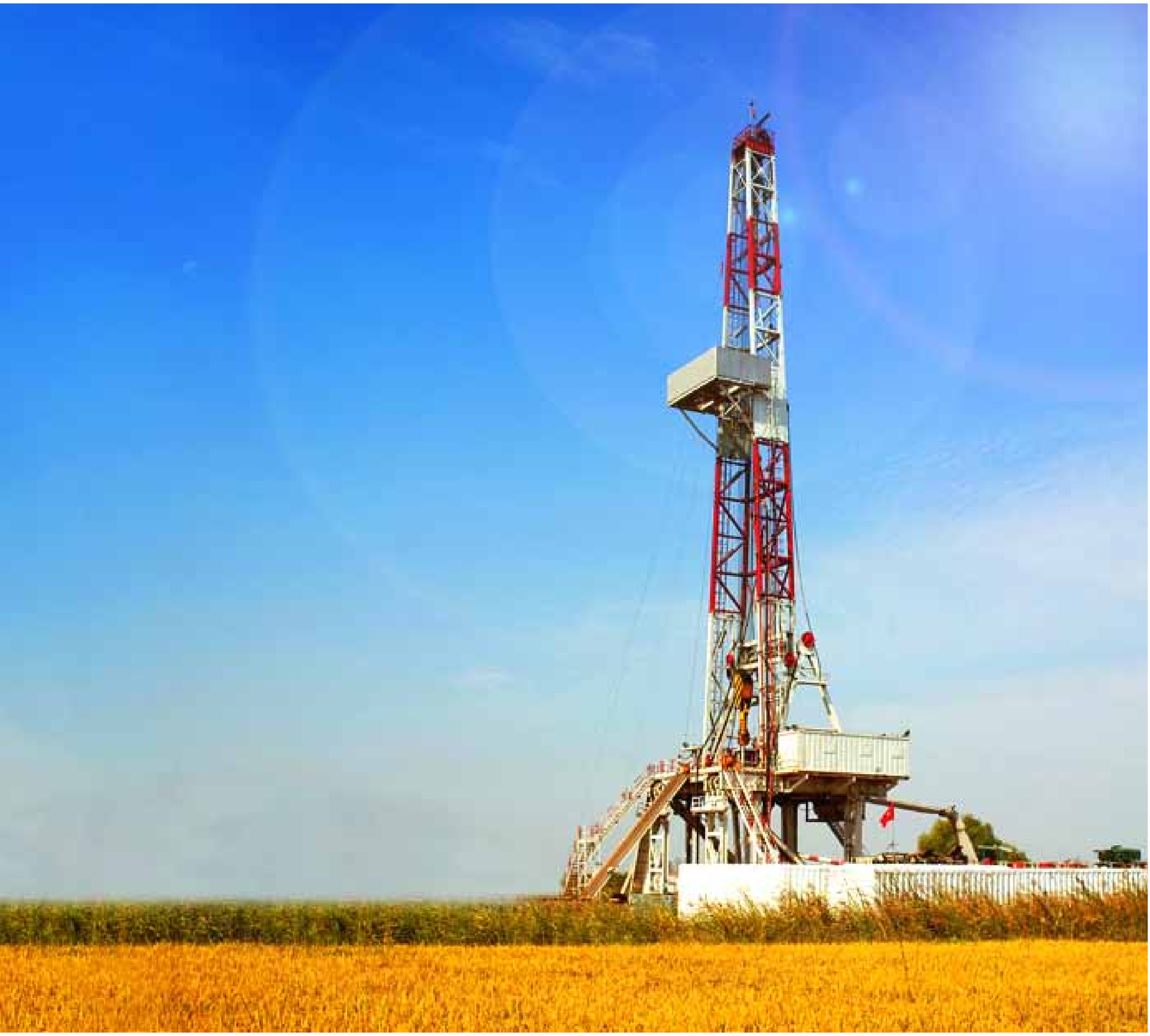


ANNUAL REPORT
2010/2011

Contents

Chairman's Letter

Harry A Hill

Mr Barnaby Egerton-Warburton

Dear Shareholders,

By its very nature the gathering for an Annual General Meeting gives pause for reflection on the events and accomplishments of the past twelve months. It is therefore with enthusiasm that I report that the events of the last twelve months have created a company which is now ready to embark on an exciting journey.

The activities of the last year have been tumultuous and exhaustive, but extremely focused. The company underwent a capital reconstruction on a 1:10 basis and a placement which raised $840,000 in which a number of new investors took up substantial shareholdings. A subsequent rights issue raised $3.3 million. As a result of these raisings we welcome any new investors to our share register. In addition the company's name was changed to Otis Energy Limited to reflect its activities in the energy sector.

Our focus during the year was to identify opportunities in the oil and gas area which would potentially deliver shareholder value. To this end the company announced the purchase of a 10% working interest (7.3% net revenue interest) in the Avalanche project in Louisiana, U.S.A. This project, together the San Jacinto project area where Otis has a 10% working interest and the Catahoula Lake project, in which Otis owns a 25% working interest, will be the initial focus of our attention.

I would encourage you to read the Review of Operations for more detail.

To support the direction of the Board we appointed a management team in Texas which includes two geologists, one reservoir engineer and two landmen with experience in the U.S oil and gas business to seek and undertake an extensive evaluation of the potential projects which would satisfy the criteria of the company. The Avalanche project is the first one introduced by that group.

The Board of Otis brings together a diverse skill set and considerable experience in all aspects of project acquisition, oil

Mr Harry Hill

Mr Winton Willesee

and gas exploration and development finance, corporate development and commercial negotiations of all types. This combined with the skills and experience of our management team brings together a wide and diverse combination of experience and expertise in the oil and gas sector.

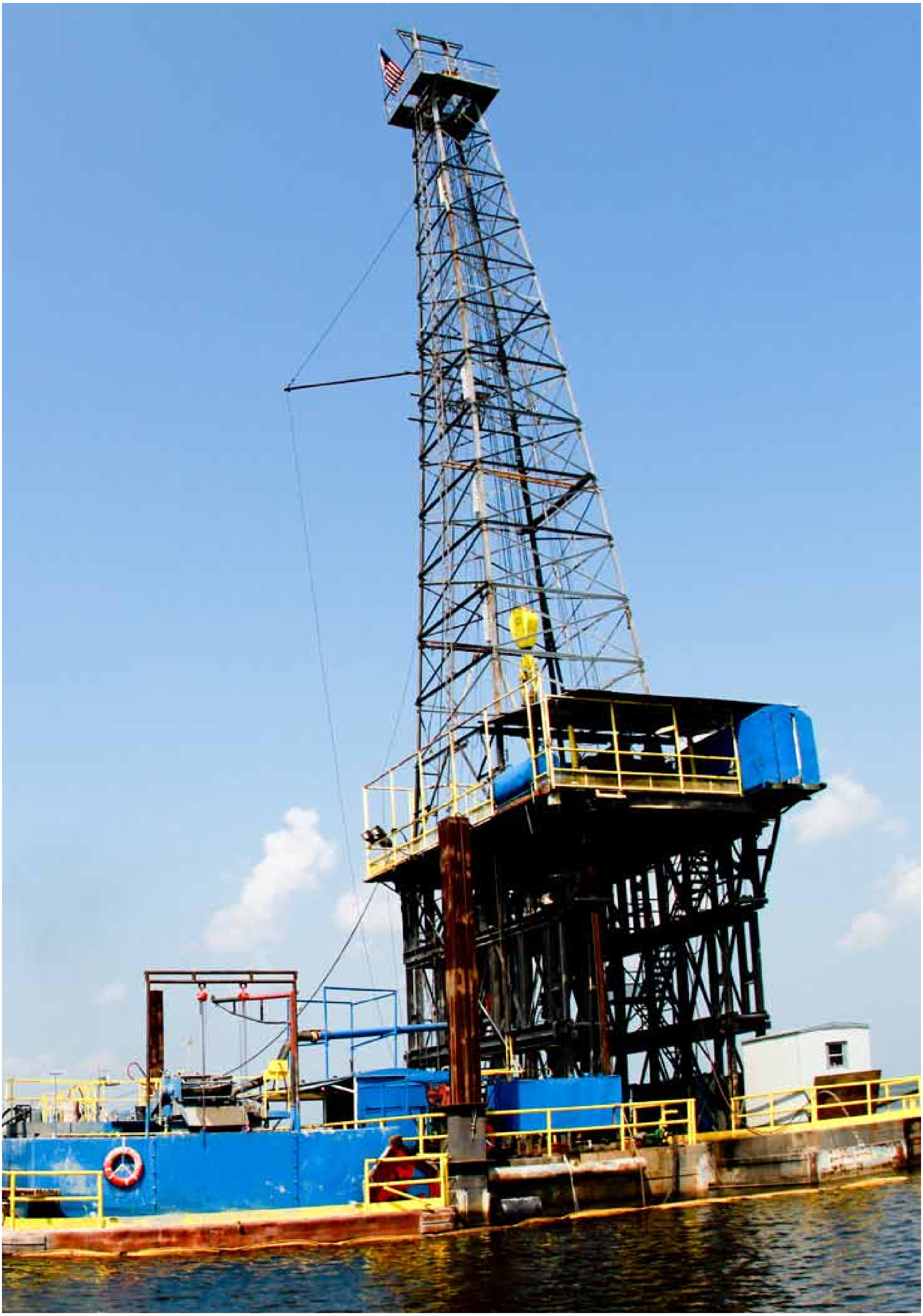
We have much to do in the coming year but our achievements in the previous year show our capabilities. We now have the funds and access to funding, technical ability and will power to succeed.

On behalf of the Board I would like to thank the shareholders and consultants who have supported the company and look forward to further achievements in the year ahead.

Finally I would like to thank my fellow directors and management team who made a significant contribution towards the development and growth of the company during the year.

Yours Faithfully,

Harry A Hill
Non-executive Chairman



Managing Directors Report

The past 12 months have been an extremely active time for Otis Energy both in the field and corporately. Your board of directors have worked tirelessly to identify highly prospective Oil and Gas projects located primarily in the USA but also in the Middle East, Europe and Asia. As a result two new projects were acquired during this period, both located onshore USA; the San Jacinto 3D project and the Avalanche 3D project.

With the reclassification of the Company by the Australian Securities Exchange (ASX) from the financial sector to the resources sector combined with a name change from Future Corporation Australia Limited to Otis Energy Limited along with a 1 for 10 reconstruction of the issued capital, the Company has now completed the transformation to a pure Oil and Gas exploration and production company.

Subsequent to the end of the financial year, Otis moved to accept an offer of purchase for its 100% owned Responsible Entity business, Lowell Capital Limited. The consideration for the sale will total $700,000 and comprises a $300,000 return of capital payment from Lowell to Otis and a $400,000 payment by the purchaser.

With the Company's 100% refocus on the energy sector we built a five man oil and gas project generation, due-diligence and execution team based in Dallas, Texas. This team consists of two geologists, one reservoir engineer and two landmen (Dallas Team). The Dallas Team have over 140 years of combined experience in the Oil and Gas sector between them and have worked with some of the most well respected and successful independent and listed energy companies in the United States including Hunt Petroleum, Exxon, Bass Production Co, Netherland Sewell and Wynn-Crosby. The benefits of building the Dallas Team are numerous but foremost they allow us to generate our own projects from ground up instead of relying on other parties to present prospective projects to us along with the usual costs associated. The Dallas Team have also expedited the due diligence process and projects that are presented or marketed to Otis are evaluated in a greatly reduced time frame with broader expertise. The Company has now completed its evolution to an independent and aggressive junior oil and gas player and is now positioned for a period of rapid growth.

Avalanche 3D Seismic Project

In May of 2011 Otis acquired a 10% working interest in a large target Oil and Gas project located in South Central Louisiana called "Avalanche". Avalanche is representative of the kind of high quality exploration projects the Dallas Team are capable of generating. The Avalanche Project covers close to 24,000 acres and is 75% covered by a recently acquired 3D seismic survey. Mapping of the independent seismic events has led to the delineation of over 22 separate prospects across the 3D seismic shoot with a combined potential reserve target of 126 Million Barrels of Oil and 379 Billion Cubic feet of Gas. The first well to test the first four target sands is expected to be drilled in October 2011.

Catahoula Lake

The Catahoula Lake project stalled during 2010 as the result of the bankruptcy of our then joint venture partner and operator Tridimension Energy. As a result, Otis Energy & Pryme Oil and Gas Ltd assumed responsibility for putting the equipment into a safe operable condition and drilling its first well on the lake in June 2010. The Catahoula Lake interest of our joint venture partner, together with additional Catahoula Lake production in which we did not own an interest, were acquired by Sanchez Resources, LLC ("Sanchez") towards the end of last year. We have now reached agreement in principle with Sanchez to merge all of our Catahoula Lake assets, appoint Sanchez as operator and function as an integrated joint venture over the combined lake assets.

Subsequent to the end of the financial year Otis and Pryme completed the workover of two wells owned 100% by Pryme Lake Exploration (50% Otis , 50% Pryme Energy) which resulted in an increase in production of roughly 18-20BOPD. The next activity on the lake will take place in late summer when the lake is drained. At present an independent locally based geologist has been commissioned to provide a complete reworking of the Catahoula Lake geology in order to generate additional prospects the upcoming barge rig drilling season.

Managing Directors Report

Continued

San Jacinto 3D Project.

In January of 2011 Otis entered into an agreement to acquire up to a 10% working interest in the San-Jacinto 3D project with the requirement to pay 20% of the total $1,333,333 in five instalments with each instalment due at the proposal of each well. To date two wells have been drilled on the project and both have been unsuccessful. The project operator, Drill Partners, along with geophysical group INEXS are currently reworking seismic data and incorporating the results of the drilling to gain a better understanding of the project. Otis Energy has also conducted a review of the seismic data and will await the results of the operators review before making our decision on how to proceed. To date Otis has only been required to pay two of the instalments and until a third well is nominated we will have no other financial commitment to the project.

Atocha

The Atocha Project (50% WI) located in the East Baton Rouge and East Feliciana parishes Louisiana, lies within the up-dip fairway of the Tuscaloosa trend. During the year Otis continued to seek a larger partner to farm into the acreage. Although several large companies have leased sizeable acreage positions to the east of Atocha no sale or farm-out has been achieved. Devon, a large US oil and gas company at the time of writing has completed a Tuscaloosa Marine Shale test well approximately nine miles to the north east of the Atocha project and has permitted a second lateral well to be drilled as an offset. The outcome of this drilling program will be watched closely by the Company as a successful well could increase interest in Atocha.

The information in this report has been reviewed by David Brewer (a Certified Petroleum Geologist with the AAPG) who has over 30 years experience in petroleum geology, and geophysics, prospect generation and evaluations, and prospect and project level resource and risk estimations. Mr Brewer reviewed this announcement and consents to the inclusion of the geological and engineering descriptions and any estimated hydrocarbon resources in the form and context in which they appear. Any resource estimates contained in this report are in accordance with the standard definitions set out by the Society of Petroleum Engineers, further information on which is available at spe.org.

Directors' report
30 June 2011

The directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'consolidated entity') consisting of Otis Energy Limited (referred to hereafter as the 'company' or 'parent entity') and the entities it controlled for the year ended 30 June 2011.

Directors

The following persons were directors of Otis Energy Limited during the whole of the financial year and up to the date of this report, unless otherwise stated:

Mr Harry Hill (Non-Executive Chairman)
Mr Barnaby Egerton-Warburton (Managing Director)
Mr Winton Willesee (Non-Executive Director and Company Secretary)

Principal Activities

During the financial year the principal continuing activities of the consolidated entity consisted of:

- acting as a responsible entity for a managed investment scheme and managing its other investments;
- oil and gas exploration and development.

Dividends

There were no dividends paid or declared during the current or previous financial year.

Review of Operations

The loss for the consolidated entity after providing for income tax amounted to $2,798,446 (30 June 2010: $2,548,540).

Significant Changes in the State of Affairs

During the financial year the following significant changes in the state of affairs occurred:

- On 20 May 2011 the company changed its name to Otis Energy Limited and underwent a capital consolidation on a 10 to 1 basis following approval at a general meeting of shareholders;
- the company issued 420,000,000 shares raising $840,000 before costs at an issue price of $0.002 per share;
- the company issued 1,640,998,692 shares through an entitlement issue prospectus dated 20 January 2011 raising $3,281,997 before costs;
- the company acquired a 10% working interest (7.3% net revenue interest) in Avalanche project for $US960,000; and
- the company acquire acquired 10% working interest in San Jacinto 3D project.

There were no other significant changes in the state of affairs of the consolidated entity during the financial year.

Matters Subsequent to the End of the Financial Year

On 12 July 2011 the company announced the sale of its 100% owned subsidiary Lowell Capital Limited for a consideration value of $700,000 comprising of a $300,000 return of capital payment from Lowell to Otis and $400,000 payment by the purchaser.

No other matter or circumstance has arisen since 30 June 2011 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

Likely Developments and Expected Results of Operations

Information on likely developments in the operations of the consolidated entity and the expected results of operations have not been included in this report because the directors believe it would be likely to result in unreasonable prejudice to the consolidated entity.

Environmental Regulation

The consolidated entity holds participating interests in petroleum exploration interest. The various authorities granting such interests require the permit holder to comply with the terms of the grant of the permit and all directions given to it under those terms of the permit. There have been no known breaches of the tenement conditions, and no such breaches have been notified by any government agencies during the year ended 30 June 2011.

Directors' report
30 June 2011 Continued

Information on Directors

Name:	Mr Harry Hill
Title:	Non-executive Chairman
Qualifications:	CPA, FCIS
Experience and expertise:	Harry is a Certified Practising Accountant and Fellow of the Chartered Institute of Secretaries. He has over 25 years experience as a Director and Company Secretary of several publicly listed companies involved in oil and gas exploration, mining and mineral exploration particularly in commodities of gold, nickel and diamonds and publicly listed companies operating in the field of education, construction and clothing, both wholesale and retail.
Other current directorships:	Cove Resources Limited
Former directorships (in the last 3 years):	New Standard Energy Limited (resigned 28 July 2008) Tawana Resources NL (resigned 27 May 2011)
Special responsibilities:	Nil
Interests in shares:	Nil
Interests in options:	2,000,000 unlisted 5c options expiring 31 December 2015

Name:	Mr Barnaby Egerton-Warburton
Title:	Managing Director
Qualifications:	B. Ec. GAICD.
Experience and expertise:	Barnaby has over 18 years of trading, investment banking, international investment and market experience. He has held positions with investment banks in Perth, Sydney, New York and Hong Kong including JP Morgan, BNP Equities (New York) and Prudential Securities (New York).
Other current directorships:	Nil
Former directorships (in the last 3 years):	Nil
Special responsibilities:	Nil
Interests in shares:	5,727,780 fully paid ordinary shares
Interests in options:	5,500,000 unlisted 10 cent options expiring 31 December 2012 6,000,000 unlisted 15 cent options expiring 31 December 2013 24,465,463 unlisted 5 cent options expiring 31 December 2015

Name:	Mr Winton Willesee
Title:	Non-Executive Director and Company Secretary
Qualifications:	BBus., DipEd.,PGDipBus., MCom., FFin, CPA, MAICD, ACIS
Experience and expertise:	Winton is an experienced Director and Company Secretary in the small capitalisation sector of ASX. Mr Willesee brings a broad range of experience in company administration, corporate governance, company public listings, merger and acquisition transactions, reconstructions and corporate finance from his background with listed and unlisted public and other companies. Winton has a Master of Commerce, a Post Graduate Diploma in Business (Economics and Finance), a Graduate Diploma of Applied Corporate Governance, a Diploma in Education and a Bachelor of Business. Winton is a Fellow of the Financial Services Institute of Australasia, a member of CPA Australia and a Chartered Secretary. Other current directorships: Chairman of BioProspect Limited, Cove Resources Limited and Mining Group Limited. Director of Base Resources Limited, Coretrack Limited and Newera Resources Limited.
Former directorships (in the last 3 years):	Hawkley Oil & Gas Limited (resigned 22 June 2010) Boss Resources Limited (resigned 8 October 2009) New Standard Energy Limited (resigned 28 July 2008)
Special responsibilities:	Nil
Interests in shares:	3,375,000 fully paid ordinary shares
Interests in options:	200,000 unlisted 10 cent options expiring 31 December 2012 750,000 unlisted 10 cent options expiring 31 December 2013 800,000 unlisted 15 cent options expiring 31 December 2013 12,312,500 unlisted 5 cent options expiring at 31 December 2015

'Other current directorships' quoted above are current directorships for listed entities only and excludes directorships in all other types of entities, unless otherwise stated.

'Former directorships (in the last 3 years)' quoted above are directorships held in the last 3 years for listed entities only and excludes directorships in all other types of entities, unless otherwise stated.

Meetings of Directors

The number of meetings of the company's Board of Directors held during the year ended 30 June 2011, and the number of meetings attended by each director were:

	Full Board Attended	Held
Mr Harry Hill	18	18
Mr Barnaby Egerton-Warburton	18	18
Mr Winton Willesee	18	18

Held: represents the number of meetings held during the time the director held office.

Remuneration Report (audited)

The remuneration report, which has been audited, outlines the director and executive remuneration arrangements for the consolidated entity and the company, in accordance with the requirements of the Corporations Act 2001 and its Regulations.

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

E Additional information

a) Principles Used to Determine the Nature and Amount of Remuneration

The objective of the consolidated entity's and company's executive reward framework is to ensure reward for performance is competitive and appropriate for the results delivered. The framework aligns executive reward with the achievement of strategic objectives and the creation of value for shareholders, and conforms with the market best practice for delivery of reward. The Board of Directors ('the Board') ensures that executive reward satisfies the following key criteria for good reward governance practices:

- competitiveness and reasonableness
- acceptability to shareholders
- performance linkage / alignment of executive compensation
- transparency
- capital management

Non-Executive Directors Remuneration

Fees and payments to non-executive directors reflect the demands which are made on, and the responsibilities of, the directors. Non-executive directors' fees and payments are reviewed annually by the Board. Retirement payments, if any, are agreed to be determined in accordance with the rules set out in the Corporations Act 2001 at the time of the Director's retirement or termination. Non-Executive Directors' remuneration may include an incentive portion consisting of bonuses and/or options, as considered appropriate by the Board, which may be subject to shareholder approval in accordance with the ASX Listing Rules.

Executive Remuneration

In determining the level and make-up of executive remuneration, the Board negotiates a remuneration to reflect the market salary for a position and individual of comparable responsibility and experience. Due to the limited size of the Company and of its operations and financial affairs, the use of a separate remuneration committee is not considered appropriate. Remuneration is regularly compared with the external market by participation in industry salary surveys and during recruitment activities generally. If required, the Board may engage an external consultant to provide independent advice in the form of a written report detailing market levels of remuneration for comparable executive roles.

The executive remuneration and reward framework has three components:

- base pay and non-monetary benefits
- share-based payments
- other remuneration such as superannuation and long service leave

Fixed remuneration, consisting of base salary, superannuation and non-monetary benefits, are reviewed annually by the full board, based on individual and business unit performance, the overall performance of the consolidated entity and comparable market remunerations.

b) Details of Remuneration

Amounts of Remuneration

Details of the remuneration of the directors, other key management personnel (defined as those who have the authority and responsibility for planning, directing and controlling the major activities of the consolidated entity) and specified executives of Otis Energy Limited are set out in the following tables.

2011	Short-term benefits			Post-employment benefits	Long-term benefits	Share-based payments	
Name	Cash salary and fees	Bonus	Non-monetary	Superannuation	Long service leave	Equity-settled	Total
	$	$	$	$	$	$	$
Non-Executive Directors:							
Harry Hill	49,333	-	-	-	-	11,000	60,333
Winton Willesee **	92,400	-	-	-	-	66,000	158,400
Executive Directors:							
Barnaby Egerton-Warburton	198,000	-	-	-	-	132,000	330,000
Other Key Management Personnel:							
Michael Ramsden *	35,000	-	-	-	-	-	35,000
David Worth ***	5,000	-	-	-	-	-	5,000
Don Carroll *	35,000	-	-	-	-	-	35,000
Oliver Carton ****	25,726	-	-	-	-	-	25,726
	440,459	-	-	-	-	209,000	649,459

* Executive Director of Lowell Capital Limited

** Payments include amounts paid for Company Secretarial services provided. An additional amount of $12,000 was paid to a Company associated with Mr Winton Willesee for providing office services.

*** resigned as Director of Lowell Capital Limited on 31 August 2010

**** appointed on 22 October 2010

Directors' report
30 June 2011 Continued

b) Details of Remuneration (continued)

2010	Short-term benefits			Post-employment benefits	Long-term benefits	Share-based payments	
Name	Cash salary and fees	Bonus	Non-monetary	Superannuation	Long service leave	Options received as compensation	Total
	$	$	$	$	$	$	$
Non-Executive Directors:							
Harry Hill	41,000	-	-	-	-	12,000	53,000
Winton Willesee	86,100	-	-	-	-	62,800	148,900
Executive Directors:							
Barnaby Egerton-Warburton	128,357	-	-	-	-	466,000	594,357
Other Key Management Personnel:							
Michael Ramsden *	28,500	-	-	-	-	-	28,500
David Worth *	28,500	-	-	-	-	-	28,500
Don Carroll **	23,900	-	-	-	-	-	23,900
Stephen Mitchell ***	4,100	-	-	500	-	-	4,600
	340,457	-	-	500	-	540,800	881,757

* Executive Director of Lowell Capital Limited
** Executive Director of Lowell Capital Limited (appointed 21 September 2009)
*** Executive Director of Lowell Capital Limited (resigned 9 September 2009)
**** Payments include amounts paid for Company Secretarial services provided. An additional amount of $12,000 was paid to a Company associated with Mr Winton Willesee for providing office services.

The proportion of remuneration linked to performance and the fixed proportion are as follows:

	Fixed remuneration		At risk - STI		At risk - LTI	
Name	2011	2010	2011	2010	2011	2010
Non-Executive Directors:						
Harry Hill	82%	77%	- %	- %	18%	23%
Winton Willesee	58%	58%	- %	- %	42%	42%
Executive Directors:						
Barnaby Egerton - Warburton	67%	22%	- %	- %	33%	78%

c) Service Agreements

Key management personnel have no entitlement to termination payments in the event of removal for misconduct.

d) Share-Based Compensation

Issue of Shares

There were no shares issued to directors and other key management personnel as part of compensation during the year ended 30 June 2011.

Options

The terms and conditions of each grant of options affecting remuneration in this financial year or future reporting years are as follows:

Grant date	Vesting date and exercisable date	Expiry date	Exercise price	Fair value per option at grant date
20 May 2011	20 May 2011	31 December 2015	$0.050	$0.0055

Options granted carry no dividend or voting rights.

Details of options over ordinary shares issued to directors and other key management personnel as part of compensation during the year ended 30 June 2011 are set out below:

	Number of options granted during the year		Number of options vested during the year	
Name	2011	2010	2011	2010
Harry Hill	2,000,000	3,000,000	2,000,000	3,000,000
Winton Willesee	12,000,000	15,500,000	12,000,000	15,500,000
Barnaby Egerton-Warburton	24,000,000	115,000,000	24,000,000	115,000,000

Values of options over ordinary shares granted, exercised and lapsed for directors and other key management personnel during the year ended 30 June 2011 are set out below:

	Value of options granted during the year	Value of options exercised during the year	Value of options lapsed during the year	Remuneration consisting of options for the year
	$	$	$	%
Name				
Harry Hill	11,000	-	38,000	-
Winton Willesee	66,000	-	-	-
Barnaby Egerton-Warburton	132,000	-	-	-

e) *Additional Information*

The earnings of the consolidated entity for the five years to 30 June 2011 are summarised below:

	2007	2008	2009	2010	2011
	$	$	$	$	$
Sales revenue	661,347	968,372	381,108	478,474	218,837
Net profit/(loss) before tax	(953,656)	(140,624)	(621,781)	(2,547,867)	(2,955,951)
Net profit/(loss) after tax	(971,314)	(203,969)	(558,437)	(2,547,867)	(2,955,951)

The factors that are considered to affect total shareholders return (TSR) are summarised below:

	2007	2008	2009	2010	2011
Basic earnings per share (cents per share)	(0.200)	(0.020)	(0.040)	(0.100)	(0.090)
Diluted earnings per share (cents per share)	(0.200)	(0.020)	(0.040)	(0.100)	(0.090)

This concludes the remuneration report, which has been audited.

Shares Under Option

Unissued ordinary shares of Otis Energy Limited under option at the date of this report are as follows:

Grant date	Expiry date	Exercise price	Number under option
21 December 2006	21 December 2011	$0.100	2,115,159
4 December 2007	31 December 2011	$0.025	500,000
7 October 2009	31 December 2012	$0.100	6,550,000
7 October 2009	31 December 2013	$0.100	26,500,000
7 October 2009	02 January 2014	$0.150	6,800,000
February 2011 to June 2011	31 December 2015	$0.050	186,049,933
			228,515,092

Shares Issued on the Exercise of Options

There were no shares of Otis Energy Limited issued on the exercise of options during the year ended 30 June 2011.

Indemnity and Insurance of Officers

The company has indemnified the directors of the company for costs incurred, in their capacity as a director, for which they may be held personally liable, except where there is a lack of good faith.

During the financial year, the company paid a premium in respect of a contract to insure the directors of the company against a liability to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of liability and the amount of the premium.

Indemnity and Insurance of Auditor

The company has not otherwise, during or since the financial year, indemnified or agreed to indemnify the auditor of the company or any related entity against a liability incurred by the auditor.

During the financial year, the company has not paid a premium in respect of a contract to insure the auditor of the company or any related entity.

Proceedings on Behalf of the Company

No person has applied to the Court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the company, or to 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 part of those proceedings.

Non-audit Services

There were no non-audit services provided during the financial year by the auditor.

Officers of the Company who are Former Audit Partners of Hayes Knight Audit Pty Ltd

There are no officers of the company who are former audit partners of Hayes Knight Audit Pty Ltd.

Auditor's Independence Declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on the following page.

Auditor

Hayes Knight Audit Pty Ltd continues in office in accordance with section 327 of the Corporations Act 2001.

This report is made in accordance with a resolution of directors, pursuant to section 298(2)(a) of the Corporations Act 2001.

On behalf of the directors

Mr Winton Willesee
Director
26 September 2011
Melbourne

Auditors independence declaration

30 June 2011

Hayes Knight Audit
chartered accountants
your partners in success

Hayes Knight Audit Pty Ltd
ABN 86 005 105 975
Level 12, 31 Queen Street
Melbourne VIC 3000

• tel +61 3 8613 8888 • fax +61 3 8613 8800
• email info@hayesknightaudit.com.au
• www.hayesknightaudit.com.au

Registered Audit Company 291969

AUDITOR'S INDEPENDENCE DECLARATION UNDER SECTION 307C OF THE CORPORATIONS ACT 2001 TO THE DIRECTORS OF OTIS ENERGY LIMITED
(Formerly known as Future Corporation Australia Limited)

I declare that, to the best of my knowledge and belief, during the year ended 30 June 2011 there have been:

no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and

no contraventions of any applicable code of professional conduct in relation to the audit.

Hayes Knight Audit Pty Ltd
Melbourne

G. S. Parker
Director

Dated this 26 day of SEPTEMBER 2011

Independent member of the Hayes Knight Group and Morison International

Liability limited by a scheme approved under Professional Standards Legislation

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Corporate governance statement

30 June 2011

The Board of Directors ('the Board') of Otis Energy Limited (the 'company') is responsible for the corporate governance of the consolidated entity. The Board guides and monitors the business and affairs of the company on behalf of the shareholders by whom they are elected and to whom they are accountable.

The table below summarises the company's compliance with the ASX Corporate Governance Council's Revised Principles and Recommendations.

	Principles and Recommendations	*Compliance*	*Comply*
Principle 1 – Lay solid foundations for management and oversight			
1.1	Establish the functions reserved to the Board and those delegated to manage and disclose those functions.	The Board is responsible for the overall corporate governance of the company. The Board has adopted a Board charter that formalises its roles and responsibilities and defines the matters that are reserved for the Board and specific matters that are delegated to management. The Board has adopted a Delegations of Authority that sets limits of authority for senior executives. On appointment of a director, the company issues a letter of appointment setting out the terms and conditions of appointment to the Board.	Complies.
1.2	Disclose the process for evaluating the performance of senior executives.	The Board meets annually to review the performance of executives. The senior executives' performance is assessed against performance of the Company as a whole.	Complies.
1.3	Provide the information indicated in **Guide to reporting on Principle 1**.	A Board charter has been disclosed on the company's website and is summarised in this Corporate Governance Statement. A performance evaluation process is included in the Board Charter, which has been disclosed on the company's website and is summarised in this Corporate Governance Statement.	Complies.
Principle 2 – Structure the Board to add value			
2.1	A majority of the Board should be independent directors.	The majority of the Board's directors are not independent directors of the company. Mr Barnaby Egerton-Warburton is the Executive Director. Mr Winton Willesee is an independent Non-Executive Director, and is the Company Secretary. Mr Harry Hill is an independent Non-executive.	Whilst the Board recognises that it is desirable for the majority of the Board to be an Independent Directors, the Company's current size dictates that this is the most efficient mode of operation at the current time. The Board will review the appointment of further Independent Directors should the Company's size and growth warrant this
2.2	The chair should be an independent director.	Mr Harry Hill is the Chairman and is independent.	Complies.
2.3	The roles of chair and chief executive officer should not be exercised by the same individual.	Mr Harry Hill is the Chairman and Mr Barnaby Egerton-Warburton is the chief executive officer.	Complies.
2.4	The Board should establish a nomination committee.	The company has not established a Nomination and Remuneration Committee.	Given the size and scale of Otis Energy Limited. The role of a nomination committee is carried out by the full Board. The full board considers the appointment of new Directors, on an informal basis. The Board's policy for the appointment of new Directors to the Board can be accessed at www.otisenergy.com.

Corporate governance statement

30 June 2011 Continued

Principles and Recommendations		*Compliance*	*Comply*
2.5	Disclose the process for evaluating the performance of the Board, its committees and individual directors.	The company conducts the process for evaluating the performance of the Board, its committees and individual directors as outlined in the Board Charter which is available on the company's website. The Board's induction program provides incoming directors with information that will enable them to carry out their duties in the best interests of the company. This includes supporting ongoing education of directors for the benefit of the company.	Complies.
2.6	Provide the information indicated in the **Guide to reporting on Principle 2.**	This information has been disclosed (where applicable) in the directors' report attached to this Corporate Governance Statement. A director is considered independent when he substantially satisfies the test for independence as set out in the ASX Corporate Governance Recommendations. Members of the Board are able to take independent professional advice at the expense of the company. Mr Barnaby Egerton-Warburton, Executive Director, was appointed to the Board in April 2009. Mr Winton Willesee, Non-Executive Director, was appointed to the Board in January 2008. Mr Harry Hill, Chairman, was appointed to the Board in June 2008. The Board has undertaken a review of the mix of skills and experience on the Board in light of the company's principal activities and direction, and has considered diversity in succession planning. The Board considers the current mix of skills and experience of members of the Board and its senior management is sufficient to meet the requirements of the company. In accordance with the information suggested in Guide to Reporting on Principle 2, the company has disclosed full details of its directors in the director's report attached to this Corporate Governance Statement. Other disclosure material on the Structure of the Board has been made available on the company's website.	Complies.

Principle 3 – Promote ethical and responsible decision making

3.1	Establish a code of conduct and disclose the code or a summary of the code.	The Board has adopted a code of conduct. The code establishes a clear set of values that emphasise a culture encompassing strong corporate governance, sound business practices and good ethical conduct. The code is available on the company's website.	Complies.
3.2	Companies should establish a policy concerning diversity and disclose the policy or a summary of that policy. The policy should include requirements for the Board to establish measurable objectives for achieving gender diversity and for the Board to assess annually both the objectives and progress in achieving them.	The Board has undertaken a review of the mix of skills and experience on the Board in light of the company's principal activities and direction. The Board will prepare a Diversity Policy that considers the benefits of diversity, ways to promote a culture of diversity, factors to be taken into account in the selection process of candidates for Board and senior management positions in the company, education programs to develop skills and experience in preparation for Board and senior management positions, processes to include review and appointment of directors, and identify key measurable diversity performance objectives for the Board, CEO and senior management.	Does not comply however the Board has committed the company to review and prepare a Diversity Policy that considers all aspects of diversity in accordance with corporate governance guidelines.
3.3	Provide the information indicated in **Guide to reporting on Principle 3.**	On completion and acceptance of a Diversity Policy, the company will report in each annual report the measurable objectives for achieving gender diversity set by the Board. The company will include in the directors' report the proportion of women employees and their positions held within the company.	Nil

Principles and Recommendations		*Compliance*	*Comply*
Principle 4 – Safeguard integrity in financial reporting			
4.1	The Board should establish an audit committee.	The Board has not established an audit and risk committee.	The Board has not formed a separate audit committee given the size and scale of the Company. The functions of an audit committee are performed by the whole Board. All items that are dealt with by an audit committee are dealt with at Board meeting.
4.2	The audit committee should be structured so that it consists of only non-executive directors, a majority of independent directors, is chaired by an independent chair who is not chair of the Board and have at least 3 members.	Refer to comments above under 4.1.	Refer to comments above under 4.1.
4.3	The audit committee should have a formal charter.	Refer to comments above under 4.1.	Refer to comments above under 4.1.
4.4	Provide the information indicated in **Guide to reporting on Principle 4.**	In accordance with the information suggested in Guide to Reporting on Principle 2, this has been disclosed in the directors' report attached to this Corporate Governance Statement and is summarised in this Corporate Governance Statement.	Complies.

Principles and Recommendations		*Compliance*	*Comply*
Principle 5 – Make timely and balanced disclosure			
5.1	Establish written policies designed to ensure compliance with ASX Listing Rules disclosure requirements and to ensure accountability at a senior executive level for that compliance and disclose those policies or a summary of those policies.	The company has adopted a continuous disclosure policy, to ensure that it complies with the continuous disclosure regime under the ASX Listing Rules and the Corporations Act 2001. This policy is available on the company's website.	Complies.
5.2	Provide the information indicated in the **Guide to reporting on Principle 5.**	The company's continuous disclosure policy is available on the company's website.	Complies.

Corporate governance statement

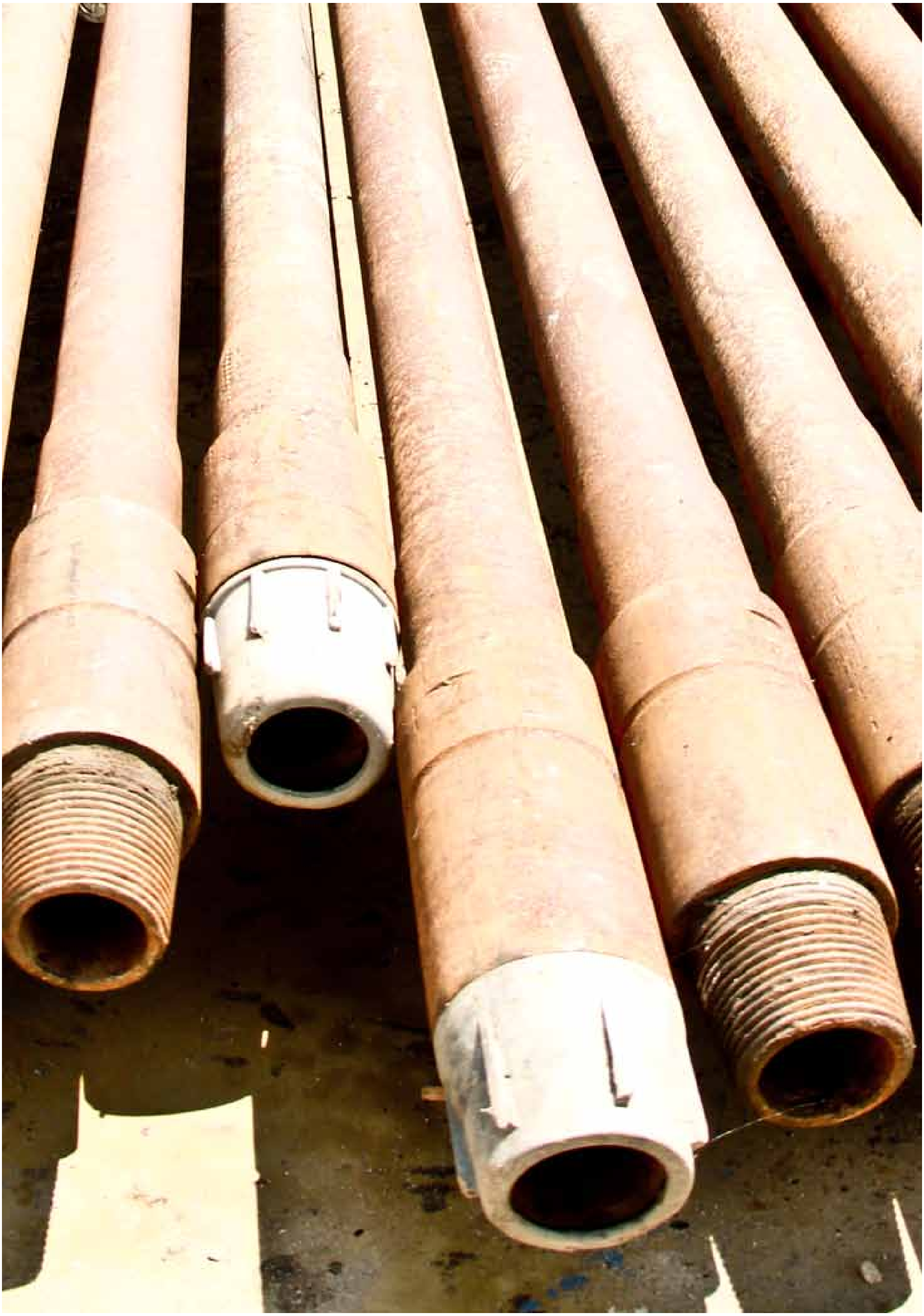
30 June 2011 Continued

Principles and Recommendations		*Compliance*	*Comply*
Principle 6 – Respect the rights of shareholders			
6.1	Design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose that policy or a summary of that policy.	The company has adopted a shareholder communications policy. The company uses its website (www.otisenergy.com), annual report, market announcements, media disclosures and webcasting to communicate with its shareholders, as well as encourages participation at general meetings. This policy is available on the company's website.	Complies.
6.2	Provide the information indicated in the **Guide to reporting on Principle 6.**	The company's shareholder communications policy is available on the company's website.	Complies.
Principle 7 – Recognise and manage risk			
7.1	Establish policies for the oversight and management of material business risks and disclose a summary of these policies.	The company has adopted a risk management statement within the audit and risk committee charter. The audit and risk committee is responsible for managing risk; however, ultimate responsibility for risk oversight and risk management rests with the Board. The audit and risk charter is available on the company's website and is summarised in this Corporate Governance Statement.	Complies.
7.2	The Board should require management to design and implement the risk management and internal control system to manage the company's material business risks and report to it on whether those risks are being managed effectively. The Board should disclose that management has reported to it as to the effectiveness of the company's management of its material business risks.	The Board believes the risk management and internal control systems designed and implemented by the Directors and the relevant consultants are adequate given the size and nature of the Company's activities. The Board informally reviews and requests management internal control.	Management has not formally reported to the Board as to the effectiveness of the Company's management of its material business risks. Given the nature and size of the Company and the Board's ultimate responsibility to manage the risks of the Company's risk management is undertaken by the full Board. The Company intends to develop the risk reporting framework into a detailed policy as its operations continue to grow.
7.3	The Board should disclose whether it has received assurance from the chief executive officer and chief financial officer that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating efficiently and effectively in all material respects in relation to the financial reporting risks.	The Board has received a statement from the directors fulfilling the roles of the chief executive officer and chief financial officer that the declaration provided in accordance with section 295A of the Corporations Act 2001 is founded on a sound system of risk management and internal control and that the system is operating efficiently and effectively in all material respects in relation to the financial reporting risks.	Complies.

Principles and Recommendations		Compliance	Comply
7.4	Provide the information indicated in **Guide to reporting on Principle 7.**	The Board has adopted an audit and risk charter which includes a statement of the company's risk policies. This charter is available on the company's website and is summarised in this Corporate Governance Statement. The company has identified key risks within the business and has received a statement of assurance from the chief executive officer and chief financial officer.	Complies.
Principle 8 – Remunerate fairly and responsibly			
8.1	The Board should establish a remuneration committee.	The Board has not established a Nomination and Remuneration Committee and has not adopted a remuneration charter.	Given the size and scale of Otis Energy Limited, the role of a nomination committee is carried out by the full Board. The full board considers the appointment of new Directors, on an informal basis. The Board's policy for the appointment of new Directors to the Board can be accessed at www.otisenergy.com.
8.2	Clearly distinguish the structure of non-executive directors' remuneration from that of executive directors and senior executives.	The company complies with the guidelines for executive remuneration packages and non-executive director remuneration. No senior executive is involved directly in deciding their own remuneration.	Complies.
8.3	Provide the information indicated in the **Guide to reporting on Principle 8.**	The information has been disclosed in the Annual Report.	Complies.

Otis Energy Limited's corporate governance practices were in place for the financial year ended 30 June 2011 and to the date of signing the directors' report.

Various corporate governance practices are discussed within this statement. For further information on corporate governance policies adopted by Otis Energy Limited, refer to our website: www.otisenergy.com



Financial report

For the year ended 30 June 2011

Contents Page

Financial Report

General Information

The financial report covers Otis Energy Limited as a consolidated entity consisting of Otis Energy Limited and the entities it controlled. The financial report is presented in Australian dollars, which is Otis Energy Limited's functional and presentation currency.

The financial report consists of the financial statements, notes to the financial statements and the directors' declaration.

Otis Energy Limited is a listed public company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

Suite 25
145 Stirling Highway
Nedlands WA 6009

A description of the nature of the consolidated entity's operations and its principal activities are included in the directors' report, which is not part of the financial report.

The financial report was authorised for issue, in accordance with a resolution of directors, on 26 September 2011. The directors have the power to amend and reissue the financial report.

Statement of comprehensive income

For the year ended 30 June 2011

	Note	Consolidated 2011	2010
		$	$
Revenue from continuing operations	4	47,700	128,542
Other income	5	171,137	-
Expenses			
Employee benefits expense		(339,733)	(255,457)
Depreciation and amortisation expense	6	(444)	(74)
Impairment of investments in associates		(295,753)	-
Write-off of petroleum exploration expenditure		(1,095,295)	(1,407,184)
Loss on revaluation of held for sale investments		33,750	(33,750)
Consultancy and management expenses		(277,301)	(148,662)
Share based payments		(258,000)	(540,800)
Other expenses		(500,126)	(283,482)
Share of losses in associates using the equity method		(441,886)	-
Loss before income tax expense from continuing operations		(2,955,951)	(2,540,867)
Income tax expense	7	-	-
Loss after income tax expense from continuing operations		(2,955,951)	(2,540,867)
Profit/(loss) after income tax (expense)/benefit from discontinued operations	8	157,505	(7,673)
Loss after income tax expense for the year attributable to the owners of Otis Energy Limited		(2,798,446)	(2,548,540)
Other comprehensive income			
Foreign currency translation		(761,901)	178,005
Other comprehensive income for the year, net of tax		(761,901)	178,005
Total comprehensive income for the year attributable to the owners of Otis Energy Limited		(3,560,347)	(2,370,535)
		Cents	*Cents*
Earnings per share from continuing operations attributable to the owners of Otis Energy Limited			
Basic earnings per share	34	(0.10)	(0.10)
Diluted earnings per share	34	(0.10)	(0.10)
Earnings per share from discontinued operations attributable to the owners of Otis Energy Limited			
Basic earnings per share	34	0.01	-
Diluted earnings per share	34	0.01	-
Earnings per share for loss attributable to the owners of Otis Energy Limited			
Basic earnings per share	34	(0.09)	(0.10)
Diluted earnings per share	34	(0.09)	(0.10)

The above statement of comprehensive income should be read in conjunction with the accompanying notes.

Statement of financial position

For the year ended 30 June 2011

	Note	Consolidated 2011 $	2010 $
Assets			
Current assets			
Cash and cash equivalents	9	1,844,240	1,831,798
Trade and other receivables	10	14,246	55,622
Financial assets at fair value through profit or loss	11	159,525	116,250
Other current assets	12	6,682	419,960
		2,024,693	2,423,630
Assets of disposal groups classified as held for sale	13	796,838	-
Total current assets		2,821,531	2,423,630
Non-current assets			
Investments accounted for using the equity method	14	2,064,337	3,022,713
Property, plant and equipment	15	827	1,271
Intangibles	16	-	248,810
Petroleum exploration and evaluation	17	1,389,401	821,307
Total non-current assets		3,454,565	4,094,101
Total assets		6,276,096	6,517,731
Liabilities			
Current liabilities			
Trade and other payables	18	75,629	561,157
Borrowings	19	-	322,656
		75,629	883,813
Liabilities directly associated with assets classified as held for sale	20	96,838	-
Total current liabilities		172,467	883,813
Total liabilities		172,467	883,813
Net assets		6,103,629	5,633,918
Equity			
Contributed equity	21	77,698,954	74,556,896
Reserves	22	844,904	756,805
Accumulated losses		(72,440,229)	(69,679,783)
Total equity		6,103,629	5,633,918

The above statement of comprehensive income should be read in conjunction with the accompanying notes.

Statement of changes in equity

For the year ended 30 June 2011

	Contributed equity	Option Reserves	Foreign Currency Reserve	Retained profits	Total equity
	$	$	$	$	$
Consolidated					
Balance at 1 July 2009	68,589,531	541,500	-	(67,131,243)	1,999,788
Other comprehensive income for the year, net of tax	-	-	178,005	-	178,005
Loss after income tax expense for the year	-	-	-	(2,548,540)	(2,548,540)
Total comprehensive income for the year	-	-	178,005	(2,548,540)	(2,370,535)
Transactions with owners in their capacity as owners:					
Issue of options	26,100	540,800	-	-	566,900
Conversion of options	2,066,000	(503,500)	-	-	1,562,500
Issue of shares	4,200,000	-	-	-	4,200,000
Capital raising costs	(324,735)	-	-	-	(324,735)
Balance at 30 June 2010	74,556,896	578,800	178,005	(69,679,783)	5,633,918

	Contributed equity	Option Reserves	Foreign Currency Reserve	Retained profits	Total equity
	$	$	$	$	$
Consolidated					
Balance at 1 July 2010	74,556,896	578,800	178,005	(69,679,783)	5,633,918
Other comprehensive income for the year, net of tax	-	-	(761,901)	-	(761,901)
Loss after income tax expense for the year	-	-	-	(2,798,446)	(2,798,446)
Total comprehensive income for the year	-	-	(761,901)	(2,798,446)	(3,560,347)
Transactions with owners in their capacity as owners:					
Share-based payments		258,000	-	-	258,000
Lapse of options		(38,000)	-	38,000	-
Issue of shares	4,121,997	-	-		4,121,997
Capital raising costs	(349,939)		-	-	(349,939)
Issue of options	(630,000)	630,000	-		-
Balance at 30 June 2011	77,698,954	1,428,800	(583,896)	(72,440,229)	6,103,629

The above statement of comprehensive income should be read in conjunction with the accompanying notes.

Statement of cash flows

For the year ended 30 June 2011

	Note	Consolidated 2011 $	2010 $
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		1,567,512	359,856
Payments to suppliers and employees (inclusive of GST)		(2,816,397)	(975,300)
		(1,248,885)	(615,444)
Interest received		58,292	116,747
Net cash used in operating activities	33	(1,190,593)	(498,697)
Cash flows from investing activities			
Payments for property, plant and equipment	15	-	(1,345)
Payments for equity investments		-	(150,000)
Payments for petroleum exploration		(1,663,389)	(2,307,300)
Payments for investments in joint ventures		(524,572)	(2,606,139)
Proceeds from sale of investments		161,612	-
Net cash used in investing activities		(2,026,349)	(5,064,784)
Cash flows from financing activities			
Proceeds from issue of shares	21	4,121,997	5,788,600
Reclassification of term deposit to cash at bank		280,225	-
Share issue transaction costs		(349,938)	(324,735)
Net cash from financing activities		4,052,284	5,463,865
Net increase/(decrease) in cash and cash equivalents		835,342	(99,616)
Cash and cash equivalents at the beginning of the financial year		1,831,798	1,753,409
Effects of exchange rate changes on cash		(267,270)	178,005
Cash and cash equivalents at the end of the financial year	9	2,399,870	1,831,798

The above statement of comprehensive income should be read in conjunction with the accompanying notes.

Notes to the financial statements
30 June 2011

Note 1. Significant Accounting Policies

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

New, Revised Or Amending Accounting Standards and Interpretations Adopted

The consolidated entity has adopted all of the new, revised or amending Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period.

Any new, revised or amending Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

Basis of Preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') and the Corporations Act 2001. These financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board ('IASB').

Historical Cost Convention

The financial statements have been prepared under the historical cost convention, except for, where applicable, the revaluation of available-for-sale financial assets, financial assets and liabilities at fair value through profit or loss, investment properties, certain classes of property, plant and equipment and derivative financial instruments.

Critical Accounting Estimates

The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the consolidated entity's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 2.

Parent Entity Information

In accordance with the Corporations Act 2001, these financial statements present the results of the consolidated entity only. Supplementary information about the parent entity is disclosed in Note 30.

Principles of Consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Otis Energy Limited ('company' or 'parent entity') as at 30 June 2011 and the results of all subsidiaries for the year then ended. Otis Energy Limited and its subsidiaries together are referred to in these financial statements as the 'consolidated entity'.

Subsidiaries are all those entities over which the consolidated entity has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The effects of potential exercisable voting rights are considered when assessing whether control exists. Subsidiaries are fully consolidated from the date on which control is transferred to the consolidated entity. They are de-consolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between entities in the consolidated entity are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the consolidated entity.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. Refer to the 'business combinations' accounting policy for further details. A change in ownership interest, without the loss of control, is accounted for as an equity transaction, where the difference between the consideration transferred and the book value of the share of the non-controlling interest acquired is recognised directly in equity attributable to the parent.

Where the consolidated entity loses control over a subsidiary, it derecognises the assets including goodwill, liabilities and non-controlling interest in the subsidiary together with any cumulative translation differences recognised in equity. The consolidated entity recognises the fair value of the consideration received and the fair value of any investment retained together with any gain or loss in profit or loss.

Operating Segments

Operating segments are presented using the 'management approach', where the information presented is on the same basis as the internal reports provided to the Chief Operating Decision Makers ('CODM'). The CODM is responsible for the allocation of resources to operating segments and assessing their performance.

Foreign Currency Translation

The financial report is presented in Australian dollars, which is Otis Energy Limited's functional and presentation currency.

Foreign Currency Transactions

Foreign currency transactions are translated into Australian dollars using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at financial year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

Foreign Operations

The assets and liabilities of foreign operations are translated into Australian dollars using the exchange rates at the reporting date. The revenues and expenses of foreign operations are translated into Australian dollars using the average exchange rates, which approximates the rate at the date of the transaction, for the period. All resulting foreign exchange differences are recognised in the foreign currency reserve in equity.

The foreign currency reserve is recognised in profit or loss when the foreign operation or net investment is disposed of.

Revenue Recognition

Revenue is recognised when it is probable that the economic benefit will flow to the consolidated entity and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable.

Rendering of Services

Rendering of services revenue from computer maintenance fees is recognised by reference to the stage of completion of the contracts.

Stage of completion is measured by reference to labour hours incurred to date as a percentage of total estimated labour hours for each contract. Where the contract outcome cannot be reliably estimated, revenue is only recognised to the extent of the recoverable costs incurred to date.

Interest

Interest revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

Other Revenue

Other revenue is recognised when it is received or when the right to receive payment is established.

Note 1. Significant Accounting Policies (continued)

Income Tax

The income tax expense or benefit for the period is the tax payable on that period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and unused tax losses and under and over provision in prior periods, where applicable.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates that are enacted or substantively enacted, except for:

- When the deferred income tax asset or liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting nor taxable profits; or
- When the taxable temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, and the timing of the reversal can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

The carrying amount of recognised and unrecognised deferred tax assets are reviewed each reporting date. Deferred tax assets recognised are reduced to the extent that it is no longer probable that future taxable profits will be available for the carrying amount to be recovered. Previously unrecognised deferred tax assets are recognised to the extent that it is probable that there are future taxable profits available to recover the asset.

Deferred tax assets and liabilities are offset only where there is a legally enforceable right to offset current tax assets against current tax liabilities and deferred tax assets against deferred tax liabilities; and they relate to the same taxable authority on either the same taxable entity or different taxable entity's which intend to settle simultaneously.

Otis Energy Limited (the 'head entity') and its wholly-owned Australian controlled entities have formed an income tax consolidated group under the tax consolidation regime. The head entity and the controlled entities in the tax consolidated group continue to account for their own current and deferred tax amounts. The tax consolidated group has applied the group allocation approach in determining the appropriate amount of taxes to allocate to members of the tax consolidated group.

In addition to its own current and deferred tax amounts, the head entity also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the tax consolidated group. The tax funding arrangement ensures that the intercompany charge equals the current tax liability or benefit of each tax consolidated group member, resulting in neither a contribution by the head entity to the subsidiaries nor a distribution by the subsidiaries to the head entity.

Discontinued Operations

A discontinued operation is a component of the consolidated entity that has been disposed of or is classified as held for sale and that represents a separate major line of business or geographical area of operations, is part of a single co-ordinated plan to dispose of such a line of business or area of operations, or is a subsidiary acquired exclusively with a view to resale. The results of discontinued operations are presented separately on the face of the statement of comprehensive income.

Cash and Cash Equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Trade and Other Receivables

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for impairment. Trade receivables are generally due for settlement within 30 days.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectable are written off by reducing the carrying amount directly. A provision for impairment of trade receivables is raised when there is objective evidence that the consolidated entity will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation and default or delinquency in payments (more than 60 days overdue) are considered indicators that the trade receivable may be impaired. The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

Other receivables are recognised at amortised cost, less any provision for impairment.

Non-Current Assets or Disposal Groups Classified as Held For Sale

Non-current assets and assets of disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. They are measured at the lower of their carrying amount and fair value less costs to sell. For non-current assets or assets of disposal groups to be classified as held for sale, they must be available for immediate sale in their present condition and their sale must be highly probable.

An impairment loss is recognised for any initial or subsequent write down of the non-current assets and assets of disposal groups to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of a non-current assets and assets of disposal groups, but not in excess of any cumulative impairment loss previously recognised.

Non-current assets are not depreciated or amortised while they are classified as held for sale. Interest and other expenses attributable to the liabilities of assets held for sale continue to be recognised.

Non-current assets classified as held for sale and the assets of disposal groups classified as held for sale are presented separately on the face of the statement of financial position, in current assets. The liabilities of disposal groups classified as held for sale are presented separately on the face of the statement of financial position, in current liabilities.

Joint Ventures

A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control. Investments in joint ventures are accounted for in the parent entity financial statements using the cost method, less any impairment, and in the consolidated financial statements using the equity method. Under the equity method, the share of the profits or losses of the joint venture is recognised in profit or loss and the share of the movements in equity is recognised in other comprehensive income. Income earned from joint venture entities is recognised as revenue in the parent entity's profit or loss, whilst in the consolidated financial statements they reduce the carrying amount of the investment.

Investments and Other Financial Assets

Investments and other financial assets are measured at either amortised cost or fair value depending on their classification. Classification is determined based on the purpose of the acquisition and subsequent reclassification to other categories is restricted. The fair values of quoted investments are based on current bid prices. For unlisted investments, the consolidated entity establishes fair value by using valuation techniques. These include the use of recent arms length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models.

Note 1. Significant accounting policies (continued)

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the consolidated entity has transferred substantially all the risks and rewards of ownership.

Financial Assets at Fair Value Through Profit or Loss

Financial assets at fair value through profit or loss are either: i) held for trading, where they are acquired for the purpose of selling in the short-term with an intention of making a profit; or ii) designated as such upon initial recognition, where they are managed on a fair value basis or to eliminate or significantly reduce an accounting mis-match. Except for effective hedging instruments, derivatives are also categorised as fair value through profit or loss. Fair value movements are recognised in profit or loss.

Impairment of Financial Assets

The consolidated entity assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired. Objective evidence includes significant financial difficulty of the issuer or obligor; a breach of contract such as default or delinquency in payments; the lender granting to a borrower concessions due to economic or legal reasons that the lender would not otherwise do; it becomes probable that the borrower will enter bankruptcy or other financial reorganisation; the disappearance of an active market for the financial asset; or observable data indicating that there is a measurable decrease in estimated future cash flows.

The amount of the impairment allowance for financial assets carried at cost is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the current market rate of return for similar financial assets.

Property, Plant and Equipment

Land and buildings are shown at fair value, based on periodic, at least every 3 years, valuations by external independent valuers, less subsequent depreciation and impairment for buildings. The valuations are undertaken more frequently if there is a material change in the fair value relative to the carrying amount. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Increases in the carrying amounts arising on revaluation of land and buildings are credited to the revaluation surplus reserve in equity. Any revaluation decrements are initially taken to the revaluation surplus reserve to the extent of any previous revaluation surplus of the same asset. Thereafter the decrements are taken to profit or loss.

Plant and equipment is stated at historical cost less accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation is calculated on a straight-line basis to write off the net cost of each item of property, plant and equipment (excluding land) over their expected useful lives as follows:

Plant and equipment	2-4 years

The residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each reporting date.

Leasehold improvements and plant and equipment under lease are depreciated over the unexpired period of the lease or the estimated useful life of the assets, whichever is shorter.

An item of property, plant and equipment is derecognised upon disposal or when there is no future economic benefit to the consolidated entity. Gains and losses between the carrying amount and the disposal proceeds are taken to profit or loss. Any revaluation surplus reserve relating to the item disposed of is transferred directly to retained profits.

Intangible Assets
Goodwill

Where an entity or operation is acquired in a business combination, the identifiable net assets acquired are measured at fair value. The excess of the fair value of the cost of the acquisition over the fair value of the identifiable net assets acquired is brought to account as goodwill. Goodwill is not amortised. Instead, goodwill is tested annually for impairment, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Impairment losses on goodwill are taken to profit or loss and are not subsequently reversed.

Petroleum Exploration and Evaluation Assets

Exploration and evaluation expenditure in relation to separate areas of interest for which rights of tenure are current is carried forward as an asset in the statement of financial position where it is expected that the expenditure will be recovered through the successful development and exploitation of an area of interest, or by its sale; or exploration activities are continuing in an area and activities have not reached a stage which permits a reasonable estimate of the existence or otherwise of economically recoverable reserves. Where a project or an area of interest has been abandoned, the expenditure incurred thereon is written off in the year in which the decision is made.

Provision for Restoration and Rehabilitation

A provision for restoration and rehabilitation is recognised when there is a present obligation as a result of exploration activities undertaken, it is probable that an outflow of economic benefits will be required to settle the obligation, and the amount of the provision can be measured reliably. The estimated future obligations include the costs of abandoning exploration sites and restoring the affected areas.

The provision for future restoration costs is the best estimate of the present value of the expenditure required to settle the restoration obligation at the reporting date. Future restoration costs are reviewed annually and any changes in the estimate are reflected in the present value of the restoration provision at each reporting date.

The initial estimate of the restoration and rehabilitation provision relating to exploration and milling facilities is capitalised into the cost of the related asset and amortised on the same basis as the related asset, unless the present obligation arises from the production of inventory in the period, in which case the amount is included in the cost of production for the period. Changes in the estimate of the provision for restoration and rehabilitation are treated in the same manner, except that the unwinding of the effect of discounting on the provision is recognised as a finance cost rather than being capitalised into the cost of the related asset.

Impairment of Non-financial Assets

Goodwill and other intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

Recoverable amount is the higher of an asset's fair value less costs to sell and value-in-use. The value-in-use is the present value of the estimated future cash flows relating to the asset using a pre-tax discount rate specific to the asset or cash-generating unit to which the asset belongs. Assets that do not have independent cash flows are grouped together to form a cash-generating unit.

Trade and Other Payables

These amounts represent liabilities for goods and services provided to the consolidated entity prior to the end of the financial year and which are unpaid. Due to their short-term nature they are measured at amortised cost and not discounted. The amounts are unsecured and are usually paid within 30 days of recognition.

Employee Benefits
Share-based payments

Equity-settled and cash-settled share-based compensation benefits are provided to employees.

Equity-settled transactions are awards of shares, or options over shares, that are provided to employees in exchange for the rendering of services. Cash-settled transactions are awards of cash for the exchange of services, where the amount of cash is determined by reference to the share price.

Notes to the financial statements

30 June 2011 continued

Note 1. Significant accounting policies (continued)

The cost of equity-settled transactions are measured at fair value on grant date. Fair value is independently determined using either the Binomial or Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option, together with non-vesting conditions that do not determine whether the consolidated entity receives the services that entitle the employees to receive payment. No account is taken of any other vesting conditions.

The cost of equity-settled transactions are recognised as an expense with a corresponding increase in equity over the vesting period. The cumulative charge to profit or loss is calculated based on the grant date fair value of the award, the best estimate of the number of awards that are likely to vest and the expired portion of the vesting period. The amount recognised in profit or loss for the period is the cumulative amount calculated at each reporting date less amounts already recognised in previous periods.

The cost of cash-settled transactions is initially, and at each reporting date until vested, determined by applying either the Binomial or Black-Scholes option pricing model, taking into consideration the terms and conditions on which the award was granted. The cumulative charge to profit or loss until settlement of the liability is calculated as follows:

- during the vesting period, the liability at each reporting date is the fair value of the award at that date multiplied by the expired portion of the vesting period.
- from the end of the vesting period until settlement of the award, the liability is the full fair value of the liability at the reporting date.

All changes in the liability are recognised in profit or loss. The ultimate cost of cash-settled transactions is the cash paid to settle the liability.

Market conditions are taken into consideration in determining fair value. Therefore any awards subject to market conditions are considered to vest irrespective of whether or not that market condition has been met, provided all other conditions are satisfied.

If equity-settled awards are modified, as a minimum an expense is recognised as if the modification has not been made. An additional expense is recognised, over the remaining vesting period, for any modification that increases the total fair value of the share-based compensation benefit as at the date of modification.

If the non-vesting condition is within the control of the consolidated entity or employee, the failure to satisfy the condition is treated as a cancellation. If the condition is not within the control of the consolidated entity or employee and is not satisfied during the vesting period, any remaining expense for the award is recognised over the remaining vesting period, unless the award is forfeited.

If equity-settled awards are cancelled, it is treated as if it has vested on the date of cancellation, and any remaining expense is recognised immediately. If a new replacement award is substituted for the cancelled award, the cancelled and new award is treated as if they were a modification.

Contributed Equity

Ordinary Shares are Classified as Equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Business Combinations

The acquisition method of accounting is used to account for business combinations regardless of whether equity instruments or other assets are acquired.

The consideration transferred is the sum of the acquisition-date fair values of the assets transferred, equity instruments issued or liabilities incurred by the acquirer to former owners of the acquiree and the amount of any non-controlling interest in the acquiree. For each business combination, the non-controlling interest in the acquiree is measured at either fair value or at the proportionate share of the acquiree's identifiable net assets. All acquisition costs are expensed as incurred to profit or loss.

On the acquisition of a business, the consolidated entity assesses the financial assets acquired and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic conditions, the consolidated entity's operating or accounting policies and other pertinent conditions in existence at the acquisition-date.

Where the business combination is achieved in stages, the consolidated entity remeasures its previously held equity interest in the acquiree at the acquisition-date fair value and the difference between the fair value and the previous carrying amount is recognised in profit or loss.

Contingent consideration to be transferred by the acquirer is recognised at the acquisition-date fair value. Subsequent changes in the fair value of contingent consideration classified as an asset or liability is recognised in profit or loss. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity.

The difference between the acquisition-date fair value of assets acquired, liabilities assumed and any non-controlling interest in the acquiree and the fair value of the consideration transferred and the fair value of any pre-existing investment in the acquiree is recognised as goodwill. If the consideration transferred and the pre-existing fair value is less than the fair value of the identifiable net assets acquired, being a bargain purchase to the acquirer, the difference is recognised as a gain directly in profit or loss by the acquirer on the acquisition-date, but only after a reassessment of the identification and measurement of the net assets acquired, the non-controlling interest in the acquiree, if any, the consideration transferred and the acquirer's previously held equity interest in the acquirer.

Business combinations are initially accounted for on a provisional basis. The acquirer retrospectively adjusts the provisional amounts recognised and also recognises additional assets or liabilities during the measurement period, based on new information obtained about the facts and circumstances that existed at the acquisition-date. The measurement period ends on either the earlier of (i) 12 months from the date of the acquisition or (ii) when the acquirer receives all the information possible to determine fair value.

Earnings Per Share

Basic Earnings Per Share

Basic earnings per share is calculated by dividing the profit attributable to the owners of Otis Energy Limited, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the financial year.

Diluted Earnings per Share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

Goods and Services Tax ('GST') and Other Similar Taxes

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the tax authority. In this case it is recognised as part of the cost of the acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the tax authority is included in other receivables or other payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the tax authority, are presented as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the tax authority.

Notes to the financial statements
30 June 2011 continued

Note 1. Significant Accounting Policies (continued)

New Accounting Standards and Interpretations Not Yet Mandatory or Early Adopted

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the consolidated entity for the annual reporting period ended 30 June 2011. The consolidated entity has not yet assessed the impact of these new or amended Accounting Standards and Interpretations.

Note 2. Critical Accounting Judgements, Estimates and Assumptions

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements, estimates and assumptions on historical experience and on other various factors, including expectations of future events, management believes to be reasonable under the circumstances. The resulting accounting judgements and estimates will seldom equal the related actual results. The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Share-based Payment Transactions

The consolidated entity measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by using either the Binomial or Black-Scholes model taking into account the terms and conditions upon which the instruments were granted. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact profit or loss and equity.

Provision for Impairment of Receivables

The provision for impairment of receivables assessment requires a degree of estimation and judgement. The level of provision is assessed by taking into account the recent sales experience, the ageing of receivables, historical collection rates and specific knowledge of the individual debtors financial position.

Estimation of Useful Lives of Assets

The consolidated entity determines the estimated useful lives and related depreciation and amortisation charges for its property, plant and equipment and definite life intangible assets. The useful lives could change significantly as a result of technical innovations or some other event. The depreciation and amortisation charge will increase where the useful lives are less than previously estimated lives, or technically obsolete or non-strategic assets that have been abandoned or sold will be written off or written down.

Goodwill and Other Indefinite Life Intangible Assets

The consolidated entity tests annually, or more frequently if events or changes in circumstances indicate impairment, whether goodwill and other indefinite life intangible assets have suffered any impairment, in accordance with the accounting policy stated in note 1. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of assumptions, including estimated discount rates based on the current cost of capital and growth rates of the estimated future cash flows.

Valuation of Assets Designated as Held for Sale

During the financial year the directors resolved to sell the Group's interest in Lowell Capital Pty Ltd. On 15 July 2011 the Company reached an agreement to sell the interest for $700,000, the directors have assessed this to be the best indicator for its fair value at 30 June 2011. An impairment has been recognised in the consolidated financial statements to recognise the net assets at this value.

Impairment of Non-financial Assets Other than Goodwill and Other Indefinite Life Intangible Assets

The consolidated entity assesses impairment of non-financial assets other than goodwill and other indefinite life intangible assets at each reporting date by evaluating conditions specific to the consolidated entity and to the particular asset that may lead to impairment. If an impairment trigger exists, the recoverable amount of the asset is determined. This involves fair value less costs to sell or value-in-use calculations, which incorporate a number of key estimates and assumptions.

Tax Losses

The Company has not recognised a deferred tax asset with regard to unused tax losses and other temporary differences, as it has not been determined whether the Company will generate sufficient taxable income against which the unused tax losses and other temporary differences can be utilised.

Recovery of Deferred Tax Assets

Deferred tax assets are recognised for deductible temporary differences only if the consolidated entity considers it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Impairments

Otis Energy Limited

Loan to Subsidiary - *Otis Energy Inc.*

The Board assessed the net assets of Otis Energy Inc as $4,280,521 and agreed to recognise a provision for non-recovery of the intercompany loan for this financial year of $2,858,677 in the accounts of the parent entity at the end of financial year. The total accumulated provision for non-recoverability of the Otis Energy Inc. loan at 30 June 2011 is $4,109,691.

Otis Energy Inc.
Investment in Joint Venture - Pryme Lake Exploration LLC

At each reporting period, the directors have consider the carrying value of the equity accounted investment in Joint Venture - Pryme Lake Exploration LLC. During the half-year to 31 December 2010, the directors impaired the carrying amount of the joint venture investment, after taking into consideration the company's share of losses, by $295,753. The company's share of net assets in Pryme Lake Exploration LLC at 30 June 2011 is $AUD 2,302,110. This exceeds the carrying amount at 30 June 2011 of AUD$ 2,064,337, after recognition of its share in losses and impairment at 31 December 2010. The Directors have considered overall materiality and accordingly have resolved not to impair.

Exploration Assets - Atocha

The Directors have assessed the impairment indicators of the exploration area in accordance with AASB 6. During the previous financial year, the directors resolved to write off all costs assiciated with the drilling of HM Brian 1 well. During the current financial year, the company relinquished 50% of the exploration area and placed the remaining acreage for sale. As at 30 June 2011, there were no current potential purchasers and the directors have reached a decision to write of the remaining carrying value in this project of $708,430.

Note 3. Operating Segments

Identification of Reportable Operating Segments

Notes to the financial statements
30 June 2011 continued

The consolidated entity is organised into three operating segments : Financial Services, Oil and Gas Exploration and Corporate Cost Centre. These operating segments are based on the internal reports that are reviewed and used by the Board of Directors (who are identified as the Chief Operating Decision Makers ('CODM')) in assessing performance and in determining the allocation of resources. There is no aggregation of operating segments.

The CODM reviews both adjusted earnings before interest, tax, depreciation and amortisation (segment result) and profit before income tax.

The information reported to the CODM is on at least a monthly basis.

Types of Products and Services

The principal products and services of each of 3 operating segments are as follows:

Financial Services	Financial services provided in Australia
Oil and Gas Exploration	Oil and gas exploration activities are carried out in the USA.
Corporate Cost Centre	Provides administrative support to the entire group.

Intersegment Receivables, Payables and Loans

Intersegment loans are initially recognised at the consideration received. Intersegment loans receivable and loans payable that earn or incur non-market interest are not adjusted to fair value based on market interest rates. Intersegment loans are eliminated on consolidation.

Operating Segment Information

2011	Financial Services (AUS) $	Oil & Gas Exploration (USA) $	Corporate Cost Centre (AUS) $	Intersegment eliminations/ unallocated $	Consolidated $
Revenue					
Other income	1,788,622	693	218,144	-	2,007,459
Total revenue	1,788,622	693	218,144	-	2,007,459
Segment result	417,384	(264,307)	(600,265)	-	(447,188)
Depreciation and amortisation	-	-	(444)	-	(444)
Impairment of assets	(259,879)	(737,640)	-	-	(997,519)
Share based payments	-	-	(258,000)	-	(258,000)
Exploration costs written off	-	(1,095,295)	-	-	(1,095,295)
Profit/(loss) before income tax expense	157,505	(2,097,242)	(858,709)	-	(2,798,446)
Income tax expense					-
Loss after income tax expense					(2,798,446)
Assets					
Segment assets	796,838	4,281,795	1,197,463	-	6,276,096
Total assets					6,276,096
Liabilities					
Segment liabilities	96,838	1,276	74,353	-	172,467
Total liabilities					172,467

2010	Financial Services (AUS)	Oil & Gas Exploration (USA)	Corporate Cost Centre (AUS)	Intersegment eliminations/ unallocated	Consolidated
	$	$	$	$	$
Revenue					
Sales to external customers	349,932	18,034	110,508	-	478,474
Total sales revenue	349,932	18,034	110,508	-	478,474
Total revenue	349,932	18,034	110,508	-	478,474
Segment result	(7,672)		(1,111,847)	-	(1,119,519)
Impairment of assets	-	(1,429,021)	-	-	(1,429,021)
Loss before income tax expense	(7,672)	(1,429,021)	(1,111,847)	-	(2,548,540)
Income tax expense					-
Loss after income tax expense					(2,548,540)
Assets					
Segment assets	350,234	4,297,054	1,870,443	-	6,517,731
Total assets					6,517,731
Liabilities					
Segment liabilities	58,812	772,013	52,988	-	883,813
Total liabilities					883,813

Notes to the financial statements
30 June 2011 continued

Note 4. Revenue

	Consolidated	
	2011	**2010**
	$	**$**
From continuing operations		
Sales revenue		
Oil and gas revenue	-	17,822
Other revenue		
Interest	47,700	110,720
Revenue from continuing operations	47,700	128,542

Note 5. Other Income

	Consolidated	
	2011	**2010**
	$	**$**
Net gain on disposal of investments	11,612	-
Net gain on fair value through profit and loss assets	159,525	-
Other income	171,137	-

Note 6. Expenses

	Consolidated	
	2011	**2010**
	$	**$**
Loss before income tax includes the following specific expenses:		
Depreciation		
Plant and equipment	444	74
Impairment		
Fair value adjustment on investments	33,750	(33,750)

Note 7. Income Tax Expense

	Consolidated 2011 $	Consolidated 2010 $
Numerical reconciliation of income tax expense to prima facie tax payable		
Loss before income tax expense from continuing operations	(2,955,951)	(2,540,867)
Profit/(loss) before income tax (expense)/benefit from discontinued operations	157,505	(7,673)
	(2,798,446)	(2,548,540)
Tax at the Australian tax rate of 30%	(839,534)	(764,562)
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Share-based payments	77,400	162,240
Fair value adjustment	293,005	10,125
	(469,129)	(592,197)
Exploration expenditure	(170,400)	(246,392)
Deductible black hold expenditure	(97,782)	(39,812)
Other timing differences written-off	(284)	(4,810)
Income tax losses not taken up as a tax benefit	737,595	883,211
Income tax expense	-	-

	Consolidated 2011 $	Consolidated 2010 $
Deferred tax assets not recognised		
Deferred tax assets not recognised comprises temporary differences attributable to:		
Tax losses	4,359,001	3,621,249
Temporary differences	(585,585)	(316,961)
Total deferred tax assets not recognised	3,773,416	3,304,288

The taxation benefits of tax losses and temporary differences not brought to account will only be obtained if:

1. the consolidated entity derives future assessable income of a nature and of an amount sufficient to enable the benefit from the deductions for the losses to be realised;
2. the consolidated entity continues to comply with the conditions for deductibility imposed by law;
3. no changes in tax legislation adversely affect the consolidated entity in realising the benefit from the deductions for the losses; and
4. The losses are transferred to an eligible entity in the consolidated Group.

Notes to the financial statements
30 June 2011 continued

Note 8. Discontinued Operations

	Consolidated	
	2011	2010
	$	$
Interest	10,609	6,027
Administration fees	1,282,006	111,272
Management fees	496,007	232,633
Total revenue	1,788,622	349,932
Employee benefits expense	(145,726)	(85,648)
Fair value adjustment of non-current assets held for sale	(259,879)	-
Consultant and management expense	(985,821)	(144,794)
Other expenses	(239,691)	(127,163)
Total expenses	(1,631,117)	(357,605)
Profit/(loss) before income tax expense	157,505	(7,673)
Income tax expense	-	-
Profit/(loss) after income tax expense	157,505	(7,673)
Profit/(loss) after income tax (expense)/benefit from discontinued operations	157,505	(7,673)

Note 9. Current Assets - Cash and Cash Equivalents

	Consolidated	
	2011	2010
	$	$
Cash at bank	1,564,015	1,831,798
Cash on deposit	280,225	-
	1,844,240	1,831,798

Reconciliation to cash and cash equivalents at the end of the financial year

The above figures are reconciled to cash and cash equivalents at the end of the financial year as shown in the statement of cash flows as follows:

	2011	2010
Balances as above	1,844,240	1,831,798
Cash and cash equivalents - classified as held for sale (note 13)	555,630	-
Balance as per statement of cash flows	2,399,870	1,831,798

Note 10. Current Assets - Trade and Other Receivables

	Consolidated	
	2011	2010
	$	$
Trade receivables	-	38,718
Other receivables	2,433	3,518
GST receivable	11,813	13,386
	14,246	55,622

The average credit period is 30 days. No interest is charged on the trade receivables. No receivables are impaired at year end. All receivables that are neither past due or impaired are with long standing clients who have a good credit history with the group.

Note 11. Current Assets - Financial Assets at Fair Value Through Profit or Loss

	Consolidated	
	2011	2010
	$	$
Ordinary shares - designated at fair value through profit or loss	159,525	116,250

Refer to note 24 for detailed information on financial instruments.

Note 12. Current Assets - Other Current Assets

	Consolidated	
	2011	2010
	$	$
Prepayments	6,682	67,755
Bank guarantee held in overseas account	-	352,205
	6,682	419,960

Note 13. Current Assets - Assets of Disposal Groups Classified as Held For Sale

	Consolidated	
	2011	2010
	$	$
Cash and cash equivalents	555,630	-
Trade and other receivables	235,716	-
Other current assets	5,492	-
	796,838	-

Notes to the financial statements
30 June 2011 continued

Note 14. Non-current Assets - Investments Accounted for Using the Equity Method

	Consolidated	
	2011	**2010**
	$	**$**
Contributions to joint venture interests	2,064,337	3,022,713

The group has a 50 per cent share in the ownership of an Oil and Gas exploration and development company in the Unitied States of America through it subsidiary Otis Energy. The group is entitled to a proportionate share of Oil and Gas revenue received and bears a proportionate share of the costs.

Note 15. Non-current Assets - Property, Plant and Equipment

	Consolidated	
	2011	**2010**
	$	**$**
Plant and equipment - at cost	1,345	1,345
Less: Accumulated depreciation	(518)	(74)
	827	1,271
	827	1,271

Reconciliations

Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

	Plant and Equipment	Total
	$	**$**
Consolidated		
Balance at 1 July 2009	-	-
Additions	1,345	1,345
Depreciation expense	(74)	(74)
Balance at 30 June 2010	1,271	1,271
Depreciation expense	(444)	(444)
Balance at 30 June 2011	827	827

Note 16. Non-current Assets - Intangibles

	Consolidated	
	2011	2010
	$	$
Goodwill - at cost	-	248,810
	-	248,810
	-	248,810

Reconciliations

Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

	Goodwill on Consolidation	Total
	$	$
Consolidated		
Balance at 1 July 2009	248,810	248,810
Balance at 30 June 2010	248,810	248,810
Classified as held for sale	(248,810)	(248,810)
Balance at 30 June 2011	-	-

The goodwill classified as held for sale was fully impaired after being transferred.

Note 17. Non-current Assets - Petroleum Exploration and Evaluation

	Consolidated	
	2011	2010
	$	$
Costs carried forward in respect of areas of interest in exploration and evaluation phase	1,389,401	821,307
	1,389,401	821,307
	1,389,401	821,307

Reconciliations

Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

	Petroleum	Total
	$	$
Consolidated		
Balance at 1 July 2009	-	-
Expenditure during the year	2,250,909	2,250,909
Write off of assets	(1,429,602)	(1,429,602)
Balance at 30 June 2010	821,307	821,307
Expenditure during the year	1,663,389	1,663,389
Write off of assets	(1,095,295)	(1,095,295)
Balance at 30 June 2011	1,389,401	1,389,401

Note 17. Non-current Assets - Petroleum Exploration and Evaluation (continued)

During the year the Company acquired a 10% working interest (7.3% net revenue interest) in Avalanche project for $US960,000.

In addition the Company has acquired 10% working interest in San Jacinto 3D project. The project includes five identified drill ready prospects. In consideration for the acquisition the company will pay $US1,333,333 in 20% instalments as each of the wells are drilled. To date it has made two of the instalments and incurred some drilling costs.

Note 18. Current Liabilities - Trade and Other Payables

	Consolidated	
	2011	2010
	$	$
Trade payables	73,214	97,305
Acquisition costs payable for joint venture interests	-	447,612
Other payables	2,415	16,240
	75,629	561,157

Refer to note 24 for detailed information on financial instruments.

The average credit period on purchases is 30 days. No interest is charges on the trade payables. The consolidated entity has financial risk management policies in place to ensure that all payables are paid within the credit timeframe.

Note 19. Current Liabilities - Borrowings

	Consolidated	
	2011	2010
	$	$
Bank loan balance	-	322,656

During the current financial the company repaid its borrowings in relation to the acquisition of exploration and evaluation assets.

Financing Arrangements
Unrestricted access was available at the reporting date to the following lines of credit:

	Consolidated	
	2011	2010
	$	$
Total facilities		
Bank loan balance	-	322,656
Used at the reporting date		
Bank loan balance	-	-
Unused at the reporting date		
Bank loan balance	-	322,656

Note 20. Current liabilities - Liabilities Directly Associated with Assets Classified as Held for Sale

	Consolidated	
	2011	2010
	$	$
Trade payables	96,838	-

Note 21. Equity - Contributed

	Consolidated		Consolidated	
	2011	2010	2011	2010
	Shares	Shares	$	$
Ordinary shares - fully paid	492,283,725	2,861,836,469	77,698,954	74,556,896

Movements in Ordinary Share Capital

Details	Date	No of shares	Issue price	$
Balance	1 July 2009	1,396,836,469		68,589,531
Conversion of options		625,000,000	$0.003	1,562,500
Placement of shares		840,000,000	$0.005	4,200,000
Issue of options		-		26,100
Transfer from option reserve		-		503,500
Capital raising costs		-		(324,735)
Balance	30 June 2010	2,861,836,469		74,556,896
Share placement	16 December 2010	420,000,000	$0.002	840,000
Issue of shares through rights issue	25 February 2011	416,079,150	$0.002	832,158
Issue of shares through rights issue	6 April 2011	1,224,919,542	$0.002	2,449,839
Capital consolidation (10 to 1 basis)	20 May 2011	(4,430,551,436)	$0.000	-
Cost of capital raising		-		(349,939)
Capital raising costs for options issued to underwriters		-		(630,000)
Balance	30 June 2011	492,283,725		77,698,954

Ordinary Shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on the winding up of the company in proportion to the number of and amounts paid on the shares held. The fully paid ordinary shares have no par value.

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

Note 21. Equity - Contributed (continued)

Options

Refer to the directors report and Note 35 for further details on options.

Capital Risk Management

The consolidated entity's objectives when managing capital are to safeguard its ability to continue as a going concern, so that it can provide returns for shareholders and benefits for other stakeholders and to maintain an optimum capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the consolidated entity may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The consolidated entity would look to raise capital when an opportunity to invest in a business or company was seen as value adding relative to the current parent entity's share price at the time of the investment. The consolidated entity is not actively pursuing additional investments in the short term as it continues to integrate and grow its existing businesses in order to maximise synergies.

The consolidated entity is subject to certain financing arrangements covenants and meeting these are given priority in all capital risk management decisions. There have been no events of default on the financing arrangements during the financial year.

The capital risk management policy remains unchanged from the 30 June 2010 Annual Report.

Note 22. Equity -Reserves

	Consolidated	
	2011	**2010**
	$	$
Foreign currency reserve	(583,896)	178,005
Options reserve	1,428,800	578,800
	844,904	756,805

	Foreign currency	**Options**	**Total**
	$	**$**	**$**
Consolidated			
Balance at 1 July 2009	-	541,500	541,500
Foreign currency translation	178,005	-	178,005
Options issued for the year	-	540,800	540,800
Exercise of options during the year	-	(503,500)	(503,500)
Balance at 30 June 2010	178,005	578,800	756,805
Foreign currency translation	(761,901)	-	(761,901)
Options issued - share-based payments	-	888,000	888,000
Expiry of options	-	(38,000)	(38,000)
Balance at 30 June 2011	(583,896)	1,428,800	844,904

Foreign Currency Reserve

The reserve is used to recognise exchange differences arising from translation of the financial statements of foreign operations to Australian dollars. It is also used to recognise gains and losses on hedges of the net investments in foreign operations.

Share-based Payments Reserve

The reserve is used to recognise the value of equity benefits provided to employees and directors as part of their remuneration, and other parties as part of their compensation for services.

Note 23. Equity - Dividends

There were no dividends paid or declared during the current or previous financial year.

Note 24. Financial Instruments

Financial Risk Management Objectives

The consolidated entity's activities expose it to a variety of financial risks: market risk (including foreign currency risk, price risk and interest rate risk), credit risk and liquidity risk. The consolidated entity's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the consolidated entity. The consolidated entity uses derivative financial instruments such as forward foreign exchange contracts to hedge certain risk exposures. Derivatives are exclusively used for hedging purposes, i.e. not as trading or other speculative instruments. The consolidated entity uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate, foreign exchange and other price risks, ageing analysis for credit risk and beta analysis in respect of investment portfolios to determine market risk.

Risk management is carried out by senior finance executives ('finance') under policies approved by the Board of Directors ('Board'). These policies include identification and analysis of the risk exposure of the consolidated entity and appropriate procedures, controls and risk limits. Finance identifies, evaluates and hedges financial risks within the consolidated entity's operating units. Finance reports to the Board on a monthly basis.

Market Risk

Foreign Currency Risk

The consolidated entity undertakes certain transactions denominated in foreign currency and are exposed to foreign currency risk through foreign exchange rate fluctuations.

Foreign exchange risk arises from future commercial transactions and recognised financial assets and financial liabilities denominated in a currency that is not the entity's functional currency. The risk is measured using sensitivity analysis and cash flow forecasting

The consolidated entity is also exposed to foreign currency risk in to Otis Energy a 100% owned US subsidiary. After excluding intercompany balances the subsidiary had net assets of $7,385,405 (2010 : $3,525,041)

Based on this exposure, had the Australian dollar weakened by 30% / strengthened by 30% (2010: weakened by 30% / strengthened by 30%) against the US dollar with all other variables held constant, equity would have been $2,215,621 higher / $2,215,621 lower (2010 : $1,057,512 higher / $1,057,512 lower). The percentage change is based on management's assessment of reasonable possible fluctuations taking into consideration movements over the last 3 months each year and the spot rate at each reporting date.

Price Risk

The consolidated entity is not exposed to any significant price risk.

Note 24. Financial Instruments (continued)

Interest Rate Risk

As at the reporting date, the consolidated entity had the following variable rate borrowings and interest rate swap contracts outstanding:

	2011		2010	
	Weighted average interest rate	Balance	Weighted average interest rate	Balance
	%	$	%	$
Consolidated				
Cash and cash equivalents	4.75	1,564,015	3.66	1,831,798
Cash on deposit	4.75	280,225	-	-
Net exposure to cash flow interest rate risk		1,844,240		1,831,798

An increase/decrease in interest rates of 30% or 1.43 percentage points would have a favourable/adverse affect on profit before tax of $26,372 per annum. The percentage change is based on the expected volatility of interest rates using market data and analysis forecasts.

Credit Risk

Credit risk is managed on a consolidated entity basis. Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the consolidated entity. The consolidated entity has a strict code of credit, including obtaining agency credit information, confirming references and setting appropriate credit limits. The consolidated entity obtains guarantees where appropriate to mitigate credit risk. The maximum exposure to credit risk at the reporting date to recognised financial assets is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the statement of financial position and notes to the financial statements. The consolidated entity does not hold any collateral.

Liquidity Risk

Vigilant liquidity risk management requires the consolidated entity to maintain sufficient liquid assets (mainly cash and cash equivalents) and available borrowing facilities to be able to pay debts as and when they become due and payable

The consolidated entity manages liquidity risk by maintaining adequate cash reserves and available borrowing facilities by continuously monitoring actual and forecast cash flows and matching the maturity profiles of financial assets and liabilities.

Financing Arrangements

Unused borrowing facilities at the reporting date:

	Consolidated	
	2011	2010
	$	$
Bank loans	-	322,656
Bank loan balance	-	322,656
	-	645,312

Remaining Contractual Maturities

The following tables detail the consolidated entity's remaining contractual maturity for its financial instrument liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the financial liabilities are required to be paid. The tables include both interest and principal cash flows disclosed as remaining contractual maturities and therefore these totals may differ from their carrying amount in the statement of financial position.

Consolidated - 2011	Weighted average interest rate	1 year or less	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Remaining contractual maturities
	%	$	$	$	$	$
Non-derivatives						
Non-interest bearing						
Trade payables	-	75,629	-	-	-	75,629
Total non-derivatives		75,629	-	-	-	75,629

Consolidated - 2010	Weighted average interest rate	1 year or less	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Remaining contractual maturities
	%	$	$	$	$	$
Non-derivatives						
Non-interest bearing						
Trade payables	-	561,157	-	-	-	561,157
Interest-bearing - fixed rate						
Bank loans	-	322,656	-	-	-	322,656
Total non-derivatives		883,813	-	-	-	883,813

The cash flows in the maturity analysis above are not expected to occur significantly earlier than disclosed.

Fair Value of Financial Instruments

The following tables detail the consolidated entity's fair values of financial instruments categorised by the following levels:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices)

Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs)

Consolidated - 2011	Level 1	Level 2	Level 3	Total
	$	$	$	$
Assets				
Shares in listed entity	159,525	-	-	159,525
Total assets	159,525	-	-	159,525

Consolidated - 2010	Level 1	Level 2	Level 3	Total
	$	$	$	$
Assets				
Shares in listed entity	116,250	-	-	116,250
Total assets	116,250	-	-	116,250

There were no transfers between levels during the financial year.

Note 24. Financial Instruments (continued)

Unless otherwise stated, the carrying amounts of financial instruments reflect their fair value. The carrying amounts of trade receivables and trade payables are assumed to approximate their fair values due to their short-term nature. The fair value of financial liabilities is estimated by discounting the remaining contractual maturities at the current market interest rate that is available for similar financial instruments.

Note 25. Key Management Personnel Disclosures

Directors

The following persons were directors of Otis Energy Limited during the financial year:

Harry Hill

Winton Willesee

Barnaby Egerton - Warburton

Other Key Management Personnel

The following persons also had the authority and responsibility for planning, directing and controlling the major activities of the consolidated entity, directly or indirectly, during the financial year:

Mr Michael Ramsden (Lowell Capital Limited)

Mr David Worth (Lowell Capital Limited)

Mr Don Carroll (Lowell Capital Limited)

Mr Oliver Carton (Lowell Capital Limited)

Compensation

The aggregate compensation made to directors and other members of key management personnel of the consolidated entity is set out below:

	Consolidated	
	2011	2010
	$	$
Short-term employee benefits	440,459	340,457
Post-employment benefits	-	500
Share-based payments	209,000	540,800
	649,459	881,757

Shareholding

The number of shares in the parent entity held during the financial year by each director and other members of key management personnel of the consolidated entity, including their personally related parties, is set out below:

2011	Balance at the start of the year	Received as part of remuneration	Additions	Disposals/other	Balance at the end of the year
Ordinary shares					
Mr W Willesee *	8,500,000	-	11,750,000	(16,875,000)	3,375,000
Mr B Egerton-Warburton *	13,118,536	-	17,744,265	(25,135,021)	5,727,780
	21,618,536	-	29,494,265	(42,010,021)	9,102,780

* Additions related to shares purchased on market during the financial year, whilst the 'other' column refer to the consolidation of capital that took place during the financial year.

2010	Balance at the start of the year	Received as part of remuneration	Additions	Disposals/other	Balance at the end of the year
Ordinary shares					
Mr W Willesee *	4,500,000	-	4,000,000	-	8,500,000
Mr B Egerton - Warburton *	3,000,000	-	10,118,536	-	13,118,536
	7,500,000	-	14,118,536	-	21,618,536

* Shares purchased on-market trades during the financial year.

Option Holding

The number of options over ordinary shares in the parent entity held during the financial year by each director and other members of key management personnel of the consolidated entity, including their personally related parties, is set out below:

2011	Balance at the start of the year	Received as part of remuneration	Additions	Disposals/other	Balance at the end of the year
Options over ordinary shares					
Mr H Hill	13,000,000	2,000,000	-	(13,000,000)	2,000,000
Mr W Willesee **	17,500,000	12,000,000	-	(15,437,500)	14,062,500
Mr B Egerton-Warburton *	115,000,000	24,000,000		(103,034,537)	35,965,463
	145,500,000	38,000,000	-	(131,472,037)	52,027,963

* this movement is made up of a 107,689,169 reduction from the capital consolidation and 4,564,032 attached to a rights issue

* this movement is made up of a 18,562,000 reduction from the capital consolidation and 3,125,000 attached to a rights issue

2011	Vested and exercisable	Vested and unexercisable	Vested at the end of the year
Options over ordinary shares			
Mr H Hill	2,000,000	-	2,000,000
Mr W Willesee	14,062,500	-	14,062,500
Mr B Egerton-Warburton	35,965,463	-	35,965,463
	52,027,963	-	52,027,963

2010	Balance at the start of the year	Granted	Exercised	Expired/forfeit-ed other	Balance at the end of the year
Options over ordinary shares					
Mr W Willesee	4,000,000	15,500,000		(2,000,000)	17,500,000
Mr H Hill	10,000,000	3,000,000	-	-	13,000,000
Mr B Egerton - Warburton	-	115,000,000	-	-	115,000,000
	14,000,000	133,500,000	-	(2,000,000)	145,500,000

* During the previous financial year Mr Willesee exercised 4,000,000 options and was granted 2,000,000 options associated with that exercise.

Notes to the financial statements
30 June 2011 continued

Note 25. Key Management Personnel Disclosures (continued)

2010	Vested and exercisable	Vested and unexercisable	Vested at the end of the year
Options over ordinary shares			
Mr H Hill	13,000,000	-	13,000,000
Mr W Willesee	17,500,000	-	17,500,000
Mr B Egerton - Warburton	115,000,000	-	115,000,000
	145,500,000	-	145,500,000

Note 26. Remuneration of Auditors

During the financial year the following fees were paid or payable for services provided by Hayes Knight Audit Pty Ltd, the auditor of the company, and its related practices:

	Consolidated	
	2011	2010
	$	$
Audit services - Hayes Knight Audit Pty Ltd		
Audit or review of the financial report	36,881	30,000

Note 27. Contingent Liabilities

There were no contingent liabilities at 30 June 2011 or 30 June 2010.

Note 28. Commitments for Expenditure

	Consolidated	
	2011	2010
	$	$
Petroleum exploration permits		
Committed at the reporting date but not recognised as liabilities, payable:		
Within one year	50,000	116,950
One to five years	50,000	33,459
	100,000	150,409

In order to maintain current rights of tenure to exploration tenements, the consolidated entity is required to outlay rentals and to meet the minimum expenditure requirements of the Mineral resources Authority in the United States of America. Minimum expenditure commitments may be subject to renegotiation and with approval may otherwise be avoided by sale, farm out or relinquishment. These obligations are not provided in the accounts and are payable.

Note 29. Related Party Transactions

Parent Entity

Otis Energy Limited is the parent entity.

Subsidiaries

Interests in subsidiaries are set out in note 31.

Key Management Personnel

Disclosures relating to key management personnel are set out in note 25 and the remuneration report in the directors' report.

Transactions with Related Parties

There were no transactions with related parties during the financial year.

Receivable from and Payable to Related Parties

There were no trade receivables from or trade payables to related parties at the reporting date.

Loans to/from Related Parties

There were no loans to or from related parties at the reporting date.

Note 30. Parent Entity Information

Set out below is the supplementary information about the parent entity.

Statement of Comprehensive Income

	Parent	
	2011	2010
	$	$
Loss after income tax	(3,717,386)	(2,362,861)
Total comprehensive income	(3,717,386)	(2,362,861)

Statement of financial position

	Parent	
	2011	2010
	$	$
Total current assets	1,196,635	1,589,536
Total assets	5,779,340	5,445,769
Total current liabilities	73,887	52,987
Total liabilities	73,887	52,987
Equity		
Contributed equity	77,698,953	74,556,896
Reserves	1,428,800	578,800
Accumulated losses	(73,422,300)	(69,742,914)
Total equity	5,705,453	5,392,782

Note 30. Parent Entity Information (continued)

Contingent Liabilities

The parent entity had no contingent liabilities at 30 June 2011 and 30 June 2010.

Capital commitments - Property, Plant and Equipment

The parent entity had no capital commitments for property, plant and equipment at 30 June 2011 and 30 June 2010.

Significant Accounting Policies

The accounting policies of the parent entity are consistent with those of the consolidated entity, as disclosed in Note 1, except for the following:

- Investments in subsidiaries are accounted for at cost, less any impairment; and
- Investments in associates are accounted for at cost, less any impairment.

Note 31. Subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in Note 1:

		Equity holding	
Name of entity	**Country of incorporation**	**2011 %**	**2010 %**
Lowell Capital Limited	Australia	100.00	100.00
Future Energy Fund Pty Ltd *	Australia	-	100.00
Otis Energy Inc	USA	100.00	100.00

* the company was deregistered on 15 December 2010.

Note 32. Events Occurring After the Reporting Date

On 12 July 2011 the company announced the sale of its 100% owned subsidiary Lowell Capital Limited for a consideration value of $700,000 comprising of a $300,000 return of capital payment from Lowell to Otis and $400,000 payment by the purchaser.

No other matter or circumstance has arisen since 30 June 2011 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

Note 33. Reconciliation of Loss After Income Tax to Net Cash Used in Operating Activities

	Consolidated	
	2011	2010
	$	$
Loss after income tax expense for the year	(2,798,446)	(2,548,540)
Adjustments for:		
Depreciation and amortisation	444	74
Write off of investments	295,753	-
Net fair value loss on available-for-sale financial assets	259,879	-
Share of profit - joint ventures	441,886	-
Share-based payments	258,000	540,800
Loss on revaluation of held for sale investments	(33,750)	33,750
Write off of petroleum exploration expenditure	1,095,295	1,429,602
Net fair value gain on recognition of financial assets	(159,525)	-
Net gain on sale of investments	(11,612)	-
Change in operating assets and liabilities:		
(Increase)/decrease in trade and other receivables	(210,500)	2,713
Increase in other operating assets	-	(4,838)
Increase/(decrease) in trade and other payables	(328,017)	47,742
Net cash used in operating activities	(1,190,593)	(498,697)

	Consolidated	
	2011	2010
	$	$
Earnings per share from continuing operations		
Loss after income tax attributable to the owners of Otis Energy Limited	(2,955,951)	(2,540,867)
	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	3,017,867,914	2,499,144,628
Weighted average number of ordinary shares used in calculating diluted earnings per share	3,017,867,914	2,499,144,628
	Cents	Cents
Basic earnings per share	(0.100)	(0.100)
Diluted earnings per share	(0.100)	(0.100)

Notes to the financial statements
30 June 2011 continued

Note 34. Earnings Per Share (continued)

	Consolidated	
	2011	2010
	$	$
Earnings per share from discontinued operations		
Loss after income tax attributable to the owners of Otis Energy Limited	157,505	(7,673)
	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	3,017,867,914	2,499,144,628
Weighted average number of ordinary shares used in calculating diluted earnings per share	3,017,867,914	2,499,144,628
	Cents	Cents
Basic earnings per share	0.010	-
Diluted earnings per share	0.010	-

	Consolidated	
	2011	2010
	$	$
Earnings per share for loss		
Loss after income tax attributable to the owners of Otis Energy Limited	(2,798,446)	(2,548,540)
	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	3,017,867,914	2,499,144,628
Weighted average number of ordinary shares used in calculating diluted earnings per share	3,017,867,914	2,499,144,628
	Cents	Cents
Basic earnings per share	(0.090)	(0.100)
Diluted earnings per share	(0.090)	(0.100)

Diluted Earnings per Share

The rights to options held by option holders have not been included in the weighted average number of ordinary shares for the purposes of calculating diluted EPS as they do not meet the requirements for inclusion in AASB 133 "Earnings per Share". The rights to options are non-dilutive as the consolidated entity has generated a loss for the period.

Note 35. Share-based Payments

A share option plan has been established by the consolidated entity and approved by shareholders at a general meeting, whereby the consolidated entity may grant options over ordinary shares in the parent entity to certain key management personnel of the consolidated entity. The options are issued for nil consideration and are granted in accordance with performance guidelines established by the Board.

Set out below are summaries of options granted during the current and previous financial year:

2011

Grant date	Expiry date	Exercise price	Balance at the start of the year	Granted	Exercised	Expired/forfeited other	Balance at the end of the year
10/06/11	31/12/15	$0.050	5,000,000	-	-	-	5,000,000
25/02/11	31/12/15	$0.050	38,000,000	-	-	-	38,000,000
25/02/11	31/12/15	$0.050	300,000,000	-	-	-	300,000,000
25/02/11	31/12/15	$0.050	100,000,000	-	-	-	100,000,000
25/09/09	31/12/12*	$0.010	65,500,000	-	-	-	65,500,000
25/09/09	31/12/13*	$0.015	68,000,000	-	-	-	68,000,000
31/07/08	30/06/11*	$0.025	10,000,000	-	-	(10,000,000)	-
			586,500,000	-	-	(10,000,000)	576,500,000

2010

Grant date	Expiry date	Exercise price	Balance at the start of the year	Granted	Exercised	Expired/forfeited other	Balance at the end of the year
25/09/09	31/01/12*	$0.010	-	65,500,000	-	-	65,500,000
25/09/09	31/12/13*	$0.015	-	68,000,000	-	-	68,000,000
31/07/08	30/06/11*	$0.025	10,000,000	-	-	-	10,000,000
			10,000,000	133,500,000	-	-	143,500,000

The weighted average remaining contractual life of options outstanding at the end of the financial year was 2.93 years (2010: 1.67 years). The weighted average exercise prince of the options outstanding at the end of the financial year was $0.0603 (2010: $0.0110.)

For the options granted during the current financial year, the valuation model inputs used to determine the fair value at the grant date, are as follows:

Grant date	Expiry date	Share price at grant date	Exercise price	Expected volatility	Dividend yield	Risk-free interest rate	Fair value at grant date
10/06/11	31/12/15	$0.012	$0.050	150.00%	0.00%	4.75%	$0.0098
25/02/11	31/01/15*	$0.002	$0.050	150.00%	0.00%	5.15%	$0.0098
25/02/11	31/01/15*	$0.002	$0.050	150.00%	0.00%	4.73%	$0.0016
25/09/09	31/12/12*	$0.002	$0.050	150.00%	0.00%	4.73%	$0.0015
25/09/09	31/12/12*	$0.001	$0.010	160.00%	0.00%	4.95%	$0.0040
25/09/09	31/12/13*	$0.001	$0.015	160.00%	0.00%	5.41%	$0.0041
31/07/08	30/06/11*	$0.008	$0.003	81.00%	0.00%	6.58%	$0.0038

*The exercise prices stated are in relation to pre reconstruction of capital exercise prices, which was processed during the financial year.

Directors' declaration

26 September 2011

In the directors' opinion:

- the attached financial statements and notes thereto comply with the Corporations Act 2001, the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes thereto comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in note 1 to the financial statements;
- the attached financial statements and notes thereto give a true and fair view of the consolidated entity's financial position as at 30 June 2011 and of its performance for the financial year ended on that date;
- there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable; and
- The directors have been given the declarations required by section 295A of the Corporations Act 2001.

Signed in accordance with a resolution of directors made pursuant to section 295(5) of the Corporations Act 2001.

On behalf of the directors

Mr Winton Willesee

Director

26 September 2011

Melbourne

Independent audit report to the members of Otis Energy Ltd

Hayes Knight Audit
chartered accountants
your partners in success

Hayes Knight Audit Pty Ltd
ABN 86 005 105 975
Level 12, 31 Queen Street
Melbourne VIC 3000

• tel +61 3 8613 8888 • fax +61 3 8613 8800
• email info@hayesknightaudit.com.au
• www.hayesknightaudit.com.au

Registered Audit Company 291969

INDEPENDENT AUDIT REPORT TO THE MEMBERS OF OTIS ENERGY LIMITED

(Formerly known as Future Corporation Australia Limited)

Report on the Financial Report

We have audited the accompanying financial report of Otis Energy Limited (the company) and Otis Energy Limited and Controlled Entities (the consolidated entity), which comprises the statement of financial position as at 30 June 2011, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101: Presentation of Financial Statements, that compliance with the Australian equivalents to International Financial Reporting Standards (IFRS) ensures that the financial report, comprising the financial statements and notes, complies with IFRS.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit, we have complied with the independence requirements of the Corporations Act 2001. We confirm that the independence declaration required by the Corporations Act 2001 has been provided to the directors of Otis Energy Limited.

Independent audit report to the members of Otis Energy Ltd (continued)

Hayes Knight Audit
chartered accountants
your partners in success

Hayes Knight Audit Pty Ltd
ABN 86 005 105 975
Level 12, 31 Queen Street
Melbourne VIC 3000

• tel +61 3 8613 8888 • fax +61 3 8613 8800
• email info@hayesknightaudit.com.au
• www.hayesknightaudit.com.au

Registered Audit Company 291969

Auditor's Opinion

In our opinion:

a. the financial report of Otis Energy Limited and Otis Energy Limited and its Controlled Entities is in accordance with the *Corporations Act 2001*, including:

   i. giving a true and fair view of the company and consolidated entity's financial position as at 30 June 2011 and of their performance for the year ended on that date; and

   ii. complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001;

b. the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 9 to 13 of the report of the directors for the year ended 30 June 2011. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with s 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's Opinion

In our opinion the Remuneration Report of Otis Energy Limited for the year ended 30 June 2011 complies with s 300A of the *Corporations Act 2001*.

Hayes Knight Audit

Hayes Knight Audit Pty Ltd
Melbourne

G. S. Parker
Director

Dated this 26 day of SEPTEMBER 2011

Shareholder Information

30 June 2011

The shareholder information set out below was applicable as at 12 September 2011.

Distribution of Equitable Securities

Analysis of number of equitable security holders by size of holding:

	Number of holders of ordinary shares
1 to 1,000	477
1,001 to 5,000	64
5,001 to 10,000	126
10,001 to 100,000	827
100,001 and over	511
	2,005
Holding less than a marketable parcel	1,017

	Number of holders of ordinary shares (OTEO)
1 to 1,000	56
1,001 to 5,000	51
5,001 to 10,000	29
10,001 to 100,000	116
100,001 and over	116
	368
Holding less than a marketable parcel	268

Shareholder Information

30 June 2011 (continued)

Equity Security Holders

Twenty largest quoted equity security holders

The names of the twenty largest security holders of quoted equity securities are listed below:

	Ordinary shares	
	Number held	% of total shares issued
Mr Darien C Jagger <The Balcony Investment A/C>	41,582,267	8.45
UOB Kay Private Limited <Clients A/C>	20,210,000	4.11
Mahsor Holdings Pty Ltd <Rosham Family Super A/C>	20,000,000	4.06
G & N Lord Superannuation Pty Ltd <GNR Superannuation Fund A/C>	13,122,645	2.67
NHSBC Custody Nominees (Australia) Limited	11,001,612	2.23
Nino Constructions Pty Ltd	8,000,000	1.63
Dr David K Kennedy	8,000,000	1.63
Ekirtson Nominees Pty Ltd <GFCR Investment A/C>	8,000,000	1.63
Fullerton Private Capital Pty Limited	7,000,000	1.42
Ms Merle Smith & Ms Kathryn Smith <The Mini Pension Fund A/C>	5,927,423	1.20
Bell Potter Nominees Limted <BB Nominees A/C>	5,750,000	1.17
Deck Chair Holdings Pty Ltd	5,300,000	1.08
Guina Nominees Pty Ltd <The Byass Super Fund A/C>	5,000,000	1.02
Mr John Zaccaria <The Zaccaria Share A/C>	5,000,000	1.02
Mr John Kopp & Mrs Halina Kopp <Kopp S/F A/C>	4,832,700	0.98
Mr Geoffrey Kevin Cammell <Cammell Discretionary A/C>	4,458,000	0.91
Mr Garry S Collins & Mrs Janice A Collins <Collins Super Fund A/C>	4,430,000	0.90
R W Associates Pty Ltd <Super Fund A/C>	4,300,000	0.87
Syracuse Capital Pty Ltd	4,200,000	0.85
J P Morgan Nominees Australia Limited	4,000,000	0.81
	190,114,647	38.64

	Options over ordinary shares (OTEO)	
	Number held	% of total shares issued
Whistler Street Pty Ltd <Warburton Discretionary A/C>	24,000,000	12.90
Mahsor Holdings Pty Ltd <Rosham Family Super A/C>	12,951,848	6.96
Azalea Family Holdings Pty Ltd <No 2 A/C>	12,312,500	6.62
Deck Chair Holdings Pty Ltd	11,476,848	6.17
Dominion Investments Pty Ltd	10,000,000	5.37
UOB Kay Hian Private Limited <Clients A/C>	8,925,000	4.80
Castle Bailey Pty Ltd <D & S Bailey Family A/C>	7,894,250	4.24
Fullerton Private Capital Pty Limited	5,000,000	2.69
Mrs Donna S Cross	5,000,000	2.69
Mr Mark L Rodstrom	4,100,000	2.20
Mr Michael J Hynes	4,047,500	2.18
Greenday Corporate Pty Ltd	3,500,000	1.88
Celtic Capital Pty Ltd <The Celtic Capital A/C>	3,375,000	1.81
Ms Mere Smith & Ms Kathryn Smith <The Mini Pension Fund A/C>	3,317,283	1.78
Bell Potter Nominees Limited <BB Nominees A/C>	2,875,000	1.55
Syracuse Capital Pty Ltd <The Tenacity A/C>	2,800,000	1.50
Mr John Zaccaria <The Zaccaria Share A/C>	2,500,000	1.34
Murdoch Capital Pty Ltd	2,321,964	1.25
Mr Harry A Hill	2,000,000	1.07
Mitchell Grass Holdings Pty Ltd <Wood Family A/C>	1,875,000	1.01
	130,272,193	70.01

Unquoted equity securities

	Number on issue	Number of holders
Options over ordinary shares issued	43,465,160	-

Substantial holders

Substantial holders in the company are set out below:

	Ordinary shares	
	Number held	% of total shares issued
Mr Darien C Jagger	41,582,267	8.45

On 26 September 2011 the company received an initial substantial shareholder form from Deck Chair Holdings Pty Ltd stating that they had 46,882,267 ordinary shares and were holding 9.52% of the company's voting power.

Shareholder Information

30 June 2011 (continued)

Voting Rights

The voting rights attached to ordinary shares are set out below:

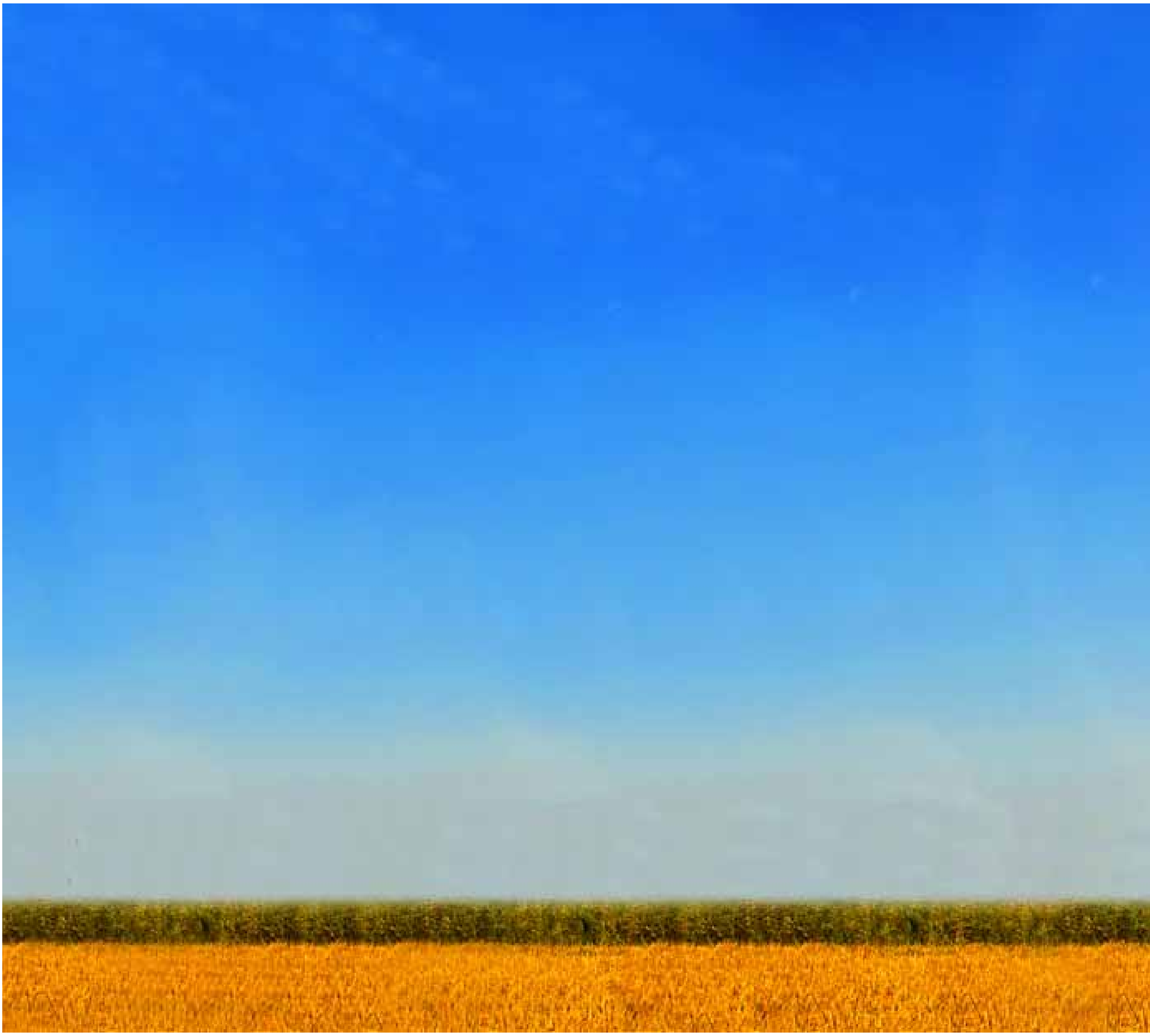
Ordinary Shares

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upo n a poll each share shall have one vote.

There are no other classes of equity securities.

Corporate Directory

Directors	Harry Hill
	(Non-Executive Chairman)
	Barnaby Egerton-Warburton
	(Managing Director)
	Winton Willesee
	(Non-Executive Director)
Company secretary	Winton Willesee
Registered office	Suite 25
	145 Stirling Highway
	Nedlands WA 6009
	Telephone: (08) 9389 3140
Principal place of business	Suite 25
	145 Stirling Highway
	Nedlands WA 6009
Share register	Link Market Services
	Level 22
	300 Queen Street
	Brisbane QLD 4000
Auditor	Hayes Knight Audit Pty Ltd
	Level 12
	31 Queen Street
	Melbourne VIC 3000
Bankers	NAB
	1232 Hay Street
	West Perth WA 6005
Stock exchange listing	Otis Energy Limited shares are listed on the
	Australian Securities Exchange (ASX code: OTE)
	(ASX code options: OTEO)
Website address	www.otisenergy.com
ABN	93 075 419 715



Registered office Suite 25 145 Stirling Highway Nedlands WA Telephone: (08) 9389 3140
Website address www.otisenergy.com