

Your Directors present their report on the consolidated entity ("Otto Energy" or "Group"), consisting of Otto Energy Limited ("the Company") and the entities it controlled at the end of, or during, the financial year ended 30 June 2011.

Directors

The names of the Directors in office and at any time during, or since the end of the year are:

Mr Rick Crabb

Mr Rufino Bomasang

Mr John Jetter

Mr Ian Macliver

Mr Ian Boserio – appointed 2 September 2010.

Mr Paul Moore – resigned 1 July 2011.

Dr Jaap Poll – resigned 22 November 2010.

Mr John Zadnik (Alternate for Mr Rick Crabb) – resigned 2 September 2010.

Directors have been in office since the start of the financial year to the date of this report unless otherwise stated.

Company Secretary

Mr Matthew Allen was appointed to the role of Company Secretary replacing Emma McCormack on 14 July 2010.

Principal Activities

The principal activities of the Group during the financial year were investment in oil and gas exploration and development in Turkey and the Philippines.

The following significant change in the nature of the activities of the group occurred during the year:

- The group sold its 35% investment in Erdine Enerji Limited and withdrew from Turkey for a consideration of USD \$3,100,000.

Operating Results

The profit of the Group for the financial year, after providing for income tax, amounted to US\$12,403,679 (2010: loss of US\$32,103,380). This result is after recognising an unrealised foreign exchange gain of US\$33,804 (2010: gain of US\$558,370).

Dividends Paid or Recommended

The Directors recommend that no dividend be paid for the year ended 30 June 2011, nor have any amounts been paid or declared by way of dividend since the end of the previous financial year.

Review of Operations

A review of the operations of the Otto Energy group during the financial year and the results of those operations will be set out in the annual report refer to pages 2 – 22.

Significant Changes in State Of Affairs

As of 1 July 2010, effective for the reporting period ending 30 June 2011, the Board of Otto Energy Limited has determined that the Company's functional currency is US dollars. The change in Otto's functional currency is not expected to have a material impact on future earnings. Prior year's balances have been converted to US dollar for comparative analysis.

After Reporting Date Events

Otto Energy Ltd advises that it has entered into various definitive agreements to increase its stake in the producing Galoc Oil Field offshore the Philippines from an indirect 18.78% to direct 33.00% under Service Contract 14C ("Galoc"). Otto will assume 100% ownership of the Operating Company of the field, which is currently producing 6,800 oil barrels per day, on a 100% basis.

Under the terms of the transaction, Otto has agreed to acquire a 68.62% interest in the Galoc Production Company WLL ("GPC"), the operator of Galoc, from Vitol Group, increasing Otto's interest in GPC from 31.38% to 100%. Through the acquisition Otto will initially increase its stake to 59.84% of Service Contract 14C. Otto has then agreed to cause GPC to on-sell, on the same per percentage point terms, 26.84% of this stake to Singapore energy investment company Risco Energy Pte Ltd, bringing Otto's post acquisition stake in Galoc to 33.00%. This transaction is subject to relevant Philippines government approvals.

The effective date of the purchase agreement is 1 April 2011. The total purchase price for Otto's share of the purchase price is US\$18.7 million. The acquisition will be funded from Otto's existing cash reserves. Completion is scheduled to occur prior to 30 September 2011.

Directors' Report

Future Developments, Prospects and Business Strategies

To further improve the Group's financial position and maximise shareholders wealth, the following developments are intended to be implemented:

In the Philippines, Otto, through its wholly owned subsidiary NorAsian Energy, will continue with exploration programs in each of its Service Contract areas. These programs include both drilling and where appropriate, further seismic acquisition and interpretation work. A Phase II development at the Galoc Oil Field is also being reviewed and matured by the Company and GPC. This may involve an additional two wells to boost production and access undeveloped reserves.

These developments are expected to assist in the achievement of the Group's short-term goals to create a successful oil company with sustained cash flow to fund its ongoing financial requirements with minimum equity dilution.

Information on Directors and Other Key Management Personnel

Mr Rick Crabb

Chairman (Non-Executive)

Qualifications

BJuris (Hons); LLB; MBA

Experience

Mr Rick Crabb holds degrees in law and business administration from the University of Western Australia. He practised as a solicitor from 1980 to 2004, specialising in resources, corporate and commercial, with considerable offshore experience. Mr Crabb now focuses on his public company directorships and investments.

Interest in Shares and Options (at 29 Sept 2011)

16,995,052 ordinary shares of Otto Energy Limited.

Special Responsibilities

Audit and Compliance

Directorships held in other listed entities

During the past three years Mr Crabb's directorships in other listed entities are as a Director of Golden Rim Resources Limited from 22 August 2001, Ashburton Minerals Limited from 1 September 1999, Paladin Energy Limited from 8 February 1994, former Director of Royal Resources Limited from 23 February 2004 to 11 August 2009, Director of Port Bouvard Limited from 2 December 1996 to 23 April 2009 and Thundelarra Exploration Limited from 8 September 2003 to 13 June 2007.

Mr John Jetter

Director (Non-Executive)

Qualifications

B. Law, B. Econ, INSEAD

Experience

Mr Jetter has extensive international finance and M&A experience being the former Managing Director, CEO and head of investment banking of JP Morgan in Germany and Austria, and a member of the European Advisory Council, JP Morgan London. He held various senior positions with JP Morgan throughout Europe, during which time he focused his attention on major corporate clients and advised on some of Europe's largest corporate transactions. He also held a number of other board positions including Chairman of the Board of Rodenstock AG, Germany, Deputy Chairman of the Board of European Business School and Chairman of the Finance Facility, Oestrich-Winkel, Germany.

Interest in Shares and Options (at 29 Sept 2011)

19,089,175 ordinary shares of Otto Energy Limited and options to acquire 3,000,000 ordinary shares.

Directorships held in other listed entities

During the past three years, Mr Jetter's directorships in other listed companies are as a Non-Executive Director of Venture Minerals Limited since 8 June 2010.

Mr Ian Macliver

Director (Non-Executive)

Qualifications

B.Com, CA, F Fin, MAICD

Experience

Mr Macliver is Managing Director of Grange Consulting Group Pty Limited which provides specialist corporate advisory services to both listed and unlisted companies. He has many years experience as a senior executive and Director of both resource and industrial companies, with particular responsibility for capital raising and other corporate initiatives. Mr Macliver is a Director of various listed and unlisted companies and is the Chairman of the Company's Audit and Compliance Committee.

Interest in Shares and Options (at 29 Sept 2011)

5,299,721 ordinary shares of Otto Energy Limited.

Special Responsibilities

Audit and Compliance

Directorships held in other listed entities

During the past three years Mr Macliver's directorships in other listed entities are Chairman of Stratatel Limited since July 2000, Non-Executive Director of Select Vaccines Limited since September 2010, Mount Gibson Iron Limited since February 2001 and Car Parking Technologies Limited

(formerly Empire Beer Group Limited) since 23 May 2006 and former Director of Port Bouvard Limited from December 1994 to 12 April 2011.

Mr Ian Boserio

Director (Non-Executive)

Qualifications

B.Sc Hons (Geophysics), B.Sc Hons (Geology)

Experience

Mr Boserio brings more than 25 years international experience in the oil and gas business focusing predominantly on exploration. 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 New Zealand exploration team growing its gas portfolio for LNG development.

Mr Boserio has a Bachelor of Science from the Victoria University of Wellington, New Zealand. He has honours in Geology and Geophysics.

Interest in Shares and Options (at 29 Sept 2011)

330,000 ordinary shares of Otto Energy Limited and options to acquire 3,000,000 ordinary shares.

Special Responsibilities

None

Directorships held in other listed entities

During the past three years, Mr Boserio's directorships in other listed companies are as Non-Executive Director of Nexus Energy Limited since November 2009.

Mr Rufino Bomasang

Director (Non-Executive)

Qualifications

BSc (Min.Eng), Master in Business Economics (Phil)

Experience

Mr Bomasang is a mining engineer, having worked in recent years as an International Energy and Mining Consultant, focusing on the development of untapped indigenous energy resources in the Philippines. From 1996 to 2004 Mr Bomasang was President and CEO of Philippine National Oil Company-Exploration Corporation (PNOC-EC), where he was responsible for top level management of PNOC-EC's operations. Mr Bomasang previously worked with the United States Agency for International Development as an Energy Consultant, providing technical assistance to the Philippine Department of Energy and as Senior Advisor to the Department of

Energy Gas Office. Mr Bomasang is currently Non-Executive Chairman of NorAsian Energy Limited, a subsidiary of Otto Energy Limited.

Interest in Shares and Options (at 29 Sept 2011)

Nil

Special Responsibilities

None

Directorships held in other listed entities

Mr Bomasang has not been a Director of any other Australian listed entities in the past three years.

Mr Matthew Allen

Chief Financial Officer and Company Secretary

Qualifications

B.Bus, CA, F Fin and MAICD.

Experience

Mr Allen has over 17 years experience in the finance and accounting industry including exposure to public practice, aviation and oil and gas sectors. The past 9 years have been spent in the upstream oil and gas industry in Woodside Energy Ltd and Otto Energy Ltd. Mr Allen has been responsible for many facets of finance in upstream oil and gas companies including joint venture management, treasury risk management, debt capital raising, insurance and risk management, financial control and reporting. Execution of corporate acquisitions and divestments and joint venture farm in/out transactions have also been a strong part of Mr Allen's experience. Mr Allen has had exposure in Australia, the Middle East and North/West Africa and has strong experience in the management of listed corporations including corporate governance practices.

Interest in Shares and Options (at 29 Sept 2011)

Options to acquire 7,000,000 ordinary shares of Otto Energy Limited.

Special Responsibilities

None

Dr Jaap Poll

Director (Non-Executive)

Qualifications

BSc, MSc and PhD Geology

Experience

Dr Jaap Poll is a geologist with a distinguished 40 year career in petroleum exploration and production management worldwide. He has a PhD in Structural Geology, is an Accredited Member of the American Association of Petroleum Geology (AAPG), a Distinguished Member of the Petroleum Exploration Society of Australia (PESA) and is an accredited arbitrator and mediator.

Directors' Report

Dr Poll has extensive work experience in the Middle East, Europe, Central and South America, Africa, Asia and Australia and is the founder of the company.

Interest in Shares and Options (at 29 Sept 2011)

14,794,206 ordinary shares of Otto Energy Limited.

Special Responsibilities

None

Directorships held in other listed entities

Dr Poll has not been a Director of any other Australian listed entities in the past three years.

Mr John Zadnik

Alternate Director for Mr Rick Crabb (Non-Executive)

Qualifications

Dip. Cart, Dip. Eng Surv, Dip. RE Management, Lic. Surv

Experience

Mr Zadnik is a licensed cadastral, mining and engineering surveyor, real estate developer and project manager. Mr Zadnik has been involved in the mining industry for 40 years, including the formation and management of several listed and unlisted public companies in Australia and Canada. He has successfully managed his own group of companies for 40 years and is an experienced Director.

Interest in Shares and Options (at 29 Sept 2011)

6,757,747 ordinary shares of Otto Energy Limited.

Special Responsibilities

Alternate Director for Mr Rick Crabb

Directorships held in other listed entities

Mr Zadnik has not been a Director of any other Australian listed entities in the past three years.

Mr Paul Moore

Managing Director

Qualifications

BSc (Hons) Eng, MBA, C.Eng, FIMMM, FAICD, SPE member

Experience

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. Mr Moore has a Masters of Business Administration (MBA) from the University of Strathclyde, Scotland. He is a Member of the Society of Petroleum Engineers (SPE), Fellow of the AICD (FAICD) and of the Institute of Materials, Minerals and Mining (UK) (FIMMM) and is a Chartered Engineer (C.Eng).

Interest in Shares and Options (at 29 Sept 2011)

1,250,000 ordinary shares of Otto Energy Limited, performance rights of 10,000,000 and options to acquire 11,500,000 ordinary shares.

Special Responsibilities

Chief Executive Officer

Directorships held in other listed entities

Mr Moore has not been a Director of any other Australian listed entities in the past three years.

Remuneration Report

The remuneration report is set out under the following main headings:

- A Principles used to determine the nature and amount of remuneration
- B Details of remuneration
- C Service agreements
- D Share-based compensation

The information provided in this remuneration report has been audited as required under Section 308 (3)c of the Corporations Act 2001.

A. Principles used to determine the nature and amount of remuneration

The remuneration policy of Otto Energy Limited has been designed to align Director and Other Key Management Personnel objectives with shareholder and business objectives. The Board of Otto Energy Limited believes the remuneration policy to be appropriate and effective in its ability to attract and retain the best Other Key Management Personnel and Directors to run and manage the Group, as well as create goal congruence between Directors, Other Key Management Personnel and shareholders.

Effective for the reporting period ending 30 June 2011 the Company's functional and presentation currency is US dollars, all figures represented in the Remuneration Report is in Australian dollar.

The Board's policy for determining the nature and amount of remuneration for Board members and senior Other Key Management Personnel of the Company is as follows:

Non-Executive Directors, executive Directors and Other Key Management Personnel receive a base salary (which is based on factors such as length of service and experience), which is calculated on a total cost basis and includes any FBT charges related to employee benefits including motor vehicles, as well as employer contributions to superannuation funds.

Executive Directors can be employed by the Company on a consultancy basis in conjunction with Board approval, with remuneration and terms stipulated in individual consultancy agreements.

The Board reviews Other Key Management Personnel packages annually by reference to the Company's performance, Executive performance and comparable information from industry sectors and other listed companies in similar industries. In addition, external consultants may be used to provide analysis and advice to ensure the Directors and senior Other Key Management Personnel's remuneration is competitive in the market place.

Directors and Other Key Management Personnel receive a superannuation guarantee contribution required under the Australian superannuation guarantee legislation which is currently 9%. However, some individuals may choose to sacrifice a portion of their salary to increase payments towards superannuation.

All remuneration paid to Directors and Other Key Management Personnel is valued at the cost to the Company and expensed. Shares issued to Directors and Other Key Management Personnel as part of their remuneration are valued as the difference between the market price of the issued shares and the amount paid by the Director or Other Key Management Personnel. Options over ordinary shares are valued using the Black-Scholes methodology. Performance rights are valued at the market value of the share on that same day they are issued.

The Employee Option Plan is designed to incentivise Directors and Employees and its subsidiaries, to provide continuity of service to the company and to increase profitability and returns to shareholders.

The Performance Rights Plan is a long term incentive aimed at creating a stronger link between employee performance and reward and increasing shareholder value by enabling participants to have a greater involvement with and share in the future growth and profitability of the company.

The Board policy is to remunerate Non-Executive Directors at market rates for comparable companies based upon time, commitment and responsibilities. Non-Executive Director remuneration is reviewed annually, based on market practice, duties and accountability. Independent external advice is sought when required. The maximum aggregate amount of fees that can be paid to Non-Executive Director is subject to approval by shareholders at the Annual General Meeting.

Fees for Non-Executive Directors are not linked to the performance of the Group. Non-Executive Directors do not receive any retirement benefits other than superannuation. The Non-Executive Directors are not required to hold any shares in the Company under the Constitution of

the Company; however, to align Directors' interests with shareholder interests, the Directors are encouraged to hold shares in the Company.

The Board believes that it has implemented suitable practices and procedures that are appropriate for an organisation of this size and maturity.

Base Salary

Base salary may include a combination of cash and prescribed non-financial benefits at the Executive's discretion.

Other Key Management Personnel are offered a competitive base pay that comprises the fixed component of pay and rewards. Base pay for Other Key Management Personnel is reviewed annually to ensure the Other Key Management Personnel's pay is competitive with the market. An Executive's pay is also reviewed on promotion. There is no guaranteed base pay increases included in any Other Key Management Personnel contracts.

Bonuses

Bonuses to Directors and Other Key Management Personnel are paid based upon unspecified performance criteria as determined by the Board from time to time.

Remuneration Committee

During the year ended 30 June 2011, the Group formed a separate nomination and remuneration committee.

Remuneration Structure

In accordance with best practice corporate governance, the structure of Non-Executive Director and Other Key Management Personnel remuneration is separate and distinct.

Directors' Remuneration

The Non-Executive Directors are entitled to receive Directors' fees of amounts determined by the shareholders of the Company at the Annual General Meeting. The Non-Executive Directors of the Company are entitled to receive Directors' fees in such amounts (as determined by the Directors) in aggregate not to exceed A\$500,000 (approved at January 2008 EGM as A\$500,0000), to be divided among Non-Executive Directors as the Directors may agree and in the absence of agreement then equally, until otherwise determined by shareholders at the Annual General Meeting.

The Directors have resolved that Non-Executive Directors' fees based in Australia are AUD\$75,000 per annum (inclusive of superannuation) for each Non-Executive Director and AUD\$125,000 per annum (inclusive of superannuation) for the Non-Executive Chairman. Non-Executive Directors may also be remunerated for additional specialised services performed at the request of the Board and reimbursed for reasonable expense incurred by Directors on Company business.

Directors' Report

Executive Director and Key Management Personnel Remuneration

The Company aims to reward Other Key Management Personnel with a level and mix of remuneration commensurate with their position and responsibilities within the Company and so as to:

- Reward Other Key Management Personnel for Company performance;
- Align the interest of Other Key Management Personnel with those of shareholders; and
- Ensure total remuneration is competitive by market standards.

B. Details of remuneration

Amounts of remuneration

Details of the remuneration of the Director and Other Key Management personnel of the Group of Otto Energy Limited and its controlled entities are set out in the following tables.

The Key Management Personnel of the Group are as follows:

Name	Position Held	Key Appointment Date
Directors		
Mr Rick Crabb	Non-Executive Chairman	Appointed 19 November 2004
Mr Paul Moore	Managing Director	Appointed 1 July 2009 (Resigned 1 July 2011)
Mr Rufino Bomasang	Non-Executive Director	Appointed 18 August 2006
Mr John Jetter	Non- Executive Director	Appointed 12 December 2007
Mr Ian Macliver	Non-Executive Director	Appointed 7 January 2004
Mr Ian Boserio	Non-Executive Director	Appointed 2 September 2010
Dr Jaap Poll	Non-Executive Director	Appointed 19 November 2004 (Resigned 21 November 2010)
Mr J Zadnik	Alternate Non-Executive Director	Appointed 19 November 2004 (Resigned 2 September 2010)
Other Key Management Personnel		
Mr Matthew Allen	Chief Financial Officer/ Company Secretary	Appointed 16 November 2009
Mr Paul Senyica	Exploration Manager	Appointed 12 April 2010
Mr Richard King	Commercial Manager	Appointed 28 July 2008 (Resigned 31 December 2010)
Mr Craig Martin	Chief Operating Officer	Appointed 1 February 2007 (Resigned 9 September 2010)

30 June 2011 Group	Short-term Employee Benefits			Post Employment	Share-Based Payments	Total	Comprising Options and Performance Rights	Performance Related
	Salary & Fees	Cash Bonus	Non Monetary	Super-annuation Pensions	Options and Performance Rights			
	A\$	A\$	A\$	A\$	A\$	A\$	%	%

Directors

Mr R Crabb	91,743	–	8,029	8,257	–	108,029	–	–
Mr P Moore	558,976	–	8,029	46,383	406,250	1,019,638	39.84%	–
Mr R Bomasang	103,092	–	8,029	–	–	111,121	–	–
Mr J Jetter	64,583	–	8,029	–	120,000	192,612	62.30%	–
Mr J Zadnik	3,999	–	–	360	–	4,359	–	–
Mr I Macliver	64,603	–	8,029	5814	–	78,446	–	–
Mr I Boserio	51,253	–	8,030	4,613	120,000	183,896	65.25%	–
Dr J Poll	19,113	–	–	1,720	–	20,833	–	–
	957,362	–	48,175	67,147	646,250	1,718,934		

Other Key Management Personnel

Mr C Martin	161,226	–	–	8,031	10,000	179,257	5.58%	–
Mr M Allen	285,551	129,083	–	31,917	160,000	606,551	26.38%	21.28%
Mr Richard King	160,610	37,500	–	15,657	10,000	223,767	4.47%	16.75%
Mr Paul Senyacia	355,863	42,188	–	35,825	280,000	713,876	39.22%	5.91%
	963,250	208,771	–	91,430	460,000	1,723,451		

2010 Group

Mr R Crabb	45,872	–	6,089	4,127	–	56,088	–	–
Dr J Poll	150,000	–	6,089	–	–	156,089	–	–
Mr I Macliver	45,872	–	6,089	4,127	–	56,088	–	–
Mr J Zadnik	22,936	–	6,089	2,064	–	31,089	–	–
Mr R Bomasang	97,008	–	6,089	–	–	103,097	–	–
Mr J Jetter	50,000	–	6,089	–	–	56,089	–	–
	411,688	–	36,534	10,318	–	458,540		

Other Key Management Personnel

Mr P Moore	481,651	–	–	43,349	375,000	900,000	41.67%	–
Mr C Martin	247,706	–	–	22,294	30,000	300,000	10.00%	–
Mr M Allen	177,488	–	–	15,974	62,500	255,962	24.42%	–
Mr R King	262,217	40,000	–	23,600	59,167	384,984	15.37%	10.40%
Mr S Kleffmann	182,454	–	–	16,421	30,000	228,875	13.11%	–
Mr P Senyacia	77,188	–	–	6,947	–	84,134	–	–
	1,428,704	40,000	–	128,585	556,667	2,153,955		

C. Service agreements

On appointment to the Board, all Non-Executive Directors enter into a service agreement with the company in the form of a letter of appointment. The letter summarises the Board policies and terms, including compensation, relevant to the office of Director.

Remuneration and other terms of employment for the Chief Executive Officer and Other Key Management Personnel are formalised in service agreements. Each of these agreements provides for performance-related conditions and agreements relating to remuneration are set out below. Remuneration and other terms of employment for Other Key Management Personnel of the Company are formalised in an employment agreement. Major provisions of the Other Key Management Personnel agreements relating to remuneration are set out below.

Mr Paul Moore, Managing Director – Employment Agreement

- Term of Agreement – The Agreement commenced on 1 July 2009 and continues until either the Company gives 1 month written notice of termination (3 months notice by the Executive) or is otherwise terminated in accordance with the Employment Agreement.
- Remuneration A\$605,359 per annum inclusive of superannuation payable monthly.
- Payment of termination of Agreement without cause – 12 months remuneration.
- Mr Moore resigned effective 1 July 2011 and this agreement has been terminated.

Mr Matthew Allen, Chief Financial Officer – Employment Agreement

- Term of Agreement – The Agreement commenced on 16 November 2009 and continues until the Company gives 2 months written notice of termination (2 months notice by the Executive) or is otherwise terminated in accordance with the Employment Agreement.
- Remuneration A\$317,468 per annum inclusive of superannuation payable monthly.
- Payment of termination of Agreement without cause – 2 months remuneration.
- Mr Allen received a performance bonus of A\$58,000 lapsed incentives from prior employer and A\$71,000 relating to 2010/2011 performance.

Mr Paul Senyca, Exploration Manager – Employment Agreement

- Term of Agreement – The Agreement commenced on 12 April 2010 and continues until the Company gives 3 months written notice of termination (3 months notice by the Executive) or is otherwise terminated in accordance with the Employment Agreement.
- Remuneration A\$391,688 per annum inclusive of superannuation payable monthly.
- Mr Senyca received a performance bonus for 2010 achievements of A\$42,118.

Mr Craig Martin, Chief Operating Officer – Employment Agreement

- Term of Agreement – The Agreement commenced on 1 February 2007 and continues until the Company gives 3 months written notice of termination (2 months notice by the Executive) or is otherwise terminated in accordance with the Employment Agreement.
- Remuneration A\$169,258 per annum inclusive of superannuation payable monthly.
- Payment of termination of Agreement without cause – 4 months remuneration.
- Mr Martin resigned effective 9 September 2010 and this agreement has been terminated.

Mr Richard King, Commercial Manager – Employment Agreement

- Term of Agreement – The Agreement commenced on 28 July 2008 and continues until the employee gives 2 months written notice of termination (6 months notice by the Company) or is otherwise terminated in accordance with the Employment Agreement.
- Remuneration A\$176,267 per annum inclusive of superannuation payable monthly.
- Mr King received a performance bonus for 2010 achievements of A\$37,500.
- Mr King resigned effective 31 December 2010 and this agreement has been terminated.

D. Share-based compensation

Options and Performance Rights

Options and performance rights are issued to Directors and Other Key Management Personnel as part of their remuneration.

Details of remuneration: cash bonuses, options and performance rights

Cash bonuses, options and performance rights are used to attract and retain suitably experienced Directors and Other Key Management Personnel and are incentives to increase long term shareholder wealth. Options and performance rights are issued to the majority of Directors and Other Key Management Personnel of Otto Energy Limited to increase goal congruence with shareholders.

The options are subject to vesting conditions and will not vest (and become exercisable) if the vesting conditions are not satisfied, hence the minimum value of the option yet to vest is nil. The maximum value of the options yet to vest has been determined as the amount of the grant date fair value of the options that is yet to be expensed.

Options granted under the plan carry no dividend or voting rights. Directors and employees are granted options at no cost to them.

The table below sets out options and performance rights granted during the year to Directors and Other Key Management Personnel. The options and performance rights were issued free of charge and entitle the holder to subscribe for one fully paid ordinary share in the Company.

2011	Number of options granted	Number of performance rights granted	Terms and Conditions of Each Grant					
			Grant date	Total value at grant date A\$	Value each at grant date A\$	Exercise price A\$	First exercise date	Last exercise date
Directors								
P Moore	4,000,000	–	16/03/11	80,000	0.02	0.1325	16/03/11	16/03/14
P Moore	–	10,000,000	22/11/11	326,250	0.089	0.00	30/06/11	30/06/11
J Jetter	3,000,000	–	30/11/10	120,000	0.04	0.12	30/11/10	30/11/13
I Boserio	3,000,000	–	30/11/10	120,000	0.04	0.12	30/11/10	30/11/13
Other Key Management Personnel								
M Allen	4,000,000	–	26/11/10	160,000	0.04	0.12	26/11/10	26/11/13
P Senyica	4,000,000	–	26/11/10	160,000	0.04	0.12	26/11/10	26/11/13
P Senyica	3,000,000	–	11/8/10	120,000	0.04	0.12	11/8/10	26/11/13
2010								
Other Key Management Personnel								
P Moore	7,500,000	–	1/07/10	375,000	0.05	0.12	1/07/10	1/08/12
S Kleffmann	2,000,000	–	8/09/09	30,000	0.02	0.12	8/09/09	8/09/11
C Martin	2,000,000	–	8/09/09	30,000	0.02	0.12	8/09/09	8/09/11
M Allen	3,000,000	–	16/02/10	62,500	0.02	0.12	16/02/10	16/02/13
R King	2,000,000	–	8/09/09	59,167	0.03	0.12	8/09/09	8/09/11

The share-based payments expense in the financial statements is equal to the value of the total calculated share-based payments expense from grant date to vesting date and does not necessarily reflect the value of options granted during the year.

For details on the valuations of options, including models and assumptions used, refer to note 30 to the financial statements.

Directors' Report

The table below sets out options and performance rights vesting and lapsing during the year for Directors and Other Key Management Personnel.

2011	Number of options vested during the year	Value of options vested during the year A\$	Number of performance rights vested during the year	Value of performance rights vested during the year A\$	Number of performance rights and options lapsed during the year	Value of performance rights and options lapsed during the year A\$
Directors						
Mr P Moore	4,000,000	80,000	3,750,000	326,250	6,250,000	556,250
Mr J Jetter	3,000,000	120,000	-	-	6,000,000	737,074
Mr I Boserio	3,000,000	120,000	-	-		-
Dr J Poll	-	-	-	-	3,000,000	330,124
Mr J Zadnik	-	-	-	-	500,000	50,000
Mr R Crabb	-	-	-	-	1,500,000	19,141
Mr R Bomasang	-	-	-	-	1,000,000	27,246
Mr I Macliver	-	-	-	-	3,500,000	26,667

Other Key Management Personnel

C Martin	-		-	-	4,000,000	441,023
M Allen	4,000,000	160,000	-	-	-	-
P Senyca	7,000,000	280,000	-	-	-	-

2010

Directors

None	-	-	-	-		
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Other Key Management Personnel

None	-	-	-	-		
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End of the audited remuneration report

Meetings of Directors

During the financial year, 16 meetings of Directors and 3 meetings of the Audit and Compliance Committee were held. Attendances by each Director during the year were as follows:

Director	Board Meetings		Audit & Compliance Committee	
	Number eligible to attend	Number attended	Number eligible to attend	Number attended
Mr R Crabb	16	15	3	3
Mr P Moore	16	16	–	–
Mr R Bomasang	16	13	–	–
Mr J Jetter	16	15	–	–
Mr I Macliver	16	15	3	3
Mr I Boserio	13	12	–	–
Dr J Poll	8	7	–	–
Mr J Zadnik (Alternate)	4	3	–	–

Indemnifying Officers or Auditor

During the financial year the Company paid premiums to insure the Directors against certain liabilities arising out of their conduct while acting as an officer of the Company. The Company paid premiums to insure each of the Directors against liabilities for costs and expenses incurred by them in defending any legal proceedings arising out of their conduct while acting in the capacity as Director of the Company, other than conduct involving a wilful breach of duty in relation to the Company. Under the terms and conditions of the insurance contract the amount of the premium paid cannot be disclosed.

Options and Performance Rights

At the date of this report details of the unissued ordinary shares of Otto Energy Limited under option, are as follows:

Date of Expiry	Exercise Price US\$	Number
Options		
10-Apr-12	\$0.33	1,500,000
1-Aug-12	\$0.57	2,500,000
8-Sep-12	\$0.11	4,000,000
19-Jan-13	\$0.11	1,000,000
16-Feb-13	\$0.11	5,500,000
11-Aug-13	\$0.11	3,000,000
26-Nov-13	\$0.11	13,000,000
30-Nov-13	\$0.12	6,000,000
16-Apr-14	\$0.13	4,000,000
30-Jun-14	\$0.11	7,500,000
		48,000,000
Performance Rights		
12-Aug-2011	\$0.89	10,000,000
		10,000,000

Directors' Report

Shares issued on the exercise of options and performance rights

There were no ordinary shares of Otto Energy Limited issued during the year ended 30 June 2011 on the exercise of options or performance rights granted as remuneration.

Environmental Regulation and Performance

So far as the Directors are aware, there have been no breaches of environmental conditions of the Company's exploration or production licences. Procedures are adopted for each exploration program to ensure that environmental conditions of the Company's tenements are met.

Proceedings on Behalf of Company

No person has applied for Leave of Court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings.

The Company was not a party to any such proceedings during the year.

Corporate Governance

In recognising the need for the highest standards of corporate behaviour and accountability, the Directors of Otto Energy Limited support and have adhered to the principles of Corporate Governance. The Company's corporate governance statement is contained in the Corporate Governance section of the Financial Report.

Non-Audit Services

The Board of Directors, in accordance with advice from the Audit and Compliance Committee, is satisfied that the provision of non-audit services during the year is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001 (Cth). The Directors are satisfied that the services disclosed below did not compromise the external auditor's independence for the following reasons:

- all non-audit services are reviewed and approved by the Audit and Compliance Committee prior to commencement to ensure they do not adversely affect the integrity and objectivity of the auditor; and
- the nature of the services provided do not compromise the general principles relating to auditor independence as set out in the Institute of Chartered Accountants in Australia and APES 110 Code of Ethics for Professional Accountants.

The total fees for non-audit services paid to the external auditors related entity BDO Corporate Tax (WA) Pty Limited for taxation and other consulting services is US\$92,299 for the year ended 30 June 2011 (2010:US\$142,431).

Rounding

The amounts contained in this Report and in the Financial Statements have been rounded to the nearest US\$1,000 (where rounding is applicable) under the option available to the Company under ASIC Class Order 98/0100. The Company is an entity to which the Class Order applies.

Auditors Independence Declaration

The auditor's independence declaration as required under Section 307C of the Corporations Act 2001 (Cth) for the year ended 30 June 2011 has been received and can be found on page 39 of the Directors' report.

Signed in accordance with a resolution of the Board of Directors.



MR I MACLIVER | DIRECTOR

29 September 2011