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Manager of Company Announcements
ASX Limited
Level 6, 20 Bridge Street
SYDNEY NSW 2000

By E-Lodgement

GALOC PHASE II DEVELOPMENT APPROVED AND RESERVES UPGRADED

Highlights:

- **Final Investment Decision (FID) approved for Phase II; Otto's share of investment is US$62 million**
- **Galoc Phase II to increase total field production from current 5,600 BOPD to more than 12,000 BOPD with first oil scheduled from 2H 2013**
- **Reserves increased for the Galoc oil field by 156% on a Proven (1P) and 134% on a Proven and Probable (2P) basis**
- **Delivers incremental reserves, increases field life and further improves system reliability**
- **Drilling rig "Ocean Patriot" has been secured to deliver two development wells including an option for an additional exploration drilling in the northern area of Galoc**
- **Otto will deliver Galoc Phase II as Operator on behalf of the joint venture partners**
- **Continues successful delivery of the work program at Galoc since Otto became Operator in September 2011, including FPSO upgrade, reserves increase and now FID for Phase II**

Otto Energy Ltd ("Otto") (ASX: OEL), as operator of the producing Galoc oil field joint venture, offshore the Philippines, announces the Final Investment Decision (FID) approving the Phase II development of Galoc. The total project cost represents capital expenditure of US$188 million (100%) with Otto funding US$62 million based on its 33% working interest.

The Phase II development, which has the support of the joint venture, will require the drilling of two subsea wells, tied back to the existing Floating Production, Storage & Offloading (FPSO) facility. The delivery of Phase II and ongoing production operations will be managed by Otto as Operator of the Galoc oil field and the SC14C joint venture.

OTTO AT A GLANCE

- ASX-listed oil and gas company with significant growth potential.
- Operator of the producing Galoc Oil Field which provides cash flow.
- High impact offshore exploration program in SC55.
- Opportunity rich with substantial exploration prospects and leads in Palawan and Visayan basins.

COMPANY OFFICERS

Rick Crabb	Chairman
Ian Macliver	Director
Rufino Bomasang	Director
John Jetter	Director
Ian Boserio	Director
Gregor McNab	CEO
Matthew Allen	CFO/Coy Secretary

Production Increase

Total field production rates at Galoc are expected to increase from the current 5,600 barrels of oil per day (BOPD) delivered from the existing two wells, to more than 12,000 BOPD following start-up of the additional two new subsea wells. A second production riser and control umbilical will be installed which will further improve system reliability.

The joint venture has secured the Diamond Offshore owned "Ocean Patriot" semi-submersible drilling rig which will execute the firm two development well program. The contract includes an option, to be exercised by the Joint Venture, to drill a third exploration well in the northern area of the Galoc field. A final decision on the northern exploration well is planned for 4Q 2012 and this can be drilled immediately following the Phase II development well campaign.

Reserves Upgrade

Significant subsurface work has been completed to support the Phase II FID and Otto has commissioned a review of remaining oil reserves by an independent consulting firm, RISC. RISC has reviewed the Galoc oil field reserves in accordance with the SPE, WPC, AAPG and SPEE Petroleum Resource Management System definitions, guidelines and auditing standards.

Following successful performance of the field after recommissioning in April 2012, the Contractor Entitlement Reserves (remaining recoverable volumes) for the Galoc oil field have increased by 156% to 8.9 MMbbls on a Proven (1P) and by 134% to 13.4 MMbbls on a Proven and Probable (2P) basis. This translates to an Otto Net Entitlement Reserves of 2.9 MMbbls (1P) and 4.4 MMbbls (2P). These increases are attributable to higher well recoveries based on pressure data analysis and booking of reserves from previously reported contingent resources. A detailed breakdown of Reserves is shown in Appendix A.

Future reserve and resource increases are likely to come from incorporation of the results of the recent 3D seismic not yet incorporated into the RISC report, successful appraisal/exploration activities on the field, further in-fill drilling, facilities optimisation and tertiary recovery.

Financing

Otto will fund its share of the Galoc Phase II capital expenditure from a combination of ongoing production revenue from existing operations and project finance debt. Otto has mandated BNP Paribas to arrange a US$37.4m project finance term loan secured against Otto's interests in the Galoc field with a 3 year tenor. It is expected that the facility will achieve financial close in Q4 2012 with first drawdown required in early 2013. Argonaut has acted as corporate advisor to Otto throughout this transaction.

The joint venture partners have either made the necessary undertakings that they have their financing in place or are in the process of satisfying conditions precedent to achieve financial close, to satisfy funding their respective shares of the project.

Project Milestones

• Final Investment Decision	10th September 2012
• Close Project Financing	4Q 2012
• Galoc North Well Commitment	4Q 2012
• Key Subsea & Drilling Equipment Deliveries	1Q 2013
• Drilling & Offshore Construction Campaign	2Q through 3Q 2013
• First Oil from Two New Subsea Wells	2H 2013

Otto Energy Chief Executive Gregor McNab said:
"Galoc Phase II represents a low risk, near term opportunity for Otto to extend the field life of its cornerstone producing asset, as well as deliver incremental reserves and improve production reliability. The project is consistent with Otto's strategy of building an integrated petroleum company, generating a sustained flow of drilling events, focusing on South East Asia and onshore East Africa. Cash flow from Galoc will allow Otto to reinvest in our balanced exploration portfolio which is on track to deliver exploration drilling programs in 2013 including the northern Galoc field, the Duhat prospect onshore Leyte, and the Cinco prospect offshore Palawan.

"The Phase II FID is a significant achievement for Otto, our joint venture partners and the Government of the Philippines. This continues the work that has successfully delivered key outcomes for Galoc since Otto became Operator last year, including the FPSO upgrade and reserve increases. Realisation of higher production volumes will provide Otto with a long term source of funding to deliver our growing portfolio of high value exploration assets in the Philippines and Tanzania as well as new business opportunities in South East Asia and onshore East Africa."

Yours faithfully

Gregor McNab
Chief Executive Officer

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APPENDIX A: GALOC OIL FIELD RESERVES UPDATE

Estimated Ultimate Recovery (EUR) and Reserves	1P Proved	2P Proved and Probable
	MMbbl	MMbbl
EUR at 1 January 2012	12.6	15.3
EUR at 1 July 2012	19.2	25.0
Change in EUR	***53%***	***64%***
Cumulative Production to 1 July 2012	9.0	9.0
Gross Field Reserves at 1 July 2012	**10.2**	**16.0**
PSC Contractor Entitlement Reserves at 1 July 2012	8.9	13.4
Otto Net Entitlement Reserves at 1 July 2012	**2.9**	**4.4**

Reserves Reconciliation	1P Proved		2P Proved and Probable	
	Gross	Net	Gross	Net
	MMbbl	MMbbl	MMbbl	MMbbl
Entitlement Reserves 1 January 2012	3.5	1.1	5.7	1.9
Entitlement Production	(0.5)	(0.2)	(0.5)	(0.2)
Acquisitions	0.0	0.0	0.0	0.0
Additions				
- Upgrade to Phase I reserve	2.2	0.7	1.5	0.5
- Phase II reserve booking	3.7	1.2	6.6	2.2
Entitlement Reserves 1 July 2012	**8.9**	2.9	**13.4**	4.4
Reserve Replacement Ratio	**156%**	156%	**134%**	134%

Notes
1) - Reserves numbers Independently audited by RISC (G-1 Extended Well Test 1989 recovery excluded in EUR & Production numbers)
2) - Reserves numbers include Phase I (Producing Reserves) and Phase II (Sanctioned for development, non-producing Reserves)
3)-Numbers may not precisely sum due to rounding

Competent Persons Statement:

The Reserve and Contingent Resource estimates outlined in this announcement have been compiled by Mr Nick Pink. Mr Pink is the Senior Reservoir Engineer of Otto and a full time employee. Mr Pink has more than 13 years of relevant experience and is qualified in accordance with ASX Listing Rule 5.11. Mr Pink has consented to the form and context that this statement appears.

APPENDIX B: GALOC OIL FIELD SUMMARY

Joint Venture Partners:

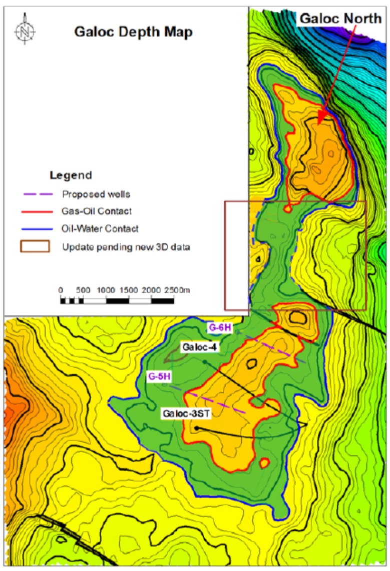
Participant	Participating Interest %
Galoc Production Company W.L.L. (Operator) (Wholly owned subsidiary of Otto Energy Ltd (ASX: OEL))	33.00000
Galoc Production Company (2) Pte Ltd	26.84473
Nido Production (Galoc) Pty Ltd / Nido Petroleum Philippines Pty Ltd (ASX: NDO)	22.87952
Oriental Petroleum & Minerals Corporation and Linapacan Oil Gas & Power Corporation	7.78505
The Philodrill Corporation	7.21495
Forum Energy Philippines Corporation	2.27575

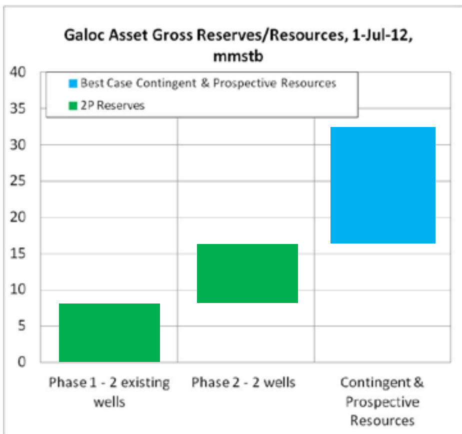
Location:

The Galoc field is located in Service Contract SC14-C (Galoc Sub Block) in 290m of water approximately 65km North West of Palawan Island and 350km south of Manila in the Republic of the Philippines.

Reserves:

The field has produced 9.0 mmbbls (gross) up to 1st. July 2012. Future remaining reserves (gross) are 10.2 mmbbls (1P) and 16.0 mmbbls (2P).





Milestones:

Achieved

- First production: October 2008
- High Resolution 3D Seismic Acquisition: January 2012 – Survey Complete
- FPSO Refurbishment & Mooring Upgrade: April 2012 – Production re-commenced
- Phase II Final Investment Decision September 2012 – Joint venture approval

Target

- Close Project Financing 4Q 2012
- Galoc North Well Commitment 4Q 2012
- Key Subsea & Drilling Equipment Deliveries 1Q 2013
- Drilling & Offshore Construction Campaign 2Q through 3Q 2013
- First Oil from Two New Subsea Wells 2H 2013

Phase II Development Concept:

Two subsea wells will be drilled with 2,000m horizontal sections via a semi-submersible drilling rig. The wells will be tied back via subsea flowlines to the existing Floating Production, Storage & Offloading (FPSO) facility, the Rubicon Intrepid. A second production riser and control umbilical line will also be installed and connected to the FPSO. Approved project capital costs are US$188 million.

Field production rates are expected to increase from current 5,600 BOPD to over 12,000 BOPD when the two new Phase II wells commence production in 2H 2013. Production is expected to continue for at least a further five years.

Key Service Providers:

The majority of project costs are supported by firm contracts with industry recognised service providers which minimises project execution exposure to safety, environment, cost and schedule risks. Key service providers for the Phase II project are;

- Drilling Rig Ocean Patriot operated by Diamond Offshore (Australia) LLC
- Offshore Construction Skandia Hercules operated by DOF Subsea Asia Pacific Pte Ltd
- Subsea Wellheads & Trees Dril-Quip Asia Pacific Pte Ltd

Production will be processed via the existing FPSO which is under an existing long term contract with Rubicon Offshore International Pte Ltd.

 *Ocean Patriot semi-submersible drill rig*	 *Skandi Hercules Construction Anchor Handling Vessel*

Future Appraisal & Development:

Recent acquisition of a high resolution 3D seismic survey, field mapping and detailed reservoir modelling is maturing further opportunities for exploration and development drilling. Exploration targets have been identified to the north of the main Galoc field and the joint venture plans to make a final drilling decision in 4Q 2012. The current rig contract provides additional drilling days to include an exploration well immediately following the Phase II development drilling campaign.

Fiscal Terms:

Subject to production sharing terms covered under the standard Service Contract required by the government of the Philippines. Terms provide for a cost recovery cap of 70%, contractor profit share of 37.5% and corporate tax at 30%.