Otis Energy Limited

ABN 93 075 419 715

Annual Report - 30 June 2013

Contents

Otis Energy Limited
Corporate directory
30 June 2013

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 (08) 9389 3140
Principal place of business	Suite 25 145 Stirling Highway Nedlands WA 6009
Share register	Link Market Services Level 12 680 George Street Sydney NSW 2000
Auditor	Hayes Knight Audit Pty Ltd Level 12 31 Queen Street Melbourne VIC 3000
Bankers	National Australia Bank 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: OTEO) - options
Website	www.otisenergy.com

Otis Energy Limited
Chairman's Letter to Shareholders
30 June 2013

Dear Shareholders,

During the year the Board undertook a strategic review of its activities and decided to strengthen the asset base by actively pursuing oil projects in the MENA (Middle East and Northern Africa) region as well as maintaining its USA interests. To this end we identified an exciting and promising project being Block 7 in the Republic of Yemen.

Subsequently Oil and Gas Exploration Limited (OGE) indicated an interest in being involved with Otis to develop a working relationship. Following discussions it was agreed that as part of this relationship OGE would subscribe to a private placement in Otis. This was announced to the ASX on 22 May 2013. In June 2013, the first half of the initial tranche of $500,000 of the placement was completed with the balance to be completed in due course and the second tranche of a further $500,000 to be completed subject to shareholder approval at a General Meeting to be convened in due course.

Concurrently Otis continued to review strategic assets in the MENA region and ultimately agreed terms to acquire an 8.5% working interest (10% paying interest) in Yemen Block 7. Block 7 is located approximately 400km west of the capital of Yemen, Sana'a, and covers an area of 2,950 square kilometres. Completion of the acquisition is subject to approval from the remaining Joint Venture Partners and the Yemen Government. The Company understands the approval process is progressing satisfactorily. This acquisition and the fund raising strengthen the underlining assets of the Company.

An integral part of our strategy moving forward is to focus on opportunities in the oil and gas area which will create shareholder value.

I would encourage you to read the Managing Director's report for more detail on both the Company's interest in Block 7 in the Republic of Yemen and the interests in the USA projects.

The Board of Otis brings together a diverse skill set and considerable experience in all aspects of project acquisition, oil and gas projects and development finance, corporate development and commercial negotiations of all types. This combined with the skills and experience of our team brings together a wide and diverse combination of experience and expertise in the oil and gas sector.

We greatly appreciate the continued support of our shareholders and look forward to a mutually rewarding year ahead.

Finally I would like to thank my fellow directors for their contribution to this growth phase of Otis and the robust discussions which took place during the year.

Yours sincerely

Harry Hill
Non-Executive Chairman

Over the previous twelve months, Otis has continued to develop and refine its project base with a continued focus on development and analysis of the Comanche Project in Jack County Texas and the entry into an agreement to acquire an 8.5% stake in Petroleum Block 7 in Yemen from Mitsui E&P Middle East, B.V.

We have continued to place emphasis on our Comanche Project located in Jack County, Texas. We have seen multiple mid-sized independent companies enter the play, acreage rates increase and the key to unlocking completions in the Marble Falls becoming clearer. To date the Company has participated in three new wells and one workover at Comanche. The three new wells that have been drilled consisted of two horizontal wells and one vertical well. All wells in the project underwent fracture stimulation completions. A study of the economics of the play and completions of other companies in the trend is leading us to focus on vertical completions across the Marble Falls as opposed to lateral or horizontal completions. The most recent drilled well, the Lott Unit # 1 well, was drilled vertically with a three stage fracture stimulation procedure.

A small 3D seismic survey was undertaken to the south of the Sloan # 1 Well in the first half of the year in order to de-risk a fourth well. The survey identified a possible “Mississippian Reef”. A second small shoot has now been commissioned to cover the boundaries of the reef and if post interpretation results are favourable a well may be drilled targeting that formation.

It has always been the Company’s intention to identify, add value and develop early stage plays. To date we feel that value has been added to Comanche and with completion and interpretation of the current 3D seismic survey further value will be added to the play.

In May of this year the Company entered into an agreement with Mitsui E&P Middle East, B.V.to acquire their 8.5% Working Interest (10% Paying Interest) in Petroleum Block 7 (Al Barqa) in the Republic of Yemen. The Company has for the past three years been reviewing and performing due diligence on various Yemen assets following a country visit in December 2010 to meet with the Minister of Energy and the Chairman of the Petroleum and Production Authority of Yemen. Due to the Arab Spring unrest in Yemen and across the Middle East we took a step back and waited patiently for a calmer time. When the opportunity to look at a suitable Yemen asset arose again in early 2013 thanks to one of our largest shareholders, we took the opportunity.

Block 7 is an extremely attractive prospect. The block is operated by Oil Search Limited, a large and well respected Australian listed company with a great deal of experience in Yemen and the MENA region. This gives Otis a great deal of confidence in the project moving forward. The agreement between Mitsui and Otis remains in a confidential process until approved by the Yemen government, which we anticipate will be completed in the fourth quarter of this year. Before this, each of the Joint Venture Partners of Block 7 must approve Otis as a partner. This process is underway and we look forward to its completion and joining Oil Search as a partner in this venture.

During the year the Company welcomed a new strategic shareholder to the register, Oil and Gas Exploration Limited (OGE). Discussions had been held with OGE concerning our desire to further develop early stage low cost projects like Comanche and our desire to identify opportune MENA (Middle East North Africa) region projects. Subsequently OGE agreed to participate in a placement of Otis shares to raise $1,000,000.00. OGE brings to Otis a level of contact and expertise in MENA greatly needed to participate in this region.

Comanche, North Central Texas (16.66% BPOWI, 12.5% BPORI, 12.5% APOWI, 9.375% APORI)

The Comanche Project is located in North Central Texas and covers over 10,000 leased acres. The primary target of the Comanche project is the shallow Marble Falls Limestone (MFL) which sits at approximately 5,000 feet across the trend and is an oil and liquids rich gas formation.

To date three wells have been drilled at the Comanche Project. The most recent well, the Lott Unit # 1 well, was completed as a vertical well with three stage fracture stimulation. It appears that most operators in the trend are now drilling vertical completions and are seeing a better economic return. Acreage rates as well as permitting for new wells have been rapidly increasing. Between 2011 and 2013 there was over a threefold increase in the number of new wells permitted to target the MFL according to Texas Railroad Commission data.

With the soon to be completed second 3D seismic acquisition over a portion of our southern acreage position the Company and its partners should have several lower risk higher potential drilling prospects ready for the final quarter of the 2013 year.

Some interest has been expressed by outside parties in the Comanche Project acreage but as yet no firm offer or proposal has been put forward to Otis or its partners.

Catahoula Lake, LaSalle Parish Louisiana (20% WI, 14.5 - 17% NRI)

The Catahoula Lake Project is located in La Salle Parish Louisiana and is drilled from the Company's jointly owned barge rig. Otis holds a 20% Working Interest (14.5% to 17% NRI) interest across all wells in the project.

Due to the decision by the Louisiana State Fisheries and Wildlife Department to drain the lake early, there were no wells drilled this drilling season due to the costs to mobilise and de-mobilise the Company's jointly owned barge rig. Several wells received maintenance work through the season which resulted in small increases in production. The Company is currently reviewing its options on the project due to the difficulties with new drilling and development and thus its ability to add greater future value.

Avalanche, Evangeline Parish Louisiana (10% WI, 7.3% NRI)

Avalanche is located in Evangeline Parish, Louisiana, covers close to 24,000 acres and is approximately 75% covered by a proprietary 3D seismic survey. Analytical and reprocessing work has continued on the Avalanche project post the drilling of the 17,500 feet Avalanche # 1 well in December 2011 which was plugged and abandoned.

During the year the Roy O Martin # 1 well (9.0439 % NRI) was drilled targeting a shallow 3,000 foot gas anomaly visible on the projects 3D seismic survey. The well resulted in a discovery of an estimated 1 Billion Cubic Feet Gas. A three mile pipeline was constructed and the well hooked into a sales line in the in the second quarter of the 2013 year. The well has flowed at an average rate of 390 MCFPD since connection. The Roy O Martin well produces a dry gas with little or no liquids. US gas prices have been in a steady decline over the US summer months from a peak of approximately $US4.37 a thousand cubic feet (MCF) in mid-April of this year. Currently the Henry Hub Natural Gas price is $3.64 MCF and while historically winter in the United States sees a general increase in prices this cannot be taken as a given. As such, while we have a second gas prospect at Avalanche that sits between the Roy O Martin well and the gas sales line, no decision will be made to drill and test the prospect until a higher sustained gas price is evident.

Charro Project, Lea County New Mexico (5.5% WI, 3.29% NRI)

The Charro Project is located in Lea County, New Mexico, a prolific oil and gas producing region along the northwest Shelf of the Delaware Basin. Typical Paddock/Blinebry completed wells in the area range from 25,000 barrels (25MBO) to over 250,000 (250 MBO) total recoverable barrels of oil per well plus high liquid content associated natural gas. Average gross reserves per well in the area are 110-125 MBOE in the Paddock/Blinebry formations.

Otis has participated in the drilling of two wells at the project to date. Both wells initially looked promising but have subsequently failed to perform due to tight formation or high water cut returns. The operator of the project is analysing other potential completion procedures for both wells.

Sombrero Project, Lea County New Mexico (5% WI, 3.75% NRI)

Sombrero is located in Lea County, New Mexico, a prolific oil and gas producing region along the northwest Shelf of the Delaware Basin. The project covers an area of 37.7 square miles approximately 24,000 acres) offsetting multiple producing fields in a multi-pay environment. The project is covered by a 3D seismic survey and will primarily target the Wolfcamp/Cisco formations with additional potential from the Queen, Grayburg, Paddock, Atoka and Morrow formations.

The single well drilled to date at Sombrero has now been plugged. The WC 35 State # 1 well came into production at around 20 BOPD and declined quickly while water cut continued to be an issue. The project operator is considering a completion attempt of a deeper zone that was logged in the well that is producing from a nearby well and exhibits very similar log reading to the zone in the WC 35 well. At the current stage no new wells are planned at the Sombrero project over the remainder of the 2013 Calendar year.

Other Assets

There was no material exploration or development activity at any of the Company's other assets during the year.

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.

Otis Energy Limited
Directors' report
30 June 2013

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 2013.

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:

- oil and gas exploration and development

Dividends

There were no dividends paid, recommended 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 $2,969,915 (30 June 2012: $2,913,080).

Significant changes in the state of affairs

In May 2013 the consolidated entity announced a two tranche private placement to Oil & Gas Exploration to raise $1 million before costs. In June 2013, the first half of the first tranche was completed and 125,000,000 ordinary shares issued at $0.002 (0.2 cents) each, raising $250,000 before costs.

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

No matter or circumstance has arisen since 30 June 2013 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

The consolidated entity will continue to pursue its objectives of developing and exploiting its oil and gas assets in Louisiana, Texas and New Mexico.

During the June 2013 quarter, the Company entered into an agreement to acquire an 8.5% working interest (10% paying interest) in Block 7 in the Republic of Yemen. The signing of the agreement has triggered the first stage in a confidential process as defined in the Joint Operating Agreement with Mitsui E&P Middle East, B.V. Completion of the acquisition is subject to approval from the remaining Joint Venture Partners and thereafter approval from the Yemen Government. This process is ongoing.

With respect to the private placement to Oil and Gas Exploration Limited announced in May 2013, the first half of the first tranche $250,000 was received in June 2013 and the second tranche will be completed subject to shareholder approval. These funds will be used to fund current planned working capital and project expenditure requirements. The directors will also continue to consider funding requirements for all projects, and sources of funding available to it.

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 2013.

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 35 years experience as a Director and Company Secretary of several publicly listed companies involved in oil and gas exploration, mining and mineral exploration.
Other current directorships:	Nil
Former directorships (in the last 3 years):	Tawana Resources NL (resigned 27 May 2011) Cove Resources Limited (resigned 9 January 2012)
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 20 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:	Green Rock Energy Limited (appointed 15 March 2013) Intermet Resources Limited (appointed 17 January 2013)
Former directorships (in the last 3 years):	Nil
Special responsibilities:	Nil
Interests in shares:	16,955,562 fully paid ordinary shares
Interests in options:	6,000,000 unlisted 15 cent options expiring 31 December 2013 24,465,464 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/ACSA
Experience and expertise:	Mr Willesee is an experienced company director and company secretary. Mr Willesee brings a broad range of skills and experience in strategy, 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. Mr Willesee holds a Master of Commerce, Post-Graduate Diploma in Business (Economics and Finance), a Graduate Diploma in Applied Corporate Governance, a Graduate Diploma in Applied Finance and Investment, a Graduate Diploma in Education and a Bachelor of Business. He is a Fellow of the Financial Services Institute of Australasia, a Member of the Australian Institute of Company Directors, a Member of CPA Australia and a Chartered Secretary.
Other current directorships:	Chairman of BioProspect Limited, Cove Resources Limited, Mining Group Limited and Birimian Gold Limited. Director of Base Resources Limited, Coretrack Limited, Torrens Energy Limited and Newera Resources Limited.
Former directorships (in the last 3 years):	Nil
Special responsibilities:	Nil
Interests in shares:	9,750,000 fully paid ordinary shares
Interests in options:	200,000 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 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 ('the Board') held during the year ended 30 June 2013, and the number of meetings attended by each director were:

	Full Board	
	Attended	Held
Mr Harry Hill	8	9
Mr Barnaby Egerton-Warburton	9	9
Mr Winton Willesee	9	9

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 are 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.

Use of remuneration consultants
During the previous financial year, the company engaged PJ Kinder Consulting, remuneration consultants, to review its existing remuneration policies and provide benchmark recommendations on how to improve both is short term and long term consultants program. The directors agreed that there would be no change during the year ended 30 June 2013 and therefore did not engage the remuneration consultants during the current financial year.

Voting and comments made at the company's 2012 Annual General Meeting ('AGM')
The company received 94.70% of 'for' votes in relation to its remuneration report for the year ended 30 June 2012. The company did not receive any specific feedback at the AGM regarding its remuneration practices.

B Details of remuneration

Amounts of remuneration
Details of the remuneration of the key management personnel of consolidated entity are set out in the following tables.

2013	Short-term benefits			Post-employment benefits	Long-term benefits	Share-based payments	
Name	Cash salary and fees $	Bonus $	Non-monetary $	Super-annuation $	Long service leave $	Equity-settled $	Total $
Non-Executive Directors:							
Harry Hill	60,000	-	-	-	-	-	60,000
Winton Willesee*	39,600	-	-	-	-	-	39,600
Executive Directors:							
Barnaby Egerton-Warburton**	215,596	-	-	19,404	-	-	235,000
	315,196	-	-	19,404	-	-	334,600

* Payments exclude amounts paid for Company Secretarial services provided which amounted to $52,800 for the year. An additional amount of $12,000 was paid to a company associated with Mr Winton Willesee for providing office services.

** During the year, the company closed down its Sydney office and Mr Barnaby Egerton-Warburton was required to relocate from Sydney to Perth in order to fulfil his duties as an officer of Otis Energy Limited. The company provided an allowance of $12,000 towards his relocation expenses.

2012	Short-term benefits			Post-employment benefits	Long-term benefits	Share-based payments	
Name	Cash salary and fees $	Bonus $	Non-monetary $	Super-annuation $	Long service leave $	Equity-settled $	Total $
Non-Executive Directors:							
Harry Hill	60,000	-	-	-	-	-	60,000
Winton Willesee*	39,600	-	-	-	-	-	39,600
Executive Directors:							
Barnaby Egerton-Warburton	206,083	-	-	9,701	-	-	215,784
Other Key Management Personnel:							
Michael Ramsden**	6,666	-	-	-	-	-	6,666
Don Carroll**	6,666	-	-	-	-	-	6,666
Oliver Carton**	6,666	-	-	-	-	-	6,666
	325,681	-	-	9,701	-	-	335,382

* Payments exclude amounts paid for Company Secretarial services provided which amounted to $52,800 for the year. An additional amount of $12,000 was paid to a company associated with Mr Winton Willesee for providing office services.

** Michael Ramsden was the Executive Director of Lowell Capital Limited. Amounts noted are payments made up to the disposal of Lowell Capital Limited on 31 August 2012 have been included in the remuneration report.

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

	Fixed remuneration		At risk - STI		At risk - LTI	
Name	2013	2012	2013	2012	2013	2012
Non-Executive Directors:						
Harry Hill	100%	100%	- %	- %	- %	- %
Winton Willesee	100%	100%	- %	- %	- %	- %
Executive Directors:						
Barnaby Egerton-Warburton	100%	100%	- %	- %	- %	- %

C Service agreements

Remuneration and other terms of employment for key management personnel are formalised in service agreements. Details of these agreements are as follows:

Name:	Barnaby Egerton-Warburton
Title:	Managing Director
Agreement commenced:	1 January 2012
Details:	Mr Egerton-Warburton may terminate the agreement with the company by providing three months' written notice to the company. The company may terminate the agreement with the executive with reason by providing one month's written notice. The company may terminate the agreement without reason by providing the executive with twenty weeks' written notice. The service agreement is subject to an annual review with performance based bonuses being provided at any time based on the key performance indicators of the Executive and the company as the company may set from time to time.

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 2013.

Options
There were no options over ordinary shares issued to directors and other key management personnel as part of compensation that were outstanding as at 30 June 2013.

There were no options over ordinary shares granted to or vested by directors and other key management personnel as part of compensation during the year ended 30 June 2013.

E Additional information

The earnings of the consolidated entity for the five years to 30 June 2013 are summarised below:

	2009 $	2010 $	2011 $	2012 $	2013 $
Sales revenue	381,108	478,474	218,837	374,740	799,549
Net profit/(loss) before tax	(621,781)	(2,547,867)	(2,955,951)	(3,000,192)	(2,969,915)
Net profit/(loss) after tax	(558,437)	(2,547,867)	(2,955,951)	(3,000,192)	(2,969,915)

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

	2009	2010	2011	2012	2013
Basic earnings per share (cents per share)	(0.040)	(0.100)	(0.979)	(0.462)	(0.257)

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
7 October 2009	31 December 2013	$0.100	26,500,001
7 October 2009	2 January 2014	$0.150	6,800,000
February 2011 to June 2011	31 December 2015	$0.050	186,049,962
1 March 2013	1 March 2016	$0.005	10,000,000
			229,349,963

On 1 March 2013, 10,000,000 unlisted options with an exercise price of $0.005 and an expiry date of 1 March 2016 were issued to US based contractors as part consideration for consulting services.

On 31 December 2012, 6,550,000 unlisted options with an exercise price of $0.10 expired and on 30 June 2013, 722,280,783 unlisted options with an exercise price of $0.01 expired.

No person entitled to exercise the options had or has any right by virtue of the option to participate in any share issue of the company or of any other body corporate.

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 2013 and up to the date of this report.

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

6 September 2013
Perth

Hayes Knight Audit
chartered accountants · your partners in success

Hayes Knight Audit Pty Ltd
ABN: 86 005 105 975

Level 12, 31 Queen St,
Melbourne, VIC 3000

T: 03 8613 8888 **F:** 03 8613 8800
Email: info@hayesknightaudit.com.au

www.hayesknight.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

I declare that, to the best of my knowledge and belief, during the year ended 30 June 2013 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 6 day of September 2013

Otis Energy Limited
Corporate Governance Statement
30 June 2013

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
Principle 1 – Lay solid foundations for management and oversight		
1.1	Companies should establish the functions reserved for the Board and those delegated to manage and disclose those functions.	Complies. 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.
1.2	Companies should disclose the process for evaluating the performance of senior executives.	Complies. The Board meets annually to review the performance of executives. The senior executives' performance is assessed against performance of the Company as a whole.
1.3	Provide the information indicated in *Guide to reporting on Principle 1.*	Complies. A copy of the Board Charter is available at www.otisenergy.com. The performance evaluation process and delegations of authority policy is included in the Board Charter. A performance evaluation of senior management was conducted during the year in accordance with the process outlined in the Board Charter.
Principle 2 – Structure the Board to add value		
2.1	A majority of the Board should be independent directors.	Complies. Both Mr Harry Hill and Mr Winton Willesee are independent non-executive directors of the Company.
2.2	The chair should be an independent director.	Complies. Mr Harry Hill is the Chairman and is independent.
2.3	The roles of chair and chief executive officer should not be exercised by the same individual.	Complies. Mr Harry Hill is the Chairman and Mr Barnaby Egerton-Warburton is the chief executive officer.
2.4	The Board should establish a nomination committee.	Does not comply. 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 is included in the Board Charter which is available at www.otisenergy.com.
2.5	Disclose the process for evaluating the performance of the Board, its committees and individual directors.	Complies. The full Board assumes responsibility for the ongoing evaluation of the performance of the Board individual directors and, where applicable, its committees.
2.6	Provide the information indicated in the *Guide to reporting on Principle 2.*	Complies. This information has been disclosed (where applicable) in the directors' report attached to this Corporate Governance Statement. A director is considered independent when he satisfies the test for independence as set out in the ASX Corporate Governance Recommendations.

Principles and Recommendations		**Compliance**
		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.
Principle 3 – Promote ethical and responsible decision making		
3.1	Companies should establish a code of conduct and disclose the code or a summary of the code.	Complies. 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 of conduct is contained within the Board Charter which is available on the Company's website.
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.	Does not comply. The Board has committed the Company to review and 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.
3.3	Companies should disclose in each annual report the measurable objectives for achieving gender diversity set by the Board in accordance with the diversity policy and progress towards achieving them.	Does not comply. Upon completion and acceptance of a Diversity Policy, the Board will be in a position to disclose the measurable objectives for achieving gender diversity and progress towards achieving those objectives.
3.4	Companies should disclose in each annual report the proportion of women employees in the whole of the organisation, women in senior executive positions and women on the Board.	Complies. The Company does not currently have any female employees.
3.5	Companies should provide the information indicated in *Guide to reporting on Principle 3.*	Does not comply. Upon completion and acceptance of a Diversity Policy the Company will make it available on its website.
Principle 4 – Safeguard integrity in financial reporting		
4.1	The Board should establish an audit committee.	Does not comply. Given the size and scale of the Company, the Board has not established a separate audit and risk

Principles and Recommendations		Compliance
		committee. The functions of an audit committee are performed by the full Board.
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.
4.3	The audit committee should have a formal charter.	Refer to comments above under 4.1.
4.4	Provide the information indicated in *Guide to reporting on Principle 4.*	Refer to comments above under 4.1.
Principle 5 – Make timely and balanced disclosure		
5.1	Companies should establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior executive level for that compliance and disclose those policies or a summary of those policies.	Complies. 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.
5.2	Provide the information indicated in the *Guide to reporting on Principle 5.*	Complies. The Company's continuous disclosure policy is available at www.otisenergy.com.
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.	Complies. The Company uses its website, annual reports, market announcements, media disclosures and webcasting to communicate with its shareholders, as well as encourages participation at general meetings.
6.2	Provide the information indicated in the *Guide to reporting on Principle 6.*	Complies. The Company's shareholder communications policy is addressed in the Disclosure Policy which is available at www.otisenergy.com.
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.	Complies. The Company has adopted a risk management statement within the Board Charter. The Managing Director is responsible for managing risk, reporting risks to the Board and determining strategies to mitigate risks. Ultimate responsibility for risk oversight and risk management rests with the Board.
7.2	The review of risk is an ongoing process and considered at each Board meeting, 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	Whilst management has not formally reported to the Board 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 management and the full Board are adequate given the size and nature of the Company's activities. The Company intends to develop the risk reporting framework into a detailed policy as its operations continue to grow.

Principles and Recommendations		**Compliance**
	management of its material business risks.	
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.	Complies. 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.
7.4	Provide the information indicated in *Guide to reporting on Principle 7.*	Complies. The Company's policies on risk oversight and management of material business risk are addressed in the Board Charter which is available on the Company's website.
Principle 8 – Remunerate fairly and responsibly		
8.1	The Board has established a remuneration committee.	The Board consider that given the current size of the board, this function is efficiently achieved with full board participation. Accordingly, the Board has not established a separate Remuneration Committee and has not adopted a remuneration charter.
8.2	The remuneration committee is structured so that it consists of a majority of independent directors, is chaired by an independent chair and has at least three members.	Refer to comments above at 8.1. The full Board consists of three members, the majority of which are independent non-executive directors. The chairman of the Board is independent.
8.3	Companies should clearly distinguish the structure of non-executive directors' remuneration from that of executive directors and senior executives.	Complies. This information has been disclosed in the directors' report attached to this Corporate Governance Statement.
8.3	Provide the information indicated in *the Guide to reporting on Principle 8.*	Complies. The information has been disclosed in the directors' report. The Board's Share Trading Policy and Security Trading Policy are available at www.otisenergy.com.au.

Otis Energy Limited's corporate governance practices were in place for the financial year ended 30 June 2013 and to the date of signing the directors' report. The Board has also undertaken to conduct a full review of its corporate governance policies with the view to adopting revised versions during the new financial year.

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

Otis Energy Limited
Statement of profit or loss and other comprehensive income
For the year ended 30 June 2013

	Note	Consolidated 2013 $	Consolidated 2012 $
Revenue from continuing operations	5	799,549	374,740
Other income	6	36,750	-
Expenses			
Depreciation of oil producing assets		(166,265)	-
Employee benefits expense		(324,952)	(379,416)
Depreciation and amortisation expense		(2,532)	(1,326)
Impairment expense		(2,695,407)	(2,271,395)
Loss on revaluation of held for sale investments		(9,267)	-
Consultancy and management expenses		(87,815)	(139,034)
Share based payments		(24,800)	-
Other expenses		(495,176)	(583,761)
Loss before income tax expense from continuing operations		(2,969,915)	(3,000,192)
Income tax expense	8	-	-
Loss after income tax expense from continuing operations		(2,969,915)	(3,000,192)
Profit after income tax expense from discontinued operations	9	-	87,112
Loss after income tax expense for the year attributable to the owners of Otis Energy Limited		(2,969,915)	(2,913,080)
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Foreign currency translation		574,831	105,939
Other comprehensive income for the year, net of tax		574,831	105,939
Total comprehensive income for the year		(2,395,084)	(2,807,141)
Total comprehensive income for the year is attributable to:			
Continuing operations		(2,395,084)	(2,807,141)
Discontinued operations		-	-
		(2,395,084)	(2,807,141)

The above statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes

Otis Energy Limited
Statement of profit or loss and other comprehensive income
For the year ended 30 June 2013

	Note	Consolidated 2013 $	Consolidated 2012 $
		Cents	**Cents**
Earnings per share from continuing operations attributable to the owners of Otis Energy Limited			
Basic earnings per share	33	(0.257)	(0.476)
Diluted earnings per share	33	(0.257)	(0.476)
Earnings per share from discontinued operations attributable to the owners of Otis Energy Limited			
Basic earnings per share	33	-	0.014
Diluted earnings per share	33	-	0.014
Earnings per share for loss attributable to the owners of Otis Energy Limited			
Basic earnings per share	33	(0.257)	(0.462)
Diluted earnings per share	33	(0.257)	(0.462)

The above statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes

Otis Energy Limited
Statement of financial position
As at 30 June 2013

	Note	Consolidated 2013 $	2012 $
Assets			
Current assets			
Cash and cash equivalents	10	433,689	1,958,299
Trade and other receivables	11	12,657	87,368
Financial assets at fair value through profit or loss	12	-	123,750
Other current assets	13	68,159	9,773
Total current assets		514,505	2,179,190
Non-current assets			
Property, plant and equipment	14	1,633,817	2,203,820
Petroleum exploration and evaluation	15	2,323,723	2,590,472
Total non-current assets		3,957,540	4,794,292
Total assets		4,472,045	6,973,482
Liabilities			
Current liabilities			
Trade and other payables	16	210,231	603,529
Employee benefits	17	18,981	9,038
Total current liabilities		229,212	612,567
Non-current liabilities			
Employee benefits	19	6,536	2,193
Total non-current liabilities		6,536	2,193
Total liabilities		235,748	614,760
Net assets		4,236,297	6,358,722
Equity			
Issued capital	20	80,913,940	80,666,081
Reserves	21	1,288,474	1,045,950
Accumulated losses		(77,966,117)	(75,353,309)
Total equity		4,236,297	6,358,722

The above statement of financial position should be read in conjunction with the accompanying notes

Otis Energy Limited
Statement of changes in equity
For the year ended 30 June 2013

Consolidated	Contributed equity $	Option Reserves $	Foreign Currency Reserve $	Retained profits $	Total equity $
Balance at 1 July 2011	77,698,954	1,428,800	(583,896)	(72,440,229)	6,103,629
Loss after income tax expense for the year		-	-	(2,913,080)	(2,913,080)
Other comprehensive income for the year, net of tax	-	-	105,939	-	105,939
Total comprehensive income for the year	-	-	105,939	(2,913,080)	(2,807,141)
Transactions with owners in their capacity as owners:					
Share-based payments (note 34)		95,107	-	-	95,107
Issue of shares	3,311,404	-	-		3,311,404
Capital raising costs	(344,277)		-	-	(344,277)
Balance at 30 June 2012	80,666,081	1,523,907	(477,957)	(75,353,309)	6,358,722

Consolidated	Contributed equity $	Option Reserves $	Foreign Currency Reserve $	Retained profits $	Total equity $
Balance at 1 July 2012	80,666,081	1,523,907	(477,957)	(75,353,309)	6,358,722
Loss after income tax expense for the year		-	-	(2,969,915)	(2,969,915)
Other comprehensive income for the year, net of tax	-	-	574,831	-	574,831
Total comprehensive income for the year	-	-	574,831	(2,969,915)	(2,395,084)
Transactions with owners in their capacity as owners:					
Contributions of equity, net of transaction costs (note 20)	247,859	-	-	-	247,859
Share-based payments (note 34)	-	24,800	-	-	24,800
Lapse of options	-	(357,107)	-	357,107	-
Balance at 30 June 2013	80,913,940	1,191,600	96,874	(77,966,117)	4,236,297

The above statement of changes in equity should be read in conjunction with the accompanying notes

Otis Energy Limited
Statement of cash flows
For the year ended 30 June 2013

	Note	Consolidated 2013 $	Consolidated 2012 $
Cash flows from operating activities			
Receipts from customers		738,295	268,968
Payments to suppliers and employees		(781,402)	(1,147,762)
Interest received		19,725	41,599
Net cash used in operating activities	32	(23,382)	(837,195)
Cash flows from investing activities			
Payments for property, plant and equipment	14	-	(6,505)
Payments in respect of oil producing asset		(999,275)	-
Payments for petroleum exploration		(903,966)	(3,068,629)
Proceeds from sale of equity investments		154,599	-
Proceeds from sale of permits		-	146,905
Proceeds from sale of subsidiary		-	700,000
Net cash disposed of from sale of subsidiary		-	(544,320)
Net cash used in investing activities		(1,748,642)	(2,772,549)
Cash flows from financing activities			
Proceeds from issue of shares	20	250,000	3,311,404
Capital raising costs		-	(249,170)
Net cash from financing activities		250,000	3,062,234
Net decrease in cash and cash equivalents		(1,522,024)	(547,510)
Cash and cash equivalents at the beginning of the financial year		1,958,299	2,399,870
Effects of exchange rate changes on cash		(2,586)	105,939
Cash and cash equivalents at the end of the financial year	10	433,689	1,958,299

The above statement of cash flows should be read in conjunction with the accompanying notes

Note 1. 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 6 September 2013. The directors have the power to amend and reissue the financial report.

Note 2. 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.

Any significant impact on the accounting policies of the consolidated entity from the adoption of these Accounting Standards and Interpretations are disclosed below. The adoption of these Accounting Standards and Interpretations did not have any significant impact on the financial performance or position of the consolidated entity.

The following Accounting Standards and Interpretations are most relevant to the consolidated entity:

AASB 101 Presentation of Financial Statements arising from AASB 2011-9 Amendments to Australian Accounting Standards - Presentation of Items of Other Comprehensive Income
The consolidated entity has applied AASB 2011-9 amendments from 1 July 2012. The amendments requires grouping together of items within other comprehensive income on the basis of whether they will eventually be 'recycled' to the profit or loss (reclassification adjustments). The change provides clarity about the nature of items presented as other comprehensive income and the related tax presentation. The amendments also introduced the term 'Statement of profit or loss and other comprehensive income' clarifying that there are two discrete sections, the profit or loss section (or separate statement of profit or loss) and other comprehensive income section.

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, as appropriate for for-profit oriented entities. These financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board ('IASB').

Note 2. Significant accounting policies (continued)

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 3.

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 29.

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 2013 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.

Note 2. Significant accounting policies (continued)

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 approximate the rate at the date of the transaction, for the period. All resulting foreign exchange differences are recognised in other comprehensive income through 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.

Sale of goods

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

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 2. 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, unused tax losses and the adjustment recognised for 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.

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 profit or loss and other 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
Other receivables are recognised at amortised cost, less any provision for impairment.

Investments and other financial assets
Investments and other financial assets are initially measured at fair value. Transaction costs are included as part of the initial measurement, except for financial assets at fair value through profit or loss. They are subsequently 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 arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models.

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.

Note 2. Significant accounting policies (continued)

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 mismatch. 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
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:

Oil and gas production assets	Over the life of reserves
Plant and equipment	2-4 years

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

Oil and gas production assets are depreciated over the life of the reserves, using the units of production as the rate of depreciation in each reporting period.

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.

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.

Note 2. Significant accounting policies (continued)

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 are not discounted. The amounts are unsecured and are usually paid within 30 days of recognition.

Employee benefits

Wages and salaries, annual leave and sick leave
Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months of the reporting date are recognised in current liabilities in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled. Non-accumulating sick leave is expensed to profit or loss when incurred.

Long service leave
The liability for long service leave is recognised in current and non-current liabilities, depending on the unconditional right to defer settlement of the liability for at least 12 months after the reporting date. The liability is measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

Defined contribution superannuation expense
Contributions to defined contribution superannuation plans are expensed in the period in which they are incurred.

Note 2. Significant accounting policies (continued)

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.

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.

Issued capital
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.

Note 2. Significant accounting policies (continued)

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.

Note 2. 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 2013. The consolidated entity's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the consolidated entity, are set out below.

AASB 9 Financial Instruments, 2009-11 Amendments to Australian Accounting Standards arising from AASB 9, 2010-7 Amendments to Australian Accounting Standards arising from AASB 9 and 2012-6 Amendments to Australian Accounting Standards arising from AASB 9
This standard and its consequential amendments are applicable to annual reporting periods beginning on or after 1 January 2015 and completes phase I of the IASB's project to replace IAS 39 (being the international equivalent to AASB 139 'Financial Instruments: Recognition and Measurement'). This standard introduces new classification and measurement models for financial assets, using a single approach to determine whether a financial asset is measured at amortised cost or fair value. The accounting for financial liabilities continues to be classified and measured in accordance with AASB 139, with one exception, being that the portion of a change of fair value relating to the entity’s own credit risk is to be presented in other comprehensive income unless it would create an accounting mismatch. The consolidated entity will adopt this standard from 1 July 2015 but the impact of its adoption on the consolidated entity's financial report is expected to be minimal and in disclosures only.

AASB 10 Consolidated Financial Statements
This standard is applicable to annual reporting periods beginning on or after 1 January 2013. The standard has a new definition of 'control'. Control exists when the reporting entity is exposed, or has the rights, to variable returns (e.g. dividends, remuneration, returns that are not available to other interest holders including losses) from its involvement with another entity and has the ability to affect those returns through its 'power' over that other entity. A reporting entity has power when it has rights (e.g. voting rights, potential voting rights, rights to appoint key management, decision making rights, kick out rights) that give it the current ability to direct the activities that significantly affect the investee’s returns (e.g. operating policies, capital decisions, appointment of key management). The consolidated entity will not only have to consider its holdings and rights but also the holdings and rights of other shareholders in order to determine whether it has the necessary power for consolidation purposes. The adoption of this standard from 1 July 2013 may have an impact where the consolidated entity has a holding of less than 50% in an entity, has de facto control, and is not currently consolidating that entity. Currently the consolidated holds no such interests.

AASB 11 Joint Arrangements
This standard is applicable to annual reporting periods beginning on or after 1 January 2013. The standard defines which entities qualify as joint ventures and removes the option to account for joint ventures using proportional consolidation. Joint ventures, where the parties to the agreement have the rights to the net assets will use equity accounting. Joint operations, where the parties to the agreements have the rights to the assets and obligations for the liabilities will account for the assets, liabilities, revenues and expenses separately, using proportionate consolidation. The adoption of this standard from 1 July 2013 will not have a material impact on the consolidated entity.

AASB 12 Disclosure of Interests in Other Entities
This standard is applicable to annual reporting periods beginning on or after 1 January 2013. It contains the entire disclosure requirement associated with other entities, being subsidiaries, associates and joint ventures. The disclosure requirements have been significantly enhanced when compared to the disclosures previously located in AASB 127 'Consolidated and Separate Financial Statements', AASB 128 'Investments in Associates', AASB 131 'Interests in Joint Ventures' and Interpretation 112 'Consolidation - Special Purpose Entities'. The adoption of this standard from 1 July 2013 will significantly increase the amount of disclosures required to be given by the consolidated entity such as significant judgements and assumptions made in determining whether it has a controlling or non-controlling interest in another entity and the type of non-controlling interest and the nature and risks involved.

Note 2. Significant accounting policies (continued)

AASB 13 Fair Value Measurement and AASB 2011-8 Amendments to Australian Accounting Standards arising from AASB 13
This standard and its consequential amendments are applicable to annual reporting periods beginning on or after 1 January 2013. The standard provides a single robust measurement framework, with clear measurement objectives, for measuring fair value using the 'exit price' and it provides guidance on measuring fair value when a market becomes less active. The 'highest and best use' approach would be used to measure assets whereas liabilities would be based on transfer value. As the standard does not introduce any new requirements for the use of fair value, its impact on adoption by the consolidated entity from 1 July 2013 should be minimal, although there will be increased disclosures where fair value is used.

Note 3. 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 (refer to the respective notes) 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.

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 finite 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.

Oil producing assets
The recoverable value of oil producing assets is based on the discounted cash flows expected to be derived from the produciton of oil over the estimated useful life of reserves. Oil producing assets are depreciated over the estimated useful life of the reserves. It is therefore required to estimate the reserves of oil at each reporting period. Based on the depletion of the reserves the depreciation cost is charged to costs of production of oil stocks for sale. Where estimates of reserves are varied, the charge per barrel produced will be amended to reflect the estimated depletion rate. Based on the current estimate of oil reserves, the Directors have determined an impairment expense of $1,461,627 and a depreciation charge of $166,265.

Income tax
The consolidated entity is subject to income taxes in the jurisdictions in which it operates. Significant judgement is required in determining the provision for income tax. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The consolidated entity recognises liabilities for anticipated tax audit issues based on the consolidated entity’s current understanding of the tax law. Where the final tax outcome of these matters is different from the carrying amounts, such differences will impact the current and deferred tax provisions in the period in which such determination is made.

Note 3. Critical accounting judgements, estimates and assumptions (continued)

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.

Exploration and evaluation costs
Exploration and evaluation costs have been capitalised on the basis that the consolidated entity will commence commercial production in the future, from which time the costs will be amortised in proportion to the depletion of the mineral resources. Key judgements are applied in considering costs to be capitalised which includes determining expenditures directly related to these activities and allocating overheads between those that are expensed and capitalised. In addition, costs are only capitalised that are expected to be recovered either through successful development or sale of the relevant mining interest. Factors that could impact the future commercial production at the mine include the level of reserves and resources, future technology changes, which could impact the cost of mining, future legal changes and changes in commodity prices. To the extent that capitalised costs are determined not to be recoverable in the future, they will be written off in the period in which this determination is made.

Note 4. Operating segments

Identification of reportable operating segments
The consolidated entity is currently organised into three operating segments : Oil and Gas Exploration, Oil and Gas Production 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.

In August 2011, the company sold its interest in Lowell Capital Limited, which operated in the Financial Services industry in Australia. From this time, the consolidated entity has ceased to operate in the Financial Services segment.

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:

Oil and Gas Exploration	Oil and gas exploration activities are carried out in the USA
Oil and Gas Production	Oil and gas production 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.

Note 4. Operating segments (continued)

Operating segment information

Consolidated - 2013	Oil & Gas Exploration (USA) $	Oil & Gas Production (USA) $	Corporate Centre (AUS) $	Intersegment eliminations/ unallocated $	Total $
Revenue					
Sales to external customers	-	779,736		-	779,736
Total sales revenue	-	779,736	-	-	779,736
Other revenue	-	1	19,812	-	19,813
Total revenue	-	779,737	19,812	-	799,549
EBITDA	(27,702)	702,194	(780,203)	-	(105,711)
Depreciation and amortisation	-	(166,265)	(2,532)	-	(168,797)
Impairment of assets	(1,233,779)	(1,461,628)	-	-	(2,695,407)
Loss before income tax expense	(1,261,481)	(925,699)	(782,735)	-	(2,969,915)
Income tax expense					-
Loss after income tax expense					(2,969,915)
Assets					
Segment assets	2,305,127	1,630,342	536,576	-	4,472,045
Total assets					4,472,045
Liabilities					
Segment liabilities	235,201	547	-	-	235,748
Total liabilities					235,748

Note 4. Operating segments (continued)

Consolidated - 2012	Financial Services (AUS) $	Oil & Gas Exploration (USA) $	Oil & Gas Production (USA) $	Corporate Cost Centre (AUS) $	Intersegment eliminations/ unallocated $	Total $
Revenue						
Sales to external customers	173,586	-	155,715		-	329,301
Total sales revenue	173,586	-	155,715	-	-	329,301
Other revenue	2,075	179,501	-	39,524	-	221,100
Total revenue	175,661	179,501	155,715	39,524	-	550,401
EBITDA	87,112	120,034	155,715	(1,003,220)	-	(640,359)
Depreciation and amortisation	-	-	-	(1,326)	-	(1,326)
Impairment of assets	-	(2,271,395)	-	-	-	(2,271,395)
Profit/(loss) before income tax expense	87,112	(2,151,361)	155,715	(1,004,546)	-	(2,913,080)
Income tax expense						-
Loss after income tax expense						(2,913,080)
Assets						
Segment assets	-	2,821,619	3,023,963	1,127,900	-	6,973,482
Total assets						6,973,482
Liabilities						
Segment liabilities	-	539,080	-	75,680	-	614,760
Total liabilities						614,760

Note 5. Revenue

	Consolidated 2013 $	Consolidated 2012 $
From continuing operations		
Sales revenue		
Oil and gas revenue	779,736	155,715
Other revenue		
Interest	19,813	39,524
Share of profits in associates using the equity method	-	32,596
Gain on sale of tenements	-	146,905
	19,813	219,025
Revenue from continuing operations	799,549	374,740

Note 6. Other income

	Consolidated 2013 $	Consolidated 2012 $
Net gain on fair value through profit and loss assets	36,750	-

Note 7. Expenses

	Consolidated 2013 $	Consolidated 2012 $
Loss before income tax from continuing operations includes the following specific expenses:		
Superannuation expense		
Defined contribution superannuation expense	19,404	9,701

Note 8. Income tax expense

	Consolidated 2013 $	Consolidated 2012 $
Numerical reconciliation of income tax expense and tax at the statutory rate		
Loss before income tax expense from continuing	(2,969,915)	(3,000,192)
Profit before income tax expense from discontinued operations	-	87,112
	(2,969,915)	(2,913,080)
Tax at the statutory tax rate of 30%	(890,975)	(873,924)
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Share-based payments	7,440	-
Costs in respect to foreign operations	6,265	54,552
Fair value adjustment	-	117,669
	(877,270)	(701,703)
Exploration expenditure written-off/(incurred)	319,182	(273,495)
Accounting profit for sale of subsidiary	-	(120,272)
Accounting profit on sale of shares	(8,245)	-
Deductible black hole expenditure	(46,985)	(60,604)
Other timing differences	4,251	329
Income tax losses not taken up as a tax benefit	609,067	1,155,745
Income tax expense	-	-

Note 8. Income tax expense (continued)

	Consolidated 2013 $	Consolidated 2012 $
Deferred tax assets not recognised		
Deferred tax assets not recognised comprises temporary differences attributable to:		
Tax losses (Australia)	4,014,292	3,741,601
Temporary differences (Australia)	2,344,364	1,889,982
Tax losses (Foreign subsidiaries)	2,099,398	1,762,479
Temporary differences (Foreign subsidiaries)	(371,035)	(690,217)
Total deferred tax assets not recognised	8,087,019	6,703,845

The above potential tax benefit, which excludes tax losses, for deductible temporary differences has not been recognised in the statement of financial position as the recovery of this benefit is uncertain.

The taxation benefits of tax losses and temporary differences not brought to account will only be obtained if:
i) 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;
ii) the consolidated entity continues to comply with the conditions for deductibility imposed by law; and
iii) no changes in tax legislation adversely affect the consolidated entity in realising the benefit from the deductions for the losses.
iv) The losses are transferred to an eligible entity in the consolidated Group.

Note 9. Discontinued operations

Financial performance information

	Consolidated 2013 $	Consolidated 2012 $
Sales of services	-	173,586
Interest	-	2,075
Total revenue	-	175,661
Other expenses	-	(44,915)
Consulting fees	-	(52,310)
Total expenses	-	(97,225)
Profit before income tax expense	-	78,436
Income tax expense	-	-
Profit after income tax expense	-	78,436
Loss on sale before income tax	-	8,676
Income tax expense	-	-
Gain on disposal after income tax expense	-	8,676
Profit after income tax expense from discontinued operations	-	87,112

Note 9. Discontinued operations (continued)

Carrying amounts of assets and liabilities

	Consolidated	
	2013	2012
	$	$
Cash and cash equivalents	-	544,320
Trade and other receivables	-	301,485
Total assets	-	845,805
Trade and other payables	-	58,570
Total liabilities	-	58,570
Net assets	-	787,235

Details of the disposal

	Consolidated	
	2013	2012
	$	$
Total sale consideration	-	700,000
Carrying amount of net assets sold	-	(787,235)
Add impairment recognised in prior year	-	95,911
Gain on disposal before income tax	-	8,676
Income tax expense	-	-
Gain on disposal after income tax	-	8,676

The disposal of Lowell Capital Limited was finalised on 31 August 2011. Carrying amounts of assets and liabilities above are as at the disposal date.

Note 10. Current assets - cash and cash equivalents

	Consolidated	
	2013	2012
	$	$
Cash at bank	433,689	1,958,299

Note 11. Current assets - trade and other receivables

	Consolidated	
	2013	2012
	$	$
Other receivables	667	75,666
GST receivable	11,990	11,702
	12,657	87,368

The average credit period is 30 days. No receivables are impaired at year end. In determining the recoverability of a trade receivable, the company considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the end of the reporting period.

Note 12. Current assets - financial assets at fair value through profit or loss

	Consolidated	
	2013	2012
	$	$
Ordinary shares - designated at fair value through profit or loss	-	123,750

Refer to note 23 for further information on financial instruments.

The ordinary shares held above came out of escrow on 30 June 2012, listed on market and were disposed of during the financial year.

Note 13. Current assets - Other current assets

	Consolidated	
	2013	2012
	$	$
Prepayments	9,752	9,773
Accrued revenue	58,407	-
	68,159	9,773

Note 14. Non-current assets - property, plant and equipment

	Consolidated 2013 $	Consolidated 2012 $
Oil producing asset - cost	3,267,573	2,197,815
Less: Accumulated depreciation	(171,803)	-
Less: Impairment	(1,465,427)	-
	1,630,343	2,197,815
Plant and equipment - at cost	7,850	7,850
Less: Accumulated depreciation	(4,376)	(1,845)
	3,474	6,005
	1,633,817	2,203,820

Reconciliations

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

	Oil Producing Assets $	Plant and Equipment $	Total $
Consolidated			
Balance at 1 July 2011	-	827	827
Additions	-	6,505	6,505
Transfer from petroleum exploration and evaluation	2,197,815	-	2,197,815
Depreciation expense	-	(1,327)	(1,327)
Balance at 30 June 2012	2,197,815	6,005	2,203,820
Additions	491,780	-	491,780
Exchange differences	245,320	-	245,320
Impairment of assets	(1,461,628)	-	(1,461,628)
Transfer from petroleum exploration and evaluation	323,321	-	323,321
Depreciation expense	(166,265)	(2,531)	(168,796)
Balance at 30 June 2013	1,630,343	3,474	1,633,817

Note 15. Non-current assets - petroleum exploration and evaluation

	Consolidated 2013 $	Consolidated 2012 $
Costs carried forward in respect of areas of interest in exploration and evaluation phase	2,323,723	2,590,472

Note 15. Non-current assets - petroleum exploration and evaluation (continued)

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

	Petroleum exploration & evaluation $	Total $
Consolidated		
Balance at 1 July 2011	1,389,401	1,389,401
Additions	3,472,466	3,472,466
Impairment of assets	(2,271,395)	(2,271,395)
Balance at 30 June 2012	2,590,472	2,590,472
Additions	970,908	970,908
Exchange differences	331,935	331,935
Impairment of assets	(1,246,271)	(1,246,271)
Transfer to property, plant & equipment	(323,321)	(323,321)
Balance at 30 June 2013	2,323,723	2,323,723

The Directors have assessed the impairment indicators of the exploration areas and determined to write off all costs associated with the drilling of unsuccessful wells at the Avalanche, Sombrero and Stagecoach projects amounting to $752,986, $358,050 and $135,235 respectively.

Note 16. Current liabilities - trade and other payables

	Consolidated 2013 $	2012 $
Trade payables	92,533	593,879
Other payables	117,698	9,650
	210,231	603,529

Refer to note 23 for further 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 17. Current liabilities - employee benefits

	Consolidated 2013 $	2012 $
Provision for annual leave	18,981	9,038

Note 18. Current liabilities - liabilities directly associated with assets classified as held for sale

The disposal of Lowell Capital Limited was finalised in August 2011.

Note 19. Non-current liabilities - employee benefits

	Consolidated 2013 $	Consolidated 2012 $
Provision for long service leave	6,536	2,193

Note 20. Equity - issued capital

	Consolidated 2013 Shares	Consolidated 2012 Shares	Consolidated 2013 $	Consolidated 2012 $
Ordinary shares - fully paid	1,279,564,508	1,154,564,508	80,913,940	80,666,081

Movements in ordinary share capital

Details	Date	No of shares	Issue price	$
Balance	1 July 2011	492,283,725		77,698,954
Share placement	29 February 2012	70,000,000	$0.005	350,000
Rights issue	10 April 2012	562,280,783	$0.005	2,811,404
Share placement	10 May 2012	30,000,000	$0.005	150,000
Capital raising costs		-		(344,277)
Balance	30 June 2012	1,154,564,508		80,666,081
Private placement	22 May 2013	125,000,000	$0.002	250,000
Capital raising costs		-		(2,141)
Balance	30 June 2013	1,279,564,508		80,913,940

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 and the company does not have a limited amount of authorised capital.

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.

Options
Refer to the Director's Report and Note 34 for further details on options.

Note 20. Equity - issued capital (continued)

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 2012 Annual Report.

Note 21. Equity - reserves

	Consolidated	
	2013	**2012**
	$	**$**
Foreign currency reserve	96,874	(477,957)
Options reserve	1,191,600	1,523,907
	1,288,474	1,045,950

	Foreign currency	Options	Total
	$	$	$
Consolidated			
Balance at 1 July 2011	(583,896)	1,428,800	844,904
Foreign currency translation	105,939	-	105,939
Options issued - share-based	-	95,107	95,107
Balance at 30 June 2012	(477,957)	1,523,907	1,045,950
Foreign currency translation	574,831	-	574,831
Options issued - share-based	-	24,800	24,800
Expiry of options	-	(357,107)	(357,107)
Balance at 30 June 2013	96,874	1,191,600	1,288,474

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 22. Equity - dividends

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

Note 23. 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 ('the 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.

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

Interest rate risk
As at the reporting date, the consolidated entity had the following variable rate cash deposits:

	2013		2012	
	Weighted average interest rate %	Balance $	Weighted average interest rate %	Balance $
Consolidated				
Cash and cash equivalents	2.75	433,689	4.36	1,958,299
Net exposure to cash flow interest rate risk		433,689		1,958,299

Below is a sensitivity analysis of interest rates of 20% or 55 basis points (2012: 87) change on cash assets for the 2013 and 2012 financial years. The percentage change is based on the expected volatility of interest rates using market data and analysis forecasts.

Note 23. Financial instruments (continued)

	Basis points increase			Basis points decrease		
Consolidated - 2013	**Basis points change**	**Effect on profit before tax**	**Effect on equity**	**Basis points change**	**Effect on profit before tax**	**Effect on equity**
Cash at bank	55	2,385	2,385	55	(2,385)	(2,385)

	Basis points increase			Basis points decrease		
Consolidated - 2012	**Basis points change**	**Effect on profit before tax**	**Effect on equity**	**Basis points change**	**Effect on profit before tax**	**Effect on equity**
Cash at bank	87	17,037	17,037	87	(17,037)	(17,037)

Credit risk

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.

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 - 2013	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	-	210,231	-	-	-	210,231
Total non-derivatives		210,231	-	-	-	210,231

Note 23. Financial instruments (continued)

Consolidated - 2012	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	-	603,529	-	-	-	603,529
Total non-derivatives		603,529	-	-	-	603,529

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

Fair value of financial instruments

The company held shares in a listed entity, which came out of escrow on 30 June 2012. These shares were then quoted on market and subsequently disposed of during the current financial year.

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 - 2012	Level 1 $	Level 2 $	Level 3 $	Total $
Assets				
Shares in listed entity	123,750	-	-	123,750
Total assets	123,750	-	-	123,750

There were no transfers between levels during the financial year.

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 24. 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

Note 24. Key management personnel disclosures (continued)

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

	Consolidated 2013 $	Consolidated 2012 $
Short-term employee benefits	315,196	325,681
Post-employment benefits	19,404	9,701
	334,600	335,382

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:

2013	Balance at the start of the year	Received as part of remuneration	Additions	Disposals/ other	Balance at the end of the year
Ordinary shares					
Winton Willesee	9,750,000	-	-	-	9,750,000
Barnaby Egerton-Warburton	14,455,562	-	2,500,000	-	16,955,562
	24,205,562	-	2,500,000	-	26,705,562

2012	Balance at the start of the year	Received as part of remuneration	Additions	Disposals/ other	Balance at the end of the year
Ordinary shares					
Winton Willesee	3,375,000	-	6,375,000	-	9,750,000
Barnaby Egerton-Warburton	5,727,781	-	8,727,781	-	14,455,562
	9,102,781	-	15,102,781	-	24,205,562

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:

2013	Balance at the start of the year	Granted	Exercised	Other	Balance at the end of the year
Options over ordinary shares					
Harry Hill	2,000,000	-	-	-	2,000,000
Winton Willesee*	17,437,500	-	-	(4,125,000)	13,312,500
Barnaby Egerton-Warburton**	41,693,245	-	-	(11,227,781)	30,465,464
	61,130,745	-	-	(15,352,781)	45,777,964

* 750,000 options lapsed on 31 December 2012 and 3,375,000 options lapsed on 30 June 2013.
** 5,500,000 options lapsed on 31 December 2012 and 5,727,781 options lapsed on 30 June 2013.

Note 24. Key management personnel disclosures (continued)

2013	Vested and exercisable	Vested and unexercisable	Vested at the end of the year
Options over ordinary shares			
Harry Hill	2,000,000	-	2,000,000
Winton Willesee	13,312,500	-	13,312,500
Barnaby Egerton-Warburton	30,465,464	-	30,465,464
	45,777,964	-	45,777,964

2012	Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the year
Options over ordinary shares					
Harry Hill	2,000,000	-	-	-	2,000,000
Winton Willesee	14,062,500	-	-	3,375,000	17,437,500
Barnaby Egerton-Warburton	35,965,464	-		5,727,781	41,693,245
	52,027,964	-	-	9,102,781	61,130,745

2012	Vested and exercisable	Vested and unexercisable	Vested at the end of the year
Options over ordinary shares			
Harry Hill	2,000,000	-	2,000,000
Winton Willesee	17,437,500	-	17,437,500
Barnaby Egerton-Warburton	41,693,244	-	41,693,244
	61,130,744	-	61,130,744

Related party transactions
Related party transactions are set out in note 28.

Note 25. 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:

	Consolidated	
	2013	**2012**
	$	**$**
Audit services - Hayes Knight Audit Pty Ltd		
Audit or review of the financial statements	35,000	38,105

Note 26. Contingent liabilities

There were no contingent liabilities at 30 June 2013 or 30 June 2012.

Note 27. Commitments

	Consolidated 2013 $	Consolidated 2012 $
Committed at the reporting date but not recognised as liabilities, payable:		
Within one year	-	100,000

In order to maintain current rights of tenure to exploration tenements, the consolidated entity is in some instances required to outlay rentals and drill wells. The company has determined that there are no current commitments, as noted above, required to meet such costs and meet the rehabilitation of sites.

Note 28. Related party transactions

Parent entity
Otis Energy Limited is the parent entity.

Subsidiaries
Interests in subsidiaries are set out in note 30.

Key management personnel
Disclosures relating to key management personnel are set out in note 24 and the remuneration report in the directors' report.

Transactions with related parties
There were no transactions with related parties during the current and previous financial year.

Receivable from and payable to related parties
There were no trade receivables from or trade payables to related parties at the current and previous reporting date.

Loans to/from related parties
The following balances are outstanding at the reporting date in relation to loans with related parties:

	Consolidated 2013 $	Consolidated 2012 $
Current receivables:		
Loan to subsidiaries	11,461,642	11,224,517
Provision for non-recoverability	(7,530,193)	(5,918,014)

During the current and previous financial years, the company impaired the loan amounts stated about and receivable from its subsidiaries to allow for its non-recovery.

Terms and conditions
All transactions were made on normal commercial terms and conditions and at market rates.

Note 29. Parent entity information

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

Statement of profit or loss and other comprehensive income

	Parent 2013 $	Parent 2012 $
Loss after income tax	(2,394,914)	(2,408,962)
Total comprehensive income	(2,394,914)	(2,408,962)

Statement of financial position

	Parent 2013 $	Parent 2012 $
Total current assets	306,857	1,121,897
Total assets	4,471,498	6,434,405
Total current liabilities	228,665	73,487
Total liabilities	235,201	75,680
Equity		
Issued capital	80,913,940	80,666,080
Options reserve	1,191,600	1,523,907
Accumulated losses	(77,869,243)	(75,831,262)
Total equity	4,236,297	6,358,725

Guarantees entered into by the parent entity in relation to the debts of its subsidiaries
The parent entity entered into a guarantee in relation to all moneys, obligations and liabilities of its subsidiary Otis Energy (Yemen) Limited on 23 May 2013 in respect of the agreement with Mitsui E&P Middle East, B.V. to acquire an interest in Block 7 in the Republic of Yemen.

The parent entity had no other guarantees in relation to the debts of its subsidiaries as at 30 June 2013 and no guarantees in relation to the debts of its subsidiaries as at 30 June 2012.

Contingent liabilities
The parent entity had no contingent liabilities at 30 June 2013 and 30 June 2012.

Capital commitments - Property, plant and equipment
The parent entity had no capital commitments for property, plant and equipment at 30 June 2013 and 30 June 2012.

Significant accounting policies
The accounting policies of the parent entity are consistent with those of the consolidated entity, as disclosed in note 2, except for the following:
- Investments in subsidiaries are accounted for at cost, less any impairment.
- Investments in associates are accounted for at cost, less any impairment.

Note 30. Subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 2:

Name of entity	Country of incorporation	Equity holding 2013 %	Equity holding 2012 %
Lowell Capital Limited*	Australia	-	-
Otis Energy, Inc.	USA	100.00	100.00
Sito Exploration LLC	USA	100.00	100.00
Otis Energy I LLC	USA	100.00	100.00
Otis Energy II LLC	USA	100.00	100.00
Otis Energy (Yemen) Limited**	British Virgin Islands	100.00	-

* The company was disposed of in August 2011.
** The company was incorporated on 21 May 2013.

Note 31. Events after the reporting period

No matter or circumstance has arisen since 30 June 2013 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 32. Reconciliation of loss after income tax to net cash used in operating activities

	Consolidated 2013 $	Consolidated 2012 $
Loss after income tax expense for the year	(2,969,915)	(2,913,080)
Adjustments for:		
Depreciation and amortisation	168,797	1,326
Net fair value loss on available-for-sale financial assets	9,267	35,775
Share based payments	24,800	-
Impairment expense	2,695,407	2,271,395
Net gain on fair value through profit and loss assets	(36,750)	-
Loss on sale of subsidiary	-	8,676
Gain on sale of tenements	-	(146,905)
Change in operating assets and liabilities:		
Decrease/(increase) in trade and other receivables	74,711	(60,332)
Decrease in prepayments	21	2,401
Decrease in trade and other payables	(4,006)	(47,682)
Increase in employee benefits	14,286	11,231
Net cash used in operating activities	(23,382)	(837,195)

Note 33. Earnings per share

	Consolidated 2013 $	Consolidated 2012 $
Earnings per share from continuing operations		
Loss after income tax attributable to the owners of Otis Energy Limited	(2,969,915)	(3,000,192)
	Number	**Number**
Weighted average number of ordinary shares used in calculating basic earnings per share	1,155,934,371	630,410,016
Weighted average number of ordinary shares used in calculating diluted earnings per share	1,155,934,371	630,410,016
	Cents	**Cents**
Basic earnings per share	(0.257)	(0.476)
Diluted earnings per share	(0.257)	(0.476)

	Consolidated 2013 $	Consolidated 2012 $
Earnings per share from discontinued operations		
Profit after income tax attributable to the owners of Otis Energy Limited	-	87,112
	Number	**Number**
Weighted average number of ordinary shares used in calculating basic earnings per share	1,155,934,371	630,410,016
Weighted average number of ordinary shares used in calculating diluted earnings per share	1,155,934,371	630,410,016
	Cents	**Cents**
Basic earnings per share	-	0.014
Diluted earnings per share	-	0.014

Note 33. Earnings per share (continued)

	Consolidated 2013 $	Consolidated 2012 $
Earnings per share for loss		
Loss after income tax attributable to the owners of Otis Energy Limited	(2,969,915)	(2,913,080)
	Number	**Number**
Weighted average number of ordinary shares used in calculating basic earnings per share	1,155,934,371	630,410,016
Weighted average number of ordinary shares used in calculating diluted earnings per share	1,155,934,371	630,410,016
	Cents	**Cents**
Basic earnings per share	(0.257)	(0.462)
Diluted earnings per share	(0.257)	(0.462)

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

Note 34. Share-based payments

During current and previous financial years, the company issued options over ordinary shares in the parent entity to certain key management personnel and consultants following shareholder approval received at general meetings. 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 under the plan:

2013

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	43,800,000	-	-	-	43,800,000
25/09/09	31/12/13	$0.150	6,800,000	-	-	-	6,800,000
25/09/09	31/12/12	$0.100	6,550,000	-	-	(6,550,000)	-
09/05/12	30/06/13	$0.010	60,000,000	-	-	(60,000,000)	-
01/03/13	01/03/16	$0.005	-	10,000,000	-	-	10,000,000
			122,150,000	10,000,000	-	(66,550,000)	65,600,000

Note 34. Share-based payments (continued)

2012

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	43,800,000	-	-	-	43,800,000
25/09/09	31/12/13	$0.150	6,800,000	-	-	-	6,800,000
25/09/09	31/12/12	$0.100	6,550,000	-	-	-	6,550,000
09/05/12	30/06/13	$0.010	-	60,000,000	-	-	60,000,000
			62,150,000	60,000,000	-	-	122,150,000

The weighted average remaining contractual life of options outstanding at the end of the financial year was 2.32 years (2012: 2.72 years). The weighted average exercise price of the options outstanding at the end of the financial year was $0.0535 (2012: $0.0662).

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
01/03/13	01/03/16	$0.003	$0.005	170.00%	0.00%	2.82%	$0.0025

Otis Energy Limited
Directors' declaration

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 2 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 2013 and of its performance for the financial year ended on that date; and

- there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

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)(a) of the Corporations Act 2001.

On behalf of the directors

Mr Winton Willesee
Director

6 September 2013
Perth

Hayes Knight Audit
chartered accountants · your partners in success

Hayes Knight Audit Pty Ltd
ABN: 86 005 105 975

Level 12, 31 Queen St,
Melbourne, VIC 3000

T: 03 8613 8888 F: 03 8613 8800
Email: info@hayesknightaudit.com.au

www.hayesknight.com.au
Registered Audit Company 291969

INDEPENDENT AUDIT REPORT TO THE MEMBERS OF OTIS ENERGY 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 comprise the statement of financial position as at 30 June 2013, the statement of profit and loss and other 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.

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 2013 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 11 to 14 of the report of the directors for the year ended 30 June 2013. 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 2013 complies with s 300A of the *Corporations Act 2001*.

Hayes Knight Audit

Hayes Knight Audit Pty Ltd
Melbourne

G. S. Parker
Director

Dated this 6 day of September 2013

Otis Energy Limited
Shareholder information
30 June 2013

The shareholder information set out below was applicable as at 3 September 2013.

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	447
1,001 to 5,000	66
5,001 to 10,000	109
10,001 to 100,000	722
100,001 and over	638
	1,982
Holding less than a marketable parcel	1,555

	Number of holders of options over ordinary shares (OTEO)
1 to 1,000	56
1,001 to 5,000	51
5,001 to 10,000	28
10,001 to 100,000	110
100,001 and over	117
	362
Holding less than a marketable parcel	291

Otis Energy Limited
Shareholder information
30 June 2013

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 **Holders**	**Number held**	**% of total shares issued**
Oil and Gas Exploration Limited	125,000,000	9.77
Deck Chair Holdings Pty Ltd	96,730,007	7.56
Seaspin Pty Ltd <Aphrodite A/C>	54,250,000	4.24
Scintilla Strategic Investments Ltd	42,000,000	3.28
Mr T Thomson, Mrs B.H Thomson & Mr C.S Thomson <Thomson Family SMSF A/C>	30,302,058	2.37
Mr Garry Collins	27,019,934	2.11
Mr Daniel P Wise <Ark Investments Pty Ltd>	18,500,000	1.45
Lunair Pty Ltd	18,313,785	1.43
Berenes Nominees Pty Ltd <Berenes Super Fund A/C>	17,264,726	1.35
Flue Holdings Pty Ltd	16,274,618	1.27
Seivad Investments Pty Ltd	15,850,000	1.24
Scintilla Capital Pty Ltd	15,000,000	1.17
Eastern Porphry Pty Ltd	15,000,000	1.17
JP Morgan Nominees Australia Ltd	14,000,103	1.09
UOB Kay Hian Private Limited <Client A/C>	13,520,000	1.06
G&N Lord Superannuation Pty Ltd <GNR Superannuation Fund A/C>	13,122,645	1.03
Nino Constructions Pty Ltd	13,033,015	1.02
HSBC Custody Nominees (Australia) Limited	11,842,612	0.93
ABN AMRO Clearing Sydney Nominees Pty Ltd <Custodian A/C>	11,013,499	0.86
Mr Mark Buratovic	11,000,000	0.86
	578,935,308	45.24

Options over ordinary shares (OTEO)

Holders	Number held	% of total options issued
Whistler Street Pty Ltd <Warburton Discretionary A/C>	24,000,000	12.90
Azalea Family Holdings Pty Ltd <No. 2 A/C>	12,312,500	6.62
Berenes Nominees Pty Ltd <Berenes Super Fund A/C>	10,000,000	5.37
Dominion Investments Pty Ltd	10,000,000	5.37
UOB Kay Hian Private Limited <Clients A/C>	8,675,000	4.66
Deck Chair Holdings Pty Ltd	7,864,368	4.23
Castle Bailey Pty Ltd <D & S Bailey Family A/C>	5,394,250	2.90
Mr Evan G Cross	5,000,000	2.69
Mrs Donna S Cross	5,000,000	2.69
Fullerton Private Capital Pty Ltd	5,000,000	2.69
Castle Bailey Pty Ltd <D & S Bailey Family A/C>	4,000,000	2.15
Goffacan Pty Ltd	3,978,062	2.14
Greenday Corporate Pty Ltd	3,500,000	1.88
Ms Merle Smith and Ms Kathryn Smith <The Mini Pension Fund A/C>	3,317,283	1.78
Mr Michael John Hynes	3,303,300	1.78
Bell Potter Nominees Limited <BB Nominees A/C>	2,875,000	1.55
Miss Ching Fong Wan	2,688,513	1.45
Gaks Investment Holdings Pty Ltd	2,569,950	1.38
Mr John Zaccaria	2,500,000	1.34
Mr Dalbir Singh	2,130,050	1.14
	124,108,276	66.71

Unquoted equity securities

	Number on issue	Number of holders
Unlisted options, exercise price $0.10, expiry date 31 December 2013	26,500,001	18
Unlisted options, exercise price $0.15, expiry date 31 December 2013	6,800,000	2
Unlisted options, exercise price $0.005, expiry date 1 March 2016	10,000,000	5

Substantial holders

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.

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 upon a poll each share shall have one vote.

There are no other classes of equity securities.

Otis Energy Limited
List of Tenements

Tenement	Location	Ownership Interest
Catahoula Lake	La Salle Parish Louisiana USA	20%
Comanche	North Central Texas USA	12.5%
Avalanche	Evangeline Parish Louisiana	10%
Charro	Lea County New Mexico USA	5.5%
Sombrero	Lea County New Mexico USA	5%
Stagecoach	Brooks County Texas USA	10%