

Corporate Governance Statement

In fulfilling its obligations and responsibilities to its various stakeholders, the Board is a strong advocate of corporate governance. This statement outlines the principal corporate governance procedures of Otto Energy Limited (Otto Energy or the Company). The Board of Directors supports a system of corporate governance to ensure that the management of Otto Energy is conducted to maximise shareholder wealth in a proper and ethical manner.

ASX Corporate Governance Council Recommendations

The Board has adopted corporate governance policies and practises consistent with the ASX Corporate Governance Council's "Corporate Governance Principles and Recommendations 2nd edition" ("Recommendations") where considered appropriate for a company of Otto Energy's size and nature. Such policies include, but are not limited to the Board Charter, Board Committee Charters, Code of Conduct, Trading in Securities, Continuous Disclosure, Shareholder Communication and Risk Management Policies. Further details in respect to the Company's corporate governance practises are summarised below and copies of Company's corporate governance policies are available on the Company's web site at www.ottoenergy.com. The Board sets out below its "if not why not" report in relation to matters of corporate governance where the Company's practise departs from the Recommendations. All Recommendations have been applied for the financial year ended 30 June 2011 unless set out below.

Recommendation 2.4 requires listed entities to establish a nomination committee. During the year, the Company established a nomination committee.

Recommendation 4.2 requires the audit committee be structured such that it consists of: only Non-Executive Directors, a majority of independent Directors, is chaired by an independent Chair, who is not the Chair of the Board and have at least three members. The Company's audit committee during the year comprised two Non-Executive, independent Directors, Messrs Ian Macliver and Rick Crabb. Given the current size and technical expertise of the Board an audit committee comprising only two Directors was considered appropriate for the Company.

Recommendation 8.1 states that the Board should establish a remuneration committee. During the year, the Company established a remuneration committee.

In relation to the above, the Board believes it has implemented suitable practices and procedures in respect of Corporate Governance considering the size of the Board and the size and maturity of the Company. The Board wishes to acknowledge that nothing has come to its

attention which would lead the Board to conclude that its current practices and procedures are not appropriate for an organisation of this size and maturity.

Roles of the Board and Management

The Board considers that the essential responsibilities of the Directors are to oversee Otto's activities for the benefit of its shareholders, employees and other stakeholders and to protect and enhance shareholder value. The Board has a Charter, which clearly establishes the relationship between the Board and management and describes their functions and responsibilities.

The key responsibilities of the Board include:

- contributing to the development of and approving corporate strategy;
- appoint and review the performance of the Managing Director/Chief Executive Officer;
- reviewing and approving business plans, the annual budget and financial plans including available resources and major capital expenditure initiatives;
- arrange for effective budgeting and financial supervision;
- ensure that effective and appropriate reporting systems in place will, in particular, assure the Board that financial, operational, compliance and risk management controls function adequately;
- ensure that appropriate audit arrangements are in place; and
- reporting to shareholders.

Board Structure

The composition of the Board shall be determined in accordance with the following principles and guidelines:

- the Board shall comprise at least 3 Directors, increasing where additional expertise is considered desirable in certain areas;
- the Chairman should be non executive;
- the Board should not comprise a majority of Executive Directors; and
- Directors should bring characteristics which allow a mix of qualifications, skills and experience.

The terms and conditions of the appointment and retirement of Directors are set out in a letter of appointment which covers remuneration, expectations, terms, the procedures for dealing with conflicts of interest and the availability of independent professional advice.

The Chairman reviews the performance of all Directors each year.

Director Independence

Directors are expected to bring independent views and judgement to the Board's deliberations. In response to the ASX Principles, the Board Charter requires the Board to include a majority of Non-Executive independent Directors and a Non-Executive independent Chairman. In considering whether a Director is independent, the Board has had regard to the independence criteria outlined in Recommendation 2.1 and other facts, information and circumstances that the Board considers to be material. All of the Non-Executive Directors are regarded as independent.

Meetings of the Board

The Board meets at least six times a year to consider the business of Otto Energy, its financial performance and other operational issues.

Retirement and Re-election

The Constitution of the Company requires one third of the Directors to retire from office at each Annual General Meeting. Directors who have been appointed by the Board are required to retire from office at the next Annual General Meeting and are not taken into account in determining the number of Directors to retire at that Annual General Meeting. Directors cannot hold office for a period in excess of three years or later than the third Annual General Meeting following their appointment without submitting themselves for re-election (excluding the Managing Director). Retiring Directors are eligible for re-election by shareholders.

When a vacancy exists, for whatever reason, or where it is considered that the Board would benefit from the services of a new Director with particular skills, the Board will select appropriate candidates with relevant qualifications, skills and experience. External advisers may be used to assist in such a process. The Board will then appoint the most suitable candidate who must stand for election at the next general meeting of shareholders.

Nomination and appointment of new Directors

Recommendations of candidates for new Directors are made by the Board as a whole.

Review of Performance

The Board reviews its performance and composition on an annual basis to ensure that it has the appropriate mix of expertise and experience. Given the size and nature of the Company's activities the Board reviews the performance of Directors and the composition of the Board, at regular intervals during the year.

Directors' Remuneration

The remuneration of Non-Executive Directors is different to that of Other Key Management Personnel. Executive Directors receive a salary and may receive other benefits.

Non-Executive Directors receive a set fee per annum, in addition to their statutory superannuation entitlements, and are fully reimbursed for any out of pocket expenses necessarily incurred in carrying out their duties. When reviewing Director's fees the Board takes into account any changes in the size and scope of Otto Energy's activities.

The Board will review the remuneration and policies applicable to all Directors on an annual basis. Remuneration levels will be competitively set to attract the most qualified and experienced Directors and senior Other Key Management Personnel. Where necessary the Board will obtain independent advice on the appropriateness of remuneration packages.

The structure and disclosure of the Company's remuneration policies for Directors are set out in the Directors Report.

Board Access to Information

All Directors have unrestricted access to all employees of the Company and, subject to the law, access to all company records and information held by and employee/s and/or external advisers. The Board receives regular detailed financial and operational reports to enable it to carry out its duties.

Each Director may, with the prior written approval of the Chairman, obtain independent professional advice to assist the Director in the proper exercise of powers and discharge of duties as a Director or as a member of a Board Committee. The Company will reimburse the Director for the reasonable expense of obtaining that advice.

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Board Committees

The Board, where appropriate, may establish a number of committees to assist in carrying out its responsibilities in an effective and efficient manner.

The Board has established a Remuneration & Nomination Committee to assist the Board in the discharge of its responsibilities and is governed by the Remuneration & Nomination Committee Charter, as approved by the Board.

The Board has established an Audit Committee to assist the Board in the discharge of its responsibilities and is governed by the Audit Committee Charter, as approved by the Board.

Audit Committee

The Board has an Audit Committee. The Committee monitors internal control policies and procedures designed to safeguard Company assets and to maintain the integrity of financial reporting. The role of the Committee is to provide a direct link between the Board and the external auditors.

It will also give the Board of Directors additional assurance regarding the quality and reliability of financial information prepared for use by the Board in determining policies or for inclusion in financial statements.

The responsibilities of the Audit Committee include:

- reviewing and reporting to the Board on the annual and half year financial reports, the financial section of quarterly reports and all other financial information published by the Company prior to release to members and other public forums;
- assisting the Board in reviewing the effectiveness of the organisation's internal control environment covering effectiveness and efficiency of operations, reliability of financial reporting, compliance with applicable laws and regulations and monitoring of corporate risk assessment processes;
- co-ordinating the audit with the external auditor including reviews of internal control measures;
- reviewing and approving any significant non-mandatory accounting policy change; and
- recommending to the Board the appointment, removal and remuneration of the external auditors, and review the terms of their engagement, the scope and quality of the audit and the auditor's independence, and consider if appropriate, the rotation of audit partners.

The Audit Committee will review the performance of the external auditors on an annual basis and meet with them at least twice during the year. Nomination of auditors will be at the discretion of the Committee. The Audit Committee also meets with and receives reports from the external auditors concerning any matters which arise in connection

with the performance of their respective roles, including the adequacy of internal controls.

The members of the Audit and Compliance Committee at the date of this report are Mr Ian Macliver (Chairman) and Mr Rick Crabb.

Remuneration & Nomination Committee

The Board has a Remuneration & Nomination Committee.

The role of the Committee is to provide a general methodology for compensation and oversee the development and implementation of the compensation regime.

The responsibilities of the Nomination and Remuneration Committee include:

- review and recommend to the Board the overall strategies in relation to executive remuneration policies;
- review and make recommendations to the Board in respect of the compensation arrangements for all Non-Executive Directors, the Chief Executive Officer and all other senior executives;
- review the effectiveness of performance incentive plans;
- review and make recommendations to the Board in respect of all equity based remuneration plans.
- review and make recommendations to the Board in respect of the Company's recruitment, retention and termination policies and superannuation arrangements;
- review the composition of the Board and ensure that the Board has an appropriate mix of skills and experience to properly fulfil its responsibilities; and
- ensure that the Board is comprised of directors who contribute to the successful management of the Company and discharge their duties having regard to the law and the highest standards of corporate governance.
- review and make recommendations to the Board in respect of the succession plans of senior executives (other than executive Directors) and ensuring the performance of senior executives is reviewed at least annually;
- consider nominations for potential candidates to act as Directors.

Ultimate responsibility for the Company's nomination and remuneration policies remains with the Board.

Auditor Independence

The Company has implemented procedures to monitor the independence and competence of the Company's external auditors. Details of the amounts paid for both audit work and non-audit services are set out in this annual report.

The Board requires that adequate hand-over occurs in the year prior to rotation of an audit partner to ensure an efficient and effective audit under the new partner.

Business Risks

The Company is committed to the identification, monitoring and management of risks associated with its business activities and has embedded in its management and reporting systems a number of risk management controls. The Board is charged with implementing appropriate risk management systems within the Company.

The Board will monitor and receive advice on areas of operational and financial risk, and consider strategies for appropriate risk management arrangements.

Specific areas of risk identified initially and which will be regularly considered at Board meetings include operating risks, commodity price volatility and exchange rate risks, environmental risks, title risks, competition, statutory compliance and continuous disclosure obligations.

The Board has received the declaration in accordance with section 295A of the Corporations Act in respect to the financial accounts for the year ended 30 June 2011 which is founded on a sound system of risk management and internal controls and these systems are operating effectively in all material respects in relation to the financial reporting risks.

Share Trading

Under the Company's Share Trading Policy, all employees and Directors of the Company and its related companies are prohibited from trading in the Company's shares or other securities if they are in possession of "inside information". Subject to this condition and in light of the ASX's continuous disclosure requirements, trading can occur at any time but subject to conditions surrounding periods prior to the publication of financial results and disclosure documents.

In addition, in order to trade, employees and Directors must advise the Audit Committee of their intention to trade and must also have been advised by one of the Audit Committee Directors that there is no known reason to preclude them trading in the Company's shares or other securities.

Diversity

The Company recognises that a talented and diverse workforce is a key competitive advantage. The Company is committed to an inclusive workplace that embraces diversity and values, respects and leverages the unique contributions of people with diverse backgrounds, experiences and perspectives. Under the Company's Diversity policy it is a requirement to recruit and manage on the basis of competence and performance regardless of age, nationality, race, gender, religious beliefs, sexuality, physical ability or cultural background. It is essential that we have the right person for the right job and that we deliver at a high level of performance.

Continuous Disclosure

The Company understands and respects that timely disclosure of price sensitive information is central to the efficient operation of the ASX securities market and has adopted a comprehensive policy covering announcements to the Australian Securities Exchange, prevention of selective or inadvertent disclosure, conduct of investor and analysts briefings, media communications, commenting on expected earnings, communications black-out periods and review of briefings and communications. The policy is reviewed periodically and updated as required.

The Company Secretary has responsibility for overseeing and coordinating disclosure of information to the Australian Securities Exchange. The Company Secretary also liaises with the Chairman in relation to continuous disclosure matters. The Chief Executive Officer is responsible for overseeing and coordinating disclosure of information to analysts, brokers and shareholders.

Ethical Standards

All Directors, Other Key Management Personnel and employees are charged with the responsibility to act with the utmost integrity and objectivity, striving at all times to enhance the reputation and performance of the Company.

It is the Board's responsibility to ensure that all staff are aware of the Company's Code of Conduct and to ensure that any individual who does not adhere to these ideals is dealt with appropriately by executive management. Appropriate action may be counselling, disciplinary action or termination of employment.

The Board is responsible for setting the tone of legal, ethical and moral conduct to ensure that the Company is considered reputable by the industry and other outside entities. This involves considering the impact of the Company's decisions on the industry, colleagues and the general community.

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Communications with Shareholders

The Board aims to ensure that shareholders are kept informed of all major developments affecting Otto Energy. Information is communicated to shareholders through the distribution of annual reports; and by presentation to shareholders at the Annual General Meeting, which they are encouraged to attend.

Further information about the Company's Corporate Governance practices is provided on the Company's website at www.ottoenergy.com. Information published on the Company's website includes charters (for the Board and its sub-committees), the Company's Code of Conduct and other policies and procedures relating to the Board and its responsibilities. In addition, all reports, including quarterly reports and releases made by Otto Energy throughout the year with respect to its activities are distributed widely via the Australian Securities Exchange and posted on the Company's website located at www.ottoenergy.com