



OTTO ENERGY LIMITED
ABN 56 107 555 046

NOTICE OF ANNUAL GENERAL MEETING

TIME: 3pm (WST)

DATE: 22 November 2010

PLACE: University Club of Western Australia
Seminar Room 1
Hackett Drive,
Crawley Western Australia

This Notice of Annual General Meeting should be read in its entirety. If Shareholders are in doubt as to how they should vote, they should seek advice from their professional advisers prior to voting.

Should you wish to discuss the matters in this Notice of Annual General Meeting please do not hesitate to contact the Company Secretary on (08) 6467 8800.

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TIME AND PLACE OF MEETING AND HOW TO VOTE

VENUE

The meeting of the Shareholders of Otto Energy Limited which this Notice of Annual General Meeting relates to will be held at 3pm (WST) on 22 November 2010 at:

University Club of Western Australia
Seminar Room 1
Hackett Drive,
Crawley, Western Australia

YOUR VOTE IS IMPORTANT

The business of the Annual General Meeting affects your shareholding and your vote is important.

VOTING IN PERSON

To vote in person, attend the Annual General Meeting on the date and at the place set out above.

VOTING BY PROXY

To vote by proxy, please complete and sign the proxy form enclosed with this Notice of Meeting as soon as possible and either:

- (a) send the proxy form by post to the Company's share registry Computershare Investor Services Pty Limited, GPO Box 242, Melbourne, Victoria, 3001; or
- (b) fax your proxy form to the Company's share registry on 1800 783 447 (from within Australia) or +61 3 9473 2555 (from outside Australia).

so that it is received not later than 3pm (WST) on 20 November 2010.

Proxy forms received later than this time will be invalid.

NOTICE OF MEETING

Notice is given that the Annual General Meeting of Shareholders of Otto Energy Limited will be held at the University Club of Western Australia, Hackett Drive, Crawley, Western Australia at 3pm (WST) on 22 November 2010 (**AGM**).

The Directors have determined pursuant to Regulation 7.11.37 of the Corporations Regulations 2001 (Cth) that the persons eligible to vote at the Meeting are those who are registered Shareholders on 20 November 2010 at 5pm (WST).

Terms and abbreviations used in this Notice of Meeting and Explanatory Statement are defined in the glossary of the Explanatory Statement.

AGENDA

The Explanatory Statement to this Notice of Meeting describes the matters to be considered at the Meeting.

ADOPTION OF THE ANNUAL FINANCIAL REPORT

To receive the Annual Financial Report, including Directors' declaration and accompanying reports of the Directors and auditors for the financial year ending 30 June 2010.

RESOLUTION 1 - ADOPTION OF REMUNERATION REPORT (NON-BINDING)

To consider, and if thought fit, to pass, with or without amendment, the following resolution as a **non-binding resolution**:

"That, for the purposes of Section 250R(2) of the Corporations Act and for all other purposes, approval is given to the adoption of the Remuneration Report as contained in the Company's Annual Financial Report for the year ended 30 June 2010."

Short Explanation: The Corporations Act provides that a resolution that the remuneration report be adopted must be put to vote at a listed company's annual general meeting. The vote on this resolution is advisory only and does not bind the Directors or the Company.

RESOLUTION 2 – APPROVAL OF THE EMPLOYEE OPTION PLAN

To consider and, if thought fit, to pass, with or without amendment, the following Resolution as an **ordinary resolution**:

*"That, for the purposes of ASX Listing Rule 7.2 (Exception 9(b)) and for all other purposes, approval is given for the Company to administer and issue securities to employees (including Directors) under the "Otto Energy Limited Employee Option Plan" (**Option Plan**) as an exemption to Listing Rule 7.1 and on the terms and conditions set out in the Explanatory Statement accompanying this Notice of Meeting."*

Voting Exclusion: In accordance with ASX Listing Rule 7.2, the Company disregards any votes cast on Resolution 2 by a Director of the Company and any associate of the Director (except if the Director is ineligible to participate in the Employee Share Option Plan). However the Company need not disregard a vote if it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or it is cast by a person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

RESOLUTION 3 – APPROVAL OF THE PERFORMANCE RIGHTS PLAN

To consider and, if thought fit, to pass, with or without amendment, the following Resolution as an **ordinary resolution**:

*“That, for the purposes of ASX Listing Rule 7.2 (Exception 9(b)) and for all other purposes, Shareholders approve the performance rights plan for employees and Directors of the Company known as the “Otto Energy Limited Performance Rights Plan” (**Performance Rights Plan**) and the grant of Performance Rights and the issue of Shares under the Performance Rights Plan as an exception to Listing Rule 7.1, in accordance with the terms and conditions of the Performance Rights Plan, a summary of which is set out in the Explanatory Statement accompanying this Notice of Meeting.”*

Voting Exclusion: In accordance with ASX Listing Rule 7.2, the Company disregards any votes cast on Resolution 3 by a Director of the Company and any associate of the Director (except if the Director is ineligible to participate in the Performance Rights Plan). However the Company need not disregard a vote if it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or it is cast by a person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

RESOLUTION 4 – APPROVAL OF ISSUE OF DIRECTOR PLAN OPTIONS TO MR JOHN JETTER UNDER THE OPTION PLAN

To consider and, if thought fit, to pass, with or without amendment, the following Resolution as an **ordinary resolution**:

“That, for the purposes of Section 208 of the Corporations Act, ASX Listing Rule 10.14 and for all other purposes, approval is given for the Directors to allot and issue up to 3,000,000 Director Plan Options to Mr John Jetter (or his nominee) under the Company’s Option Plan on the terms and conditions set out in the Explanatory Statement.”

Voting Exclusion: The Company will disregard any votes cast on Resolution 4 by Mr John Jetter and any of his associates, however the Company need not disregard a vote if, it is cast by a person as a proxy for a person who is entitled to vote in accordance with the discretion on the proxy form, or it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a director on the proxy form to vote as the proxy decides.

RESOLUTION 5 – APPROVAL OF ISSUE OF DIRECTOR PLAN OPTIONS TO MR IAN BOSERIO UNDER THE OPTION PLAN

To consider and, if thought fit, to pass, with or without amendment, the following Resolution as an **ordinary resolution**:

“That, for the purposes of Section 208 of the Corporations Act, ASX Listing Rule 10.14 and for all other purposes, approval is given for the Directors to allot and issue up to 3,000,000 Director Plan Options to Mr Ian Boserio (or his nominee) under the Company’s Option Plan on the terms and conditions set out in the Explanatory Statement accompanying this Notice of Meeting.”

Voting Exclusion: The Company will disregard any votes cast on Resolution 5 by Mr Ian Boserio and any of his associates, however the Company need not disregard a vote if, it is cast by a person as a proxy for a person who is entitled to vote in accordance with the discretion on the proxy form, or it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a director on the proxy form to vote as the proxy decides.

RESOLUTION 6 – ISSUE OF PERFORMANCE RIGHTS TO MANAGING DIRECTOR

To consider and, if thought fit, to pass, with or without amendment, the following Resolution as an **ordinary resolution**:

“That, for the purposes of Section 208 of the Corporations Act, ASX Listing Rule 10.14 and for all other purposes, approval is given for the Directors to grant up to 10,000,000 Performance Rights under the Performance Rights Plan to Mr Paul Moore (or his nominee) for no consideration, and otherwise on the terms and conditions set out in the Explanatory Statement accompanying this Notice of Meeting.”

Voting Exclusion: The Company will disregard any votes cast on Resolution 6 by Mr Paul Moore and any of his associates, however the Company need not disregard a vote if it is cast by a person as a proxy for a person who is entitled to vote in accordance with the discretion on the proxy form, or it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a director on the proxy form to vote as the proxy decides.

RESOLUTION 7 – RE-ELECTION OF MR RICK CRABB AS DIRECTOR

To consider and, if thought fit, to pass with or without amendment, the following Resolution as an **ordinary resolution**:

“To elect Mr Rick Crabb as director of the Company who retires by rotation pursuant to the ASX Listing Rule 14.4 and being eligible offers himself for re-election.”

Short Explanation: In accordance with ASX Listing Rule 14.4 (rotation of Directors) and the Company’s Constitution, one third of the Directors must retire by rotation at every Annual General Meeting. Accordingly, Mr Crabb retires by rotation and being eligible for re-election, offers himself for re-election at the Meeting.

RESOLUTION 8 – RE-ELECTION OF MR IAN MACLIVER AS DIRECTOR

To consider and, if thought fit, to pass with or without amendment, the following resolution as an **ordinary resolution**:

“To elect Mr Ian MacIver as a director of the Company who retires by rotation pursuant to the ASX Listing Rule 14.4 and being eligible offers himself for re-election.”

Short Explanation: In accordance with ASX Listing Rule 14.4 (rotation of Directors) and the Company’s Constitution, one third of the Directors must retire by rotation at every Annual General Meeting. Accordingly, Mr MacIver retires by rotation and being eligible for re-election, offers himself for re-election at the Meeting.

RESOLUTION 9 – RE-ELECTION OF MR PAUL MOORE AS MANAGING DIRECTOR

To consider and, if thought fit, to pass with or without amendment, the following resolution as an **ordinary resolution**:

“That, in accordance with clause 13.4 of the Company’s Constitution, Mr Paul Moore, being a Managing Director of the Company who was appointed during the year by the Directors, being eligible and offering himself for re-election, be appointed as Managing Director of the Company with immediate effect.”

RESOLUTION 10 – RE-ELECTION OF MR IAN BOSERIO AS A DIRECTOR

To consider and, if thought fit, to pass with or without amendment, the following resolution as an **ordinary resolution**:

“That, in accordance with clause 13.4 of the Company’s Constitution, Mr Ian Boserio, being a Director of the Company who was appointed during the year by the Directors, being eligible and offering himself for re-election, be appointed as a Director of the Company with immediate effect.”

DATED: 22 NOVEMBER 2010

BY ORDER OF THE BOARD

A handwritten signature in black ink, appearing to read 'I MacLiver', written in a cursive style.

MR IAN MACLIVER

DIRECTOR

EXPLANATORY STATEMENT

This Explanatory Statement has been prepared for the information of the Shareholders in connection with the business to be conducted at the Meeting.

The purpose of this Explanatory Statement is to provide information which the Directors believe to be material to Shareholders in deciding whether or not to pass the Resolutions in the Notice of Annual General Meeting.

SPECIAL BUSINESS OF THE MEETING

1. RESOLUTION 1 – ADOPTION OF REMUNERATION REPORT (NON-BINDING)

In accordance with Section 250R(2) of the Corporations Act, the Company must put a resolution that the Remuneration Report as set out in the Directors' Report be adopted to vote at the Annual General Meeting. The vote on Resolution 1 is advisory only and does not bind the Directors or the Company.

A reasonable opportunity will be provided for discussion of the Remuneration Report at the AGM.

2. RESOLUTION 2 – APPROVAL OF THE EMPLOYEE OPTION PLAN

2.1 Background

The Company has established the Otto Energy Limited Employee Option Plan (**Option Plan**), the terms of which were set out in the Notice of General Meeting dated 7 May 2007. Resolution 1 is a resolution which seeks Shareholder approval in accordance with Exception 9(b) of Rule 7.2 of the ASX Listing Rules for the Company to issue securities under the Option Plan without prior Shareholder approval and in reliance on the exception to Listing Rule 7.1.

ASX Listing Rule 7.1 requires a listed company to obtain shareholder approval prior to the issue of shares, or securities convertible into shares, representing more than 15% of the issued capital of that company in any rolling 12 month period. An exception to ASX Listing Rule 7.1 is set out in ASX Listing Rule 7.2 (Exception 9(b)) which provides that issues under an employee incentive plan are exempt for a period of 3 years from the date on which shareholders approve the issue of securities under the plan as an exception to ASX Listing Rule 7.1.

In order to take advantage of the exemption from Listing Rule 7.1 and allow the Company flexibility to issue securities, Shareholders are requested to refresh their approval of the issue of securities under the Option Plan as an exemption from Listing Rule 7.1. This approval will be effective for a period of 3 years from the date of the Resolution. It should be noted that Resolution 1 does not approve the issue of any Plan Options to any Director. Plan Options cannot be granted to Directors or their associates unless prior approval of Shareholders is obtained in accordance with the ASX Listing Rules. The Company is separately seeking Shareholder approval for the issue of Plan Options to Participating Directors under Resolutions 5 and 6.

The Option Plan is designed to incentivise employees and Directors of the Company and its subsidiaries, to provide continuity of service to the Company, and to increase profitability and returns to Shareholders.

The terms of the Option Plan are the same as those contained in the Notice of Meeting dated 7 May 2007 other than there will be no requirement for the Plan Options to have a vesting period of at least 12 months from the date of issue (previously unless otherwise approved by Directors, no Plan Option could be exercised until a period of at least 12 months has elapsed from the date of issue).

The Directors consider this amendment is appropriate given the recent changes to the taxation of equity based remuneration as it gives greater flexibility to the Directors when providing incentives to eligible recipients under the Option Plan.

If Plan Options are exercised, it will have the effect of increasing the Company's cash position by the amount of the exercise price multiplied by the number of Plan Options exercised. It will also increase the number of Shares that are on issue by the number of Plan Options exercised.

Shares issued pursuant to the exercise of the Plan Options will rank pari passu in all respects with the existing Shares. Plan Options will not be listed for quotation on ASX, however, the Company will make application for official quotation of Shares issued on the exercise of Plan Options to ASX.

2.2 Term of Option Plan

A summary of the terms and conditions of the Option Plan is set out below. The full terms and conditions of the Option Plan may be obtained free of charge by contacting the Company.

a) Maximum Number of Plan Options

A Plan Option may not be issued if, immediately following its issue, the Shares to be received on exercise of the Plan Option when aggregated with:

- i. The number of shares in the same class which would be issued were each outstanding offer with respect to the Shares, units of Shares and options to acquire unissued Shares under any employee share scheme to be accepted or exercised; and
- ii. The number of Shares issued in the same class during the previous 5 years pursuant to the Option Plan or any other employee share scheme extended only to employees or directors of the Company or an Associated Body Corporate,

exceeds 5% of the total number of issued shares in that share class of the Company at the time the Plan Option is offered.

b) Eligible Employees

Full time and part time employees, and directors of the Company or an Associated Body Corporate (**Eligible Employees**).

c) Grant of Plan Options

- i. All Eligible Employees who the Directors may determine, in their absolute discretion without having to assign reasons therefore, are entitled to participate in the Option Plan by being granted Options to subscribe for Shares (Plan Options);
- ii. Directors or their associates may only participate in the Option Plan with the prior approval of Shareholders.

d) Issue Price of Plan Options

Plan Options are to be issued to Eligible Employees for no consideration, or at a price determined by the Board, but in any case must be for no more than nominal consideration.

e) **Entitlement**

Each Plan Option entitles the holder to subscribe for the number of fully paid Shares specified in the Plan Option. The Shares issued upon the exercise of a Plan Option will rank equally with all of the then existing Shares.

f) **Exercise Price**

The exercise price of each Plan Option shall be determined by the Directors, having regard to the weighted average sale price of Shares sold on ASX during the five business days prior to:

- i. The day the Plan Options are offered to the Eligible Employee (ie being the first date upon which the relevant Eligible Employee is invited to apply for those Plan Options); or
- ii. The day the Company announces to ASX the proposed offer of Plan Options to Eligible Employees.

g) **Exercise of Plan Options**

- i. A Plan Option may only be exercised after the Plan Option has vested in the holder, and on or before the expiry date determined by the Directors (**Expiry Date**).
- ii. The minimum exercise period is nil months (unless otherwise approved by the Directors) and the maximum exercise period is 5 years from the date of grant.
- iii. The Directors are entitled to impose at or before the time of grant in relation to the issue of any Plan Options such further restrictions as to the times and dates and manner in which the Plan Options or any parcel of such Plan Options may be exercised, including a requirement that the Eligible Employee satisfies any performance criteria specified by the Directors at the time of issue of the Plan Options.

h) **Restriction on Transfer of Plan Options**

An Eligible Employee may not sell, transfer or otherwise dispose of Plan Options.

i) **Lapse of Plan Options**

- i. Unvested Plan Options will lapse on resignation, termination and termination for cause, except in special circumstances, in which case the Board will determine to what extent any remaining unvested Plan Options will vest.
- ii. Vested Plan Options not exercised will lapse on the first to occur of:
 - A. The expiry date;
 - B. The expiry of 7 days after the Eligible Employee ceases employment as a result of termination for cause;
 - C. The expiry of 30 days after the Eligible Employee ceases employment as the result of resignation.
 - D. The expiry of 3 months after the Eligible Employee ceases employment as the result of redundancy or termination; and

- E. The expiry of 1 year after the Eligible Employee ceases employment as a result of special circumstances.

j) **Quotation and Allotment of Plan Options and Shares**

- i. Plan Options issued under the Option Plan will not be quoted on ASX, however, the Company will make application for official quotation of all Shares issued upon the exercise of the Plan Options.
- ii. Upon exercise, the Company shall allot the Shares and deliver the Share certificates to the Plan Option Holder within 5 business days of the exercise of the Plan Option.

k) **Takeover Offers**

Notwithstanding any restrictions on transfer of Plan Options, in the event that:

- i. A takeover offer is made to the Shareholders to acquire their Shares and the Directors become aware that more than 50% of the issued Shares have or will become vested in the offeror, then the Directors are entitled to notify each Eligible Employee that all Plan Options issued to the Eligible Employee may be exercised. Upon receipt of such notice, the Eligible Employee shall be entitled to exercise all or any of the Plan Options;
- ii. The Directors conclude that there has been a change in control of issued Shares such that the replacement of the majority of Directors is imminent or the Directors become aware that any person who is not already entitled has become entitled to more than 50% of the issued Shares, then the Directors are entitled to notify each Eligible Employee that all Plan Options issued to the Eligible Employees may be exercised by the Eligible Employees.

l) **Future Issues of Shares**

Holders of Plan Options will not be entitled to participate in new issues of capital offered to Shareholders during the currency of the Plan Options. However, the Company will ensure that the record date for determining entitlements for any such issue will be at least 7 business days after the issue is announced, to allow holders of Plan Options an opportunity to exercise the Plan Options prior to the record date.

If the Company makes a bonus issue of Shares to Shareholders (**Bonus Issue**), each Eligible Employee holding Plan Options at the record date for determining entitlements to the Bonus Issue shall be entitled to have issued to them, upon the exercise of those Plan Options, that number of Shares which would have been issued to them under the Bonus Issue had they exercised the Plan Options prior to the record date for determining entitlements for the Bonus Issue.

m) **Reorganisation of Capital**

In the event of any reorganisation of the issued capital of the Company, the number of Plan Options to which each Eligible Employee is entitled or the exercise price of his or her Plan Options or both will be reorganised in accordance with the provisions of the ASX Listing Rules. If this occurs, the Directors have the power to vary the number of Plan Options held by a given holder, the exercise price of the Plan Options or the number, class or characteristics of Shares to which the Plan Options relate in such manner as is necessary to comply with ASX Listing Rules.

n) **Amendment of the Option Plan**

The Option Plan may not be amended without the prior approval of the Shareholders in general meeting or as required by the ASX Listing Rules.

o) **Power of the Board of Directors**

The Option Plan is administered by the Directors, who have the power to:

- i. Determine procedures for the administration of the Option Plan;
- ii. To the extent permitted by the ASX Listing Rules, amend or waive the provisions of the Option Plan without the consent of Shareholders;
- iii. Terminate the Option Plan; or
- iv. Impose performance criteria or other restrictions which must be satisfied before the Plan Options may be exercised such as a requirement that the Eligible Employee serve a minimum period with the Company or the market price of Shares attain a certain level for a certain period of time

2.3 Plan Options granted under the Option Plan

The Company has issued 37,450,000 Plan Options (as outlined below) under the Option Plan since it was approved at the Company's General Meeting on 7 May 2007:

Number of Plan Options	Exercise price	Expiry date
12,450,000	20 -40 cents	29 May 2011
8,000,000	30 cents	17 December 2010
2,000,000	35 cents	10 April 2012
2,500,000	60 cents	1 August 2012
6,000,000	12 cents	8 September 2012
1,000,000	12 cents	19 January 2013
5,500,000	12 cents	16 February 2013
37,450,000		

3. RESOLUTION 3 – APPROVAL OF THE PERFORMANCE RIGHTS PLAN

Background

3.1 Introduction

Resolution 3 proposes to introduce the Otto Energy Ltd Performance Rights Plan ("**Performance Rights Plan**"). The Performance Rights Plan is an incentive plan which is designed to increase the motivation of staff and create a stronger link between increasing shareholder value and employee reward.

The Company wishes to exempt issues of securities under the Performance Rights Plan from contributing towards the rolling annual limit of 15% of issued ordinary shares prescribed by ASX Listing Rule 7.1. This limit otherwise applies to all new issues of equity securities made without shareholder approval. Shareholder approval of the Performance Rights Plan is sought under ASX Listing Rule 7.2 Exception 9(b) whereby shareholders may approve in advance the issue of securities made under an employee incentive scheme as an exception to the limit under ASX Listing Rule 7.1.

No securities have been issued under the Performance Rights Plan and the Performance Rights Plan has not previously been approved by Shareholders.

3.2 Reasons for the Performance Rights Plan

To achieve its corporate objectives, the Company needs to attract and retain its key staff.

Your Board believes that grants made to Eligible Persons under the Performance Rights Plan will provide a powerful tool to underpin the Company's employment strategy, and that the implementation of the Performance Rights Plan will:

- (a) enable the Company to recruit and retain the talented people needed to achieve the Company's business objectives;
- (b) link the reward of key staff with the achievements of strategic goals and the long term performance of the Company;
- (c) align the financial interest of participants of the Performance Rights Plan with those of Shareholders; and
- (d) provide incentives to participants of the Performance Rights Plan to focus on superior performance that creates shareholder value.

The Company thus now has an Option Plan and a Performance Rights Plan as mechanisms to motivate and reward employee performance. In deciding whether to grant Plan Options or Performance Rights or both in any particular case, the Board will consider all the circumstances at the time, including the location and seniority of the employee, the prevailing taxation regime for employee incentive schemes, and the efficacy of the alternative offer structures.

3.3 Outline of the Performance Rights Plan

Participation

The Board may from time to time in its absolute discretion issue invitations to a Director or a full time or permanent part-time employee of the Company ("**Eligible Person**") to participate in the Performance Rights Plan.

Offers to Participate

An offer ("**Offer**") to Eligible Persons to participate in the Performance Rights Plan must set out:

- (a) the date of the Offer;
- (b) the name of the Eligible Person to whom the Offer is made;
- (c) the number of Performance Rights which are capable of vesting (resulting in the issue of Shares) if specific performance conditions are met;
- (d) the performance conditions and performance period in relation to the Performance Rights;
- (e) the approximate date or dates on which the performance conditions are to be measured (in respect of the Performance Rights) in order to determine whether the Eligible Person will be issued with Shares;
- (f) the expiry date; and
- (g) the time period in which the Eligible Person may accept the Offer.

Rules of the Performance Rights Plan

The Board adopted the Performance Rights Plan on 21 September 2010. Under the Performance Rights Plan, Performance Rights may be offered to Eligible Persons as determined by the Board.

The following is a summary of the key terms of the Performance Rights Plan:

- (a) **Participation:** The Board retains complete discretion to make offers of Performance Rights to any Eligible Person;

- (b) **Nature of Performance Rights:** A Performance Right is a right to receive a Share on the terms set out in the Performance Rights Plan for the relevant performance period subject to satisfaction of the applicable performance conditions. The performance period, performance conditions and test dates for measuring the performance conditions may be determined by the Board from time to time, and shall be set out in the Offer to the Eligible Person; and
- (c) **Vesting:** Performances Rights may vest in the following ways:
- i) if the applicable performance conditions in relation to a performance period are met as at the relevant test date as set out in the Offer, the Board will determine the number of Performance Rights which will become vested Performance Rights;
 - ii) if the Eligible Person ceases to be an Eligible Person because of retirement, total or permanent disability, redundancy or death, the Board may determine the extent to which Performance Rights become vested Performance Rights; and
 - iii) in the event a takeover bid for the Company is declared unconditional, there is a change in control in the Company, or if a merger by way of scheme of arrangement has been approved by a court, than the Board will determine an alternate test date to determine whether the performance conditions as set out in the Offer have been met and the extent to which Performance Rights will vest;
- (d) **Lapse:** Offers of Performance Rights under the Performance Rights Plan will be open for the period specified by the Board in the Offer, after which time they will automatically lapse;
- (e) **Issue Limitations:** The Board is not entitled to make an Offer to an Eligible Person if offers of Performance Rights (or other securities of the Company) under the Performance Rights Plan or under similar plans including the Option Plan (excluding offers that do not require the use of a disclosure document) in the previous 5 years would exceed 5% of the issued capital of the Company;
- (f) **Amendment of Performance Rights Plan:** The Board retains the discretion to amend the rules of the Performance Rights Plan or to terminate it at any time.

In accordance with the requirements of ASX Listing Rule 9.2 Exception 9(b) the following information is provided:

- (a) a summary of the Performance Rights Plan is set out above;
- (b) no securities have been issued under the Performance Rights Plan; and
- (c) a voting exclusion statement has been included for the purposes of Resolution 3.

4. RESOLUTIONS 4 AND 5 – APPROVAL OF THE ISSUE OF DIRECTOR PLAN OPTIONS UNDER THE OPTION PLAN

4.1 General

It is proposed that Messrs Jetter and Boserio (together the **Participating Directors**) are to be issued with Director Plan Options pursuant to the Option Plan. It is important to note that while Messrs Jetter and Boserio are non-executive Directors, the Board considers that their ongoing contributions are crucial to the Company achieving its strategy.

As each of the Participating Directors is a related party of the Company, it is considered appropriate to seek Shareholder approval to the issue of the Director Plan Options under the Option Plan to the Participating Directors under Resolutions 4 and 5.

4.2 Terms of Participation in the Option Plan

A summary of the key terms on which the Participating Directors will participate in the Option Plan is contained in Section 1.2 of this Explanatory Statement.

It is proposed that the Participating Directors will be granted the following Director Plan Options:

4.2.1 3,000,000 Director Plan Options with each Director Plan Option granting the holder the right to apply for a Share exercisable at a price that is the greater of 12 cents each or 150% of the 5 day VWAP on the date of issue with an expiry date of 3 years from the date of grant are proposed to be issued to Mr John Jetter (or his nominee); and

4.2.2 3,000,000 Director Plan Options with each Director Plan Option granting the holder the right to apply for a Share exercisable at a price that is the greater of 12 cents each or 150% of the 5 day VWAP on the date of issue with an expiry date of 3 years from the date of grant are proposed to be issued to Mr Ian Boserio (or his nominee).

4.3 Shareholder Approvals Required –ASX Listing Rule 10.15A and Chapter 2E of the Corporations Act

Shareholder approval is required under Chapter 2E of the Corporations Act and ASX Listing Rule 10.14 for the grant of Director Plan Options to the Participating Directors because both of them are Directors and each of them is therefore a related party of the Company.

The Director Plan Options issued pursuant to Resolutions 4 and 5 will not be included in the Company's 15% limit calculated pursuant to ASX Listing Rule 7.1.

For the purposes of ASX Listing Rule 10.15A and sections 219 of the Corporations Act, the following information is provided to allow Shareholders to assess the proposed grant of the Director Plan Options:

4.4 ASX Listing Rule 10.15A

4.4.1 The maximum number of Director Plan Options (being the nature of the financial benefit being provided) to be granted to the Participating Directors is:

4.4.1.1 3,000,000 Plan Options (exercisable at a price that is the greater of 12 cents each or 150% of the 5 day VWAP on the date of issue cents, with an expiry date of 3 years) to Mr John Jetter; and

4.4.1.2 3,000,000 Plan Options (exercisable at a price that is the greater of 12 cents each or 150% of the 5 day VWAP on the date of issue cents, with an expiry date of 3 years) to Mr Ian Boserio.

4.4.2 The Director Plan Options will be granted for nil consideration. Accordingly no funds will be raised from the grant of the Director Plan Options and no loan will be provided by the Company to the Participating Directors in respect of the acquisition of the Director Plan Options.

4.4.3 The Company has issued Director Plan Options to the following Directors under the Option Plan since it was approved at the Company's General Meeting on 7 May 2007:

4.4.3.1 2,000,000 Director Plan Options (20-30 cents, 29 May 2011) have been issued to Dr Jaap Poll under the Option Plan for nil consideration

- 4.4.3.2 1,000,000 Director Plan Options (20-40 cents, 29 May 2011) have been issued to Mr Rufino Bomasang under the Option Plan for nil consideration
- 4.4.3.3 6,000,000 Director Plan Options (30 cents, 25 January 2011) have been issued to Mr John Jetter under the Option Plan for nil consideration
- 4.4.3.4 1,500,000 Director Plan Options (30 cents, 25 January 2011) have been issued to Mr Rick Crabb under the Option Plan for nil consideration
- 4.4.3.5 1,500,000 Director Plan Options (30 cents, 25 January 2011) have been issued to Mr Ian Macliver under the Option Plan for nil consideration
- 4.4.3.6 1,000,000 Director Plan Options (30 cents, 25 January 2011) have been issued to Dr Jap Poll under the Option Plan for nil consideration
- 4.4.3.7 500,000 Director Plan Options (30 cents, 25 January 2011) have been issued to Mr John Zadnik under the Option Plan for nil consideration

4.4.4 All Directors are entitled to participate in the Option Plan. The current Directors are Messer Rick Crabb, Paul Moore, John Jetter, Ian Macliver, Rufino Bomasang, Jaap Poll and Ian Boserio. Director Plan Options cannot however be granted to Directors or their associates unless prior approval of Shareholders is obtained in accordance with the ASX Listing Rules.

4.4.5 Details of any Director Plan Options actually granted to Directors or their associates under the Option Plan will be published in each annual report of the Company relating to the period in which such Director Plan Options have been granted, and that approval for the grant of Director Plan Options to the Participating Directors was obtained under ASX Listing Rule 10.14.

4.4.6 Any additional persons referred to in ASX Listing Rule 10.14 who become entitled to participate in the Option Plan after Resolutions 4 and 5 are approved and who were not named in the Notice of Meeting will not participate in those plans until approval is obtained under ASX Listing Rule 10.14.

4.4.7 The Director Plan Options will be granted to the Participating Directors no later than 3 years after the date of the Meeting.

4.4.8 Upon exercise of the Director Plan Options, the Shares will be fully paid ordinary Shares in and shall rank pari passu with existing Shares.

4.5 Section 208 Corporations Act

In addition to the information outlined in Section 4.4 above the following information is provided pursuant to section 219 of the Corporations Act

4.5.1 The fair value of the Director Plan Options has been estimated at approximately \$0.04 using the Black & Scholes option valuation model based on the following input assumptions. The fair value of the 6,000,000 Director Plan Options to be issued to Participating Directors is therefore estimated to be \$240,000.

Details	Note	Assumption
Share Price	1	\$0.093
Exercise Price		\$0.1395

Risk Free Rate	4.35%
Term	3 years
Dividend rate	Nil
Volatility	80%

1. Closing Share price \$0.093

4.5.2 the highest, lowest and last trading price of Shares on ASX during the preceding 12 months is as follows:

4.5.2.1 highest – 12 cents on 12 March 2010

4.5.2.2 lowest – 5.9 cents on 18 September 2009 and

4.5.2.3 latest – 9.6 on 27 September 2010.

4.5.3 the Participating Directors currently have an interest in the following securities in the Company;

	Shares	Options
John Jetter	19,089,175	6,000,000
Ian Boserio	Nil	Nil

4.5.4 The Participating Directors currently receive the following remuneration and emoluments from the Company:

4.5.4.1 Mr Jetter currently receives remuneration of \$50,000 per year; and

4.5.4.2 Mr Boserio currently receives remuneration of \$50,000 per year.

The Participating Directors have not received any other emoluments from the Company in the last 12 months.

4.5.5 If the Director Plan Options are granted to the Participating Directors and subsequently exercised, a total of 6,000,000 Shares would be allotted and issued. This will increase the number of Shares on issue from 1,134,540,071 to 1,140,540,071 diluting the shareholdings of existing Shareholders by 0.1%, (assuming that no other Options or Plan Options are exercised and no other Shares are issued).

4.5.6 The primary purpose for the grant of the Director Plan Options under the Option Plan is to provide a market-linked incentive component in the remuneration package for the Participating Directors and for the future performance by the Participating Directors in managing the operations and strategic direction of the Company.

4.5.7 The Board acknowledges the grant of Director Plan Options to the Participating Directors is contrary to Recommendation 8.2 of the ASX Good Corporate Governance and Best Practice Recommendations. However, the Board considers the grant of Director Plan Options to Mr Jetter and Mr Boserio is reasonable in the circumstances given Mr Jetter's ongoing contribution to negotiations and corporate initiatives and given Mr Boserio's significant experience in the oil and gas industry and exploration and development of oil and gas operations.

- 4.5.8** Messrs Rick Crabb, Paul Moore, Ian Macliver, Rufino Bomasang and Dr Jaap Poll, (who do not have an interest in Resolutions 4 and 5) recommend Shareholders approve the issue of Director Plan Options under Resolutions 4 and 5 to the Participating Directors as consideration for services rendered as they are of the view that this is an appropriate form of compensation for such services under the Company's current circumstances, rather than a cash payment as compensation.
- 4.5.9** Messrs Jetter and Boserio decline to make a recommendation to Shareholders in relation to Resolutions 4 and 5 respectively due to their respective material personal interest in the outcome of those Resolutions.
- 4.5.10** In determining the number and terms of the Director Plan Options to be awarded pursuant to the Option Plan to the Participating Directors, the Board (other than Mr Jetter and Mr Boserio) considered the current market price of the Shares and current market practice.
- 4.5.11** The Directors (other than Mr Jetter and Mr Boserio) believe that the grant of Director Plan Options pursuant to the Option Plan provides cost effective consideration to the Participating Directors for their ongoing commitment and contribution to the Company in their respective roles as Directors and as it aligns the interests of the Participating Directors with those of Shareholders. Given this purpose, the Directors (other than Mr Jetter and Mr Boserio) do not consider that there are any opportunity costs to the Company or benefits foregone by the Company in issuing the Director Plan Options upon the terms proposed.
- 4.5.12** The Board considers that the grant of Directors Plan Options pursuant to the Option Plan aligns the interests of Mr Jetter and Mr Boserio with the interests of Shareholders, whilst maintaining the Company's cash reserves.
- 4.5.13** The Directors are not aware of any other information that would be reasonably required by Shareholders to allow them to make a decision whether it is in the best interests of the Company to pass Resolutions 4 and 5.

5. RESOLUTION 6 – ISSUE OF PERFORMANCE RIGHTS TO MANAGING DIRECTOR

5.1 General

Subject to the passing of Resolution 3, the Company proposes to issue a total of 10,000,000 Performance Rights as per Tranches 1 and 2 as set out in the table below, to Mr Paul Moore (or his nominee) pursuant to the Performance Rights Plan as described above. Subject to satisfactory performance, the Company proposes to issue further Performance Rights as per Tranches 3 and 4 as set out in the table below in 2012 and will seek shareholder approval at an appropriate time prior to grant. Mr Moore faces considerable ongoing responsibilities and challenges in his role within the Company as its Managing Director. The grant of these Performance Rights will provide a long term incentive for outstanding performance and promote his opportunity for share ownership in the Company.

5.2 Performance Conditions

The performance conditions of the Performance Rights to be issued to Mr Moore are summarised below:

Tranche	Number	Cost	Grant Date	Expiry Date	Vesting Criteria			
					Time Date	Well Drilling	Relative TSR	Market Capitalisation
					25%	25%	25%	25%
1	5,000,000	Nil	30 Sept 2010	30 June 2015	1 July 2011	First well	First Test Date: 30 June 2011 Second Test Date: 30 June 2012	First Test Date: 30 June 2011 Second Test Date: 30 June 2012
2	5,000,000	Nil	30 Sept 2010	30 June 2016	1 July 2012	Second well	First Test Date: 30 June 2012 Second Test Date: 30 June 2013	First Test Date: 30 June 2012 Second Test Date: 30 June 2013
3	5,000,000	Nil	1 July 2012	30 June 2017	1 July 2013	TBD ¹	First Test Date: 30 June 2013 Second Test Date: 30 June 2014	First Test Date: 30 June 2013 Second Test Date: 30 June 2014
4	5,000,000	Nil	1 July 2012	30 June 2018	1 July 2014	TBD ¹	First Test Date: 30 June 2014 Second Test Date: 30 June 2015	First Test Date: 30 June 2014 Second Test Date: 30 June 2015

Note:

1. The vesting criteria will be decided by agreement of the Company and Mr Moore before the second Grant Date.

Vesting Criteria

1. Time

25% of each tranche of Performance Rights (i.e. 1,250,000 Performance Rights) shall vest on the Time Date of each Tranche of Performance Rights if Mr Moore remains employed by the Company as at that Time Date.

2. Well Drilling to Total Depth

25% of the Tranche 1 Performance Rights (i.e. 1,250,000 Performance Rights) shall vest on the date the Company reaches Total Depth (defined as the planned end of the well) on drilling a well on its exploration or development acreage, provided the Tranche 1 Performance Rights have not expired by this date.

25% of the Tranche 2 Performance Rights (i.e. 1,250,000 Performance Rights) shall vest on the date the Company reaches Total Depth on drilling a well on its exploration or development acreage, provided the Tranche 2 Performance Rights have not expired by this date.

25% of the Tranche 3 Performance Rights (i.e. 1,250,000 Performance Rights) shall vest according to vesting criteria to be decided by agreement of the Company and Mr Moore before the second Grant Date.

25% of the Tranche 4 Performance Rights (i.e. 1,250,000 Performance Rights) shall vest according to vesting criteria to be decided by agreement of the Company and Mr Moore before the second Grant Date.

3. Total Shareholder Return ("**TSR**") ("**TSR Condition**")

The vesting of 25% of each tranche of Performance Rights (i.e. 1,250,000 Performance Rights) shall be dependent on the TSR of the Company when compared with the TSR of a representative group of peer companies as determined by the Board (**Peer Group**). The Company shall test the TSR Performance Rights on the First Test Date. If the vesting criterion is met, Mr Moore may nonetheless elect in writing to have the TSR Performance Rights tested again at the Second Test Date, in order to ascertain if a greater percentage of TSR Performance Rights would vest on the Second Test Date.

For the avoidance of doubt if Mr Moore elects to have a tranche of TSR Performance Rights tested again on the Second Test Date, Mr Moore will not have any entitlement to those TSR Performance Rights which would have vested on the First Test Date.

The following criteria shall apply:

RELATIVE TSR PERCENTILE RANKING	PERCENTAGE OF TSR PERFORMANCE RIGHTS THAT VEST IF THE RELATIVE TSR PERFORMANCE CONDITION IS MET
Less than Peer Group	0% of the TSR Performance Rights
At Peer Group	50% of the TSR Performance Rights
Exceed Peer Group movement up to 25%	Pro-rated vesting between Peer Group performance and 25% above the Peer Group performance of the TSR Performance Rights
Exceed Peer Group movement by more than 25%	100% of the TSR Performance Rights

4. Market Capitalisation

25% of the each tranche of Performance Rights (i.e. 1,250,000 Performance Rights) shall vest on the First Test Date if the market capitalisation of the Company is 10% greater than the market capitalisation of the Company on the Grant Date. If these Performance Rights do not vest on the First Test Date, they will vest on the Second Test Date if the market capitalisation of the Company is 20% greater than the market capitalisation of the Company on the Grant Date.

5.3 Related Party Transactions Generally

Chapter 2E of the Corporations Act prohibits a public company from giving a financial benefit to a *related party* of the public company *unless* either:

1. the giving of the financial benefits falls within one of the nominated exceptions to the provision; or
2. shareholder approval is obtained prior to the giving of the financial benefit and the benefit is given within 15 months after obtaining such approval.

For the purposes of Chapter 2E of the Corporations Act, Mr Moore is considered to be a related party of the Company as he is a Director. Resolution 6 provides for the grant of Performance Rights to Mr Moore which is a financial benefit which requires shareholder approval.

5.4 Current Holdings

Mr Moore currently holds 1,250,000 Shares, and 7,500,000 Employee Options.

INFORMATION REQUIREMENTS

For the purposes of Chapter 2E of the Corporations Act the following information is provided.

The related parties to whom the proposed resolutions would permit the financial benefit to be given:

The maximum number of Performance Rights to be granted to Mr Moore (or his nominee) is 10,000,000.

The nature of the financial benefit

The proposed financial benefit to be given is the grant of Performance Rights for no consideration to Mr Moore as noted above.

5.5 Shareholder Approvals Required –ASX Listing Rule 10.15A and Chapter 2E of the Corporations Act

Shareholder approval is required under Chapter 2E of the Corporations Act and ASX Listing Rule 10.14 for the grant of Director Performance Rights to the Participating Director because he is a Director and therefore a related party of the Company.

The Director Performance Rights issued pursuant to Resolutions 3 will not be included in the Company's 15% limit calculated pursuant to ASX Listing Rule 7.1.

For the purposes of ASX Listing Rule 10.15A and sections 219 of the Corporations Act, the following information is provided to allow Shareholders to assess the proposed grant of the Director Performance Rights:

5.6 ASX Listing Rule 10.15A

- 5.6.1 The maximum number of Director Performance Rights (being the nature of the financial benefit being provided) to be granted to the Participating Directors is:

- 5.6.1.1 10,000,000 Performance Rights (exercisable at a nil consideration, with an expiry date of 5 years) to Mr Paul Moore; and

- 5.6.2 The Director Performance Rights will be granted for nil consideration. Accordingly no funds will be raised from the grant of the Director Performance Rights and no loan will be provided by the Company to the Participating Directors in respect of the acquisition of the Director Performance Rights.
- 5.6.3 The Company has issued not previously issued Director Performance Rights and has issued Director Plan Options to the following Directors under the Option Plan since it was approved at the Company's General Meeting on 7 May 2007:
- 5.6.3.1 2,000,000 Director Plan Options (20-30 cents, 29 May 2011) have been issued to Dr Jaap Poll under the Option Plan for nil consideration
- 5.6.3.2 1,000,000 Director Plan Options (20-40 cents, 29 May 2011) have been issued to Mr Rufino Bomasang under the Option Plan for nil consideration
- 5.6.3.3 6,000,000 Director Plan Options (30 cents, 25 January 2011) have been issued to Mr John Jetter under the Option Plan for nil consideration
- 5.6.3.4 1,500,000 Director Plan Options (30 cents, 25 January 2011) have been issued to Mr Rick Crabb under the Option Plan for nil consideration
- 5.6.3.5 1,500,000 Director Plan Options (30 cents, 25 January 2011) have been issued to Mr Ian Macliver under the Option Plan for nil consideration
- 5.6.3.6 1,000,000 Director Plan Options (30 cents, 25 January 2011) have been issued to Dr Jap Poll under the Option Plan for nil consideration
- 5.6.3.7 500,000 Director Plan Options (30 cents, 25 January 2011) have been issued to Mr John Zadnik under the Option Plan for nil consideration
- 5.6.4 All Directors are entitled to participate in the Performance Rights Plan. The current Directors are Messer Rick Crabb, John Jetter, Ian Macliver, Rufino Bomasang, Jaap Poll and Ian Boserio. Director Performance Rights cannot however be granted to Directors or their associates unless prior approval of Shareholders is obtained in accordance with the ASX Listing Rules.
- 5.6.5 Details of any Director Performance Rights actually granted to Directors or their associates under the Performance Rights Plan will be published in each annual report of the Company relating to the period in which such Director Performance Rights have been granted, and that approval for the grant of Director Performance Rights to the Participating Directors was obtained under ASX Listing Rule 10.14.
- 5.6.6 Any additional persons referred to in ASX Listing Rule 10.14 who become entitled to participate in the Performance Rights Plan after Resolutions 6 is approved and who were not named in the Notice of Meeting will not participate in those plans until approval is obtained under ASX Listing Rule 10.14.
- 5.6.7 The Director Performance Rights will be granted to the Participating Directors no later than 3 years after the date of the Meeting.
- 5.6.8 Upon exercise of the Director Performance Rights, the Shares will be fully paid ordinary Shares in and shall rank pari passu with existing Shares.

5.7 Section 208 Corporations Act

In addition to the information outlined in Section 4.4 above the following information is provided pursuant to section 219 of the Corporations Act

- 5.7.1 The fair value of the Director Performance Rights has been estimated at approximately \$0.09 using the Black & Scholes option valuation model based on the following input assumptions. The fair value of the 10,000,000 Director Performance Rights to be issued to Participating Directors is therefore estimated to be \$900,000.

Details	Note	Assumption
Share Price	1	\$0.092
Exercise Price		\$0.00
Risk Free Rate		4.35%
Term		5 years
Dividend rate		Nil
Volatility		80%

1. Closing Share price \$0.092

- 5.7.2 the highest, lowest and last trading price of Shares on ASX during the preceding 12 months is as follows:

5.7.2.1 highest – 12 cents on 12 March 2010

5.7.2.2 lowest – 5.9 cents on 18 September 2009 and

5.7.2.3 latest – 9.6 on 27 September 2010.

- 5.7.3 The Participating Directors currently have an interest in the following securities in the Company;

	Shares	Options
Paul Moore	1,250,000	7,500,000

- 5.7.4 The Participating Directors currently receive the following remuneration and emoluments from the Company:

5.7.4.1 Mr Moore currently receives remuneration of \$561,750 per year;

The Participating Directors have not received any other emoluments from the Company in the last 12 months.

- 5.7.5 If the Director Performance Rights are granted to the Participating Directors and subsequently exercised, a total of 10,000,000 Shares would be allotted and issued. This will increase the number of Shares on issue from 1,134,540,071 to 1,144,540,071 diluting the shareholdings of existing Shareholders by 0.1%, (assuming that no other Options or Performance Rights are exercised and no other Shares are issued).

- 5.7.6 The primary purpose for the grant of the Director Performance Rights under the Performance Rights Plan is to provide a market-linked incentive component in the remuneration package for the Participating Directors and for the future performance by

the Participating Directors in managing the operations and strategic direction of the Company.

- 5.7.7 The Board acknowledges the grant of Director Performance Rights to the Participating Directors is aligned with Recommendation 8.1 of the ASX Good Corporate Governance and Best Practice Recommendations. The Board considers the grant of Director Performance Rights to Mr Moore reasonable given Mr Moore's ongoing significant contribution to the growth and development of Otto Energy.
- 5.7.8 Messrs Rick Crabb, John Jetter, Ian MacIver, Rufino Bomasang, Ian Boserio and Dr Jaap Poll, (who do not have an interest in Resolution 6) recommend Shareholders approve the issue of Director Performance Rights under Resolution 6 to the Participating Directors as consideration for services rendered as they are of the view that this is an appropriate form of compensation for such services under the Company's current circumstances, rather than a cash payment as compensation.
- 5.7.9 Mr Moore declines to make a recommendation to Shareholders in relation to Resolution 6 due to his material personal interest in the outcome of the Resolution.
- 5.7.10 In determining the number and terms of the Director Performance Rights to be awarded pursuant to the Performance Rights Plan to the Participating Directors, the Board (other than Mr Moore) considered the current market price of the Shares and current market practice.
- 5.7.11 The Directors (other than Mr Moore) believe that the grant of Director Performance Rights pursuant to the Performance Rights Plan provides cost effective consideration to the Participating Directors for their ongoing commitment and contribution to the Company in their respective roles as Director and as it aligns the interests of the Participating Director with those of Shareholders. Given this purpose, the Directors (other than Mr Moore) do not consider that there are any opportunity costs to the Company or benefits foregone by the Company in issuing the Director Performance Rights upon the terms proposed.
- 5.7.12 The Board considers that the grant of Directors Performance Rights pursuant to the Performance Rights Plan aligns the interests of Mr Moore with the interests of Shareholders, whilst maintaining the Company's cash reserves.
- 5.7.13 The Directors are not aware of any other information that would be reasonably required by Shareholders to allow them to make a decision whether it is in the best interests of the Company to pass Resolution 6.

6 RESOLUTION 7 AND 8 - RE-ELECTION OF MR RICK CRABB AND MR IAN MACLIVER AS DIRECTORS

6.1 Regulatory Requirements – ASX Listing Rule 14.4 and Constitution

In accordance with ASX Listing Rule 14.4, no director of the Company may hold office (without re-election) past the third annual general meeting following their appointment or 3 years, whichever is longer.

However, a director appointed to fill a casual vacancy or as an addition to the board must not hold office (without re-election) past the next annual general meeting of the entity.

Further, in accordance with the Company's Constitution, at every annual general meeting, one third of the Directors for the time being must retire from office and are eligible for re-election.

Mr Rick Crabb retires by rotation and being eligible offers himself for re-election pursuant to Resolution 7.

Mr Crabb holds degrees of Bachelor of Jurisprudence (Honours), Bachelor of Laws and Master of Business Administration from the University of Western Australia. He has practiced as a solicitor from 1980 to 2004 specialising in mining, corporate and commercial law. He has advised on all legal aspects including financing, marketing, government agreements and construction contracts for many resource development projects in Australia and Africa. Mr Crabb now focuses on his public company directorships and investments. He has been involved as a director and strategic shareholder in a number of successful public companies. He is presently also a director of Golden Rim Resources Ltd (since 2001), Ashburton Minerals Ltd (since 1999), Otto Energy Ltd (since 2004), and Royal Resources Limited (since 2004). Rick is a Councillor on the Western Australian Division of the Australian Institute of Company Directors.

Mr Ian Macliver retires by rotation and being eligible offers himself for re-election pursuant to Resolution 8.

Mr Macliver is the managing director of Grange Consulting Group Pty Ltd, which provides specialist corporate advisory services to both listed and unlisted companies. He has many years experience as a senior executive and a director of both resource and industrial companies with particular responsibility for capital raising and other corporate initiatives. As a result of his corporate experience, Ian has established contacts with many venture capital and broking institutions.

7 RESOLUTION 9 AND 10 - ELECTION OF DIRECTORS

Clause 13.4 of the Company's Constitution provides that any person elected by the Directors during the period subsequent to the Company's last general meeting of shareholders must offer himself for re-election at the Company's next general meeting of shareholders. Accordingly, Mr Paul Moore and Mr Ian Boserio offer themselves for re-election.

Managing Director – Mr Paul Moore, BSc (Hons) Eng, MBA, C.Eng FIMMM, FAICD, SPE member

Mr Paul Moore, who was appointed as the Chief Executive Officer in July 2009, was appointed to the Board as Managing Director on 2 September 2010. Mr Moore has extensive experience in the oil and gas industry with 27 years in operating oil and gas companies, including 17 years in executive management roles. Mr Moore has an international track record in oil/gas field developments and in new business growth.

Non-Executive Director – Mr Ian Boserio, BSc Hons (Geophysics), B.Sc (Geology)

Mr Ian Boserio was appointed to the role of Non-Executive Director on 2 September 2010. Mr Boserio brings more than 25 years international experience in the oil and gas business focusing predominantly on exploration to the Otto Board. He has spent the majority of his career with Shell including roles in Australia, North Sea, Middle East, India and Indonesia, and five years with Woodside as the Australia exploration manager. Mr Boserio's last position at Shell was as the Australian new business manager, prior to that he led the Shell Australia and NZ exploration team growing its gas portfolio for LNG development.

RESPONSIBILITY FOR INFORMATION

The information concerning the Company contained in this Explanatory Statement, including information as to the views and recommendations of the Directors has been prepared by the Company and is the responsibility of the Company.

The Explanatory Statement does not take into account the individual investment objectives, financial situation and particular needs of individual Shareholders. If you are in doubt as to what you should do you should consult your legal, financial or professional adviser prior to voting.

GLOSSARY

ASX means ASX Limited.

ASX Listing Rules means the Listing Rules of ASX.

Board means the current board of directors of the Company.

Company means Otto Energy Limited (ABN 56 107 555 046).

Corporations Act means the *Corporations Act* 2001 (Cth).

Directors mean the current directors of the Company.

Director Plan Options means the Options proposed to be issued to the Participating Directors pursuant to the Option Plan on the terms and conditions outlined in Section 4.2.

Explanatory Statement means this explanatory statement to the Notice of Meeting.

Meeting means the general meeting of Shareholders convened by the Notice of Meeting.

Notice of Meeting means the notice of meeting which forms part of this Explanatory Statement.

Option means an option to acquire a Share.

Option Plan means the Company's Employee Option Plan the key terms and conditions of which are summarised in Section 2.2.

Participating Directors means Messrs John Jetter, Ian MacLiver and Ian Boserio.

Performance Rights Plan means the Otto Energy Limited Performance Rights Plan the subject of Resolution 2.

Plan Option means an Option issued pursuant to the Option Plan.

Resolutions means the resolutions set out in the Notice of Meeting, or any one of them, as the context requires.

Section means a section of the Explanatory Statement.

Share means a fully paid ordinary share in the capital of the Company.

Shareholder means a holder of a Share.

VWAP means volume weighted average price.

WST means Western Standard Time.

\$ means Australian dollars.