OSCEOLA HYDROCARBONS LIMITED

Directors' Report and Consolidated Financial Statements

30 JUNE 2009

OSCEOLA HYDROCARBONS LIMITED

Directors, officers and advisors

Directors

Michael Thomsen

Executive Chairman

David Bramhill

Managing Director

Secretary and Registered Office

Brian Marshall

6 Charlotte Street,

Bath BA1 2NE,

England

Bankers

Royal Bank of Scotland plc

8-9 Quiet Street,

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JP Morgan Chase Bank

N.A. University Hills Branch

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Denver, CO 80222.

USA

Registrars

Capita Registrars

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Registered number

03606195

Auditors

Nexia Smith & Williamson

Chartered Accountants

25 Moorgate, London

EC2R 6AY

England

Solicitors

Osborne Clarke

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Bristol BS1 6EG,

England

Baker Botts LLP

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OSCEOLA HYDROCARBONS LIMITED

REPORT OF THE DIRECTORS

The directors present their report together with the consolidated financial statements for the year ended 30 June 2009.

Principal Activities

Osceola Hydrocarbons Limited 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 17 and 18 of the consolidated financial statements.

Business Review

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

In the opinion of the directors, Osceola has a solid corporate strategy, which is straightforward, to exploit, primarily, non-conventional hydrocarbons in North America.

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

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

There was a group loss for the 12 month period amounting to US$1,223,438 (2008: US$623,804). The directors do not recommend the payment of a dividend (2008: US$nil).

Principal Risks and Uncertainties

Although the directors have extensive experience in the acquisition and development of assets similar to those held by the group, as with all companies within the energy sector the business of oil and gas development involves varying degrees of risk. These risks include operating reliance in some cases on third parties, the ability to exploit discoveries, commercial, environmental and regulatory, economic, foreign exchange, competition, reliance on key personnel, joint venture party and contractor and economic, political, judicial, administrative, taxation and other regulatory factors. The directors believe that they have mitigated the typical risks as far as reasonably practicable.

Key Performance Indicators

The Group has made substantial progress during the year ended 30 June 2009 concentrating on its overriding objectives to build on its hydrocarbon assets and to advance the projects in its portfolio. In this respect drilling results and ongoing development have met with expectations.

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

Directors

The directors in office at the end of the year and their interests in the shares of the Company as at 1 July 2008 and 30 June 2009 were as shown in the table below.

REPORT OF THE DIRECTORS (continued)

Ordinary Shares

	30 June 2009	1 July 2008
D Bramhill	4,590,000	4,700,000
M Thomsen (appointed 6 March 2009)	1,643,750	1,643,750

Share Options

	30 June 2009	1 July 2008
D Bramhill	2,000,000	2,000,000
M Thomsen	1,500,000	1,500,000

F Dekker and D Racher resigned as directors of the Company on 11 February 2009 and 6 March 2009 respectively.

Events after the Balance Sheet Date
The events after the balance sheet date that have arisen since 30 June 2009 are described in note 23 to these financial statements.

Payment Policy and Practice
It is the Group's policy to pay suppliers on the terms agreed with them. Average creditor days during the year were 14 (2008:14).

Auditors
Nexia Smith & Williamson were appointed as auditors on 9 February 2009. A resolution to reappoint Nexia Smith & Williamson will be proposed at the forthcoming annual general meeting.

Disclosure of information to 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 Osceola Hydrocarbons Limited is 03606195.

On behalf of the Board

David Bramhill
Director
25 March 2010

OSCEOLA HYDROCARBONS LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the consolidated financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the Parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006 and 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 that the consolidated financial statements comply with IFRSs as adopted by the European Union;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the Parent Company Financial Statements and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company and Group will continue in business.

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

They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website.

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

Nexia Smith & Williamson

Independent Auditor's report to the Members of Osceola Hydrocarbons Limited for the year ended 30 June 2009

We have audited the financial statements of Osceola Hydrocarbons Limited for the year ended 30 June 2009 which comprise the Consolidated Income Statement, Consolidated Balance Sheet, Consolidated Statement of Changes in Equity, Consolidated Cash Flow Statement and the related notes 1 to 27. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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 Directors' Responsibilities Statement set out on page 5, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's affairs as at 30 June 2009 and of the group's loss for the year then ended;
- the consolidated financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- the consolidated financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

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

Independent Auditor's report to the Members of Osceola Hydrocarbons Limited for the year ended 30 June 2009 (continued)

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:

- 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 Osceola Hydrocarbons Limited for the year ended 30 June 2009.

Natasha Lee

Senior Statutory Auditor,
for and on behalf of

Nexia Smith & Williamson
Statutory Auditor
Chartered Accountants

25 Moorgate
London
EC2R 6AY

25 March 2010

OSCEOLA HYDROCARBONS LIMITED

Principal Accounting Policies
for the year ended 30 June 2009

Basis of Preparation

The annual consolidated financial statements of Osceola Hydrocarbons Limited ("the Group") have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("EU") ("IFRS") 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 International Financial Reporting Interpretations Committee ("IFRIC") and there is an ongoing process of review and endorsement by the European Commission. These accounting policies comply with each IFRS that is mandatory for accounting periods ending on 30 June 2009.

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

Basis of Consolidation

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

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

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

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

Jointly Controlled Operations

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

A list of the Group's interests in unincorporated Joint Controlled Operations is given in note 9.

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.

Investments in Associates (continued)

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.

Finance Income

Interest is recognised using the effective interest method which calculates the amortised cost of a financial asset and allocates the interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

Cash and Cash Equivalents

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

Financial Instruments

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

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

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

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

Investments which are classified as 'available-for-sale' 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 consolidated Income Statement 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 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 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$1.6516 per £1 sterling (2008: US$1.9944).

Share-Based Payments

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

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

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

The 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.

Share-Based Payments (continued)

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

Where an equity settled award is forfeited, the cumulative charge expensed up to the date of forfeiture is credited to the income statement.

Exploration Costs

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

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

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

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

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

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

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

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

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 & 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.

Impairment of Assets Other than Intangible Assets with an Indefinite Life (continued)

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

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

Non-current assets held for sale

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

Current Taxation

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

Deferred Taxation

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

The Group's contributions to defined contribution pension plans are charged to the Income Statement in the period to which the contributions relate.

Equity

Equity comprises the following:

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

International Financial Reporting Standards in Issue but not yet Effective

At the date of authorisation of these consolidated financial statements, the IASB and IFRIC 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 Osceola
IFRS 3 & IAS 27	Business Combinations — Comprehensive revision on applying the acquisition method	1 July 2009	Yes	Future business combinations only
IFRS 9	Financial Instruments: Classification and Measurement	1 January 2013	No	Classification and measurement of financial instruments
IAS 1 (revised)	Presentation of Financial Statements (revised)	1 January 2009	Yes	Presentation of financial statements
IAS 38	— April 2009 Annual Improvements to IFRSs amendment: Measuring the fair value of an intangible asset acquired in a business combination	1 July 2009	No	Future business combinations only

Critical Accounting Judgments and Key Sources of Estimation Uncertainty

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

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

Reserve Estimates

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

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

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

- Asset carrying values may be affected by possible impairment due to adverse changes in estimated future cash flows.

- Depreciation, depletion and amortisation charged in the Income Statement may change where such charges are determined by the units of production basis, or where the useful economic lives of assets change.

Exploration and Evaluation Costs

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

Impairment of Property, Plant and Equipment

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

OSCEOLA HYDROCARBONS LIMITED

Consolidated Income Statement
for the year ended 30 June 2009

	Notes	2009 US$	2008 US$
Continuing operations:			
Revenue		-	-
Gross profit/(loss)		-	-
Administrative expenses		(1,106,220)	(919,879)
Operating loss	2	(1,106,220)	(919,879)
Finance income	4	237,159	296,075
Loss before taxation		(869,061)	(623,804)
Taxation	5	-	-
Share of losses of associates	10	(354,377)	-
Loss for the financial year		(1,223,438)	(623,804)
Attributable to:			
Equity shareholders of the Company		(1,223,438)	(623,804)
Loss per share from continuing operations			
Basic and diluted loss per share (cents)	6	(0.54)	(0.50)

OSCEOLA HYDROCARBONS LIMITED

Consolidated Balance Sheet
as at 30 June 2009

	Notes	2009	2008
Assets		**US$**	**US$**
Non-current assets			
Property, plant and equipment	7	6,418,343	528,219
Intangible assets	8	10,983,087	3,995,928
Investments in associates	10	145,623	-
Available-for-sale financial assets	11	1,609,303	-
		19,156,356	4,524,147
Current assets			
Non-current assets held for sale	12	464,319	-
Trade and other receivables	13	13,763	4,076
Cash and cash equivalents	14	4,282,498	5,878,072
		4,760,580	5,882,148
Total assets		23,916,936	10,406,295
Equity and liabilities			
Capital and reserves attributable to the Company's equity shareholders			
Share capital	15a	1,175,438	820,515
Share premium account		26,247,549	9,841,268
Foreign exchange translation reserve		(2,575,359)	(216,322)
Retained earnings		(1,423,692)	(671,418)
Share-based payment reserve		107,848	38,658
Total equity		23,531,784	9,812,701
Current liabilities			
Trade and other payables	21	178,066	593,594
Non-current liabilities			
Deferred tax	5	207,086	-
Total liabilities		385,152	593,594
Total equity and liabilities		23,916,936	10,406,295

The financial statements were approved by the Board of Directors on 25 March 2010 and were signed on its behalf by:

David Bramhill, Director

OSCEOLA HYDROCARBONS LIMITED

Consolidated Statement of Changes in Equity
for the year ended 30 June 2009

	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 2008	820,515	9,841,268	(216,322)	(671,418)	38,658	9,812,701
For the year ended 30 June 2009:						
Loss for the year	-	-	-	(1,223,438)	-	(1,223,438)
Share based payments	-	-	-	-	69,190	69,190
Issue of share capital	354,923	16,681,386	-	-	-	17,036,309
Issue costs	-	(275,105)	-	-	-	(275,105)
Gain on available-for-sale investments	-	-		678,250	-	678,250
Tax on gain on available-for-sale investments	-	-	-	(207,086)	-	(207,086)
Foreign exchange losses on consolidation	-	-	(2,359,037)	-	-	(2,359,037)
Balance at 30 June 2009	**1,175,438**	**26,247,549**	**(2,575,359)**	**(1,423,692)**	**107,848**	**23,531,784**
Balance at 1 July 2007	148,716	-	289	(47,614)	-	101,391
For the year ended 30 June 2008:						
Loss for the year	-	-	-	(623,804)	-	(623,804)
Share based payments	-	-	-	-	38,658	38,658
Issue of share capital	671,799	10,077,042	-	-	-	10,748,841
Issue costs	-	(235,774)	-	-	-	(235,774)
Foreign exchange gains on consolidation	-	-	(216,611)	-	-	(216,611)
Balance at 30 June 2008	**820,515**	**9,841,268**	**(216,322)**	**(671,418)**	**38,658**	**9,812,701**

OSCEOLA HYDROCARBONS LIMITED

Consolidated Cash Flow Statement
for the year ended 30 June 2009

	Notes	2009 US$	2008 US$
Cash flow from operating activities	27	(1,883,898)	(1,269,846)
Cash flow from investing activities			
Purchase of intangible assets		(7,042,000)	(3,393,503)
Purchase of property, plant and equipment		(6,274,429)	(515,137)
Purchase of available-for-sale investments		(908,449)	-
Investments in associates	10	(500,000)	-
Interest received		237,159	296,075
Net cash used in investing activities		(14,487,719)	(3,612,565)
Cash flow from financing activities			
Proceeds on issue of new shares		17,036,309	10,748,841
Expenses of new share issue		(275,105)	(235,774)
Net cash generated from financing activities		16,761,204	10,513,067
Net increase in cash and cash equivalents		389,587	5,630,656
Cash and cash equivalents at beginning of financial year		5,878,072	463,192
Effects of exchange rate changes		(1,985,161)	(215,776)
Cash and cash equivalents at end of financial year	14	4,282,498	5,878,072

OSCEOLA HYDROCARBONS LIMITED

Notes to the Consolidated Financial Statements
for the year ended 30 June 2009

1 Segmental Reporting

Primary reporting format – business segments

The Group operates in one business segment, the production of, exploration for and investment in hydrocarbons.

Secondary reporting format – geographical segments

For management purposes, the Group is organised and reports its performance in one geographical segment, North America.

2 Operating Loss

Operating loss is stated after charging:	**2009** **US$**	**2008** **US$**
Fees payable to the Company's auditor for the audit of the annual statements	34,635	22,619
Fees payable to the Company's auditor and its associates for other services:		
Other services relating to taxation	6,444	8,042
Research costs	248,409	359,479
Equity settled share-based payments	69,190	38,658

3 Directors and Employees

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

	2009 **US$**	**2008** **US$**
Staff costs		
Wages and salaries	272,675	80,221
Social security costs	29,022	8,935
	301,697	89,156
Equity settled share-based payments	18,549	8,237
	320,246	97,393

3 Directors and Employees (continued)

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

	2009 No.	2008 No.
UK	1	1
US	1	1
	2	2

4 Finance Income

	2009 US$	2008 US$
Bank interest	237,159	296,075

5 Taxation

There was no current tax charge for the year due to the loss incurred (2008: US$nil).

A deferred tax charge of $207,086 arising on gains on available-for-sale financial assets was recognised in equity during the year (2008: US$nil).

Reconciliation of the effective tax rate	2009 US$	2008 US$
Loss before taxation	(1,223,438)	(623,804)
Loss before tax multiplied by standard rate of corporation tax in the UK of 28% (2008: 29.5%)	(342,563)	(184,022)
Tax effects of:		
Other expenses not deductible for tax purposes	120,955	4,636
Tax losses not utilised within the year	221,608	179,386
Tax expense and effective tax rate	-	-

5 Taxation (continued)

The amount of unutilised trading losses are as follows:

	2009 **US$**	**2008** **US$**
Unutilised trading losses	415,278	193,670
Tax relief on share based payments	228,153	21,869

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:

	2009 **US$**	**2008** **US$**
Deferred tax liabilities	207,086	-

6 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

	2009 **US$**	**2008** **US$**
Total basic loss per share	(0.54)	(0.50)

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

	2009 **US$**	**2008** **US$**
Earnings used in the calculation of total basic and diluted earnings per share being net loss attributable to equity shareholders	(1,223,438)	(623,804)

6 Loss Per Share (continued)

	2009 Number	2008 Number
Number of shares		
Weighted average number of ordinary shares for the purposes of basic earnings per share	225,882,858	123,843,530

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:

	2009 Number	2008 Number
Number of shares		
Weighted average number of ordinary shares for the purposes of diluted earnings per share	236,082,858	129,548,995

7 Property, Plant and Equipment

	Leasehold land US$	Plant and equipment US$	Total US$
Cost			
At 1 July 2007	-	-	-
Additions	453,552	79,300	532,852
At 30 June 2008	453,552	79,300	532,852
Additions	5,423,343	862,287	6,285,630
At 30 June 2009	5,876,895	941,587	6,818,482
Accumulated Depreciation			
At 1 July 2007	-	-	-
Charge	3,641	992	4,633
At 30 June 2008	3,641	992	4,633
Charge	386,106	9,400	395,506
At 30 June 2009	389,747	10,392	400,139
Net book value			
At 30 June 2009	5,487,148	931,195	6,418,343
At 30 June 2008	449,911	78,308	528,219

OSCEOLA HYDROCARBONS LIMITED

Notes to the Consolidated Financial Statements
for the year ended 30 June 2009 (continued)

8 Intangible Assets

	Exploration costs US$	Royalty interests US$	Total US$
Cost			
At 1 July 2007	141,032	-	141,032
Additions	3,855,731	-	3,855,731
Foreign exchange variance	(835)	-	(835)
At 30 June 2008	3,995,928	-	3,995,928
Additions	7,419,223	100,000	7,519,223
Transfers to assets held for sale	(464,319)	-	(464,319)
Foreign exchange variance	(67,745)	-	(67,745)
At 30 June 2009	10,883,087	100,000	10,983,087
Amortisation			
At 1 July 2007	-	-	-
Charge	-	-	-
At 30 June 2008	-	-	-
Charge	-	-	-
At 30 June 2009	-	-	-
Net book value			
At 30 June 2009	10,883,087	100,000	10,983,087
At 30 June 2008	3,995,928	-	3,995,928

Management review each exploration project for indication of impairment at each balance sheet date.

At the balance sheet date there were no indications of impairment in respect of any of the projects.

9 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%
Marion Trenton	Oil and gas development	28%
Big Sky	Oil and gas development	50%
Twin Buttes	Oil and gas development	50%
Shogun	Oil and gas development	50%
Centurion	Oil and gas development	50%
PEDL 238	Oil and gas development	50%
PEDL 239	Oil and gas development	25%
PEDL 089(B) and UKCS (Offshore) P1153	Oil and gas development	5%
SADR Bojador Block	Oil and gas development	40%
SADR Guelta Block	Oil and gas development	40%

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.

10 Investment in Associates

During the year the Group entered into a 45% 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.

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

	2009 US$	2008 US$
Total assets	326,090	-
Total liabilities	(2,484)	-
Net assets	323,606	-
Group's share of net assets of associate	145,623	-

10 Investment in Associates (continued)

	2009 US$	2008 US$
Total loss for the period	(787,505)	-
Group's share of losses of associate	(354,377)	-

There are no contingent liabilities.

11 Available for Sale Financial Assets

	2009 US$	2008 US$
Available-for-sale financial assets	1,609,303	-

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

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

	2009 US$	2008 US$
At beginning of the year	-	-
Additions	908,449	-
Foreign exchange differences	22,604	-
Revaluation through equity	678,250	-
At end of the year	1,609,303	-

12 Non-current assets held for sale

	2009 US$	2008 US$
Exploration assets held for sale	464,319	-

Prior to the end of the financial year, the Group announced a plan to dispose of its non-US exploration projects to Wessex Exploration plc. The transaction took place on 29 October 2009 and is disclosed in note 23.

13 Trade and Other Receivables

	2009 US$	2008 US$
Other receivables	-	3,520
Prepayments and accrued income	13,763	556
	13,763	4,076

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 2009 (2008: US$nil).

No unimpaired receivables are past due as at the reporting date (2008: US$nil).

14 Cash and Cash Equivalents

	2009 US$	2008 US$
Cash at bank (GBP)	3,967,687	3,716,601
Cash at bank (USD)	314,811	2,161,471
	4,282,498	5,878,072

15 a) Share Capital

	2009 £	2008 £
Authorised		
500,000,000 shares of 0.25 pence	1,250,000	1,250,000
	US$	**US$**
Allotted, issued and fully paid		
240,486,724 shares (2008: 161,656,750 shares) of 0.25 pence	1,175,438	820,515

Allotments during the year

During the year ended 30 June 2009 the Company issued a total 78,829,974 ordinary shares (2008: 131,656,750) for a premium, net of issue costs, of US$16,406,281 (2008: US$9,841,268)

15 a) Share Capital (continued)

Date	Price per share (Sterling)	Number of shares issued	Total consideration received (US$)
1 September 08	12p	74,547,909	16,009,549
12 December 08	12p	4,182,065	734,395
31 December 08	12p	100,000	17,260
		78,829,974	16,761,204

15 b) Share-Based Payments – Options

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

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

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

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

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

	2008	
	Number of Options	**WAEP £**
Outstanding at the beginning of the year	3,200,000	0.01
Granted during the year	7,000,000	0.04
Outstanding at the year end	10,200,000	0.03
Number of options exercisable at 30 June 2008	-	-

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

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

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

The Group recognised total expenses of US$69,190 (2008: US$38,658) related to equity-settled share-based payment transactions during the year.

16 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 2009	Available-for-sale US$	Loans and other receivables US$	Total carrying value US$
Available-for-sale financial assets	1,609,303	-	1,609,303
Cash and cash equivalents	-	4,282,498	4,282,498
	1,609,303	4,282,498	5,891,801

At 30 June 2008	Loans and other receivables US$	Total carrying value US$
Other receivables	3,520	3,520
Cash and cash equivalents	5,878,072	5,878,072
	5,881,592	5,881,592

All of the above financial assets' carrying values approximate to their fair values, as at 30 June 2009 and 2008.

Financial liabilities

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

16 Financial Instruments (continued)

Financial liabilities (continued)

At 30 June 2008	Measured at amortised cost US$	Total carrying value US$
Trade payables	502,089	502,089
Accruals	91,505	91,505
	593,594	593,594

All of the above financial liabilities' carrying values approximate to their fair values, as at 30 June 2009 and 2008, given their nature and short times to maturity.

17 Financial Instrument Risk Exposure and Management

The principal financial risks to which the Group is exposed are: foreign currency exchange rate risk; interest rate risk; liquidity risk, equity price risk and credit risk. This note describes the Group's objectives, policies and process for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented in notes 11, 13, 17 and 18.

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

Liquidity risk

Liquidity risk is dealt with in note 18 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 Group does not have a significant concentration of risk, with exposure spread over a number of third parties.

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$5,891,801 (2008: US$5,881,592).

17 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	**2009 US$**	**Change in interest rate**	**2008 US$**
Sterling	+0.5%	19,211	+0.5%	10,449
	+1.0%	38,421	+1.0%	20,899
	+1.5%	57,632	+1.5%	31,348
	-0.5%	(19,211)	-0.5%	(10,449)
	-1.0%	(38,421)	-1.0%	(20,899)
	-1.5%	(57,632)	-1.5%	(31,348)
Dollars	+0.5%	6,191	+0.5%	5,404
	+1.0%	12,381	+1.0%	10,807
	+1.5%	18,572	+1.5%	16,211
	-0.5%	(6,191)	-0.5%	(5,404)
	-1.0%	(12,381)	-1.0%	(10,807)
	-1.5%	(18,572)	-1.5%	(16,211)

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 2009 would increase the value of the financial assets and equity by US$80,465 (2008: US$nil). A 5% decrease in the value of positions held on at 30 June 2009 would decrease the value of the financial assets and equity by US$80,465 (2008: US$nil).

17 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.

	Change in US$/GBP exchange rate	2009 US$	Change in US$/GBP exchange rate	2008 US$
Sterling	+0.5%	238,222	+0.5%	195,948
	-0.5%	(238,222)	-0.5%	(195,948)

18 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 2009 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 2009					
Trade payables	3,384	3,384	-	-	-
Accruals	174,682	-	174,682	-	-
	178,066	3,384	174,682	-	-
At 30 June 2008					
Trade payables	502,089	502,089	-	-	-
Accruals	91,505	-	91,505	-	-
	593,594	502,089	91,505	-	-

19 Capital Management

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

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

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

20 Financial Commitments

The Group had no capital commitments at 30 June 2009 (2008: US$nil).

21 Trade and Other Payables

	2009 US$	2008 US$
Trade payables	3,384	502,089
Accruals	174,682	91,505
	178,066	593,594

22 Related Party Transactions

On 29 June 2009, the Group acquired a 50% interest in the Centurion project from Nighthawk Energy plc. This constitutes a related party transaction, due to the shareholdings in that company held by the directors of the Group.

In addition, Michael Thomsen and David Bramhill are directors of Nighthawk Energy plc.

Analysis of assets acquired:

22 Related Party Transactions (continued)

	Book value US$	Fair value adjustment US$	Fair value on acquisition US$
Non-current assets:			
Intangible assets	4,051,704	107,163	4,158,867
Property, plant and equipment	841,133	-	841,133
Net assets acquired	4,892,837	107,163	5,000,000
Total cash consideration and net cash outflow on acquisition			5,000,000

No goodwill arose on this acquisition.

As the interest in the Centurion project was acquired on the penultimate day of the financial year, there is no material profit or loss from the project included in the reported loss for the year.

The Group also incurred costs of US$nil from a related company, Wessex Exploration plc, in relation to consultancy fees (2008: US$97,512)

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

	Short-term benefits 2009 US$	2008 US$
Directors' remuneration:		
Mr D Bramhill	296,707	88,459
Mr M Thomsen	222,792	113,332
Mr D Racher	-	-
Mr F Dekker	-	-
	519,499	201,791

In addition to the remuneration shown above, the Group incurred share-based payment charges of US$38,411 (2008: US$25,017) in respect of the above named directors and key management.

23 Events After the Balance Sheet Date

On 29 October 2009 the Company completed an agreement to sell its entire portfolio of non-US projects to Wessex Exploration plc, a UK registered company listed on the PLUS market, with interests in similar international assets (and also holding positions in some of the same projects as Osceola), for a purchase consideration of cost +10%, to include all management costs since the acquisition of the projects.

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 2009.

26 Ultimate Controlling Party

As at 30 June 2009, Osceola Hydrocarbons Limited had no ultimate controlling party.

27 Cash Flow from Operating Activities

	2009 US$	2008 US$
Loss for the financial year	(1,223,438)	(623,804)
Investment income	(237,159)	(296,075)
Loss from associates	354,377	-
Transfer to share option reserve	69,190	38,658
Net foreign exchange gain	(328,736)	-
	(1,365,766)	(881,221)
Changes in working capital		
Increase in trade and other receivables	(9,687)	(4,076)
Decrease in trade and other payables	(508,445)	(384,549)
Net cash outflow from operating activities	(1,883,898)	(1,269,846)

Nexia Smith & Williamson

Independent auditors report to the Members of Osceola Hydrocarbons Limited for the year ended 30 June 2009

We have audited the Parent Company financial statements of Osceola Hydrocarbons Limited for the year ended 30 June 2009 which comprise the Parent Company Balance Sheet and the related notes 1 to 12. 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 Directors' Responsibilities Statement set out on page 5, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the Parent Company financial statements:

- give a true and fair view of the state of the Parent Company's affairs as at 30 June 2009;
- 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 matter prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

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

Independent auditors report to the Members of Osceola Hydrocarbons Limited for the year ended 30 June 2009 (continued)

Other matters

We have reported separately on the consolidated financial statements of Osceola Hydrocarbons Limited for the year ended 30 June 2009.

Natasha Lee

Senior Statutory Auditor,
for and on behalf of

Nexia Smith & Williamson
Statutory Auditor
Chartered Accountants

25 Moorgate
London
EC2R 6AY

25 March 2010

OSCEOLA HYDROCARBONS LIMITED

Parent Company Balance Sheet
as at 30 June 2009

	Notes	2009	2008
		£	£
Fixed assets			
Tangible fixed assets	2	509,006	-
Intangible assets	3	2,897,685	189,948
Investments	4	248,860	-
Investment in subsidiaries	4	8,054,738	-
Investment in associate	4	317,819	-
		12,028,108	189,948
Current assets			
Debtors: amounts falling due within one year	5	8,333	2,044
Debtors: amounts falling due after more than one year	6	-	3,096,644
Cash at bank		2,544,965	1,964,962
		2,553,298	5,063,650
Creditors: amounts falling due within one year	7	(94,451)	(48,527)
Net current assets		2,458,847	5,015,123
Net assets		14,486,955	5,205,071
Capital and reserves			
Called up share capital	8	601,217	404,142
Share premium account	9	13,931,403	4,821,636
Share-based payment reserve	9	61,275	19,383
Profit and loss account	9	(106,940)	(40,090)
Shareholders' funds		14,486,955	5,205,071

The financial statements were approved by the Board of Directors on 25 march 2010 and were signed on its behalf by:

David Bramhill,
Director

Notes to the Parent Company Financial Statements
for the year ended 30 June 2009

1 Accounting Policies

Basis of Preparation

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

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

As permitted by section 408 of Companies Act 2006, a separate profit and loss account for the Company has not been included in these financial statements. The Company's loss for the year ended 30 June 2009 was £66,850.

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

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

Financial Instruments

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

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

Interest is credited to the profit and loss account in the period to which it relates.

Foreign Currency

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

Tangible Fixed Assets

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

Plant and machinery	5%
Leasehold land	10%

Share-Based Payments

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

1 Accounting Policies (continued)

Share-Based Payments (continued)

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

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

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

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

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

Investments

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

Deferred Taxation

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

Exploration Costs

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

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

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

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

1 Accounting Policies (continued)

Exploration Costs (continued)

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.

2 Tangible fixed assets

	Leasehold land £	Plant and machinery £	Total £
Cost			
At 1 July 2008	-	-	-
Additions	89,665	419,341	509,006
At 30 June 2009	89,665	419,341	509,006
Accumulated Depreciation			
At 1 July 2008 and 30 June 2009	-	-	-
Net book value			
At 30 June 2009	89,665	419,341	509,006
At 30 June 2008	-	-	-

3 Intangible Assets

	Exploration costs £
Cost	
At 1 July 2008	189,948
Additions	2,707,737
At 30 June 2009	2,897,685
Accumulated Depreciation	
At 1 July 2008 and 30 June 2009	-
Net book value	
At 30 June 2009	2,897,685
At 30 June 2008	189,948

Notes to the Parent Company Financial Statements
for the year ended 30 June 2009 (continued)

4 Investments

	Investments	Investments in subsidiaries	Investment in associate	Total
	£	£	£	£
Cost				
At 1 July 2008	-	-	-	-
Re-classification from debtors due after more than one year	-	3,096,644	-	3,096,644
Additions	248,860	4,958,094	317,819	5,524,773
At 30 June 2009	248,860	8,054,738	317,819	8,621,417

The Company holds a 45% investment in the ordinary shares in Altawind Inc, a wind energy company which is incorporated in the USA.
The market value of listed investments held at 30 June 2009 was £482,404.

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

The book value of investments as at 30 June 2008 and 2009 was £nil.

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

5 Debtors: Amounts Falling Due Within One Year

	2009	2008
	£	£
Other debtors	-	1,765
Prepayments	8,333	279
	8,333	2,044

6 Debtors: Amounts Falling Due After More Than One Year

	2009	2008
	£	£
Amounts owed by Group subsidiary undertakings	-	3,096,644

7 Creditors: Amounts Falling Due Within One Year

	2009 £	2008 £
Trade creditors	1,704	13,427
Accruals	92,747	35,100
	94,451	48,527

8 a) Share Capital

	2009 £	2008 £
Authorised		
500,000,000 shares of 0.25 pence	1,250,000	1,250,000
	£	£
Allotted, issued and fully paid		
240,486,724 shares (2008: 161,656,750 shares) of 0.25 pence	601,217	404,142

Allotments during the year

During the year ended 30 June 2009 the Company issued a total 78,829,974 ordinary shares (2008: 131,656,750) for a premium, net of issue costs, of £9,109,767 (2008: £4,821,636)

Date	Price per share (£)	Number of shares issued	Total consideration received (£)
1 September 08	12p	74,547,909	8,801,292
12 December 08	12p	4,182,065	493,744
31 December 08	12p	100,000	11,806
		78,829,974	9,306,842

8 b) Share-Based Payments – Options

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

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

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

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

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

	2008	
	Number of options	**WAEP £**
Outstanding at the beginning of the year	3,200,000	0.01
Granted during the year	7,000,000	0.04
Outstanding at the year end	10,200,000	0.03
Number of options exercisable at 30 June 2008	-	-

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

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

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

The Company recognised total expenses of £41,892 (2008: £19,383) related to equity-settled share-based payment transactions during the year.

Notes to the Parent Company Financial Statements
for the year ended 30 June 2009 (continued)

9 Reserves

	Share premium account £	Profit and loss account £	Shares options reserve £	Total £
As at 1 July 2008	4,821,636	(40,090)	19,383	4,800,929
Issue of share capital	9,262,522	-	-	9,262,522
Issue costs	(152,755)	-	-	(152,755)
Issue of share based payments	-	-	41,892	41,892
Loss for the year	-	(66,850)	-	(66,850)
As at 30 June 2009	13,931,403	(106,940)	61,275	13,885,738

10 Reconciliation of Movement in Shareholders' Funds

	2009 £	2008 £
Loss for the financial year	(66,850)	(15,626)
Issue of shares	9,459,597	5,266,293
Issue costs	(152,755)	(115,515)
Shares to be issued	41,892	19,383
Net increase in shareholders' funds	9,281,884	5,154,535
Shareholders' funds at 1 July 2008	5,205,071	50,536
Shareholders' funds at 30 June 2009	14,486,955	5,205,071

11 Related Party Transactions

The Company incurred £nil of costs in 2009 from a related company, by virtue of having common directors, Wessex Exploration plc, in relation to consultancy fees (2008: £48,500)

The acquisition of the Company's 50% joint venture interest in the Centurion project from Nighthawk Energy plc constitutes a related party transaction, due to the shareholdings in that company held by the directors of the Company.

In addition, Michael Thomsen and David Bramhill are directors of Nighthawk Energy plc.

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

	Salaries and Fees	
	2009	**2008**
	£	**£**
Directors' remuneration:		
Mr D Bramhill	169,300	40,000
Mr M Thomsen	-	-
Mr D Racher	-	-
Mr F Dekker	-	-
	169,300	40,000

In addition to the remuneration shown above, the Company incurred share-based payment charges of £23,257 (2008: £12,443) in respect of the above named directors.

12 Events After the Balance Sheet Date

On 29 October 2009 the Company completed an agreement to sell its entire portfolio of non-US projects to Wessex Exploration plc, a UK registered company listed on the PLUS market, with interests in similar international assets (and also holding positions in some of the same projects as Osceola), for a purchase consideration of cost +10%, to include all management costs since the acquisition of the projects.