



OSCEOLA

HYDROCARBONS LIMITED

Osceola Hydrocarbons Limited
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Dear Shareholder,

I am pleased to be able to write to you with an update covering a number of corporate and operational aspects in respect of Osceola Hydrocarbons Limited ("Osceola" or "the Company").

The aspirations of building a successful company remain on track and we have many of the elements already in place to achieve our goal.

Since June 2010 a number of initiatives have been/are being implemented in preparation for the proposed admission of Osceola to the AIM market of the London Stock Exchange in Q2 2011.

I am delighted to inform shareholders that significant progress has been made and WHI Ireland ("WHI") has been engaged as broker and adviser to the Company in respect of the planned AIM admission. In addition, all other advisers have been either engaged or have agreed to act for the Company in respect of the AIM admission process and to act for the Company in the future.

A number of corporate actions need to take place before the application for AIM admission can be made. To this end a Circular will be posted to shareholders (other than those in certain restricted jurisdictions) on or around 10 January 2011. Within this Circular will be details of an Open Offer and Placing, certain corporate changes and approvals which are required in connection with the proposed admission to AIM and a notice of a General Meeting, planned for 4 February 2011.

The approvals to be voted upon include the:

- change of the name of the Company to Bluebird Energy Limited
- re-registration of the Company as a public company (the "Re-registration")
- reduction of the Company's share capital to enable the Re-registration
- adoption of new Articles of Association appropriate for an AIM company

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The Board of Directors has been restructured and strengthened to comply with the needs of a publicly quoted company and two new directors have been appointed replacing Michael Thomsen and Joe O`Farrell.

I am delighted to announce that Andy Yeo has accepted the role of Managing Director. Following this appointment I have taken the role of Chairman.

Andy has more than 20 years experience in multi-discipline corporate advisory and stock broking activities within the AIM, small and mid-cap companies, including being a founder member of Evolution Securities where he was an executive director and Head of Research. Most recently he has been retained as a Capital Markets consultant by McCall, Aitken McKenzie & Co, a private equity advisory specialist in the international hydrocarbon sector.

In addition, Andy is a non executive director of Wessex Exploration PLC, also expected to gain admission to AIM in Q1 2011.

To support our technical base John Michaels has been appointed as a non executive director. John, a geologist with over twenty years of hydrocarbon industry experience brings excellent credentials, with BA and MSc degrees in Petroleum Geology. John spent a number of years working for BP Exploration before moving into international consultancy and business development. He is also a full member of the American Association of Petroleum Geologists (AAPG); the Society of Petroleum Engineers (SPE) and the Petroleum Exploration Society of Great Britain (PESGB).

In addition, John is the principal of ShaleGas Resources Limited ("SGR"). In this capacity SGR has been contracted exclusively to source and project manage new shale gas opportunities in Europe on behalf of Osceola. The shale gas focus will complement the low risk onshore Centurion project in North America, which is already yielding cash flows to the Company and is regarded by the Directors as a development, rather than exploration project.

The upside potential for shale gas is significant and well documented, especially in the United States. A land grab is underway in Europe. Exxon Mobil is active in this sector in Lower Saxony, ConocoPhillips is active in Poland, Austria`s OMV is exploring near Vienna and Shell is targeting Sweden. The United Kingdom is also seeing activity in this sphere.

There are several European countries that are lagging behind their neighbours in respect of shale gas exploration. These countries, considered to have comparable exploration upside to the regions highlighted above, will be targeted by Osceola with a view to successfully securing multiple shale gas related licences in a timely manner. During the evaluation and licence acquisition period the Company will keep the location of target areas confidential for obvious commercial reasons. The Competent Persons Report ("CPR") will be undertaken by Molten UK, a niche consultancy company and will form part of the AIM admission document. By the time this is published it is expected to include full details and independent opinion on Osceola`s shale gas targets.

To complete the Board by the time of the planned AIM admission, a further non executive director will be appointed and will form part of the Audit and Remuneration Committees.

Going forward, careful deliberation has been applied to our existing asset portfolio which is primarily onshore North America.

The strategy of the Company remains to offer shareholders and potential investors a balanced and selective hydrocarbon investment play with production, development, and exploration potential as well as assets generating positive cash flows.

Osceola is already in the position of holding a substantial interest in the relatively low cost, conventional production and development Centurion project.

Centurion

This conventional oil development project and potentially unconventional oil development project, 50% held by Osceola is located in Sumner County, Kansas and covers approximately 14,600 acres.

The geology of the Centurion project area within the 8,000 square mile Sedgwick Basin is well understood with reservoirs being structurally controlled and showing good to excellent porosity and permeability.

Three wells have been in production since late 2009 and the net cash flow to Osceola for the year ended 30 June 2010 is in excess of US\$300,000. Production is from the Mississippian "chat" reservoir from an average depth of 3,400 feet. The oil gravity quality is very good with API's being recorded as high as 40. There is a ready market for our product, currently being sold to Plains Marketing Limited, one of the largest distributors in the United States. In addition, a water disposal well is in operation.

The bulk of acreage held comprises the prolific Sauzek oil field where exploration and development has been continuous since the 1920s.

In addition to conventional hydrocarbons the Company is also evaluating the unconventional Chattanooga ("Woodford") shale that is productive to the south in Oklahoma and other regional areas. The Chattanooga shale displays geological and geophysical similarities to the members of the Woodford shale of the Anadarko Basin and the Bakken formation of the Williston Basin.

Hydrocarbon production from the Chattanooga shale within the surrounding area of Centurion is seeing increasing interest from such companies as Chesapeake and Atlas Energy. Drilling has already commenced south of Centurion by others and land prices are beginning to reflect this new interest with leased land transactions taking place at US\$200 per acre.

A three well programme is planned for early 2011, the results of which are expected to increase the production profile of Osceola and extend the oil field to the northeast and southwest. Each well is expected to cost US\$250,000 net to Osceola to completion and can be brought into production, if successful, in a matter of weeks. A seismic survey and further drilling is planned post flotation on AIM.

Marcellus Shale

Osceola holds a 78% interest in 4,817 acres (gross) in the highly regarded Marcellus Shale acreage in the Appalachian Basin in Pennsylvania.

This project has evolved and expanded from the Revloc project where Devonian Marcellus Shales were intersected during coal bed methane drilling.

The Marcellus Shale is a middle Devonian, black, low density carbonaceous shale that occurs below surface in large areas of Ohio, Virginia, Pennsylvania and New York.

Whilst the presence of natural gas has been well documented it was not until horizontal drilling and fracking techniques were applied that the full potential of the Marcellus Shale was understood and subsequently exploited resulting in it being upgraded to a “super giant” gas field. Pennsylvania State University has suggested the potential in excess of 4,300 trillion cubic feet of gas present in the entire formation.

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

Solitaire

The Solitaire project 100% owned by Osceola is a pure exploration venture covering approximately 43,600 acres in Kit Carson County, southeastern Colorado. The project primarily targets the Cretaceous Niobrara play currently being exploited by several companies in the region. Further potential production zones include the Lansing-Kansas City and Mississippian horizons.

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

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

Revloc

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

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

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

Strategically, Osceola is reviewing the status of this project.

Marion Trenton, Big Sky, Shogun and Twin Buttes

As mentioned earlier in this letter, careful deliberation has been given to each one of the assets within the Osceola portfolio and the respective merits of their inclusion going forward to the planned admission to AIM.

The decision to discontinue some early stage projects with high ongoing development costs namely Big Sky, Twin Buttes, Shogun and Marion Trenton has been made.

Investments

Wessex Exploration PLC

In October 2009, Osceola disposed of its entire non US portfolio to Wessex Exploration PLC ("Wessex") for a consideration of 30,716,600 ordinary shares at a price of 1.5 pence per share. These assets did not include the interest in the Guyane licence which has always been held by Wessex. Following this transaction Osceola held and continues to hold 54,049,934 shares representing approximately 14% of the issued share capital.

Subsequently, Tullow Oil has announced that together with partners Shell, Total, Northern Petroleum and Wessex the Zaedyus prospect with P10 volumes calculated to be 700 million barrels is expected to be to be spudded offshore Guyane in Q1 2011.

AltaWind Energy

Osceola holds an approximate 45% interest in AltaWind Energy, a wind energy company committed to the implementation of environmentally renewable energy solutions in the US. AltaWind is currently in discussion with a number of parties in respect of farming out some of its projects or a potential industry sale.

Royalties

A royalty investment or interest gives the owner a fixed share of the revenue, after costs, from the sale of hydrocarbons from a producing property. Royalty interests provide an alternative method of investment in the energy sector along with a monthly income as part of an attractive risk- reward profile.

Osceola holds a 5.3% royalty interest in Cimarron Properties operated by Madison Capital Investment LLC. The rate of return in respect of this investment since 2008 has ranged from 5.0% to 19%.

Investment in royalties will be part of Osceola's ongoing strategy for the future. The goal of Osceola is to become a cash generative venture in the medium term. The acquisition of royalty interests, of which the Company has prior experience, will play a part in this strategy.

Annual Report and Financial Statements

In principle, the financials are completed and await a director's review following the Technical Audit undertaken by Smith & Williamson, who will also be responsible for the financial reporting in respect of the planned AIM admission.

Given the importance of the resolutions to be proposed at the General Meeting, these will constitute Post Balance Sheet Events requiring disclosure in the accounts. Accordingly, following discussion with the Company's auditors it has been decided to defer the publishing of the financials until after the General Meeting convened on 4 February 2011. The date of issue of the Annual Report and financial statements is therefore expected to be on or around 16 February 2011, in advance of the statutory deadline of 31 March 2011.

The accounts will reflect some IFRS adjustments and impairments. Following this exercise the total assets on the balance sheet of the Company will show a figure in excess of US\$20,000,000.

A maiden revenue figure of approximately US\$320,000 will also be posted from production at Centurion.

Shareholders will note that the Circular contains a proposal for a reduction in the Company's share capital to eliminate the deficit on the Company's P&L reserves. This is a necessary pre-requisite to facilitate the Re-registration. The effect of the capital reduction will be to re-characterise the Company's share premium account as realised profits on the Company's balance sheet. This event will have no impact on the value of your shareholding and is being carried out primarily to enable the Company to obtain plc status, whilst also affording the Company strategic flexibility in respect of the implementation of possible future distributions. The capital reductions will take place as soon as practicable following the General Meeting on the assumption that the relevant resolutions are passed.

Open Offer and Placing

The Company is allowed to offer new shares directly to shareholders without a prospectus to a value of up to Euro 2.5 million.

The Company is raising just under the equivalent to this amount in Sterling via an Open Offer and Placing at a price of 5 pence per ordinary share. For every 8 shares purchased a warrant exercisable at 12 pence per share over an 18 month period will be given to subscribe for shares.

Dublin based stockbroker, Campbell O'Connor & Co. will be acting as receiving agents in respect of this Open Offer and Placing.

This is the first funding exercise since October 2008. The funds received from the Open Offer and Placing will be used to drill three wells at Centurion which are expected to increase production, fund the European shale gas projects for at least six months and pay for the planned AIM admission costs.

A further institutional fund raising exercise is expected to take place conditional on AIM admission.

Summary

On balance Osceola has emerged from the market downturn seen during the last two years relatively unscathed.

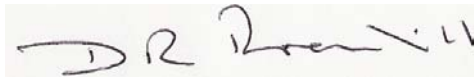
Osceola is now well prepared for the admission to AIM and I believe that we are going forward with an excellent team and projects that hold high potential for the future. However, as with all companies of this nature there remains risk. Osceola is not risk free.

Following the General Meeting and assuming that the resolutions are passed the Directors anticipate that the Company will gain admission to AIM with:

- a high upside, independently managed and focused European shale gas exploration project
- a conventional oil project already demonstrating cash flow and development potential
- unconventional hydrocarbon targets based around the Woodford and Marcellus shales

- 14% of Wessex Exploration PLC a company planning to gain admission to AIM in Q1 2011
- the 100% owned Solitaire project with drill-ready targets

To close, I hope that this update, as a precursor to the Circular to be sent to you in the next few days goes some way towards answering your questions and provides you with confidence in the future of your Company. As always, I would encourage you to contact me at any time should you have any further questions.



David Bramhill
Chairman