Bluebird Energy Limited

Annual Report
and Financial Statements

2010

Bluebird Energy

Directors, Officers and Advisers

Directors

Andrew Yeo
Chief Executive Officer

David Bramhill
Executive Chairman

John Michaels
Non-Executive Director

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Bluebird Energy

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"The strategy for Bluebird remains straightforward; to exploit hydrocarbon business opportunities in the United States of America and Europe."

Chief Executive Officer's Statement

I am pleased to be able to report to the shareholders of Bluebird Energy Limited ("Bluebird" or "the Company") of progress being made in both operational and corporate aspects in this Annual Report and Financial Statements for the year ended 30 June 2010.

Probably of more importance are the corporate events of the first quarter of 2011 rather than the historical review of the past fiscal year.

At the General Meeting held on 4 February 2011, several resolutions were passed which included the change of name to Bluebird Energy Limited from Osceola Hydrocarbons Limited, to proceed with the re-registration as a public company, and the adoption of new articles of association appropriate for a company to be admitted to trading on the AIM market of the London Stock Exchange, a goal which the Company plans to achieve during Q2 of 2011.

In addition, via an oversubscribed Placing and Open Offer held during late January and early February 2011, the Company raised £1.5 million before expenses. This was the Company's first funding since October 2008.

While world markets have seen some catastrophic failures since October 2008, Bluebird, operating as a private company has kept its asset base relatively intact and brought into production a development project which has achieved a modest maiden contribution to cash flow. The aspirations of building a successful trading entity remain the same and we have the building blocks to achieve this.

WH Ireland Limited ("WHI") has been engaged as broker and advisers to the Company and we are working together to apply for admission to AIM in Q2 2011. On the proposed admission to AIM, WHI will become nominated advisers to Bluebird.

The Board of Directors of Bluebird has been restructured to comply with the Corporate Governance needs of a publicly quoted company.

I have been appointed as Chief Executive Officer. In addition, I have more than 20 years experience in multi-discipline corporate advisory and stockbroking activities within the AIM, small and mid-cap companies, including being a founder member of Evolution Securities where I acted as an executive director and Head of Research. I am also retained as a capital markets consultant by McCall, Aitken McKenzie & Co., a private equity advisory specialist in the international oil and gas sector.

John Michaels has been appointed as a non-executive director. John is a geologist with over 20 years experience in the hydrocarbon industry and brings excellent credentials, with a BA and MSc degrees in Petroleum Geology. He spent a number of years working for BP Exploration before moving into international consultancy and business development. John is also the principal of ShaleGas Resources Limited, a company focused on shale gas projects in Europe and is currently assisting Bluebird on an exclusive basis with its entry into this sector.

The Company intends to make a further non-executive appointment prior to the AIM admission.

“On 40 acre spacing there are some 300+ potential well sites within the Centurion acreage held.”

Going forward as a quoted Company, careful deliberation has been applied to our current asset base and its place within the Bluebird portfolio.

The strategy of the Company is to offer shareholders and potential investors a balanced and selective hydrocarbon investment opportunity with production, development and exploration potential within the US and in Europe where ShaleGas Resources Limited is working with us to source and manage new shale gas opportunities.

The upside potential for shale gas is well documented, especially in the US where several established shale gas projects such as the Marcellus, Woodford and Bakken, amongst others are in production. Bluebird holds interests in the Woodford shale via the Centurion project and the Marcellus in Pennsylvania.

Over the last 20 years new technologies such as fraccing and horizontal drilling have been introduced to hydrocarbon exploration to good effect and are catalysts for the current significant increase in shale gas exploration and production. What were once deemed commercially unviable shale prospects have now been transformed into major non-conventional production areas of the US.

Following some 20 years of shale gas development in the US, a land grab together with exploration is underway in Europe. ExxonMobil is active in Lower Saxony, ConocoPhillips in Poland, Austria’s OMV is exploring near Vienna and Shell is targeting Sweden. In addition the United Kingdom is seeing activity in this emerging sector.

There are several European countries lagging behind their neighbours in respect of shale gas exploration. Those areas which are considered to have comparable exploration upside to the regions highlighted above would include the Iberian Penninsula, Romania, Ireland and some parts of the United Kingdom. These regions will be targeted by Bluebird during the coming months.

The shale gas focus will complement the low risk onshore Centurion development project located in the US and our other project interests described below.

Centurion

The Centurion project, a conventional oil play, 50% owned by Bluebird is a production and development enterprise, located in Sumner County, Kansas, covering approximately 15,000 acres.

Three wells have been in production since 2009 and the average net cash flow to Bluebird is US$300,000 per year. Production from these wells is from the Mississippian “chat” reservoir from an average depth of 3,400 feet. The quality of oil gravity is very good with an average of 40 API. There is a ready market for our product, currently being sold to Plains Marketing LLC, one of the largest distributors in the US. In addition, a water disposal well is operational.

The bulk of acreage held comprises the prolific Sauzek oil field and at least 70 other previously abandoned production ventures from multiple Paleozoic reservoirs. Exploration within the area has been continuous since the 1920’s.

The primary targets remain in the “chat”, Mississippian carbonates and Ordovician Simpson sandstone reservoirs. A drilling programme is expected to commence in Q2 2011, the results of which are expected to increase production and extend the oilfield to the northeast and southwest. A seismic survey and further drilling is also planned post AIM flotation.

The geology in the project area is well understood. The Sedgwick Basin covers an area in excess of 8,000 square miles. The reservoirs are structurally controlled and typically demonstrate good to excellent porosity and permeability.

Each well is expected to cost US$250,000 net to Bluebird to completion and can be brought into production in weeks. On 40 acre spacing there are some 300+ potential well sites within the acreage held.

"The Solitaire project is drill ready and following geological studies and completion of re-interpretation of aeromagnetic data drill targets have been established."

Solitaire

The Solitaire project, 100% owned by Bluebird, is a pure exploration venture covering approximately 47,000 acres in Kit Carson County, southeastern Colorado. The project primarily targets the Cretaceous Niobrara play which is currently being exploited by several companies in the region. Further potential production zones include Lansing- Kansas City and Mississippian horizons.

The project area is on trend with several large producing gas fields operated by Berry Petroleum, Noble Drilling, Delta Petroleum and Rosewood Resources.

The Solitaire project is drill ready and, following geological studies and completion of re-interpretation of aeromagnetic data, drill targets have been established. A major gas pipeline with high take-away capacity runs through the centre of the acreage held.

The strategy in respect of Solitaire is to retain the project within the portfolio and actively seek partners to share drilling costs going forward.

Revloc

The Revloc project covers approximately 20,000 acres in Cambria County, Pennsylvania, the hydrocarbon prolific north eastern region of the Appalachian Basin, which has been producing coal seam gas since the 1930's. Bluebird holds a 50% interest in the project.

There is a significant gas market nearby on the US eastern Seaboard which would reduce transport and storage costs when developed.

Development work in 2007/2008 was encouraging with seven wells drilled to evaluate the separate coal horizons between 300 to 1,500 feet in the Palaezoic Carboniferous formations and determine gas content, which proved to be as high as 590 scf/ton. Since drilling, rights of way have been acquired to construct a pipeline to a main tap.

Although believed economic at current gas prices, the Board of Directors is presently undecided in respect of the best route to take in achieving the maximum value from the project. Discussions will take place with the other partners during the next few months to decide whether to develop as a full production facility or to dispose of via an industry sale.

Marcellus Shale

Bluebird holds a 78% interest in 4,817 acres in the highly regarded Marcellus shale acreage in the Appalachian Basin in Pennsylvania.

This project has evolved and expanded from the Revloc project where Devonian Marcellus shales were intersected during drilling for Coal Bed Methane.

The Marcellus shale is a middle Devonian, black, low density, carbonaceous shale that occurs below surface in large areas of Ohio, Virginia, Pennsylvania and New York. While the presence of natural gas is well documented, it was not until horizontal drilling and fraccing techniques were applied that the full potential of the Marcellus shale was understood, and subsequently exploited, resulting in an upgrade to "super giant" gas field status. Pennsylvania State University has suggested the potential of in excess of 4,300 TCF present in the formation.

Major participants in the Marcellus shale include Royal Dutch Shell, ExxonMobil and Statoil.

Strategically, Bluebird is reviewing the status of this potentially high value asset with development or industry sale possibilities.

Marion Trenton, Shogun and Twin Buttes

As mentioned earlier, careful deliberation has been given to every one of the assets within the current Bluebird portfolio and the merits of their inclusion going forward to the planned admission AIM.

The prudent decision to dispense and impair some early stage projects with potentially high ongoing development costs, namely Marion Trenton, Shogun and Twin Buttes has been made. This has led to an impairment of Intangible Assets of US$1,154,993, of land assets of US$193,756 and plant and machinery assets of US$49,924 being reflected in the Report and Accounts. Following this exercise the total assets of Bluebird are valued at US$21,942,295.

The Board is still reviewing Big Sky, with discussions with the operator ongoing in respect of drilling a horizontal well following recent favourable results by other companies exploring in the region.

"Bluebird holds a 78% interest in 4,817 acres in the highly regarded Marcellus shale acreage in the Appalachian Basin in Pennsylvania."

Investments

Wessex Exploration PLC

In October 2009 Bluebird disposed of its non US assets to Wessex Exploration PLC ("Wessex") for a consideration of 54,049,934 shares, which equates to an approximate 14% holding in that company. Wessex is currently a PLUS- market quoted company with a mid price of 4p at the time of writing. Wessex is expected to obtain admission to AIM during March 2011.

Wessex holds a 1.25% interest in the Guyane Maritime Exclusive Exploration Licence off-shore French Guiana. Partners in the licence are; Tullow, Shell, Total, Northern Petroleum and Wessex. Drilling on the Zaedyus prospect with P10 volumes estimated to be 700 million barrels is expected to commence in March 2011.

AltaWind Energy Inc

Bluebird holds an approximate 45% interest in AltaWind Energy Inc, a renewable energy company committed to the implementation of environmental energy solutions in the US.

As part of the ongoing review of operations the Company is in discussions with several companies in respect of either an industry sale or corporate activity which may lead to a joint venture with other parties.

Royalties

A royalty investment or interest gives the owner a fixed share of the revenue, after costs, from the sale of hydrocarbons from a property. Royalty interests provide an alternative method of investment in the energy sector and offer monthly income with an attractive risk-reward profile. Bluebird holds a 5.3% royalty interest in Cimarron Properties operated by Madison Capital Investment LLC. The rate of return in respect of this investment since 2008 has ranged from 5.0% to 19%.

The Future

The financial year ended 30 June 2010 has been one of consolidation and preparation for becoming a publicly quoted company on a recognised trading exchange. Since that financial period, several corporate changes and actions have been implemented within the Company in respect of our planned admission to AIM.

Bluebird has the advantage of having within its portfolio a development project already demonstrating its ability to provide cash flow. In addition, there are numerous projects with the potential to provide hydrocarbon production in due course.

The new focus on European shale gas will provide exploration excitement, as and when permits and licences are awarded.

The equity holding in Wessex also provides value to shareholders with upside potential.

I believe that the future of Bluebird remains bright and look forward to your continued support.

Andrew Yeo

Chief Executive Officer

9 March 2011

Report of the Directors

for the year ended 30 June 2010

The directors present their report together with the consolidated financial statements for the year ended 30 June 2010.

Principal Activities

Bluebird Energy Limited (formerly Osceola Hydrocarbons Limited) is a UK registered energy company, focused on the development of hydrocarbon projects in the US and Europe.

Financial Risk Management and Objectives

The Group uses various financial instruments including cash and items such as debtors and creditors that arise directly from its operations. The existence of these financial instruments exposes the Group to a number of financial risks, which are described in notes 19 and 20 of the consolidated financial statements.

Business Review

The financial period under review has seen significant activity with a view to building a Group with excellent projects which in the medium term can be translated into development, production and subsequent cash flow.

In the opinion of the directors, the Company has a solid corporate strategy which is straightforward: to exploit, primarily, hydrocarbons in the US and Europe.

Non-core international assets have been sold as indicated in the notes to the financial statements and the focus is to build upon and achieve our goals utilising our US assets.

The US Congress has stated its intent to reduce the country's dependence on imported oil and gas and encourage investment in the domestic energy sector.

There was a Group loss for the 12 month period amounting to US$2,016,428 (2009: US$1,223,438). The directors do not recommend the payment of a dividend (2009: US$nil).

On 4 February 2011 the Company changed its registered name from Osceola Hydrocarbons Limited to Bluebird Energy Limited.

Principal Risks and Uncertainties

Although the directors have extensive experience in the acquisition and development of assets similar to those held by the Company, as with all companies within the energy sector the business of oil and gas development involves varying degrees of risk. These risks include operating reliance in some cases on third parties, the ability to exploit discoveries, commercial, environmental and regulatory, economic, foreign exchange, competition, reliance on key personnel, joint venture party and contractor and judicial factors. The directors believe that they have mitigated the typical risks as far as reasonably practicable – by maintaining strong relationships with joint venture partners and project operators, implementing internal controls and continually reviewing and seeking to improve such controls as well as business processes and procedures.

Key Performance Indicators

The Group has made substantial progress during the year ended 30 June 2010, concentrating on its overriding objectives to build on its hydrocarbon assets and to advance the projects in its portfolio. In this respect drilling results and ongoing development have met with expectations.

The Key Performance Indicators have therefore been the ongoing acquisition of land mineral exploration rights, successful acquisition of oil production, and the ongoing development of the core projects.

Directors

The directors in office at the end of the year and their interests in the shares of the Company as at 1 July 2009 and 30 June 2010 were as shown in the table below.

	Ordinary Shares 30 June 2010	1 July 2009
D Bramhill	4,590,000	4,590,000
M Thomsen	1,643,750	1,643,750

	Share Options 30 June 2010	1 July 2009
D Bramhill	2,000,000	2,000,000
M Thomsen	1,500,000	1,500,000

Mr A Yeo was appointed as an executive director on 6 July 2010.

Mr J O'Farrell was appointed as a non-executive director on 25 November 2010 and resigned on 4 January 2011.

Mr J Michaels was appointed as a non-executive director on 03 January 2011.

Mr M Thomsen resigned on 4 January 2011.

Events after the Balance Sheet Date

The events after the balance sheet date that have arisen since 30 June 2010 are described in note 29 to these financial statements.

Payment Policy and Practice

It is the Group's policy to pay suppliers on the terms agreed with them. Average creditor days during the year were 21 (2009:14).

Auditors

A resolution to reappoint Nexia Smith & Williamson will be proposed at the next annual general meeting.

Disclosure of Information to the Auditors

The directors at the date of approval of this Annual Report individually confirm that:

- so far as the director is aware, there is no relevant audit information of which the Group's auditors are unaware; and
- the director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the Group's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

Company Name and Registration Number

The registered number of Bluebird Energy Limited is 03606195.

On behalf of the Board

Andrew Yeo

Chief Executive Officer

9 March 2011

Statement of Directors' Responsibilities

The directors are responsible for preparing the Report of the Directors and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the consolidated financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the Parent Company Financial Statements, as applied in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Reporting Standards and applicable law) and with the provisions of the Companies Act 2006.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the Group and of the profit or loss of the Group for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state that the consolidated financial statements comply with IFRSs as adopted by the European Union;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the Parent Company Financial Statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company and Group will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's and the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements comply with the Companies Act 2006.

They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Independent Auditors' Report

to the Members of Bluebird Energy Limited (formerly Osceola Hydrocarbons Limited) for the year ended 30 June 2010

We have audited the financial statements of Bluebird Energy Limited ('the Company') for the year ended 30 June 2010 which comprise the Principal Accounting Policies, the Consolidated Income Statement, Consolidated Statement of Comprehensive Income, Consolidated Balance Sheet, Consolidated Statement of Changes in Equity, Consolidated Cash Flow Statement and the related notes 1 to 29. The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective Responsibilities of Directors and Auditors

As explained more fully in the Statement of Directors' Responsibilities set out on page 10, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the Audit of the Financial Statements

A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/UKNP.

Opinion on Financial Statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's affairs as at 30 June 2010 and of the Group's loss for the year then ended;
- the consolidated financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- the consolidated financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on Other Matters Prescribed by the Companies Act 2006

In our opinion the information given in the Report of the Directors for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on Which we are Required to Report by Exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Other Matters

We have reported separately on the Parent Company financial statements of Bluebird Energy Limited for the year ended 30 June 2010.

Natasha Lee

Senior Statutory Auditor,
for and on behalf of

Nexia Smith & Williamson

Nexia Smith & Williamson

Statutory Auditor
Chartered Accountants
25 Moorgate
London
EC2R 6AY

9 March 2011

Basis of Preparation

The annual consolidated financial statements of Bluebird Energy Limited ("the Group") have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU") applied in accordance with the provisions of the Companies Act 2006.

IFRS is subject to amendment and interpretation by the International Accounting Standards Board ("IASB") and the IFRS Interpretations Committee and there is an ongoing process of review and endorsement by the European Commission. These accounting policies comply with each IFRS that is mandatory for accounting periods ending on 30 June 2010.

The financial statements have been prepared under the historical cost convention as modified by the revaluation of available-for-sale investments which are carried at fair value. The principal accounting policies set out below have been consistently applied to all periods presented.

Basis of Consolidation

The consolidated financial statements incorporate the results of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

These financial statements consolidate the results and Balance Sheet of the Company and its wholly owned subsidiaries using the acquisition method of accounting.

Entities whose economic activities are controlled jointly by the Group and by other ventures independent of the Group are accounted for using proportionate consolidation.

Intra-Group transactions with subsidiaries are eliminated on consolidation. Transactions, balances, income and expenses with Jointly Controlled Operations are eliminated to the extent of the Group's interest in these entities.

Jointly Controlled Operations

The Group participates in several Jointly Controlled Operations (unincorporated Joint Ventures) which involve the joint control of assets used in the Group's oil and gas exploration and producing activities. The Group accounts for its share of assets, liabilities, income and expenditure of Jointly Controlled Operations in which it holds an interest, classified in the appropriate Balance Sheet and Income Statement headings.

A list of the Group's interests in unincorporated Jointly Controlled Operations is given in note 10.

Investments in Associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the Consolidated Balance Sheet at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associate, less any impairment in the value of individual investments.

Losses of an associate in excess of the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate) are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

Where a Group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

Revenue Recognition

Revenue comprises net invoice sales. Sales of hydrocarbons are recognised when the significant risks and rewards of ownership are transferred to the buyer.

Royalty interests are recognised on an accruals basis, in accordance with the substance of the relevant agreement.

Finance Income

Interest is recognised using the effective interest method which calculates the amortised cost of a financial asset and allocates the interest income over the relevant period. The effective interest rate 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.

Cash and Cash Equivalents

Cash and cash equivalents comprise cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less.

Financial Instruments

Financial assets and financial liabilities are recognised on the Balance Sheet when the Group becomes a party to the contractual provisions of the instrument.

Trade and other receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest method. A provision is established when there is objective evidence that the Group will not be able to collect all amounts due. The amount of any provision is recognised in the Consolidated Income Statement.

Trade and other payables are initially measured at fair value, and are subsequently measured at amortised cost using the effective interest rate method.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Investments are classified as 'available-for-sale'. They are initially recognised at fair value and are measured at subsequent reporting dates at fair value; the gains and losses arising from changes in fair value are included in other comprehensive income.

On disposal the cumulative gain or loss previously recognised in other comprehensive income is included in the Consolidated Income Statement for the period. If an available-for-sale investment is determined to be impaired, the cumulative loss previously recognised in other comprehensive income is included in the Consolidated Income Statement for the period.

Foreign Currency

The presentational currency for the Group's consolidated financial statements is United States Dollars and it is this currency in which the Group reports. Foreign currency transactions by Group companies are recorded in their functional currencies at the exchange rate at the date of the transaction. Monetary assets and liabilities have been translated at rates in effect at the balance sheet date, with any exchange adjustments being charged or credited to the Income Statement.

The Parent Company's functional currency is Sterling. On consolidation the assets and liabilities of the Parent Company are translated into the Group's presentational currency at the exchange rate at the balance sheet date and the income and expenditure items are translated at the average rate for the period. The exchange difference arising on the translation from functional currency to presentational currency of the Parent Company is classified as other comprehensive income and is accumulated within equity as a translation reserve.

For the purpose of foreign currency translation, the net investment in a subsidiary is determined inclusive of foreign currency intercompany balances for which settlement is neither planned nor likely to occur in the foreseeable future. The balance of the foreign currency translation reserve relating to a subsidiary that is disposed of, or partially disposed of, is recognised in the Income Statement at the time of disposal.

The exchange rate applied at the balance sheet date was US$1.5011 per £1 Sterling (2009: US$1.6516).

Share-Based Payments

Where share options have been granted to directors, employees and suppliers, IFRS 2 has been applied, whereby the fair value of the options is measured at the grant date and spread over the period during which the employees become entitled to the options. An options valuation model is used to assess the fair value, taking into account the terms and conditions attached to the options. The fair value of goods and services received are measured by reference to the fair value of options.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ('the vesting date').

The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest.

The Income Statement charge or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance and/or service conditions are satisfied. Where the terms of an equity-settled award are modified, the minimum expense recognised is the expense as if the terms had not been modified. An additional expense is recognised for any modification, which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

Where an equity-settled award is forfeited, the cumulative charge expensed up to the date of forfeiture is credited to the Income Statement.

Exploration Costs

The Group follows a successful efforts based accounting policy for oil and gas assets.

Costs (including research costs) incurred prior to obtaining the legal rights to explore an area are expensed immediately to the Income Statement.

Expenditure incurred on the acquisition of a licence interest is initially capitalised on a licence by licence basis. Costs are held, un-depleted, within exploration costs until such a time as the exploration phase on the licence area is complete or commercial reserves have been discovered.

Exploration expenditure incurred in the process of determining exploration targets is capitalised initially within intangible assets as exploration costs. Exploration costs are initially capitalised on a well by well basis until the success or otherwise has been established. The success or failure of each exploration/evaluation effort is judged on a well by well basis. Drilling costs are written off on completion of a well unless the results indicate that hydrocarbon reserves exist and there is reasonable prospect that these reserves are commercially viable.

All such costs are subject to regular technical, commercial and management review on at least an annual basis to confirm the continued intent to develop or otherwise extract value from the discovery. Where this is no longer the case, the costs are immediately expensed.

Following evaluation of successful exploration wells, if commercial reserves are established and the technical feasibility of extraction demonstrated, and once a project is sanctioned for commercial development, then the related capitalised exploration/evaluation costs are transferred into a single field cost centre within development/producing assets after testing for impairment within Property, Plant & Equipment. Where results of exploration drilling indicate the presence of hydrocarbons which are ultimately not considered commercially viable, all related costs are written off to the Income Statement.

All costs incurred after the technical feasibility and commercial viability of producing hydrocarbons has been demonstrated are capitalised within development/producing assets on a field by field basis. Subsequent expenditure is capitalised only where it either enhances the economic benefits of the development/producing asset or replaces part of the existing development/producing asset. Any costs remaining associated with the part replaced are expensed.

Net proceeds from any disposal of an exploration asset are initially credited against the previously capitalised costs. Any surplus proceeds are credited to the Income Statement.

Revenue earned on test production prior to establishing the technical feasibility and commercial viability of the project is credited to the Income Statement.

No clean-up costs have been included within the exploration costs nor within liabilities as the directors do not consider these costs will be material at the end of each project's life.

Other Intangible Assets

The royalty interests that are deemed to have an indefinite life are not amortised but are reviewed annually for impairment.

Property, Plant and Equipment

Property, plant and equipment is stated at historical cost less depreciation less any recognised impairment losses. Cost includes expenditure that is directly attributable to the acquisition or construction of these items. Subsequent costs are included in the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Group and the costs can be measured reliably. All other costs, including repairs and maintenance costs, are charged to the Income Statement in the period in which they are incurred.

Depreciation is provided on all property, plant and equipment and is calculated on a straight-line basis as follows:

Plant and equipment	5%
Leasehold land	10%

Depreciation is provided on cost less residual value. The residual value, depreciation methods and useful lives are annually reassessed.

Each asset's estimated useful life has been assessed with regard to both its own physical life limitations and the present assessment of economically recoverable reserves of the property at which the item is located, and to possible future variations in those assessments. Estimates of remaining useful lives are made on a regular basis for all mine buildings, machinery and equipment, with annual reassessments for major items. Changes in estimates which affect unit production calculation are accounted for prospectively.

Where property, plant and equipment has been acquired for the purposes of exploration, and technical feasibility of the project has yet to be established, the depreciation on the property, plant and equipment is added back to the cost of the intangible assets within exploration costs.

The gain or loss arising on disposal or scrapping of an asset is determined as the difference between the sales proceeds, net of selling costs, and the carrying amount of the asset and is recognised in the Income Statement.

Impairment of Assets Other than Intangible Assets with an Indefinite Life

At each balance sheet date, the directors review the carrying amounts of the Group's tangible and intangible assets, other than intangible assets with an indefinite life, to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior periods. A reversal of an impairment loss is recognised in the Income Statement immediately.

Non-Current Assets Held For Sale

Non-current assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

Current Taxation

Current tax for each taxable entity in the Group is based on the local taxable income at the local statutory tax rate enacted or substantively enacted at the balance sheet date and includes adjustments to tax payable or recoverable in respect of previous periods.

Deferred Taxation

Deferred taxation is calculated using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, if the deferred tax arises from the initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not recognised. Deferred tax is determined using tax rates and laws that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax liabilities are provided in full.

Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised.

Changes in deferred tax assets or liabilities are recognised as a component of tax expense in the Income Statement, except where they relate to items that are charged or credited directly to equity in which case the related deferred tax is also charged or credited directly to equity.

Employment Benefits

Provision is made in the financial statements for all employee benefits. Liabilities for wages and salaries, including non-monetary benefits and annual leave obliged to be settled within 12 months of the balance sheet date, are recognised in accruals.

Equity

Equity comprises the following:

- "Share capital" represents amounts subscribed for shares at nominal value.
- "Share premium" represents amounts subscribed for share capital, net of issue costs, in excess of nominal value.
- "Share-based payment reserve" represents the accumulated amounts credited to equity in respect of options to acquire ordinary shares in the Company.
- "Retained earnings" represents the accumulated profits and losses attributable to equity shareholders.
- "Foreign exchange translation reserve" represents the exchange differences arising from the translation of the financial statements of the Parent Company into the Group's presentational currency and the translation at the closing rate of the net investment in the subsidiaries.

International Financial Reporting Standards in Issue but not yet Effective

At the date of authorisation of these consolidated financial statements, the IASB and IFRS Interpretations Committee have issued standards, interpretations and amendments which are applicable to the Group. Whilst these standards and interpretations are not effective for, and have not been applied in the preparation of, these consolidated financial statements; the following may have a material impact going forward.

New/Revised International Financial Reporting Standards		Effective Date: Annual periods beginning on or after:	EU adopted	Impact on Bluebird Energy Limited
IFRS 9	Financial Instruments: Classification and Measurement	1 January 2013	No	Classification and measurement of financial instruments
IAS 24	Revised IAS 24 Related Party Disclosures	1 January 2011	Yes	Disclosure only

International Financial Reporting Standards adopted during the year

During the year, the following standards which impacted the financial statements were adopted by the Company:

New International Financial Reporting Standards		Impact on Bluebird Energy Limited
IAS 1 (revised)	Presentation of Financial Statements	The main changes relate to the presentation of owner changes in equity and of comprehensive income: • Owner changes in equity are presented in a Statement of Changes in Equity; and • All non-owner changes in equity (ie the components of comprehensive income) are presented in two separate statements – a separate Income Statement, and a separate Statement of Comprehensive Income.
IFRS 8	Operating Segments	IFRS 8 replaces IAS 14 Segment Reporting, and requires management to define the Company's operating segments in accordance with how its operations are managed in practice. IFRS 8 also sets out requirements for related disclosures about products and services, geographical areas and major customers. As Bluebird Energy has only one operating segment, there is minimal impact as a result of adoption of this standard.

Critical Accounting Judgments and Key Sources of Estimation Uncertainty

The preparation of financial statements in conformity with generally accepted accounting practice requires management to make estimates and judgments that affect the reported amounts of assets and liabilities as well as the disclosure of contingent assets and liabilities at the balance sheet date and the reported amounts of revenues and expenses during the reporting period.

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Reserve Estimates

Reserves are estimates of the amount of product that can be economically and legally extracted from the Group's properties. In order to calculate the reserves, estimates and assumptions are required about a range of geological, technical and economic factors, including quantities, production techniques, recovery rates, production costs, transport costs, commodity demand, commodity prices and exchange rates.

Estimating the quantity and/or grade of reserves requires the size, shape and depth of fields to be determined by analysing geological data such as drilling samples. This process may require complex and difficult geological judgements and calculations to interpret the data.

Given the economic assumptions used to estimate reserves change from period to period, and because additional geological data is generated during the course of operations, estimates of reserves may change from period to period. Changes in reported reserves may affect the Group's financial results and financial position in a number of ways, including the following:

- Asset carrying values may be affected by possible impairment due to adverse changes in estimated future cash flows.
- Depreciation, depletion and amortisation charged in the Income Statement may change where such charges are determined by the units of production basis, or where the useful economic lives of assets change.

Exploration and Evaluation Costs

The Group's accounting policy leads to the development of tangible and intangible fixed assets, where it is considered likely that the amount will be recoverable by future exploitation or sale or alternatively where the activities have not reached a stage which permits a reasonable assessment of the existence of reserves. This requires management to make estimates and assumptions as to the future events and circumstances, especially in relation to whether an economically viable extraction operation can be established. Such estimates are subject to change and following initial capitalisation, should it become apparent that recovery of the expenditure is unlikely, the relevant capitalised amount will be written off to the Income Statement.

Impairment of Property, Plant and Equipment

Management reviews property, plant and equipment at each balance sheet date to determine whether there are any indications of impairment. If any such indication exists, an estimate of the recoverable amount is performed, and an impairment loss is recognised to the extent that the carrying amount exceeds recoverable amount.

Consolidated Income Statement

for the year ended 30 June 2010

	Notes	**2010 US$**	2009 US$
Continuing operations:			
Revenue		324,643	–
Gross profit		324,643	–
Administrative expenses including impairments		(2,384,187)	(1,106,220)
Operating loss	2	(2,059,544)	(1,106,220)
Finance income	4	9,927	237,159
Loss before taxation		(2,049,617)	(869,061)
Taxation	5	(8,042)	–
Share of losses of associates	11	(157,791)	(354,377)
Loss for the financial year from continuing operations		(2,215,450)	(1,223,438)
Discontinued operations:			
Profit for the financial year from discontinued operations	6	199,022	–
Loss for the financial year		(2,016,428)	(1,223,438)
Attributable to:			
Equity shareholders of the Company		(2,016,428)	(1,223,438)
Loss per share from continuing and discontinued operations			
Basic and diluted loss per share (US cents)	7	(0.84)	(0.54)
Loss per share from continuing operations			
Basic and diluted loss per share (US cents)	7	(0.92)	(0.54)

The accompanying accounting policies and notes form an integral part of these financial statements.

Consolidated Statement of Comprehensive Income

for the year ended 30 June 2010

	2010 US$	2009 US$
Loss for the financial year	(2,016,428)	(1,223,438)
Other comprehensive income		
Fair value gain on available-for-sale financial assets	251,965	678,250
Tax on gain on available-for-sale financial assets	(80,042)	(207,086)
Foreign exchange losses on consolidation	(241,204)	(2,359,037)
Other comprehensive income for the financial year net of tax	**(69,281)**	**(1,887,873)**
Total comprehensive income for the financial year	**(2,085,709)**	**(3,111,311)**

The accompanying accounting policies and notes form an integral part of these financial statements.

Consolidated Balance Sheet

as at 30 June 2010

	Notes	**2010 US$**	2009 US$
Assets			
Non-current assets			
Property, plant and equipment	8	6,179,007	6,418,343
Intangible assets	9	12,404,914	10,983,087
Investments in associates	11	–	145,623
Available-for-sale financial assets	12	2,565,480	1,609,303
		21,149,401	19,156,356
Current assets			
Non-current assets held for sale	13	–	464,319
Trade and other receivables	14	91,713	13,763
Cash and cash equivalents	16	701,181	4,282,498
		792,894	4,760,580
Total assets		21,942,295	23,916,936
Equity and liabilities			
Capital and reserves attributable to the Company's equity shareholders			
Share capital	17	1,175,438	1,175,438
Share premium account		26,247,549	26,247,549
Foreign exchange translation reserve		(2,816,563)	(2,575,359)
Retained earnings		(3,268,197)	(1,423,692)
Share-based payment reserve		174,909	107,848
Total equity		21,513,136	23,531,784
Current liabilities			
Trade and other payables	23	129,861	178,066
Non-current liabilities			
Deferred tax	5	287,129	207,086
Provision for associate losses	11	12,169	–
Total liabilities		429,159	385,152
Total equity and liabilities		21,942,295	23,916,936

The financial statements were approved by the Board of Directors on 9 March 2011 and were signed on its behalf by:

Andrew Yeo,
Director

The accompanying accounting policies and notes form an integral part of these financial statements.

Consolidated Statement of Changes in Equity

for the year ended 30 June 2010

	Share capital US$	Share premium account US$	Foreign exchange translation reserve US$	Retained earnings US$	Share-based payment reserve US$	Total US$
Balance at 1 July 2009	1,175,438	26,247,549	(2,575,359)	(1,423,692)	107,848	23,531,784
For the year ended 30 June 2010						
Loss for the year	–	–	–	(2,016,428)	–	(2,016,428)
Other comprehensive income:						
Fair value gain on available-for-sale financial assets	–	–	–	251,965	–	251,965
Tax on gain on available-for-sale financial assets	–	–	–	(80,042)	–	(80,042)
Foreign exchange losses on consolidation	–	–	(241,204)	–	–	(241,204)
Total comprehensive income	–	–	(241,204)	(1,844,505)	–	(2,085,709)
Share-based payments	–	–	–	–	67,061	67,061
Balance at 30 June 2010	**1,175,438**	**26,247,549**	**(2,816,563)**	**(3,268,197)**	**174,909**	**21,513,136**
Balance at 1 July 2008	820,515	9,841,268	(216,322)	(671,418)	38,658	9,812,701
For the year ended 30 June 2009						
Loss for the year	–	–	–	(1,223,438)	–	(1,223,438)
Other comprehensive income:						
Fair value gain on available-for-sale financial assets	–	–		678,250	–	678,250
Tax on gain on available-for-sale financial assets	–	–	–	(207,086)	–	(207,086)
Foreign exchange losses on consolidation	–	–	(2,359,037)	–	–	(2,359,037)
Total comprehensive income	–	–	(2,359,037)	471,164	–	(1,887,873)
Share-based payments	–	–	–	–	69,190	69,190
Issue of share capital	354,923	16,681,386	–	–	–	17,036,309
Issue costs	–	(275,105)	–	–	–	(275,105)
Balance at 30 June 2009	**1,175,438**	**26,247,549**	**(2,575,359)**	**(1,423,692)**	**107,848**	**23,531,784**

The accompanying accounting policies and notes form an integral part of these financial statements.

Consolidated Cash Flow Statement

for the year ended 30 June 2010

	Notes	**2010 US$**	2009 US$
Cash flow from operating activities	28	(774,659)	(1,883,898)
Cash flow from investing activities			
Purchase of intangible assets		(2,024,197)	(7,042,000)
Purchase of property, plant and equipment		(610,413)	(6,274,429)
Purchase of available-for-sale investments		–	(908,449)
Investments in associates	11	–	(500,000)
Interest received		9,927	237,159
Net cash used in investing activities		(2,624,683)	(14,487,719)
Cash flow from financing activities			
Proceeds on issue of new shares		–	17,036,309
Expenses of new share issue		–	(275,105)
Net cash generated from financing activities		–	16,761,204
Net (decrease) / increase in cash and cash equivalents		(3,399,342)	389,587
Cash and cash equivalents at beginning of financial year		4,282,498	5,878,072
Effects of exchange rate changes		(181,975)	(1,985,161)
Cash and cash equivalents at end of financial year	16	701,181	4,282,498

The accompanying accounting policies and notes form an integral part of these financial statements.

Notes to the Consolidated Financial Statements

for the year ended 30 June 2010

1 Segmental Reporting

Operating segments

The Group has only one operating segment: the production of, exploration for and investment in hydrocarbons in one geographical area, the United States of America.

The Group has one main customer, representing 100% of the sales revenue.

2 Operating Loss

	2010 US$	2009 US$
Operating loss is stated after charging:		
Fees payable to the Company's auditor for the audit of the annual statements	24,530	34,635
Fees payable to the Company's auditor and its associates for other services:		
Other services relating to taxation	6,330	6,444
Impairment of intangible assets	1,154,993	–
Impairment of land assets	193,756	–
Impairment of plant and machinery assets	49,924	–
Research costs	1,483	248,409
Equity settled share-based payments	67,061	69,190

3 Directors and Employees

The aggregate payroll costs of the employees, which are the Executive Directors, were as follows:

	2010 US$	2009 US$
Staff costs		
Wages and salaries	406,770	272,675
Social security costs	24,164	29,022
	430,934	301,697
Equity settled share-based payments	29,406	18,549
	460,340	320,246

Average monthly number of persons employed by the Group (all of whom are management) during the year were:

	2010 Number	2009 Number
United Kingdom	1	1
United States	1	1
	2	2

4 Finance Income

	2010 US$	2009 US$
Bank interest	9,927	237,159

5 Taxation

There was a small current tax charge of US$8,042 paid by a US subsidiary in the year, but no other current tax charge for the year due to the loss incurred (2009: US$nil).

A deferred tax charge of US$80,042 arising on gains on available-for-sale financial assets was recognised in equity during the year (2009: US$207,086).

Reconciliation of the effective tax rate

	2010 US$	2009 US$
Loss before taxation	(2,016,428)	(1,223,438)
Loss before tax multiplied by standard rate of corporation tax in the UK of 28% (2009: 28%)	(564,600)	(342,563)
Tax effects of:		
Other expenses not deductible for tax purposes	63,978	120,955
Tax losses not utilised within the year	508,664	221,608
Tax expense and effective tax rate	8,042	–

The amount of unutilised trading losses are as follows:

	2010 US$	2009 US$
Unutilised trading losses	923,942	415,278
Tax relief on share-based payments	320,928	228,153

A deferred tax asset in respect of trading losses has not been recognised due to the uncertainty over timing of future profits. The trading losses are recoverable against suitable future trading profits.

Deferred tax liabilities arising as a result of the gains on available-for-sale financial assets are recognised in the Balance Sheet as follows:

	2010 US$	2009 US$
Deferred tax liabilities	287,129	207,086

6 Discontinued Operations

On 29 October 2009, Bluebird Energy Limited disposed of its non-US projects portfolio to Wessex Exploration PLC for consideration of cost + 10%.

Details of the assets and liabilities disposed of are disclosed in note 15.

Analysis of profit for the year from discontinued operations

	2010 US$	2009 US$
Profit before tax	–	–
Gain on disposal of non-US project interests (see note 15)	199,022	–
Profit for the year from discontinued operations	199,022	–

Cash flows from discontinued operations

	2010 US$	2009 US$
Net cash flows from investing activities	–	–
Net cash flows	–	–

7 Loss Per Share

Basic loss per share is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year.

Given the Group's reported loss for the year, share options are not taken into account when determining the weighted average number of ordinary shares in issue during the year and therefore the basic and diluted earnings per share are the same.

Basic loss per share

	2010 US Cents	2009 US Cents
Loss per share from continuing operations	(0.92)	(0.54)
Earnings per share from discontinued operations	0.08	–
Total basic loss per share	(0.84)	(0.54)

The earnings and weighted average number of ordinary shares used in the calculation of basic earnings per share are as follows:

	2010 US$	2009 US$
Earnings used in the calculation of total basic and diluted earnings per share	(2,016,428)	(1,223,438)
Profit for the year from discontinued operations used in the calculation of basic and diluted earnings per share from discontinued operations	199,022	–
Earnings used in the calculation of basic earnings per share from continuing operations	(2,215,450)	(1,223,438)

	2010	2009
Number of shares		
Weighted average number of ordinary shares for the purposes of basic earnings per share	240,486,724	225,882,858
If the Company's share options were taken into consideration in respect of the Company's weighted average number of ordinary shares for the purposes of diluted earnings per share, it would be as follows:		
Number of shares		
Weighted average number of ordinary shares for the purposes of diluted earnings per share	250,686,724	236,082,858

8 Property, Plant and Equipment

	Leasehold land US$	Plant and equipment US$	Total US$
Cost			
At 1 July 2008	453,552	79,300	532,852
Additions	5,423,343	862,287	6,285,630
At 30 June 2009	5,876,895	941,587	6,818,482
Additions	446,457	181,506	627,963
At 30 June 2010	6,323,352	1,123,093	7,446,445
Accumulated depreciation and impairment			
At 1 July 2008	3,641	992	4,633
Charge	386,106	9,400	395,506
At 30 June 2009	389,747	10,392	400,139
Charge	568,834	54,785	623,619
Impairment	193,756	49,924	243,680
At 30 June 2010	1,152,337	115,101	1,267,438
Net book value			
At 30 June 2010	5,171,015	1,007,992	6,179,007
At 30 June 2009	5,487,148	931,195	6,418,343

Subsequent to a decision made after the balance sheet date to discontinue operations at the Marion Trenton and Twin Buttes projects, these assets have been fully impaired at the balance sheet date.

9 Intangible Assets

	Exploration costs US$	Royalty interests US$	Total US$
Cost			
At 1 July 2008	3,995,928	–	3,995,928
Additions	7,419,223	100,000	7,519,223
Transfers to assets held for sale	(464,319)	–	(464,319)
Foreign exchange variance	(67,745)	–	(67,745)
At 30 June 2009	10,883,087	100,000	10,983,087
Additions	2,676,918	–	2,676,918
Disposals	(276,559)	–	(276,559)
Foreign exchange variance	260	–	260
At 30 June 2010	13,283,706	100,000	13,383,706
Amortisation and impairment			
At 1 July 2008	–	–	–
Charge	–	–	–
At 30 June 2009	–	–	–
Charge	–	–	–
Impairment	1,154,993	–	1,154,993
Disposals	(176,201)	–	(176,201)
At 30 June 2010	978,792	–	978,792
Net book value			
At 30 June 2010	12,304,914	100,000	12,404,914
At 30 June 2009	10,883,087	100,000	10,983,087

Management review each exploration project for indication of impairment at each balance sheet date. Such indications would include written off wells and relinquishment of development acreage. At the balance sheet date there were no indications of impairment on any of the projects.

During the year, the group acquired and subsequently impaired and then disposed of the Wolf Creek project.

Subsequent to a decision made after the balance sheet date to discontinue operations at the Marion Trenton and the Twin Buttes projects, these assets have been fully impaired at the balance sheet date.

10 Investment in Jointly Controlled Operations

The Group has entered into the following unincorporated Jointly Controlled Operations, which are proportionally consolidated within the Group's financial statements:

Name of project	Principal activities	Group interest
Centurion	Oil and gas development	50%
Revloc	Oil and gas development	50%
Big Sky	Oil and gas development	50%
Twin Buttes	Oil and gas development	50%
Shogun	Oil and gas development	50%
Marion Trenton	Oil and gas development	28%

At the balance sheet dates there were no contingent liabilities or contingent assets in respect of any of the Jointly Controlled Operations.

At the balance sheet dates there were no capital commitments in respect of any of the Jointly Controlled Operations.

11 Investment in Associates

During the prior year the Group entered into a 45% investment in a start-up wind energy company, AltaWind Energy Inc, which is incorporated in the US. This has been included within the Group's financial statements using equity accounting.

Summarised financial information in respect of the Group's associate is set out below:

	2010 US$	2009 US$
Total assets	12,958	326,090
Total liabilities	(40,000)	(2,484)
Net (liabilities)/assets	(27,042)	323,606
Group's share of net (liabilities)/assets of associate	(12,169)	145,623

	2010 US$	2009 US$
Total loss for the period	(350,647)	(787,505)
Group's share of losses of associate	(157,791)	(354,377)

There are no contingent liabilities.

12 Available-for-Sale Financial Assets

	2010 US$	2009 US$
Available-for-sale financial assets	2,565,480	1,609,303

The available-for-sale financial assets consist of listed investments and the fair value is based on bid quoted market prices at the balance sheet date.

The following table shows the aggregate movement in the Group's financial assets during the year:

	2010 US$	2009 US$
At beginning of the year	1,609,303	–
Additions	759,172	908,449
Foreign exchange differences	(54,960)	22,604
Revaluation through equity	251,965	678,250
At end of the year	2,565,480	1,609,303

13 Non-Current Assets Held For Sale

	2010 US$	2009 US$
Exploration assets held for sale	–	464,319

14 Trade and Other Receivables

	2010 US$	2009 US$
Trade receivables	51,713	–
Amounts due from associate undertaking	40,000	–
Prepayments and accrued income	–	13,763
	91,713	13,763

The directors consider the carrying value of trade and other receivables are approximate to their fair value.

All of the Group's receivables have been reviewed for indications of impairment. None of the receivables were found to be impaired as at 30 June 2010 (2009: US$nil).

No unimpaired receivables are past due as at the reporting date (2009: US$nil).

15 Disposal of Business Interests

The Group disposed of its non-US exploration project investments to Wessex Exploration PLC on 29 October 2009. The investments disposed consisted of the following:

PEDL 238	Oil and gas development	50%
PEDL 239	Oil and gas development	25%
PEDL 089(B) and UKCS (Offshore) P1153	Oil and gas development	5%
SADR Bojador Block	Oil and gas development	40%
SADR Guelta Block	Oil and gas development	40%

Book value of net assets sold

	2010 US$	2009 US$
Non-current assets:		
Intangible assets	560,150	–
Net assets disposed	560,150	–
Consultancy fees expensed in prior period	130,006	–
Gain on disposal (10% of costs)	69,016	–
	759,172	–

Consideration and net cash inflow on disposal

	2010 US$	2009 US$
Consideration received in shares	759,172	–

16 Cash and Cash Equivalents

	2010 US$	2009 US$
Cash at bank (GBP)	473,123	3,967,687
Cash at bank (USD)	228,058	314,811
	701,181	4,282,498

17 a) Share Capital

	2010 £	2009 £
Authorised		
500,000,000 shares of 0.25 pence	1,250,000	1,250,000

	US$	US$
Allotted, issued and fully paid		
240,486,724 shares (2009: 240,486,724 shares) of 0.25 pence	1,175,438	1,175,438

Allotments during the year
During the year ended 30 June 2010 the Company did not issue any shares.

During 2009 the Company issued a total of 78,829,974 ordinary shares for a premium, net of issue costs, of US$16,406,281.

17 b) Share-Based Payments – Options

The Company has a share option scheme for all directors and senior management. Options are exercisable at a price equal to the average market price of the Company's shares on the date of grant. The vesting period is three years. The options are settled in equity once exercised.

If the options remain unexercised after a period of 10 years from the date of grant, the options expire. Options are forfeited if the employee leaves the Company before the options vest.

Details of the number of share options and the weighted average exercise price (WAEP) outstanding during the year are as follows:

	2010	
	Number of options	WAEP £
Outstanding at the beginning of the year	8,700,000	0.03
Outstanding at the year end	8,700,000	0.03
Number of options exercisable at 30 June 2010	3,200,000	0.01

	2009	
	Number of options	WAEP £
Outstanding at the beginning of the year	10,200,000	0.03
Forfeited during the year	(1,500,000)	0.03
Outstanding at the year end	8,700,000	0.03
Number of options exercisable at 30 June 2009	–	–

17 b) Share-Based Payments – Options (continued)

The fair values were calculated using the binomial pricing model. The inputs into the model are as follows:

Date of grant	5 May 2007	20 February 2008
Number granted	3,200,000	7,000,000
Share price at date of grant	0.25p	4p
Exercise price	1p	4p
Expected volatility	51%	51%
Expected life	3 years	3 years
Risk free rate	5.00%	4.70%
Expected dividend yield	0%	0%
Fair value of options granted at date of grant	0.08p	2.20p
Exit rate	0%	0%
Earliest vesting date	5 May 2010	20 February 2011
Expiry date	5 May 2017	20 February 2018

Expected volatility was determined based on the historic volatility of four comparator companies as suggested by management. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

The Group recognised total expenses of US$67,061 (2009: US$69,190) related to equity-settled share-based payment transactions during the year.

18 Financial Instruments

Classification of financial instruments

The tables below set out the Group's accounting classification of each class of its financial assets and liabilities.

Financial assets

At 30 June 2010	Available-for-sale US$	Loans and other receivables US$	Total carrying value US$
Available-for-sale financial assets	2,565,480	–	2,565,480
Trade receivables	–	51,713	51,713
Cash and cash equivalents	–	701,181	701,181
	2,565,480	752,894	3,318,374

At 30 June 2009	Available-for-sale US$	Loans and other receivables US$	Total carrying value US$
Available-for-sale financial assets	1,609,303	–	1,609,303
Cash and cash equivalents	–	4,282,498	4,282,498
	1,609,303	4,282,498	5,891,801

All of the above financial assets' carrying values approximate to their fair values, as at 30 June 2010 and 2009, given their nature and short times to maturity.

Under IFRS 7 Financial Instruments: Disclosures, the available-for-sale assets are classified under the fair value hierarchy as level 1.

Financial liabilities

At 30 June 2010	Measured at amortised cost US$	Total carrying value US$
Trade payables	106,436	106,436
Accruals	23,425	23,425
	129,861	129,861

Financial liabilities

At 30 June 2009	Measured at amortised cost US$	Total carrying value US$
Trade payables	3,384	3,384
Accruals	174,682	174,682
	178,066	178,066

All of the above financial liabilities' carrying values approximate to their fair values, as at 30 June 2010 and 2009, given their nature and short times to maturity.

19 Financial Instrument Risk Exposure and Management

The principal financial risks to which the Group is exposed are: foreign currency exchange rate risk; interest rate risk; liquidity risk, equity price risk and credit risk. This note describes the Group's objectives, policies and process for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented in notes 12, 14, 18 and 20.

With the exception of the addition of available-for-sale financial assets, there have been no substantive changes to the Group's exposure to financial instrument risks, its objectives, policies and processes for managing those risks or the methods used to measure them from the previous year.

Liquidity risk

Liquidity risk is dealt with in note 20 of these financial statements.

Credit risk

The Group's credit risk is primarily attributable to its cash balances and available-for-sale financial assets.

The credit risk on liquid funds is limited because the third parties are large international banks.

The Group's total credit risk amounts to the total of the sum of the receivables, available-for-sale financial assets and cash and cash equivalents. At the year end this amounts to US$3,318,374 (2009: US$5,891,801).

Interest rate risk and sensitivity analysis

The Group's only exposure to interest rate risk is the interest received on the cash held on deposit. The Group does not have any interest bearing borrowings.

The following table indicates the impact of a change in interest rate on the interest received during the year, and with all other variables being held constant, on the Group's loss before tax.

	Change in interest rate	2010 US$	Change in interest rate	2009 US$
Sterling	+0.5%	11,102	+0.5%	19,211
	+1.0%	22,204	+1.0%	38,421
	+1.5%	33,306	+1.5%	57,632
	-0.5%	(11,102)	-0.5%	(19,211)
	-1.0%	(22,204)	-1.0%	(38,421)
	-1.5%	(33,306)	-1.5%	(57,632)
Dollars	+0.5%	1,357	+0.5%	6,191
	+1.0%	2,714	+1.0%	12,381
	+1.5%	4,072	+1.5%	18,572
	0.5%	(1,357)	-0.5%	(6,191)
	-1.0%	(2,714)	-1.0%	(12,381)
	-1.5%	(4,072)	-1.5%	(18,572)

19 Financial Instrument Risk Exposure and Management (continued)

Market risk and sensitivity analysis

Market risk arises when the fair value or cash flows of a financial instrument fluctuates from the level where a long or short position was established. These financial instruments are subject to equity price risk.

Equity price risk

The Group's available-for-sale financial assets are subject to equity price risk.

For financial instruments held, the Group uses a sensitivity analysis technique that measures the changes in fair value of the Group's financial instruments to hypothetical changes in market price.

A 5% increase in the market value of positions held at 30 June 2010 would increase the value of the financial assets by US$128,274 (2009: US$80,465) and equity by US$113,918 (2009: US$70,111).

A 5% decrease in the value of positions held on at 30 June 2010 would decrease the value of the financial assets by US$128,274 (2009: US$80,465) and equity by US$113,918 (2009: US$70,111).

Foreign exchange risk

The Group's principal exposure to foreign exchange risk is in relation to the United States Dollar and Sterling exchange rates, due to the concentration of cash and cash equivalents that are held in Sterling.

The following table indicates the impact of a change in foreign exchange rate on the value of cash and cash equivalents at the balance sheet date, and with all other variables being held constant, on the Group's loss before tax.

	Change in US$/GBP exchange rate	2010 US$	Change in US$/GBP exchange rate	2009 US$
Sterling	+0.5%	147,477	+0.5%	238,222
	-0.5%	(147,477)	-0.5%	(238,222)

20 Liquidity Risk

In managing liquidity risk, the main objective of the Group is to ensure that it has the ability to pay all of its liabilities as they fall due. The Group monitors its levels of working capital to ensure that it can meet its debt repayments as they fall due. The table below shows the undiscounted cash flows on the Group's financial liabilities as at 30 June 2010 on the basis of their earliest possible contractual maturity.

	Total US$	Within 2 months US$	Within 2-6 months US$	6-12 months US$	Greater than 12 months US$
At 30 June 2010					
Trade payables	106,436	106,436	–	–	–
Accruals	23,425	–	23,425	–	–
	129,861	106,436	23,425	–	–
At 30 June 2009					
Trade payables	3,384	3,384	–	–	–
Accruals	174,682	–	174,682	–	–
	178,066	3,384	174,682	–	–

21 Capital Management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern, to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital. The Group defines capital as being share capital plus reserves.

The Board of Directors monitors the level of capital as compared to the Group's commitments and adjusts the level of capital as is determined to be necessary, by issuing new shares.

The Group is not subject to any externally imposed capital requirements.

22 Financial Commitments

The Group had no capital commitments at 30 June 2010 (2009: US$nil).

23 Trade and Other Payables

	2010 US$	2009 US$
Trade payables	106,436	3,384
Accruals	23,425	174,682
	129,861	178,066

24 Related Party Transactions

The disposal of the Group's interests in non-UK projects to Wessex Exploration PLC constitutes a related party transaction, due to the shareholdings in that company held by the directors of the Group as follows:

Michael Thomsen 0.657%

David Bramhill 1.314%

In addition, David Bramhill is a director of Wessex Exploration PLC.

Information regarding the disposal transaction is detailed in notes 6 and 15.

The only other related party transactions during the year were with the directors and key management.

	Short-term benefits	
	2010	2009
	US$	US$
Directors' remuneration:		
Mr D Bramhill	184,270	296,707
Mr M Thomsen	222,500	222,792
	406,770	519,499
Social security costs	24,164	29,022
	430,934	548,521

In addition to the remuneration shown above, the Group incurred share-based payment charges of US$29,406 (2009: US$38,411) in respect of the above named directors and key management.

25 Investment in Subsidiaries

The Group's Parent Company holds the issued share capital of the following subsidiary undertakings, which are incorporated in the US and have been included in these consolidated financial statements.

Company	Principal activities	Class	Percentage holding
Osceola Royalties LLC	Oil and gas development	Ordinary	100%
Osceola Production LLC	Oil and gas development	Ordinary	(indirectly) 100%

26 Contingent Liabilities

The directors are not aware of any contingent liabilities within the Group or the Company at 30 June 2010.

27 Ultimate Controlling Party

As at 30 June 2010, Bluebird Energy Limited had no ultimate controlling party.

28 Cash Flow from Operating Activities

	2010 US$	2009 US$
Loss for the financial year	(2,016,428)	(1,223,438)
Taxation charge	8,042	–
Finance income	(9,927)	(237,159)
Loss from associates	157,791	354,377
Share-based payment	67,061	69,190
Profit on disposal of business	(199,022)	–
Tax paid	(8,042)	–
Impairment of intangible assets	1,154,993	–
Impairment of land assets	193,756	–
Impairment of plant and machinery assets	49,924	–
Net foreign exchange gain	–	(328,736)
	(601,852)	(1,365,766)
Changes in working capital		
Increase in trade and other receivables	(77,950)	(9,687)
Decrease in trade and other payables	(94,857)	(508,445)
Net cash outflow from operating activities	(774,659)	(1,883,898)

29 Events After the Balance Sheet Date

On 2 February 2011 the Company raised £1.5 million (before expenses) through a Placing and Open Offer of new ordinary shares at a price of 5 pence per share, issuing 30,000,000 new ordinary shares.

Following the Placing and Open Offer there are 270,486,724 ordinary shares in issue.

In addition, the Company issued 3,750,000 warrants exercisable at 12 pence over an 18 month period.

Independent Auditors' Report on the Parent Company Financial Statements

for the year ended 30 June 2010

We have audited the Parent Company financial statements of Bluebird Energy Limited ('the Company') for the year ended 30 June 2010 which comprise the Parent Company Balance Sheet and the related notes 1 to 11. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective Responsibilities of Directors and Auditors

As explained more fully in the Statement of Directors' Responsibilities set out on page 10, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the Audit of the Financial Statements

A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/UKNP.

Opinion on Financial Statements

In our opinion the Parent Company financial statements:

- give a true and fair view of the state of the Parent Company's affairs as at 30 June 2010;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other Matters Prescribed by the Companies Act 2006

In our opinion the information given in the Report of the Directors for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are Required to Report by Exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Other Matters

We have reported separately on the consolidated financial statements of Bluebird Energy Limited for the year ended 30 June 2010.

Natasha Lee

Senior Statutory Auditor,
for and on behalf of

Nexia Smith & Williamson

Nexia Smith & Williamson

Statutory Auditor
Chartered Accountants
25 Moorgate
London
EC2R 6AY

9 March 2011

Parent Company Balance Sheet

as at 30 June 2010

	Notes	**2010** **£**	2009 £
Fixed assets			
Tangible fixed assets	2	–	509,006
Intangible assets	3	–	2,897,685
Investments	4	709,609	248,860
Investment in subsidiaries	4	13,341,935	8,054,738
Investment in associate	4	–	317,819
		14,051,544	12,028,108
Current assets			
Debtors	5	–	8,333
Cash at bank		331,039	2,544,965
		331,039	2,553,298
Creditors: amounts falling due within one year	6	(17,284)	(94,451)
Net current assets		313,755	2,458,847
Net assets		14,365,299	14,486,955
Capital and reserves			
Called up share capital	7	601,217	601,217
Share premium account	8	13,931,403	13,931,403
Share-based payment reserve	8	105,949	61,275
Profit and loss account	8	(273,270)	(106,940)
Shareholders' funds	9	14,365,299	14,486,955

The financial statements were approved by the Board of Directors on 9 March 2011 and were signed on its behalf by:

Andrew Yeo,
Director

1 Accounting Policies

Basis of Preparation

The annual financial statements of Bluebird Energy Limited have been prepared in accordance with United Kingdom accounting standards. The principal accounting policies set out below have been consistently applied to all periods presented.

The financial statements have been prepared under the historical cost convention.

As permitted by section 408 of Companies Act 2006, a separate Profit and Loss Account for the Company has not been included in these financial statements. The Company's loss for the year ended 30 June 2010 was £166,330 (2009: £66,850).

As permitted by FRS 1 Cash flow statements, no cash flow statement for the Company has been included.

As permitted by FRS 8 Related party disclosures, no related party disclosures for the Company have been included, in respect of transactions with its 100% owned subsidiaries.

Financial Instruments

Financial assets and financial liabilities are recognised on the Balance Sheet when the Company becomes a party to the contractual provisions of the instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Interest is credited to the Profit and Loss Account in the period to which it relates.

Foreign Currency

Transactions in foreign currencies are translated at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities in foreign currencies are translated at the rates of exchange ruling at the balance sheet date. All exchange differences are dealt with through the Profit and Loss Account.

Tangible Fixed Assets

Tangible fixed assets are stated at historical costs less depreciation. Depreciation is calculated to write down the cost less estimated residual value of all tangible fixed assets by equal annual instalments over their expected useful economic lives:

Plant and machinery	5%
Leasehold land	10%

Share-Based Payments

Where share options have been granted to directors and employees, FRS 20 has been applied, whereby the fair value of the options is measured at the grant date and spread over the period during which the employees become entitled to the options. An options valuation model is used to assess the fair value, taking into account the terms and conditions attached to the options. The fair value of goods and services received are measured by reference to the fair value of options.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ('the vesting date').

The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Company's best estimate of the number of equity instruments that will ultimately vest.

The profit or loss charge or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance and/or service conditions are satisfied. Where the terms of an equity-settled award are modified, the minimum expense recognised is the expense as if the terms had not been modified. An additional expense is recognised for any modification, which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

Investments

Investments are included at cost less amounts written off for impairment.

Deferred Taxation

Deferred taxation is provided for on a full provision basis on all timing differences that have arisen but not reversed at the balance sheet date. Deferred tax assets are recognised to the extent that they are recoverable, that is, on the basis of all available evidence, it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted. Any assets and liabilities recognised have not been discounted.

Exploration Costs

The Company follows a successful efforts based accounting policy for oil and gas assets.

Costs (including research costs) incurred prior to obtaining the legal rights to explore an area are expensed immediately to the Profit and Loss Account.

Expenditure incurred on the acquisition of a licence interest is initially capitalised on a licence by licence basis. Costs are held, un-depleted, within exploration costs until such a time as the exploration phase on the licence area is complete or commercial reserves have been discovered.

Exploration expenditure incurred in the process of determining exploration targets is capitalised initially within intangible assets as exploration costs.

Following evaluation of successful exploration wells, if commercial reserves are established and the technical feasibility of extraction demonstrated, and once a project is sanctioned for commercial development, then the related capitalised exploration/evaluation costs are transferred into a single field cost centre within development/producing assets after testing for impairment within Tangible Fixed Assets. Where results of exploration drilling indicate the presence of hydrocarbons which are ultimately not considered commercially viable, all related costs are written off to the Profit and Loss Account.

All such costs are subject to regular technical, commercial and management review on at least an annual basis to confirm the continued intent to develop or otherwise extract value from the discovery. Where this is no longer the case, the costs are immediately expensed.

Following evaluation of successful exploration wells, if commercial reserves are established and the technical feasibility of extraction demonstrated, and once a project is sanctioned for commercial development, then the related capitalised exploration/evaluation costs are transferred into a single field cost centre within development/producing assets after testing for impairment within Tangible Fixed Assets. Where results of exploration drilling indicate the presence of hydrocarbons which are ultimately not considered commercially viable, all related costs are written off to the profit and loss account.

All costs incurred after the technical feasibility and commercial viability of producing hydrocarbons has been demonstrated are capitalised within development/producing assets on a field by field basis.

Subsequent expenditure is capitalised only where it either enhances the economic benefits of the development/producing asset or replaces part of the existing development/producing asset. Any costs remaining associated with the part replaced are expensed.

Net proceeds from any disposal of an exploration asset are initially credited against the previously capitalised costs. Any surplus proceeds are credited to the Profit and Loss Account.

2 Tangible Fixed Assets

	Leasehold land £	Plant and machinery £	Total £
Cost			
At 1 July 2009	89,665	419,341	509,006
Disposals	(89,665)	(419,341)	(509,006)
At 30 June 2010	–	–	–
Accumulated depreciation			
At 1 July 2009 and 30 June 2010	–	–	–
Net book value			
At 30 June 2010	–	–	–
At 30 June 2009	89,665	419,341	509,006

On 1 July 2009, the Company transferred its tangible fixed assets to its subsidiary, Osceola Production LLC.

3 Intangible Assets

	Exploration costs £
Cost	
At 1 July 2009	2,897,685
Disposals	(2,897,685)
At 30 June 2010	–
Accumulated amortisation	
At 1 July 2009 and 30 June 2010	–
Net book value	
At 30 June 2010	–
At 30 June 2009	2,897,685

On 1 July 2009, the Company transferred its intangible fixed assets to its subsidiary, Osceola Production LLC.

4 Investments

	Listed Investments £	Long-term loans to subsidiaries £	Investment in associate £	Total £
Cost				
At 1 July 2009	248,860	8,054,738	317,819	8,621,417
Additions	460,749	5,287,197	–	5,747,946
Disposals	–	–	(317,819)	(317,819)
At 30 June 2010	709,609	13,341,935	–	14,051,544

On 1 July 2009, the Company transferred its investment in the ordinary shares in AltaWind Energy Inc, a renewable energy company which is incorporated in the US, to its subsidiary, Osceola Royalties LLC.

The market value of listed investments held at 30 June 2010 was £1,649,697 (2009: £482,404).

The Company holds the issued share capital of the following subsidiary undertakings, which are incorporated in the US.

The book value of investments in subsidiaries as at 30 June 2009 and 2010 was £nil.

Company	Principal activities	Class	Percentage held
Osceola Royalties LLC	Oil and gas development	Ordinary	100%
Osceola Production LLC	Oil and gas development	Ordinary	(indirectly) 100%

5 Debtors

	2010 £	2009 £
Prepayments	–	8,333

6 Creditors: Amounts Falling Due Within One Year

	2010 £	2009 £
Trade creditors	1,679	1,704
Accruals	15,605	92,747
	17,284	94,451

7 a) Share Capital

	2010 £	2009 £
Authorised		
500,000,000 shares of 0.25 pence	1,250,000	1,250,000
	£	£
Allotted, issued and fully paid		
240,486,724 shares (2009: 240,486,724 shares) of 0.25 pence	601,217	601,217

Allotments during the year
During the year ended 30 June 2010 the Company did not issue any shares.

7 b) Share-Based Payments – Options

The Company has a share option scheme for all directors and senior management. Options are exercisable at a price equal to the average market price of the Company's shares on the date of grant. The vesting period is three years. The options are settled in equity once exercised.

If the options remain unexercised after a period of 10 years from the date of grant, the options expire. Options are forfeited if the employee leaves the Company before the options vest.

Details of the number of share options and the weighted average exercise price (WAEP) outstanding during the year are as follows:

	2010	
	Number of options	WAEP £
Outstanding at the beginning of the year	8,700,000	0.03
Outstanding at the year end	8,700,000	0.03
Number of options exercisable at 30 June 2010	3,200,000	0.01

7 b) Share-Based Payments – Options (continued)

	2009 Number of options	2009 WAEP £
Outstanding at the beginning of the year	10,200,000	0.03
Forfeited during the year	(1,500,000)	0.03
Outstanding at the year end	8,700,000	0.03
Number of options exercisable at 30 June 2009	–	–

The fair values were calculated using the binomial pricing model. The inputs into the model are as follows:

Date of grant	**5 May 2007**	**20 February 2008**
Number granted	3,200,000	7,000,000
Share price at date of grant	0.25p	4p
Exercise price	1p	4p
Expected volatility	51%	51%
Expected life	3 years	3 years
Risk free rate	5.00%	4.70%
Expected dividend yield	0%	0%
Fair value of options granted at date of grant	0.08p	2.20p
Exit rate	0%	0%
Earliest vesting date	5 May 2010	20 February 2011
Expiry date	5 May 2017	20 February 2018

Expected volatility was determined based on the historic volatility of four comparator companies as suggested by management.
The expected life used in the model has been adjusted, based on the management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

The Company recognised total expenses of £44,674 (2009: £41,892) related to equity-settled share-based payment transactions during the year.

8 Reserves

	Share premium account £	Profit and loss account £	Share-based payment reserve £	Total £
As at 1 July 2009	13,931,403	(106,940)	61,275	13,885,738
Issue of share-based payments	–	–	44,674	44,674
Loss for the financial year	–	(166,330)	–	(166,330)
As at 30 June 2010	13,931,403	(273,270)	105,949	13,764,082

9 Reconciliation of Movement in Shareholders' Funds

	2010 **£**	2009 £
Loss for the financial year	(166,330)	(66,850)
Issue of shares	–	9,459,597
Issue costs	–	(152,755)
Share-based payments	44,674	41,892
Net (decrease)/increase in shareholders' funds	(121,656)	9,281,884
Shareholders' funds at 1 July 2009	14,486,955	5,205,071
Shareholders' funds at 30 June 2010	14,365,299	14,486,955

10 Related Party Transactions

The disposal of the Company's interests in non-UK projects to Wessex Exploration PLC constitutes a related party transaction, due to the shareholdings in that company held by the directors of the Company.

In addition, David Bramhill is a director of Wessex Exploration PLC.

The other related party transactions during the year were with the directors.

	Salaries and Fees	
	2010	**2009**
	£	**£**
Directors' remuneration:		
Mr D Bramhill	116,434	169,300
Mr M Thomsen	–	–
	116,434	169,300

In addition to the remuneration shown above, the Company incurred share-based payment charges of £18,581 (2009: £23,257) in respect of the above named directors.

Mr M Thomsen received remuneration of US$222,500 (2009: US$222,792) from a subsidiary of the Company.

11 Events After the Balance Sheet Date

On 2 February 2011 the Company raised £1.5 million (before expenses) through a Placing and Open Offer of new ordinary shares at a price of 5 pence per share, to issue 30,000,000 new ordinary shares.

Following the Placing and Open Offer there are 270,486,724 ordinary shares in issue.

In addition, the Company issued 3,750,000 warrants exercisable at 12 pence over an 18 month period.

Bluebird Energy

Bluebird Energy

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