Otis Energy Limited

ABN 93 075 419 715

Half-Year Financial Report - 31 December 2012

Contents

Otis Energy Limited
Corporate directory
31 December 2012

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 (08) 9389 3140
Share register	Link Market Services Level 22 324 Queen Street Brisbane QLD 4000
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 options: OTEO) (ASX code options: OTEOA)
Website	www.otisenergy.com

Otis Energy Limited
Review of Operations
31 December 2012

The Company is pleased to provide the following update on its projects for the half-year period and to the date of this report.

Operational

Average Net Daily Sales

Average net daily sales to Otis for the half year period were 5,805 BOEPD which equates to approximately 32 BOPD.

Comanche Project (16.66% BPOWI, 12.5% BPORI, 12.5% APOWI, 9.375% APORI)

Otis has a 16.66% before pay out working interest and a 12.5% before pay out revenue interest in over 10,000 acres in the Comanche Project and is targeting the Marble Falls Limestone (MFL). Wells are drilled vertically to 5,000 feet and then horizontally at approximately 3,000 feet (914 metres) to target the MFL, which is highly prospective for oil, natural gas liquids and natural gas.

Two wells have been drilled to date at Comanche. Both test wells have been placed into production. The Sloan # 1 well which is located on the southern acreage block of the Comanche Project has performed to expectation while the Hoefle # 1 well, which is located on the northern acreage block, has underperformed. The Project presents an exciting opportunity as further knowledge of drilling and completion procedures is learned.

Under consideration at present is a small 3D Seismic survey acquisition or a vertical multi stage frac well targeting both the Marble Falls and formations above and below the Marble Falls including the Mississippian.

NuTech, an independent advanced completions engineering firm based in Houston, Texas was commissioned by the partners of the Comanche Project to evaluate the two test wells drilled to date. NuTech focussed specifically on the fracture stimulation size, fracture fluid make-up and well orientation to enhance penetration of the micro fracturing present in the Marble Falls Limestone. NuTech has designed an optimized completion plan for the planned third well at the Comanche Project with an increase in fracture stimulation size, changes to fluid properties and a slight change in lateral well direction to enhance fracture penetration. There is also the potential to increase the length of the lateral section of the well to more than 3,000 feet.

Catahoula Lake Project (20% WI, 14.5 – 17% NRI)

First half oil sales from Catahoula Lake were 3,463 barrels of oil and 1,038 mcfg net to Otis. Production from Catahoula Lake remains very stable with low decline rates in existing wells.

There will be no drilling from the Company’s jointly owned barge rig for the 2013 season due to a decision by the Louisiana Department of Fisheries and Wildlife to drain the lake early on 1st May 2013. Due to the high costs associated with mobilization and demobilization of rig and equipment it has been decided to postpone all drilling until the lake is either dry or the commencement of the 2014 season. There is a planned workover of one or more wells in the coming weeks to replace tubing and perform general maintenance work which should see a slight increase in production on a MoM basis.

The Catahoula Lake project is located in LaSalle, Rapides and Grant Parishes, Louisiana and targets multiple “stacked” oil zones throughout the Middle-Wilcox formation at depths ranging from 4,500 to 5,500 feet. Wells drilled in the Middle-Wilcox exhibit long production lives with low decline rates after the initial flush oil is produced and relatively steady production is established. Ultimate oil recoveries are expected to range from 50,000 to 200,000 barrels for each successful well drilled.

Otis Energy Limited
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Charro – Lea County New Mexico (5.5% WI, 4.29% NRI)
First half oil sales for the Charro Project were 85 Barrels net to Otis. The Paddy 20 State # 1 well was down while its perforations were squeezed and it was re-perforated to isolate water production. The Paddy 23 State # 1 well has been placed on flow back post a fracture stimulation and completion procedure.

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.

Avalanche Project (10 - 12.389% WI, 7.4% - 9.0439% NRI)

During the half year period, the right of way agreement with landowners for the Roy O Martin 21 # 1 Gas pipeline was finalized. This well has been awaiting pipeline sales connection, however due to adverse weather conditions and excessive rain the connection is as yet incomplete. Revenue from the Roy O Martin 21 # 1 well is forecast to begin in Q1 2013.

A second gas anomaly sits between the Roy O Martin well and the proposed sales line tie in point. The Pipeline will be designed to pass alongside the second target which may be drilled following observation of production from the Roy O Martin well over the next several months.

Avalanche is located in South Central Louisiana, covers close to 24,000 acres and is approximately 75% covered by a proprietary 3D seismic survey.

Sombrero Project (5% WI , 3.75% NRI)

During the half year period, the only well drilled at the Sombrero project continued to underperform and is now shut in. The WC 35 State # 1 well is being analysed for further completion procedures.

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.

Other Assets

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

Corporate

During the half year Otis signed a Letter of Intent (LOI) with an established Nigerian Oil and Gas group to jointly bid for and acquire Nigerian "Marginal Oil Fields". Nigerian Marginal Fields (MF's) are fields that have been drilled and as yet remain unproduced and are typically in the 5-80 million Barrels of Oil range. The LOI details the terms of a Joint Venture agreement which will be implemented should a suitable "Marginal Field" be designated and secured.

The information in this announcement 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
31 December 2012

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 half-year ended 31 December 2012.

Directors
The following persons were directors of Otis Energy Limited during the whole of the financial half-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 half-year the principal continuing activities of the consolidated entity consisted of:
- oil and gas exploration and development in the United States

Review of operations
The loss for the consolidated entity after providing for income tax amounted to $2,040,711 (31 December 2011: $1,656,321).

Refer to the detailed review of operations directly preceding this report.

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

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.

This report is made in accordance with a resolution of directors, pursuant to section 306(3)(a) of the Corporations Act 2001.

On behalf of the directors

____
Mr Winton Willesee
Director

12 March 2013
Perth, Australia

Hayes Knight Audit
chartered accountants
your partners in success

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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 half-year ended 31 December 2012 there have been:

a. no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the review, and

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

Hayes Knight Audit Pty Ltd
Melbourne

Geoff S. Parker
Director

Dated this 12 day of MARCH 2013

Otis Energy Limited
Statement of comprehensive income
For the half-year ended 31 December 2012

	Note	Consolidated 31/12/2012 $	Consolidated 31/12/2011 $
Revenue from continuing operations	5	369,499	24,213
Share of profits/(losses) of associates accounted for using the equity method		-	32,622
Other income	6	27,483	-
Expenses			
Production costs		(132,129)	-
Consultancy and management expenses		(241,254)	(262,039)
Depreciation and amortisation expense	7	(1,297)	(474)
Impairment of petroleum exploration and evaluation expenditure		(720,079)	(1,218,788)
Impairment of oil and gas production assets		(1,176,920)	-
Loss on investment designated at fair value through the profit and loss		-	(63,810)
Other expenses		(166,014)	(255,157)
Loss before income tax expense from continuing operations		(2,040,711)	(1,743,433)
Income tax expense		-	-
Loss after income tax expense from continuing operations		(2,040,711)	(1,743,433)
Profit after income tax expense from discontinued operations	8	-	87,112
Loss after income tax expense for the half-year attributable to the owners of Otis Energy Limited		(2,040,711)	(1,656,321)
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Foreign currency translation		(105,188)	142,282
Other comprehensive income for the half-year, net of tax		(105,188)	142,282
Total comprehensive income for the half-year attributable to the owners of Otis Energy Limited		(2,145,899)	(1,514,039)
		Cents	**Cents**
Earnings per share from continuing operations attributable to the owners of Otis Energy Limited			
Basic earnings per share		(0.177)	(0.354)
Diluted earnings per share		(0.177)	(0.354)
Earnings per share from discontinued operations attributable to the owners of Otis Energy Limited			
Basic earnings per share		-	0.018
Diluted earnings per share		-	0.018
Earnings per share for loss attributable to the owners of Otis Energy Limited			
Basic earnings per share		(0.177)	(0.336)
Diluted earnings per share		(0.177)	(0.336)

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

Otis Energy Limited
Statement of financial position
As at 31 December 2012

	Note	Consolidated 31/12/2012 $	Consolidated 30/06/2012 $
Assets			
Current assets			
Cash and cash equivalents		737,392	1,958,299
Trade and other receivables		10,325	87,368
Financial assets at fair value through profit or loss		-	123,750
Other		49,793	9,773
Total current assets		797,510	2,179,190
Non-current assets			
Property, plant and equipment	9	1,458,470	2,203,820
Petroleum exploration and evaluation	10	2,088,976	2,590,472
Total non-current assets		3,547,446	4,794,292
Total assets		4,344,956	6,973,482
Liabilities			
Current liabilities			
Trade and other payables		117,768	603,529
Employee benefits		9,942	9,038
Total current liabilities		127,710	612,567
Non-current liabilities			
Employee benefits		4,423	2,193
Total non-current liabilities		4,423	2,193
Total liabilities		132,133	614,760
Net assets		4,212,823	6,358,722
Equity			
Issued capital		80,666,081	80,666,081
Reserves		678,762	1,045,950
Accumulated losses		(77,132,020)	(75,353,309)
Total equity		4,212,823	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 half-year ended 31 December 2012

	Contributed equity $	Reserves $	Retained profits $	Total equity $
Consolidated				
Balance at 1 July 2011	77,698,954	844,904	(72,440,229)	6,103,629
Loss after income tax expense for the half-year	-	-	(1,656,321)	(1,656,321)
Other comprehensive income for the half-year, net of tax	-	142,282	-	142,282
Total comprehensive income for the half-year	-	142,282	(1,656,321)	(1,514,039)
Transactions with owners in their capacity as owners:				
Lapse of options	-	(570,000)	570,000	-
Balance at 31 December 2011	77,698,954	417,186	(73,526,550)	4,589,590

	Contributed equity $	Reserves $	Retained profits $	Total equity $
Consolidated				
Balance at 1 July 2012	80,666,081	1,045,950	(75,353,309)	6,358,722
Loss after income tax expense for the half-year	-	-	(2,040,711)	(2,040,711)
Other comprehensive income for the half-year, net of tax	-	(105,188)	-	(105,188)
Total comprehensive income for the half-year	-	(105,188)	(2,040,711)	(2,145,899)
Transactions with owners in their capacity as owners:				
Lapse of options	-	(262,000)	262,000	-
Balance at 31 December 2012	80,666,081	678,762	(77,132,020)	4,212,823

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 half-year ended 31 December 2012

	Note	Consolidated 31/12/2012 $	Consolidated 31/12/2011 $
Cash flows from operating activities			
Receipts from customers		412,134	173,586
Payments to suppliers and employees		(348,546)	(623,442)
Interest received		14,392	26,288
Net cash from/(used in) operating activities		77,980	(423,568)
Cash flows from investing activities			
Payments for property, plant and equipment	9	(329,277)	(1,526)
Payments for petroleum exploration		(1,109,278)	(872,412)
Proceeds from sale of equity investments		151,233	-
Net cash used in investing activities		(1,287,322)	(873,938)
Cash flows from financing activities			
Proceeds from sale of subsidiary		-	700,000
Cash transferred on disposal of subsidiary		-	(544,320)
Net cash from financing activities		-	155,680
Net decrease in cash and cash equivalents		(1,209,342)	(1,141,826)
Cash and cash equivalents at the beginning of the financial half-year		1,958,299	2,399,870
Effects of exchange rate changes on cash		(11,565)	48,819
Cash and cash equivalents at the end of the financial half-year		737,392	1,306,863

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
(08) 9389 3140

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 12 March 2013. The directors have the power to amend and reissue the financial report.

Note 2. Significant accounting policies

These general purpose financial statements for the interim half-year reporting period ended 31 December 2012 have been prepared in accordance with Australian Accounting Standard AASB 134 'Interim Financial Reporting' and the Corporations Act 2001, as appropriate for for-profit oriented entities. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'.

These general purpose financial statements do not include all the notes of the type normally included in annual financial statements. Accordingly, these financial statements are to be read in conjunction with the annual report for the year ended 30 June 2012 and any public announcements made by the company during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

The principal accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period.

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.

Note 2. Significant accounting policies (continued)

Going concern
The financial report has been prepared on the going concern basis, which assumes continuity of normal business activities and the realisation of assets and the settlement of liabilities in the ordinary course of business. During the financial year, the consolidated entity made a loss of $2,040,711, largely due to an impairment charge against its oil and gas producing asset of $1,176,920 and its exploration and evaluation assets of $720,079. At 31 December 2012 the consolidated entity had net assets of $4,212,823 and working capital, being current assets less current liabilities, of $669,800. During the half year, the consolidated entity had net cash inflows from operating activities of $77,980, and cash outflows from exploration activities of $1,109,278.

The directors are confident that the company and the consolidated entity will be able to continue as a going concern, as several of the projects the consolidated entity has interests in are already producing revenues, and are expected to produce a stable revenue stream over the next 12 months that will cover budgeted expenditure on projects. That being the case, the consolidated entity has sufficient cash reserves to meet budgeted overhead expenditure.

Should the consolidated entity require funding for further investment to sustain its interests in projects, the directors believe that the company has demonstrated ability in the past to raise funds from capital raisings and planned sales of assets.

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 within the next financial year are discussed below.

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

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

Petroleum exploration assets
The directors have reviewed all projects the Group is currently engaged in and determined that all expenditure related to the unsuccessful wells drilled at the Avalanche projects is impaired.

In relation to the treatment of the Avalanche project, whilst revenue may be received in the future the amounts cannot be accurately quantified and is not expected to be material in the first instance. Further the directors do not currently intend to commit any further material expenditure to the project and accordingly the asset has been fully impaired for the purpose of this financial report.

Useful life of oil and gas production assets
Production assets are amortised on a unit of production basis with a separate calculation for each resource. Estimates of reserve quanitites are a critical estimate impacting amortisation of production property assets.

Estimates of reserve quantities
The estimated quantities of Proven and Probable hydrocarbon reserves reported by the Group are integral to the calculation of depletion and depreciation expense and to assessments of possible impairment of assets. Estimated reserve quantities are based upon interpretations of geological and geophysical models and assessments of the technical feasibility and commercial viability of producing the reserves. These assessments require assumptions to be made regarding future development and production costs, commodity prices, exchange rates and fiscal regimes. The estimates of reserves may change from period to period as the economic assumptions used to estimate the reserves can change from period to period, and as additional geological data is generated during the course of operations.

Note 4. Operating segments

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

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 the 2 operating segments are as follows:

Oil and Gas Exploration	Oil and gas exploration activities carried out in the USA
Corporate Cost Centre	Provides administration 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 - 31/12/2012	Oil and Gas Exploration (USA) $	Corporate cost centre (AUS) $	Intersegment eliminations/ unallocated $	Total $
Revenue				
Sales to external customers	354,877	-	-	354,877
Total sales revenue	354,877	-	-	354,877
Interest	-	14,622	-	14,622
Gain on financial assets at fair value through the profit and loss	-	27,483	-	27,483
Total revenue	354,877	42,105	-	396,982
Reportable segment profit/(loss) before tax	(1,712,292)	(328,419)	-	(2,040,711)
Loss before income tax expense	(1,712,292)	(328,419)	-	(2,040,711)
Income tax expense				-
Loss after income tax expense				(2,040,711)
Assets				
Segment assets	3,618,020	726,936	-	4,344,956
Total assets				4,344,956
Liabilities				
Segment liabilities	482	131,651	-	132,133
Total liabilities				132,133

Note 4. Operating segments (continued)

Consolidated - 31/12/2011	Financial Services (AUS) $	Oil and Gas (USA) $	Corporate Cost Centre $	Intersegment eliminations/ unallocated $	Total $
Revenue					
Sales to external customers	173,586	-		-	173,586
Total sales revenue	173,586	-	-	-	173,586
Share of profits of associates	-	32,622	-	-	32,622
Other revenue	2,075	-	24,213	-	26,288
Total revenue	175,661	32,622	24,213	-	232,496
Reportable segment profit/(loss) before tax	87,112	(1,203,474)	(539,959)	-	(1,656,321)
Profit/(loss) before income tax expense	87,112	(1,203,474)	(539,959)	-	(1,656,321)
Income tax expense					-
Loss after income tax expense					(1,656,321)
Consolidated - 30/06/2012					
Assets					
Segment assets	-	5,845,582	1,127,900	-	6,973,482
Total assets					6,973,482
Liabilities					
Segment liabilities	-	539,080	75,680	-	614,760
Total liabilities					614,760

The above segment note figures derive from the statement of comprehensive income, and the discontinued operations note. (Please refer to Note 8 for further details on discontinued operations).

Note 5. Revenue

	Consolidated 31/12/2012 $	Consolidated 31/12/2011 $
From continuing operations		
Sales revenue		
Oil and gas revenue	354,877	-
Other revenue		
Interest	14,622	24,213
Revenue from continuing operations	369,499	24,213

Note 6. Other income

	Consolidated 31/12/2012 $	Consolidated 31/12/2011 $
Net gain on fair value through profit and loss assets	27,483	-

Note 7. Expenses

	Consolidated 31/12/2012 $	Consolidated 31/12/2011 $
Loss before income tax from continuing operations includes the following specific expenses:		
Impairment		
Oil and gas production assets	1,176,920	-
Production costs		
Depreciation of oil and gas production assets	132,129	-

The impairment expense relates to the Catahoula Lake project, and has been determined based on an estimate of the net value of the project based on reserve estimates at 31 December 2012, using current oil prices.

Depreciation on oil and gas production assets are calculated based on units of production, which is impacted by estimated reserves of oil and gas at the Catahoula Lake project.

Note 8. Discontinued operations

Financial performance information

	Consolidated	
	31/12/2012	31/12/2011
	$	$
Sale 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 disposal 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

Carrying amounts of assets and liabilities

	Consolidated	
	31/12/2012	31/12/2011
	$	$
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

Note 8. Discontinued operations (continued)

Details of the disposal

	Consolidated 31/12/2012 $	Consolidated 31/12/2011 $
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 9. Non-current assets - property, plant and equipment

	Consolidated 31/12/2012 $	Consolidated 30/06/2012 $
Oil and gas production assets - at cost	2,773,665	2,197,815
Less: Accumulated depreciation	(133,224)	-
Less: Impairment	(1,186,679)	-
	1,453,762	2,197,815
Plant and equipment - at cost	7,850	7,850
Less: Accumulated depreciation	(3,142)	(1,845)
	4,708	6,005
	1,458,470	2,203,820

Reconciliations
Reconciliations of the written down values at the beginning and end of the current financial half-year are set out

	Oil and gas production $	Plant and equipment $	Total $
Consolidated			
Balance at 1 July 2012	2,197,815	6,005	2,203,820
Additions	329,277	-	329,277
Exchange differences	(43,176)	-	(43,176)
Impairment of assets	(1,186,679)	-	(1,186,679)
Transfers from exploration assets	289,749	-	289,749
Depreciation expense	(133,224)	(1,297)	(134,521)
Balance at 31 December 2012	1,453,762	4,708	1,458,470

Note 10. Non-current assets - petroleum exploration and evaluation

	Consolidated	
	31/12/2012	**30/06/2012**
	$	**$**
Petroleum exploration and evaluation	2,088,976	2,590,472
	2,088,976	2,590,472
	2,088,976	2,590,472

Reconciliations
Reconciliations of the written down values at the beginning and end of the current financial half-year are set out

	Exploration and evaluation	Total
	$	$
Consolidated		
Balance at 1 July 2012	2,590,472	2,590,472
Expenditure during the half-year	530,755	530,755
Exchange differences	(21,703)	(21,703)
Write off of assets	(720,799)	(720,799)
Transfers to production assets	(289,749)	(289,749)
Balance at 31 December 2012	2,088,976	2,088,976

Note 11. Equity - dividends

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

Note 12. Contingent liabilities

The consolidated entity had no contingent liabilities at 31 December 2012 and 31 December 2011.

Note 13. Commitments

There were no material changes in the commitments to those disclosed in the financial report for the year ended 30 June 2012.

Note 14. Subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries:

		Equity holding	
Name of entity	**Country of incorporation**	**31/12/2012 %**	**30/06/2012 %**
Otis Energy Inc	USA	100.00	100.00
Sito Exploration Exploration LLC *	USA	100.00	100.00
Otis Energy Inc No 1 *	USA	100.00	100.00
Otis Energy Inc No 2 *	USA	100.00	100.00

* Incorporated during the 30 June 2012 financial year.

Note 15. Events after the reporting period

No matter or circumstance has arisen since 31 December 2012 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.

Otis Energy Limited
Directors' declaration

In the directors' opinion:

- the attached financial statements and notes thereto comply with the Corporations Act 2001, Australian Accounting Standard AASB 134 'Interim Financial Reporting', the Corporations Regulations 2001 and other mandatory professional reporting requirements;

- the attached financial statements and notes thereto give a true and fair view of the consolidated entity's financial position as at 31 December 2012 and of its performance for the financial half-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.

Signed in accordance with a resolution of directors made pursuant to section 303(5) of the Corporations Act 2001.

On behalf of the directors

Mr Winton Willesee
Director

12 March 2013
Perth, Australia

Hayes Knight Audit
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INDEPENDENT AUDITOR'S REVIEW REPORT
TO THE MEMBERS OF OTIS ENERGY LIMITED

Report on the Half-year Financial Report

We have reviewed the accompanying half-year financial report of Otis Energy Limited and Controlled Entities (the consolidated entity) which comprises the consolidated statement of financial position as at 31 December 2012, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, a statement of accounting policies, other selected explanatory notes and the directors' declaration.

Directors' Responsibility for the Half-Year Financial Report

The directors of the consolidated entity are responsible for the preparation and fair presentation of the half-year 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 half-year 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.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of an Interim Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2012 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134: *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Otis Energy Limited and Controlled Entities, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, 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.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Otis Energy Limited and Controlled Entities is not in accordance with the *Corporations Act 2001* including:

A. giving a true and fair view of the consolidated entity's financial position as at 31 December 2012 and of its performance for the half-year ended on that date; and

B. complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001*.

Hayes Knight Audit

Hayes Knight Audit Pty Ltd
Melbourne

Geoff S. Parker
Director

Dated this 12 day of March 2013