Otis Energy Limited

ABN 93 075 419 715

Half-Year Financial Report - 31 December 2013

Otis Energy Limited
Contents
31 December 2013

Directors	Harry Hill (Non-Executive Chairman) Barnaby Egerton-Warburton (Managing Director) Winton Willesee (Non-Executive Director)
Company secretary	Winton Willesee
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 options: OTEO)
Website	www.otisenergy.com

Otis Energy Limited (ASX: OTE) 'Otis' or '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

Approximate average daily production to Otis Energy Limited for the half-year period was 26.65 BOEPD.

Yemen Block 7

In May 2013 Otis Energy Limited entered into an agreement to acquire an 8.5% interest in Block 7 Yemen from Mitsui E&P Middle East. In December of 2013 the Company was informed that Joint Venture Partners for Block 7 exploration licence in the Yemeni Republic have approved the sale of Mitsui's 8.5% interest to Otis Energy Limited. Completion of the transaction remains subject to customary approvals from the state owned Yemeni Oil and Gas Company, the Yemen Ministry of Minerals and the government of the Yemeni Republic, which is currently in progress. This agreement process remains confidential as governed in the Block 7 Joint Operating Agreement.

About Yemen Block 7

Block 7 is located in the Shabwa Basin approximately 340km east of Sana'a, the capital of the Yemeni Republic and covers an area of approximately 5000 square kilometres (1,235,527 acres). Block 7 contains the "Al Meashar" oil discovery within a proven basement play fairway.

Al Meashar Discovery

The Al Meashar discovery was drilled 14 km east of OMV's Habban Oil Field in the Al Uqlah Block S2. The discovery well, Al Meashar-1, was drilled in March 2010 to 3660 metres (12,000 feet) and discovered hydrocarbons in the basement and overlying Jurassic aged Kuhlan Sandstones and Shuqrah Carbonates and these are the equivalent producing zones in the OMV (Habban) field nearby. During the test period, lasting 16 days, the comingled Shurqra, Kuhlan and Basement formations flowed at a peak rate of 950 BOPD through a 1" choke with associated gas. The well was suspended as a possible future producer pending further analyses.

The Al-Meashar # 2 well (AM2) was drilled as a twinned appraisal well to the Al-Meashar # 1 discovery with a view to test the fractured basement reservoir only. During a 21 day production test the AM2 well produced oil at a maximum flow rate of 200 BOPD through a 1" choke with associated solution gas. The well was suspended as a possible future producer pending further analyses.

Potential extended well testing in Q3-4 2014

A feasibility study which includes surface facilities design engineering, and costings is planned for early 2014 with the goal of initiating an extended well test (EWT) towards the second half of 2014. The study will investigate the possibility of installing early production facilities and the use of a work-over rig to install completion strings in both the Al-Meashar # 1 & 2 wells. The aim of the EWT is to determine the commercial potential of the two wells drilled to date.

Multiple Prospects and leads.

Block 7 contains additional leads and prospects generated from 2D and 3D seismic surveys. To date 276 square kilometres of 3D and over 1,000 sq. kilometres of reprocessed 2D have been shot on Block 7 with up to ten prospects and leads awaiting further evaluation.

Otis Energy Limited
Review of Operations
31 December 2013

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

Otis Energy Limited has a 16.66% before pay out working interest and a 12.5% before pay out revenue interest at 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.

Three wells have been drilled to date at Comanche. The Sloan # 1 well has performed to expectation while the Hoefle # 1 well and Lott Unit well have underperformed. Subsequent to the end of the half-year, 9,274 non-core acres of the Comanche project has been divested including the Hoefle # 1 well. Otis Energy Limited net proceeds from the sale are $US323,218.

During the half-year, approximate production attributable to Otis Energy Limited was 172.6 BO and 2,419 MCFG, 575.88 BOE.

Otis Energy Limited and its partners in the project have retained ownership of two wells, including the successful Sloan well and the Lott well, as well as the deep rights to a Mississippian Reef prospect identified by the recently acquired 3D seismic survey. The 3D seismic survey that was acquired in 2013 has added significant value to the Comanche Project and allows Otis Energy Limited and its partners to now target lower risk opportunities at the project. A well to test the Mississippian prospect is expected to be drilled this year at a cost of less than $US70,000 to Otis Energy Limited.

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

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 mobilisation and demobilisation 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 the SL502 Alt # 1 well to replace a leaking packer and check tubing which should see a small increase in daily production.

During the half-year, approximate production attributable to Otis Energy Limited was 3,060 BO and 1,854 MCFG, 3279 BOE.

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.

Charro – Lea County New Mexico (5.5% WI, 4.29% 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.

During the half-year, approximate production attributable to Otis Energy Limited was 53 BO. (No gas is produced at Charro).

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

During the half-year, approximate production attributable to Otis Energy Limited was 6,000MCFG (No oil is produced at this project).

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 was plugged and abandoned.

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.

The information in this announcement relating to the assets in the US 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 in relation to the US assets of the Company. 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.

The information in this announcement relating to the assets in Yemen has been reviewed by Mark Sloan (an Accredited Petroleum Geologist and Geophysicist, Fellow of the Geological Society of London and a member of the European Association of Geoscientists and Engineers). Mark Sloan has over 25 years' experience in petroleum geology, and geophysics which includes prospect generation and evaluations, and prospect and project level resource and risk estimations. Mr. Sloan 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 in relation to the Yemen assets of the Company. 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. Mr Sloan is not an employee of Otis Energy Limited or its subsidiaries and is an independent consultant.

The estimated quantities of petroleum that may potentially be recovered by the application of a future development project(s) relate to undiscovered accumulations. These estimates have both an associated risk of discovery and a risk of development. Further exploration appraisal is required to determine the existence of a significant quantity of potentially moveable hydrocarbons

Otis Energy Limited
Directors' report
31 December 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 half-year ended 31 December 2013.

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
- oil and gas exploration in Republic of Yemen

Review of operations

The loss for the consolidated entity after providing for income tax amounted to $2,116,654 (31 December 2012: $2,040,711).

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 2014
Perth, Australia

Hayes Knight Audit
chartered accountants · your partners in success

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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 2013 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

Hayes Knight Audit Pty Ltd
Melbourne

Richard Cen
Director

Dated this 12 day of March 2014

Otis Energy Limited
Statement of profit or loss and other comprehensive income
For the half-year ended 31 December 2013

	Note	Consolidated 31 December 2013 $	Consolidated 31 December 2012 $
Revenue	4	234,528	369,499
Other income	5	-	27,483
Expenses			
Production costs	6	(361,514)	(132,129)
Consultancy and management expenses		(239,639)	(241,254)
Depreciation and amortisation expense		(1,073)	(1,297)
Impairment of petroleum exploration and evaluation expenditure	6	(1,463,087)	(720,079)
Impairment of oil and gas production assets	6	(115,510)	(1,176,920)
Other expenses		(170,359)	(166,014)
Loss before income tax expense		(2,116,654)	(2,040,711)
Income tax expense		-	-
Loss after income tax expense for the half-year attributable to the owners of Otis Energy Limited		(2,116,654)	(2,040,711)
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Foreign currency translation		42,395	(105,188)
Other comprehensive income for the half-year, net of tax		42,395	(105,188)
Total comprehensive income for the half-year attributable to the owners of Otis Energy Limited		(2,074,259)	(2,145,899)
		Cents	**Cents**
Basic earnings per share		(0.17)	(0.18)
Diluted earnings per share		(0.17)	(0.18)

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 31 December 2013

	Note	Consolidated 31 December 2013 $	30 June 2013 $
Assets			
Current assets			
Cash and cash equivalents		161,190	433,689
Trade and other receivables		12,943	12,657
Other		15,889	68,159
Assets classified as held for sale	7	1,824,638	-
Total current assets		2,014,660	514,505
Non-current assets			
Property, plant and equipment	8	2,400	1,633,817
Petroleum exploration and evaluation	9	540,742	2,323,723
Total non-current assets		543,142	3,957,540
Total assets		2,557,802	4,472,045
Liabilities			
Current liabilities			
Trade and other payables		360,308	210,231
Employee benefits		27,115	18,981
Total current liabilities		387,423	229,212
Non-current liabilities			
Employee benefits		8,341	6,536
Total non-current liabilities		8,341	6,536
Total liabilities		395,764	235,748
Net assets		2,162,038	4,236,297
Equity			
Issued capital		80,913,940	80,913,940
Reserves	10	1,052,069	1,288,474
Accumulated losses		(79,803,971)	(77,966,117)
Total equity		2,162,038	4,236,297

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 2013

Consolidated	Contributed equity $	Accumulated losses $	Reserves $	Total equity $
Balance at 1 July 2012	80,666,081	(75,353,309)	1,045,950	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	-	(2,040,711)	(105,188)	(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	(77,132,020)	678,762	4,212,823

Consolidated	Contributed equity $	Accumulated losses $	Reserves $	Total equity $
Balance at 1 July 2013	80,913,940	(77,966,117)	1,288,474	4,236,297
Loss after income tax expense for the half-year	-	(2,116,654)	-	(2,116,654)
Other comprehensive income for the half-year, net of tax	-	-	42,395	42,395
Total comprehensive income for the half-year	-	(2,116,654)	42,395	(2,074,259)
Transactions with owners in their capacity as owners:				
Lapse of options	-	278,800	(278,800)	-
Balance at 31 December 2013	80,913,940	(79,803,971)	1,052,069	2,162,038

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 2013

	Consolidated	
	31 December 2013	**31 December 2012**
	$	**$**
Cash flows from operating activities		
Receipts from customers	392,324	412,134
Payments to suppliers and employees	(252,593)	(348,546)
Interest received	4,180	14,392
Net cash from operating activities	143,911	77,980
Cash flows from investing activities		
Payments for petroleum exploration	(150,809)	(1,109,278)
Oil and gas project expenditure	(267,659)	(329,277)
Proceeds from sale of equity investments	-	151,233
Net cash used in investing activities	(418,468)	(1,287,322)
Cash flows from financing activities		
Net cash from financing activities	-	-
Net decrease in cash and cash equivalents	(274,557)	(1,209,342)
Cash and cash equivalents at the beginning of the financial half-year	433,689	1,958,299
Effects of exchange rate changes on cash and cash equivalents	2,058	(11,565)
Cash and cash equivalents at the end of the financial half-year	161,190	737,392

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
Telephone : (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 2014. 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 2013 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 2013 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, 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

Note 2. Significant accounting policies (continued)

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

AASB 10 Consolidated Financial Statements
The consolidated entity has applied AASB 10 from 1 July 2013. AASB 10 supersedes AASB 127 Consolidated and Separate Financial Statements and Interpretation 112 Consolidation – Special Purpose Entities. AASB 10 revises the definition of control and provides extensive new guidance on its application. These new requirements have the potential to affect which of the Group's investees are considered to be subsidiaries and therefore change the scope of consolidation. The requirements on consolidation procedures, accounting for changes in non-controlling interests and accounting for loss of control of a subsidiary are unchanged.

Management has reviewed its control assessments in accordance with AASB 10 and has concluded that there is no effect on the classification (as subsidiaries or otherwise) of any of the Group's investees held during the period or comparative periods covered by these financial statements.

AASB 11 Joint Arrangements
The consolidated entity has applied AASB 11 from 1 July 2013. The standard defines which entities qualify as joint arrangements 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 are accounted for using the equity method. Joint operations, where the parties to the agreements have the rights to the assets and obligations for the liabilities, will account for its share of the assets, liabilities, revenues and expenses separately under the appropriate classifications.

Management has reviewed its joint arrangements in accordance with AASB 11 and has concluded that there is no effect on the classification or accounting treatment of any of the consolidated entity's joint arrangements in the current or comparative periods covered by these financial statements.

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 half-year, the consolidated entity made a loss of $2,116,654, largely due to an impairment charge against its exploration and evaluation assets of $1,463,087. At 31 December 2013 the consolidated entity had net assets of $2,162,038 and net current assets, of $1,627,237. During the half-year, the consolidated entity had net cash inflows from operating activities of $143,911, and cash outflows from exploration activities of $150,809 and oil and gas production of $267,659.

The directors are confident that the Company and the consolidated entity will be able to continue as a going concern. The consolidated entity's working interest in the Catahoula Lake oil and gas production project may be sold within the next 12 months, and some interests within the Comanche project have been sold by the working interest partnership subsequent to the balance date. The proceeds from the sale of these interests, along with the Company's ability to raise capital through other sources is expected to provide sufficient cash inflows to supplement cash reserves and 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. 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.

Note 3. Operating segments (continued)

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.

Operating segment information

Consolidated - 31 December 2013	Oil and Gas Exploration (USA) $	Corporate Cost centre (AUS) $	Total $
Revenue			
Oil and gas revenue	230,813	-	230,813
Interest	-	1,341	1,341
Other revenue	-	2,374	2,374
Total revenue	230,813	3,715	234,528
Assets			
Segment assets	2,272,409	285,393	2,557,802
Total assets			2,557,802

Consolidated - 31 December 2012	Oil and Gas Exploration (USA) $	Corporate Cost Centre (AUS) $	Total $
Revenue			
Oil and gas revenues	354,877	-	354,877
Interest	-	14,622	14,622
Total revenue	354,877	14,622	369,499
Assets			
Segment assets	3,931,996	540,049	4,472,045
Total assets			4,472,045

Note 4. Revenue

	Consolidated 31 December 2013 $	Consolidated 31 December 2012 $
Sales revenue		
Oil and gas revenue	230,813	354,877
Other revenue		
Interest	1,341	14,622
Other revenue	2,374	-
	3,715	14,622
Revenue	234,528	369,499

Note 5. Other income

	Consolidated 31 December 2013 $	Consolidated 31 December 2012 $
Net gain on fair value through profit and loss assets	-	27,483

Note 6. Expenses

	Consolidated 31 December 2013 $	Consolidated 31 December 2012 $
Loss before income tax includes the following specific expenses:		
Impairment		
Oil and gas production assets	115,510	1,176,920
Impairment of exploration and evaluation assets	1,519,987	720,079
Reversal of impairment of exploration and evaluation assets	(56,900)	-
Total impairment	1,578,597	1,896,999
Production costs		
Depreciation of oil and gas production assets	93,857	132,129
Project costs incurred during period	267,657	-
Total production costs	361,514	132,129

The impairment expense in the current period relates to the Comanche project. See note 8 for details.

The reversal of impairment relates to receipts from oil and gas production from the Avalanche project. Any further receipts will result in further reversals of the previously impaired exploration and evaluation asset.

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 7. Current assets - assets classified as held for sale

	Consolidated 31 December 2013 $	30 June 2013 $
Oil and gas production assets	1,460,449	-
Exploration and evaluation assets	364,189	-
	1,824,638	-

Oil and gas production assets represent the consolidated entity's 20% working interest in the Catahoula Lake project. See note 8 for details.

Exploration and evaluation assets relate to the consolidated entity's interest in the Comanche Petroleum and Gas exploration assets. See note 9 for details.

Note 8. Non-current assets - property, plant and equipment

	Consolidated 31 December 2013 $	30 June 2013 $
Oil and gas production assets - at cost	-	3,267,573
Less: Accumulated depreciation	-	(171,803)
Less: Impairment	-	(1,465,427)
	-	1,630,343
Plant and equipment - at cost	7,850	7,850
Less: Accumulated depreciation	(5,450)	(4,376)
	2,400	3,474
	2,400	1,633,817

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

Consolidated	Oil and gas production $	Plant and equipment $	Total $
Balance at 1 July 2013	1,630,343	3,474	1,633,817
Exchange differences	39,473	-	39,473
Impairment of assets	(115,510)	-	(115,510)
Reclassified as non-current asset held for sale	(1,460,449)	-	(1,460,449)
Depreciation expense	(93,857)	(1,074)	(94,931)
Balance at 31 December 2013	-	2,400	2,400

Note 8. Non-current assets - property, plant and equipment (continued)

Impairment of oil and gas production assets
The recoverable value of the oil and gas production assets is based upon the estimated recoverable value from sale. The estimated recoverable value is based on sales data relating to assets with comparable annual production rates. The estimate of the sales value is based upon annual production rates and expected oil prices, with a multiple applied providing the premium the market will pay for the asset. The directors consider this a reasonable measure of recoverable value as it is based upon oil production rates and oil prices. As a result of the director's assessment an impairment of $115,510 (US$106,413) has been recorded against the assets.

During the period the directors took the decision to test the market and seek interested parties for a sale of its interest in the oil and gas production asset at Catahoula Lake. The directors have prepared the required documentation to enter the working interest in the project into the Oil and Gas Clearing House Auction but the directors will investigate all options before committing the Company to a particular sales process or agreeing to any final sale process.

Note 9. Non-current assets - petroleum exploration and evaluation

	Consolidated	
	31 December 2013	30 June 2013
	$	$
Petroleum exploration and evaluation	540,742	2,323,723

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

Consolidated	Exploration and evaluation $	Total $
Balance at 1 July 2013	2,323,723	2,323,723
Expenditure during the half-year	150,809	150,809
Oil and gas receipts	(52,688)	(52,688)
Exchange differences	60,949	60,949
Impairment of assets	(1,577,862)	(1,577,862)
Reclassification as non-current asset held for sale	(364,189)	(364,189)
Balance at 31 December 2013	540,742	540,742

In December 2013 Otis Energy Limited announced that its acquisition of an 8.5% interest (10% paying) in the Yemen Block 7 exploration licence was approved by the Joint Venture partners. Completion of the transaction remains subject to customary approvals from the state owned Yemeni Oil and Gas Company, the Yemen Ministry of Minerals and the government of the Yemeni Republic.

The consolidated entity's interest in the Charro project was fully impaired at 31 December 2013, as a decision has been taken to discontinue operations.

The consolidated entity owns a 16.66% working interest in the Comanche project, consisting of over 10,000 acres, including three wells that have been drilled to date. During the period the Working Interest Partners entered into an agreement with a private oil and gas company for the sale of 9,878 acres of the Comanche Project, subject to due diligence by the purchaser. The partnership will retain an area containing two of the wells drilled, although one of these wells has been shut-off. Based on the indicative price from the sales agreement of US$323,218 an impairment has been recorded against the costs relating to the portion of the Comanche Project that is subject to the sales agreement.

The carrying value of the interest that is being disposed of has been reclassified as an asset held for sale.

Note 9. Non-current assets - petroleum exploration and evaluation (continued)

The recoverability of the carrying amount of the exploration and evaluation assets is dependent upon the successful development and commercial exploitation or, alternatively, sale of the respective areas of interest.

Note 10. Equity - reserves

	Consolidated	
	31 December 2013	30 June 2013
	$	$
Foreign currency reserve	139,269	96,874
Options reserve	912,800	1,191,600
	1,052,069	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.

Options 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.

Movements in reserves
Movements in each class of reserve during the current financial half-year are set out below:

Consolidated	Foreign currency $	Options $	Total $
Balance at 1 July 2013	96,874	1,191,600	1,288,474
Foreign currency translation	42,395	-	42,395
Lapse of options	-	(278,800)	(278,800)
Balance at 31 December 2013	139,269	912,800	1,052,069

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 2013 and 30 June 2013.

Note 13. Commitments

There were no material changes in the commitments to those disclosed in the financial report for the year ended 30 June 2013.

Note 14. Interests in 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 of the Annual Report for 30 June 2013:

Name	Principal place of business / Country of incorporation	Ownership interest 31 December 2013 %	30 June 2013 %
Otis Energy Inc	USA	100.00%	100.00%
Sito Exploration 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%	100.00%

Note 15. Events after the reporting period

On 18th February the Company announced that the sale of 9,274 non-core acres of the Comanche project, located in North Central Texas, had been finalised. The consolidated entity's share of the net proceeds is US$323,218.

No other matter or circumstance has arisen since 31 December 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.

Otis Energy Limited
Directors' declaration
31 December 2013

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 2013 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)(a) of the Corporations Act 2001.

On behalf of the directors

____
Mr Winton Willesee
Director

12 March 2014
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 its Controlled Entities (the consolidated entity) which comprises the consolidated statement of financial position as at 31 December 2013, and the consolidated statement of profit or loss and other 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 its 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 2013 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

Richard Cen

Director

Dated this 12 day of March 2014