



OTTO ENERGY LIMITED
ABN 56 107 555 046

NOTICE OF ANNUAL GENERAL MEETING

TIME: 9.00am (WST)

DATE: 14 November 2013

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 9.00am (WST) on 14 November 2013 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 Link Market Services, Locked Bag A14, Sydney South, NSW 1235; or
- (b) fax your proxy form to the Company's share registry on (+612) 9287 0309; or
- (c) online by visiting www.linkmarketservices.com.au Select 'Investor Login' and enter the holding details as shown on the proxy form. Select the 'Voting' tab and then follow the prompts. You will be taken to have your Proxy Form if you lodge it in accordance with the instructions given on the website.

so that it is received not later than 9.00am (WST) on 12 November 2013.

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 9.00am (WST) on 14 November 2013 (**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 12 November 2013 at 9.00am (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 2013.

The Annual Report is available on our website – www.ottoenergy.com.

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 2013."

The Company will disregard any votes cast on Resolution 1 by or on behalf of a Restricted Voter¹. However, the Company need not disregard a vote if:

- (a) it is cast by a person as a proxy appointed by writing that specifies how the proxy is to vote on the proposed resolution; and
- (b) it is not cast on behalf of a Restricted Voter.

Further, a Restricted Voter who is appointed as a proxy will not vote on Resolution 1 unless:

- (a) the appointment specifies the way the proxy is to vote on Resolution 1; or
- (b) the proxy is the Chair of the Meeting and the appointment expressly authorises the Chair to exercise the proxy even though the Resolution is connected directly or indirectly with the remuneration of a member of the Key Management Personnel. Shareholders should note that the Chair intends to vote any undirected proxies in favour of Resolution 1.

Shareholders may also choose to direct the Chair to vote against Resolution 1 or to abstain from voting.

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.

¹ Restricted Voter means the Key Management Personnel and their Closely Related Parties as defined in the glossary.

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 issue securities under the “Otto Energy Limited Employee Option Plan” (**Option Plan**) as an exception to Listing Rule 7.1.”*

Voting Exclusion: The Company will disregard any votes cast on Resolution 2 by a Director (except one who is ineligible to participate in any employee incentive scheme of the Company) and an associate of those Directors. 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 the 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 issue of securities under the “Otto Energy Limited Performance Rights Plan” (**Performance Rights Plan**) as an exception to Listing Rule 7.1.”*

Voting Exclusion: The Company will disregard any votes cast on Resolution 3 by a Director (except one who is ineligible to participate in any employee incentive scheme of the Company) and an associate of those Directors. 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 the 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 – APPROVAL OF ISSUE OF DIRECTOR PLAN OPTIONS TO MR RUFINO BOMASANG 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 2,000,000 Director Plan Options to Mr Rufino Bomasang (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 6 by Mr Rufino Bomasang 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 IAN MACLIVER AS DIRECTOR

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

“To re-elect Mr Ian MacLiver 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 MacLiver retires by rotation and being eligible for re-election, offers himself for re-election at the Meeting.

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

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

“To re-elect Mr Ian Boserio 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 Boserio retires by rotation and being eligible for re-election, offers himself for re-election at the Meeting.

DATED: 14 OCTOBER 2013
BY ORDER OF THE BOARD

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

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 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.

However, if at least 25% of the votes cast are against adoption of the Remuneration Report at the 2013 AGM, and then again at the 2014 AGM, the Company will be required to put a resolution to the 2014 AGM, to approve calling a general meeting (**spill resolution**). If more than 50% of Shareholders vote in favour of the spill resolution, the Company must convene an extraordinary general meeting (**spill meeting**) within 90 days of the 2014 AGM. All of the Directors who were in office when the 2014 Directors' Report was approved, other than the Managing Director, will (if desired) need to stand for re-election at the spill meeting.

The Remuneration Report explains the Board policies in relation to the nature and level of remuneration paid to Directors, sets out remuneration details for each Director and any service agreements and sets out the details of any share based compensation.

Voting

Note that a voting exclusion applies to Resolution 1 in the terms set out in the Notice of Meeting. In particular, the directors and other Restricted Voters may not vote on this Resolution and may not cast a vote as proxy, unless the appointment gives a direction on how to vote or the proxy is given to the Chair and expressly authorises the Chair to exercise your proxy even if the Resolution is connected directly or indirectly with the remuneration of a member of the Key Management Personnel. The Chair will use any such proxies to vote in favour of the Resolution.

Shareholders are urged to carefully read the proxy form and provide a direction to the proxy on how to vote on this Resolution.

2. RESOLUTION 2 – APPROVAL OF THE EMPLOYEE OPTION PLAN

2.1 Background

The Board adopted the Otto Energy Limited Employee Option Plan on 21 September 2010 (**Option Plan**). A summary of the terms of the Option Plan is provided below. Resolution 2 is a resolution which seeks Shareholder approval in accordance with Exception 9(b) of ASX Listing Rule 7.2 for the Company to issue securities under the Option Plan as an exception to ASX Listing Rule 7.1.

ASX Listing Rule 7.1 broadly provides that a company may issue equity securities (such as shares, options or performance rights) up to 15% of its issued capital without shareholder approval in any rolling 12

month period. Exception 9(b) of ASX Listing Rule 7.2 provides that an issue of securities under an employee incentive plan which has been approved by shareholders in the 3 years prior to the issue are issued as an exception to the 15% limit under ASX Listing Rule 7.1.

The Option Plan was last approved by Shareholders at the Company's 2010 annual general meeting held on 22 November 2010. In order to take advantage of the exemption from ASX 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 pursuant to Exception 9(b) of ASX Listing Rule 7.2. This approval will be effective for a period of 3 years from the date of the Resolution. It should be noted that Resolution 2 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 and the Corporations Act.

The Option Plan is designed to incentivise employees and Directors of the Company and its subsidiaries. Under the Company's current circumstances, the Directors consider that the incentive represented by the grant of Plan Options are a cost effective and efficient means for the Company to provide a reward and an incentive, as opposed to alternative forms of incentive, such as the payment of additional cash compensation.

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 Terms 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 which would be issued were each outstanding offer or Plan Option, being an offer made or Plan Option acquired pursuant to the Option Plan or any other employee shares scheme extended only to employees or Directors; and
- ii. the number of Shares issued in 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,

but disregarding any offer made, or Plan Option acquired or Share issued by way of or as a result of:

- iii. an offer to a person situated at the time of receipt of the offer outside Australia; or
- iv. an offer that did not need disclosure to investors because of section 708 of the Corporations Act; or
- v. an offer made under a disclosure document,

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 Persons**

Full time and part time employees, and directors of the Company or an associated body corporate (**Eligible Persons**).

c) **Grant of Plan Options**

- i. All Eligible Persons 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 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 may be issued to Eligible Persons for no consideration, or at a price determined by the Board.

e) **Entitlement**

Each Plan Option entitles the holder (subject to the terms of the Plan Option and the Option Plan) to subscribe for one Share. Shares issued upon the exercise of Plan Options 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:

- i) the weighted average closing sale price of the Shares recorded on ASX over the 5 trading days immediately preceding the day on which the board resolves to offer the Plan Options; or
- ii) in circumstances where there has been no trading in the Shares during the days specified in i) the last sale price of the Shares as recorded on ASX.

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 Expiry Date will be determined by the Directors prior to the offer of the Plan Options but in any event will be no longer than 5 years from the date of grant.
- iii. The Directors may grant Plan Options subject to exercise conditions (such as performance criteria) which must be satisfied before the Plan Options may vest and be exercised.

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

An Eligible Person may not sell, transfer or otherwise dispose of Plan Options unless the Board in its absolute discretion approves otherwise.

i) **Lapse of Plan Options**

- i. Plan Options not validly exercised on or before the Expiry Date will automatically lapse.
- ii. If an Eligible Person ceases to be an Eligible Person because of retirement, total and permanent disablement, redundancy or death, any unvested Plan Options held by the

Eligible Person will lapse on the date 3 months after the date of retirement, redundancy, death or total and permanent disablement (as applicable), or such longer period as the Board may determine. If an Eligible Person ceases to be an Eligible Person for any other reason, any unvested Plan Options held by the Eligible Person will automatically lapse.

- iii. Unless otherwise determined by the Board, if an Eligible Person ceases to be an Eligible Person because of retirement, total and permanent disablement, redundancy or death, any vested Plan Options held by the Eligible Person will continue to be able to be exercised at any time prior to the Expiry Date. If an Eligible Person ceases to be an Eligible Person for any other reason, any vested Plan Options held by the Eligible Person will lapse within 1 month or such longer period as the Board may determine.

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 10 business days of the exercise of the Plan Option.

k) **Change of Control**

Notwithstanding any restrictions on transfer of Plan Options, Eligible Persons shall be entitled to exercise all Plan Options:

- i) during the bid period of a takeover offer;
- ii) at any time after a change of control event has occurred (being when a shareholder, or a group of associated shareholders, become entitled to sufficient Shares to give it or them the ability in general meeting to replace all or a majority of the Board); or
- iii) if a court orders a meeting to be held in respect of a scheme of arrangement for the reconstruction of the Company or its amalgamation with any other company.

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 give notice of any new issue of securities before the record date for determining entitlements to the new issue, 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 Person 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 Person 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.

n) **Amendment of the Option Plan**

Subject to certain exceptions, the Board may alter, delete or add to the Option Plan at any time.

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

The Option Plan is administered by the Directors, who have general powers to administer, terminate or suspend the plan.

2.3 Requirements of Exception 9(b) of ASX Listing Rule 7.2

In accordance with the requirements of Exception 9(b) of ASX Listing Rule 7.2 the following information is provided to Shareholders:

- a) a summary of the Option Plan is set out above;
- b) The Company has issued 26,750,000 Plan Options (as outlined below) under the Option Plan since it was last approved by Shareholders at the Company's Annual General Meeting held on 22 November 2010:

Number of Plan Options	Currently Outstanding	Exercise price	Expiry date
13,000,000	9,000,000	12 cents	26 November 2013
6,000,000	6,000,000	12.5 cents	30 November 2013
4,000,000	-	13.25 cents	1 August 2011
1,250,000	1,250,000	12 cents	13 October 2014
2,500,000	2,500,000	12 cents	5 January 2015

- c) A voting exclusion statement has been included for the purposes of Resolution 2.

3. RESOLUTION 3 – APPROVAL OF THE PERFORMANCE RIGHTS PLAN

Background

3.1 Introduction

The Board adopted the Otto Energy Limited Employee Performance Rights Plan on 21 September 2010 (**Performance Rights Plan**). A summary of the terms of the Performance Rights Plan is set out below. Resolution 3 is a resolution which seeks Shareholder approval in accordance with Exception 9(b) of ASX Listing Rule 7.2 for the Company to issue securities under the Performance Rights Plan as an exception to ASX Listing Rule 7.1.

A summary of ASX Listing Rule 7.1 and Exception 9(b) of ASX Listing Rule 7.2 is provided in the explanatory notes to Resolution 2. The Performance Rights Plan was last approved by Shareholders at the Company's 2010 annual general meeting held on 22 November 2010. In order to take advantage of the exemption from ASX 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 Performance Rights Plan pursuant to Exception 9(b) of ASX Listing Rule 7.2 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 3 does not approve the issue of any Performance Rights to any Director. Performance Rights cannot be granted to Directors or their associates unless prior approval of Shareholders is obtained in accordance with the ASX Listing Rules.

The Performance Rights Plan is designed to incentivise employees and Directors of the Company and its subsidiaries. Under the Company's current circumstances, the Directors consider that the incentive represented by the grant of Performance Rights are a cost effective and efficient means for the Company to provide a reward and an incentive, as opposed to alternative forms of incentive, such as the payment of additional cash compensation.

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

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 Terms of the Performance Rights Plan

A summary of the key terms of the Performance Rights Plan is set out below:

(a) Eligibility:

The Board may from time to time in its absolute discretion issue invitations to Eligible Persons to participate in the Performance Rights Plan.

(b) Offers to Participate

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

- i) the date of the Offer;
- ii) the name of the Eligible Person to whom the Offer is made;
- iii) the number of Performance Rights which are capable of vesting (resulting in the issue of Shares) if specific performance conditions are met;
- iv) the performance conditions and performance period in relation to the Performance Rights;
- v) 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;
- vi) the expiry date;
- vii) whether any restrictions on transfer will be imposed by the Board on some or all of the Shares issued or transferred to the participant under the Performance Rights Plan; and
- viii) the time period in which the Eligible Person may accept the Offer.

(c) Participation

The Board retains complete discretion to make offers of Performance Rights to any Eligible Person.

(d) Nature of Performance Rights

A Performance Right is a right to receive a Share on the terms set out in the Performance Rights Plan subject to satisfaction of the applicable performance conditions over the relevant performance period. 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.

(e) Vesting:

Performance 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; and
- ii) in the event a takeover bid for the Company is declared unconditional, there is a change in control event (being an event where a shareholder or a group of associated shareholders gain the ability to control more than 50% of the voting power in the Company, or become entitled to sufficient Shares to give it or them the ability in general meeting to replace all or a majority of the Board), or if a merger by way of scheme of arrangement has been approved by a court.

(f) Cessation of employment

Unless otherwise determined by the Board:

- i) if an Eligible Person ceases to be an Eligible Person because of retirement, redundancy, death or total and permanent disablement, the Board will determine the extent to which unvested Performance Rights held by the Eligible Person shall vest and the Eligible Person may exercise vested performance rights within 6 months or such longer period as the Board may determine;
- ii) if an Eligible Person ceases to be an Eligible Person for any reason other than retirement, redundancy, death or total and permanent disablement, unvested Performance Rights shall automatically lapse;
- iii) if an Eligible Person ceases to be an Eligible Person because of retirement, redundancy, death or total and permanent disablement, any vested Performance Rights held by the Eligible Person shall continue to be able to be exercised at any time prior to the expiry date; and
- iv) if an Eligible Person ceases to be an Eligible Person for any reason other than retirement, redundancy, death or total and permanent disablement, vested Performance Rights may be exercised within 1 month or such longer period as the Board may determine.

(g) Lapse of Performance Rights

- i) A Performance Right lapses on the earlier of:
 - A. where performance conditions have not been satisfied on the test date and the Board determines that the Performance Right lapses, the date of the determination;
 - B. if an Eligible Person ceases to be an Eligible Person because of retirement, redundancy, death or total and permanent disablement, the date of lapse referred to above;
 - C. if an Eligible Person ceases to be an Eligible Person for any reason other than retirement, redundancy, death or total and permanent disablement, the date of lapse referred to above;

- D. if the opinion of the Board the Eligible Person acts fraudulently or dishonestly or is in material breach of his or her obligations to the Company and the Board determines that the Eligible Person's Performance Rights will lapse, the date of the determination;
- E. if an Eligible Person has not exercised Performance Rights which have vested because of a takeover, change in control event or scheme of arrangement by the time specified by the Board, that date; and
- F. the expiry date.

(h) Restriction on Transfer of Performance Rights

Except on the death of an Eligible Person, Performance Rights may not be transferred, assigned or novated except with the approval of the Board.

(i) Issue Limitations

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

- i. the number of Shares which would be issued were each outstanding offer or Performance Right, being an offer made or Performance Right acquired pursuant to the Performance Rights Plan or any other employee shares scheme extended only to employees or Directors; and
- ii. the number of Shares issued in the previous 5 years pursuant to the Performance Rights Plan or any other employee share scheme extended only to employees or directors of the Company or an associated body corporate,

but disregarding any offer made, or Performance Right acquired or Share issued by way of or as a result of:

- iii. an offer to a person situated at the time of receipt of the offer outside Australia; or
- iv. an offer that did not need disclosure to investors because of section 708 of the Corporations Act; or
- v. an offer made under a disclosure document,

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

(j) Reorganisation of Capital

In the event of any reorganisation of the issued capital of the Company, the number of Performance Rights to which each Eligible Person is entitled or the exercise price of his or her Performance Rights or both will be reorganised in accordance with the provisions of the ASX Listing Rules.

(k) Amendment of Performance Rights Plan

Subject to the Listing Rules, the Board retains the discretion to amend the rules of the Performance Rights Plan or to terminate it at any time.

3.4 Requirements of Exception 9(b) of ASX Listing Rule 7.2

In accordance with the requirements of Exception 9(b) of ASX Listing Rule 7.2 the following information is provided to Shareholders:

- (a) a summary of the Performance Rights Plan is set out above;

- (b) the Company has issued 52,700,000 Performance Rights (as outlined below) under the Performance Rights Plan since it was last approved by Shareholders at the Company's Annual General Meeting on 22 November 2010:

Number of Performance Rights	Currently Outstanding	Expiry date
10,000,000	-	30 June 2015 30 June 2016
15,000,000	15,000,000	1 April 2014 1 November 2014 1 April 2015
12,000,000	6,000,000	31 December 2014
15,700,000	14,500,000	1 April 2016
52,700,000	35,500,000	

- (c) a voting exclusion statement has been included for the purposes of Resolution 3.

4. RESOLUTIONS 4, 5 AND 6 – APPROVAL OF THE ISSUE OF DIRECTOR PLAN OPTIONS UNDER THE OPTION PLAN

4.1 General

It is proposed that Messrs Jetter, Boserio and Bomasang (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, Boserio and Bomasang 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, 5 and 6.

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 4.2 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 of 125% of the 1 month 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).
- 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 of 125% of the 1 month 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); and
- 4.2.3** 2,000,000 Director Plan Options with each Director Plan Option granting the holder the right to apply for a Share exercisable at a price of 125% of the 1 month 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 Rufino Bomasang (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 they are Directors and each of them is therefore a related party of the Company.

The Director Plan Options issued pursuant to Resolutions 4, 5 and 6 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 of 125% of the 1 month VWAP on the date of issue, with an expiry date of 3 years) to Mr John Jetter;

4.4.1.2 3,000,000 Plan Options (exercisable at a price of 125% of the 1 month VWAP on the date of issue, with an expiry date of 3 years) to Mr Ian Boserio; and

4.4.1.3 2,000,000 Plan Options (exercisable at a price of 125% of the 1 month VWAP on the date of issue, with an expiry date of 3 years) to Mr Rufino Bomasang.

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 last approved at the Company's Annual General Meeting on 22 November 2010:

4.4.3.1 4,00,000 Director Plan Options (13.25 cents, 1 August 2011) have been issued to Mr Paul Moore under the Option Plan for nil consideration

4.4.3.2 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

4.4.3.3 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

4.4.4 All Directors are entitled to participate in the Option Plan. The current Directors are Messer Rick Crabb, 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.

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, 5 and 6 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 219 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 8,000,000 Director Plan Options to be issued to Participating Directors is therefore estimated to be \$320,000.

Details	Note	Assumption
Share Price	1	\$0.11
Exercise Price		\$0.128
Risk Free Rate		2.9%
Term		3 years
Dividend rate		Nil
Volatility		51%

1. Closing Share price \$0.11

- 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 – 11 cents on 9 January 2013

4.5.2.2 lowest – 6.6 cents on 24 April 2013 and

4.5.2.3 latest – 11 cents on 4 October 2013.

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

	Shares	Options
John Jetter	19,089,175	3,000,000
Ian Boserio	330,000	3,000,000
Rufino Bomasang	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 \$75,000 per year and an additional \$15,000 as Chairman of GPC Investments SA ;

- 4.5.4.2 Mr Boserio currently receives remuneration of \$75,000 per year; and
- 4.5.4.3 Mr Bomasang currently receives remuneration of US\$85,000 per year and an additional US\$24,000 as Chairman of Otto Energy Investments Ltd and US\$24,000 as Chairman of Otto Energy Philippines Inc.

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 8,000,000 Shares would be allotted and issued. This will increase the number of Shares on issue from 1,144,290,071 to 1,152,290,071 diluting the shareholdings of existing Shareholders by 0.7%, (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 8.3 of the ASX Good Corporate Governance and Best Practice Recommendations. However, the Board considers the grant of Director Plan Options to Mr Jetter, Mr Boserio and Mr Bomasang is reasonable in the circumstances given Mr Jetter's ongoing contribution to negotiations and corporate initiatives, Mr Boserio's significant experience in the oil and gas industry and exploration and development of oil and gas operations and Mr Bomasang's extensive network of contacts in the Philippines oil and gas industry.
- 4.5.8** Messrs Rick Crabb and Ian MacIver (who do not have an interest in Resolutions 4, 5 and 6) recommend Shareholders approve the issue of Director Plan Options under Resolutions 4, 5 and 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.
- 4.5.9** Messrs Jetter, Boserio and Bomasang decline to make a recommendation to Shareholders in relation to Resolutions 4, 5 and 6 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, Mr Boserio and Mr Bomasang) considered the current market price of the Shares and current market practice.
- 4.5.11** The Directors (other than Mr Jetter, Mr Boserio and Mr Bomasang) 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, Mr Boserio and Mr Bomasang) 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, Mr Boserio and Mr Bomasang 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, 5 and 6.

5. RESOLUTION 7 - RE-ELECTION OF MR IAN MACLIVER AS DIRECTOR

4.1 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 Ian MacLiver retires by rotation and being eligible offers himself for re-election pursuant to Resolution 7.

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.

6. RESOLUTION 8 - RE-ELECTION OF MR IAN BOSERIO AS DIRECTOR

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

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

Accounting Standards has the meaning given to that term in the Corporations Act.

ASX means ASX Limited.

ASX Listing Rules means the Listing Rules of ASX.

Board means the current board of directors of the Company.

Closely Related Party has the meaning given to that term in the Corporations Act.

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.

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

Key Management Personnel has the meaning given to that term in the Accounting Standards.

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.

Performance Rights means performance rights issued under the Performance Rights Plan.

Plan Options means options issued under the Option Plan.

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

Restricted Voter means Key Management Personnel and their Closely Related Parties.

Section means a section of the Explanatory Statement.

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

Shareholder means a holder of a Share.

WST means Western Standard Time.

\$ means Australian dollars.

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