Bluebird Energy

Bluebird Energy plc

Annual Report and Financial Statements

2012

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Directors, Officers and Advisers

Directors
James Ede-Golightly
Non-Executive Chairman

Gordon Hall
Non-Executive Director

Brian Marshall
Non-Executive Director

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Chairman's Statement

Bluebird's first year as a public company has been a difficult and disappointing one. A strategy is now underway to consolidate the remaining balance sheet value prior to either renewed investment or return of capital to shareholders.

In July 2011, Bluebird obtained admission to the AIM market of the London Stock Exchange, accompanied by an institutional placing raising £2m before expenses and a further amount of approximately £0.2m by means of an Open Offer.

Following admission to AIM, the Company commenced a strategic review in August. This review was triggered by Running Foxes' sale of its operator interest at the Centurion project in Kansas, in which Bluebird held a net 50% working interest. Centurion was Bluebird's only producing asset.

In October, the Centurion interest was sold for gross proceeds of US$3.1m and impairments on the US portfolio of over US$15m were subsequently recognised on publication of the June 2011 year end accounts. David Bramhill stepped down as executive chairman in December 2011.

In 2012, the residual value in Bluebird is predominantly represented by the Company's stake in Wessex Exploration plc and cash balances, which can be summarised as follows:

37,055,245 Wessex Shares at 7.38p (being the closing price on 3 October 2012)	£2.59m
Cash balance at 30 June 2012	£1.28m

In the US, Solitaire is the only asset to which the Company has continued to assign any meaningful value. The Company is in the process of marketing this asset for farm-out or sale. Whilst the decline and on-going weakness in the gas price has diminished interest in Solitaire as a Niobrara biogenic shallow gas play, we are evaluating whether the acreage may have potential as a Mississippian oil play. Elsewhere in the US portfolio, the focus is on securing a complete exit from the Marcellus and Revloc Projects at minimal cost. Specifically, the operator at Revloc is currently in the process of commissioning contractors to Plug and Abandon seven wells in Cambria County, Pennsylvania.

Having received notification from the Irish government licensing agency, the Petroleum Affairs Division, that they do not propose granting any new authorisations for shale gas exploration in the near future, we do not intend to focus on this jurisdiction as an area for development.

Upon my appointment in March 2012, the Board commenced a cost reduction programme which is on-going and is intended to minimise the strain of working capital on cash balances. While operating costs fell by more than half in the six months ended 30 June 2012 compared to the prior half year, the cost reduction initiatives are on-going and the Board expects a further significant reduction in operating costs in the current financial year.

In June 2012, Bluebird distributed just under half of its holding in Wessex Exploration plc to shareholders by way of a £2.15m dividend in specie. This decision reflected enthusiasm from shareholders for a return of capital as well as the Board's conclusion that Bluebird was not creating additional value for shareholders through its custody of this interest.

Board Changes

Due to other work commitments, Andy Yeo and Frederick Dekker decided to step down with effect from 28 September 2012. We would like thank Andy and Fred for their contributions to the Company and wish them well for the future.

Given the reduced level of activity in the Group, I will assume executive responsibilities on an interim basis with support from Mike Thomsen, who represents Osceola's interests in the US. The need to recruit a board level executive function will be kept under review.

We announced recently the appointment of Gordon Hall as an independent non-executive director. Gordon is a non-executive director of Nanoco Group Plc and International Brand Licensing plc. After an early career in teaching, Gordon built up substantial international sales, management and development expertise with Rank Xerox and Abbott Laboratories. He became Chief Executive Officer of Shield Diagnostic Ltd (now Axis Shield plc) in 1990 and was responsible for listing the Company on the London Stock Exchange.

Outlook

The immediate priority is to complete the process of simplifying the asset base and operating structure while reducing overheads to conserve cash. Once completed, the Company will be suitably positioned either to pursue renewed investment or return capital to shareholders.

Report of the Directors

for the year ended 30 June 2012

The directors present their report together with the consolidated financial statements for the year ended 30 June 2012.

Principal Activities

Bluebird Energy plc is a UK registered energy company, focused on the development of hydrocarbon projects in the United States of America.

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 18 and 19 of the consolidated financial statements.

Business Review

A review of the Group's assets and strategic direction of the Company during the year ended 30 June 2012 is contained in the Chairman's Statement.

There was a Group loss for the 12 month period amounting to US$1,566,640 (2011: US$17,610,085). The Group has issued an in specie dividend in the form of shares in Wessex Exploration plc to the value of US$3,312,811 (2011: US$nil).

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. Principal risks include the volatility in the share price of Wessex Exploration plc, in which the Company has a significant investment, and foreign exchange risk principally between Sterling and US dollars. These risks also include operating reliance in some cases on third parties, the ability to exploit discoveries, commercial, environmental and regulatory, economic, 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.

Directors

The directors in office at the end of the year and their interests in the shares of the Company as at 1 July 2011 and 30 June 2012 were as shown in the table below.

Mr D Bramhill retired as a director on 5 December 2011
Mr J Ede-Golightly was appointed as Chairman on 1 March 2012
Mr A Yeo retired as a director on 28 September 2012
Mr F Dekker retired as a director on 28 September 2012
Mr G Hall was appointed as a non-executive director on 28 September 2012

Ordinary Shares

	30 June 2012	1 July 2011
A Yeo	**1,000,000**	1,000,000
J Ede-Golightly	**–**	–
F Dekker	**850,000**	850,000
B Marshall	**330,000**	275,000

Report of the Directors

for the year ended 30 June 2012 (continued)

Share Options

	30 June 2102	1 July 2011	Weighted average exercise price	Range of exercise prices	Weighted average contractual life
A Yeo	**7,400,000**	7,400,000	5p	5p	3 years
J Ede-Golightly	**–**	–	–	–	–
F Dekker	**2,500,000**	2,500,000	3.8p	1p – 5p	3 years
B Marshall	**1,700,000**	1,700,000	4.2p	1p – 5p	3 years

Details of individual share option grants are shown in the table below.

Grant date: 5 May 2007

	Number of options granted	Exercise price	Vesting date	Expiry date
F Dekker	500,000	1p	5 May 2010	5 May 2017
B Marshall	200,000	1p	5 May 2010	5 May 2017

Grant date: 20 February 2008

	Number of options granted	Exercise price	Vesting date	Expiry date
F Dekker	1,000,000	4p	20 February 2011	20 February 2018
B Marshall	500,000	4p	20 February 2011	20 February 2018

Grant date: 19 May 2011

	Number of options granted	Exercise price	Vesting date	Expiry date
A Yeo	7,400,000	5p	19 May 2014	19 May 2021
F Dekker	1,000,000	5p	19 May 2014	19 May 2021
B Marshall	1,000,000	5p	19 May 2014	19 May 2021

Directors' remuneration

The remuneration of the directors for the year ended 30 June 2012 was as follows:

	Salaries and fees	
	2012 US$	2011 US$
A Yeo	**168,346**	180,158
J Ede-Golightly	**13,234**	–
D Bramhill	**239,384**	200,175
F Dekker	**52,938**	10,676
B Marshall	**52,938**	10,676

In addition to the remuneration shown above, the Group incurred share-based payment charges of US$470,109 (2011: US$58,841) in respect of the above named directors.

Copies of the Service Agreement for each director are available for inspection at the Company's Registered Office.

Annual General Meeting

The Annual General Meeting of the Company will be held on 11 December 2012.

Events after the Balance Sheet Date

No significant events have arisen since 30 June 2012.

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 14 (2011: 21).

Report of the Directors

for the year ended 30 June 2012 (continued)

Auditors

A resolution to reappoint Nexia Smith & Williamson will be proposed at the forthcoming 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 plc is 03606195.

On behalf of the Board

James Ede-Golightly

Chairman
4 October 2012

Statement of Directors` Responsibilities

for the year ended 30 June 2012

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 the Parent Company Financial Statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Reporting Standards and applicable law).

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 whether applicable IFRSs as adopted by the European Union have been followed subject to any material departures disclosed and explained in the consolidated financial statements;
- 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.

Corporate Governance Report

for the year ended 30 June 2012

The Company's securities are traded on the AIM Market of the London Stock Exchange ("AIM"). The Group has considered the Quoted Company Alliance ("QCA") Corporate Governance Guidelines for Smaller Quoted Companies as published in September 2010.

Following is a brief description of the role of the Board and its Committees, followed by details of the Group's systems of internal financial control, which the Board continue to keep under review.

The Board

During the year the Board of Directors of Bluebird Energy plc consisted of three non-executive directors and one executive director who were responsible for the proper management of the Group.

The Board will meet at least four times in the coming year to review trading performance and budgets, ensure adequate funding, set and monitor strategy, examine acquisition opportunities and report to shareholders. The Board has a formal schedule of matters specifically reserved to it for decisions.

The following Committees deal with specific aspects of the Group's affairs:

Remuneration

The Board determines the remuneration of the non-executive directors. A remuneration committee will be established if warranted as the result of the recruitment of executive directors to the Board.

Audit Committee

The Audit Committee comprises Gordon Hall who acts as its Chairman and James Ede-Golightly. The Committee is responsible for considering a wide range of financial matters. It monitors the controls that are in place to ensure the integrity of the financial information reported to shareholders.

This Committee also provides a forum for reporting by the Group's auditors. The executive directors attend meetings by invitation.

Internal Financial Control

The directors are responsible for establishing and maintaining the Group's internal financial control systems. These are designed to meet the particular needs of the Group and the risks to which it is exposed, and by their nature can provide reasonable but not absolute assurance against material misstatement or loss.

The key procedures that the directors have established to provide effective internal financial controls are:

- **Corporate Accounting and Procedures**

  Responsibilities are communicated throughout the Group as part of the corporate communication procedure. Delegation of authority and authorisation limits, segregation of duties and other control procedures, together with the Company culture are included in these communications, and standard accounting procedures are in place to reflect this.

- **Quality and Integrity of Personnel**

  The integrity and competence of personnel is ensured through high recruitment standards and subsequent training. The quality of personnel is regarded as a critical part of the control environment and the ethical standards expected are communicated through senior members of staff and other communication channels.

- **Identification of Business Risks**

  The Board is responsible for identifying the major business risks faced by the Group and for determining the appropriate course of action to manage these risks.

- **Financial Reporting**

  The Group has a comprehensive system for reporting financial results to the Board.

- **Investment Appraisal**

  Capital expenditure is regulated by authorisation limits. For expenditure beyond the specified limits, detailed proposals are submitted to the Board. If an interest in a new project is being acquired, appropriate due diligence is undertaken.

Corporate Governance Report

for the year ended 30 June 2012 (continued)

- **Audit Committee**

  The Audit Committee monitors through reports made to it, the controls that are in force and any perceived gaps in the control environment. The Audit Committee also considers and determines relevant action in respect of any control issues raised by the external auditors.

Going Concern

The directors have a reasonable expectation that the Group has adequate resources to enable it to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the accounts.

By order of the Board

Brian Marshall FCA

Company Secretary
4 October 2012

Independent Auditor's Report

to the Members of Bluebird Energy plc for the year ended 30 June 2012

We have audited the consolidated financial statements of Bluebird Energy plc for the year ended 30 June 2012 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 Statement of Cash Flows and the related notes 1 to 28. The financial reporting framework that has been applied in the preparation of the consolidated 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 auditor's 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 7, 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 and express an opinion on 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/private.cfm

Opinion on Financial Statements

In our opinion the Consolidated financial statements:

- give a true and fair view of the state of the Group's affairs as at 30 June 2012 and of the Group's loss for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; 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 consolidated financial statements are prepared is consistent with the consolidated 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 plc for the year ended 30 June 2012.

Carl Deane
Senior Statutory Auditor,
for and on behalf of

Nexia Smith & Williamson
Statutory Auditor
Chartered Accountants
Portwall Place
Portwall Lane
Bristol
BS1 6NA

4 October 2012

Principal Accounting Policies

for the year ended 30 June 2012

Basis of Preparation

The annual consolidated financial statements of Bluebird Energy plc ("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 on-going 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 2012.

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.

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.

Principal Accounting Policies

for the year ended 30 June 2012 (continued)

Cash and Cash Equivalents

Cash and cash equivalents comprise cash on hand and deposits held at call with banks.

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.

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 account 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$1.5605 per £1 sterling (2011: US$1.6014).

Share-Based Payments

Where share options have been granted to directors and employees, 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.

Principal Accounting Policies

for the year ended 30 June 2012 (continued)

Share-Based Payments (continued)

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.

Share warrants have been issued by the Company.

IFRS 2 has been applied whereby the fair value of the warrants is measured at the grant date. A Black Scholes valuation model is used to assess the fair value, taking into account the terms and conditions attached to the warrants. The costs recorded are measured by reference to the fair value of warrants.

The cost of share warrants is recognised, together with a corresponding increase in equity, immediately on issue as warrants vest immediately.

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.

Principal Accounting Policies

for the year ended 30 June 2012 (continued)

Exploration Costs (continued)

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 mine 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.

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.

Principal Accounting Policies

for the year ended 30 June 2012 (continued)

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 benefit 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.
- "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.
- "Retained earnings" represents the accumulated profits and losses attributable to equity shareholders.
- "Share-based payment reserve" represents the accumulated amounts credited to equity in respect of options to acquire ordinary shares in the Company.

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 plc**
AS 1	Presentation of Financial Statements – Amendments to revise the way other comprehensive income is presented	1 July 2012	Yes	Disclosure only
IAS 27	Separate Financial Statements	1 January 2013	No	Disclosure only
IFRS 9	Financial Instruments: Classification and Measurement	1 January 2015	No	Classification and measurement of financial instruments
IFRS 10	Consolidated Financial Statements	1 January 2013	No	None expected
IFRS 11	Joint Arrangements	1 January 2013	No	None effected
IFRS 12	Disclosure of Interests in Other Entities	1 January 2013	No	Disclosure only
IFRS 13	Fair Value Measurement	1 January 2013	No	No material impact

Principal Accounting Policies

for the year ended 30 June 2012 (continued)

Critical Accounting Judgements and Key Sources of Estimation Uncertainty

The preparation of financial statements in conformity with generally accepted accounting practice requires management to make estimates and judgements 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 judgements 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.

Critical Accounting Judgements and Key Sources of Estimation Uncertainty (continued)

Share-based payments

In determining the fair value of equity settled share based payments and the related charge to the Income Statement, the Company makes assumptions about future events and market conditions; in particular, judgement must be made as to the likely number of shares that will vest, and the fair value of each award granted. The fair value is determined using a valuation model which is dependent on further estimates, including the Company's future dividend policy, the timing with which options will be exercised and the future volatility in the price of the Company's shares.

Different assumptions about these factors to those made by the Company could materially affect the reported value of share-based payments.

Consolidated Income Statement

for the year ended 30 June 2012

Continuing operations:	Notes	2012 US$	2011 US$
Revenue		**5,484**	6,202
Gross profit		**5,484**	6,202
Administrative expenses		**(2,713,735)**	(2,539,014)
Exceptional administrative expenses	2	**(972,283)**	(9,549,233)
Total administrative expenses		**(3,686,018)**	(12,088,247)
Operating loss	2	**(3,680,534)**	(12,082,045)
Finance income	4	**6,952**	2,134
Profit/(loss) on disposal of available-for-sale investments		**2,568,779**	(132,145)
Share of losses of associates	11	**(35,527)**	(48,492)
Loss before taxation		**(1,140,330)**	(12,260,548)
Taxation	5	**(8,074)**	(7,932)
Loss for the financial year from continuing operations		**(1,148,404)**	(12,268,480)
Discontinued operations:			
Loss for the financial year from discontinued operations	6	**(418,236)**	(5,341,605)
Loss for the financial year		**(1,566,640)**	(17,610,085)
Attributable to:			
Equity shareholders of the Company		**(1,566,640)**	(17,610,085)
Loss per share from continuing and discontinued operations			
Basic and diluted loss per share (US cents)	7	**(0.32)**	(6.94)
Loss per share from continuing operations			
Basic and diluted loss per share (US cents)	7	**(0.23)**	(4.83)

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 2012

	Notes	2012 US$	2011 US$
Loss for the financial year		**(1,566,640)**	(17,610,085)
Other comprehensive income			
Available-for-sale financial assets:			
Fair value gains/(losses) arising during the year		**3,806,487**	(5,683)
Less/plus: reclassification adjustments for (gains)/losses included in profit or loss		**(2,568,779)**	138,753
Tax on gain on available-for-sale financial assets		**(263,077)**	(154,515)
Foreign exchange (losses/gains on consolidation		**(45,100)**	289,410
Other comprehensive income for the financial year net of tax		**929,531**	267,965
Total comprehensive income for the financial year		**(637,109)**	(17,342,120)

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

Consolidated Balance Sheet

as at 30 June 2012

	Notes	2012 US$	2011 US$
Assets			
Non-current assets			
Property, plant and equipment	8	**771,387**	1,129,546
Intangible assets	9	**911,932**	4,620,131
Available-for-sale financial assets	13	**3,989,558**	2,751,673
		5,672,877	8,501,350
Current assets			
Trade and other receivables	14	**96,576**	181,328
Cash and cash equivalents	15	**1,995,884**	605,697
		2,092,460	787,025
Total assets		**7,765,337**	9,288,375
Equity and liabilities			
Capital and reserves attributable to the Company's equity shareholders			
Share capital	16	**2,209,610**	1,317,150
Share premium account		**5,025,369**	2,536,487
Foreign exchange translation reserve		**(2,572,253)**	(2,527,153)
Retained earnings		**1,433,077**	5,347,821
Share-based payment reserve		**853,837**	298,562
Total equity		**6,949,640**	6,972,867
Current liabilities			
Trade and other payables	22	**110,976**	1,873,203
Non-current liabilities			
Deferred tax	5	**704,721**	441,644
Provision for associate losses	11	**–**	661
Total liabilities		**815,697**	2,315,508
Total equity and liabilities		**7,765,337**	9,288,375

The financial statements were approved by the Board of Directors on 4 October 2012 and were signed on its behalf by:

James Ede-Golightly
Chairman

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 2012

	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 2011	1,317,150	2,536,487	(2,527,153)	5,347,821	298,562	6,972,867
For the year ended 30 June 2012						
Loss for the financial year	–	–	–	(1,566,640)	–	(1,566,640)
Other comprehensive income:						
Fair value gain on available-for-sale financial assets	–	–	–	1,237,708	–	1,237,708
Tax on gain on available-for-sale investments	–	–	–	(263,077)	–	(263,077)
Foreign exchange losses on consolidation	–	–	(45,100)	–	–	(45,100)
Total comprehensive income	–	–	(45,100)	(592,009)	–	(637,109)
Share-based payments	–	–	–	–	555,275	555,275
Issue of share capital	892,460	2,672,148	–	–	–	3,564,608
Issue costs	–	(183,266)	–	–	–	(183,266)
Specie dividend	–	–	–	(3,322,735)	–	(3,322,735)
Balance at 30 June 2012	**2,209,610**	**5,025,369**	**(2,572,253)**	**1,433,077**	**853,837**	**6,949,640**
Balance at 1 July 2010	1,175,438	26,247,549	(2,816,563)	(3,268,197)	174,909	21,513,136
For the year ended 30 June 2011						
Loss for the financial year	–	–	–	(17,610,085)	–	(17,610,085)
Other comprehensive income:						
Fair value gain on available-for-sale financial assets	–	–	–	133,070	–	133,070
Tax on gain on available-for-sale investments	–	–	–	(154,516)	–	(154,516)
Foreign exchange losses on consolidation	–	–	289,410	–	–	289,410
Total comprehensive income	–	–	289,410	(17,631,531)	–	(17,342,121)
Share-based payments	–	–	–	–	123,653	123,653
Issue of share capital	141,712	2,692,514	–	–	–	2,834,226
Issue costs	–	(156,027)	–	–	–	(156,027)
Capital reduction	–	(26,247,549)	–	26,247,549	–	–
Balance at 30 June 2011	**1,317,150**	**2,536,487**	**(2,527,153)**	**5,347,821**	**298,562**	**6,972,867**

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

Consolidated Statement of Cash Flows

for the year ended 30 June 2012

	Notes	2012 US$	2011 US$
Cash flow from operating activities	27	**(3,046,904)**	(1,715,655)
Cash flow from investing activities			
Purchase of intangible assets		**(741,124)**	(777,206)
Purchase of property, plant and equipment		**(510,844)**	(370,418)
Investments in associates		**–**	(20,000)
Purchase of available-for-sale investments		**(839,736)**	–
Proceeds from disposal of business		**3,100,000**	–
Proceeds from disposal of available-for-sale investments		**–**	112,251
Interest received		**6,952**	2,134
Net cash generated from/(used in) investing activities		**1,015,248**	(1,053,239)
Cash flow from financing activities			
Proceeds on issue of new shares		**3,564,608**	2,834,226
Expenses of new share issue		**(183,266)**	(156,027)
Net cash generated from financing activities		**3,381,342**	2,678,199
Net increase/(decrease) in cash and cash equivalents		**1,349,686**	(90,695)
Cash and cash equivalents at beginning of financial year		**605,697**	701,181
Effects of exchange rate changes		**40,501**	(4,789)
Cash and cash equivalents at end of financial year	15	**1,995,884**	605,697

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

Notes to the Financial Statements

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

	2012 US$	2011 US$
Operating loss is stated after charging:		
Fees payable to the Company's auditor for the audit of the annual statements	**30,969**	47,839
Fees payable to the Company's auditor and its associates for other services:		
Other services relating to reporting accountant work in respect of the admission to AIM	**–**	127,570
Other services relating to taxation	**16,001**	6,378
Other services	**5,559**	11,561
Research costs	**17,765**	27,816
Equity settled share-based payments	**555,275**	123,653
Exceptional administrative expenses:		
Impairment of intangible assets	**764,126**	6,091,907
Impairment of land assets	**208,157**	3,240,072
Impairment of plant and machinery assets	**–**	217,254
	972,283	9,549,233

3 Directors and Employees

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

	2012 US$	2011 US$
Staff costs		
Wages and salaries	**544,311**	549,160
Social security costs	**65,596**	49,976
	609,907	599,136
Equity settled share-based payments	**502,655**	58,841
	1,112,562	657,977

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

	2012 Number	2011 Number
UK	**4**	4
US	**2**	1
	6	5

Notes to the Financial Statements

continued

3 Directors and Employees (continued)

	2012 US$	2011 US$
Compensation of key management was as follows:		
Short term benefits	**526,841**	549,160
Share-based payments	**502,655**	58,841
	1,029,496	608,001
Social security costs	**64,621**	49,976
	1,094,117	657,977

Key management consists of all the directors and M. Thomsen.

Details of each director's remuneration and their share options are included in the Report of the Directors.

Highest paid director:

	2012 US$	2011 US$
Aggregate emoluments and benefits	**315,659**	229,827

4 Finance Income

	2012 US$	2011 US$
Bank interest	**6,952**	2,134

5 Taxation

There was a small current tax charge of US$8,074 paid by a US subsidiary in the year, but no other current tax charge for the year due to the loss incurred (2011: US$7,932).

A deferred tax charge of US$263,077 arising on fair value movements on available-for-sale financial assets was recognised in equity during the year (2011: US$154,515).

Reconciliation of the effective tax charge	2012 US$	2011 US$
Loss before taxation	**(1,558,566)**	(17,602,153)
Loss before tax multiplied by standard rate of corporation tax in the UK of 25.5% (2011: 27%)	**(397,434)**	(4,928,603)
Tax effects of:		
Other expenses not deductible for tax purposes	**98,125**	155,190
Tax losses not utilised within the year	**307,383**	4,781,345
Tax expense and effective tax rate	**8,074**	7,932

The amount of unutilised tax losses are as follows:

	2012 US$	2011 US$
Unutilised tax losses	**3,408,660**	5,705,287

The unutilised tax losses have decreased during the current financial year due to the chargeable gain realised on the investments disposed by way of an in specie dividend to the Company's shareholders.

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:

Deferred tax liabilities	2012 US$	2011 US$
At 1 January	**441,644**	287,129
Deferred tax charge recognised in equity during the period	**263,077**	154,515
At 31 December	**704,721**	441,644

Notes to the Financial Statements

continued

6 Discontinued operations

On 7 October 2011, Bluebird completed the disposal of its interest in the Centurion project, receiving in consideration US$3,100,000.

Analysis of profit for the period from discontinued operations	**2012 US$**	2011 US$
Sales	**28,992**	290,113
Impairment of project costs	**–**	(5,631,718)
Profit before tax	**28,992**	(5,341,605)
Loss on disposal of Centurion project	**(447,228)**	–
Loss for the period from discontinued operations	**(418,236)**	(5,341,605)

Cash flows from discontinued operations	**2012 US$**	2011 US$
Net cash (outflows)/inflows from operating activities	**(418,236)**	290,113
Net cash inflows/(outflows) from investing activities	**1,866,596**	(852,268)
Net cash inflows/(outflows)	**1,448,360**	(562,155)

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	**2012 US Cents**	2011 US Cents
Loss per share from continuing operations	**(0.23)**	(4.83)
Loss per share from discontinued operations	**(0.09)**	(2.11)
Total basic loss per share	**(0.32)**	(6.94)

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

	2012 US$	2011 US$
Loss used in the calculation of total basic and diluted earnings per share	**(1,566,640)**	(17,610,085)
Loss for the year from discontinued operations used in the calculation of basic and diluted loss per share from discontinued operations	**(418,236)**	(5,341,605)
Loss used in the calculation of basic earnings per share from continuing operations	**(1,148,404)**	(12,268,480)

	2012 Number	2011 Number
Number of shares		
Weighted average number of ordinary shares for the purposes of basic earnings per share	**493,844,518**	253,650,286

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		
Potential dilutive effect of share options and warrants	**15,207,650**	13,630,548
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**509,052,168**	267,280,834

Notes to the Financial Statements

continued

8 Property, Plant and Equipment

	Leasehold land US$	Plant and equipment US$	Total US$
Cost			
At 1 July 2010	6,323,352	1,123,093	7,446,445
Additions	229,636	651,363	880,999
At 30 June 2011	6,552,988	1,774,456	8,327,444
At 30 June 2012	6,552,988	1,774,456	8,327,444
Accumulated depreciation and impairment			
At 1 July 2010	1,152,337	115,101	1,267,438
Charge	646,328	57,148	703,476
Impairment	3,624,877	1,602,107	5,226,984
At 30 June 2011	5,423,542	1,774,356	7,197,898
Charge	150,002	–	150,002
Impairment	208,157	–	208,157
At 30 June 2012	5,781,701	1,774,356	7,556,057
Net book value			
At 30 June 2012	771,287	100	771,387
At 30 June 2011	1,129,446	100	1,129,546
At 30 June 2010	5,171,015	1,007,992	6,179,008

During the year a decision was taken to discontinue all projects with the exception of the Solitaire project. As a result all other project assets remaining on the balance sheet have been fully impaired.

9 Intangible Assets

	Exploration costs US$	Royalty interests US$	Total US$
Cost			
At 1 July 2010	13,283,706	100,000	13,383,706
Additions	2,169,184	–	2,169,184
At 30 June 2011	15,452,890	100,000	15,552,890
Additions	155,927	–	155,927
Disposals	(6,962,060)	–	(6,962,060)
At 30 June 2012	8,646,757	100,000	8,746,757
Amortisation and impairment			
At 1 July 2010	978,792	–	978,792
Charge	–	–	–
Impairment	9,953,967	–	9,953,967
At 30 June 2011	10,932,759	–	10,932,759
Impairment	764,126	–	764,126
Disposals	(3,862,060)	–	(3,862,060)
At 30 June 2012	7,834,825	–	7,834,825
Net book value			
At 30 June 2012	811,932	100,000	911,932
At 30 June 2011	4,520,131	100,000	4,620,131
At 30 June 2010	12,304,914	100,000	12,404,914

During the year a decision was taken to discontinue all projects with the exception of the Solitaire project. As a result all other project assets remaining on the balance sheet have been fully impaired.

Notes to the Financial Statements

continued

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
Revloc	Oil and gas development	50%

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

The Group previously held a 46.64% investment in start-up wind energy company, Altawind Inc which is incorporated in the USA. This has been included within the Group's financial statements using equity accounting.

On 14 February 2012, this investment was disposed with no further liabilities retained by the Group.

12 Disposal of business

On 7 October 2011, Bluebird completed the disposal of its interest in the Centurion project, receiving in consideration US$3,100,000.

Details of assets disposed	**US$**
Non-current assets:	
Intangible assets	3,100,000
Net assets disposed	3,100,000
Project costs expensed in the period	(447,288)
Consideration received	(3,100,000)
Loss on disposal	(447,288)

Consideration on disposal	**US$**
Cash consideration	3,100,000

13 Available-for-Sale Financial Assets

	2012 US$	2011 US$
Available-for-sale financial assets	**3,989,558**	2,751,673

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.

On 6 June 2012, the Company issued a dividend in specie of part of its holding in Wessex Exploration PLC, consisting of 27,688,689 shares. This represents 1 Wessex share, valued at 7.75p, for every 18 shares held in the Company.

This is accounted for as a disposal of these available-for-sale financial assets.

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

	2012 US$	2011 US$
At beginning of the year	**2,751,673**	2,565,480
Additions	**839,736**	–
Disposals	**(3,322,735)**	(53,373)
Impairment	**(45,618)**	–
Foreign exchange differences	**(39,985)**	106,496
Revaluation through equity	**3,806,487**	133,070
At end of the year	**3,989,558**	2,751,673

Notes to the Financial Statements

continued

14 Trade and Other Receivables

	2012 US$	2011 US$
Trade receivables	**–**	73,614
Other receivables	**62,161**	54,374
Amounts due from associate undertaking	**–**	32,590
Prepayments and accrued income	**34,415**	20,750
	96,576	181,328

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 2012 (2011: US$nil).

No unimpaired receivables are past due as at the reporting date (2011: US$nil).

15 Cash and Cash Equivalents

	2012 US$	2011 US$
Cash at bank (GBP)	**258,566**	418,509
Cash at bank (USD)	**1,737,318**	187,188
	1,995,884	605,697

16 (a) Share Capital

	2012 £	2011 £
Authorised		
500,000,000 shares of 0.25 pence	**1,250,000**	1,250,000

	US$	US$
Allotted, issued and fully paid		
498,196,408 shares (2011: 275,596,724 shares) of 0.25 pence	**2,209,610**	1,317,150

Allotments during the year

During the year ended 30 June 2012 the Company issued a total 222,599,684 ordinary shares (2011: 35,110,000) for a premium net of issue costs of US$2,488,882 (2011: US$2,536,487).

Date	Price per share (Sterling)	Number of shares issued	Total consideration received (US$)
6 July 2011	1p	200,000,000	3,200,080
27 July 2011	1p	22,599,684	364,528

Notes to the Financial Statements

continued

16 (b) Share-Based Payments – Options and Warrants

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 one, two and three years – one third of the options vesting in each period. The options are settled in equity once exercised.

The Company has also issued share warrants in the prior year which were exercisable immediately.

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.

If the warrants remain unexercised after a period of two years from the date of grant, the warrants expire.

The issue of warrants constituted a transaction with parties other than employees for which the fair value of services received cannot be reliably estimated, as they were granted on a 1 for 8 basis to shareholders as part of an open offer and placing that took place in February 2011, and therefore, the services received have been measured by reference to the fair value of the warrants granted, measured at the date of the placing.

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

2012

	Number of options	WAEP £	Number of warrants	WAEP £
Outstanding at the beginning and end of the year	25,000,000	0.04	3,750,000	0.12
Number exercisable at 30 June 2012	8,700,000	0.03	3,750,000	0.12

2011

	Number of options	WAEP £	Number of warrants	WAEP £
Outstanding at the beginning of the year	8,700,000	0.03	–	–
Issued	16,300,000	0.05	3,750,000	0.12
Outstanding at the year end	25,000,000	0.04	3,750,000	0.12
Number exercisable at 30 June 2011	3,200,000	0.01	3,750,000	0.12

The fair values of share options issued in previous financial years 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.

Notes to the Financial Statements

continued

16 (b) Share-Based Payments – Options and Warrants (continued)

The fair values of share options and warrants issued in the prior financial year were calculated using the Black-Scholes model. The inputs into the model are as follows:

	4 February 2011	**19 May 2011**	**19 May 2011**
Number granted	3,750,000	11,500,000	4,800,000
Share price at date of grant	5.0p	5.0p	5.0p
Exercise price	12p	5.0p	5.0p
Expected volatility	85%	85%	85%
Expected life	1 year	5.5, 6 and 6.5 years	5.5, 6 and 6.5 years
Risk free rate	2.80%	2.34%	2.34%
Expected dividend yield	0%	0%	0%
Fair value at date of grant	0.51p	3.61p	3.61p
Earliest vesting date	4 February 2011	19 May 2012	19 May 2012
Expiry date	4 February 2013	19 May 2021	19 May 2021

For May 2011 options, these vest 33.3% after one year, 33.3% after two years and 33.3% after three years.

Expected volatility was determined based on the historic volatility of comparable companies. 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 Group recognised total expenses of US$555,275 (2011: US$123,653) related to equity-settled share-based payment transactions during the year.

17 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 2012	**Available-for-sale US$**	**Loans and other receivables US$**	**Total carrying value US$**
Available-for-sale financial assets	3,989,558	–	3,989,558
Trade receivables	–	–	–
Other receivables	–	62,161	62,161
Cash and cash equivalents	–	1,995,884	1,995,884
	3,989,558	2,058,045	6,047,603

At 30 June 2011	**Available-for-sale US$**	**Loans and other receivables US$**	**Total carrying value US$**
Available-for-sale financial assets	2,751,673	–	2,751,673
Trade receivables	–	73,613	73,613
Other receivables	–	54,374	54,374
Cash and cash equivalents	–	605,697	605,697
	2,751,673	733,684	3,485,357

All of the above financial assets' carrying values approximate to their fair values, as at 30 June 2012 and 2011, 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.

Notes to the Financial Statements

continued

17 Financial Instruments (continued)

Financial liabilities

At 30 June 2012	**Measured at amortised cost US$**	**Total carrying value US$**
Trade payables	80,546	80,546
Accruals	30,430	30,430
	110,976	110,976

Financial liabilities

At 30 June 2011	**Measured at amortised cost US$**	**Total carrying value US$**
Trade payables	1,537,278	1,537,278
Accruals	335,925	335,925
	1,873,203	1,873,203

All of the above financial liabilities' carrying values approximate to their fair values, as at 30 June 2012 and 2011, given their nature and short times to maturity.

18 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 processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented in notes 14, 15, 17 and 22.

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 19 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$6,047,603 (2011: US$3,485,357).

Notes to the Financial Statements

continued

18 Financial Instrument Risk Exposure and Management (continued)

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	2012 US$	Change in interest rate	2011 US$
Sterling	+0.5%	**1,693**	+0.5%	2,229
	+1.0%	**3,385**	+1.0%	4,458
	+1.5%	**5,078**	+1.5%	6,687
	–0.5%	**(1,693)**	–0.5%	(2,229)
	–1.0%	**(3,385)**	–1.0%	(4,458)
	–1.5%	**(5,078)**	–1.5%	(6,687)
Dollars	+0.5%	**4,811**	+0.5%	1,038
	+1.0%	**9,623**	+1.0%	2,076
	+1.5%	**14,434**	+1.5%	3,114
	–0.5%	**(4,811)**	–0.5%	(1,038)
	–1.0%	**(9,623)**	–1.0%	(2,076)
	–1.5%	**(14,434)**	–1.5%	(3,114)

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 2012 would increase the value of the financial assets by US$199,478 (2011: US$137,584) and equity by US$183,388 (2011: US$115,501).

A 5% decrease in the value of positions held on at 30 June 2012 would decrease the value of the financial assets US$199,478 (2011: US$137,584) and equity by US$183,388 (2011: US$115,501).

Notes to the Financial Statements

continued

18 Financial Instrument Risk Exposure and Management (continued)

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 and on equity.

	Change in US$/GBP interest rate	2012 US$	Change in US$/GBP interest rate	2011 US$
Sterling	+5.0%	215,910	+5.0%	163,338
	–5.0%	(215,910)	–5.0%	(163,338)

19 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 2012 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 2012					
Trade payables	80,546	80,546	–	–	–
Accruals	30,430	–	30,430	–	–
	110,976	80,546	30,430	–	–
At 30 June 2011					
Trade payables	1,537,278	1,537,278	–	–	–
Accruals	335,925	–	335,925	–	–
	1,873,203	1,537,278	335,925	–	–

20 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 as disclosed in the consolidated balance sheet.

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.

Notes to the Financial Statements

continued

21 Financial Commitments

The Group had no capital commitments at 30 June 2012 (2011: US$nil).

22 Trade and Other Payables

	2012 US$	2011 US$
Trade payables	**80,546**	1,537,278
Accruals	**30,430**	335,925
	110,976	1,873,203

23 Related Party Transactions

The only related party transactions during the year were with the directors, key management and Mrs J Bramhill, the wife of Mr D Bramhill.

	Short-term benefits	
	2012 US$	**2011 US$**
Directors' remuneration:		
Mr A Yeo	**168,346**	180,158
Mr J Ede-Golightly	**13,234**	–
Mr D Bramhill	**239,384**	200,175
Mrs J Bramhill	**19,135**	17,470
Mr M Thomsen	**269,475**	115,450
Mr F Dekker	**52,938**	10,676
Mr B Marshall	**52,938**	10,676
Mr J Michaels	**–**	32,025
	815,450	566,630
Social security costs	**64,621**	49,976
	880,071	616,606

In addition to the remuneration shown above, the Group incurred share-based payment charges of US$502,655 (2011: US$58,841) in respect of the above named directors and key management.

Mr B Marshall is additionally a director of two companies which received payments from the Group during the year – Brian Marshall Accounting Services Ltd which received US$39,704 for accounting services (2011: US$15,946), and Berkeley Hall Marshall Ltd which received US$4,236 for office facilities (2011: US$3,189).

Jayne Bramhill, the spouse of David Bramhill, provided ICT management services to the Company during the year. In the period under review, she received a salary of GBP11,000 ($17,470) compared to GBP12,000 ($19,135) for the full year to June 2011.

24 Investment in Subsidiaries

The Group's Parent Company holds the issued share capital of the following subsidiary undertakings, which are incorporated in the USA 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%

25 Contingent Liabilities

The directors are not aware of any contingent liabilities within the Group or the Company at 30 June 2012.

Notes to the Financial Statements

continued

26 Ultimate Controlling Party

As at 30 June 2012, Bluebird Energy plc had no ultimate controlling party.

27 Cash Flow from Operating Activities

	2012 US$	2011 US$
Loss for the financial year	**(1,566,640)**	(17,610,085)
Finance income	**(6,952)**	(2,134)
Loss from associates	**35,527**	48,493
Share-based payment	**555,275**	123,653
(Gain)/Loss on disposal of investments	**(2,568,779)**	132,145
Loss on disposal of business	**439,964**	–
Expenses paid for discontinued operations	**(418,236)**	–
Revenue received from discontinued operations	**(21,728)**	–
Impairment of intangible assets	**764,126**	9,953,967
Impairment of land assets	**208,157**	3,624,877
Impairment of plant and machinery assets	**–**	1,602,107
Net foreign exchange gain	**–**	(3,321)
	(2,579,286)	(2,130,298)
Changes in working capital		
Decrease/(increase) in trade and other receivables	**48,562**	(129,614)
(Decrease)/increase in trade and other payables	**(516,180)**	544,257
Net cash outflow from operating activities	**(3,046,904)**	(1,715,655)

28 Events After the Balance Sheet Date

There were no significant events after the balance sheet date.

Independent Auditor's Report

to the Members of Bluebird Energy plc for the year ended 30 June 2012

We have audited the Parent Company financial statements of Bluebird Energy plc ('the Company') for the year ended 30 June 2012 which comprise the Parent Company Balance Sheet and the related notes 1 to 9. 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 7, 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 and express an opinion on 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/private.cfm

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 2012;
- 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 Parent Company financial statements are prepared is consistent with the Parent Company 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 plc for the year ended 30 June 2012.

Carl Deane
Senior Statutory Auditor,
for and on behalf of

Nexia Smith & Williamson
Statutory Auditor
Chartered Accountants
Portwall Place
Portwall Lane
Bristol
BS1 6NA
4 October 2012

Parent Company Balance Sheet

as at 30 June 2012

	Notes	2012 £	RESTATED 2011 £
Fixed assets			
Investments	2	**2,508,640**	1,621,498
Investment in subsidiaries	2	**1,252,983**	4,768,470
		3,761,623	6,389,968
Current assets			
Debtors	3	**60,182**	45,547
Cash at bank		**1,156,704**	323,712
		1,216,886	369,259
Creditors: amounts falling due within one year	4	**(71,118)**	(371,295)
Net current assets		**1,145,768**	(2,036)
Net assets		**4,907,391**	6,387,932
Capital and reserves			
Called up share capital	5	**1,245,491**	688,992
Share premium account	6	**3,122,843**	1,571,083
Share-based payment reserve	6	**539,000**	183,167
Profit and loss account	6	**57**	3,944,690
Shareholders' funds	7	**4,907,391**	6,387,932

The financial statements were approved by the Board of Directors on 4 October 2012 and were signed on its behalf by:

James Ede-Golightly
Chairman

Notes to the Parent Company Financial Statements

for the year ended 30 June 2012

1 Accounting Policies

Basis of Preparation

The annual financial statements of Bluebird Energy plc have been prepared in accordance with UK Generally Accepted Accounting Practices ('UK GAAP'). 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 modified by the revaluation of available-for-sale investments which are carried at fair value.

During the year, the Company has elected to adopt FRS 23, FRS 25, FRS 26 and FRS 29 – and as a result the listed investments have been classified as available-for-sale financial assets with fair value gains recognised through equity – the accounting policy applied is disclosed below.

This accounting policy change is in order to present a better reflection of the Company's net worth given the significant increase in value of the investment held in Wessex Exploration plc.

No other changes arise as a result of adopting these Financial Reporting Standards.

This accounting policy change has resulted in a prior period restatement to include the fair value movements in the available-for-sale financial assets in the prior year as reflected in these financial statements. As a result, comparative figures for the year ended 30 June 2011 have been adjusted as follows:

	Loss for the year £	Net assets £
As previously reported	10,774,191	5,327,183
Effect of change in accounting policy	–	1,060,749
As restated	10,774,191	6,387,932

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 2012 was £2,619,686 (2011: £10,774,191).

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.

As permitted by FRS 29, financial instruments disclosures in accordance with that standard have not been included as this information for the Company is included within the consolidated financial statements.

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.

Debtors are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest method.

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

Listed 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 directly in equity.

On disposal the cumulative gain or loss previously recognised in equity is included in the profit and loss account for the period. If an available-for-sale investment is determined to be impaired, the cumulative loss previously recognised in equity is included in the profit and loss account for the period.

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

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.

Notes to the Parent Company Financial Statements

continued

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.

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.

Share warrants have been issued by the Company.

FRS 20 has been applied whereby the fair value of the warrants is measured at the grant date. A Black Scholes valuation model is used to assess the fair value, taking into account the terms and conditions attached to the warrants. The costs recorded are measured by reference to the fair value of warrants.

The cost of share warrants is recognised, together with a corresponding increase in equity, immediately on issue as warrants vest immediately.

Notes to the Parent Company Financial Statements
continued

2 Investments

Available-for-Sale Financial Assets

Following the adoption of FRS 26, 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.

On 6 June 2012, the Company issued a dividend in specie of part of its holding in Wessex Exploration PLC, consisting of 27,688,689 shares. This is accounted for as a disposal of these available-for-sale financial assets.

The following table shows the aggregate movement in the Company's available-for-sale financial assets during the current and prior years:

Available-for-sale financial assets	**2012** **£**	2011 £
At beginning of the year (RESTATED)	**1,621,498**	1,649,697
Additions	**534,700**	–
Disposals	**(2,145,873)**	(148,860)
Revaluation through equity	**2,498,315**	120,661
At end of the year	**2,508,640**	1,621,498

Long term loans to Subsidiaries	**£**
Cost	
At 1 July 2011	4,768,470
Additions	176,032
Repayments	(798,919)
Impairment	(2,892,600)
At 30 June 2012	1,252,983

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

The book value of investments in subsidiaries as at 30 June 2011 and 2012 was £nil.

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%

3 Debtors

	2012 **£**	2011 £
Other debtors	**39,834**	33,955
Prepayments	**20,348**	11,592
	60,182	45,547

4 Creditors: Amounts Falling Due Within One Year

	2012 **£**	2011 £
Trade creditors	**51,618**	161,518
Accruals	**19,500**	209,777
	71,118	371,295

Notes to the Parent Company Financial Statements

continued

5 **(a) Share Capital**

	2012	2011
	£	£
Authorised		
500,000,000 shares of 0.25 pence	**1,250,000**	1,250,000
	£	£
Allotted, issued and fully paid		
498,196,408 shares (2011: 275,596,724 shares) of 0.25 pence	**1,245,491**	688,992

Allotments during the year

During the year ended 30 June 2012 the Company issued a total 222,599,684 ordinary shares (2011: 35,110,000) for a premium net of issue costs of £1,551,760 (2011: £1,571,083)

Date	Price per share (Sterling)	Number of shares issued	Total consideration received (US$)
6 July 2011	1p	200,000,000	2,000,000
27 July 2011	1p	22,599,684	222,798

5 **(b) Share-Based Payments – Options and Warrants**

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 one, two and three years – one-third of the options vesting in each period. The options are settled in equity once exercised.

The Company has also issued share warrants in the prior year which were exercisable immediately.

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.

If the warrants remain unexercised after a period of two years from the date of grant, the warrants expire.

The issue of warrants constituted a transaction with parties other than employees for which the fair value of services received cannot be reliably estimated, as they were granted on a 1 for 8 basis to shareholders as part of an open offer and placing that took place in February 2011, and therefore, the services received have been measured by reference to the fair value of the warrants granted, measured at the date of the placing.

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

2012

	Number of options	WAEP £	Number of warrants	WAEP £
Outstanding at the beginning and end of the year	25,000,000	0.04	3,750,000	0.12
Number exercisable at 30 June 2012	8,700,000	0.03	3,750,000	0.12

2011

	Number of options	WAEP £	Number of warrants	WAEP £
Outstanding at the beginning of the year	8,700,000	0.03	–	–
Issued	16,300,000	0.05	3,750,000	0.12
Outstanding at the year end	25,000,000	0.04	3,750,000	0.12
Number exercisable at 30 June 2011	3,200,000	0.01	3,750,000	0.12

Notes to the Parent Company Financial Statements

continued

5 **(b) Share-Based Payments – Options and Warrants (continued)**

The fair values of share options issued in previous financial years 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 fair values of share options and warrants issued in the current financial year were calculated using the Black Scholes model. The inputs into the model are as follows:

Date of grant	**4 February 2011**	**19 May 2011**	**19 May 2011**
Number granted	3,750,000	11,500,000	4,800,000
Share price at date of grant	5.0p	5.0p	5.0p
Exercise price	12p	5.0p	5.0p
Expected volatility	85%	85%	85%
Expected life	1 year	5.5, 6 and 6.5 years	5.5, 6 and 6.5 years
Risk free rate	2.80%	2.34%	2.34%
Expected dividend yield	0%	0%	0%
Fair value at date of grant	0.51p	3.61p	3.61p
Earliest vesting date	4 February 2011	19 May 2012	19 May 2012
Expiry date	4 February 2013	19 May 2021	19 May 2021

For May 2011 options, these vest 33.3% after one year, 33.3% after two years and 33.3% after three years.

Expected volatility was determined based on the historic volatility of comparable companies. 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 £355,833 (2011: £77,218) related to equity-settled share-based payment transactions during the year.

Notes to the Parent Company Financial Statements

continued

6 Reserves

	Share premium account £	Profit and loss account RESTATED £	Share-based payment reserve £	Total £
Previously reported				
As at 1 July 2011	1,571,083	2,883,941	183,167	4,638,191
Prior year adjustment	–	1,060,749	–	1,060,749
As restated	1,571,083	3,944,690	183,167	5,698,940
Loss for the financial year	–	(2,619,686)	–	(2,619,686)
Net fair value gain on available-for-sale financial assets	–	820,926	–	820,926
Issue of shares	1,666,298	–	–	1,666,298
Issue costs	(114,538)	–	–	(114,538)
Issue of share-based payments	–	–	355,833	355,833
Specie dividend	–	(2,145,873)	–	(2,145,873)
As at 30 June 2012	**3,122,843**	**57**	**539,000**	**3,661,900**

7 Reconciliation of Movement in Shareholders' Funds

	2012 £	RESTATED 2011 £
Loss for the financial year	**(2,619,686)**	(10,774,192)
Fair value gain on available-for-sale financial assets	**820,926**	120,661
Issue of shares	**2,222,797**	1,755,500
Issue costs	**(114,538)**	(96,642)
Share-based payments	**355,833**	77,218
Specie dividend	**(2,145,873)**	–
Net decrease in shareholders' funds	**(1,480,541)**	(8,917,455)
Shareholders' funds at 1 July 2011 as previously reported	**5,327,183**	14,365,299
Prior year adjustment	**1,060,749**	940,088
As restated at 1 July 2011	**6,387,932**	15,305,387
Shareholders' funds at 30 June 2012	**4,907,391**	6,387,932

Notes to the Parent Company Financial Statements

continued

8 Related Party Transactions

The only related party transactions during the year were with the directors, key management and Mrs J Bramhill, the wife of Mr D Bramhill.

	Salaries and Fees	
	2012	2011
	£	£
Related party remuneration:		
Mr A Yeo	**106,000**	112,500
Mr J Ede-Golightly	**8,333**	–
Mr D Bramhill	**150,730**	125,000
Mrs J Bramhill	**12,000**	11,000
Mr M Thomsen	**–**	–
Mr F Dekker	**33,333**	6,667
Mr B Marshall	**33,333**	6,667
Mr J. Michaels	**–**	19,998
	343,729	281,832
Social security costs	**40,689**	31,207
	384,418	313,039

In addition to the remuneration shown above, the Company incurred share-based payment charges of £301,257 (2011: £36,900) in respect of the above named individuals.

Mr M Thomsen received remuneration of US$269,475 (2011: US$115,450) from a subsidiary of the Company.

Mr B Marshall is additionally a director of two companies which received payments from the Company during the year – Brian Marshall Accounting Services Ltd which received £25,000 for accounting services (2011: £10,000), and Berkeley Hall Marshall Ltd which received £2,667 for office facilities (2011: £2,000).

9 Events After the Balance Sheet Date

There were no significant events after the balance sheet date.

Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting (the "AGM") of Bluebird Energy plc (the "Company") will be held at the offices of W H Ireland Limited, 24 Martins Lane, London, EC4R 0DR on 11 December 2012 at 11.00 a.m. for the following purposes:

Ordinary Business

To consider and, if thought fit, pass the following resolutions which will be proposed as ordinary resolutions:

Report and Accounts

1 To receive the audited annual accounts of the Company for the year ended 30 June 2012, together with the directors' report.

Election of Directors

2 To elect James Ede-Golightly as a director, who retires in accordance with the Company's Articles of Association.

3 To elect Gordon Hall as a director, who retires in accordance with the Company's Articles of Association.

Re-appointment of Auditors

4 To re-appoint Nexia Smith and Williamson as auditors of the Company to hold office from the conclusion of this Annual General Meeting until the conclusion of the next general meeting at which accounts are laid before the Company.

Auditors' remuneration

5 To authorise the directors to determine the remuneration of the auditors.

Special Business

To consider and, if thought fit, pass the following resolutions of which resolution 6 will be proposed as an ordinary resolution and resolutions 7 and 8 will be proposed as special resolutions:

Directors Authority to Allot Shares

6 That, in substitution for any equivalent authorities and powers granted to the directors prior to the passing of this resolution, the directors be and they are generally and unconditionally authorised pursuant to Section 551, Companies Act 2006 (the "Act") to exercise all powers of the Company to allot shares in the Company, and grant rights to subscribe for or to convert any security into shares of the Company (such shares, and rights to subscribe for or to convert any security into shares of the Company being "relevant securities") up to an aggregate nominal amount of £1,245,491.02 provided that, unless previously revoked, varied or extended, this authority shall expire on the conclusion of the next Annual General Meeting of the Company, except that the Company may at any time before such expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the directors may allot relevant securities in pursuance of such an offer or agreement as if this authority had not expired.

Directors' Power to Issue Shares for Cash

7 That the directors be and they are empowered pursuant to Section 570(1) of the Act to allot equity securities (as defined in Section 560(1) of the Act) of the Company wholly for cash pursuant to the authority of the directors under Section 551 of the Act conferred by resolution 6 above as if Section 561(1)of the Act did not apply to such allotment provided that:

(a) the power conferred by this resolution shall be limited to the allotment of equity securities up to an aggregate nominal value of £1,245,491.02: and

(b) unless previously revoked, varied or extended, this power shall expire on the conclusion of the next Annual General Meeting of the Company except that the Company may before the expiry of this power make an offer or agreement which would or might require equity securities to be allotted after such expiry and the directors may allot equity securities in pursuance of such an offer or agreement as if this power had not expired.

Notice of Annual General Meeting

continued

Authority for the Company to buy back its own shares

8 That the company be and is hereby generally authorised pursuant to section 701 of the Companies Act 2006 to make market purchases (as defined in Section 693(4) of the 2006 Act) of its ordinary shares provided that:

8.1 the Company does not purchase more than 74,409,622 ordinary shares (approximately 14.99% of the Company's issued share capital at the date of this notice)

8.2 the Company does not pay for any such ordinary share less that its nominal value at the time of purchase; and

8.3 the Company does not pay for any such ordinary share more that 5% above the average of the closing mid-market price for the ordinary shares for the five business days immediately preceding the date on which the Company agrees to buy the shares concerned, based on the share prices published in the Daily Official List of the London Stock Exchange or the AIM supplement thereto.

The authority conferred by this resolution shall (unless previously revoked, varied or renewed) expire on the earlier of the date of the next Annual General Meeting of the Company and 31 December 2013, save that the Company may before such expiry make a contract to purchase ordinary shares which will or may be executed wholly or partly after the expiry date.

By order of the Board
Brian Marshall FCA
Company Secretary

4 October 2012

Registered Office:
6 Charlotte Street
Bath BA1 2NE

Notice of Annual General Meeting

continued

Notes:

1 Pursuant to Regulation 41 of the Uncertified Securities Regulations 2001 (as amended), only those members registered in the register of members of the Company at 6.00 pm on 7 December 2012 (or if the AGM is adjourned, 48 hours before the time fixed for the adjourned AGM) shall be entitled to attend and vote at the AGM in respect of the number of shares registered in their name at the time. In each case changes to the register of members after such time shall be disregarded in determining the rights of any person to attend or vote at the AGM.

2 If you wish to attend the AGM in person, you should make sure you arrive at the venue for the AGM in good time before the commencement of the meeting. You may be asked to provide proof of your identity in order to gain admission.

3 A member who is entitled to attend, speak and vote at the AGM may appoint a proxy to attend, speak and vote instead of him. A member may appoint more than one proxy provided each proxy is appointed to exercise rights attached to different shares (so a member must have more than one share to be able to appoint more that one proxy). A proxy need not be a member of the Company but must attend the AGM in order to represent his appointer. A proxy must vote in accordance with any instructions given by the member by whom the proxy is appointed. Appointing a proxy will not prevent a member from attending in person and voting at the AGM (although voting in person at the AGM will terminate the proxy appointment). A proxy form is enclosed. The notes to the proxy form include instructions on how to appoint the Chairman of the AGM or another person as a proxy. You can only appoint a proxy using the procedures set out in these Notes and in the notes to the proxy form.

4 To be valid, a proxy form, and the original or duly certified copy of the power of attorney or other authority (if any) under which it is signed or authenticated, should reach the Company's registrar, Capita Registrars at PXS 34 Beckenham Road, Beckenham BR3 4TU, by no later than 2.00 pm on 7 December 2012.

5 The notes to the proxy form include instructions on how to appoint a proxy by using the CREST proxy appointment service.

6 You may not use any electronic address provided either in this Notice of AGM or in any related documents (including the proxy form) to communicate with the Company for the purposes other than those expressly stated.

7 In the case of joint holders of shares, the vote of the first named in the register of members who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders.

8 A member that is a company or other organisation not having a physical presence cannot attend in person but can appoint someone to represent it. This can be done in one of two ways: either by the appointment of a proxy (described in Notes 3 to 5 above) or of a corporate representative. Members considering the appointment of a corporate representative should check their own legal position, the Company's articles of association and the relevant provision of the Companies Act 2006.

Explanatory Notes to the Resolutions to be Proposed at the Annual General Meeting

Resolution 1 – Report and Accounts

The directors will present the audited financial statements of the Company for the year to 30 June 2012 together with the report of the directors and the auditors' report

Resolutions 2 and 3 – Election of Directors

Under the Articles of Association of the Company, directors who have not been appointed or re-appointed at either of the two previous Annual General meetings are required to retire and put themselves up for election. The two directors offering themselves for election were both appointed since the previous Annual General meeting.

Resolutions 4 and 5 – Re-appointment of Auditors and Fixing of Auditors' Remuneration

The Company is required to appoint auditors at each Annual General Meeting at which accounts are laid before shareholders, to hold office until the next such meeting. The Resolution proposes that Nexia Smith and Williamson Audit Limited be re-appointed as auditors for the current year and that the directors be authorised to set their fees.

Resolution 6 – Directors' Authority to Allot Shares

The resolution grants the directors the authority to allot shares in the capital of the Company and other relevant securities up to an aggregate nominal value of £1,245,491.02

Unless revoked, varied or extended, this authority will expire at the conclusion of the next Annual General Meeting of the Company. It is intended that this authority will be renewed as appropriate at future Annual General Meetings.

Resolution 7 – Directors' Power to Issue Shares for Cash

This resolution authorises the directors in certain circumstances to allot equity securities for cash other than in accordance with statutory pre-emption rights (which require a company to offer all allotments for cash first to existing shareholders in proportion to their holdings). It is proposed that the directors be authorised to allot equity securities having an aggregate nominal value of £1,245,491.02.

Unless revoked, varied or extended, this authority will expire at the conclusion of the next Annual General Meeting of the Company. It is intended that this authority will be renewed as appropriate at future Annual General Meetings.

Resolution 8 – Company's Authority to buy back its own shares

This resolution authorises the Company to purchase its own shares up to a maximum of 74,409,622 should circumstances arise such that the directors consider it appropriate so to do.

Notes