



OTTO ENERGY LIMITED
ABN 56 107 555 046

NOTICE OF MEETING

TIME: 3pm (WST)

DATE: 28 February 2011

PLACE: Otto Energy Ltd
32 Delhi Street
West Perth WA 6005

This Notice of 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 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 meeting relates to will be held at 3pm (WST) on 28 February 2011 at:

Otto Energy Ltd
32 Delhi Street
West Perth WA 6005

YOUR VOTE IS IMPORTANT

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

VOTING IN PERSON

To vote in person, attend the 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 25 February 2011.

Proxy forms received later than this time will be invalid.

NOTICE OF MEETING

Notice is given that the Meeting of Shareholders of Otto Energy Limited will be held at the Otto Energy Ltd, 32 Delhi Street, West Perth, Western Australia, 6005 at 3pm (WST) on 28 February 2011.

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 25 February 2011 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.

RESOLUTION 1 – APPROVAL OF ISSUE OF DIRECTOR PLAN OPTIONS TO MR PAUL MOORE 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 4,000,000 Director Plan Options to Mr Paul Moore (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 1 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.

DATED: 13 JANUARY 2011

BY ORDER OF THE BOARD



MR RICK CRABB
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 meeting.

SPECIAL BUSINESS OF THE MEETING

1. RESOLUTIONS 1 – APPROVAL OF THE ISSUE OF DIRECTOR PLAN OPTIONS UNDER THE OPTION PLAN

1.1 General

It is proposed that Mr Moore is to be issued with Director Plan Options pursuant to the Option Plan. It is important to note that while Mr Moore is the Managing Director, the Board considers that the Managing Director's ongoing contributions are crucial to the Company achieving its strategy.

As a Managing Director 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 Resolution 1.

1.2 Terms of Participation in the Option Plan

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

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

1.2.1 4,000,000 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 Paul Moore (or his nominee).

1.3 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 Managing Director because he is a Managing Director and is therefore a related party of the Company.

The Director Plan Options issued pursuant to Resolution 1 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:

1.4 ASX Listing Rule 10.15A

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

- 1.4.1.1 4,000,000 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 Paul Moore.
 - 1.4.2 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 Managing Director in respect of the acquisition of the Director Plan Options.
 - 1.4.3 The Company has issued Director Plan Options to the following Managing Director under the Option Plan since it was approved at the Company's General Meeting on 7 May 2007:
 - 1.4.3.1 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
 - 1.4.3.2 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
 - 1.4.3.3 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
 - 1.4.3.4 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
 - 1.4.3.5 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
 - 1.4.3.6 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
 - 1.4.3.7 500,000 Director Plan Options (30 cents, 25 January 2011) have been issued to Mr John Zadnik under the Option Plan for nil consideration
 - 1.4.3.8 3,000,000 Director Plan Options (12.5 cents, 30 November 2013) have been issued to Mr John Jetter under the Option Plan for nil consideration
 - 1.4.3.9 3,000,000 Director Plan Options (12.5 cents, 30 November 2013) have been issued to Mr Ian Boserio under the Option Plan for nil consideration
 - 1.4.4 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 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.
 - 1.4.5 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.
 - 1.4.6 Any additional persons referred to in ASX Listing Rule 10.14 who becomes entitled to participate in the Option Plan after Resolution 1 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.

- 1.4.7** The Director Plan Options will be granted to the Managing Director no later than 3 years after the date of the Meeting.
- 1.4.8** Upon exercise of the Director Plan Options, the Shares will be fully paid ordinary Shares in and shall rank pari passu with existing Shares.

1.5 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

- 1.5.1** 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 4,000,000 Director Plan Options to be issued to Managing Director is therefore estimated to be \$160,000.

Details	Note	Assumption
Share Price	1	\$0.093
Exercise Price		\$0.1395
Risk Free Rate		5.24%
Term		3 years
Dividend rate		Nil
Volatility		80%

1. Closing Share price \$0.093

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

1.5.2.1 highest – 12 cents on 12 March 2010

1.5.2.2 lowest – 5.9 cents on 18 September 2009 and

1.5.2.3 latest – 9.3 on 20 December 2010.

- 1.5.3** the Managing Director currently has an interest in the following securities in the Company;

	Shares	Options	Performance Rights
Paul Moore	1,250,000	7,500,000	10,000,000

- 1.5.4** The Managing Director currently receives the following remuneration and emoluments from the Company:

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

The Managing Director has not received any other emoluments from the Company in the last 12 months.

- 1.5.5** If the Director Plan Options are granted to the Managing Director and subsequently exercised, a total of 4,000,000 Shares would be allotted and issued. This will increase the number of Shares on issue from 1,134,540,071 to 1,138,540,071 diluting the

shareholdings of existing Shareholders by 0.4%, (assuming that no other Options or Plan Options are exercised and no other Shares are issued).

- 1.5.6 The Board considers that the grant of Directors Plan Options pursuant to the Option Plan aligns the interests of Mr Moore with the interests of Shareholders, whilst maintaining the Company's cash reserves.
- 1.5.7 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 1.
- 1.5.8 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 Managing Director and for the future performance by the Managing Director in managing the operations and strategic direction of the Company.
- 1.5.9 Messrs Rick Crabb, Ian MacIver, Rufino Bomasang, Ian Boserio and John Jetter, (who do not have an interest in Resolution 1) recommend Shareholders approve the issue of Director Plan Options under Resolution 1 to the Managing Director 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.
- 1.5.10 Mr Moore decline to make a recommendation to Shareholders in relation to Resolution 1 respectively due to his respective material personal interest in the outcome of the Resolution.
- 1.5.11 In determining the number and terms of the Director Plan Options to be awarded pursuant to the Option Plan to the Managing Director, the Board (other than Mr Moore) considered the current market price of the Shares and current market practice.
- 1.5.12 The Directors (other than Mr Moore) believe that the grant of Director Plan Options pursuant to the Option Plan provides cost effective consideration to the Managing Director for his ongoing commitment and contribution to the Company in his respective roles as Managing Director and as it aligns the interests of the Managing 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 Plan Options upon the terms proposed.

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 1.2.

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 approved on 22 November 2010.

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.