OTTO ENERGY

annual report 2014

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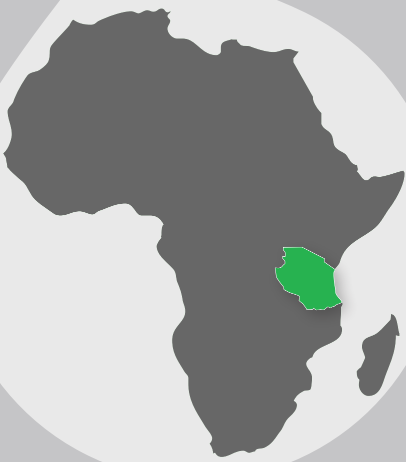


The Company has maintained its commitment to longer term growth through the exploration portfolio and our technical team have matured their understanding of both the Philippines and Tanzania acreage by acquisition of new seismic and preparation for upcoming drilling in 2015/16.

CHAIRMAN'S REPORT

Dear Shareholders:

It is appropriate that the Board of Otto Energy presents this, the 10th Annual Report to shareholders at the close of a year that has seen unprecedented activity for our Company.

The most significant outcome delivered this year has been successful completion of the Galoc Phase II development. I am proud of this major achievement by Otto Energy's management and contracting teams in Perth, Kuala Lumpur and the Philippines, who have delivered long term value to all Galoc Joint Venture parties and to the Philippine Government. The Galoc expansion has positioned Otto Energy in an enviable position of financial strength among our peers. The Company has maintained its commitment to longer term growth through the exploration portfolio and our technical team have matured their understanding of both the Philippines and Tanzania acreage by acquisition of new seismic and preparation for upcoming drilling in 2015.

The execution of the sale and purchase agreement by Otto to divest the 33% interest in the Galoc Oil field for $101.4m represents an outstanding opportunity to maximise and monetise the inherent value of the Galoc Interest after the successful completion of the Galoc Phase II expansion.

The transaction demonstrates Otto's commitment to creating shareholder value by the ability to monetise a key asset and deliver a significant capital return to shareholders whilst at the same time funding a highly prospective exploration program.

We can look forward to the coming financial year, during which Otto Energy plans to maintain its current high level of activity. Highlights for the coming period include:

- Completion of the Galoc divestment transaction;
- Complete acquisition of a 700km seismic survey in Tanzania and prepare for the first onshore exploration wells to be drilled in 2015;
- Complete the current farm-out campaign to introduce a new partner to drill the Hawkeye-1 exploration well in SC55 offshore the Philippines.

The ability to monetise the Galoc asset at this important juncture augers well for Otto Energy's capacity to capture opportunities for FY2015 and beyond and early identification of such opportunities is also a focus in FY2015. The core goal of the Board and Management is to create sustainable long term value for all 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 FY2014.

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. A large part of our focus this year was on the Galoc oil field asset, which Otto Energy operates. The successful execution of the Galoc Phase II development was an outstanding success for Otto Energy and I would like to thank all of the team involved in delivering this project.

Otto Energy's primary objective is to grow shareholder value, through: exploration success; building a pipeline of projects to increase the likelihood of exploration success; and concentrating on focus regions selected for their prospectivity and favourable fiscal regimes. The Company experienced several achievements during FY2014 across each of these various elements.

On the 22nd September 2014, Otto Energy announced it had executed a sale and purchase agreement (SPA) to divest 100% of the shares in Galoc Production Company WLL (GPC), the holder of Otto's 33% interest in the Galoc oil field located in Service Contract 14C (Galoc Interest), to Risco Energy Investments Pte Ltd (Risco), a Singapore-based energy investment company for $101.4m effective 1 July 2014.

The divestment on such favourable terms is an excellent result for Otto and is consistent with the focus on unlocking value for shareholders.

Otto intends to continue this strategy of focusing on valuable returns for shareholders throughout FY2015.

Production

Otto Energy's operated 33% interest in the Galoc oil field has been fundamental to our continued strong financial position through FY2014. 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 812,470 bbls, which in turn generated cashflow from sales of US$73.692 million. The Galoc oil field is expected to continue to deliver strong and reliable production into FY2015.

Development

In December 2013, the Galoc Phase II development was commissioned, increasing production rates to over 14,000 bopd. The successful execution of this project by Otto Energy, on behalf of the Philippines Department of Energy and the joint venture consortium, was a very positive reflection upon the team at Otto Energy and their dedication to excellence.

"Otto's primary objective is to grow shareholder value, demonstrated through the successful completion of Galoc Phase II in FY2014"

In early 2014, Otto Energy commenced a series of activities to incorporate Phase II drilling results into a detailed analysis of the field, which has resulted in a clearer understanding of the structure and reservoir distribution between the Galoc Central Field Area (where current production wells are located) and the Galoc Mid and Galoc North Areas. Further studies will be completed by Q4 2014.

Exploration

Exploration is critical to the growth of any oil & gas company, and Otto Energy has continued to progress opportunities in both the Philippines and Tanzania.

In Tanzania, Otto Energy, with our joint venture partners, have acquired over 500km of 2D seismic which has resulted in the identification of interpreted Neogene aged basins in both the Kilosa-Kilombero and Pangani contract areas, which appear analogous to recent discovery areas in both Kenya and Uganda, has motivated the Joint Venture to commit to significant exploration in the blocks.

Otto is particularly encouraged by the early identification of the Kito prospect in the Kilosa-Kilombero block and believes this bodes well for exploration in the Pangani block, where a similar aged basin has been identified.

In August 2014, the joint venture commenced the acquisition of approximately 200km of 2D seismic data over the Moshi basin. This seismic survey is a follow-up to the successful programme carried out in the basin in 2013 where results indicated a sedimentary basin of about 3,000m in thickness. Once the survey in the Moshi basin is complete seismic operations will move to the Kilombero basin where up to 500km of 2D data will be acquired.

In Service Contract 55 in the Philippines, Otto Energy is continuing a farm-out campaign to introduce a new partner to drill the Hawkeye-1 exploration well. It is expected that this farm-out campaign will be completed during 2014.

Corporate

Our balance sheet has remained strong through FY2014 with a closing cash position of US$7.735 million and no debt at year end. The delivery of increased production from Galoc Phase II and the resulting cashflow has enabled Otto Energy to repay all outstanding debt prior to year end.

Thank you once again for your ongoing support of Otto Energy and I look forward to delivering upon a similarly very successful year in FY2015.

Matthew Allen

Chief Executive Officer

ASSET OVERVIEW

Throughout FY2014, Otto Energy Ltd ("Otto") has continued to focus on its portfolio of oil production and high quality exploration assets, especially the core Galoc oil field asset.

Highlights:

Galoc production of **2.50 MMbbls** (0.81 MMbbls net to Otto) during the year;

Successful completion of **Galoc Phase II** commissioning in December 2013;

Early repayment of Galoc Phase II **$35.9m Financing Facility** in June 2014;

Election to enter Years 3 and 4 of the **Pangani and Kilosa-Kilombero PSA's** in Tanzania.

Commence farm-out process to introduce a **new partner** into the **SC55 joint venture.**

Production

Since the start-up of production in October 2008, the Galoc oil field has produced a total of 13.3 million barrels (MMbbls) of crude oil (as at 30 June 2014), and delivered 38 offtakes to refinery customers. As at the end of June 2014, production averaged approximately 8,450 barrels of oil per day (BOPD).

Significant increase in production achieved with Phase II, initial production following commissioning was over 14,000 BOPD and field life has been extended by three years to 2020.

Exploration and Development

Galoc Phase II

Otto, as operator, delivered Phase II from sanction to commencement of production in just over 14 months. Phase II was delivered safely and within both the original budget and schedule, which were set in August 2012.

SC55

During the period, BHP Billiton (BHPB) withdraw from a farm in agreement in SC55 and executed agreements with Otto to terminate the farm-out agreement for SC55. Under the agreements BHPB paid US$3.0m to Otto and a further US$24.5m will be paid to Otto upon completion of the first exploration well in SC55.

Otto has commenced a farm-out process to introduce a new joint venture partner to participate in the drilling of the Hawkeye-1 exploration well.

Tanzania

The identification of interpreted Neogene aged basins in both Kilosa-Kilombero and Pangani contract areas, which appear analogous to recent discovery areas in both Kenya and Uganda, has motivated Otto and its joint venture partner to commit to the next stage of exploration in the blocks.

Otto's election to enter Years 3 and 4 of the contract areas involves the acquisition of additional 2D seismic data in 2014 to allow optimal well positioning and a commitment to drill one exploration well in each contract area before February 2016 .

PHILIPPINES

Service Contract 14C

Ownership: Otto Energy 33% and Operator	
Status: In Production	
Location: Offshore – Palawan Basin, Philippines	
Area: 163km^2	

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%
Oriental Petroleum & Minerals Corporation/ Linapacan Oil Gas & Power Corporation	7.8%
The Philodrill Corporation	7.2%
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 290m and commenced production in October 2008. Galoc crude is a 35 degree API oil, existing in a turbidite sandstone reservoir at depths below sea level of approximately 2,100m and is produced via four horizontal production wells.

Operations Summary

Oil production over FY2014 totalled 2.50 MMbbls (gross) at an average daily rate of 6,745 BOPD. Cumulative to date, production from the field totals 13.3 MMbbls (gross). A total of seven offtakes were delivered to Asia Pacific refinery customers in the financial year and 38 cargoes have now been delivered since production commenced.

At the time of report writing, daily production averaged approximately 7,800 BOPD with small volumes of water, and on natural decline from an initial Phase II rate of over 14,000 BOPD.

Highlights:

Currently producing from **four wells,** with produced oil processed by the leased FPSO Rubicon Intrepid

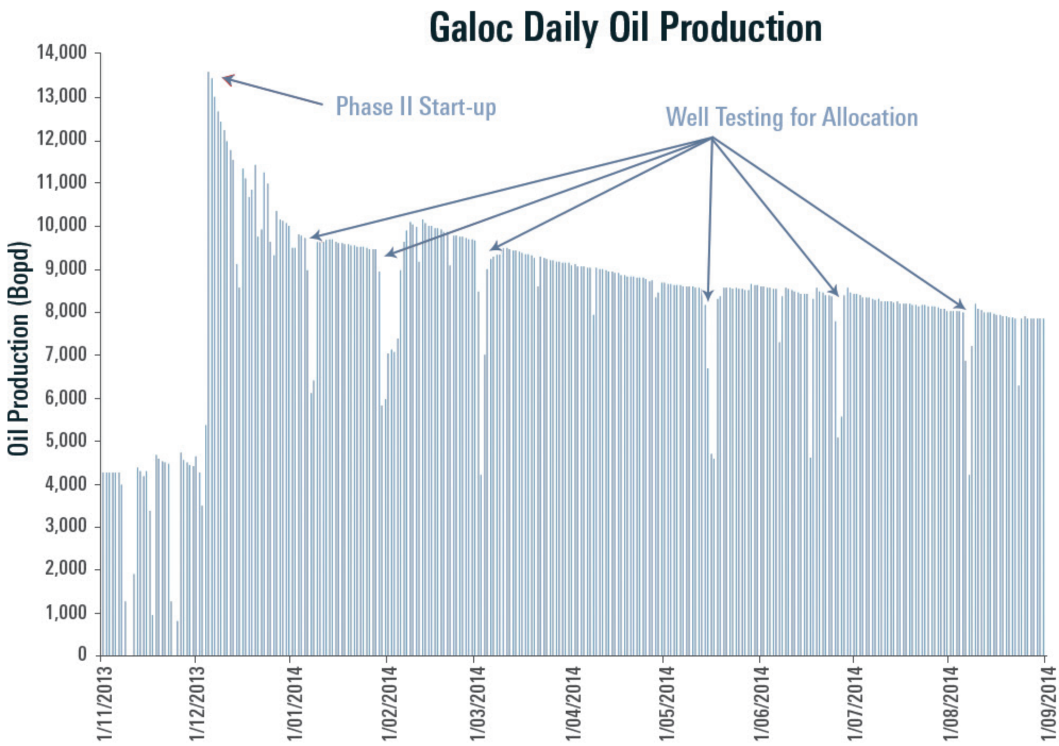
Following completion **of Phase II**, production is in line with pre-start-up expectations

Cumulative production to date from the field is **~ 13.3 million barrels (gross)**

Field life extended by **three years to ~ 2020**

Delivery of **7 cargos** in 2014

(103,000 bbls per cargo net to Otto



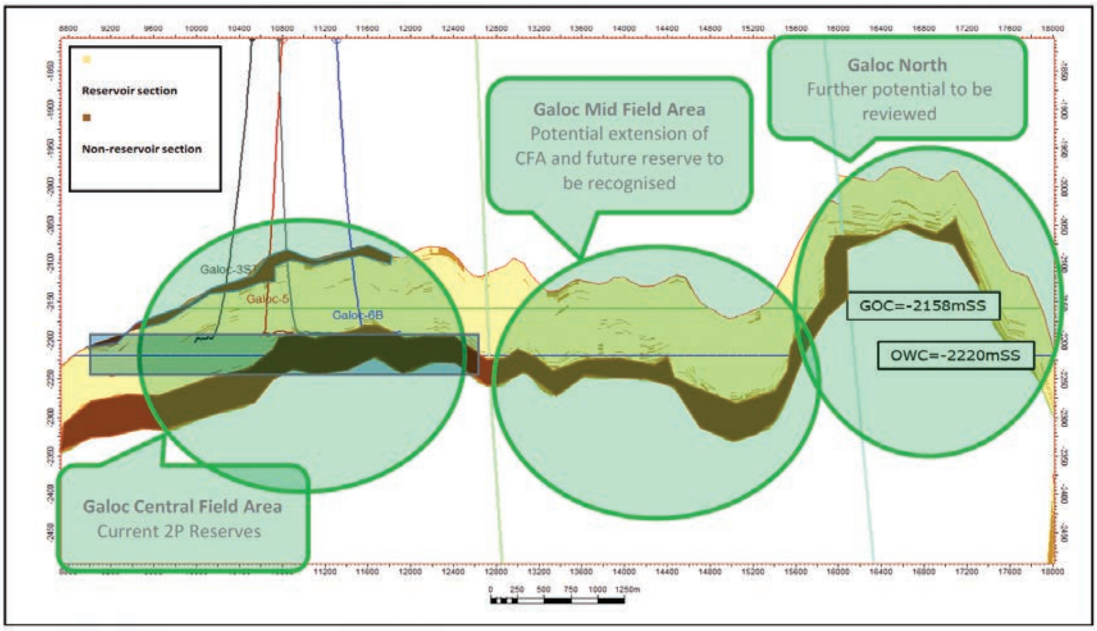
Summary of operating results are contained in the table below:

	Production (bbls)		Liftings (bbls)	
	Gross	Otto Net	Gross	Otto Net
3rd Qtr 2013	322,977	106,582	377,668	124,630
4th Qtr 2013	550,671	181,721	304,665	100,539
1st Qtr 2014	825,162	272,303	859,488	283,631
2nd Qtr 2014	763,225	251,864	969,862	320,054

Geoscience Activity

Data from the two new horizontal development wells GH-5 and GH-6 has been incorporated into the field and regional geological model. A reservoir static model has been completed and dynamic simulation work is ongoing. Initial results from this work suggest that the field extends into the Galoc Mid and Galoc North areas where additional reserves may be located. Scope also exists for further drilling in the Central Field Area.

Once dynamic simulation work has been completed potential new well locations in both the Galoc Mid and Central Field Areas will be assessed for commerciality and contemplated for drilling during 2015.



Galoc Oil Field – Stylised cross section through Greater Galoc field area

Service Contract 55

Ownership: Otto Energy 93.18%, and Operator

Status: Exploration

Location: Offshore - Palawan Basin, Philippines

Area: $9{,}880km^2$

- Previous farm-out partner, BHPB, formally exited the joint venture in early 2014, with BHPB's 60% working interest reassigned to Otto
- Termination agreement included US$3.0m payment to Otto, with further US$24.5m due to be paid to Otto upon drilling of first exploration well on SC55
- Farm out process well under way with anticipated completion during 2014

Service Contract 55 (SC55) is located in the southwest Palawan Basin and covers an area of $9{,}880km^2$ and was awarded to Otto Energy Investments Ltd (formerly NorAsian Energy Ltd) in 2005.

It is a deep-water block in the middle of a proven regional oil and gas fairway that extends from the productive offshore Borneo region in the southwest to the offshore Philippine production assets northwest of Palawan.

BHP Billion Farm-In

In May 2011, BHPB exercised an option to farm-in to SC55. The farm-in agreement resulted in Otto transferring 60% working interest and operatorship of SC55 to BHPB, in return for a carry on two deepwater offshore wells and reimbursement of prior costs incurred in the contract area.

In November 2013, BHPB advised Otto of its intention to withdraw from the SC55 licence, and later that month Otto secured the right to reassume BHPB's 60% working interest. The termination agreements require BHPB to pay US$3.0m Otto, as well as an additional US$24.5m to Otto upon drilling of an exploration well.

Otto has access to all 3D seismic data acquired in the permit to date and has assumed operatorship. Otto has lodged a Sub-Phase 4 work program and budget with the Department of Energy, which includes the drilling of the Hawkeye-1 well.

Exploration and Development

SC55 contains a number of distinct exploration play types including the Hawkeye turbidite clastic prospect and the material Cinco carbonate gas/condensate prospect, as well as a number of follow-up leads. The permit provides material opportunity and a series of possible drill targets in an exploration campaign that will be undertaken during the remaining term of the service contract.

The Hawkeye prospect was identified on 2D seismic originally acquired by Otto in 2007 and further defined with the 600km 3D seismic acquisition in late 2009. Hawkeye contains a 'Best Estimate' STOIIP of ~480 MMbbls of oil and a 'Best Estimate' Net Prospective Resource of 89 MMbbls of oil.

The Cinco gas/carbonate prospect was identified as part of an 1,800km2 3D seismic program undertaken by BHPB in 2010 that focused on a trend of carbonate prospects and leads, with Cinco being analogous to the Malampaya producing gas/condensate field in the Philippines. Cinco contains a 'Best Estimate' GIIP of 2.4 Tcf with a 'Best Estimate' Net Prospective Resource of 1.3 Tcf of gas and 45 MMbbls of associated condensate (Condensate Gas Ratio 35 bbls/MMscf). The Net Prospective Resources reflect working interest post re-assignment for Otto of 93.18% and excludes Government Share of profit oil.

The arithmetically aggregated gas/condensate prospect and lead inventory including Cinco, contains a 'Best Estimate' GIIP of ~17 Tscf with a 'Best Estimate' Net Prospective Resource of ~9 Tscf of gas and 320 MMbbls of condensate.

Farm-out Status:

Otto is several months into a farm-out process to introduce a new joint venture partner to participate in the drilling of the Hawkeye-1 exploration well. Otto is targeting suitably qualified partners with deepwater experience to join the exploration program and several suitable companies with SE Asia operations have been undertaking technical due diligence reviews of the available data.

Otto continues drilling planning operations including well design, planning studies and procurement reviews. Importantly, Otto has also invited expressions of interest from drilling rig owners to determine availability of drilling units to ensure Hawkeye-1 is drilled within the required timeframe.

Joint Venture Partners:

Name	Percentage
OEL (through 100% subsidiaries Otto Energy Investments Ltd and Otto Energy Philippines Inc.)	93.2% (Operator)
Palawan 55 Exploration and Production Corporation (formerly Trans-Asia Oil & Energy Development Corporation)	6.8%

Work Program:

Sub-Phase	Date	Commitment
4	Aug 11 – Dec 14	1 Deepwater Well
5	Dec 14 – Dec 16	1 Deepwater Well
Extension Period	Further 1 year allowed	

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 a 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 Resources range of 5 to 113 MMbbls.

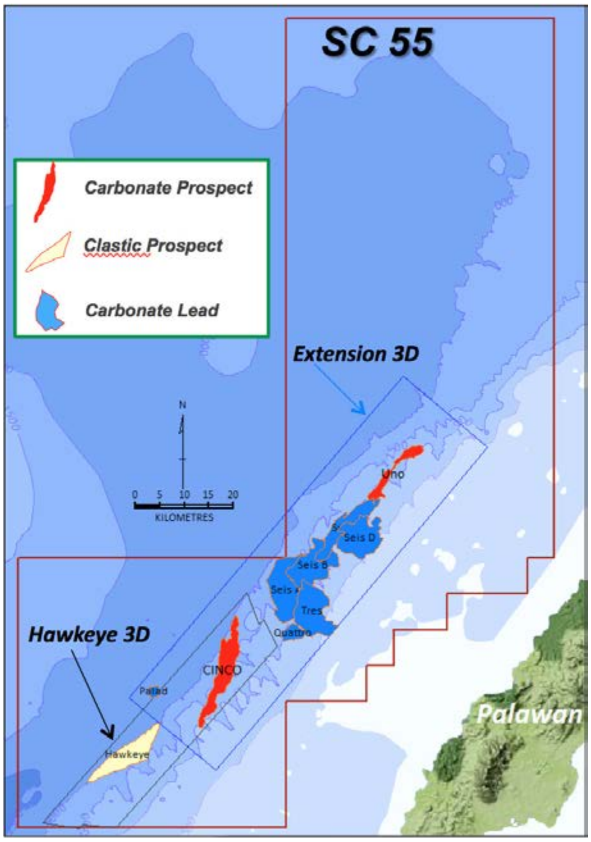
Cinco Prospect

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 1,400m. The reservoir is predicted at 3,120m sub sea floor. The 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, which, in combination, would 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 Bscf, plus 16 MMbbls associated condensates at the P50 Net Prospective Resources level.

Significant Regional Projects:

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



Service Contract 73

Ownership: Otto Energy 100%

Status: Exploration

Location: Offshore Mindoro-Cuyo Block

Area: 8,440km2

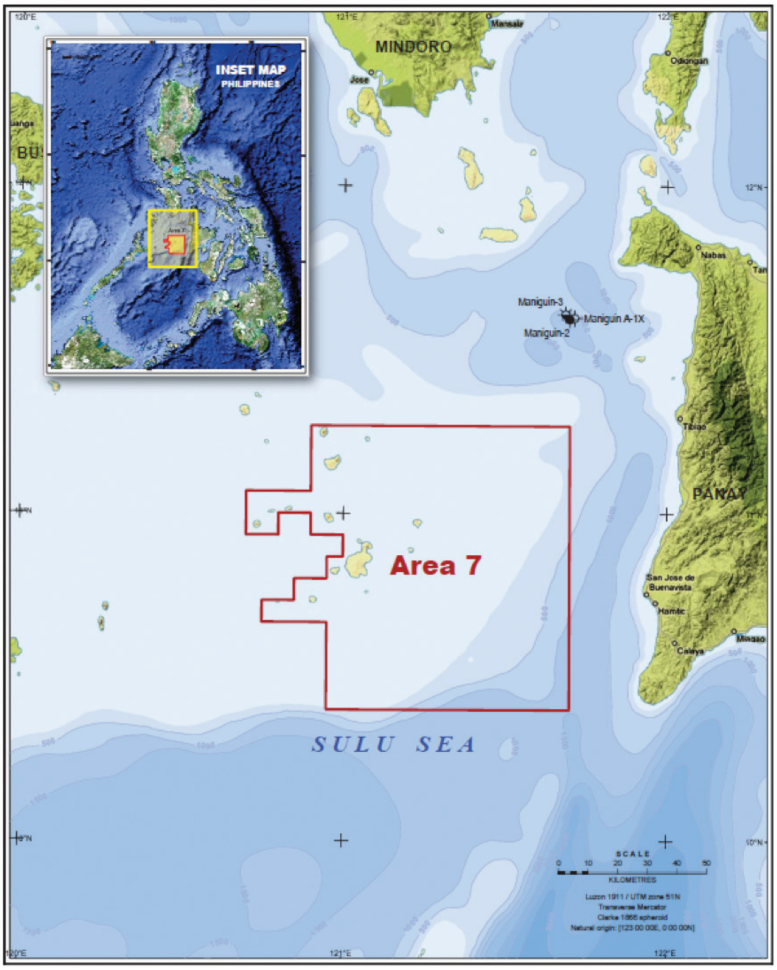
Otto Energy was awarded Service Contract 73 in 2013 under a Philippine Energy Contracting Round. The award of this service contract is a reflection of Otto's significant expertise in the Philippine oil and gas industry.

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 8,440km2 with water depth ranging from 100m to 1,300m. There is an existing 2D seismic date set of over 3,000km 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 carbonate 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.

Otto has commenced reprocessing of a focussed subset of existing data in the block with a minimum financial commitment of US$0.5m over an initial period of 18 months.



EAST AFRICA

Tanzania

Ownership: Otto has a direct interest in 50% of the Pangani and Kilosa-Kilombero Production Sharing Agreements, through its wholly owned subsidiary Otto Energy (Tanzania) Pty Ltd.

Operator: Swala Oil and Gas (Tanzania) Ltd (a subsidiary of Swala Energy Limited (ASX: SWE) is operator, and holds the other 50% equity interest

Location: Onshore, Tanzania

Area: ~ 34,000km^2

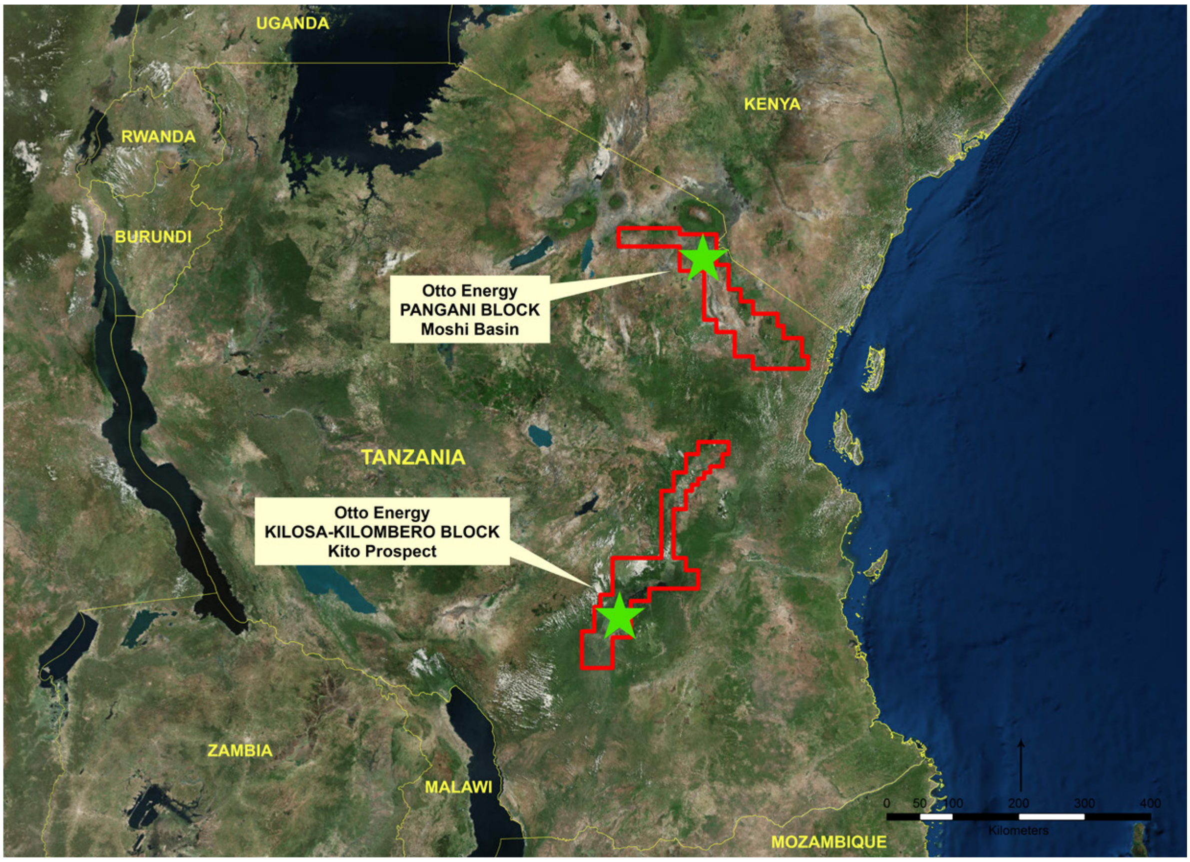
Status: Infill seismic data is being acquired at Pangani to be followed by additional infill seismic at Kilosa-Kilombero, and planning for drilling of the first exploration well in each licence in 2015/16.

Overview

The Production Sharing Agreements (PSA) in Tanzania were awarded by the Government of the United Republic of Tanzania on 20 February 2012, with the overall Kilosa-Kilombero and Pangani acreage covering a gross area of almost 34,000km2. The acquisition of the two exploration licences is consistent with Otto's strategy to obtain acreage in prospective areas on attractive terms at the beginning of the exploration lifecycle.

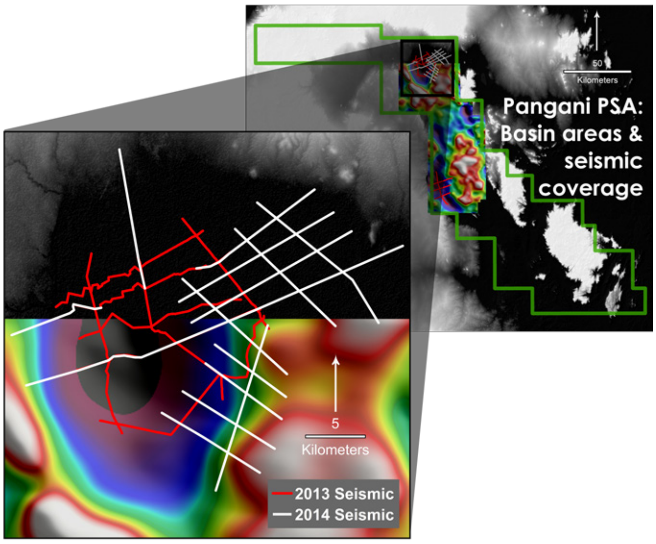
Exploration and Development

Following the award of the PSA's in 2012, the joint venture partners conducted analysis of legacy gravity and magnetic data, followed by acquisition of new airborne gravity and magnetic data. Analysis of this data confirmed the presence of a significant sedimentary basin at Kilosa-Kilombero and the possibility of a significant sedimentary basin at Pangani. In 2013, the joint venture undertook a 2D seismic program over both exploration licence areas, which yielded very positive results indicating Neogene aged basins in both Pangani and Kilosa-Kilombero, analogous to recent discovery areas in Kenya and Uganda. In February 2014, the joint venture partners agreed to enter into Years 3 and 4 of the agreement, involving the acquisition of additional seismic data to allow optimal well positioning and a commitment to drill one exploration well in each contract area before February 2016 .



Pangani PSA

Ownership: Otto Energy 50%	
Status: Exploration	
Location: Offshore - Onshore East Africa	
Area: 17,156km^2	



Pangani 2014 Seismic Program

Following the award of the PSA in February 2012, the joint venture committed to carry out a work program over a four-year exploration campaign with exit points at the end of years one and two.

A total of 200km of 2D seismic data has now been acquired over the Pangani licence, specifically focused on the Mvungwe and Moshi basins original recognised from regional gravity and magnetics data.

The results from the seismic survey show that the Moshi basin, in the north of the licence area, appears to be a deep basin with sedimentary fill of probable Neogene age. Additionally, the data suggests the basin is fault-bounded, 25km wide and with basin fill between 2,000m and 3,000m depth.

Results also indicate that the Mvungwe basin, located in the south of the licence area, is less than 1,000m deep and contains sediments of probably Neogene age. The Pakwach Basin in Uganda, where six discoveries have been made to date, indicate shallow basins can be productive with the right heat flows, and the upcoming basin modelling program will determine whether hydrocarbon accumulation may be present at Mvungwe.

Acquisition of 200km of additional infill seismic data commenced in late August 2014 over the Moshi basin area. The focus of the survey is to better understand the geometry of the basin and firm up structures for drilling during 2015.

Kilosa-Kilombero PSA

Ownership: Otto Energy 50%	
Status: Exploration	
Location: Onshore East Africa	
Area: 17,675km^2	

Following the award of the PSA in February 2012, the joint venture committed to carry out a work program over a four-year exploration campaign with exit points at the end of years one and two.

In the first year, the joint venture committed to reprocess and reinterpret historical data, to conduct out field work, and to carry out a 6,000km airborne gravity-magnetic survey. This work was completed in October 2012. The final airborne survey recorded more than 14,000km of data through efficient use of the combined gravity and separate magnetic surveys.

This work confirmed the presence of three basins, each of about 2,000km^2 in area. The northern two basins at Kilosa and Kidatu are estimated to contain 6,000m to 7,000m of sediment. Some of the sediment is likely to be of Karoo age (100-260 million years) but there is potential for some Neogene fill.

The southern Kilombero basin is believed to be predominantly Neogene in age and exhibited anomalous stressed vegetation identified as being potentially caused by hydrocarbon seeps.

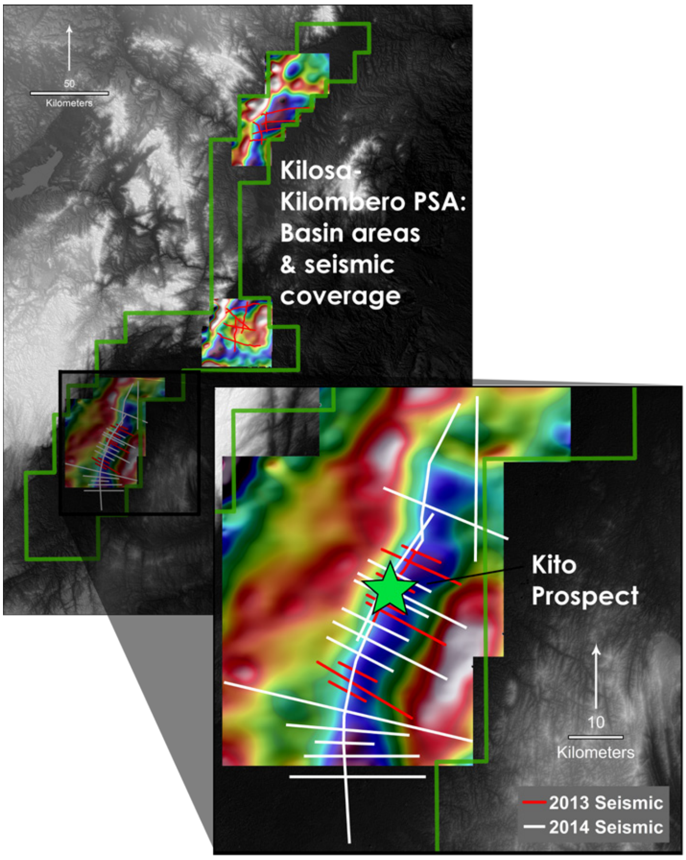
During the second year of the contract the joint venture acquired 370km 2D seismic over the Kilosa-Kilombero basin, with results indicating large scale structures and sediments similar to the oil basins of Lokichar (Kenya) and Lake Albert (Uganda) where Africa Oil and Tullow Oil have had significant success.

The results of this seismic program identified the Kito prospect, which indicated a prospective resource of between 19.2 MMbbls and 169.6 MMbbls net to Otto, with a best estimate of 60.4 MMbbls.

A program of up to 500km of additional infill 2D seismic data will be acquired across the Kilombero basin during Q3-4 2014. These data will be acquired immediately following completion of the present survey underway in the Pengani block. The focus of the program will be:

1. To provide additional infill lines across the "Kito" prospect that may become a drillable target in 2015.
2. To cover other portions of the basin which from the initial 2013 seismic data and earlier remote sensing data have the potential to contain additional leads and prospects

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)



Kilombero 2014 Seismic Program

Reserves and Contingent Resources

Otto Proved (1P) Reserves as at 30 June 2014

Proven (1P) Entitlement Reserves [2] (Otto Entitlement share) by Area				
	Crude Oil	Sales Gas	Sales Gas	Total
	Million bbls	Bcf	Million bbls	Million bbls
Philippines – Galoc Field (5)	2.3	0.0	0.0	2.3
TOTAL	2.3	0.0	0.0	2.3

Otto Proved and Probable (2P) Reserves as at 30 June 2014

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)	3.3	0.0	0.0	3.3
TOTAL	3.3	0.0	0.0	3.3

Movement in 2P Reserve and 2C Resource Categories over the period 1 July 2013 to 30 June 2014

Reserves & Contingent Resources Summary						
	1-July-13	Production	Revisions & Exploration Success	Contingent Resources converted to Reserves	Acquisitions and Divestment	30-June-14
Galoc Field – SC14C	Million bbls	Million bbls	Million bbls	Million bbls	Million bbls	Million bbls
2P Reserves	4.1	(0.7)	(0.1)	0.0	0.0	3.3
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	4.1	(0.7)	(0.1)	0.0	0.0	3.3
2C Contingent Reserves	0.0	0.0	0.0	0.0	0.0	0.0

- Numbers have been rounded to 1 decimal place

Reserves and Contingent Resources (continued)

Otto Reserve Estimates (30 June 2014)

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 2014.

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 consultants 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 2014, was 11.8 MMbbls. Of this, Otto assess that 10.0 MMbbls is the "Contractor Share" (Gross) and 1.8Mbbsl is the "Government Profit Oil Share" (Gross). Otto reports it's effective working interest of the Contractor Share of the Reserves (2P = 3.3 MMbbls).

Reserves & Contingent Resources in 2014 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 working interest and include the deduction of the Government share of profit oil.
7. "MMbbls" means millions (106) of barrels of oil at standard oilfield conditions of 14.696 psi (101.325kPa) and 60oFahrenheit (15.56o Celsius).
8. "Bcf" means billions (109) of cubic feet of gas at standard oilfield conditions of 14.696 psi (101.325kPa) and 60oFahrenheit (15.56o Celsius).
9. "MMboe" 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 MMboe.
10. Unless otherwise stated, Reserve and resource estimates are net to Otto.

Governance

The reserve and contingent resource information in this report is based on information compiled by Dr Mark Pogson MSc Petroleum Engineering), PhD (Physical Chemistry), BSc (Chemistry and Geochemistry), who has consented to the inclusion of such information in this report in the form and context in which it appears. Dr Pogson is a consultant to the Company, with more than 25 years relevant experience in the petroleum industry and is a member of The Society of Petroleum Engineers (SPE).

Reserves and Contingent resources have been estimated using both probabilistic and deterministic methods. Otto is not aware of any new information or data that materially affects the assumptions and technical parameters underpinning the estimates of reserves and contingent resources and the relevant market announcements referenced continue to apply and have not materially changed.

Summary of Assets

Asset	OEL Working Interest	Joint Venture Partners		Notes
The Philippines				
SC55 Exploration block, Southwest Palawan Basin	93.18% (Operator)	Palawan 55 Exploration and Production	6.82%	Otto carrying Filipino partner through drilling of two wells. 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.
SC14C Galoc Block Northwest Palawan	33% (Operator)	GPC (2) Nido Petroleum Oriental Philodrill Forum	26.84% 22.88% 7.79% 7.21% 2.28%	
SC73 Offshore Mindoro-Cuyo Block	100% (Operator)	-	-	Permit acquired in August 2013
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

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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 Scott Blenkinsop (appointed 26 February 2014)
Key Management Personnel	Mr Matthew Allen – Chief Executive Officer (appointed 24 February 2014) Mr Paul Senycia – Vice President Exploration and New Ventures Mr Craig Hasson – Chief Financial Officer (appointed 26 February 2014) Mr Scott Blenkinsop (appointed 26 February 2014)
Principal registered office in Australia	32 Delhi Street West Perth WA 6005 Tel: + 61 8 6467 8800 Fax: + 61 8 6467 8801
Share Register	Link Market Services Limited 178 St Georges Terrace Perth WA 6000 Tel: + 61 8 9211 6670 Fax: + 61 2 9287 0303
Auditors	BDO Audit (WA) Pty Ltd 38 Station Street Subiaco WA 6008 Tel: + 61 8 6382 4600 Fax: + 61 8 6382 4601
Stock Exchange Listings	Australian Securities Exchange Level 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

DIRECTOR'S REPORT
FOR THE YEAR ENDING 30 JUNE 2014

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 2014.

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 2013 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 2014, 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 6 to 18.

Financial Summary

The consolidated entity experienced an increase in revenue during the year. Revenue from the sale of oil for the financial year ending 30 June 2014 was US$73.69m (2013: US$60.18m). This was a result of significant increase in production following the successful completion of the Galoc Phase II project in December 2013. Gross profit for the year was $43.99m (2013: $40.50m).

The net loss from continuing operations before tax was US$0.17m (2013: US$20.26m profit) and a net loss after tax of US$0.09m (2013: US$9.44m profit). The net loss for the financial year ending 30 June 2014 was due to the write down of assets in Service Contract 69 (SC69) and Service Contract 51 (SC51) totalling US$23.79m. Otto relinquished its stake in SC69 in October 2013 following evaluation work and an unsatisfactory farm out process. Otto has also impaired the exploration and evaluation assets in SC51 following the unsuccessful Duhat-2 well.

Significant changes in state of affairs

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

- Galoc Phase II development in Service Contract 14C was commissioned in December 2013. This represents a major achievement for Otto and its service contract partners as production initially increased to over 14,000 barrels of oil per day.
- Otto executed agreements with BHP Billiton Petroleum (Philippines) Corporation ("BHPB") to terminate the farm-out agreement over Service Contract 55. This was approved by the Philippine Department of Energy ("DOE") in March 2014. BHPB's 60% working interest has been reassigned to Otto, which takes Otto's working interest in SC55 to 93.18%. BHPB paid Otto US$3.0m and will pay a further US$24.5m upon drilling an exploration well.
- Otto has commenced a farm-out process intended to find farmees to participate in the SC55 drilling of the Hawkeye-1 exploration well.

- On 2 May 2014, Otto elected to withdraw from Service Contract 51, following extensive post-well analysis of the Duhat-2 well. In addition, no other drillable prospects have been identified on existing seismic data available in the northern Service Contract area.
- On 8 October 2013, Otto decided to relinquish its 79% stake in Service Contract 69 in the Philippines. The decision to exit comes after extensive evaluation work carried out over the block, including 2D and 3D seismic acquisition and a comprehensive farm-out process that did not deliver an acceptable commercial outcome to Otto.
- In February 2014, Otto elected to enter into Years 3 and 4 of the Pangani and Kilosa-Kilombero production sharing agreements in Tanzania. Commitments include two exploration wells to be drilled before February 2016.

Matters subsequent to the end of the Financial Year

On 22 September 2014, Otto announced the execution of a sale and purchase agreement (SPA) to divest 100% of the shares in Galoc Production Company WLL (GPC), the holder of Otto's 33% interest in the Galoc oil field located in Service Contract 14C (Galoc Interest) to Risco Energy Investments Pte Ltd (Risco), a Singapore-based energy investment company.

Under the SPA, Risco has agreed to pay Otto US$101.4m as at 1 July 2014. Risco will assume all production rights and liabilities associated with the Galoc Interest (including abandonment costs) with effect from 1 July 2014.

Completion of the transaction is conditional on Otto shareholder approval.

A proposed capital return at A$0.06 per share was also announced for payment following completion of the GPC sale, receipt of a ruling from the Australian Tax Office (ATO) and shareholder approval. Otto will request an ATO Class Ruling to confirm the tax implications for shareholders.

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:

- High impact exploration in SC55 with two drill-ready targets for Hawkeye and Cinco. The US$24.5m funding from BHP Billiton (BHPB) for Otto will be the key enabler for the first well. Otto is continuing the farm-out process seeking potential farmees to partner for the SC55 drilling campaign.
- In Tanzania (Kilosa-Kilombero and Pangani), further 2D seismic acquisition commenced in August 2014. Following completion of the seismic, plans will commence to advance into the drill phase in 2015.
- Otto is in the process of looking for a potential new acquisition located in the East Africa Rift System.

Additional comments on expected results of certain operations of the group are included in the review of operations on pages 6 to 18.

In accordance with its objectives, the consolidated entity intends to participate in a number of exploration and appraisal wells 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.

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	Mr Rick Crabb holds degrees in law and business administration from the University of Western Australia. Mr Crabb 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	Chairman, Non-Executive Director of Golden Rim Resources Limited from 22 August 2001, Platypus Minerals Limited (formerly Ashburton Minerals Limited) from 1 September 1999 and Paladin Energy Limited from 8 February 1994.
Former directorships in last 3 years	None
Special responsibilities	Audit and Compliance Remuneration and Nomination Committee
Interest 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	Mr John Jetter is the 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. Mr Jetter has 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
Interest 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	Mr Ian Macliver is Managing Director of Grange Consulting Group Pty Ltd, which provides specialist corporate advisory services to listed and unlisted companies. Mr Macliver has held senior Executive and Director roles of both resource and industrial companies, specifically responsible for capital raising and other corporate initiatives.
Other current directorships	Non-Executive Chairman of Western Areas Limited since November 2013 (Non-Executive Director since October 2011) and Non-Executive Director of Select Exploration Limited (formerly Select Vaccines Limited) since September 2010.
Former directorships in last 3 years	Non-Executive Director of Range Resources Limited from June to August 2014, Non-Executive Director of JCurve Solutions Limited (formerly Stratatel Limited) from July 2000 to October 2013, and Non-Executive Director of Mount Gibson Iron Limited from February 2001 to November 2011.
Special responsibilities	Audit and Compliance Remuneration and Nomination Committee
Interest in shares and options	4,549,721 ordinary shares of Otto Energy Limited.

Mr Ian Boserio BSc Hons First Class (Geophysics), BSc (Geology). Director (Non-Executive)	
Date appointed	2 September 2010
Experience and expertise	Mr Ian Boserio brings to the Otto Board more than 30 years international experience in the oil and gas business, focused predominantly on exploration and management. Mr Boserio was 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. Mr Boserio also worked with Shell internationally, including roles in Australia, North Sea, the Middle East, India and Indonesia, including a five year secondment into Woodside as the Australia Exploration Manager. He is currently co-owner and Technical Director of private oil and gas company Pathfinder Energy.
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
Interest 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	Mr Rufino Bomasang, 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
Interest in shares and options	Options to acquire 2,000,000 ordinary shares.

Mr Matthew Allen BBus, FCA, F Fin, GAICD. Chief Executive Officer	
Date appointed	24 February 2014
Experience and expertise	Mr Matthew Allen was appointed Chief Executive Officer in February 2014 after joining Otto in 2009 as Chief Financial Officer, and has played an integral role in implementing Otto's strategy. Mr Allen's experience lies in the operation and management of oil and gas companies with particular focus on strategic, commercial and financial aspects of the business. Mr Allen previously spent 8 years with Woodside Energy working with many of Woodside's assets and has had global upstream oil and gas industry experience in Asia, Africa, Australia and the Middle East.
Interest in shares and options	4,000,000 ordinary shares in Otto Energy Limited and performance rights of 5,500,000.

Mr Paul Senycia BSc (Hons) MAppSc (Geophysics) Vice President Exploration and New Ventures	
Date appointed	12 April 2010
Experience and expertise	Mr Paul Senycia has more than 30 years of international oil and gas business experience in Australia, North and West Africa, North America, Europe and Asia. 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 spent the majority of his career with Woodside Energy and Shell International with roles in Australia, Europe and the Middle East. He was Head of Evaluation at Woodside and subsequently Exploration Manager at Oilex before joining Otto Energy in April 2010.
Interest in shares and options	2,900,000 ordinary shares in Otto Energy Limited and performance rights of 5,500,000.

Mr Craig Hasson BCom, CA, AGIA. Chief Financial Officer	
Date appointed	26 February 2014
Experience and expertise	Mr Craig Hasson joined Otto as Group Financial Controller in November 2012 and was appointed Chief Financial Officer in February 2014. Mr Hasson is a Chartered Accountant with over 12 years of resource related financial experience in Australia, Europe, Africa and Asia. Previous roles with listed companies include Cairn Energy, Dragon Mining, Resolute Mining, and international accounting firm Ernst & Young
Interest in shares and options	37,500 ordinary shares in Otto Energy Limited.

Mr Scott Blenkinsop LLB. Chief Legal Counsel and Company Secretary	
Date appointed	26 February 2014
Experience and expertise	Mr Scott Blenkinsop has 20 years experience as a resources lawyer specialising in oil and gas with significant experience in Australia, Africa, Asia, Americas and Europe. Mr Blenkinsop commenced his legal career with blue chip legal firm Freehills (now Herbert Smith Freehills) before joining Woodside working in New Ventures and the Gas Business Unit. Mr Blenkinsop has also held in house roles with INPEX (General Counsel), Chevron (Senior Commercial Negotiator – Wheatstone), Cooper Energy (Legal and Commercial Manager) and Tap Oil (General Counsel and Company Secretary).
Interest in shares and options	650,000 ordinary shares in Otto Energy Limited.

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 2014, and the numbers of meetings attended by each Director were:

Director	Full meetings of Directors		Meetings of Audit Committee		Remuneration and Nomination Committee	
	Number eligible to attend	Number attended	Number eligible to attend	Number attended	Number eligible to attend	Number attended
Mr R Crabb	9	8	2	2	-	-
Mr R Bomasang	9	9	-	-	-	-
Mr J Jetter	9	9	-	-	-	-
Mr I Macliver	9	9	2	2	-	-
Mr I Boserio	9	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 2014 and which utilises the share rights and option plans approved by the shareholders in 2013. 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 2014 were generally the same as for 2013.

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 Matthew Allen	Chief Executive Officer (appointed 24 February 2014)
Mr Paul Senycia	Vice President Exploration and New Ventures
Mr Craig Hasson	Chief Financial Officer (appointed 26 February 2014)
Mr Gregor McNab	Chief Executive Officer (resigned 24 February 2014)
Mr Scott Blenkinsop	Chief Legal Counsel and Company Secretary

Remuneration Governance

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

Non-Executive Directors of the consolidated entity are remunerated by way of fees, statutory superannuation, LTI's where applicable. Fees are 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.

Directors' Fees

The following fees have applied:

	From 1 July 2013 to 30 June 2014	From 1 July 2012 to 30 June 2013
Base fees		
Chair	A$ 125,000	A$ 125,000
Other Non-Executive Directors	A$ 75,000-90,000	A$ 75,000
Other Non-Executive Directors (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
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 2014 is summarised below.

The remuneration structure in place for 2013/2014 applies to all employees including Key Management Personnel and staff members of the consolidated entity. The consolidated entity's remuneration structure has three elements:

a) Fixed annual remuneration or base salary (FAR) (including superannuation);

b) Short term incentive (STI) award which provides a reward for performance in the past year; and

c) 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".

a) 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 consultants to review the remuneration levels paid to the consolidated entity's Key Management Personnel. Remuneration consultants were not engaged for the 2014 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.

b) 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 2014 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 & environment	10%
Total shareholder return	25%
Asset specific	30%
New business development	25%
Leadership	10%

The Board and 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.

c) 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 2013 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 23 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	50%	40%	30%	10%

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

i) The Board's determined cap on the total number of performance rights which are issued as LTI awards in a given year; and
ii) 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 44). Executives are prohibited from entering into any hedging arrangements over unvested rights or 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.

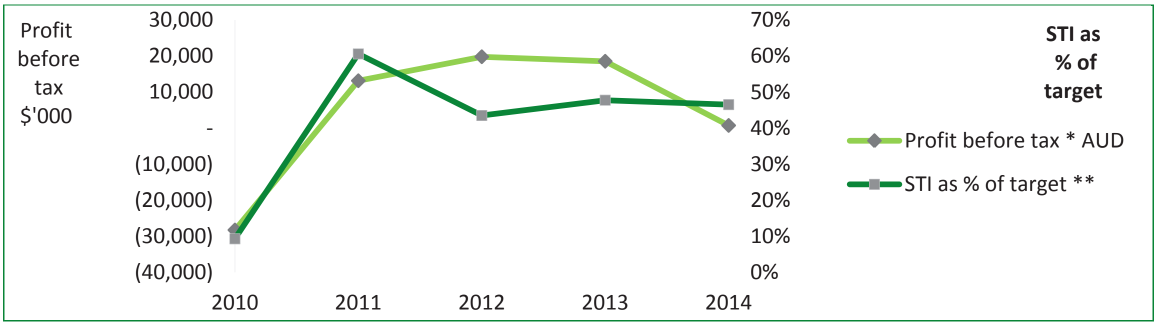
Voting and comments made at the consolidated entity's 2013 Annual General Meeting

Otto Energy Limited received more than 98% of "yes" votes on its remuneration report for the 2013 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 23 ASX listed peer companies over the last five years.

Details of Remuneration

The following tables show details of the remuneration received by the Directors and the Key Management Personnel of the 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.

2014	Short-term Employee Benefits		Post Employment		Share-Based Payments		Total
	Salary & Fees A$	Cash Bonus A$	Superannuation A$	Termination Benefits A$	Options[i] A$	Performance Rights[ii] A$	A$
Directors of Otto Energy Limited							
Mr R Crabb	114,416	-	10,584	-	-	-	125,000
Mr I Macliver	77,803	-	7,197	-	-	-	85,000
Mr I Boserio	68,650	-	6,350	-	123,000	-	198,000
Mr J Jetter	90,000	-	-	-	123,000	-	213,000
Mr R Bomasang	131,207	-	-	-	82,000	-	213,207
	482,076	-	24,131		328,000	-	834,207
Key Management Personnel							
Mr M Allen	413,585	91,514	25,000	-	-	59,590	589,689
Mr P Senycia	444,691	82,844	25,000	-	-	59,590	612,125
Mr C Hasson[iii]	81,090	-	7,501	-	-	-	88,591
Mr S Blenkinsop[iv]	172,757	-	15,980	-	-	-	188,737
Mr G McNab[v]	352,425	107,803	25,000	587,822	-	(163,483)	909,567
	1,464,548	282,161	98,481	587,822	-	(44,303)	2,388,709
	1,946,624	282,161	122,612	587,822	328,000	(44,303)	3,222,916

(i) The options have been valued using the Black-Scholes model.
(ii) Performance rights have been valued using a hybrid Monte Carlo and Hull-White model. Further details of the share rights plan is contained in the Remuneration Report pages 33 to 35 and Note 27.
(iii) Mr C Hasson was appointed as CFO on 26 February 2014.
(iv) Mr S Blenkinsop was appointed Chief Legal Counsel on 6 January 2014 and in addition was appointed as Company Secretary on 26 February 2014.
(v) Mr G McNab resigned as CEO on 24 February 2014.

2013	Short-term Employee Benefits		Post Employment	Share-Based Payments		Total
	Salary & Fees A$	Cash Bonus A$	Superannuation A$	Options A$	Performance Rights 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

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 [i] %	
	2014	2013	2014	2013	2014	2013
Directors of Otto Energy Limited						
Mr R Crabb	100%	100%	-	-	-	-
Mr I Macliver	100%	100%	-	-	-	-
Mr I Boserio	38%	100%	-	-	62%	-
Mr J Jetter	42%	100%	-	-	58%	-
Mr R Bomasang	62%	100%	-	-	38%	-
Key Management Personnel of the consolidated entity						
Mr M Allen	74%	77%	16%	13%	10%	10%
Mr P Senycia	77%	77%	14%	14%	9%	9%
Mr C Hasson	100%	-	-	-	-	-
Mr S Blenkinsop	100%	-	-	-	-	-
Mr G McNab	41%	80%	12%	10%	*	10%

[i] 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.
** Percentage not disclosed as the total amount of LTI remuneration expenses was negative for the relevant period.*

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 [i] $A	Termination benefit[ii]
Mr Matthew Allen *Chief Executive Officer*	24 February 2014	$475,000	6 months base salary
Mr Paul Senycia *Vice President Exploration Manager and New Ventures*	12 April 2010	$475,162	3 months base salary
Mr Craig Hasson *Chief Financial Officer*	26 February 2014	$251,275	3 months base salary
Mr Scott Blenkinsop *Chief Legal Counsel* *Company Secretary*	6 January 2014	$350,000	3 months base salary

(i) Base salaries quoted are for the year ended 30 June 2014; they are reviewed annually by the Board and the Remuneration and Nomination Committee.

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

Share-Based Compensation

Otto Energy Limited has two forms of share based compensation for Key Management Personnel. They are performance rights and options.

Performance Rights over Equity Instruments Granted

Performance rights granted to the Key Management Personnel 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 27. All rights expire on the earlier of their expiry date or termination of individual's employment. Performance rights granted carry no dividend or voting rights.

The value of rights included in remuneration for the year is calculated in accordance with Australian Accounting Standards. 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. Where rights vest fully in the year, the full value of the rights is recognised in remuneration for that year.

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.

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 and outstanding as of 30 June 2014 are set out in the following table.

Grant date	3 October 2011	1 February 2013
Expiry date	31 December 2014	1 April 2016
Share price at grant date – A$	0.08	0.10
Expected volatility	50.0%	52.6%
Expected dividend yield	Nil	Nil
Risk free rate	3.66%	2.75%
Fair value - $A	0.02	0.01

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

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.

The number of performance rights over ordinary shares held, granted to, vested and/or lapsed/expired by Directors of Otto Energy Limited and Key Management Personnel as part of compensation during the year ended 30 June 2014 is set out below.

2014	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 M Allen	8,500,000	-	(3,000,000)	-	5,500,000
Mr P Senycia	8,500,000	-	(3,000,000)	-	5,500,000
Mr C Hasson[(i)]	-	-	-	-	-
Mr S Blenkinsop[(ii)]	-	-	-	-	-
Mr G McNab[(iii)]	20,000,000	-	(5,500,000)	(14,500,000)	-
	37,000,000	-	(11,500,000)	(14,500,000)	11,000,000

[(i)] Mr C Hasson was appointed 26 February 2014
[(ii)] Mr S Blenkinsop was appointed Chief Legal Counsel on 6 January 2014 and in addition was appointed as Company Secretary on 26 February 2014.
[(iii)] Mr G McNab resigned 24 February 2014.

The value of performance rights over ordinary shares held, granted to, vested and/or lapsed/expired by Directors of Otto Energy Limited and Key Management Personnel as part of compensation during the year ended 30 June 2014 is set out in the following table.

2014	Number of performance rights vested	Value of performance rights vested during the year (A$)	Number of rights lapsed/cancelled during the year	Value of performance rights lapsed/cancelled at the date of testing (A$)	Number of ordinary shares issued as a result of vesting
Mr M Allen	3,000,000	59,590	-	-	3,000,000
Mr P Senycia	3,000,000	59,590	-	-	3,000,000
Mr G McNab	5,500,000	1,727	(14,500,000)	(165,210)	5,500,000

Options over Equity Instruments Granted

Options granted to the Directors and Key Management Personnel were granted as remuneration unless otherwise noted. Options are issued under the Option Plan. The following table summarises the number and value of options, related to Directors and Key Management Personnel that have been granted, vested or lapsed during the 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. Options granted carry no dividend or voting rights.

2014	Balance at Start of Year	Granted as Compensation	Value of options granted A$	Lapsed during the year	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	123,000	(3,000,000)	3,000,000	3,000,000
Mr J Jetter	3,000,000	3,000,000	123,000	(3,000,000)	3,000,000	3,000,000
Mr R Bomasang	-	2,000,000	82,000	-	2,000,000	2,000,000
	6,000,000	8,000,000	328,000	(6,000,000)	8,000,000	8,000,000
Key Management Personnel of the consolidated entity						
Mr M Allen	4,000,000	-	-	(4,000,000)	-	-
Mr P Senycia	7,000,000	-	-	(7,000,000)	-	-
Mr C Hasson[(i)]	-	-	-	-	-	-
Mr S Blenkinsop[(ii)]	-	-	-	-	-	-
Mr G McNab[(iii)]	-	-	-	-	-	-
	11,000,000	-	-	(11,000,000)	-	-

[(i)] *Mr C Hasson was appointed 26 February 2014*
[(ii)] *Mr S Blenkinsop was appointed Chief Legal Counsel on 6 January 2014 and in addition was appointed as Company Secretary on 26 February 2014.*
[(iii)] *Mr G McNab resigned 24 February 2014.*

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

Grant date	13 October 2011	5 January 2012	5 December 2013
Exercise price – A$	0.12	0.12	0.1113
Expiry date	13 October 2014	5 January 2015	2 December 2016
Share price at grant date – A$	0.07	0.09	0.08
Expected volatility	45%	45%	90%
Expected dividend yield	Nil	Nil	Nil
Risk free rate	3.79%	3.25%	3.02%
Fair value – A$	0.01	0.02	0.04

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

Additional Disclosure relating to Key Management Personnel

Shareholding

The number of shares in the company held during the financial year by each director and other members of key management personnel of the consolidated entity, including their personally related parties, is set out below:

2014	Balance at Start of Year	Granted During the year	Received through conversion of performance rights 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 M Allen	1,000,000	-	3,000,000	-	4,000,000
Mr P Senycia	1,000,000	-	3,000,000	(900,000)	3,100,000
Mr C Hasson[(i)]	-	-	-	37,500	37,500
Mr S Blenkinsop[(ii)]	-	-	-	650,000	650,000
Mr G McNab[(iii)]	-	-	5,500,000	(5,500,000)	-
	2,000,000	-	11,500,000	(5,712,500)	7,787,500

[(i)] Mr C Hasson was appointed 26 February 2014
[(ii)] Mr S Blenkinsop was appointed Chief Legal Counsel on 6 January 2014 and in addition was appointed as Company Secretary on 26 February 2014.
[(iii)] Mr G McNab resigned 24 February 2014.

Other transactions with key management personnel and their related parties

	2014	2013
	US$'000	US$'000
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

Outstanding Balances arising from Sales/Purchases of Goods and Services

There are no balances outstanding at the end of the reporting period in relation to transactions with key management personnel and their related parties (2013: $9,396).

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 of Granted	Date of Expiry	Exercise price of performance rights or options A$	Number
Options			
13-Oct-11	13-Oct-14	0.12	750,000
5-Jan-12	5-Jan-15	0.12	500,000
2-Dec-13	2-Dec-16	0.1113	8,000,000
			9,250,000
Performance Rights			
3-Oct-11	31-Dec-14	-	4,000,000
1-Feb 13	1-Apr-16	-	8,500,000
			12,500,000

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 pages 33 to 35.

Insurance of Officers and Indemnity of Auditors

During the financial year, the Company paid a premium of US$92,736 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:

	2014	2013
	US$	US$
BDO Australian firm:		
Other assurance services	7,432	3,128
Total remuneration for other assurance services	7,432	3,128
Tax compliance services	52,802	26,136
International tax consulting and tax advice on mergers and acquisitions	67,412	44,913
Total remuneration for taxation services	120,214	71,049
Total remuneration for non-audit services	127,646	74,177

Auditor's 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 39.

Auditor

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

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

Mr I Macliver

DIRECTOR

29 September 2014

AUDITOR'S INDEPENDENCE DECLARATION

FOR THE YEAR ENDING 30 JUNE 2014

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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 2014, I declare that, to the best of my knowledge and belief, there have been:

1. No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
2. No contraventions of 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, 29 September 2014

CORPORATE GOVERNANCE STATEMENT

FOR THE YEAR ENDING 30 JUNE 2014

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 2014 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 Independent Non-executives; 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 Committee.

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 in consultation with the Remuneration and Nomination Committee.

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, statutory superannuation entitlements in addition to the set fee, may receive LTI's where applicable, 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 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 nomination and remuneration policies remains with the Board.

Auditor Independence

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

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

Business Risks

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

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

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 2014 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	15/34	44%
Senior Executive positions	0/4	0%
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 ENDING 30 JUNE 2014

	Note	2014 US$'000	2013 US$'000
Revenue from sale of oil	4	73,693	60,181
Cost of production	5	(29,701)	(19,683)
Gross Profit		43,992	40,498
Other income	4	8,130	4,206
Profit or (loss) on disposal of asset	6	1	(2,653)
Other expenses from ordinary activities			
Employee benefit expense	6	(8,523)	(8,200)
Depreciation & amortisation	6	(6,139)	(5,152)
Finance expenses	6	(7,648)	(645)
Loss on derivative through profit or loss	6	(952)	(407)
Impairment of exploration and evaluation assets	14	(23,792)	-
Other expenses	6	(5,154)	(7,328)
Foreign currency losses		(87)	(63)
(Loss)/Profit before income tax		(172)	20,256
Income tax benefit/(expense)	7	79	(10,814)
Net (loss)/profit after income tax for the year from continuing operations		(93)	9,442
Other comprehensive income		-	-
Other comprehensive income for the year net of tax		-	-
Total comprehensive (loss)/profit for the year attributable to ordinary equity holders of Otto Energy Limited		(93)	9,442

	Note	2014 US cents	2013 US cents
Earnings/(loss) per share for profit/(loss) from continuing operations attributable to the ordinary equity holders of the Company:			
Basic earnings/(loss) per share	22	(0.01)	0.83
Diluted earnings/(loss) per share	22	(0.01)	0.83
Earnings/(loss) per share for profit/(loss) attributable to the ordinary equity holders of the Company:			
Basic earnings/(loss) per share	22	(0.01)	0.83
Diluted earnings/(loss) per share	22	(0.01)	0.83

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

FOR THE YEAR ENDING 30 JUNE 2014

	Note	2014 US$'000	2013 US$'000
Current Assets			
Cash and cash equivalents	8	7,735	31,854
Trade and other receivables	9	18	2,747
Other current assets	10	1,758	942
Inventories	11	2,941	2,133
Derivative financial instruments	12	-	435
Total Current Assets		12,452	38,111
Non-Current Assets			
Other assets	10	7,955	7,341
Derivative financial instruments	12	-	1,481
Property, plant and equipment	13	496	894
Exploration and evaluation assets	14	9,049	22,437
Oil and gas properties	15	91,460	69,405
Deferred tax asset	7	-	1
Total Non-Current Assets		108,960	101,559
Total Assets		121,412	139,670
Current Liabilities			
Trade and other payables	16	4,755	8,766
Derivative financial liability	12	-	122
Borrowings	17	-	4,958
Provisions	18	196	279
Provision for income tax payable	7	2,442	651
Total Current Liabilities		7,393	14,776
Non-Current Liabilities			
Other payables	16	-	1,498
Borrowings	17	-	9,177
Deferred tax liabilities	7	13,935	16,459
Provisions	18	8,910	6,765
Total Non-Current Liabilities		22,845	33,899
Total Liabilities		30,238	48,675
NET ASSETS		91,174	90,995
Equity			
Contributed equity	19	131,577	131,577
Reserves	20	13,145	12,873
Accumulated losses	21	(53,548)	(53,455)
Total Equity		91,174	90,995

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 ENDING 30 JUNE 2014

	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 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 performance rights during the year	-	-	366	366
Balance as at 30 June 2013	131,577	(53,455)	12,873	90,995
Total comprehensive loss for the year				
Loss for the year	-	(93)	-	(93)
Total comprehensive income/loss for the year	-	(93)	-	(93)
Transactions with owners in their capacity as owners				
Issued options during the year	-	-	272	272
Balance as at 30 June 2014	131,577	(53,548)	13,145	91,174

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 ENDING 30 JUNE 2014

	Note	2014 US$'000	2013 US$'000
Cash flows from operating activities			
Receipts from customers		73,693	60,181
Payment to suppliers and employees		(25,093)	(26,525)
Interest received		22	32
Interest and financing costs paid		(5,699)	(555)
Income taxes paid		(770)	(4,030)
Net cash inflow from operating activities	25	42,153	29,103
Cash flows from investing activities			
Payments for property, plant and equipment		(102)	(643)
Proceeds from sale of property, plant and equipment		3	-
Payments for exploration and evaluation		(10,404)	(7,382)
Payment for oil and gas properties		(39,138)	(30,268)
Loan to other entities		(165)	(1,315)
Proceeds from other investments		425	-
Payments for farm in		-	(1,315)
Net cash outflow from investing activities		(49,381)	(39,608)
Cash flows from financing activities			
Proceeds from loan drawdown		19,084	16,839
Repayment of borrowings		(35,923)	
Borrowings transaction costs paid		-	(2,793)
Net cash inflow from financing activities		(16,839)	14,046
Net increase/(decrease) in cash and cash equivalents		(24,067)	3,541
Cash and cash equivalents at the beginning of the financial year		31,854	28,325
Effects of exchange rate changes on cash		(52)	(12)
Cash and cash equivalents at end of year	8	7,735	31,854

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

1. Statement of Significant Accounting Policies

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

a) Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and interpretations issued by the Australian Accounting Standards Board ("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. The Consolidated financial statements were approved for issue by the Board of Directors on 29 September 2014.

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

The consolidated entity has adopted all of the new, revised or amending Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period.

Any new, revised and amending Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

Any significant impact on the accounting policies of 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 10 Consolidated Financial Statements

The consolidated entity has applied AASB 10 from 1 July 2013, which has a new definition of 'control'. Control exists when the reporting entity is exposed, or has the rights, to variable returns from its involvement with another entity and has the ability to affect those returns through its 'power' over that other entity. A reporting entity has power when it has rights that give it the current ability to direct the activities that significantly affect the investee's returns. The consolidated entity not only has to consider its holdings and rights but also the holdings and rights of other shareholders in order to determine whether it has the necessary power for consolidation purposes.

AASB 11 Joint Arrangements

The consolidated entity has applied AASB 11 from 1 July 2013. The standard defines which entities qualify as joint arrangements and removes the option to account for joint ventures using proportional consolidation. Joint ventures, where the parties to the agreement have the rights to the net assets are accounted for using the equity method. Joint operations, where the parties to the agreements have the rights to the assets and obligations for the liabilities, will account for its share of the assets, liabilities, revenues and expenses separately under the appropriate classifications.

AASB 12 Disclosure of Interests in Other Entities

The consolidated entity has applied AASB 12 from 1 July 2013. The standard contains the entire disclosure requirement associated with other entities, being subsidiaries, associates, joint arrangements (joint operations and joint ventures) and unconsolidated structured entities. The disclosure requirements have been significantly enhanced when compared to the disclosures previously located in AASB 127 'Consolidated and Separate Financial Statements', AASB 128 'Investments in Associates', AASB 131 'Interests in Joint Ventures' and Interpretation 112 'Consolidation - Special Purpose Entities'.

AASB 13 Fair Value Measurement and AASB 2011-8 Amendments to Australian Accounting Standards arising from AASB 13

The consolidated entity has applied AASB 13 and its consequential amendments from 1 July 2013. The standard provides a single robust measurement framework, with clear measurement objectives, for measuring fair value using the 'exit price' and provides guidance on measuring fair value when a market becomes less active. The 'highest and best use' approach is used to measure non-financial assets whereas liabilities are based on transfer value. The standard requires increased disclosures where fair value is used.

AASB 119 Employee Benefits (September 2011) and AASB 2011-10 Amendments to Australian Accounting Standards arising from AASB 119 (September 2011)

The consolidated entity has applied AASB 119 and its consequential amendments from 1 July 2013. The standard eliminates the corridor approach for the deferral of gains and losses; streamlines the presentation of changes in assets and liabilities arising from defined benefit plans, including requiring remeasurements to be presented in other comprehensive income; and enhances the disclosure requirements for defined benefit plans. The standard also changed the definition of short-term employee benefits, from 'due to' to 'expected to' be settled within 12 months. Annual leave that is not expected to be wholly settled within 12 months is now discounted allowing for expected salary levels in the future period when the leave is expected to be taken.

AASB 127 Separate Financial Statements (Revised), AASB 128 Investments in Associates and Joint Ventures (Reissued) and AASB 2011-7 Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards

The consolidated entity has applied AASB 127, AASB 128 and AASB 2011-7 from 1 July 2013. AASB 127 and AASB 128 have been modified to remove specific guidance that is now contained in AASB 10, AASB 11 and AASB 12 and AASB 2011-7 makes numerous consequential changes to a range of Australian Accounting Standards and Interpretations. AASB 128 has also been amended to include the application of the equity method to investments in joint ventures.

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 2014 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 arrangements

Jointly controlled assets

The consolidated entity's share of the assets, liabilities, revenues and expenses of joint arrangement 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 arrangements are set out in Note 24.

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.

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 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 extend 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 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 27. 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 and performance rights is reflected as additional share dilution in the computation of diluted earnings per share (see Note 22).

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 22).

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.

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 2014. 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.

<table>
<tr><th>Reference and Title</th><th>Summary</th><th>Application date of standard</th><th>Impact on Otto Energy Ltd financial statements</th></tr>
<tr><td>Financial Instruments - AASB 9 (issued December 2009 and amended December 2010)</td><td>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.
Under AASB 9, there are three categories of financial assets:
• Amortised cost
• Fair value through profit or loss
• Fair value through other comprehensive income.
The following requirements have generally been carried forward unchanged from AASB 139 Financial Instruments: Recognition and Measurement into AASB 9:
• Classification and measurement of financial liabilities; and
• Derecognition requirements for financial assets and liabilities.
However, 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.</td><td>Periods beginning on or after 1 January 2017</td><td>When this standard is first adopted from 1 July 2017, there will be no impact on transactions and balances recognised in the financial statements.</td></tr>
<tr><td>Accounting for Acquisitions of Interests in Joint Operations – Amendments to IFRS 11(issued May 2014)</td><td>When an entity acquires an interest in a joint operation whose activities meet the definition of a ‘business’ in IFRS 3 Business Combinations, to the extent of its share of assets, liabilities, revenues and expenses as specified in the contractual arrangement, the entity must apply all of the principles for business combination accounting in IFRS 3, and other IFRSs, to the extent that they do not conflict with IFRS 11 Joint Arrangements.
This means that it will expense all acquisition-related costs and recognise its share, according to the contractual arrangements, of:
• Fair value of identifiable assets and liabilities, unless fair value exceptions included in IFRS 3 or other IFRSs, and
• Deferred tax assets and liabilities that arise from the initial recognition of an asset or liability as required by IFRS 3 and IAS 12 Income Taxes.
Goodwill will then be recognised as the excess consideration over the fair value of net identifiable assets acquired.</td><td>Annual reporting periods commencing on or after 1 January 2016</td><td>There will be no impact on the financial statements when these amendments are first adopted because they apply prospectively to acquisitions of interests in joint operations.</td></tr>
</table>

AASB 2013-3 (issued June 2013) Amendments to AASB 136 – Recoverable Amount Disclosures for Non-Financial Assets	Clarifies the disclosure requirements for cash-generating units (CGUs) with significant amounts of goodwill and intangibles with indefinite useful lives and also adds additional disclosures when recoverable amount is determined based on fair value less costs to sell.	Annual reporting periods commencing on or after 1 January 2014	As this standard amends disclosure requirements only, there will be no impact on amounts recognised in the financial statements. The recoverable amount for CGUs with significant amounts of goodwill and intangibles with indefinite lives will only be required to be disclosed where an impairment loss has been recognised. However, there will be additional disclosures about the level of the fair value hierarchy where recoverable amount for a CGU is determined based on fair value less costs to sell.
IFRS 2 Share – based Payment	**Definition of vesting condition** The amendment clarifies the definition of vesting conditions and market conditions by separately defining a performance condition and a service condition, both of which were previously incorporated within the definition of a vesting condition without themselves being specifically defined	Share-based payments transactions for which grant date is on or after 1 July 2014	There will be no impact on the financial statements when these amendments are first adopted because they apply prospectively to share-based payment transactions for which the grant date is on or after 1 July 2014.
IFRS 3 Business Combinations	**Accounting for contingent consideration in a business combination** The amendment clarifies that contingent consideration is assessed as either a liability or an equity instrument on the basis of IAS 32 Financial Instruments: Presentation. The amendment also requires contingent consideration that is not classified as equity to be remeasured to fair value at each reporting date, with changes in fair value being reported in profit or loss.	Business combinations occurring on or after 1 July 2014	There will be no impact on the financial statements when these amendments are first adopted because they apply prospectively to business combinations for which the acquisition date is on or after 1 July 2014.
IFRS 8 Operating Segments	**Aggregation of operating segments** When operating segments have been aggregated in determining reportable segments, additional disclosures are required regarding judgements made by management in applying the aggregation criteria used to assess that the aggregated segments have similar economic characteristics, including: • A description of the operating segments that have been aggregated • The economic indicators considered in determining that the aggregated operating segments share similar economic characteristics. **Reconciliation of the total of a reportable segment's assets to the entity's assets** The amendment clarifies that a reconciliation of the total of reportable segments' assets to the entity's assets is only required if a measure of segment assets is regularly provided to the chief operating decision maker (CODM).	Annual periods commencing on or after 1 July 2014	There will be no impact on the financial statements when these amendments are first adopted because this is a disclosure standard only. Furthermore, the group does not currently aggregate operating segments in determining reportable segments, it is unlikely that any additional disclosures will be required when this amendment is adopted for the first time for the year ended 30 June 2015.

IAS 24 Related Party Disclosures	**Key management personnel** The amendment clarifies that an entity that provides key management personnel services ('management entity') to a reporting entity (or to the parent of the reporting entity), is a related party of the reporting entity. The amendment also requires separate disclosure of amounts recognised as an expense for key management personnel services provided by a separate management entity (but not in the categories set out in IAS 24.17).	Annual reporting periods beginning on or after 1 January 2014	There will be no impact on the financial statements when these amendments are first adopted because this is a disclosure standard only. As the group does not currently engage the services of a management entity, it is also unlikely that any additional disclosures will be required when this amendment is adopted for the first time for the year ended 30 June 2015.
IFRS 15 Revenue from contracts with customers (issued June 2014)	An entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This means that revenue will be recognised when control of goods or services is transferred rather than on transfer of risks and rewards as is currently the case under IAS 18 Revenue.	Due to the recent release of this standard the company has not yet made an assessment of the impact of this standard.	Must be applied for annual reporting periods beginning on or after 1 January 2017. Therefore application date for the company will be 30 June 2018.

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 2014, the estimated total cost to decommission Service Contract 14C is US$13.2m. US$6.6m 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 the account are owned by the DOE.

Reserves estimates

Estimation of reported recoverable quantities of Proven and Probable reserves include judgement 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 four reportable segments.

b) Segment information provided to the Board

The segment information provided to the Board for the reportable segments for the year ended 30 June 2014 is as follows:

2014	Australia	Philippines	Tanzania	Other	Consolidated
	US$'000	US$'000	US$'000	US$'000	US$'000
Revenue from sale of oil	-	73,693	-	-	73,693
Cost of production	-	(29,701)	-	-	(29,701)
Gross Profit	-	43,992	-	-	43,992
Other revenue	4,174	3,956	-	-	8,130
Profit on disposal of asset	1	-	-	-	1
Employee benefit expense	(7,196)	(1,327)	-	-	(8,523)
Depreciation and amortisation	(454)	(5,685)	-	-	(6,139)
Finance expenses	(1,487)	(6,161)	-	-	(7,648)
Loss on derivative through profit or loss	-	(952)	-	-	(952)
Impairment of assets	-	(23,792)		-	(23,792)
Other expenses	(3,661)	(1,445)	-	(48)	(5,154)
Foreign currency losses	(84)	(3)	-	-	(87)
Net (loss)/profit before income tax	(8,707)	8,583	-	(48)	(172)
Income tax expense	-	79	-	-	79
Net (loss)/profit for the year from continuing operations	(8,707)	8,662	-	(48)	(93)
Total Segment Assets	7,331	107,008	7,072	1	121,412
Total Segment Liabilities	777	29,457	-	4	30,238

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

2013	Australia	Philippines	Tanzania	Other	Consolidated
	US$'000	US$'000	US$'000	US$'000	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	764	-	-	4,206
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	-	(407)	-	-	(407)
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

4. Revenue

	2014 US$'000	2013 US$'000
Sales revenue		
Sale of oil	73,693	60,181
	73,693	60,181
Interest revenue	35	56
Other income	8,095	4,150
	8,130	4,206
Revenue from continuing operations	81,823	64,387

5. Cost of Production

	2014 US$'000	2013 US$'000
Gathering and production charges	19,326	17,736
Depletion	10,375	1,947
	29,701	19,683

6. Expenses

	2014 US$'000	2013 US$'000
Profit/(loss) before income tax includes the following expenses:		
Profit/(loss) on disposal of asset	1	(2,653)
Employee benefits expenses		
Defined contribution superannuation expense	398	394
Share based payment expense	272	366
Other employee benefits expenses	7,853	7,440
Total employee benefits expenses	8,523	8,200
Depreciation & Amortisation		
Property, plant and equipment	498	567
Oil & gas properties	5,641	4,585
Total depreciation & amortisation	6,139	5,152
Finance expenses		
Finance charges paid/payable	7,648	645
Total finance costs	7,648	645

Loss on derivative through profit or loss		
Loss on derivative through profit or loss	952	407
Other expenses		
Business development	52	-
Corporate and other costs	5,102	7,328
Total other expenses	5,154	7,328

7. Income Tax Expense

	2014 US$'000	2013 US$'000
1) The components of tax expense comprise:		
– Current tax	2,446	3,663
– Deferred tax – origination and reversal of temporary differences	(2,525)	7,151
	(79)	10,814
2) Reconciliation of income tax expense to prima facie tax payable:		
– (Loss)/Profit before income tax	(173)	20,256
– Prima facie income tax at 30%	(52)	6,077
– Tax effect of different tax rate of 18%	(4,333)	-
– Tax effect of non temporary adjustments impacting taxable income:	(8,992)	12,711
– Benefit of deferred tax assets not brought to account	13,298	(7,974)
– Income tax (benefit)/expense	(79)	10,814
3) Deferred tax assets		
– Unrealised foreign exchange	32	16
– Share issue costs through equity	-	2
– Other temporary differences	125	163
– Temporary differences - foreign	-	24
	157	205
– Tax losses - revenue	6,937	6,361
– Tax losses - foreign	22,963	10,203
	30,057	16,769
– Offset against deferred tax liabilities recognised	(50)	(26)
– Deferred tax assets not brought to account	(30,007)	(16,742)
– Deferred tax assets brought to account	-	1
4) Deferred tax liabilities		
– Unrealised foreign exchange	-	268
– Accrued income	2	2
– Temporary differences - foreign	-	811
– Temporary differences - development asset	13,983	15,404
– Offset by deferred tax assets recognised	(50)	(26)
– Deferred tax liabilities brought to account	13,935	16,459

8. Cash and Cash Equivalents

	2014 US$'000	2013 US$'000
Cash at bank and in hand	7,735	31,854
	7,735	31,854

Risk exposure

The consolidated entity's exposure to interest rate risk is discussed in Note 26. 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

	2014 US$'000	2013 US$'000
Current		
Other receivables	18	2,747
	18	2,747

No consolidated entity trade receivables are past due or impaired at 30 June 2014 (30 June 2013: 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, Note 26(a).

10. Other Assets

	2014 US$'000	2013 US$'000
Current		
Prepayments	196	136
Other assets	1,562	806
	1,758	942
Non-Current		
Other assets	1,355	741
Decommissioning fund (i)	6,600	6,600
	7,955	7,341

(i) $6.6m of initial estimated decommissioning costs 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 18.

11. Inventories

	2014 US$'000	2013 US$'000
Raw materials		
Oil (held in storage)	2,150	2,040
Fuel	141	93
Drilling and other inventory	650	-
	2,941	2,133

12. Derivative Financial Instruments

	2014 US$'000	2013 US$'000
Current Asset		
Commodity options – at fair value through profit or loss	-	435
Non-Current Asset		
Commodity options – at fair value through profit or loss	-	1,481
Current Liability		
Commodity swap – at fair value through profit or loss	-	122

As at 30 June 2014, the consolidated entity had closed out all to derivative financial instruments.

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 at times has entered into commodity option transaction contracts. As at 30 June 2014, all options were closed out.

ii) Swaps

During the year, the consolidated entity entered into short term swaps over the Dubai oil price which are designed to reduce exposure to oil price volatility. As at 30 June 2014, all swaps have been closed out. The outstanding contract at 30 June 2013 was:

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 reporting date are 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. As at 30 June 2014, all swaps had been closed out.

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 26. 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	Furniture & Fixtures	Total
	US$'000	US$'000	US$'000
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
Year ended 30 June 2014			
Balance at the beginning of year	696	198	894
Additions	93	9	102
Disposals	(2)	-	(2)
Depreciation expense	(449)	(49)	(498)
Closing net book amount	338	158	496
At 30 June 2014			
Cost or fair value	2,015	293	2,308
Accumulated depreciation	(1,677)	(135)	(1,812)
Net book value	338	158	496

14. Exploration and Evaluation Assets

	2014	2013
	US$'000	US$'000
At Cost		
As at 1 July	22,437	13,740
Additions	10,404	7,382
Farm-in payment / (contribution)	-	1,315
Impairment	(23,792)	-
Net carrying value	9,049	22,437

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.

The consolidated entity has interests in the following wholly-owned and non-wholly owned oil and gas explorations assets:

Asset	Country	Principal Activity	Percentage Interest	
			2014	2013
Service Contract 55	Philippines	Offshore Palawan	93.18%	93.18%
Service Contract 73	Philippines	Offshore Mindoro-Cuyo	100%	100%
Service Contract 51	Philippines	Onshore Leyte	-	80%
Service Contract 69	Philippines	Offshore Lampos	-	79%

On 2 May 2014, the consolidated entity had elected to withdraw from Service Contract 51, following extensive post-well analysis of the Duhat-2 well drilled in July 2013. It was concluded a well cannot be safely drilled at Duhat-2 well location given the shallow overpressures experienced and the indications of low rock strength above the zone of overpressure. A total of US$17.4m was impaired as a result of the withdrawal.

On 8 October 2013, the consolidated entity decided to relinquish its 79% stake in Service Contract 69, offshore the Visayas in the Philippines. The decision to exit comes after extensive evaluation work carried out over the block, including 2D and 3D seismic acquisition and a comprehensive farm-out process that did not deliver an acceptable commercial outcome to Otto. A total of US$6.4m was impaired as a result of the relinquishment.

15. Oil and Gas Properties

	2014	2013
	US$'000	US$'000
At Cost		
Oil and Gas properties - at cost	91,460	69,405
Net book value	91,460	69,405
As at 1 July	69,405	38,167
Additions	38,071	37,770
Amortisation	(16,016)	(6,532)
Net carrying value	91,460	69,405

The consolidated entity has a 33% interest in Service Contract 14C, a non-wholly-owned oil and gas producing asset.

16. Trade and Other Payables

	2014	2013
	US$'000	US$'000
Current Liabilities[(i)]		
Trade payables	1,247	8,129
Other payables	3,508	637
	4,755	8,766
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 26 for further information on financial instruments.*

17. Borrowings

	2014	2013
	US$'000	US$'000
Current Liability		
Secured loan	-	4,958
	-	4,958
Non-Current Liabilities		
Secured Loan	-	9,177
	-	9,177

As at 30 June 2014, Galoc Production Company W.L.L ('GPC') Inc, a wholly owned subsidiary of the Company, had fully repaid the BNP Paribas financing facility which was put in place in December 2012 to fund the consolidated entity's share of Galoc Phase II development.

GPC's portion of the Facility was US$37.42m; this was secured to GPC's 33% working interest in Galoc Block.

Interest was calculated on a competitive margin over the floating LIBOR rate.

18. Provisions

	2014	2013
	US$'000	US$'000
Current Liability		
Provisions – employee benefits	196	279
	196	279
Non-Current Provision (i)		
Provisions – employee benefits	132	165
Decommissioning Fund(ii)	8,778	6,600
	8,910	6,765

(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 the Service Contract 14C has increased by a further $6.6m following the completion of Phase II taking it up to a total of $13.2m. Otto Energy Limited's portion of 33% equates to $4.36m an increase of $2.18m from last year. 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.

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 2013	6,600
Additional provision recognised – charged to oil & gas properties	2,178
Carrying amount at end of year – 30 June 2014	8,778

19. Contributed Equity

a) Share Capital

	2014 No.	2013 No.	2014 US$'000	2013 US$'000
At the beginning of year	1,140,290,071	1,138,290,071	131,577	131,577
Shares issued during year on exercise of performance rights	11,500,000	2,000,000	-	-
	1,151,790,071	1,140,290,071	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 27.

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 27.

20. Other Reserves

	2014 US$'000	2013 US$'000
Reserves		
Foreign currency translation reserve	4,188	4,188
Share based payment reserve	8,957	8,685
	13,145	12,873
Foreign Currency Translation Reserve[(i)]		
Balance at beginning of year	4,188	4,188
As at end of year	4,188	4,188
Share Based Payment Reserve[(ii)]		
Balance at beginning of year	8,685	8,319
Share based payment expense	272	366
As at end of year	8,957	8,685

[(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 27 for further details of these plans.

21. Accumulated Losses

Movements in accumulated losses were as follows:

	2014	2013
	US$'000	US$'000
Balance 1 July	(53,455)	(62,897)
Net (loss)/profit for the year	(93)	9,442
Balance 30 June	(53,548)	(53,455)

22. Earnings per Share

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

	2014	2013
	US cents	US cents
Basic (loss)/earnings per share	(0.01)	0.83
Diluted (loss)/earnings per share	(0.01)	0.83

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

	2014	2013
	US$'000	US$'000
Net (loss)/profit after tax	(93)	9,442

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

	2014	2013
	Number of Shares	Number of Shares
Basic earnings per share	1,146,503,770	1,138,624,318
Diluted earnings per share	1,146,503,770	1,138,624,318

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 27.

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 27. 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.

23. 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 [i]	
			2014 (%)	2013 (%)
Otto Energy (Tanzania) Pty Limited	Australia	Ordinary	100	100
Otto Energy Investments Limited	Bermuda	Ordinary	100	100
Otto Energy Philippines Inc	Philippines	Ordinary	100	100
Colag (UK) Limited	United Kingdom	Ordinary	-	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

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

24. Interest in Joint Operations

a) Joint operations

The consolidated entity's interest in joint arrangement assets as at 30 June 2014 is detailed below. Exploration, development and production of hydrocarbons are the principal activities performed across these assets.

		Group Interest (%)	Group Interest (%)
		2014	2013
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:

	2014	2013
	US$'000	US$'000
Non Current Assets		
Exploration and evaluations assets	6,455	1,507

c) Commitments through joint operations

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

	2014	2013
	US$'000	US$'000
Exploration and other capital expenditure commitments	9,500	9,994

25. Reconciliation of (loss)/profit after income tax to net cash inflow from operating activities

	2014	2013
	US$'000	US$'000
(Loss)/Profit for the year	(93)	9,442
Non-cash items		
Depreciation and amortisation	16,514	7,099
Impairment of exploration assets	23,792	-
Non-cash employee benefits expense – share-based payments	272	366
Net foreign exchange differences	87	63
Unwinding of borrowing costs	2,705	-
Loss on derivative through profit or loss	1,916	122
Other non-cash expenses	714	-
Statutory reserve – Bahrain	-	1,325
Change in operating assets and liabilities, net of effects from		
Decrease/(Increase) in trade other receivables	2,729	(582)
Decrease/(Increase) in other operating assets	(816)	285
Decrease/(Increase) in inventories	(808)	3,188
Decrease/(Increase) in deferred tax assets	1	1,936
(Decrease)/Increase in trade and other payables	(4,011)	569
(Decrease)/Increase in provision for income taxes payable	1,791	(88)
(Decrease)/Increase in provisions	(116)	165
(Decrease)/Increase in deferred tax liabilities	(2,524)	5,213
Net cash (outflow)/inflow from operating activities	42,153	29,103

26. 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 2014			
	US$ US$'000	A$ US$'000	PHP US$'000	Total US$'000
Financial Assets				
Cash and Cash equivalents	7,467	70	198	7,735
Trade and other receivables	8	1	9	18
Total Financial Assets	7,475	71	207	7,753
Financial Liabilities				
Trade and Other payables	4,186	476	93	4,755
Total Financial Liabilities	4,186	476	93	4,755

	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 Assets	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	-	-	14,135
Total Financial Liabilities	22,229	632	162	23,023

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 2013: 10%). At 30 June 2014, management has assessed that the entity's exposure to foreign exchange movements is found to be immaterial (2013: 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. The consolidated entity had settled all cash settled commodity swaps and option transactions arrangements with BNP that was entered into in 2013. This is disclosed at Note 12.

The consolidated entity's revenues 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:

	2014	2013
	US$'000	US$'000
Current Asset		
Commodity options – at fair value through profit or loss	-	435
Inventory	2,150	2,040
	2,150	2,475
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 2014.

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.

	2014	**2013**
	US$'000	**US$'000**
Profit or loss: 10%	7,369	6,018
Profit or loss: 15%	11,054	9,027

iii) Interest Rate Risk

The consolidated entity is 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.

In addition, in the prior financial year, the consolidated entity's main interest risk arises from long-term borrowings. Borrowings issued at a margin + LIBOR exposed the consolidated entity to interest rate risk. The consolidated entity's bank loans were paid out in 2014; the outstanding amount at 2013 was $16,839,000.

		2014	2013
		US$'000	US$'000
Financial assets			
Cash assets	Floating rate[(i)]	7,735	31,854
Financial liabilities			
Borrowings	Margin+LIBOR[(ii)]	-	16,839

[(i)]Weighted average effective interest rate of funds on deposit is Nil (2013: Nil)
[(ii)]Weighted average effective interest rate on borrowing funds is Nil (2013:6.27%)

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 is found to be immaterial (2013:immaterial) therefore no further analysis provided.

iv) 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.

	2014	2013
	US$'000	US$'000
Cash and cash equivalents	7,735	31,854
Long-term deposits and other assets	7,404	6,833
	15,139	38,687

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 for all the deposit cash with financial institutions that have an 'AA' rating.

	Cash at bank and short term deposits		Other Assets	
	2014	2013	2014	2013
	US $'000	US$'000	US $'000	US$'000
AA Rated	7,529	31,677	804	233
BBB Rated	203	177	6,600	6,600
Unrated	3	-	-	-
	7,735	31,854	7,404	6,833

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.

b) 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

As at 30 June 2014, Galoc Production Company W.L.L ('GPC') Inc, a wholly owned subsidiary of the Company, had fully repaid the BNP Paribas financing facility which was put in place in December 2012 to fund the consolidated entity's share of Galoc Phase II development. Refer Note 17 – 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	4,755	-	-	4,755	4,755

c) 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 is now entirely equity as the debt component was fully paid out as at 30 June 2014 (2013; US$16,839,000 debt).

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 is 0% as at 30 June 2014 (2013: 12.8%).

The consolidated entity would look to raise capital when an opportunity to invest in a business or company was seen as value adding relative to the current company's share price at the time of the investment.

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)

The following table presents the consolidated entity's assets and liabilities measured and recognised at fair value at 30 June 2013. There were no assets or liabilities that were recognised at fair value as at 30 June 2014.

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

27. Share-Based Payments

a) Employee Share Option Plan

The Employee Share Option Plan was approved by shareholders at the 2013 Annual General Meeting. The Employee Option Plan is designed to provide long term incentives for senior managers, employees, and Directors where applicable 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:

2014		Exercise Price	Balance at start of the year	Granted during the year	Exercised during the year	Expired / Forfeited during the year	Balance at end of the year	Vested and exercisable at end of the year
Grant Date	Expiry Date	A$	Number	Number	Number	Number	Number	Number
11 Aug 2010	11 Aug 2013	0.12	3,000,000	-	-	(3,000,000)	-	-
26 Nov 2010	26 Nov 2013	0.12	9,000,000	-	-	(9,000,000)	-	-
30 Nov 2010	30 Nov 2013	0.13	6,000,000	-	-	(6,000,000)	-	-
13 Oct 2011	13 Oct 2014	0.12	1,250,000	-	-	(500,000)	750,000	750,000
5 Jan 2012	5 Jan 2015	0.12	2,500,000	-	-	(2,000,000)	500,000	500,000
2 Dec 2013	2 Dec 2015	0.1113	-	8,000,000	-	-	8,000,000	8,000,000
Total			21,750,000	8,000,000	-	(20,500,000)	9,250,000	9,250,000
Weighted average exercise price – A$			0.12	0.11	-	0.12	0.12	0.12

2013		Exercise Price	Balance at start of the year	Granted during the year	Exercised during the year	Expired / Forfeited during the year	Balance at end of the year	Vested and exercisable at end of the year
Grant Date	Expiry Date	A$	Number	Number	Number	Number	Number	Number
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

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 20,500,000 options that expired during the period ended 30 June 2014. The weighted average remaining contractual life of share options outstanding at the end of the year is 0.74 years (2013: 0.63 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 2014 the consolidated entity had issued 8,000,000 options under the Employee Share Plan (2013: Nil options).

Fair value of options granted

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

Grant date	13 October 2011	5 January 2012	5 December 2013
Exercise price – A$	0.12	0.12	0.1113
Expiry date	13 October 2014	5 January 2015	2 December 2016
Share price at grant date – A$	0.07	0.09	0.08
Expected volatility	45%	45%	90%
Expected dividend yield	Nil	Nil	Nil
Risk free rate	3.79%	3.25%	3.02%
Fair value of options	0.01	0.02	0.04

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

b) Performance Rights Plan

The Performance Rights Plan was approved by shareholders at the 2013 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	10,000,000	-	0.02	(6,000,000)	-	4,000,000	31 Dec 2014
1 Nov 2011	5,000,000	-	0.02	(500,000)	(4,500,000)	-	1 Apr 2014
1 Nov 2011	5,000,000	-	0.02	(5,000,000)		-	1 Nov 2014
1 Nov 2011	5,000,000	-	0.02		(5,000,000)	-	1 Apr 2015
1 Feb 2013	15,700,000	-	0.02		(7,200,000)	8,500,000	1 Apr 2016
Total	40,700,000	-		(11,500,000)	(16,700,000)	12,500,000	

Fair value of rights granted

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

Grant date	3 October 2011	1 February 2013
Expiry date	31 December 2014	1 April 2016
Share price at grant date – A$	0.08	0.10
Expected volatility	50%	52.6%
Expected dividend yield	Nil	Nil
Risk free rate	3.66%	2.75%
Fair value – A$	0.02	0.01

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

	2014	2013
	US$'000	US$'000
Options	293	-
Performance rights	(21)	366
Share-based payments expensed	272	366

28. Related Party Transactions

a) Key Management Personnel Compensation

	2014	2013
	US$'000	US$'000
Short -term employee benefits	2,045,157	1,953,298
Post-employment benefits	112,533	84,435
Termination Benefits	539,503	-
Share-based payments	252,144	162,178
	2,949,337	2,199,911

Detailed remuneration disclosures are provided in the remuneration report on pages 25 to 36.

b) Related party transactions

(i) During the financial year, Otto Energy Limited entered into separate standby letter of credit arrangements with the two largest shareholders. The standby letter of credit facilities were to provide additional access to funds for the Galoc Phase II project should they be required.

The facilities were unused and were closed as of 30 June 2014. Total fees associated with the standby letter of credit facilities being available were $1.3m, mainly relating to establishment and commitment fees. All transactions were made on normal commercial terms and conditions at market rates.

(ii) In the prior financial year a sub-lease of property including outgoings and IT services was provided for Pathfinder Pty Ltd of which Mr Boserio is a Director. Total transactions were $14,062. This sublease ended in the 2013 financial year. There were nil transactions for the 2014 financial year. Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated. There are no balances outstanding at the end of the reporting period in relation to transactions with key management personnel and their related parties (2013: $9,396 related to the sublease).

29. 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:

	2014	2013
	US$	US$
1) **BDO Australia**		
a) Audit and Other Assurance services:		
i) Audit and review of financial statements	113,803	149,280
ii) Other assurance services	7,432	3,128
Total remuneration for audit and other assurance services	121,235	152,408
b) Taxation services:		
i) Tax compliance services	52,802	26,136
ii) International tax consulting and tax advice	67,412	44,913
Total remuneration for taxation services	120,214	71,049
Total remuneration of BDO Australia	241,449	223,457
2) Network firms of BDO Australia		
a) Audit and Other Assurance services:		
i) Audit and review of financial statements	24,894	41,086
ii) Other assurance services	-	-
Total remuneration for audit and other assurance services	24,894	41,086
b) Taxation services:		
i) Tax compliance services	-	6,388
ii) International tax consulting	-	-
Total remuneration for taxation services	-	6,388
Total remuneration of network firms of BDO Australia	24,894	47,474
3) Non-BDO		
a) Audit and Other Assurance services:		
i) Audit and review of financial statements	62,117	136,495
ii) Other assurance services	1,149	1,632
Total remuneration for audit and other assurance services	63,266	138,127
b) Taxation services:		
i) Tax compliance services	1,986	11,026
ii) International tax consulting and tax advice	23,394	52,280
Total remuneration for taxation services	25,380	63,306
Total remuneration of non-BDO audit firms	88,646	201,433
Total auditors' remuneration	354,898	472,364

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.

30. 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 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$1.5m, should the block produce 1.5m barrels of oil equivalent during the term of Otto's license.

31. Commitments

a) Capital Commitments

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

	2014	2013
	US$'000	US$'000
Committed capital and exploration expenditure commitments.		
No longer than 1 year	7,016	9,992
Longer than 1 year and no longer than 5 years	6,066	66
More than 5 years	116	116
	13,198	10,174

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:

	2014	2013
	US$'000	US$'000
No longer than 1 year	495	529
Longer than 1 year and no longer than 5 years	1,333	1,601
	1,828	2,130

32. Events Occurring after the Reporting Period

On 22 September 2014, Otto announced the execution of a sale and purchase agreement (SPA) to divest 100% of the shares in Galoc Production Company WLL (GPC), the holder of Otto's 33% interest in the Galoc oil field located in Service Contract 14C (Galoc interest) to Risco Energy Investments Pte Ltd (Risco), a Singapore-based energy investment company.

Under the SPA, Risco has agreed to pay Otto US$101.4m as at 1 July 2014. Risco will assume all production rights and liabilities associated with the Galoc Interest (including abandonment costs) with effect from 1 July 2014.

Completion of the transaction is conditional on Otto shareholder approval.

33. Parent Entity Disclosures

As at, and throughout the financial year ended 30 June 2014, the parent Company of the consolidated entity was Otto Energy Limited.	Parent Entity	
	2014 US$'000	2013 US$'000
Summarised Statement Of Profit or Loss and Other Comprehensive Income		
Loss for the year after tax	(25,579)	(8,691)
Total comprehensive loss for the year	(25,579)	(8,691)
Summarised Statement of Financial Position		
Current Assets	8,870	3,851
Non Current Assets	12,164	41,785
Total Assets	21,034	45,636
Current Liabilities	1,724	912
Non Current Liabilities	58	164
Total Liabilities	1,782	1,076
Net Assets	19,252	44,560
Total equity of the parent entity comprising:		
Share Capital	131,577	131,577
Share based payments reserves	8,956	8,685
Foreign currency translation reserve	118	118
Accumulated Losses	(121,399)	(95,820)
Total Equity	19,252	44,560

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 2014 and 30 June 2013.

Commitments

The parent entity had no capital commitments for property plant and equipment as at 30 June 2014 and 30 June 2013. The parent entity has a non-cancellable operating lease payable as follows:

	2014 US$'000	2013 US$'000
No longer than 1 year	376	411
Longer than 1 year and no longer than 5 years	1,333	1,480
	1,709	1,891

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 impairments.

DIRECTOR'S DECLARATION

FOR THE YEAR ENDING 30 JUNE 2014

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 2014 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

29 September 2014

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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 2014, 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 2014 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 2014. 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 2014 complies with section 300A of the *Corporations Act 2001*.

BDO Audit (WA) Pty Ltd

BDO

Brad McVeigh

Director

Perth, 29 September 2014

ASX ADDITIONAL INFORMATION

FOR THE YEAR ENDING 30 JUNE 2014

The shareholder information set out below was applicable as at 25 September 2014

a) Distribution of Equity Securities

The issued capital of the Company at 25 September 2014 is 1,151,790,071 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	667	1,076,082,850
10,001 – 100,000	1,625	70,777,648
5,001 – 10,000	480	4,016,771
1,001 – 5,000	280	893,688
1 – 1,000	107	19,114
	3,159	1,151,790,071
Number holding less than a marketable parcel size of 5,000 shares at A$0.09 per share	404	1,001,617
Shareholders by Location	**No. of Holders**	**No. of Shares**
Australian holders	2,927	837,514,393
Overseas holders	246	314,275,678
	3,173	1,151,790,071

b) Equity Security Holders

Twenty largest quoted equity security holders

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

	Name	Ordinary Shares	
		Number Held	% of issued shares
1	Santo Holding AG	241,910,757	21.00%
2	Molton Holdings Limited	241,910,757	21.00%
3	Acorn Capital Limited	86,717,074	7.53%
4	J P Morgan Nominees Australia Limited	52,032,115	4.52%
5	Citicorp Nominees Pty Limited	32,595,092	2.83%
6	John Jetter (Consolidated Relevant Interest)	19,089,175	1.66%
7	HSBC Custody Nominees (Australia) Limited	17,898,356	1.55%
8	Rick Crabb (Consolidated Relevant Interest)	17,495,052	1.52%
9	HSBC Custody Nominees (Australia) Limited	16,305,051	1.42%
10	DBS Vickers Securities (Singapore) Pte Ltd	14,020,833	1.22%
11	Citicorp Nominees Pty Limited (C/Wlth Bank Off Super A/C)	12,801,550	1.11%
12	Pan Pacific Petroleum NL	11,680,340	1.01%
13	Escot Finance Ltd	8,150,000	0.71%
14	Navigator Australia Ltd (MLC Investment Settlement A/C)	7,998,778	0.69%
15	Forsyth Barr Custodians (Forsyth Barr Ltd – Nominee A/C)	6,622,011	0.57%
16	National Nominees (Australia)	6,601,090	0.57%
17	HSBC Custody Nominees (Australia) Ltd - A/C 2	5,862,601	0.51%
18	Gregor McNab	5,500,000	0.48%
19	Icon Holdings Pty Ltd	4,941,091	0.43%
20	Ian Macliver (Consolidated Relevant Interest)	4,549,721	0.40%
		814,681,444	70.73%

c) Substantial Shareholders

		No. of Shares Held	% Held
1	Santo Holding AG	241,910,757	21.00%
2	Molton Holdings Limited	241,910,757	21.00%
3	Acorn Capital Limited	86,717,074	7.53%

d) Unquoted Securities

The unlisted securities of the Company as at 25 September 2014 are12,500,000 performance rights and 9,250,000 options. The performance rights and 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
13 October 2011	13 October 2014	A$0.12	750,000	3
5 January 2012	5 January 2015	A$0.12	500,000	1
2 December 2013	2 December 2016	A$0.1113	8,000,000	3
			9,250,000	

Unlisted Performance Rights*

Issue Date	Expiry Date	Exercise Price	No. Of Performance Rights	No. of Holders
1 Feb 2013	1 April 2016	A$0.00	8,500,000	4
3 October 2011	31 December 2014	A$0.00	4,000,000	2
			12,500,000	

* 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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