Otis Energy Limited

ABN 93 075 419 715

Annual Report - 30 June 2012

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Otis Energy Limited
Corporate directory
30 June 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
Share register	Link Market Services Level 22 300 Queen Street Brisbane QLD 4000
Auditor	Hayes Knight Audit Pty Ltd Level 12 31 Queen Street Melbourne VIC 3000
Bankers	NAB 1232 Hay Street West Perth WA 6005
Stock exchange listing	Otis Energy Limited shares are listed on the Australian Securities Exchange (ASX code: OTE) (ASX code options: OTEO) (ASX code options: OTEOA)
Website address	www.otisenergy.com

Otis Energy Limited
Chairman's Letter to Shareholders
30 June 2012

Dear Shareholders,

Last year I reported that our focus would be to identify opportunities in the oil and gas area which would potentially deliver shareholder value. Despite the multiple challenges of global economic uncertainty and of securing requisite funding in volatile capital markets I feel that the year has been successful for the Company both operationally and from a funding perspective.

Like any developing company, funding is critical. I would like to thank those shareholders who showed faith in the Company and its activities to take up shares during the year and provide the Company with much needed capital to pursue its activities

Also, as a Board we appreciate the continued support of our management team in Texas which includes two geologists, one reservoir engineer and two landmen with experience in the U.S oil and gas business. As a team they have undertaken an extensive evaluation of a number of potential projects which would satisfy the criteria of the company and submitted proposals to the Board for review.

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

During the year the Company participated in the drilling of twelve wells across three states of the United States and from our viewpoint it has been an aggressive exploration and appraisal program.

I would encourage you to read the Managing Director's Report for more detail on operational matters.

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

Finally, as we focus with enthusiasm to the year ahead and the development of the Company, I would like to thank my fellow directors and management team who made a significant contribution towards the development and growth of the company during the past year.

Yours sincerely,

Harry Hill
Non-Executive Chairman

It's been an active year for Otis with the drilling of 12 wells since late last year with seven of these wells now in production or undergoing completion to be placed in production. We have acquired four new projects in the last year as well as undertaken and completed and amalgamation of our Catahoula Lake assets with Sanchez Oil and Gas of Houston, Texas. While I have described all our current active projects below I would like to highlight the Comanche Project in particular. Comanche, located in North Central Texas is proving to be the most attractive play in which Otis currently holds an interest in. It is a shallow 5,000 feet play that we are targeting with new drilling and completion techniques and could prove to be the company making project for which Otis has been looking. Completions at Comanche are made in known fields that have not had the benefit of horizontal drilling and fracture stimulation completions in the past. The first well to be completed at Comanche has proved to be very positive. Specific details I have given below. The Company has been pleased with the results of the first two wells which demonstrate the prospectively of the Comanche project. I would also like to take this opportunity to thank our five man team in Dallas. David, Steve, Truitt, Russ and Scott have provided the link to these projects through their long term high quality relationships and expertise in the US oil and gas sector. As a company they are integral to our future and we thank them for the effort and time they have so far dedicated to help build Otis into a standalone independent oil and gas company.

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 and oil and liquids rich gas formation. With the introduction of modern completion procedures including horizontal completions and fracture stimulation the MFL is proving to be a highly attractive and commercial play.

To date two wells have been drilled at the Comanche Project, Test Well #'s one and two. The Comanche Test Well # 2 was the first of the two wells to be completed with a fracture stimulation process and has returned favourable initial flow results of over 225 BOEPD. Currently the first test well is in undergoing flowback of fracking fluid and it is expected that an indication of potential flow rates will be known in the coming weeks.

Otis remains upbeat about the Comanche Project as with the success and information gained from drilling the first two test wells there is the potential for up to forty wells that can be drilled to fully develop the currently held acreage position.

Catahoula Lake, LaSalle Parish Louisiana (20% WI, 15.9% NRI)

The Catahoula Lake Project located in La Salle Parish Louisiana and is drilled from the company's jointly owned barge rig. During the year Otis and Sanchez Oil and Gas of Houston finalised an amalgamation of lake assets agreement. Otis now holds a 20% working interest (15.9 % NRI) across daily production of over 124 barrels of oil.

During the drilling season which typically runs from February 1st to June 30th Otis and Sanchez drilled five of a planned eight well program. Due to mechanical issues with the barge rig and in turn running out of drilling time only five wells were drilled. Of these two were placed into production, two were dry holes and one well was incomplete due to technical drilling issues. Of the two wells placed on production one is producing close to 100% gas which is being used to power the company's jointly owned production facilities at a great cost saving and the other is producing 100% oil.

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 drilled the Paddy 20 State #1 well at the Charro Project in June this year with a successful completion of the well in July. This first well has averaged between 15-40 BOPD since being placed on production. A second well at the Charro Project is planned for October this year.

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 first well to be drilled at the project was WC 35 State # 1 well was drilled to a total depth of 11,820 feet targeting the Wolfcamp and Cisco formations. Unfortunately those zones appeared tight. The well was thus completed in the San Andreas formation at approximately 4,750 feet.

This well is being reviewed for potential offset locations.

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 (12.389% WI to Otis) well 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 discovery. Presently a three mile pipeline is being permitted and is expected to be complete by the fourth quarter. Additionally the pipeline path has been planned to pass the next shallow gas target which, post flow testing of the first well will be potentially drilled.

Stagecoach, Brooks County Texas (10% WI, 7.45 NRI)

The Stagecoach Prospect targets multiple Frio and Vicksburg sands to a depth of 8,000 feet in an area of strong Frio and Vicksburg gas/condensate production located between the Cage Range and Scott & Hopper Fields in Brooks County, Texas. Subsequent to the end of the year the Cage Ranch 89 # 1 well was drilled to a total depth of 8,000 feet. Post logging and side wall core data it was determined that the primary targeted zone in the “Richards Sand” was drawn down with limited reserves. While the Stagecoach prospect has a deeper gas target this will not be tested until the economics are improved by higher gas prices. The well has been plugged and abandoned at this stage.

Atocha, East baton Rouge Parish, Louisiana (.05% ORI)

During the first quarter of 2012 Otis completed a sale of 1,235 acres at its Atocha Project to Midstates Petroleum Inc. Midstates have informed Otis that they intend to drill an Austin Chalk test well on the project in Q4 2012 or Q1 2013. Otis retains a 0.5% ORI in any production as a result of a discovery by Midstates at the Atocha Project.

San Jacinto 3D Project – San Jacinto/Montgomery Counties, Texas (Earning a 10% WI)

During January 2011 Otis entered into an agreement to acquire up to a 10% working interest in the San-Jacinto 3D project. To date two wells have been drilled on the project and both have been unsuccessful. The project operator, Drill Partners, along with geophysical advisory group, INEXS, have completed a reworking of all data gained from the drilling of the first two wells. Drill Partners is now in the process of seeking a partner to fund its share of the next wells to be drilled at the project. Once completed Otis will evaluate any proposed wells by the funding partner and make a decision as to whether it will participate in those wells.

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 outby the Society of Petroleum Engineers, further information on which is available at spe.org.

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 2012.

Directors

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

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

Principal activities

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

- acting as a responsible entity for a managed investment scheme and managing its other investments. The consolidated entity ceased to operate in this sector after the disposal of Lowell Capital Limited in August 2011.
- oil and gas exploration and development

Dividends

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

Review of operations

The loss for the consolidated entity after providing for income tax amounted to $2,913,080 (30 June 2011: $2,798,446).

Significant changes in the state of affairs

During the period, the Company sold its 100% owned subsidiary Lowell Capital Limited for a consideration value of $700,000 comprising of $300,000 as a return of capital payment and $400,000 payment by the purchaser as the consideration. This means that the Company no longer is the responsible entity for any managed investment

During the year the company has issued 100,000,000 fully paid ordinary shares at an issue price of $0.005 (0.5 cents) per share with one free attaching option for every share issued, exercisable at $0.01 (1 cent) per option on or before 30 June 2013. The total amount raised through this issue was $500,000 before costs.

During the year the company undertook a rights issue capital raising, raising $2,811,404 before costs, through the issue of 562,280,783 fully paid ordinary shares with one free attaching option for every share issued, exercisable at $0.01 (1 cent) per option on or before 30 June 2013.

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 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.

Likely developments and expected results of operations

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

Environmental regulation

The consolidated entity holds participating interests in petroleum exploration interest. The various authorities granting such interests require the permit holder to comply with the terms of the grant of the permit and all directions given to it under those terms of the permit. There have been no known breaches of the tenement conditions, and no such breaches have been notified by any government agencies during the year ended 30 June 2012.

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 26 years experience as a Director and Company Secretary of several publicly listed companies involved in oil and gas exploration, mining and mineral exploration particularly in commodities of gold, nickel and diamonds and publicly listed companies operating in the field of education, construction and clothing, both wholesale and retail.
Other current directorships:	Nil
Former directorships (in the last 3 years):	Tawana Resources NL (resigned 27 May 2011) Cove Resources Limited (resigned 9 January 2012)
Special responsibilities:	Member of Remuneration Committee
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 19 years of trading, investment banking, international investment and market experience. He has held positions with investment banks in Perth, Sydney, New York and Hong Kong including JP Morgan, BNP Equities (New York) and Prudential Securities (New York).
Other current directorships:	Nil
Former directorships (in the last 3 years):	Nil
Special responsibilities:	Nil
Interests in shares:	14,455,562 fully paid ordinary shares
Interests in options:	5,500,000 unlisted 10 cent options expiring 31 December 2012 6,000,000 unlisted 15 cent options expiring 31 December 2013 24,465,463 unlisted 5 cent options expiring 31 December 2015 5,727,781 unlisted 1 cent options expiring 30 June 2013.

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 CPA Australia and a Chartered Secretary.
Other current directorships:	Chairman of BioProspect Limited, Cove Resources Limited and Mining Group Limited. Director of Base Resources Limited, Coretrack Limited, Torrens Energy Limited and Newera Resources Limited.
Former directorships (in the last 3 years):	Hawkley Oil & Gas Limited (resigned 22 June 2010) Boss Resources Limited (resigned 8 October 2009)
Special responsibilities:	Member of Remuneration Committee
Interests in shares:	9,750,000 fully paid ordinary shares
Interests in options:	200,000 unlisted 10 cent options expiring 31 December 2012 750,000 unlisted 10 cent options expiring 31 December 2013 800,000 unlisted 15 cent options expiring 31 December 2013 12,312,500 unlisted 5 cent options expiring 31 December 2015 3,375,000 unlisted 1 cent options expiring 30 June 2013.

'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 and of each board committee held during the year ended 30 June 2012, and the number of meetings attended by each director were:

	Full Board		Remuneration Committee	
	Attended	Held	Attended	Held
Mr Harry Hill	11	11	1	1
Mr Barnaby Egerton-Warburton	11	11	-	-
Mr Winton Willesee	11	11	1	1

Held: represents the number of meetings held during the time the director held office or was a member of the relevant committee.

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 financial year ended 30 June 2012, 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.

Voting and comments made at the company's 2011 Annual General Meeting ('AGM')
The company received 99.82% of 'for' votes in relation to its remuneration report for the year ended 30 June 2011. 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 directors, other key management personnel (defined as those who have the authority and responsibility for planning, directing and controlling the major activities of the consolidated entity) and specified executives of Otis Energy Limited are set out in the following tables.

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

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

** 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.

2011	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 $	Options received as compensation $	Total $
Non-Executive Directors:							
Harry Hill	49,333	-	-	-	-	11,000	60,333
Winton Willesee **	39,600	-	-	-	-	66,000	105,600
Executive Directors:							
Barnaby Egerton-Warburton	198,000	-	-	-	-	132,000	330,000
Other Key Management Personnel:							
Michael Ramsden *	35,000	-	-	-	-	-	35,000
David Worth ***	5,000	-	-	-	-	-	5,000
Don Carroll *	35,000	-	-	-	-	-	35,000
Oliver Carton****	25,726	-	-	-	-	-	25,726
	387,659	-	-	-	-	209,000	596,659

* Executive Director of Lowell Capital Limited

** 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.

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

**** appointed on 22 October 2010

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

Name	Fixed remuneration 2012	Fixed remuneration 2011	At risk - STI 2012	At risk - STI 2011	At risk - LTI 2012	At risk - LTI 2011
Non-Executive Directors:						
Harry Hill	100%	82%	- %	- %	- %	18%
Winton Willesee	100%	38%	- %	- %	- %	62%
Executive Directors:						
Barnaby Egerton - Warburton	100%	67%	- %	- %	- %	33%

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 months' 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 bonusses 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 2012.

Options
There were no options issued to directors and other key management personnel as part of compensation that were outstanding as at 30 June 2012.

Details of options over ordinary shares issued to directors and other key management personnel as part of compensation during the year ended 30 June 2012 are set out below:

	Number of options granted during the year		Number of options vested during the year	
Name	2012	2011	2012	2011
Harry Hill	-	2,000,000	-	2,000,000
Winton Willesee	-	12,000,000	-	12,000,000
Barnaby Egerton-Warburton	-	24,000,000	-	24,000,000

E Additional information

The earnings of the consolidated entity for the five years to 30 June 2012 are summarised below:

	2008 $	2009 $	2010 $	2011 $	2012 $
Revenue	968,372	381,108	478,474	218,837	374,740
Net profit/(loss) before tax	(140,624)	(621,781)	(2,547,867)	(2,955,951)	(3,000,192)
Net profit/(loss) after tax	(203,969)	(558,437)	(2,547,867)	(2,955,951)	(3,000,192)

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

	2008	2009	2010	2011	2012
Basic earnings per share (cents per share)	(0.020)	(0.040)	(0.100)	(0.979)	(0.462)

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 2012	$0.100	6,550,000
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
24 April 2012	30 June 2013	$0.010	562,280,783
9 May 2012	30 June 2013	$0.010	160,000,000
			948,180,746

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 2012.

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

28 September 2012
Melbourne

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 year ended 30 June 2012 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 28 day of SEPTEMBER 2012

Otis Energy Limited
Corporate Governance Statement
30 June 2012

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

Principles and Recommendations		Compliance
		test for independence as set out in the ASX Corporate Governance Recommendations. Members of the Board are able to take independent professional advice at the expense of the Company. Mr Barnaby Egerton-Warburton, Executive Director, was appointed to the Board in April 2009. Mr Winton Willesee, Non-Executive Director, was appointed to the Board in January 2008. Mr Harry Hill, Chairman, was appointed to the Board in June 2008. The Board has undertaken a review of the mix of skills and experience on the Board in light of the Company's principal activities and direction, and has considered diversity in succession planning. The Board considers the current mix of skills and experience of members of the Board and its senior management is sufficient to meet the requirements of the Company.
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 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	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

Principles and Recommendations		Compliance
	company's material business risks and report to it on whether those risks are being managed effectively. The Board should disclose that management has reported to it as to the effectiveness of the company's management of its material business risks.	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.
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 2012 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 comprehensive income
For the year ended 30 June 2012

	Note	Consolidated 2012 $	Consolidated 2011 $
Revenue from continuing operations	5	374,740	47,700
Other income	6	-	204,887
Expenses			
Employee benefits expense		(379,416)	(339,733)
Depreciation and amortisation expense	7	(1,326)	(444)
Impairment of investments in associates		-	(295,753)
Write-off of petroleum exploration expenditure		(2,271,395)	(1,095,295)
Consultancy and management expenses		(139,034)	(277,301)
Share based payments		-	(258,000)
Other expenses		(583,761)	(500,126)
Share of losses in associates using the equity method		-	(441,886)
Loss before income tax expense from continuing operations		(3,000,192)	(2,955,951)
Income tax expense	8	-	-
Loss after income tax expense from continuing operations		(3,000,192)	(2,955,951)
Profit after income tax expense from discontinued operations	9	87,112	157,505
Loss after income tax expense for the year attributable to the owners of Otis Energy Limited		(2,913,080)	(2,798,446)
Other comprehensive income			
Foreign currency translation		105,939	(761,901)
Other comprehensive income for the year, net of tax		105,939	(761,901)
Total comprehensive income for the year attributable to the owners of Otis Energy Limited		(2,807,141)	(3,560,347)

	Note	Cents	Cents
Earnings per share from continuing operations attributable to the owners of Otis Energy Limited			
Basic earnings per share	35	(0.476)	(0.979)
Diluted earnings per share	35	(0.476)	(0.979)
Earnings per share from discontinued operations attributable to the owners of Otis Energy Limited			
Basic earnings per share	35	0.014	0.052
Diluted earnings per share	35	0.014	0.052
Earnings per share for loss attributable to the owners of Otis Energy Limited			
Basic earnings per share	35	(0.462)	(0.927)
Diluted earnings per share	35	(0.462)	(0.927)

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

Otis Energy Limited
Statement of financial position
As at 30 June 2012

	Note	Consolidated 2012 $	Consolidated 2011 $
Assets			
Current assets			
Cash and cash equivalents	10	1,958,299	1,844,240
Trade and other receivables	11	87,368	14,246
Financial assets at fair value through profit or loss	12	123,750	159,525
Other current assets	13	9,773	6,682
		2,179,190	2,024,693
Assets of disposal groups classified as held for sale	14	-	796,838
Total current assets		2,179,190	2,821,531
Non-current assets			
Investments accounted for using the equity method	15	-	2,064,337
Property, plant and equipment	16	2,203,820	827
Petroleum exploration and evaluation	17	2,590,472	1,389,401
Total non-current assets		4,794,292	3,454,565
Total assets		6,973,482	6,276,096
Liabilities			
Current liabilities			
Trade and other payables	18	603,529	75,629
Employee benefits	19	9,038	-
		612,567	75,629
Liabilities directly associated with assets classified as held for sale	20	-	96,838
Total current liabilities		612,567	172,467
Non-current liabilities			
Employee benefits	21	2,193	-
Total non-current liabilities		2,193	-
Total liabilities		614,760	172,467
Net assets		6,358,722	6,103,629
Equity			
Issued capital	22	80,666,081	77,698,954
Reserves	23	1,045,950	844,904
Accumulated losses		(75,353,309)	(72,440,229)
Total equity		6,358,722	6,103,629

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 2012

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

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		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

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 2012

	Note	Consolidated 2012 $	Consolidated 2011 $
Cash flows from operating activities			
Receipts from customers		268,968	1,567,512
Payments to suppliers and employees		(1,147,762)	(2,816,397)
Interest received		41,599	58,292
Net cash used in operating activities	34	(837,195)	(1,190,593)
Cash flows from investing activities			
Payments for property, plant and equipment	16	(6,505)	-
Payments for petroleum exploration		(3,068,629)	(1,663,389)
Payments for investments in joint ventures		-	(524,572)
Proceeds from sale of investments		-	161,612
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		(2,772,549)	(2,026,349)
Cash flows from financing activities			
Proceeds from issue of shares	22	3,311,404	4,121,997
Capital raising costs		(249,170)	(349,938)
Reclassification of term deposit to cash at bank		-	280,225
Net cash from financing activities		3,062,234	4,052,284
Net increase/(decrease) in cash and cash equivalents		(547,510)	835,342
Cash and cash equivalents at the beginning of the financial year		2,399,870	1,831,798
Effects of exchange rate changes on cash		105,939	(267,270)
Cash and cash equivalents at the end of the financial year	10	1,958,299	2,399,870

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 28 September 2012. 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.

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

Historical cost convention

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

Critical accounting estimates

The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the consolidated entity's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 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 31.

Note 2. Significant accounting policies (continued)

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 2012 and the results of all subsidiaries for the year then ended. Otis Energy Limited and its subsidiaries together are referred to in these financial statements as the 'consolidated entity'.

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

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

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

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

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

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

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

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

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

Note 2. Significant accounting policies (continued)

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.

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

Note 2. Significant accounting policies (continued)

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

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

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

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

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

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

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

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

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

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 mis-match. Except for effective hedging instruments, derivatives are also categorised as fair value through profit or loss. Fair value movements are recognised in profit or loss.

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

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

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

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

Plant and equipment	2-4 years

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

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.

Production assets
Production assets are stated at cost, less accumulated depreciation and accumulated impairment losses. The initial cost of an asset comprises its purchase price or construction cost, and costs directly attributable to bringing the asset into operation and the initial estimate of the rehabilitation obligation. When production commences, amortisation is determined on a units of production basis over the life of the area of interest according to the rate of depletion of economically recoverable reserves.

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.

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.

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)

Earnings per share

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

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

Goods and Services Tax ('GST') and other similar taxes
Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the tax authority. In this case it is recognised as part of the cost of the acquisition of the asset or as part of the expense.

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

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

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

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 2012. 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 and 2010-7 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 2013 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. To be classified and measured at amortised cost, assets must satisfy the business model test for managing the financial assets and have certain contractual cash flow characteristics. All other financial instrument assets are to be classified and measured at fair value. This standard allows an irrevocable election on initial recognition to present gains and losses on equity instruments (that are not held-for-trading) in other comprehensive income, with dividends as a return on these investments being recognised in profit or loss. In addition, those equity instruments measured at fair value through other comprehensive income would no longer have to apply any impairment requirements nor would there be any ‘recycling’ of gains or losses through profit or loss on disposal. 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 2013 but the impact of its adoption is yet to be assessed by the consolidated entity.

Note 2. Significant accounting policies (continued)

AASB 2010-2 Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements
These amendments are applicable to annual reporting periods beginning on or after 1 July 2013. These amendments make numerous amendments to a range of Australian Accounting Standards and Interpretations, to introduce reduced disclosure requirements to the pronouncements for application by certain types of entities in preparing general purpose financial statements. Even though it qualifies as a Tier 2, the consolidated entity will not adopt these amendments for reduced disclosure.

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.

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.

AASB 127 Separate Financial Statements (Revised)
AASB 128 Investments in Associates and Joint Ventures (Reissued)
These standards are applicable to annual reporting periods beginning on or after 1 January 2013. They have been modified to remove specific guidance that is now contained in AASB 10, AASB 11 and AASB 12. The adoption of these revised standards from 1 July 2013 will not have a material impact on the consolidated entity.

AASB 119 Employee Benefits (September 2011)
This revised standard is applicable to annual reporting periods beginning on or after 1 January 2013. The amendments eliminate the corridor approach for the deferral of gains and losses; streamlines the presentation of changes in assets and liabilities arising from defined benefit plans, including requiring remeasurements to be presented in other comprehensive income; and enhances the disclosure requirements for defined benefit plans. The adoption of the revised standard from 1 July 2013 will require increased disclosures by the consolidated entity.

AASB 2011-4 Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirement
These amendments are applicable to annual reporting periods beginning on or after 1 July 2013, with early adoption not permitted. They amend AASB 124 'Related Party Disclosures' by removing the disclosure requirements for individual key management personnel ('KMP'). The adoption of these amendments from 1 July 2013 will remove the duplication of information relating to individual KMP in the notes to the financial statements and the directors report. As the aggregate disclosures are still required by AASB 124 and during the transitional period the requirements may be included in the Corporations Act or other legislation, it is expected that the amendments will not have a material impact on the consolidated entity.

AASB 2011-7 Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards
The amendments are applicable to annual reporting periods beginning on or after 1 January 2013. The amendments make numerous consequential changes to a range of Australian Accounting Standards and Interpretations, following the issuance of AASB 10, AASB 11, AASB 12 and revised AASB 127 and AASB 128. The adoption of these amendments from 1 July 2013 will not have a material impact on the consolidated entity.

AASB 2011-9 Amendments to Australian Accounting Standards – Presentation of Items of Other Comprehensive Income
These amendments are applicable to annual reporting periods beginning on or after 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 adoption of the revised standard from 1 July 2012 will impact the consolidated entity's presentation of its statement of comprehensive income.

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.

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.

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

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

Impairments

Otis Energy Limited

Loans to Subsidiary - Otis Energy Inc
The Board assessed the net assets of Otis Energy Inc as $5,306,503 and agreed to recognise a provision for non-recovery of the intercompany loan for this financial year of $1,808,323 in the accounts of the parent entity at the end of financial year. The total accumulated provision for non-recoverability of the Otis Energy Inc. loan at 30 June 2012 is $5,918,014.

Otis Energy Inc

Petroleum exploration assets
The Directors have assessed the impairment indicators of the exploration areas in accordance with AASB 6. During the financial year, the directors resolved to write off all costs associated with the drilling of unsuccessful wells at the Catahoula Lake, San Jacinto and Avalanche projetcs with a total petroleum exploration write off amounting to $2,271,395.

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 3 operating segments are as follows:

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

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

Operating segment information

2012	Oil & Gas Production $	Financial Services (AUS) $	Oil & Gas Exploration (USA) $	Corporate Cost Centre (AUS) $	Intersegment eliminations/ unallocated $	Consolidated $
Revenue						
Sales to external customers	155,715	173,586			-	329,301
Total sales revenue	155,715	173,586	-	-	-	329,301
Other revenue	-	2,075	179,501	39,524	-	221,100
Total revenue	155,715	175,661	179,501	39,524	-	550,401
Net profit/(loss) before tax	155,715	87,112	120,034	(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	155,715	87,112	(2,151,361)	(1,004,546)	-	(2,913,080)
Income tax expense						-
Loss after income tax expense						(2,913,080)
Assets						
Segment assets	3,023,963	-	2,821,619	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 4. Operating segments (continued)

2011	Financial Services (AUS) $	Oil & Gas Exploration (USA) $	Corporate Cost Centre (AUS) $	Intersegment eliminations/ unallocated $	Consolidated $
Revenue					
Other revenue	1,788,622	693	251,894	-	2,041,209
Total revenue	1,788,622	693	251,894	-	2,041,209
Net profit/(loss) before tax	417,384	(264,307)	(600,265)	-	(447,188)
Depreciation and amortisation	-	-	(444)	-	(444)
Impairment of assets	-	(997,519)	-	-	(997,519)
Share based payments	-	-	(258,000)	-	(258,000)
Exploration costs written off	-	(1,095,295)	-	-	(1,095,295)
Profit/(loss) before income tax expense	417,384	(2,357,121)	(858,709)	-	(2,798,446)
Income tax expense					-
Loss after income tax expense					(2,798,446)
Assets					
Segment assets	796,838	4,281,795	1,197,463	-	6,276,096
Total assets					6,276,096
Liabilities					
Segment liabilities	96,838	1,276	74,353	-	172,467
Total liabilities					172,467

Note 5. Revenue

	Consolidated 2012 $	Consolidated 2011 $
From continuing operations		
Sales revenue		
Oil and gas revenue	155,715	-
Other revenue		
Interest	39,524	47,700
Share of profits in associates using the equity method	32,596	-
Gain on sale of tenements	146,905	-
	219,025	47,700
Revenue from continuing operations	374,740	47,700

Note 6. Other income

	Consolidated 2012 $	Consolidated 2011 $
Net gain on disposal of investments	-	11,612
Net gain on fair value through profit and loss assets	-	193,275
Other income	-	204,887

Note 7. Expenses

	Consolidated 2012 $	Consolidated 2011 $
Loss before income tax from continuing operations includes the following specific expenses:		
Depreciation		
Plant and equipment	1,326	444

Note 8. Income tax expense

	Consolidated 2012 $	Consolidated 2011 $
Numerical reconciliation of income tax expense and tax at the statutory rate		
Loss before income tax expense from continuing	(3,000,192)	(2,955,951)
Profit before income tax expense from discontinued operations	87,112	157,505
	(2,913,080)	(2,798,446)
Tax at the statutory tax rate of 30%	(873,924)	(839,534)
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Share-based payments	-	77,400
Fair value adjustment	117,669	293,005
Costs in respect to foreign operations	54,552	-
	(701,703)	(469,129)
Adjustment to deferred tax balances as a result of change in statutory tax rate		
Exploration expenditure	(273,495)	(170,400)
Accounting profit for sale of subsidiary	(120,272)	-
Deductible black hole expenditure	(60,604)	(97,782)
Other timing differences	329	(284)
Income tax losses not taken up as a tax benefit	1,155,745	737,595
Income tax expense	-	-

Note 8. Income tax expense (continued)

	Consolidated	
	2012	2011
	$	$
Deferred tax assets not recognised		
Deferred tax assets not recognised comprises temporary differences attributable to:		
Tax losses (Australia)	3,741,601	3,469,541
Temporary differences (Australia)	1,889,982	(168,793)
Tax losses (Foreign subsidiaries)	1,762,479	889,460
Temporary differences (Foreign subsidiaries)	(690,217)	(416,792)
Total deferred tax assets not recognised	6,703,845	3,773,416

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.

Otis Energy Limited
Notes to the financial statements
30 June 2012

Note 9. Discontinued operations

Financial performance information

	Consolidated 2012 $	Consolidated 2011 $
Interest	-	10,609
Administration fees	-	1,282,006
Sales of services	173,586	496,007
Interest	2,075	-
Total revenue	175,661	1,788,622
Other expenses	(44,915)	-
Consulting fees	(52,310)	-
Employee benefits expense	-	(145,726)
Fair value adjustment of non-current assets held for sale	-	(259,879)
Consultant and management expense	-	(985,821)
Other expenses	-	(239,691)
Total expenses	(97,225)	(1,631,117)
Profit before income tax expense	78,436	157,505
Income tax expense	-	-
Profit after income tax expense	78,436	157,505
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	157,505

Carrying amounts of assets and liabilities

	Consolidated 2012 $	Consolidated 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 9. Discontinued operations (continued)

Details of the disposal

	Consolidated 2012 $	Consolidated 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 10. Current assets - cash and cash equivalents

	Consolidated 2012 $	Consolidated 2011 $
Cash at bank	1,958,299	1,844,240

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

	2012	2011
Balances as above	1,958,299	1,844,240
Cash and cash equivalents - classified as held for sale (note 14)	-	555,630
Balance as per statement of cash flows	1,958,299	2,399,870

Note 11. Current assets - trade and other receivables

	Consolidated 2012 $	Consolidated 2011 $
Other receivables	75,666	2,433
GST receivable	11,702	11,813
	87,368	14,246

The average credit period is 30 days. No interest is charged on the trade receivables. 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	
	2012	2011
	$	$
Ordinary shares - designated at fair value through profit or loss	123,750	159,525

Refer to note 25 for further information on financial instruments.

The ordinary shares held above came out of escrow on 30 June 2012.

Note 13. Current assets - Other current assets

	Consolidated	
	2012	2011
	$	$
Prepayments	9,773	6,682

Note 14. Current assets - assets of disposal groups classified as held for sale

	Consolidated	
	2012	2011
	$	$
Cash and cash equivalents	-	555,630
Trade and other receivables	-	235,716
Other current assets	-	5,492
	-	796,838

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

Note 15. Non-current assets - investments accounted for using the equity method

	Consolidated	
	2012	2011
	$	$
Contributions to joint venture interests	-	2,064,337

During the financial year, the group had a 50 per cent share in the ownership of an Oil and Gas exploration and development company in the United States of America through its subsidiary Otis Energy Inc. Furthermore, during the year the company's joint venture partner sold its interest in the project

Subsequent to the sale by the joint venture partner, that the Company entered into an agreement for the amalgamation of these assets with those previously held by Sanchez Oil and Gas LLC. The company now holds a 20% working interest in the combined assets. For this reason this investment is no longer being accounted for using the equity method. The carrying amount at the time has been deemed to be the cost of the company's interest in the combined assets and and been reclassified as oil producing asset (Note 16).

Note 16. Non-current assets - property, plant and equipment

	Consolidated 2012 $	Consolidated 2011 $
Plant and equipment - at cost	7,850	1,345
Less: Accumulated depreciation	(1,845)	(518)
	6,005	827
Oil producing asset - cost	2,197,815	-
	2,197,815	-
	2,203,820	827

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 2010	-	1,271	1,271
Depreciation expense	-	(444)	(444)
Balance at 30 June 2011	-	827	827
Additions	-	6,505	6,505
Transfers in/(out)	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

Note 17. Non-current assets - petroleum exploration and evaluation

	Consolidated 2012 $	Consolidated 2011 $
Costs carried forward in respect of areas of interest in exploration and evaluation phase	2,590,472	1,389,401
	2,590,472	1,389,401
	2,590,472	1,389,401

Note 17. 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 2010	821,307	821,307
Expenditure during the year	1,663,389	1,663,389
Write off of assets	(1,095,295)	(1,095,295)
Balance at 30 June 2011	1,389,401	1,389,401
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

Refer to the review of operations for a summary of the company's operations for the year.

Note 18. Current liabilities - trade and other payables

	Consolidated 2012 $	2011 $
Trade payables	593,879	73,214
Other payables	9,650	2,415
	603,529	75,629

Refer to note 25 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 19. Current liabilities - employee benefits

	Consolidated 2012 $	2011 $
Annual leave	9,038	-

Note 20. Current liabilities - liabilities directly associated with assets classified as held for sale

	Consolidated 2012 $	Consolidated 2011 $
Trade payables	-	96,838

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

Note 21. Non-current liabilities - employee benefits

	Consolidated 2012 $	Consolidated 2011 $
Long service leave	2,193	-

Note 22. Equity - issued capital

	Consolidated 2012 Shares	Consolidated 2011 Shares	Consolidated 2012 $	Consolidated 2011 $
Ordinary shares - fully paid	1,154,564,508	492,283,725	80,666,081	77,698,954

Movements in ordinary share capital

Details	Date	No of shares	Issue price	$
Balance	1 July 2010	2,861,836,469		74,556,896
Share placement	16 December 2010	420,000,000	$0.002	840,000
Issue of shares through rights issue	25 February 2011	416,079,150	$0.002	832,158
Issue of shares through rights issue	6 April 2011	1,224,919,542	$0.002	2,449,839
Capital consolidation (10 to 1 basis)	20 May 2011	(4,430,551,436)	$0.000	-
Cost of capital raising		-		(349,939)
Capital raising costs for options issued to underwriters		-		(630,000)
Balance	30 June 2011	492,283,725		77,698,954
Share placement	29 February 201	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

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

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

Note 22. Equity - issued capital (continued)

Options
Refer to the Director's Report and Note 35 for further details on options.

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

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

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

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

The capital risk management policy remains unchanged from the 30 June 2011 Annual Report.

Note 23. Equity - reserves

	Consolidated	
	2012	**2011**
	$	**$**
Foreign currency reserve	(477,957)	(583,896)
Options reserve	1,523,907	1,428,800
	1,045,950	844,904

	Foreign currency $	Options $	Total $
Consolidated			
Balance at 1 July 2010	178,005	578,800	756,805
Foreign currency translation	(761,901)	-	(761,901)
Options issued - share-based	-	888,000	888,000
Expiry of options	-	(38,000)	(38,000)
Balance at 30 June 2011	(583,896)	1,428,800	844,904
Foreign currency 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

Note 23. Equity - reserves (continued)

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 24. Equity - dividends

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

Note 25. 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 the full Board under policies approved by the Board of Directors ('Board'). These policies include identification and analysis of the risk exposure of the consolidated entity and appropriate procedures, controls and risk limits. Finance identifies, evaluates and hedges financial risks within the consolidated entity's operating units. Finance reports to the Board on a monthly basis.

Market risk

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

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

The consolidated entity is also exposed to foreign currency risk in to Otis Energy a 100% owned US subsidiary. After excluding intercompany balances the subsidiary had net assets of $5,306,503 (2011 : $7,385,405)

Based on this exposure, had the Australian dollar weakened by 20% / strengthened by 20% (2011: weakened by 30% / strengthened by 30%) against the US dollar with all other variables held constant, equity would have been $2,215,621 higher / $1,061,300 lower (2011 : $1,477,081 higher / $1,477,081 lower). The percentage change is based on management’s assessment of reasonable possible fluctuations taking into consideration movements over the last 3 months each year and the spot rate at each reporting date.

Price risk
The consolidated entity is exposed to commodity price risk through the fluctuation in oil prices throughout the world.

Note 25. Financial instruments (continued)

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

	2012		2011	
	Weighted average interest rate %	Balance $	Weighted average interest rate %	Balance $
Consolidated				
Cash and cash equivalents	4.36	1,958,299	4.75	1,844,240
Net exposure to cash flow interest rate risk		1,958,299		1,844,240

Below is a sensitivity analysis of interest rates of 20% or 87 basis points (2011: 95) percentage points change on cash assets for the 2012 and 2012 financial years. The percentage change is based on the expected volatility of interest rates using market data and analysis forecasts.

	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)

	Basis points increase			Basis points decrease		
Consolidated - 2011	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	95	17,520	17,520	95	(17,520)	(17,520)

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 acts prudently to manage 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.

Note 25. Financial instruments (continued)

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 - 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

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

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 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

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

There were no transfers between levels during the financial year.

Note 25. Financial instruments (continued)

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

Note 26. Key management personnel disclosures

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

Harry Hill
Winton Willesee
Barnaby Egerton - Warburton

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

Mr Michael Ramsden (Lowell Capital Limited)
Mr David Worth (Lowell Capital Limited)
Mr Don Carroll (Lowell Capital Limited)
Mr Oliver Carton (Lowell Capital Limited)

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

	Consolidated 2012 $	Consolidated 2011 $
Short-term employee benefits	335,382	387,659
Share-based payments	-	209,000
	335,382	596,659

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:

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					
Mr W Willesee	3,375,000	-	6,375,000	-	9,750,000
Mr B Egerton-Warburton	5,727,781	-	8,727,781	-	14,455,562
	9,102,781	-	15,102,781	-	24,205,562

Note 26. Key management personnel disclosures (continued)

2011	Balance at the start of the year	Received as part of remuneration	Additions	Disposals/ other	Balance at the end of the year
Ordinary shares					
Mr W Willesee *	8,500,000	-	11,750,000	(16,875,000)	3,375,000
Mr B Egerton-Warburton *	13,118,537	-	17,744,265	(25,135,021)	5,727,781
	21,618,537	-	29,494,265	(42,010,021)	9,102,781

* Additions related to shares purchased on market during the financial year.

** The amounts stated in the 'other' column relate to the decrease in the shareholding of key management personnel following the company's consolidation of capital on a 10 to 1 basis.

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:

2012	Balance at the start of the year	Granted	Exercised	Other	Balance at the end of the year
Options over ordinary shares					
Mr H Hill	2,000,000	-	-	-	2,000,000
Mr W Willesee *	14,062,500	-	-	3,375,000	17,437,500
Mr B Egerton-Warburton *	35,965,463	-		5,727,781	41,693,244
	52,027,963	-	-	9,102,781	61,130,744

* The options acquired during the year were attached to rights issue.

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

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

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

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

Note 26. Key management personnel disclosures (continued)

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

Related party transactions
Related party transactions are set out in note 30.

Note 27. 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 2012 $	Consolidated 2011 $
Audit services - Hayes Knight Audit Pty Ltd		
Audit or review of the financial statements	38,105	36,881

Note 28. Contingent liabilities

There were no contingent liabilities at 30 June 2012 or 30 June 2011.

Note 29. Commitments

	Consolidated 2012 $	Consolidated 2011 $
.		
Committed at the reporting date but not recognised as liabilities, payable:		
Within one year	100,000	50,000
One to five years	-	50,000
	100,000	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 an estimate of $100,000, as noted above, to be a reasonable amounts to meet such costs and meet the rehabilitation of sites. These obligations are not provided in the accounts and are payable.

Note 30. Related party transactions

Parent entity
Otis Energy Limited is the parent entity.

Subsidiaries
Interests in subsidiaries are set out in note 32.

Key management personnel
Disclosures relating to key management personnel are set out in note 26 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	
	2012	**2011**
	$	**$**
Current receivables:		
Loan to subsidiaries	11,224,517	8,390,212
Accumulated provisions for non-recoverability	(5,918,014)	(4,109,691)

During the current and previous financial years, the company accounted for a provision of non-recovery on the loan amounts stated about and receivable from its subsidiaries.

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

Note 31. Parent entity information

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

Statement of comprehensive income

	Parent	
	2012	**2011**
	$	**$**
Loss after income tax	(2,408,962)	(3,717,386)
Total comprehensive income	(2,408,962)	(3,717,386)

Note 31. Parent entity information (continued)

Statement of financial position

	Parent 2012 $	Parent 2011 $
Total current assets	1,121,897	1,196,635
Total assets	6,434,405	5,779,340
Total current liabilities	73,487	73,887
Total liabilities	75,680	73,887
Equity		
Issued capital	80,666,080	77,698,953
Options reserve	1,523,907	1,428,800
Accumulated losses	(75,831,262)	(73,422,300)
Total equity	6,358,725	5,705,453

Guarantees entered into by the parent entity in relation to the debts of its subsidiaries
The parent entity had no guarantees in relation to the debts of its subsidiaries as at 30 June 2012 and 30 June 2011.

Contingent liabilities
The parent entity had no contingent liabilities at 30 June 2012 and 30 June 2011

Capital commitments - Property, plant and equipment
The parent entity had no capital commitments for property, plant and equipment at 30 June 2012 and 30 June 2011.

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 32. 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 2012 %	Equity holding 2011 %
Lowell Capital Limited *	Australia	-	100.00
Otis Energy Inc	USA	100.00	100.00
Sito Exploration Exploration LLC **	USA	100.00	-
Otis Energy Inc No1 **	USA	100.00	-
Otis Energy Inc No2 **	USA	100.00	-

* The company was disposed of in August 2011.
** Incorporated on during the financial year

Note 33. Events after the reporting period

No matter or circumstance has arisen since 30 June 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.

Note 34. Reconciliation of loss after income tax to net cash used in operating activities

	Consolidated	
	2012 $	2011 $
Loss after income tax expense for the year	(2,913,080)	(2,798,446)
Adjustments for:		
Depreciation and amortisation	1,326	444
Write off of investments	-	295,753
Net fair value loss on available-for-sale financial assets	35,775	259,879
Share of profit - joint ventures	-	441,886
Share-based payments	-	258,000
Loss on revaluation of held for sale investments	-	(33,750)
Write off of petroleum exploration expenditure	2,271,395	1,095,295
Net fair value gain on recognition of financial assets	-	(159,525)
Net gain on sale of investments	-	(11,612)
Loss on sale of subsidiary	8,676	-
Gain on sale of tenments	(146,905)	-
Change in operating assets and liabilities:		
Increase in trade and other receivables	(60,332)	(210,500)
Decrease in prepayments	2,401	-
Decrease in trade and other payables	(47,682)	(328,017)
Increase in employee benefits	11,231	-
Net cash used in operating activities	(837,195)	(1,190,593)

Note 35. Earnings per share

	Consolidated 2012 $	Consolidated 2011 $
Earnings per share from continuing operations		
Loss after income tax attributable to the owners of Otis Energy Limited	(3,000,192)	(2,955,951)

	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	630,410,016	301,786,791
Weighted average number of ordinary shares used in calculating diluted earnings per share	630,410,016	301,786,791

	Cents	Cents
Basic earnings per share	(0.476)	(0.979)
Diluted earnings per share	(0.476)	(0.979)

	Consolidated 2012 $	Consolidated 2011 $
Earnings per share from discontinued operations		
Loss after income tax attributable to the owners of Otis Energy Limited	87,112	157,505

	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	630,410,016	301,786,791
Weighted average number of ordinary shares used in calculating diluted earnings per share	630,410,016	301,786,791

	Cents	Cents
Basic earnings per share	0.014	0.052
Diluted earnings per share	0.014	0.052

Note 35. Earnings per share (continued)

	Consolidated 2012 $	Consolidated 2011 $
Earnings per share for loss		
Loss after income tax attributable to the owners of Otis Energy Limited	(2,913,080)	(2,798,446)
	Number	**Number**
Weighted average number of ordinary shares used in calculating basic earnings per share	630,410,016	301,786,791
Weighted average number of ordinary shares used in calculating diluted earnings per share	630,410,016	301,786,791
	Cents	**Cents**
Basic earnings per share	(0.462)	(0.927)
Diluted earnings per share	(0.462)	(0.927)

Diluted Earnings per share

The comparative number of shares has been divided by 10 when compared to the last annual report to ensure comparability as a resulting on 10 to 1 share consolidation completed during the 2011 financial report.

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

Note 36. Share-based payments

During current and precious 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:

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

Note 36. Share-based payments (continued)

2011

Grant date	Expiry date	Exercise price	Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the year
10/06/11	31/12/15	$0.050	5,000,000	-	-	-	5,000,000
25/02/11	31/12/15	$0.050	438,000,000	-	-	(394,200,000)	43,800,000
25/09/09	31/12/12	$0.100	65,500,000	-	-	(58,950,000)	6,550,000
25/09/09	31/12/13	$0.150	68,000,000	-	-	(61,200,000)	6,800,000
31/07/08	30/06/11	$0.025	10,000,000	-	-	(10,000,000)	-
			586,500,000	-	-	(524,350,000)	62,150,000

During the previous financial year, the company undertook a consolidation of capital which has affected the option amounts on issue as at the reporting date.

The weighted average remaining contractual life of options outstanding at the end of the financial year was 2.72 years (2011: 2.93 years). The weighted average exercise price of the options outstanding at the end of the financial year was $0.0662 (2011: $0.0603).

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
09/05/12	30/06/13	$0.005	$0.010	119.00%	0.00%	4.03%	$0.0015

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 2012 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) of the Corporations Act 2001.

On behalf of the directors

Mr Winton Willesee
Director

28 September 2012
Melbourne

Hayes Knight Audit
chartered accountants
your partners in success

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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 comprises the statement of financial position as at 30 June 2012, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

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

Auditor's Responsibility

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

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

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

Independence

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

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 2012 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 10 to 14 of the report of the directors for the year ended 30 June 2012. 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 2012 complies with s 300A of the *Corporations Act 2001*.

Hayes Knight Audit

Hayes Knight Audit Pty Ltd
Melbourne

G. S. Parker
Director

Dated this 28 day of SEPTEMBER 2012

Otis Energy Limited
Shareholder information
30 June 2012

The shareholder information set out below was applicable as at 25 September 2012.

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	450
1,001 to 5,000	66
5,001 to 10,000	111
10,001 to 100,000	751
100,001 and over	659
	2,037
Holding less than a marketable parcel	1,418

	Number of holders of options over ordinary shares (OTEOA)	Number of holders of options over ordinary shares (OTEO)
1 to 1,000	18	56
1,001 to 5,000	20	51
5,001 to 10,000	13	29
10,001 to 100,000	78	116
100,001 and over	148	116
	277	368
Holding less than a marketable parcel	173	268

Equity security holders

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

	Ordinary shares	
	Number held	**% of total shares issued**
Deck Chair Holdings Pty Ltd	96,730,007	8.38
Seaspin Pty Ltd	54,250,000	4.70
Scintilla Strategic Investments Ltd	35,000,000	3.03
Mrs Coral Harris and Mr Kerry Harris <The CE Harris Family A/C>	30,000,000	2.60
Mr David K Kennedy	20,000,000	1.73
Mr Daniel P Wise <Ark Investments Pty Ltd>	18,500,000	1.60
Berenes Nominees Pty Ltd <Berenes Super Fund A/C>	17,264,726	1.50
Mr Garry Collins	16,719,934	1.45
Lunair Pty Ltd	16,500,000	1.43
Flue Holdings Pty Ltd	16,274,618	1.41
Seivad Investments Pty Ltd	15,850,000	1.37
JP Morgan Nominees Australia Ltd	14,000,013	1.21
Flush Nominees Pty Ltd	13,800,000	1.20
Uob Kay Hian Private Limited <Client A/C>	13,520,000	1.17
G&N Lord Superannuation Pty Ltd <GNR Superannuation Fund A/C>	13,122,645	1.14
Spirotrade Pty Ltd	12,873,900	1.12
Daniel J Robinson	12,500,000	1.08
HSBC Custody Nominees (Australia) Limited	11,842,612	1.03
Harnbury Pty Ltd <Mark Harris Super Fund A/C>	11,500,000	1.00
Mr Jom Hamilton	11,100,000	0.96
	451,348,455	39.11

	Options over ordinary shares (OTEO)	
	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
Castle Bailey Pty Ltd <D & S Bailey Family A/C>	9,364,250	5.03
UOB Kay Hian Private Limited <Clients A/C>	8,675,000	4.66
Deck Chair Holdings Pty Ltd	7,864,368	4.23
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
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
William G Kroon	2,000,000	1.07
	126,078,276	67.76

Otis Energy Limited
Shareholder information
30 June 2012

	Options over ordinary shares (OTEOA)	
	Number held	% of total (spare) issued
Deck Chair Holdings Pty Ltd	61,962,027	8.58
Tranaj Nominees Pty Ltd <FT Family A/C>	50,000,000	6.92
Seaspin Pty Ltd	50,000,000	6.92
Scintilla Strategic Investments Ltd	40,000,000	5.54
Kea Holdings Pty Ltd <IOS Holding A/C>	35,000,000	4.85
Mr Daniel Paul Wise <Ark Investments A/C>	25,000,000	3.46
Flue Holdings Pty Ltd	25,000,000	3.46
Berenes Nominees Pty Ltd <Berenes Super Fund No 2 A/C>	17,264,726	2.39
Nustville Pty Ltd <Industrial Elec CO S/F>	16,000,000	2.22
Seivad Investments Pty Ltd	15,121,430	2.09
Mr Matthew Burford	13,648,222	1.89
Mikonos Investments Pty Ltd	13,200,000	1.83
Mahsor Holdings Pty Ltd <Rosham Family A/C>	13,144,287	1.82
Mr Garry Collins	11,400,000	1.58
Dyamond Developments Pty Ltd	10,947,988	1.52
Goffacan Pty Ltd	10,000,000	1.38
LBT Corp Pty Ltd	10,000,000	1.38
Cityside Investments Pty Ltd	10,000,000	1.38
Guina Nominees Pty Ltd <The Bypass Super Fund A/C>	10,000,000	1.38
Mr Lewis Hohn Dilkes	10,000,000	1.38
	447,688,680	61.97

Unquoted equity securities
There are no unquoted equity securities.

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.