million bbls**	**Million bbls**	**Million bbls**	**Million bbls**	**Million bbls**	**Million bbls**
2P Reserves	4.4	(0.5)	0.2	0.0	0.0	4.1
2C Contingent Resources	0.0	0.0	0.0	0.0	0.0	0.0
All Project Areas	**Million bbls**	**Million bbls**	**Million bbls**	**Million bbls**	**Million bbls**	**Million bbls**
2P Reserves	4.4	(0.5)	0.2	0.0	0.0	4.1
2C Contingent Resources	0.0	0.0	0.0	0.0	0.0	0.0

** Numbers have been rounded to 1 decimal place*

Reserves & Contingent Resources

Otto Reserve Estimates (30 June 2013)

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 January 2013.

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

Rounding errors can occur in aggregation of numbers.

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

Major Changes since 30 June 2013

Galoc

The Galoc "gross" 2P Reserve estimate at 30 June 2013, was 14.6 Mbbl. Of this, Otto assess that 12.4 Mbbl is the "Contractor Share" (Gross) and 2.2 Mbbl is the "Government Profit Oil Share" (Gross). Otto reports it's effective working interest of the Contractor Share of the Reserves (2P = 4.1 Mbbl).

Reserves & Contingent Resources in 2013 have been adjusted to reflect the latest reservoir modelling and predicted outcomes from the approved Phase II development.

Notes to the Reserves Statement

Notes to the Reserves Statement:

1. Reserves are those quantities of petroleum anticipated to be commercially recoverable by application of development projects to known accumulations from a given date forward under defined conditions. Reserves must further satisfy four criteria: they must be discovered, recoverable, commercial, and remaining (as of the evaluation date) based on the development project(s) applied.

2. Proven (1P) reserves are those reserves that, to a high degree of certainty (90% confidence), are recoverable. There is relatively little reservoir risk associated with these reserves. Proven developed reserves are reserves that can be recovered from existing wells with existing infrastructure and operating methods. Proven undeveloped reserves require development.

3. Proven plus Probable (2P) reserves are those reserves that analysis of geological and engineering data suggests are more likely than not to be recoverable. There is a circa 50% probability that reserves recovered will exceed Proven plus Probable reserves.

4. Contingent Resources are those quantities of hydrocarbons which are estimated, on a given date, to be potentially recoverable from known accumulations, but which are not currently considered to be commercially recoverable. Contingent Resources may be of a significant size, but still have constraints to development. These constraints, preventing the booking of reserves, may relate to lack of gas marketing arrangements or to technical, environmental or political barriers. 2C Contingent Resources are where there is circa 50% probability that the quantities exceed this estimate. Contingent Resources do not always mature to Reserves and do not necessarily represent future Reserves bookings.

5. The Philippines "Government Share" of Galoc 1P and 2P Reserves has been deducted from Otto's working interest (33.00%).

6. Net Prospective or Net Contingent Resources are calculated as per Otto's WI and include the deduction of the Government share of profit oil.

7. "Mbbl" means millions (106) of barrels of oil at standard oilfield conditions of 14.696 psi (101.325kPa) and 60º Fahrenheit (15.56º Celsius).

8. "Bcf" means billions (109) of cubic feet of gas at standard oilfield conditions of 14.696 psi (101.325kPa) and 60º Fahrenheit (15.56º Celsius).

9. "Mboe" means millions (106) of barrels of oil equivalent. In common with international practice, dry gas volumes are converted to oil equivalent volumes via a constant conversions factor, for which Otto adopts 6 Bcf of dry gas to one Mboe.

10. Unless otherwise stated, Reserve and resource estimates are net to Otto.

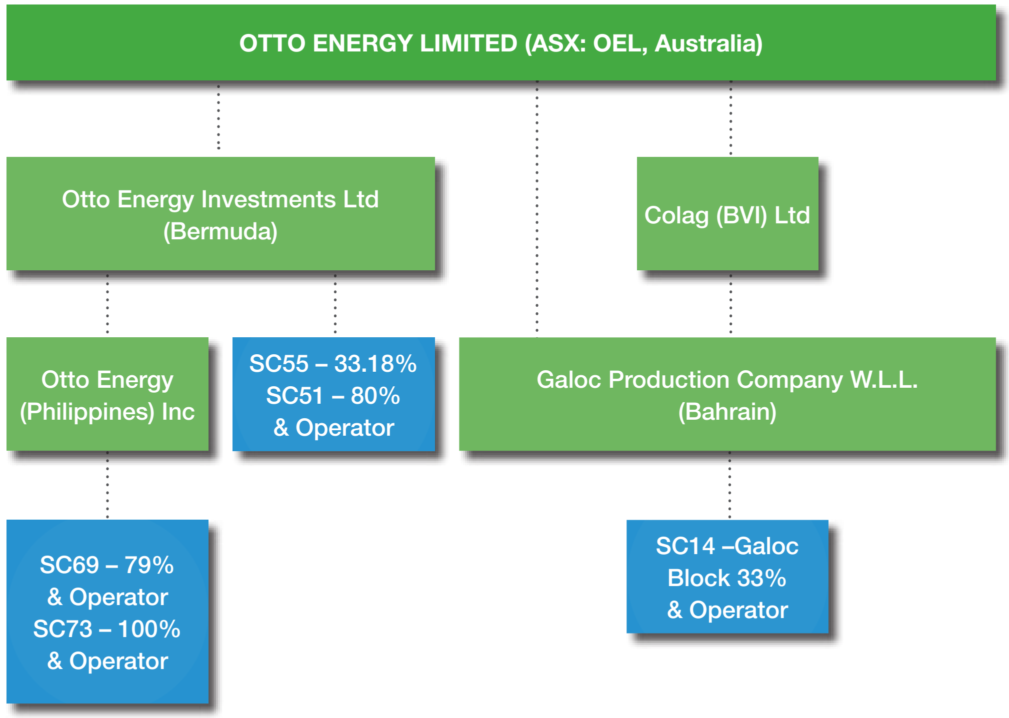
Governance

The Reserve Statement has been compiled by Mr. Nick Pink, Otto's Senior Reservoir Engineer, who is a full-time employee of the Company. Mr. Pink has more than 15 years of relevant experience and is qualified in accordance with the ASX Listing Rule 5.11. Mr Pink has consented to the form and context that this statement appears.

Summary of Assets

Asset	OEL Working Interest	Joint Venture Partners		Notes
The Philippines				
SC51 Exploration Block, East Visayan Basin	80% (Northern Block) (Operator)	COSCO Capital	9.32%	Otto is carrying Filipino partners through drilling of an onshore well (Duhat-2).
		Trans-Asia Petroleum	6.67%	There is a 1% Gross Overriding Royalty to RGA on Otto's share
		PetroEnergy	4.01%	
SC55 Exploration Block, Southwest Palawan Basin	33.18%	BHP Billiton Petroleum (Operator)	60%	Otto carrying Filipino partner through drilling of two wells.
		Palawan 55 Exploration and Production	6.82%	BHP Billiton has exercised an option to farm-in for 60% equity.
				BHP Billiton to carry 100% of first well and 85% of second well. BHP Billiton may elect to not drill the second well in which case 30% equity and operatorship are returned to Otto.
				There is 1% Gross Overriding Royalty to RGA on Otto share.
				Trans-Asia also has a right to acquire an additional 5% equity from Otto.
SC69 Exploration Block, East Visayan Basin	79% (Operator)	Trans-Asia Petroleum	6%	Otto carrying 6% of Trans-Asia's equity through 50% of 3D seismic survey in 2011 and first well.
		Frontier Gasfields	15%	No royalties exist.
SC14C – Galoc Block Northwest Palawan	33% (Operator)	GPC (2)	26.84%	
		Nido Petroleum	22.88%	
		Oriental	7.79%	
		Philodrill	7.21%	
		Forum	2.28%	
Tanzania				
Kilosa-Kilombero PSA	50%	Swala Oil and Gas (Tanzania)	50%	Permit acquired in February 2012
Pangani PSA	50%	Swala Oil and Gas (Tanzania)	50%	Permit acquired in February 2012

Corporate Structure



Financial Report

Corporate DIRECTORY

Directors
Mr Rick Crabb – Non-Executive Chairman

Mr Rufino Bomasang – Non-Executive Director

Mr John Jetter – Non-Executive Director

Mr Ian Macliver – Non-Executive Director

Mr Ian Boserio – Non-Executive Director

Company Secretary
Mr. Matthew Allen

Key Management Personnel
Mr Gregor McNab – Chief Executive Officer

Mr Matthew Allen – Chief Financial Officer

Mr Paul Senycia – Exploration Manager

Notice of Annual General Meeting
The Annual General Meeting of Otto Energy Limited will be held at the University Club of Western Australia, Hackett Drive, Crawley, at 9am on Thursday 14 November 2013. A formal Notice of Meeting is enclosed.

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West Perth WA 6005

Tel: +61 8 6467 8800

Fax: +61 8 6467 8801

Share Register
Link Market Services Limited

178 St Georges Terrace

Perth WA 6000

Tel: +61 8 9211 6670

Fax: +61 2 9287 0303

Auditors
BDO Audit (WA) Pty Ltd

38 Station Street

Subiaco WA 6008

Tel: +61 8 6382 4600

Fax: +61 8 6382 4601

Stock Exchange Listings
Australian Securities Exchange

Level 8, Exchange Plaza

2 The Esplanade

Perth WA 6000

ASX Code: OEL

Banks
Westpac Banking Corporation

Level 17, 109 St Georges Terrace,

Perth WA 6000

Tel: +61 8 9426 2580

Fax: +61 8 9426 2288

BNP Paribas

10 Collyer Quay #34-01

Singapore 049315

Tel: + 65 6210 1288

Fax: + 65 6224 3459

Website Address
www.ottoenergy.com

Directors REPORT

Your Directors present their report on the consolidated entity (referred to hereafter as the "consolidated entity") consisting of Otto Energy Limited and the entities it controlled at the end of, or during, the year ended 30 June 2013.

Directors

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

Mr Rick Crabb
Mr Rufino Bomasang
Mr John Jetter
Mr Ian Macliver
Mr Ian Boserio

Directors have been in office from 1 July 2012 until the date of this report unless otherwise stated.

Principal Activities

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

Dividends – Otto Energy Limited

The Directors recommend that no dividend be paid for the year ended 30 June 2013, 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 consolidated entity during the financial year and the results of those operations are set out in the review of operations, refer to pages 4 to 17.

Financial Summary

The consolidated entity experienced an increase in revenue during the year. Revenue from sale of oil for the financial year ending 30 June 2013 was US$60.18m (2012: US$30.59m). This was a result of Otto Energy Limited owning a controlling stake in Galoc Production Company WLL (GPC) for the full year to 30 June 2013 compared to the nine months from 1 October to 30 June 2012.

The net profit from continuing operations before tax was US$20.26m (2012: US$15.44m) and a net profit after tax of US$9.44m (2012: US$14.79m). The 2012 net profit after tax was higher due to the US$20.19m gain on deemed disposal of associate upon GPC becoming an controlled entity.

Significant changes in state of affairs

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

- Final Investment Decision approving the Phase II development of the Galoc oil field was achieved in September 2012. The Phase II development commenced in June 2013 and involves the drilling of two subsea wells, tied back to the existing Floating Production, Storage & Offloading (FPSO) facility. The delivery of Phase II and ongoing production operations is being managed by Otto as Operator of the Galoc oil field and the SC14C joint venture.
- In December 2012 Otto entered into a binding agreement with BNP Paribas to provide US$37.4 million in project financing for its share of capital expenditure committed to the Galoc Phase II development.

- In September 2012 Otto purchased a 40% working interest in SC51 North Block from SWAN Oil & Gas Limited for $1.32 million, increasing Otto's working interest in SC51 North Block from 40% to 80%.
- Drilling of Duhat-2 well was approved during the year and mobilisation commenced in June 2013.

Matters subsequent to the end of the Financial Year

Drilling of Duhat-2 well commenced in July 2013. When drilling at 200 meters the well started to flow high pressure water at high flow rates. Otto reviewed the flow and pressure information obtained since drilling commenced at Duhat-2 and the decision was made to plug and abandon the well. There were no injuries to any personnel and no identified impacts on the local environment as a result of the flow of water from the well. A continuous monitoring system has been put in place, and Otto is in regular contact with local communities and the authorities.

Commencement of the 2D seismic acquisition programme in Tanzania occurred in August 2013.

Likely developments and expected results of Operations

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

- The Galoc joint venture will continue with the Phase II drilling campaign during the second half of 2013
- In Tanzania, Otto's joint venture partner Swala Energy Limited, will acquire and process 2D seismic data; and
- In the Philippines, Otto will continue with exploration programs in each of its Service Contract areas. These programs include where appropriate drilling, further seismic acquisition and interpretation work.

Additional comments on expected results of certain operations of the group are included in the review of operations on pages 4 to 17.

In accordance with its objectives, the consolidated entity intends to participate in a number of exploration and appraisal wells and new development projects, and will consider growing its exploration effort and production base by farm-in, permit application and/or acquisition within its existing operational focus areas and in other suitable countries or regions.

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

Environmental Regulation

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

Directors REPORT

Information on Directors and Key Management Personnel

Mr Rick Crabb

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

Date appointed
19 November 2004

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

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

Former directorships in last 3 years
None

Special responsibilities
Audit and Compliance
Remuneration and Nomination Committee

Interests in shares and options
17,495,052 ordinary shares of Otto Energy Limited

Mr John Jetter

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

Date appointed
10 December 2007

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

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

Former directorships in last 3 years
None

Special responsibilities
Remuneration and Nomination Committee

Interests in shares and options
19,089,175 ordinary shares of Otto Energy Limited and options to acquire 3,000,000 ordinary shares

Mr Ian Macliver

BCom, FCA, F Fin, FAICD.
Director (Non-Executive)

Date appointed
7 January 2004

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

Other current directorships
Non-Executive Director of Stratatel Limited since July 2000, Non-Executive Director of Select Exploration Limited (formerly Select Vaccines Limited) since September 2010, and Non-Executive Director of Western Areas NL since October 2011.

Former directorships in last 3 years
Non-Executive Director of Mount Gibson Iron Limited February 2001 to November 2011, Non-Executive Director of Car Parking Technologies Limited (formerly Empire Beer Group Limited) May 2006 to February 2011, and Non-Executive Director of Port Bouvard Ltd from December 1994 to April 2011.

Special responsibilities
Audit and Compliance
Remuneration and Nomination Committee

Interests in shares and options
4,549,721 ordinary shares of Otto Energy Limited

Mr Ian Boserio

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

Date appointed
2 September 2010

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

Other current directorships
None

Former directorships in last 3 years
Non-Executive Director of Nexus Energy Limited November 2009 to October 2012.

Special responsibilities
None

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

Mr Rufino Bomasang

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

Date appointed
18 August 2006

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

Other current directorships
Non-Executive Chairman of Otto Energy Investments Limited and Otto Energy Philippines Inc., subsidiaries of Otto Energy Limited.

Former directorships in last 3 years
None

Special responsibilities
None

Interests in shares and options
Nil

Mr Gregor McNab

BSc (Offshore Eng).
Chief Executive Officer

Date appointed
1 November 2011

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

Other current directorships
None

Former directorships in last 3 years
None

Special responsibilities
None

Interests in shares and options
20,000,000 performance rights of Otto Energy Limited

Mr Matthew Allen

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

Date appointed
9 November 2009

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

Other current directorships
None

Former directorships in last 3 years
None

Special responsibilities
None

Interests in shares and options
1,000,000 ordinary shares of Otto Energy Limited, options to acquire 4,000,000 ordinary shares of Otto Energy Limited and performance rights of 8,500,000.

Mr Paul Senycia

MAppSc (Geophysics),
Exploration Manager

Date appointed
12 April 2010

Experience and expertise
Mr Senycia has more than 25 years of experience in Australasia, North & West Africa, North America and Europe. Mr Senycia also has significant experience in all facets of the upstream oil and gas exploration business including executing seismic and drilling programs, capturing new venture opportunities, joint venture relationship and farm-in/out management. Mr Senycia has recently held positions of Exploration Manager with Oilex Ltd and Head of Evaluation with Woodside Energy Ltd.

Other current directorships
None

Former directorships in last 3 years
None

Special responsibilities
None

Interests in shares and options
1,000,000 ordinary shares of Otto Energy Limited, options to acquire 4,000,000 ordinary shares of Otto Energy Limited and performance rights of 8,500,000.

Company Secretary

The Company Secretary is Mr Matthew Allen B.Bus, FCA, F Fin, GAICD. Mr Allen was appointed to the position of Company Secretary in 2010.

Directors REPORT

Meetings of Directors

The number of meetings of the Company's Board of Directors and of each Board Committee held during the year ended 30 June 2013, and the numbers of meetings attended by each Director were:

	Full meetings of Directors		Meetings of Audit Committee		Remuneration and Nomination Committee	
Director	**Number eligible to attend**	**Number attended**	**Number eligible to attend**	**Number attended**	**Number eligible to attend**	**Number attended**
Mr R Crabb	10	10	2	2	–	–
Mr R Bomasang	10	10	–	–	–	–
Mr J Jetter	10	9	–	–	–	–
Mr I Macliver	10	10	2	2	–	–
Mr I Boserio	10	9	–	–	–	–

Remuneration Report (Audited)

The Directors of the Company have prepared this remuneration report to outline the overall remuneration strategy, policies and practices, which were adopted by the consolidated entity in 2013 and which utilises the share rights plan approved by the shareholders in 2010. The report has been prepared in accordance with Section 300A of the Corporations Act 2001 and its regulations.

Otto Energy's remuneration policy is designed to ensure that the level and form of compensation achieves certain objectives, including:

(a) attraction and retention of employees and management to pursue the consolidated entity's strategy and goals;
(b) delivery of value-adding outcomes for the consolidated entity;
(c) fair and reasonable reward for past individual and consolidated entity performance; and
(d) incentive to deliver future individual and consolidated entity performance.

Remuneration consists of base salary, superannuation, short term incentives (STI) and long term incentives (LTI). Remuneration is determined by reference to market conditions and performance. Performance is evaluated at an individual level as well as the performance of the consolidated entity as a whole.

The remuneration policies and structure in 2013 were generally the same as for 2012.

Directors and Key Management Personnel disclosed in this report:

Directors

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

Key Management Personnel

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

Role of the Remuneration and Nomination Committee

The Remuneration and Nomination Committee's role is to review and recommend remuneration for Key Management Personnel, review remuneration policies and practices, Company incentive schemes and superannuation arrangements.

The Committee considers independent advice where circumstances require, on the appropriateness of remuneration to ensure the consolidated entity attracts, motivates and retains high quality people.

The ASX Listing Rules require that the maximum aggregate amount of remuneration to be allocated among the Non-Executive Directors be approved by shareholders in a general meeting. In proposing the maximum amount for consideration by shareholders and in determining the allocation, the Remuneration and Nomination Committee takes account of the time demands made on Directors and such factors as fees paid to Non-Executive Directors in comparable Australian companies.

The Remuneration and Nomination Committee comprises of three Non-Executive Directors.

Remuneration arrangements for Directors and Executives are reviewed by the Remuneration and Nomination Committee and recommended to the Board for approval. The Remuneration and Nomination Committee considers external data and information and may engage independent advisors where appropriate to establish market benchmarks.

Remuneration arrangements are determined in conjunction with the annual review of the performance of Directors, Executives and employees of the consolidated entity. Performance of the Directors and the CEO of the consolidated entity is evaluated by the Board, assisted by the Remuneration and Nomination Committee. The CEO reviews the performance of Executives with the Remuneration and Nomination Committee. These evaluations take into account criteria such as the achievement toward the consolidated entity's performance benchmarks and the achievement of individual performance objectives.

Non-Executive Director Remuneration Policy

In line with corporate governance principles, Non-Executive Directors of the consolidated entity are remunerated solely by way of fees and statutory superannuation. The fee is set to reflect current market levels based on the time, responsibilities and commitments associated with the proper discharge of their duties as members of the Board.

The current base fees were last reviewed with effect from 1 July 2012. Non-Executive Directors' fees are determined within an aggregate Non-Executive Directors' fee pool limit, which is periodically recommended for approval by shareholders. The maximum currently stands at A$500,000 per annum and was approved by shareholders at the Annual General Meeting in January 2008.

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

Directors' Fees

The following fees have applied:

	From 1 July 2012 to 30 June 2013	From 1 July 2011 to 30 June 2012
Base fees		
Chair	A$125,000	A$125,000
Other Non-Executive Directors	A$75,000	A$75,000
Other Non-Executive Director (Philippines based)	US$85,000	US$85,000
Additional fees		
Audit Committee	A$10,000	A$10,000
Non-Executive Director of GPC Investments SA (Swiss)	A$15,000	A$15,000
Director of Otto Energy Investments Limited	US$24,000	US$24,000
Director of Otto Energy Philippines Inc.	US$24,000	US$24,000

Retirement allowances for Non-Executive Directors

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

Appointment

The term of appointment is determined in accordance with the Company's Constitution and is subject to the provisions of the Constitution dealing with retirement, re-election and removal of Directors of the Company. The Constitution provides that all Directors of the Company, other than the Managing Director, are subject to re-election by shareholders by rotation every three years during the term of their appointment.

Directors and Executive Remuneration Policy and Framework

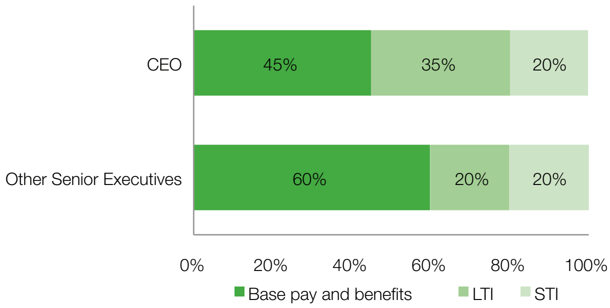
The remuneration arrangement for Directors and Executives of the consolidated entity for the year ended 30 June 2013 is summarised below.

The remuneration structure in place for 2012/2013 applies to all employees including Key Management Personnel and staff members of the consolidated entity. The consolidated entity's remuneration structure has three elements:

i) Fixed annual remuneration or base salary (FAR) (including superannuation);
ii) Short term incentive (STI) award which provides a reward for performance in the past year; and
iii) Long term incentive (LTI) award which provides an incentive to deliver future Company performance.

Executive Remuneration Mix

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



i) Fixed Annual Remuneration (FAR) or base salary (including superannuation)

To attract and retain talented, qualified and effective employees, the consolidated entity pays competitive base salaries which have been benchmarked to the market in which the consolidated entity operates. The consolidated entity compiles competitive salary information on companies of comparable size in the oil and gas industry from several sources. Information is obtained from surveys conducted by independent consultants and national and international publications. In the past the Board had engaged independent advisors to review the remuneration levels paid to the consolidated entity's Key Management Personnel. An advisor was not retained for the 2013 review.

FAR will be paid in cash and is not at risk other than by termination. Individual FAR is set each year based on job description, competitive salary information sourced by the consolidated entity and overall competence in fulfilling the requirements of the particular role.

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

Retirement benefits are delivered under the employees' superannuation fund.

ii) Short-term incentives

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

STI awards for the Executive team in the 2013 financial year were based on the scorecard measures and weightings as disclosed below. These targets were set by the Board and the Remuneration and Nomination Committee and are aligned to the Company's strategic and business objectives.

Performance category	Weighting
Health, safety and environment	10%
Total shareholder return	25%
Asset specific	30%
New business development	25%
Leadership	10%

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

iii) Long-term incentives

The consolidated entity believes that encouraging its employees to become shareholders is the best way of aligning their interests with those of its shareholders. Long-term incentives are provided to certain employees via the Otto Energy Limited Employee Performance Rights and Option Plan which was approved by shareholders at the 2010 Annual General Meeting.

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

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

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

Once vested, the performance rights are automatically converted into shares. Performance rights are granted under the plan for no consideration.

Four maximum LTI organisational benchmarks have been established as a percentage of individual FARs. These four levels reflect the increased involvements of each level in pursuing and achieving the Company's goals. These benchmarks are set out in the following table.

Organisational Level	CEO	Management	Professional, Technical & Support	Support Staff
LTI Organisational Benchmarks	120%	70%	30%	20%

The total number of performance rights granted is subject to being reduced proportionately so that the total number for performance rights is within:

a) The Board's determined cap on the total number of performance rights which are issued as LTI awards in a given year; and
b) Any discretionary cap on the total number of rights on issue at any given time.

The Board has established an initial guideline that the total number of performance rights to be issued in a single year will be capped at 1.7% of the fully paid issued capital of the Company as at the end of the prior year. In the event that the potential total number of performance rights exceeds the cap then all awardees receive a pro-rated reduced number of performance rights. This cap is at the discretion of the Board and may be altered depending on the prevailing context.

Share Trading Policy

The trading of shares issued to participants under any of the Company's employee equity plans is subject to, and conditional upon, compliance with the Company's employee share trading policy (see page 40). Executives are prohibited from entering into any hedging arrangements over unvested rights and options under the Company's employee option plan. The Company would consider a breach of this policy as gross misconduct which may lead to disciplinary action and potentially dismissal.

Voting and comments made at the consolidated entity's 2012 Annual General Meeting

Otto Energy Limited received more than 99% of "yes" votes on its remuneration report for the 2012 financial year. The Company did not receive any specific feedback at the Annual General Meeting or throughout the year on its remuneration practices.

Performance of Otto Energy Limited

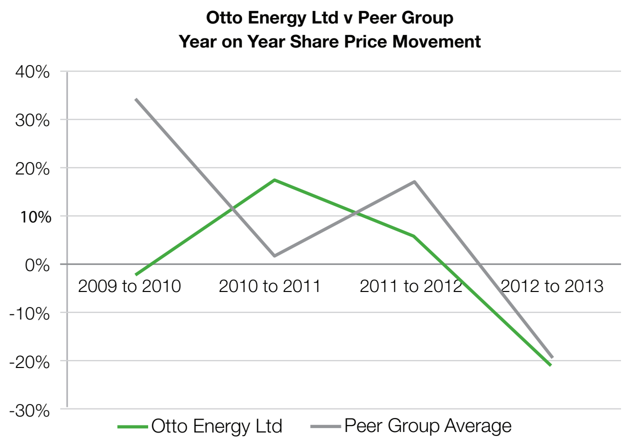
The two graphs below illustrate two of the key links between Key Management Personnel remuneration and Otto Energy Limited's performance.

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

* Profit before tax is profit from continuing operations before income tax expense

** STI % of target reflects the percentage of the target STI pool that was paid out to Executives.

The second graph illustrates the operation of the long-term incentive plan by comparing Otto Energy Limited's year on year share price movement of the 24 ASX listed peer companies over the last five years.



Directors REPORT

Details of Remuneration

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

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

The remuneration of the Key Management Personnel of the consolidated entity is set out below:

2013	**Short-term Employee Benefits**		**Post Employment**	**Share-Based Payments**		**Total**
	Salary & Fees	**Cash Bonus**	**Superannuation**	**Options (i)**	**Performance Rights (ii)**	
	A$	**A$**	**A$**	**A$**	**A$**	**A$**
Directors of Otto Energy Limited						
Mr R Crabb	114,679	–	10,321	–	–	125,000
Mr I Macliver	77,982	–	7,018	–	–	85,000
Mr I Boserio	68,807	–	6,193	–	–	75,000
Mr J Jetter	90,000	–	–	–	–	90,000
Mr R Bomasang	113,027	–	–	–	–	113,027
	464,495	–	23,532	–	–	488,027
Key Management Personnel						
Mr G McNab	527,294	68,807	28,899	–	69,352	694,352
Mr M Allen	373,029	68,400	16,470	–	48,544	506,443
Mr P Senycia	415,749	77,400	17,752	–	48,544	559,445
	1,316,072	214,607	63,121	–	166,440	1,760,240
	1,780,567	214,607	86,653	–	166,440	2,248,267

2012	**Short-term Employee Benefits**		**Post Employment**	**Share-Based Payments**		**Total**
	Salary & Fees	**Cash Bonus**	**Superannuation**	**Options (i)**	**Performance Rights (ii)**	
	A$	**A$**	**A$**	**A$**	**A$**	**A$**
Directors of Otto Energy Limited						
Mr R Crabb	114,679	–	10,321	–	–	125,000
Mr I Macliver	77,982	–	7,018	–	–	85,000
Mr I Boserio	68,807	–	6,193	–	–	75,000
Mr J Jetter	82,500	–	–	–	–	82,500
Mr R Bomasang	81,797	–	–	–	–	81,797
	425,765	–	23,532	–	–	449,297
Key Management Personnel						
Mr G McNab (iii)	305,810	–	27,523	–	115,057	448,390
Mr M Allen	308,103	101,200	36,837	–	89,500	535,640
Mr P Senycia	388,953	77,400	41,972	–	89,500	597,825
	1,002,866	178,600	106,332	–	294,057	1,581,855
	1,428,631	178,600	129,864	–	294,057	2,031,152

(i) The options have been valued using the Black-Scholes model. No options were granted in the 2013 or 2012 years.
(ii) Performance rights have been valued using a hybrid Monte Carlo and Hull-White model. Further details of the share rights plan is contained at Note 29.
(iii) Mr McNab commenced employment on 1 November 2011.

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

Name	Fixed remuneration		At risk – STI %		At risk – LTI * %	
	2013	2012	2013	2012	2013	2012
Directors of Otto Energy Limited						
Mr R Crabb	100%	100%	–	–	–	–
Mr I Macliver	100%	100%	–	–	–	–
Mr I Boserio	100%	100%	–	–	–	–
Mr J Jetter	100%	100%	–	–	–	–
Mr R Bomasang	100%	100%	–	–	–	–
Key Management Personnel of the consolidated entity						
Mr G McNab	80%	74%	10%	–	10%	26%
Mr M Allen	77%	64%	13%	19%	10%	17%
Mr P Senycia	77%	72%	14%	13%	9%	15%

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

Service Agreements

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

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

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

Name	Commencement of contract	Base salary including superannuation* A$	Termination benefit**
Mr Gregor McNab – Chief Executive Officer	1 November 2011	$550,000	12 months base salary
Mr Matthew Allen – Chief Financial Officer	9 November 2009	$399,000	2 months base salary
Mr Paul Senycia – Exploration Manager	12 April 2010	$451,500	3 months base salary

* Base salaries quoted are for the year ended 30 June 2013; they are reviewed annually by the Board and the Remuneration and Nomination Committee.
** Termination benefits are payable on early termination by the Company, other than for gross misconduct.

Share-based Compensation

During the financial year no options were granted. Otto Energy Limited is moving away from options as a form of remuneration for Executives, preferring performance rights as this is more in line with the Remuneration and Nomination policy philosophy. However, in previous years options have been granted.

Performance rights were granted to the Key Management Personnel during the reporting period. These were granted as remuneration unless otherwise noted. The rights granted have no exercise price and are exercisable from the date of vesting and details of vesting periods are set out at Note 29. All rights expire on the earlier of their expiry date or termination of individual's employment. A total of 2,000,000 performance rights granted to Key Management Personnel from prior years, vested during the reporting period (2012: 3,750,000) of which, 2,000,000 shares were issued (2012: 3,750,000). The assessed fair value at grant date of the performance rights is allocated equally over the period from grant date to vesting date and the amount is included in the remuneration tables. The fair value at grant date is independently determined using a hybrid Monte Carlo and Hull-White model. No cash benefit is received by Key Management Personnel of the consolidated entity, until the sale of the resultant shares, which cannot be done unless and until the rights have vested and the shares issued.

Directors REPORT

Further information on the options and performance rights are set out in Note 29 to the consolidated financial statements.

The following table summarises the value of rights that have been granted to Key Management Personnel during the financial year.

2013	Number of performance rights granted during 2013(i)	Grant date	Fair value of performance rights granted during the year (A$)	Date when rights are to be tested for vesting	Expiry date
Mr G McNab	5,000,000	1/02/2013	59,500	1/04/2015	1/04/2016
Mr M Allen	3,500,000	1/02/2013	41,650	1/04/2015	1/04/2016
Mr P Senycia	3,500,000	1/02/2013	41,650	1/04/2015	1/04/2016

(i) Each right entitles the holder to one share in the Company upon vesting.

The following table summarises the value of performance rights related to Key Management Personnel that have vested or lapsed during the financial year.

2013	Number of performance rights vested	Value of performance rights vested during the year (A$)	Number of rights lapsed during the year	Value of performance rights lapsed at the date of testing	Number of ordinary shares issued as a result of vesting
Mr G McNab	–	–	–	–	–
Mr M Allen	1,000,000	79,000	–	–	1,000,000
Mr P Senycia	1,000,000	79,000	–	–	1,000,000

The following table summarises the value of options, related to Key Management Personnel that have been granted, vested or lapsed during the financial year

2013	Value of options granted during the year (A$)	Value of options vested during the year (A$)	Number of options lapsed / expired during the year
Mr G McNab	–	–	–
Mr M Allen	–	–	3,000,000
Mr P Senycia	–	–	–
	–	–	3,000,000

Value of Rights – Basis of Calculation

The value of performance rights at the grant date is calculated as the fair value of the rights at grant date, using a hybrid Monte Carlo and Hull-White model, multiplied by the number of rights granted.

The value of rights included in remuneration for the year is calculated in accordance with Australian Accounting Standards. This requires the value of rights to be determined at grant date and thereafter included in remuneration for the year based proportionately on the vesting period. Where rights vest fully in the year, the full value of the rights is recognised in remuneration for that year.

No adjustment is made to the value included in remuneration or the financial results where the right ultimately has a lesser or greater value than as at the date of grant. The inputs into the fair value calculation of the rights granted are set out in Note 29 of the financial statements.

Options over Equity Instruments Granted

No options were granted to Key Management Personnel or were exercised by Key Management Personnel during the 2013 financial year. 3,000,000 options issued to Key Management Personnel lapsed during the 2013 financial year. No options were issued to Key Management Personnel during the 2012 financial year.

No cash benefit is received by the Key Management Personnel of the Company until the sale of the resultant share which cannot be done unless and until the options have been exercised and the shares issued.

End of Audited Remuneration Report.

Shares Under Option

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

Date Granted	Date of Expiry	Exercise price of performance rights or options A$	Number
OPTIONS			
26-Nov-10	26-Nov-13	0.12	9,000,000
30-Nov-10	30-Nov-13	0.13	6,000,000
13-Oct-11	13-Oct-14	0.12	1,250,000
5-Jan-12	5-Jan-15	0.12	2,500,000
			18,750,000
PERFORMANCE RIGHTS			
3-Oct-11	31-Dec-14	–	10,000,000
3-Oct-11	1-Apr-14	–	5,000,000
1-Nov-11	1-Nov-14	–	5,000,000
1-Nov-11	1-Apr-15	–	5,000,000
1-Feb 13	1-Apr-16	–	14,500,000
			39,500,000

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

Included in these performance rights or options were performance rights or options granted as remuneration to the Directors and Key Management Personnel during the year. Details of performance rights and options granted to Key Management Personnel are disclosed on page 34.

Shares issued on the exercise of Options and Performance Rights

There were 2,000,000 ordinary shares of Otto Energy Limited issued on 30 April 2013 on the exercise of performance rights granted as remuneration (2012: 3,750,000).

Insurance of Officers and Indemnity of Auditors

During the financial year, the Company paid a premium of US$41,024 to insure the Directors and officers of the Company and its Australian-based controlled entities, and the managers of each of the divisions of the consolidated entity.

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

Proceedings on Behalf of Company

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

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

Non-Audit Services

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

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

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

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

	2013 US $	2012 US $
BDO Australian firm:		
Other assurance services	3,128	–
Total remuneration for other assurance services	3,128	–
Tax compliance services	26,136	16,448
International tax consulting and tax advice on mergers and acquisitions	44,913	85,065
Total remuneration for taxation services	71,049	101,513
Total remuneration for non-audit services	**74,177**	**101,513**

Auditors Independence Declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 37.

Auditor

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

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

I Macliver

MR I MACLIVER | DIRECTOR

27 September 2013

Auditor's INDEPENDENT DECLARATION

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Subiaco, WA 6008
PO Box 700 West Perth WA 6872
Australia

DECLARATION OF INDEPENDENCE BY BRAD MCVEIGH TO THE DIRECTORS OF OTTO ENERGY LIMITED

As lead auditor of Otto Energy Limited for the year ended 30 June 2013, I declare that, to the best of my knowledge and belief, there have been no contraventions of:

- the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- any applicable code of professional conduct in relation to the audit.

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

Brad McVeigh

Director

BDO Audit (WA) Pty Ltd

Perth, 27 September 2013

Corporate GOVERNANCE STATEMENT

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

ASX Corporate Governance Council Recommendations

The Board has adopted corporate governance policies and practices 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 practices are summarised below and copies of Company's corporate governance policies are available on the Company's web site at www.ottoenergy.com. The Board sets out below its "if not why not" report in relation to matters of corporate governance where the Company's practice departs from the Recommendations. All Recommendations have been applied for the financial year ended 30 June 2013 unless set out below.

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

Recommendation 4.2 requires the Audit Committee be structured such that it consists of: only Non-Executive Directors, a majority of independent Directors, is chaired by an independent Chair, who is not the Chair of the Board and has at least three members. The Company's Audit Committee during the year comprised two Non-Executive, Independent Directors, Messrs Ian 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. The Chair is independent and not the Chair of the Board.

Recommendation 8.1 states that the Board should establish a Remuneration Committee. The Company has established a Remuneration Committee.

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

Roles of the Board and Management

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

The key responsibilities of the Board include:

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

Board Structure

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

- the Board shall comprise at least three Directors, increasing where additional expertise is considered desirable in certain areas;
- the Chairman should be Non-Executive;
- the Board should comprise a majority of Independant Non-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 in consultation with the Remuneration and Nomination Comittee.

Director Independence

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

Meetings of the Board

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

Retirement and Re-election

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

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

Nomination and Appointment of new Directors

Recommendations of candidates for new Directors are made by the Board as a whole with the consultation of the Remuneration and Nomination Comittee.

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 Key Management Personnel. Executive Directors receive a salary and may receive other benefits.

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

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

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

Board Access to Information

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

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

Board Committees

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

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

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

Audit Committee

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

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

The responsibilities of the Audit Committee include:

- reviewing and reporting to the Board on the annual and half year financial reports, the financial section of quarterly reports and all other financial information published by the Company prior to release to members and other public forums;
- assisting the Board in reviewing the effectiveness of the organisation's internal control environment covering effectiveness and efficiency of operations, reliability of financial reporting, compliance with applicable laws and

Corporate GOVERNANCE STATEMENT

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

Remuneration and Nomination Committee

The Board has a Remuneration and Nomination Committee.

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

The responsibilities of the Remuneration and Nomination Committee include:

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

Ultimate responsibility for the Company's Remuneration and Nomination policies remains with the Board.

Auditor Independence

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

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

Business Risks

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

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

Specific areas of risk identified initially and which will be regularly considered at Board meetings include operating risks, commodity price volatility, 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 2013 which is founded on a sound system of risk management and internal controls and these systems are operating effectively in all material respects in relation to the financial reporting risks.

Share Trading

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

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

Diversity

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

The Company evaluates every position being filled to ensure that the right person is selected for the role. The Company currently employs people from multiple nationalities, including directly over 23 Filipinos, in the conduct of its operations. It is a requirement of the Petroleum Service Contracts that the Company operates under that it employs local staff over foreign expatriates.

Due to the size of the Company, the Board does not deem it practical to limit the Company to specific targets for gender diversity as it operates in a very competitive labour market. However, every candidate suitably qualified for a position has an equal opportunity of appointment regardless of gender, age, nationality or cultural background.

The Board has not established specific measurable objectives for achieving gender diversity; however, the Board regularly assesses gender and other diversity issues in the operations of the Company and will act to address any diversity issues should this become necessary.

Proportion of women employees in Otto Energy Limited

	Number	Proportion
Whole organisation	21/75	28%
Senior Executive positions	1/4	25%
Board	0/5	0%

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

It is the Board's responsibility to ensure that all staff 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.

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

Consolidated STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the Year Ended 30 June 2013

	Note	2013 US$'000	2012 US$'000
Revenue from sale of oil	4	60,181	30,589
Cost of production	5	(19,683)	(15,521)
Gross Profit		40,498	15,068
Other revenue	4	4,254	3,407
Profit on sale of associate		–	20,193
(Loss) or profit on disposal of asset	6	(2,653)	322
Other expenses from ordinary activities			
Employee benefit expense	6	(8,200)	(6,219)
Depreciation & amortisation	6	(5,152)	(12,512)
Finance expenses	6	(645)	–
Loss on derivative through profit or loss	6	(455)	–
Other expenses	6	(7,328)	(2,468)
Foreign currency losses		(63)	(361)
Share of net losses of associates	16	–	(1,987)
Profit before income tax		**20,256**	**15,443**
Income tax expense	7	(10,814)	(656)
Net profit after income tax for the year from continuing operations		**9,442**	**14,787**
Other Comprehensive Income		–	–
Other comprehensive income for the year net of tax		**–**	**–**
Total comprehensive profit for the year attributable to ordinary equity holders of Otto Energy Limited		**9,442**	**14,787**
Earnings per share for profit from continuing operations attributable to the ordinary equity holders of the company:		**US Cents**	**US Cents**
Basic earnings per share	23	0.83	1.30
Diluted earnings per share	23	0.83	1.24
Earnings per share for profit attributable to the ordinary equity holders of the company:			
Basic earnings per share	23	0.83	1.30
Diluted earnings per share	23	0.83	1.24

The above consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.

Consolidated STATEMENT OF FINANCIAL POSITION

As at 30 June 2013

	Note	2013 US$'000	2012 US$'000
Current Assets			
Cash and cash equivalents	8	31,854	28,325
Trade and other receivables	9	2,747	2,044
Other current assets	10	942	10,351
Inventories	11	2,133	5,321
Derivative financial instruments	12	435	–
Total Current Assets		38,111	46,041
Non-Current Assets			
Trade and other receivables	9	-	121
Other assets	10	7,341	6,600
Derivative financial instruments	12	1,481	–
Property, plant and equipment	13	894	818
Exploration and evaluation assets	14	22,437	13,740
Oil and gas properties	15	69,405	38,167
Deferred tax asset	7	1	1,937
Investments in associate	16	–	-
Total Non-Current Assets		101,559	61,383
Total Assets		139,670	107,424
Current Liabilities			
Trade and other payables	17	8,766	6,048
Derivative financial liability	12	122	-
Borrowings	18	4,958	-
Provisions	19	279	162
Provision for income tax payable	7	651	739
Total Current Liabilities		14,776	6,949
Non-Current Liabilities			
Other payables	17	1,498	–
Borrowings	18	9,177	–
Deferred tax liabilities	7	16,459	11,246
Provisions	19	6,765	6,717
Total Non-Current Liabilities		33,899	17,963
Total Liabilities		48,675	24,912
NET ASSETS		90,995	82,512
EQUITY			
Contributed equity	20	131,577	131,577
Reserves	21	12,873	13,832
Accumulated losses	22	(53,455)	(62,897)
TOTAL EQUITY		90,995	82,512

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

Consolidated STATEMENT OF CHANGES IN EQUITY

For the Year Ended 30 June 2013

	Attributable to owners of Otto Energy Limited			
	Contributed Equity US$'000	Accumulated Losses US$'000	Other Reserves US$'000	Total Equity US$'000
Balance at 1 July 2011	131,577	(77,684)	12,162	66,056
Total comprehensive income for the year				
Profit for the year	–	14,787	–	14,787
Total comprehensive income for the year	–	14,787	–	14,787
Transactions with owners in their capacity as owners				
Statutory reserve – Bahrain	–	–	1,325	1,325
Issued options during the year	–	–	61	61
Issued rights during the year	–	–	284	284
Balance as at 30 June 2012	**131,577**	**(62,897)**	**13,832**	**82,512**
Total comprehensive income for the year				
Profit for the year	–	9,442	–	9,442
Total comprehensive income for the year	–	9,442	–	9,442
Transactions with owners in their capacity as owners				
Statutory Reserve – Bahrain	–	–	(1,325)	(1,325)
Issued rights during the year	–	–	366	366
Balance as at 30 June 2013	**131,577**	**(53,455)**	**12,873**	**90,995**

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

Consolidated STATEMENT OF CASH FLOWS

For the Year Ended 30 June 2013

	Note	2013 US$'000	2012 US$'000
Cash flows from operating activities			
Receipts from customers		60,181	30,881
Payment to suppliers and employees		(26,525)	(21,739)
Interest received		32	23
Interest and financing costs paid		(555)	(20)
Income taxes paid		(4,030)	(6,156)
Net cash inflow from operating activities	27	**29,103**	**2,989**
Cash flows from investing activities			
Dividend received		–	6,872
Payments for property, plant and equipment		(643)	(634)
Proceeds from sale of property, plant and equipment		–	–
Payments for exploration and evaluation		(7,382)	(6,541)
Payment for oil and gas properties		(30,268)	(5,566)
Proceeds from farm down		–	28,406
(Payments)/proceeds (for)/ from farm in		(1,315)	2,300
Payments for purchase of subsidiaries	26	–	(51,735)
Purchase of subsidiary net cash acquired		–	14,150
Repayment of loans repaid by associates		–	2,500
Net cash outflow from investing activities		**(39,608)**	**(10,248)**
Cash flows from financing activities			
Proceeds from loan drawdown		16,839	–
Borrowings transaction costs paid		(2,793)	–
Net cash inflow from financing activities		**14,046**	**–**
Net increase/(decrease) in cash and cash equivalents		3,541	(7,259)
Cash and cash equivalents at the beginning of the financial year		28,325	35,584
Effects of exchange rate changes on cash		(12)	–
Cash and cash equivalents at end of year	8	**31,854**	**28,325**

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

Notes TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Statement of Significant Accounting Policies

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

(a) Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and interpretations issued by the Australian Accounting Standards Board ("AASB") and the Corporations Act 2001, as appropriate for for-profit-oriented entities. Otto Energy Limited is a for-profit entity for the purpose of preparing the financial statements.

(i) Compliance with IFRS

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

(ii) New, revised or amended Accounting Standards and Interpretations adopted by the consolidated entity

In the current year the consolidated entity has adopted all of the new and revised Standards and Interpretations issued by the AASB that are mandatory for the current reporting period. Any new, revised or amended Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

Any significant impact of the accounting policies on the consolidated entity from the adoption of these Accounting Standards and Interpretations are disclosed below. The adoption of these Accounting Standards and Interpretations did not have any significant impact on the financial performance or position of the consolidated entity.

The following Accounting Standards and Interpretations are most relevant to the consolidated entity:

AASB 2010-8 Amendments to Australian Accounting Standards - Deferred Tax: Recovery of Underlying Assets.

The consolidated entity has applied AASB 2010-8 amendments from 1 July 2012. These amendments offer a practical approach for the measurement of deferred tax relating to investment properties measured at fair value, property, plant and equipment and intangible assets measured using the revaluation model. The measurement of deferred tax for these specified assets is based on the presumption that the carrying amount of the underlying asset will be recovered entirely through sale, unless the entity has clear evidence that economic benefits of the underlying asset will be consumed during its economic life.

AASB 2011-9 Amendments to Australian Accounting Standards - Presentation of Items of Other Comprehensive Income.

The consolidated entity has applied AASB 2011-9 amendments from 1 July 2012. The amendments require grouping together of items within other comprehensive income on the basis of whether they will eventually be 'recycled' to the profit or loss (reclassification adjustments). The change provides clarity about the nature of items presented as other comprehensive income and the related tax presentation. The amendments also introduced the term 'Statement of profit or loss and other comprehensive income' clarifying that there are two discrete sections, the profit or loss section (or separate statement of profit or loss) and other comprehensive income section.

(iii) Critical accounting estimates

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the consolidated entity's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 2.

(b) Principles of consolidation

(i) Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Otto Energy Limited ('Company' or 'parent entity') as at 30 June 2013 and the results of all subsidiaries for the year then ended. Otto Energy Limited and its subsidiaries together are referred to in this financial report as the consolidated entity.

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

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

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

The acquisition method of accounting is used to account for business combinations by the consolidated entity (refer to Note 1(h)). A change in ownership interest, without the loss of control, is accounted for as an equity transaction, where the difference between the consideration transferred and the book value of the share of the non-controlling interest acquired is recognised directly in equity attributable to the parent.

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

(ii) Associates

Associates are entities over which the consolidated entity has significant influence but not control or joint control. Investments in associates are accounted for using the equity method. Under the equity method, the share of the profits or losses of the associate is recognised in profit or loss and the share of the movements in equity is recognised in other comprehensive income. Investments in associates are carried in the statement of financial position at cost plus post-acquisition changes in the consolidated entity's share of net assets of the associates. Dividends received or receivable from associates reduce the carrying amount of the investment.

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

(iii) Joint ventures

Jointly controlled assets

The consolidated entity's share of the assets, liabilities, revenues and expenses of joint venture operations have been incorporated into the financial statements in the appropriate items of the consolidated statement of profit or loss and other comprehensive income and consolidated statement of financial position. Details of joint ventures are set out in Note 25.

(iv) Changes in ownership interests

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

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

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

(c) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board. Management has determined that based on the report reviewed by the Board and used to make strategic decisions, that the consolidated entity has four reportable segments.

(d) Foreign currency translation

(i) Functional and presentation currency

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

(ii) Transactions and balances

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

(iii) Consolidated entity companies

The results and financial position of foreign operations (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each statement of financial position account presented are translated at the closing rate at the date of that statement of financial position
- income and expenses for each statement of profit or loss and other comprehensive income account are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions), and
- all resulting exchange differences are recognised in other comprehensive income.

Notes TO THE CONSOLIDATED FINANCIAL STATEMENTS

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other financial instruments designated as hedges of such investments, are recognised in other comprehensive income. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, the associated exchange differences are reclassified to profit or loss, as part of the gain or loss on sale.

(e) Revenue recognition

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

(i) Sale of oil

Revenue from the sale of oil is recognised when the consolidated entity has transferred to the buyer the significant risks and rewards of ownership of the goods.

(ii) Interest revenue

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

(iii) Dividends

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

(f) Income tax

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

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

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

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

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

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

(g) Leases

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

(h) Business combinations

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

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

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

(i) Impairment of assets

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

(j) Cash and cash equivalents

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

(k) Trade receivables

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

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

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

(l) Inventories

Inventories are valued at the lower of cost and net realisable value. Costs, including an appropriate portion of fixed and variable overhead expenses, are assigned to inventory on hand by the method most appropriate to each particular class of inventory, with the majority being valued on weighted average. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

(m) Discontinued operations

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

(n) Other financial assets

Other financial assets are initially measured at fair value. Transaction costs are included as part of the initial measurement, except for financial assets at fair value through profit or loss. They are subsequently measured at either amortised cost or fair value depending on their classification. Classification is determined based on the purpose of the acquisition and subsequent reclassification to other categories is restricted. The fair values of quoted investments are based on current bid prices. For unlisted investments, the consolidated entity establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the consolidated entity has transferred substantially all the risks and rewards of ownership.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are either: i) held for trading, where they are acquired for the purpose of selling in the short-term with an intention of making a profit; or ii) designated as such upon initial recognition, where they are managed on a fair value basis or to eliminate or significantly reduce an accounting mismatch. Except for effective hedging instruments, derivatives are also categorised as fair value through profit or loss. Fair value movements are recognised in profit or loss.

Impairment of financial assets

The consolidated entity assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired. Objective evidence includes significant financial difficulty of the issuer or obligor; a breach of contract such as

Notes TO THE CONSOLIDATED FINANCIAL STATEMENTS

default or delinquency in payments; the lender granting to a borrower concessions due to economic or legal reasons that the lender would not otherwise do; it becomes probable that the borrower will enter bankruptcy or other financial reorganisation; the disappearance of an active market for the financial asset; or observable data indicating that there is a measurable decrease in estimated future cash flows.

The amount of the impairment allowance for financial assets carried at cost is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the current market rate of return for similar financial assets.

(o) Property, plant and equipment

Property, plant and equipment other than Oil and Gas Properties are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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

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

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

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

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

(p) Oil and gas properties

(i) Exploration and evaluation expenditure

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

Upon the production of commercial quantities of oil and gas, capitalised exploration and evaluation costs are transferred to Oil and Gas Properties – Producing Projects and amortisation commences. This method allows the costs associated with the acquisition, exploration and evaluation of a prospect to be aggregated on the Consolidated Statement of Financial Position and matched against the benefits derived from commercial production once this commences.

(ii) Costs

Exploration lease acquisition costs relating to oil and gas exploration provinces are expensed as incurred while the costs incurred in relation to established or recognised oil and gas provinces are initially capitalised and then amortised over the shorter term of the lease or the expected life of the project. All other exploration and evaluation costs, including general permit activity, geological and geophysical costs and new venture activity costs are charged as expenses as incurred except where:

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

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

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

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

(iii) Prepaid drilling and completion costs

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

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

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

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

Where the Company has Operator interest in an oil or gas property, it will periodically call for the contribution of the non-operator's share of the estimated drilling and/or completion costs, in advance of these operations taking place.

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

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

(v) Development assets

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

(vi) Producing assets

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

(vii) Amortisation and depreciation of producing projects

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

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

(viii) Future restoration costs

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

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

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

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

Provisions for future restoration are made where there is a present obligation as a result of development or production activity, and is capitalised as a component of the cost of those activities. The provision for restoration policy is discussed in Note 2.

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

(q) Trade and other payables

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

(r) Borrowings

Loans and borrowings are initially recognised at the fair value of the consideration received, net of transaction costs. They are subsequently measured at amortised cost. Any difference between the proceeds (net of transactions 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 classified as current liabilities unless the consolidated entity has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

Borrowings are removed from the statement of financial position 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

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extinguished or transferred to another party and the considerations paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss as other income or finance costs.

Where the terms of a financial liability are renegotiated and the entity issues equity instruments to the creditor to extinguish all or part of the liability (debt for equity swap), a gain or loss is recognised in profit or loss which is measured as the differences between the carrying amount of the financial liability and the fair value of the equity instruments issued.

(s) Borrowings 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.

(t) Provisions

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

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

(u) Employee benefits

(i) Short-term obligations

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled.

The liability for annual leave and accumulating sick leave is recognised in the provision for employee benefits. All other short-term employee benefit obligations are presented as payables.

(ii) Other long-term employee benefit obligations

The liability for long service leave and annual leave which is not expected to be settled within 12 months after the end of the period in which the employees render the related service is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service.

(iii) Defined contribution superannuation expense

Contributions to defined contribution superannuation plans are expensed in the period in which they are incurred.

(v) Share based payments

The consolidated entity has provided benefits to its employees and Key Management Personnel in the form of share-based payments, whereby services were rendered partly or wholly in exchange for shares or rights over shares. The Remuneration and Nomination Committee has also approved the grant of options or performance rights as incentives to attract Executives and to maintain their long term commitment to the Company. These benefits were awarded at the discretion of the Board, or following approval by shareholders (equity-settled transactions).

The costs of these equity-settled transactions are measured by reference to the fair value of the equity instruments at the date on which they are granted. The fair value of performance rights granted is determined using a hybrid Monte Carlo and Hull-White model, further details of which are disclosed in Note 29. The fair value of options granted is determined by using a Black-Scholes option pricing technique.

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

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

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

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

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

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

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share (see Note 23).

(w) Contributed equity

Ordinary shares are classified as equity.

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

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

(x) Earnings per share

(i) Basic earnings per share

Basic earnings per share are calculated by dividing:

- the profit attributable to owners of the Company, excluding any costs of servicing equity other than ordinary shares
- by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year and excluding treasury shares (Note 23).

(ii) Diluted earnings per share

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

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

(y) Goods and Services Tax (GST)

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

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

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

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the tax authority.

(z) Rounding of amounts

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

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(aa) New Accounting Standards and Interpretations not yet mandatory or early adopted

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the consolidated entity for the annual reporting period ended 30 June 2013. The consolidated entity's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the consolidated entity, are set out below.

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

Reference and Title	Summary	Application date of standard	Impact on Otto Energy Ltd financial statements
Employee Benefits - AASB 119 (reissued September 2011)	Employee benefits expected to be settled (as opposed to due to be settled under current standard) wholly within 12 months after the end of the reporting period are short-term benefits, and therefore not discounted when calculating leave liabilities. Annual leave not expected to be used wholly within 12 months of end of reporting period will in future be discounted when calculating leave liability.	Annual periods commencing on or after 1 January 2013	When this standard is first adopted for 30 June 2014 year end, annual leave liabilities will be recalculated on 1 July 2013 as long-term benefits because they are not expected to be settled wholly within 12 months after the end of the reporting period. The entity expects the result will be minimal and will have no material impact on the transaction or balances.
Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirement - AASB 2011-4 (issued July 2011)	Amendments to remove individual Key Management Personnel disclosure requirements from AASB 124 to eliminate duplicated information required under the Corporation Act 2001	Annual periods commencing on or after 1 July 2013	When this standard is first adopted for the year ended 30 June 2014, it will remove the duplication of information relating to individual Key Management Personnel in the notes to the financial statements and Directors' Report.
AASB 2012-2 Amendments to Australian Accounting Standards - Disclosures - Offsetting Financial Assets and Financial Liabilities	The disclosure requirements of AASB 7 'Financial Instruments: Disclosures' (and consequential amendments to AASB 132 'Financial Instruments: Presentation') have been enhanced to provide users of financial statements with information about netting arrangements, including rights of set-off related to an entity's financial instruments and the effects of such rights on its statement of financial position.	Annual reporting periods commencing on or after 1 January 2013	The adoption of the amendments from 1 July 2013 will increase the disclosure requirements of the consolidated entity.
AASB 2012-3 Amendments to Australian Accounting Standards - Offsetting Financial Assets and Financial Liabilities	The amendments add application guidance to address inconsistencies in the application of the offsetting criteria in AASB 132 'Financial Instruments: Presentation', by clarifying the meaning of "currently has a legally enforceable right of set-off"; and clarifies that some gross settlement systems may be considered to be equivalent to net settlement.	Annual reporting periods beginning on or after 1 January 2014	The adoption of the amendments from 1 July 2014 will not have a material impact on the consolidated entity.

Notes TO THE CONSOLIDATED FINANCIAL STATEMENTS

Reference and Title	Summary	Application date of standard	Impact on Otto Energy Ltd financial statements
AASB 2012-5 Amendments to Australian Accounting Standards arising from Annual Improvements 2009-2011 Cycle	The amendments affect five Australian Accounting Standards as follows: Confirmation that repeat application of AASB 1 (IFRS 1) 'First-time Adoption of Australian Accounting Standards' is permitted; Clarification of borrowing cost exemption in AASB 1; Clarification of the comparative information requirements when an entity provides an optional third column or is required to present a third statement of financial position in accordance with AASB 101 'Presentation of Financial Statements'; Clarification that servicing of equipment is covered by AASB 116 'Property, Plant and Equipment', if such equipment is used for more than one period; clarification that the tax effect of distributions to holders of equity instruments and equity transaction costs in AASB 132 'Financial Instruments: Presentation' should be accounted for in accordance with AASB 112 'Income Taxes'; and clarification of the financial reporting requirements in AASB 134 'Interim Financial Reporting' and the disclosure requirements of segment assets and liabilities.	Annual reporting periods commencing on or after 1 January 2013	The adoption of the amendments from 1 July 2013 will not have a material impact on the consolidated entity.
AASB 2012-6 (issued September 2012) Amendments to Australian Accounting Standards - Mandatory Effective Date of AASB 9 and Transition Disclosures	Entities are no longer required to restate comparatives on first time adoption. Instead, additional disclosures on the effects of transition are required.	Annual reporting periods commencing on or after 1 January 2015	As comparatives are no longer required to be restated, there will be no impact on amounts recognised in the financial statements. However, additional disclosures will be required on transition, including the quantitative effects of reclassifying financial assets on transition.
AASB 2012-9 Amendment to AASB 1048 arising from the Withdrawal of Australian Interpretation 1039	The amendment removes reference in AASB 1048 following the withdrawal of Interpretation 1039.	Annual reporting periods commencing on or after 1 January 2013	The adoption of this amendment will not have a material impact on the consolidated entity.
AASB 2012-10 Amendments to Australian Accounting Standards – Transition Guidance and Other Amendments	They amend AASB 10 and related standards for the transition guidance relevant to the initial application of those standards. The amendments clarify the circumstances in which adjustments to an entity's previous accounting for its involvement with other entities are required and the timing of such adjustments.	Annual reporting periods commencing on or after 1 January 2013	The adoption of these amendments will not have a material impact on the consolidated entity.

2. Critical Accounting Estimates

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements, estimates and assumptions on historical experience and on other various factors, including expectations of future events management believes to be reasonable under the circumstances. The resulting accounting judgements and estimates will seldom equal the related actual results. The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities (refer to the respective notes) within the next financial year are discussed below.

Critical accounting estimates and assumptions

Share based payments

The consolidated entity measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by using either a hybrid Monte Carlo and Hull-White model or the Black-Scholes model taking into account the terms and conditions upon which the instruments were granted. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact profit or loss and equity.

Decommissioning costs

Decommissioning costs will be incurred by the consolidated entity at the end of the operating life of some of the consolidated entity's facilities and properties. The consolidated entity assesses its decommissioning provision at each reporting date. The ultimate decommissioning costs are uncertain and cost estimates can vary in response to many factors, including changes to relevant legal requirements, the emergence of new restoration techniques or experience at other production sites. The expected timing, extent and amount of expense can also change. Therefore, significant estimates and assumptions are made in determining the provision for decommissioning. As a result, there could be significant adjustments to the provisions established which would affect future financial results. The provision at reporting date represents management's best estimate of the present value of the future decommissioning costs required. As at 30 June 2013, the estimated total cost to decommission Service Contract 14C is US$6.6m. The total sum has been collected from the joint venture partners of the Service Contract and at the instruction of the Department of Energy ('DOE'), Philippines, it is being held in a bank account by Galoc Production Company W.L.L, the Operator of Service Contract 14C. All incidentals and interests earned on account are owned by the DOE.

Reserves estimates

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

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

The nature of reserve estimation is such that reserves are not intended to be 100% accurate but rather provide a statistically probable outcome in relation to the economically recoverable reserve. As the actual reserve can only be accurately determined once production has ceased, amortisation expensed during the production may not on a year to year basis accurately reflect the actual percentage of reserve depleted. However, over the entire life of the producing assets all capitalised costs will be expensed to the statement of profit or loss and other comprehensive income.

Impairment of assets

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

Income taxes

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

In addition, the consolidated entity has recognised deferred tax assets relating to carried forward tax losses to the extent there are sufficient taxable temporary differences (deferred tax liabilities) relating to the same taxation jurisdiction and the same subsidiary against which the unused tax losses can be utilised. However, utilisation of the tax losses also depends on the ability of the entity to satisfy certain tests at the time the losses are recouped.

3. Segment Information

(a) Description of segments

Management has determined the operating segments based on reports reviewed by the executive management committee for making strategic decision. The executive leadership team comprises the Chief Executive Officer, Chief Financial Officer and divisional managers. Management monitors the business based on geographic factors and has identified 4 reportable segments. The basis of determining segments has changed from the last annual financial report to show Australia and Tanzania separately and allocate consolidation adjustments to the relevant segments. Comparatives have been restated to be consistent.

(b) Segment information provided to the Board

The segment information provided to the Board for the reportable segments for the year ended 30 June 2013 is as follows:

2013	**Australia US$'000**	**Philippines US$'000**	**Tanzania US$'000**	**Other US$'000**	**Consolidated US$'000**
Revenue from sale of oil	–	60,181	–	–	60,181
Cost of production	–	(19,683)	–	–	(19,683)
Gross Profit	**–**	**40,498**	**–**	**–**	**40,498**
Other revenue	3,442	812	–	–	4,254
Loss on disposal of asset	–	(2,653)	–	–	(2,653)
Employee benefit expense	(7,532)	(668)	–	–	(8,200)
Depreciation and amortisation	(531)	(4,621)	–	–	(5,152)
Finance expenses	–	(645)	–	–	(645)
Loss on derivative through profit or loss	–	(455)	–	–	(455)
Other expenses	(3,021)	(4,228)	(9)	(70)	(7,328)
Foreign currency losses	(49)	(14)	–	–	(63)
Net (loss)/profit before income tax	**(7,691)**	**28,026**	**(9)**	**(70)**	**20,256**
Income tax expense	–	(10,814)	–	–	(10,814)
Net (loss)/profit for the year from continuing operations	**(7,691)**	**17,212**	**(9)**	**(70)**	**9,442**
Total Segment Assets	**4,580**	**133,410**	**1,507**	**173**	**139,670**
Total Segment Liabilities	**1,076**	**47,581**	**–**	**18**	**48,675**

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

2012	Australia US$'000	Philippines US$'000	Tanzania US$'000	Other US$'000	Consolidated US$'000
Revenue from sale of oil	-	30,589	-	-	30,589
Cost of production	-	(15,521)	-	-	(15,521)
Gross Profit	**-**	**15,068**	**-**	**-**	**15,068**
Other revenue	1,227	2,180	-	-	3,407
Share of net losses of associates	(1,987)	-	-	-	(1,987)
(Loss) or profit on disposal of asset	(10)	332	-	-	322
Profit on sale of associate	-	20,193	-	-	20,193
Foreign currency losses	(137)	(224)	-	-	(361)
Employee benefit expense	(5,234)	(985)	-	-	(6,219)
Depreciation & amortisation	(433)	(12,079)	-	-	(12,512)
Other expenses	(1,337)	(878)	(5)	(248)	(2,468)
Net (loss)/profit before income tax	**(7,911)**	**23,607**	**(5)**	**(248)**	**15,443**
Income tax (expense)/benefit	(49)	(826)	-	219	(656)
Net(loss)/profit for the year from continuing operations	**(7,960)**	**22,781**	**(5)**	**(29)**	**14,787**
Total Segment Assets	**3,258**	**101,865**	**589**	**1,712**	**107,424**
Total Segment Liabilities	**866**	**24,031**	**-**	**15**	**24,912**

4. Revenue

	2013 US$'000	2012 US$'000
From continuing operations		
Sales revenue		
Sale of oil	60,181	30,589
	60,181	30,589
Other revenue		
Interest Revenue	56	37
Other Income	4,150	3,370
Gain on derivative through profit or loss	48	–
	4,254	3,407
Revenue from continuing operations	64,435	33,996

5. Cost of Production

	2013 US$'000	2012 US$'000
Gathering and production charges	17,736	13,611
Depletion	1,947	1,910
	19,683	15,521

6. Expenses

	2013 US$'000	2012 US$'000
Profit before income tax includes the following expenses:		
(Loss) or profit on disposal of asset	(2,653)	322
Employee benefits expenses		
Defined contribution superannuation expense	394	336
Share based payment expense	366	345
Other employee benefits expenses	7,440	5,538
Total employee benefits expenses	8,200	6,219
Depreciation & Amortisation		
Property, plant and equipment	567	546
Oil & gas properties	4,585	11,966
Total depreciation & amortisation	5,152	12,512
Finance expenses		
Finance charges paid/payable	645	–
Total finance costs	645	–
Loss on derivative through profit or loss	455	–
Other expenses		
Business development	–	849
Corporate and other costs	7,328	1,619
Total other expenses	7,328	2,468

7. Income Tax Expense

	2013 US$'000	2012 US$'000
a) The components of tax expense comprise:		
– Current tax	3,663	4,434
– Deferred tax – origination and reversal of temporary differences	7,151	(3,778)
	10,814	656
b) Reconciliation of income tax expense to prima facie tax payable:		
Profit before income tax	20,256	14,787
Prima facie income tax at 30%	6,077	4,436
Tax effect of amounts not deductible in calculating taxable income:	12,711	(1,019)
Benefit of deferred tax assets not brought to account	(7,974)	(2,761)
Income tax expense	10,814	656
c) Deferred tax assets		
Unrealised foreign exchange	16	37
Share issue costs through equity	2	156
Other temporary differences	163	208
Temporary differences - foreign	24	2,095
	205	2,496
Tax losses - revenue	6,361	6,811
Tax losses - foreign	10,203	26,837
	16,769	36,144
Offset against deferred tax liabilities recognised	(26)	(162)
Deferred tax assets not brought to account	(16,742)	(34,045)
Deferred tax assets brought to account	1	1,937
d) Deferred tax liabilities		
Unrealised foreign exchange	268	–
Accrued income	2	4
Temporary differences - foreign	15,404	159
Temporary differences - development asset	811	11,245
Offset by deferred tax assets recognised	(26)	(162)
Deferred tax liabilities brought to account	16,459	11,246

8. Cash and Cash Equivalents

	2013 US$'000	2012 US$'000
Cash at bank and in hand	31,854	23,781
Short-term bank deposits	–	4,544
	31,854	28,325

Risk exposure

The consolidated entity's exposure to interest rate risk is discussed in Note 28. The maximum exposure to credit risk at the end of the reporting period is the carrying amount of each class of cash and cash equivalents mentioned above.

9. Trade and Other Receivables

	2013 US$'000	2012 US$'000
Current		
Other receivables	2,747	2,044
	2,747	2,044
Non-Current		
Other receivables	–	121
	–	121

No consolidated entity trade receivables were past due or impaired as at 30 June 2013 (30 June 2012: nil) and there is no indication that amounts recognised as trade and other receivables will not be recovered in the normal course of business. Refer credit risk at Note 28(b).

10. Other Assets

	2013 US$'000	2012 US$'000
Current		
Prepayments	136	433
Other assets	806	9,918
	942	10,351
Non-Current		
Other assets	741	–
Decommissioning fund (i)	6,600	6,600
	7,341	6,600

(i) The total present value of the estimated expenditure required to decommission the wells for the Service Contract 14C, including the share of the joint venture partners, is $6.6m. Otto Energy Limited's portion of 33% equates to $2.178m. The portion related to Otto Energy Limited, has been capitalised as part of the cost of oil & gas properties and is amortised over units of production.

The entire fund has been collected from the joint venture partners of Service Contract 14C and under the instruction of the Department of Energy ("DOE"), Philippines, the fund is now held in a restricted bank account on the DOE's behalf. All interest and incidentals of the account accrue to the benefit of the DOE. A corresponding liability has been recognised as a provision in Note 19.

11. Inventories

	2013 US$'000	2012 US$'000
Raw materials		
Oil (Held in storage)	2,040	5,105
Fuel	93	216
	2,133	5,321

12. Derivative Financial Instruments

	2013 US$'000	2012 US$'000
Current Asset		
Commodity options – at fair value through profit or loss	435	–
	435	–
Non-Current Asset		
Commodity options – at fair value through profit or loss	1,481	–
	1,481	–
Current Liability		
Commodity swap – at fair value through profit or loss	122	–
	122	–

During year, the consolidated entity became party to derivative financial instruments in the normal course of business in order to manage the exposure to fluctuations in commodity prices in accordance with the consolidated entity's financial risk management policy (refer Note 28).

i) Commodity Options Transactions

The consolidated entity is exposed to fluctuations of the commodity price and in order to protect against the long term fluctuations of the oil price, the consolidated entity has entered into a commodity option transaction contracts with BNP Paribas. The options are priced at the average underlying price over a time period of 1 May 2013 to 31 December 2015.

ii) Swaps

The consolidated entity entered into short term swaps over the Dubai oil price which are designed to reduce exposure to oil price volatility. The outstanding contract held by the consolidated entity at 30 June 2013 is:

Date of Delivery	Contract Party	Subject of contract	Barrels	Strike Price/barrel	Fair Value Loss
1 August 2013	BNP Paribas	Dubai 1st Line Swap	93,549	US$97.15	122

The fair value of derivative financial instruments at the reporting date is reflected in current and non-current assets and liabilities in the statement of financial position. The instruments are fair valued and recorded directly in profit or loss for the period.

Information about the consolidated entity's exposure to credit risk, foreign exchange and interest rate risk and about the methods and assumptions used in determining the fair values is provided in Note 28. The maximum exposure to credit risk at the end of the reporting period is the carrying amount of each class of derivative financial assets as mentioned above.

13. Property Plant and Equipment

	Plant & Equipment US$'000	Furniture and Fixtures US$'000	Total US$'000
Year ended 30 June 2012			
Balance at the beginning of year	676	26	702
Additions	535	130	665
Disposals	-	(3)	(3)
Depreciation expense	(513)	(33)	(546)
Closing net book amount	698	120	818
At 30 June 2012			
Cost or fair value	1,408	152	1,560
Accumulated depreciation	(710)	(32)	(742)
Net book value	698	120	818
Year ended 30 June 2013			
Balance at the beginning of year	698	120	818
Additions	513	130	643
Disposals	-	-	-
Depreciation expense	(515)	(52)	(567)
Closing net book amount	696	198	894
At 30 June 2013			
Cost or fair value	1,921	282	2,203
Accumulated depreciation	(1,225)	(84)	(1,309)
Net book value	696	198	894

14. Exploration and Evaluation Assets

	2013 US$'000	2012 US$'000
At Cost		
As at 1 July	13,740	13,831
Additions	7,382	2,761
Farm-in payment / (contribution)	1,315	(2,852)
Net carrying value	22,437	13,740

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

15. Oil and Gas Properties

	2013 US$'000	2012 US$'000
Oil and Gas properties – at cost	69,405	38,167
Net book value	69,405	38,167
As at 1 July	38,167	–
Additions	37,770	78,207
Farm down payment (i)	–	(28,074)
Amortisation	(6,532)	(11,966)
Net carrying value	69,405	38,167

(i) On 30th September 2011, the consolidated entity entered into an agreement with Risco Energy Pte Ltd for the beneficial sale of 26.84473% participating interest of the Galoc Joint Venture, reducing the JV working interest from 59.84473% to 33%.

16. Investments in Associates

Movements in carrying amounts

	2013 US$'000	2012 US$'000
Carrying amount at the beginning of the financial period	–	14,400
Share of losses after income tax	–	(1,987)
Dividends received	–	(6,872)
Carrying amount at the 30 September 2011	–	5,541
Goodwill on investment	–	6,049
Profit on deemed disposal of associate (i)	–	12,069
Transfer to investments in subsidiary	–	(23,659)
Carrying amount at the end of the financial period	–	–

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

17. Trade and Other Payables

	2013 US$'000	2012 US$'000
Current Liabilities(i)		
Trade payables	8,129	3,768
Other payables	637	2,280
	8,766	6,048
Non-Current Liabilities		
Other payables	1,498	–
	1,498	–

(i)Trade and other payables are expected to be settled with 12 months.
Refer to Note 28 for further information on financial instruments.

18. Borrowings

	2013 US$'000	2012 US$'000
Current Liability		
Secured loan	4,958	–
	4,958	–
Non-Current Liability		
Secured Loan	9,177	–
	9,177	–

i) On 21 December 2012, Galoc Production Company W.L.L. ('GPC') a wholly owned subsidiary of Otto Energy Limited, in conjunction with Forum Energy Corporation, entered into a US$40m Senior Secured Facility Agreement ('the Facility') with BNP Paribas.

ii) GPC's portion of the Facility is US$37.42 million, this is secured to GPC's 33% working interest in Galoc Block.

iii) Interest is calculated on a competitive margin over the floating LIBOR rate.

iv) The Facility expires 31 December 2015.

v) The Facility contains financial covenants which have been met.

vi) As at 30 June 2013, US$16.84 million has been drawn down under the Facility.

19. Provisions

	2013 US$'000	2012 US$'000
Current Provision		
Provisions – employee benefits	279	162
	279	162
Non-Current Provision (i)		
Provisions – employee benefits	165	117
Decommissioning Fund(ii)	6,600	6,600
	6,765	6,717

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

The non-current provision for employee benefits also includes all entitlements where employees have completed the required period of service that are not expected to be settled within 12 months.

ii) The total present value of the estimated expenditure required to decommission the wells for Service Contract 14C, including the share of the joint venture partners is $6.6m. Refer to Note 10 for further details.

Movements in provisions

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

	Total US$'000
Carrying amount at start of year – 1 July 2012	6,600
Additional provision recognised – charged to oil & gas properties	–
Carrying amount at end of year – 30 June 2013	6,600

20. Contributed Equity

a) Share Capital

	2013 No.	2012 No.	2013 US$'000	2012 US$'000
At the beginning of year	1,138,290,071	1,134,540,071	131,577	131,577
Shares issued during year on exercise of perfomance rights	2,000,000	3,750,000	–	–
	1,140,290,071	1,138,290,071	131,577	131,577

b) Ordinary Shares

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

c) Options

Information relating to the Otto Energy Employee Option Plan, including details of options issued, exercised and lapsed during the financial year and options outstanding at the end of the reporting period, is set out in Note 29.

d) Performance Rights

Information relating to the Otto Energy Employee Performance Rights Plan, including details of performance rights issued, exercised and lapsed during the financial year and performance rights outstanding at the end of the reporting period, is set out in Note 29.

21. Other Reserves

	2013 US$'000	2012 US$'000
Reserves		
Foreign currency translation reserve	4,188	4,188
Share based payment reserve	8,685	8,319
Statutory reserve	–	1,325
	12,873	13,832
Foreign Currency Translation Reserve[(i)]		
Balance at beginning of year	4,188	4,188
Currency translation differences	–	–
As at end of year	4,188	4,188
Share Based Payment Reserve [(ii)]		
Balance at beginning of year	8,319	7,974
Share based payment expense	366	345
As at end of year	8,685	8,319

(i) Foreign Currency Translation Reserve

Exchange differences arising on translation of the foreign controlled entity are recognised in other comprehensive income as described in Note 1(d) and accumulated in a separate reserve within equity.

(ii) Share Based Payment Reserve

The share-based payments reserve is used to recognise the value of share-based payments provided to employees (including key management personnel) as part of their remuneration; and share options and performance rights issued as part of consideration for acquisitions. Refer to Note 29 for further details of these plans.

22. Accumulated Losses

Movements in accumulated losses were as follows:

	2013 US$'000	2012 US$'000
Balance 1 July	(62,897)	(77,684)
Net profit for the year	9,442	14,787
Balance 30 June	(53,455)	(62,897)

23. Earnings per Share

a) Earnings per share attributable to the ordinary equity holders of the Company

	2013 US cents	2012 US cents
Basic earnings per share	0.83	1.30
Diluted earnings per share	0.83	1.24

b) Earnings used in calculation of basic / diluted earnings per share

	2013 US$'000	2012 US$'000
Net profit after tax	9,442	14,787

c) Weighted average number of ordinary shares used as a denominator in calculating

	2013 Number of Shares	2012 Number of Shares
Basic earnings per share	1,138,624,318	1,138,290,071
Diluted earnings per share	1,138,624,318	1,189,968,350

Options and share rights

The options and share rights have not been considered in the determination of basic EPS. Details relating to options and share rights are set out in Note 29.

Performance share rights are only included in determining diluted EPS to the extent that they are dilutive.

The exercise prices of all options are included in Note 29. In determining diluted EPS, options with an exercise price greater than the average Otto Energy Limited's share price over the year have not been included, as these are not considered dilutive.

24. Subsidiaries

Significant investments in subsidiaries

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

Subsidiaries of Otto Energy Limited	Country of Incorporation	Class of shares	Equity holding* 2013 (%)	Equity holding* 2012 (%)
Otto Energy (Tanzania) Pty Limited	Australia	Ordinary	100	100
Otto Energy Investments Limited (i)	Bermuda	Ordinary	100	100
Otto Energy Philippines Inc (i)	Philippines	Ordinary	100	100
Colag (UK) Limited	United Kingdom	Ordinary	100	100
Colag (BVI) Limited	British Virgin Islands	Ordinary	100	100
Otto Energy (Galoc Investment 1) Aps	Denmark	Ordinary	100	100
Otto Energy (Galoc Investment 2) Aps	Denmark	Ordinary	100	100
GPC Investments SA	Switzerland	Ordinary	100	100
Galoc Production Company W.L.L	Bahrain	Ordinary	100	100
Galoc Marine Asia Limited	Bermuda	Ordinary	100	100

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

(i) During the 2012 year Norasian Energy Limited changed its name to Otto Energy Investment Ltd also Norasian Energy Philippines Incorporated changed its name to Otto Energy Philippines Incorporated.

25. Interest in Joint Ventures

a) Joint venture interests

The consolidated entity's interest in joint venture assets as at 30 June 2013 is detailed below. Exploration, development and production of hydrocarbons are the principal activities performed across these assets.

		Group Interest (%) 2013	Group Interest (%) 2012
Service Contract 14c	Philippines	33	33
Service Contract 51	Philippines	80	40
Service Contract 55	Philippines	33.18	33.18
Service Contract 69	Philippines	79	79
Kilosa-Kilombero	Tanzania	50	50
Pangani	Tanzania	50	50

b) Jointly controlled assets

The consolidated entity's interests in the assets employed in the joint venture are included in the statement of financial position, in accordance with the accounting policy described in Note 1(b), under the following classifications:

	2013 US$'000	2012 US$'000
Non Current Assets		
Exploration and evaluations assets	22,437	13,740
Oil and gas properties	69,405	38,167
	91,842	51,907

c) Commitments through jointly controlled assets

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

	2013 US$'000	2012 US$'000
Exploration and other commitments	9,994	750
	9,994	750

26. Business Combinations

Acquisition of Galoc Production Company W.L.L

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

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

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

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

	Fair Value US$'000
Cash and cash equivalents	18,102
Trade and other receivables	2,312
Other current assets – prepayments	358
Inventory	3,224
Oil & gas properties	75,569
Borrowings	(3,937)
Deferred tax liability	(14,835)
Trade and other payables	(4,026)
Income tax payable	(2,191)
Deferred tax asset	817
Net identifiable assets and liabilities	**75,393**
Net assets acquired	75,393

Revenue and profit contribution

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

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

Purchase consideration – cash outflow

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

Acquisition-related costs

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

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

	2013 $'000	2012 $'000
Profit for the year	9,442	14,787
Non-cash items		
Depreciation and amortisation	7,099	12,512
Net exchange differences	63	361
Impairment of goodwill	–	6,049
Profit on sale of associate	–	20,193
Non-cash employee benefits expense – share-based payments	366	345
Statutory reserve - Bahrain	1,325	(1,325)
Loss on derivative through profit or loss	122	–
Change in operating assets and liabilities, net of effects from		
Decrease/(Increase) in trade other receivables	(582)	(8,488)
Decrease/(Increase) in other operating assets	285	(31,928)
Decrease/(Increase) in inventories	3,188	(5,321)
Decrease/(Increase) in deferred tax assets	1,936	(1,937)
(Decrease)/Increase in trade and other payables	569	1,471
(Decrease)/Increase in provision for income taxes payable	(88)	739
(Decrease)/Increase in provisions	165	6,717
(Decrease)/Increase in deferred tax liabilities	5,213	(11,186)
Net cash inflow from operating activities	29,103	2,989

28. Financial Risk Management

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

Otto's Board of Directors ("Board") is responsible for approving Otto's policies on risk oversight and management and ensuring management has developed and implemented effective risk management and internal control. Risk management is carried out by the senior finance executives under these policies which have been approved by the Board. Finance identifies, evaluates and hedges financial risks within the consolidated entity's operating units. The Board then receives reports as required from the Chief Financial Officer in which they review the effectiveness of the processes implemented and appropriateness of policies it sets.

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

(a) Market Risk

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

(i) Foreign Exchange Risk

The consolidated entity source currency for the majority of revenue and costs is in US dollars. Given the location of the group offices there is a small exposure to foreign exchange risk arising from the fluctuations in the US dollar and Australian dollar, and US dollar and Philippine peso on cash balances.

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

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

	30 June 2013			
	US$ US$'000	**A$ US$'000**	**PHP US$'000**	**Total US$'000**
Financial Assets				
Cash and Cash equivalents	30,938	887	29	31,854
Trade and other receivables	1,245	983	519	2,747
Derivative Assets	1,916	–	–	1,916
Other assests	7,940	343	–	8,283
Total Financial Assets	42,039	2,213	548	44,800
Financial Liabilities				
Trade and Other payables	7,972	632	162	8,766
Derivative Liability	122	–	–	122
Borrowings	14,135	–	–	14,136
Total Financial Liabilities	22,229	632	162	23,023

	30 June 2012			
	US$ US$'000	A$ US$'000	PHP US$'000	Total US$'000
Financial Assets				
Cash and Cash equivalents	27,279	1,040	6	28,325
Trade and other receivables	1,413	752	–	2,165
Other assets	6,600	–	–	6,600
Total Financial Assets	35,292	1,792	6	37,090
Financial Liabilities				
Trade and Other payables	5,338	710	–	6,048
Total Financial Liabilities	5,338	710	–	6,048

A hypothetical change of 10% in the Australian dollar and Philippine Peso exchange rate was used to calculate the consolidated entity's sensitivity to foreign exchange rates movements as this is management's estimate of possible rate movements over the coming year taking into account current market conditions and past volatility (30 June 2012 10%). At 30 June 2013, management has assessed that the entity's exposure to foreign exchange movements is found to be immaterial, (2012: Immaterial exposure) therefore no further analysis provided.

(ii) Commodity Price Risk

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

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

The Board recognises that through the normal course of its business activities, the consolidated entity is exposed to various market risks, including commodity risks. To manage commodity price risk for the consolidated entity's commodity price risk exposure during the year ended 30 June 2013, the consolidated entity entered into cash settled commodity swaps and options transaction arrangements with BNP Paribas as disclosed at Note 18.

The consolidated entity's revenues, derivatives and trade receivables are exposed to oil price risk fluctuations.

As at reporting date, the carrying value of financial instruments exposed to commodity prices movements were as follows:

	2013 US$'000	2012 US$'000
Current Asset		
Commodity options – at fair value through profit or loss	435	–
Inventory	2,040	5,105
	2,475	5,105
Non-Current Asset		
Commodity options – at fair value through profit or loss	1,481	–
	1,481	–
Current Liability		
Commodity swap – at fair value through profit or loss	122	–
	122	–

The following table demonstrates the estimated sensitivity to a 10% and 15% increase / decrease in the oil price, with all other variables held constant, on post tax profit and equity at 30 June 2013.

Sensitivity analysis – change in US$ oil price

The following table details the consolidated entity's sensitivity to a 10% and 15% increase and decrease in the oil price. Sensitivities to such possible movements are used when reporting oil price risk internally to key management personnel to represent management's near term assessment of possible change in oil prices. The sensitivity analysis below includes current year before tax sales varied by 10% and 15% increase in the consolidated entity's average US$ oil price. A positive number indicates an increase in profit and equity where the oil price increases. For a 10% or 15% decrease in US$ oil price, there would be a comparable impact on profit and equity, and the balances below would be negative.

	2013 US$'000	2012 US$'000
Profit or loss: 10%	6,018	3,059
Profit or loss: 15%	9,027	4,588

(iii) Interest Rate Risk

The consolidated entity's main risk arises from long-term borrowings. Borrowings issued at a margin + LIBOR expose the consolidated entity to interest rate risk. The consolidated entity's bank loans outstanding, totalling $16,839,000 (2012: nil), are principal and interest payment loans. At this stage, the entity has not triggered its payment schedule. This is expected to occur post year end when more drawdowns are expected to occur.

The consolidated entity is also exposed to interest rate risk through liquid funds on deposit. The consolidated entity's policy is to maximise the return on cash held through the use of high interest deposit accounts and term deposits where possible.

		2013 US$'000	2012 US$'000
Financial assets			
Cash assets	Floating rate(i)	31,854	28,325
Financial liabilities			
Borrowings	Margin+Libor(ii)	16,839	–

(i) Weighted average effective interest rate of funds on deposit is Nil (2012: Nil)
(ii) Weighted average effective interest rate on borrowing funds is 6.27% (2012: Nil)

Sensitivity analysis – change in interest rates

A 25 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the possible change in interest rate.

At reporting date, if interest rates had been 25 basis points higher or lower and all other variables were held constant, the consolidated entity's profit or loss and equity for the year will be impacted as follows:

	2013 US$'000	2012 US$'000
Profit or loss: 25 basis points increase	4	–
Profit or loss: 25 basis points decrease	(4)	–

(b) Credit Risk

Credit risk arises from cash and cash equivalents and long term deposits with financial institutions.

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

	2013 US$'000	2012 US$'000
Cash and cash equivalents	31,854	28,325
Long term deposits and other assets	6,833	6,607
	38,687	34,932

To manage credit risk from cash and cash equivalents financial assets, it is the consolidated entity's policy to only deposit with banks maintaining a minimum independent rating of 'AA'. Due to the operating environments in the Philippines, it is not currently possible to deposit all cash with financial institutions that have an 'AA' rating.

	Cash at bank and short term deposits		Other Assets	
	2013 US$'000	2012 US$'000	2013 US$'000	2012 US$'000
AA Rated	31,677	4,784	233	7
BB Rated	-	–	-	-
BBB Rated	177	23,532	6,600	6,600
Unrated	-	9	-	-
	31,854	28,325	6,833	6,607

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

(c) Liquidity Risk

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

(i) Financing arrangements

During the 2013 financial year, Galoc Production Company W.L.L ('GPC') Inc, a wholly owned subsidiary of the Company, signed a senior secured facility agreement, pursuant to which up to US$40million (GPC's portion is US$37.4million) may be available for drawdown (refer Note 18 – Borrowings)

Contractual maturities financial liabilities	Less than 1 year US$'000	Between 1-2 years US$'000	Between 2-5 years US$'000	Total contractual cash flows US$'000	Carrying amount (assets) / liabilities US$'000
Trade payables and other payables	9,692	385	187	10,264	10,264
Borrowings	6,039	10,800	–	16,839	14,135
Commodity swap – at fair value through profit or loss	122	–	–	122	122
	15,853	11,185	187	27,225	24,521

(d) Fair Value Measurements

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

AASB 7 Financial Instruments: Disclosures requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

(a) Level 1 - quoted prices (unadjusted) in active markets for identical assets of liabilities

(b) Level 2 - inputs other than quoted prices included within level 1 that are observable for the asset of liability, either directly (as prices) or indirectly (derived from prices)

(c) Level 3 - inputs for the asset or liability that are not based on observable market data (unobservable inputs)

Notes TO THE CONSOLIDATED FINANCIAL STATEMENTS

The following table presents the consolidated entity's assets and liabilities measured and recognised at fair value at 30 June 2013.

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Current Asset				
Commodity options – at fair value through profit or loss	–	435	–	435
	–	435	–	435
Non-Current Asset				
Commodity options – at fair value through profit or loss	–	1,481	–	1,481
	–	1,481	–	1,481
Current Liability				
Commodity swap – at fair value through profit or loss	–	122	–	122
	–	122	–	122

(e) Capital Risk Management

The consolidated entity manages its capital to ensure that entities in the consolidated entity will be able to continue as a going concern while maximising the potential return to shareholders through the optimisation of debt and equity balance.

The capital structure of the consolidated entity includes the total equity plus borrowings which at 30 June 2013 was US$16,839,000 (2012: nil). In determining the funding mix of debt and equity (total borrowings/total equity), consideration is given to the relative impact of gearing ratio on the ability of the consolidated entity to service loan interest and repayment schedules, credit facility covenants and also to generate adequate free cash available for corporate and oil and gas exploration, development and production activities. The debt to equity rate was 12.8% as at 30 June 2013 (2012: Nil).

The capital of group subsidiary entities is subject to externally imposed guarantees for the senior secured credit Facility (refer to Note 18 – Borrowings).

29. Share-Based Payments

(a) Employee Share Option Plan

The establishment of the Employee Share Option Plan was approved by shareholders at the 2010 Annual 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 at the Board's discretion and no individual has a contractual right to participate in the plan or to receive any guaranteed benefits.

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

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

Set out below are summaries of share options granted under the Employee Share Option Plan:

2013 Grant Date	Expiry Date	Exercise Price A$	Balance at start of the year Number	Granted during the year Number	Exercised during the year Number	Expired / Forfeited during the year Number	Balance at end of the year Number	Vested and exercisable at end of the year Number
1 Aug 2008	1 Aug 2012	0.60	2,500,000	–	–	(2,500,000)	–	–
8 Sep 2009	8 Sep 2012	0.12	4,000,000	–	–	(4,000,000)	–	–
19 Jan 2010	19 Jan 2013	0.12	1,000,000	–	–	(1,000,000)	–	–
16 Feb 2010	16 Feb 2013	0.12	5,500,000	–	–	(5,500,000)	–	–
11 Aug 2010	11 Aug 2013	0.12	3,000,000	–	–	–	3,000,000	3,000,000
26 Nov 2010	26 Nov 2013	0.12	9,000,000	–	–	–	9,000,000	9,000,000
30 Nov 2010	30 Nov 2013	0.13	6,000,000	–	–	–	6,000,000	6,000,000
13 Oct 2011	13 Oct 2014	0.12	1,250,000	–	–	–	1,250,000	1,250,000
5 Jan 2012	5 Jan 2015	0.12	2,500,000	–	–	–	2,500,000	2,500,000
Total			**34,750,000**	**–**	**–**	**(13,000,000)**	**21,750,000**	**21,750,000**
Weighted average exercise price – A$			**0.16**	**–**	**–**	**0.21**	**0.12**	**0.12**

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

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

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

There were 13,000,000 options that expired during the period ended 30 June 2013. The weighted average remaining contractual life of share options outstanding at the end of the year is 0.63 years (2012: 1.75 years).

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

During the 12 month period ended on 30 June 2013 the consolidated entity had not issued any options under the Employee Share Plan (2012: 3,750,000 options, exercise price of 0.12, exercisable before 13 October 2014 and 5 January 2015).

Fair value of options granted

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

2012 Grant date	13 October 2011	5 January 2012
Exercise price – A$	0.12	0.12
Expiry date	13 October 2014	5 January 2015
Share price at grant date – A$	0.07	0.09
Expected volatility	45%	45%
Expected dividend yield	Nil	Nil
Risk free rate	3.79%	3.25%

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

Notes TO THE CONSOLIDATED FINANCIAL STATEMENTS

(b) Performance Rights Plan

The establishment of the Performance Rights Plan was approved by shareholders at the 2010 Annual General Meeting. The Performance Rights Plan is designed to provide long term incentives for senior managers and employees to deliver long term shareholder returns. Participation in the plan is at the Board's discretion and no individual has a contractual right to participate in the plan or to receive any guaranteed benefits.

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

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

Set out below are summaries of rights granted under the Performance Rights Plan:

Date of Issue	Balance at Start of Year	Rights Issued During the Year	Fair Value on Date of Issue US$	Exercised	Lapsed/ Expired	Balance at End of Year	Expiry Date
1 Oct 2011	27,000,000	–	0.02	(2,000,000)	–	25,000,000	31 Dec 2014
1 Feb 2013	–	15,700,000	0.02	–	–	15,700,000	1 Apr 2016
Total	**27,000,000**	**15,700,000**		**(2,000,000)**	–	**40,700,000**	

Fair value of rights granted

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

2013	
Grant date	**1 February 2013**
Expiry date	1 April 2016
Share price at grant date – A$	0.10
Expected volatility	52.6%
Expected dividend yield	Nil
Risk free rate	2.75%

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

(c) Expenses arising from share based payment transactions

	2013 US$'000	2012 US$'000
Options	–	61
Performance rights	366	284
Share-based payments expensed	366	345

30. Key Management Personnel Disclosures

(a) Key Management Personnel Compensation

	2013 US$'000	2012 US$'000
Short -term employee benefits	1,953,298	1,716,559
Post-employment benefits	84,435	132,233
Share-based payments	162,178	283,970
	2,199,911	2,132,762

Detailed remuneration disclosures are provided in the remuneration report on pages 28 to 34.

(b) Equity Instrument Disclosures relating to Key Management Personnel

(i) Options provided as remuneration

Details of options provided as remuneration and shares issued on the exercise of such options, together with terms and conditions of the options, can be found in the remuneration report on pages 33 to 34.

(ii) Option Holdings

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

2013	Balance at Start of Year	Granted as Compensation	Exercised/other changes	Balance at End of Year	Vested and Exercisable
Directors of Otto Energy Limited					
Mr R Crabb	-	-	-	-	-
Mr I Macliver	-	-	-	-	-
Mr I Boserio	3,000,000	-	-	3,000,000	3,000,000
Mr J Jetter	3,000,000	-	-	3,000,000	3,000,000
Mr R Bomasang	-	-	-	-	-
	6,000,000	**-**	**-**	**6,000,000**	**6,000,000**
Key Management Personnel of the consolidated entity					
Mr G McNab	-	-	-	-	-
Mr M Allen	7,000,000	-	(3,000,000)	4,000,000	4,000,000
Mr P Senycia	7,000,000	-	-	7,000,000	7,000,000
	14,000,000	**-**	**(3,000,000)**	**11,000,000**	**11,000,000**

2012	Balance at Start of Year	Granted as Compensation	Exercised/other changes	Balance at End of Year	Vested and Exercisable
Directors of Otto Energy Limited					
Mr R Crabb	-	-	-	-	-
Mr I Macliver	-	-	-	-	-
Mr I Boserio	3,000,000	-	-	3,000,000	3,000,000
Mr J Jetter	3,000,000	-	-	3,000,000	3,000,000
Mr R Bomasang	-	-	-	-	-
Mr P Moore(i)	11,500,000	-	(11,500,000)	-	-
	17,500,000	**-**	**(11,500,000)**	**6,000,000**	**6,000,000**
Key Management Personnel of the consolidated entity					
Mr G McNab	-	-	-	-	-
Mr M Allen	7,000,000	-	-	7,000,000	7,000,000
Mr P Senycia	7,000,000	-	-	7,000,000	7,000,000
	14,000,000	**-**	**-**	**14,000,000**	**14,000,000**

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

Notes TO THE CONSOLIDATED FINANCIAL STATEMENTS

iii) Performance Rights Holdings

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

2013	Balance at Start of Year	Granted as Compensation	Vested and Exercisable	Lapsed/ Expired	Balance at End of Year
Directors of Otto Energy Limited					
Mr R Crabb	–	–	–	–	–
Mr I Macliver	–	–	–	–	–
Mr I Boserio	–	–	–	–	–
Mr J Jetter	–	–	–	–	–
Mr R Bomasang	–	–	–	–	–
	–	**–**	**–**	**–**	**–**
Key Management Personnel of the consolidated entity					
Mr G McNab	15,000,000	5,000,000	–	–	20,000,000
Mr M Allen	6,000,000	3,500,000	(1,000,000)	–	8,500,000
Mr P Senycia	6,000,000	3,500,000	(1,000,000)	–	8,500,000
	27,000,000	**12,000,000**	**(2,000,000)**	**–**	**37,000,000**

2012	Balance at Start of Year	Granted as Compensation	Vested and Exercisable	Lapsed/ Expired	Balance at End of Year
Directors of Otto Energy Limited					
Mr R Crabb	–	–	–	–	–
Mr I Macliver	–	–	–	–	–
Mr I Boserio	–	–	–	–	–
Mr J Jetter	–	–	–	–	–
Mr R Bomasang	–	–	–	–	–
Mr P Moore(i)	3,750,000	–	(3,750,000)	–	–
	3,750,000	**–**	**(3,750,000)**	**–**	**–**
Key Management Personnel of the consolidated entity					
Mr G McNab	–	15,000,000	–	–	15,000,000
Mr M Allen	–	6,000,000	–	–	6,000,000
Mr P Senycia	–	6,000,000	–	–	6,000,000
	–	**27,000,000**	–	–	**27,000,000**

i) Mr P Moore resigned on 1 July 2011.

(iv) Share Holdings

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

2013	Balance at Start of Year	Granted During the year	Received During the Year	Other Changes During Year	Balance at End of Year
Directors of Otto Energy Limited					
Mr R Crabb	17,495,052	–	–	–	17,495,052
Mr J Jetter	19,089,175	–	–	–	19,089,175
Mr I Macliver	4,549,721	–	–	–	4,549,721
Mr I Boserio	330,000	–	–	–	330,000
Mr R Bomasang	–	–	–	–	–
	41,463,948	**–**	**–**	**–**	**41,463,948**
Key Management Personnel of the consolidated entity					
Mr G McNab	–	–	–	–	–
Mr M Allen	–	1,000,000	–	–	1,000,000
Mr P Senycia	–	1,000,000	–	–	1,000,000
	–	**2,000,000**	**–**	**–**	**2,000,000**

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

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

31. Related Party Transactions

(a) Subsidiaries

Interests in subsidiaries are set out in Note 24.

(b) Key Management Personnel

Disclosures relating to Key Management Personnel are set out in Note 30.

	2013 US$	2012 US$
Sub-lease of property including outgoings and IT services provided for Pathfinder Pty Ltd of which Mr Boserio is a Director. Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.	14,062	10,569

(c) Outstanding Balances arising from Sales/Purchases of Goods and Services

The following balances are outstanding at the end of the reporting period in relation to transactions with related parties $9,396 (2012:10,569).

32. Auditors' Remuneration

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

	2013 US$	2012 US$
(a) BDO Australia		
(i) Audit and other assurance services:		
(a) Audit and review of financial statements	149,280	128,945
(b) Other assurance services	3,128	–
Total remuneration for audit and other assurance services	152,408	128,945
(ii) Taxation services:		
(a) Tax compliance services	26,136	16,448
(b) International tax consulting and tax advice	44,913	85,065
Total remuneration for taxation services	71,049	101,513
Total remuneration of BDO Australia	223,457	230,458
(b) Network firms of BDO Australia		
(i) Audit and other assurance services:		
(a) Audit and review of financial statements	41,086	28,108
(a) Other assurance services	–	–
Total remuneration for audit and other assurance services	41,086	28,108
(ii) Taxation services:		
(a) Tax compliance services	6,388	15,957
(b) International tax consulting	–	–
Total remuneration for taxation services	6,388	15,957
Total remuneration of network firms of BDO Australia	47,474	44,065
(c) Non-BDO		
(i) Audit and other assurance services:		
(a) Audit and review of financial statements	136,495	22,000
(b) Other assurance services	1,632	–
Total remuneration for audit and other assurance services	138,127	22,000
(ii) Taxation services:		
(a) Tax compliance services	11,026	10,000
(b) International tax consulting and tax advice	52,280	–
Total remuneration for taxation services	63,306	10,000
Total remuneration of non BDO audit firms	201,433	32,000
Total auditors' remuneration	**472,364**	**306,523**

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

33. Contingent Liabilities and Contingent Assets

Contingent Consideration Payable (Middle East Petroleum Services)

In 2008 the Company's shareholders approved an arrangement to buy back a 5% gross overriding royalty over the production revenues generated from its petroleum interests in SC51 and SC55 in the Philippines from Middle East Petroleum Services ("MEPS"). MEPS are a privately-held company that originally negotiated the farm in deal for Otto Energy in the Philippines acreage in 2005. As part of the farm-in agreement MEPS retained a 5% gross overriding royalty over Otto Energy Investment's share of the assets.

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

34. Commitments

(a) Capital Commitments

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

	2013 US$'000	2012 US$'000
Committed capital and exploration expenditure commitments		
No longer than 1 year	9,992	750
Longer than 1 year and no longer than 5 years	66	–
More than 5 years	116	–
	10,174	750

(b) Lease Commitments: Group as Lessee

The consolidated entity leases corporate offices under non-cancellable operating leases. The leases have varying terms, escalation terms and renewal rights. On renewal, the terms of the leases may be renegotiated.

Non-cancellable operating leases

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

	2013 US$'000	2012 US$'000
No longer than 1 year	529	525
Longer than 1 year and no longer than 5 years	1,601	284
	2,130	809

35. Events Occurring after the Reporting Period

Drilling of Duhat-2 well commenced in July 2013. When drilling at 200 meters the well started to flow high pressure water at high flow rates. Otto reviewed the flow and pressure information obtained since drilling commenced at Duhat-2 and the decision was made to plug and abandon the well. There were no injuries to any personnel and no identified impacts on the local environment as a result of the flow of water from the well. A continuous monitoring system has been put in place, and Otto is in regular contact with local communities and the authorities.

Commencement of the 2D seismic acquisition programme in Tanzania occurred in August 2013.

36. Parent Entity Disclosures

As at, and throughout the financial year ended 30 June 2013, the parent Company of the consolidated entity was Otto Energy Limited.

	Parent Entity	
	2013 US$'000	**2012 US$'000**
Summarised Statement Of Comprehensive Income		
(Loss)/Profit for the year after tax	(8,691)	1,720
Total comprehensive (loss)/profit for the year	(8,691)	1,720
Summarised Statement of Financial Position		
Current Assets	3,851	3,607
Non-Current Assets	41,785	50,150
Total Assets	45,636	53,757
Current Liabilities	912	754
Non-Current Liabilities	164	118
Total Liabilities	1,076	872
Net Assets	44,560	52,885
Total equity of the parent entity comprising:		
Share Capital	131,577	131,577
Share based payments reserves	8,685	8,319
Foreign currency translation reserves	118	118
Accumulated losses	(95,820)	(87,129)
Total Equity	44,560	52,885

Guarantees entered into by the parent in relation to the debts of its subsidiaries

The parent entity guarantees financial payment obligations of its subsidiary with its supplier, Rubicon Offshore International Pte Ltd, for up to US$862,500.

Contingent Liabilities

The parent entity had no contingent liabilities as at 30 June 2013 and 30 June 2012.

Commitments

The parent entity had no capital commitments for property plant and equipment as at 30 June 2013 and 30 June 2012.

The parent entity has a non-cancellable operating lease payable as follows:

	2013 US$'000	**2012 US$'000**
No longer than 1 year	411	525
Longer than 1 year and no longer than 5 years	1,480	284
	1,891	809

Significant Accounting Policies

The accounting policies of the parent entity are consistent with those of the consolidated entity as disclosed in Note 1 and Note 2, except for the following; investments in subsidiaries are accounted for at cost, less any impairment in the parent entity.

Directors DECLARATION

In the Directors' opinion:

a) The financial statements and accompanying notes are in accordance with the Corporations Act 2001, including:

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

   (ii) giving a true and fair view of the consolidated entity's financial position as at 30 June 2013 and of its performance for the year ended on that date

b) The financial statements and notes comply with International Financial Reporting Standards as disclosed in Note 1

c) There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

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

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

MR I MACLIVER | DIRECTOR

27 September 2013

Independent AUDIT REPORT

To the Members of Otto Energy Limited

BDO

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INDEPENDENT AUDITOR'S REPORT

To the members of Otto Energy Limited

Report on the Financial Report

We have audited the accompanying financial report of Otto Energy Limited, which comprises the consolidated statement of financial position as at 30 June 2013, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

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

Auditor's Responsibility

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

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

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

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Otto Energy Limited, would be in the same terms if given to the directors as at the time of this auditor's report.

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 2013 and of its performance for the year ended on that date; and

  (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

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

Report on the Remuneration Report

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2013. 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.

Opinion

In our opinion, the Remuneration Report of Otto Energy Limited for the year ended 30 June 2013 complies with section 300A of the *Corporations Act 2001*.

BDO Audit (WA) Pty Ltd

BDO

Brad McVeigh

Director

Perth, 27 September 2013

ASX ADDITIONAL INFORMATION

The shareholder information set out below was applicable as at 23 September 2013.

A. Distribution of Equity Securities

The issued capital of the Company at 23 September 2013 is 1,140,290,071 ordinary fully paid shares. All ordinary shares carry one vote per share. There are no listed options.

Ordinary Shares	No. of Holders	No. of Shares
100,001 and over	630	1,071,389,728
10,001 – 100,000	1,484	64,083,088
5,001 – 10,000	450	3,825,146
1,001 – 5,000	303	973,028
1 – 1,000	104	19,081
	2,971	1,140,290,071
Number holding less than a marketable parcel size of 5,000 shares at A$0.10 per share	358	747,109

Shareholders by Location	No. of Holders	No. of Shares
Australian holders	2,745	824,124,648
Overseas holders	247	316,165,423
	2,992	1,140,290,071

B. Equity Security Holders

Twenty largest quoted equity security holders.

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

	Name	Ordinary Shares Number Held	Ordinary Shares % of issued shares
1	Molton Holdings Ltd	241,910,757	21.21%
2	Santo Holding AG	241,910,757	21.21%
3	Acorn Capital Limited	85,666,860	7.51%
4	Citicorp Nominees Pty Limited	26,559,274	2.33%
5	National Nominees Limited	21,890,409	1.92%
6	John Jetter (Consolidated Relevant Interest)	19,089,175	1.67%
7	Rick Crabb (Consolidated Relevant Interest)	17,495,052	1.53%
8	HSBC custody Nominees (Australia) Limited	16,807,744	1.47%
9	J P Morgan Nominees Australia Limited	16,607,118	1.46%
10	HSBC Custody Nominees (Australia) Limited	16,305,051	1.43%
11	DBS Vickers Securities (Singapore) Pte Ltd	14,020,833	1.23%
12	Citicorp Nominees Pty Limited (C/Wlth Bank Off Super A/C)	12,801,550	1.12%
13	JP Morgan Nominees Australia Limited (Cash Income A/C)	10,866,006	0.95%
14	Navigator Australia Ltd	8,946,695	0.78%
15	ESCOR Investments Pty Ltd	8,915,000	0.78%
16	Escot Finance Ltd	8,150,000	0.71%
17	Forsyth Barr Custodians Ltd (Forsyth Barr Ltd-Nominee A/C)	7,480,794	0.66%
18	Mr Brian Lesleigh Williams & Mrs Valerie Ruby Dawn Williams	6,000,000	0.53%
19	Middle East Petroleum Services Ltd	5,166,304	0.45%
20	Ian Macliver (Consolidated Relevant Interest)	4,549,721	0.40%
		791,139,100	69.38%

C. Substantial Shareholders

		No. of Shares Held	% Held
1	Molton Holdings Ltd	241,910,757	21.21%
2	Santo Holding	241,910,757	21.21%
3	Acorn Capital Limited	85,666,860	7.51%

ASX ADDITIONAL INFORMATION

D. Unquoted Securities

The unlisted securities of the Company as at 23 September 2013 are 32,500,000 performance rights and 18,750,000 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
26 November 2010	26 November 2013	A$0.12	9,000,000	6
30 November 2010	30 November 2013	A$0.13	6,000,000	2
13 October 2011	13 October 2014	A$0.12	1,250,000	4
5 January 2012	5 January 2015	A$0.12	2,500,000	2
			18,750,000	

Unlisted Performance Rights

Issue Date	Expiry Date	Exercise Price	No. of Options	No. of Holders
1 Feb 2013	1 April 2016	A$0.00	14,500,000	6
3 October 2011	1 April 2015	A$0.00	5,000,000	1
3 October 2011	1 November 2014	A$0.00	5,000,000	1
3 October 2011	1 April 2014	A$0.00	5,000,000	1
3 October 2011	31 December 2014	A$0.00	2,000,000	1
3 October 2011	31 December 2014	A$0.00	2,000,000	1
3 October 2011	31 December 2014	A$0.00	2,000,000	1
3 October 2011	31 December 2014	A$0.00	2,000,000	1
3 October 2011	31 December 2014	A$0.00	1,000,000	1
3 October 2011	31 December 2014	A$0.00	1,000,000	1
			39,500,000	

* Subject to meeting certain share price and service hurdles

E. Voting Rights

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

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