ODYSSEY
ENERGY LIMITED

ANNUAL FINANCIAL REPORT

30 JUNE 2010

ABN 73 116 151 636

CORPORATE DIRECTORY

DIRECTORS:	Mr Ian Middlemas – Chairman Mr Mark Pearce Mr David Cruse
COMPANY SECRETARY:	Mr Mark Pearce
REGISTERED AND PRINCIPAL OFFICE:	Level 9, BGC Centre 28 The Esplanade Perth WA 6000 Tel: +61 8 9322 6322 Fax: +61 8 9322 6558
SHARE REGISTER:	Computershare Investor Services Pty Ltd Level 2 45 St Georges Terrace Perth WA 6000 Tel: 1300 557 010 Int: +61 8 9323 2000 Fax: +61 9323 2033
STOCK EXCHANGE LISTING:	Australian Securities Exchange Home Branch – Perth 2 The Esplanade Perth WA 6000
ASX CODE:	ODY – Fully paid ordinary shares
SOLICITORS:	Hardy Bowen Lawyers
AUDITORS:	Deloitte Touche Tohmatsu

CONTENTS

The Directors of Odyssey Energy Limited present their report on the consolidated entity consisting of Odyssey Energy Limited ("the Company" or "Odyssey" or "Parent Entity") and the entities it controlled at the end of, or during, the year ended 30 June 2010 ("Consolidated Entity" or "Group").

DIRECTORS

The names of directors in office at any time during the financial year or since the end of the financial year are:

Mr Ian Middlemas
Mr Mark Pearce
Mr David Cruse

Unless otherwise disclosed, Directors held their office from 1 July 2009 until the date of this report.

CURRENT DIRECTORS AND OFFICERS

Ian Middlemas
Chairman
Qualifications – B.Com, CA

Mr Middlemas is a Chartered Accountant, a member of the Financial Services Institute of Australasia and holds a Bachelor of Commerce degree. He worked for a large international Chartered Accounting firm before joining the Normandy Mining Group where he was a senior group executive for approximately 10 years. He has had extensive corporate and management experience, and is currently a director with a number of publicly listed companies in the resources sector.

Mr Middlemas was appointed a Director and Chairman of the Company on 8 September 2005 and Chairman on 16 May 2007. During the three year period to the end of the financial year, Mr Middlemas has held directorships in Pacific Ore Limited (April 2010 – present), Wildhorse Energy Limited (January 2010 – present), Equatorial Resources Limited (November 2009 – present), WCP Resources Limited (September 2009 – present), Newport Mining Limited (September 2008 – August 2010), Global Petroleum Limited (April 2007 – present), Sovereign Metals Limited (July 2006 – present), Pacific Energy Limited (June 2006 – August 2010), Sierra Mining Limited (January 2006 – present), Mantra Resources Limited (September 2005 – present), Coalspur Mines Limited (March 2007 – present), Indo Mines Limited (December 2006 – June 2010), Neon Energy Limited (November 1995 – June 2010), QED Occtech Limited (July 2001 – February 2010), Fusion Resources Limited (May 2002 – March 2009), Mavuzi Resources Limited (January 2007 – March 2008) and Syngas Limited (May 2007 – February 2008).

Mark Pearce
Non-Executive Director and Company Secretary
Qualifications – B.Bus, CA, FCIS, F Fin

Mr Pearce is a Chartered Accountant and is currently a director of several listed companies that operate in the resources sector. He has had considerable experience in the formation and development of listed resource companies and has worked for several large international Chartered Accounting firms. Mr Pearce is also a Fellow of the Institute of Chartered Secretaries and a Fellow of the Financial Services Institute of Australasia.

Mr Pearce was appointed a Director and Company Secretary of the Company on 8 September 2005. During the three year period to the end of the financial year, Mr Pearce has held directorships in Pacific Ore Limited (April 2010 – present), Equatorial Resources Limited (November 2009 – present), WCP Resources Limited (September 2009 – present), Newport Mining Limited (September 2008 – present), Sovereign Metals Limited (July 2006 – present), Coalspur Mines Limited (March 2007 – present), Mantra Resources Limited (September 2005 – February 2010), QED Occtech Limited (November 2004 – February 2010), Fusion Resources Limited (May 2002 – February 2009), Mavuzi Resources Limited (January 2007 – June 2008) and Syngas Limited (May 2007 – January 2008).

DIRECTORS' REPORT
(Continued)

CURRENT DIRECTORS AND OFFICERS (Continued)

David Cruse
Non-Executive Director
Qualifications – B.Pharm

Mr Cruse has had a long career in commerce and finance. He was a stockbroker for over 20 years, where he held senior management positions and directorships in the stockbroking industry, with particular focus on capital markets. Recently, Mr Cruse has been involved in the identification and commercialisation of a number of resource (including oil and gas) projects.

Mr Cruse was appointed a director of Odyssey Energy Limited on 3 October 2008. During the three year period to the end of the financial year, Mr Cruse has held directorships in Sierra Mining Limited (January 2006 – March 2010).

PRINCIPAL ACTIVITIES

The principal activities of the Consolidated Entity during the financial year consisted of oil and gas exploration, appraisal and development activities. There has been no change in the nature of those activities.

EMPLOYEES

	2010	2009
The number of full time equivalent people employed by the Consolidated Entity at balance date	-	-

DIVIDENDS

No dividends have been declared, provided for or paid in respect of the year ended 30 June 2010 (2009: nil).

EARNINGS PER SHARE

	2010 Cents	2009 Cents
Basic loss per share	(11.75)	(23.65)
Diluted loss per share	(11.75)	(23.65)

CORPORATE STRUCTURE

Odyssey Energy Limited is a company limited by shares that is incorporated and domiciled in Australia. The Company has prepared a consolidated financial report including the entities it incorporated and controlled during the financial year.

CONSOLIDATED RESULTS

	2010 $	2009 $
Loss of the Continuing Entity before income tax expense	(6,835,137)	(11,777,803)
Loss of the Discontinued Entity before income tax expense	-	(1,975,882)
	(6,835,137)	(13,753,685)
Income tax expense	-	-
Net loss for the year	(6,835,137)	(13,753,685)

Review of Results

The consolidated loss for the 2010 financial year was $6,835,137 (2009: $13,753,685) and included the following material expenses:

- An expense for the impairment in the value of the investment in Marion Energy of $6,187,500; and

- Finance costs of $335,799.

REVIEW OF OPERATIONS

The Company continued to focus on identifying new business opportunities in the energy sector, and examined a number of oil and gas and other energy projects during the year.

Activities on the Company's McClain County Project are currently being limited to desktop reviews of geological information and monitoring activities and results of nearby projects, due to a prolonged reduction in US gas prices.

The Board notes that gas prices increased substantially earlier in the year, but are currently ranging from US$3.70 to the mid US$4 range. At this stage, gas prices would need to increase further before additional exploration activities would be undertaken.

Corporate and Financial Position

In March 2010 the Company announced that it will undertake a 1 for 1 non-renounceable entitlements issue to raise up to $2.74 million, before expenses to enable the Company to continue current activities and to pursue new opportunities in the resources sector.

However it has become apparent that the impending redemption of the Convertible Notes needs to be addressed in order for the Company to be in a suitable position to attract and complete new business opportunities.

The Board has recently announced that the Company will undertake a suitable recapitalisation process to place the Company in a position to acquire new projects and undertake initial exploration and appraisal activities.

As announced to the ASX, the Company has mandated Argonaut Capital, on a reasonable endeavours basis, to manage following recapitalisation process:

- Share Placement – the issue of up to 125 million shares at $0.02 per share. One option will also be granted for every two new shares subscribed for at no further consideration. These options will be exercisable at $0.05 on or before 31 December 2014;

- Debt for Equity – Conversion of up to $2.0 million of the debt relating to convertible notes into equity in the Company on the same terms as the share placement referred to above; and

- 1 for 2 non-renounceable entitlements issue - new shares under an entitlements issue will be offered at $0.02 per share with the same rights to options as the share placement.

The share placement and debt for equity conversion are subject to shareholder approval. The directors of the Company intend to seek shareholder approval for their respective participation in the share placement.

The entitlements issue will be undertaken after the completion of the share placement and debt for equity conversion.

The Company will no longer proceed with the previously announced entitlements issue and debt for equity conversion.

REVIEW OF OPERATIONS (Continued)

Business Strategies and Prospects

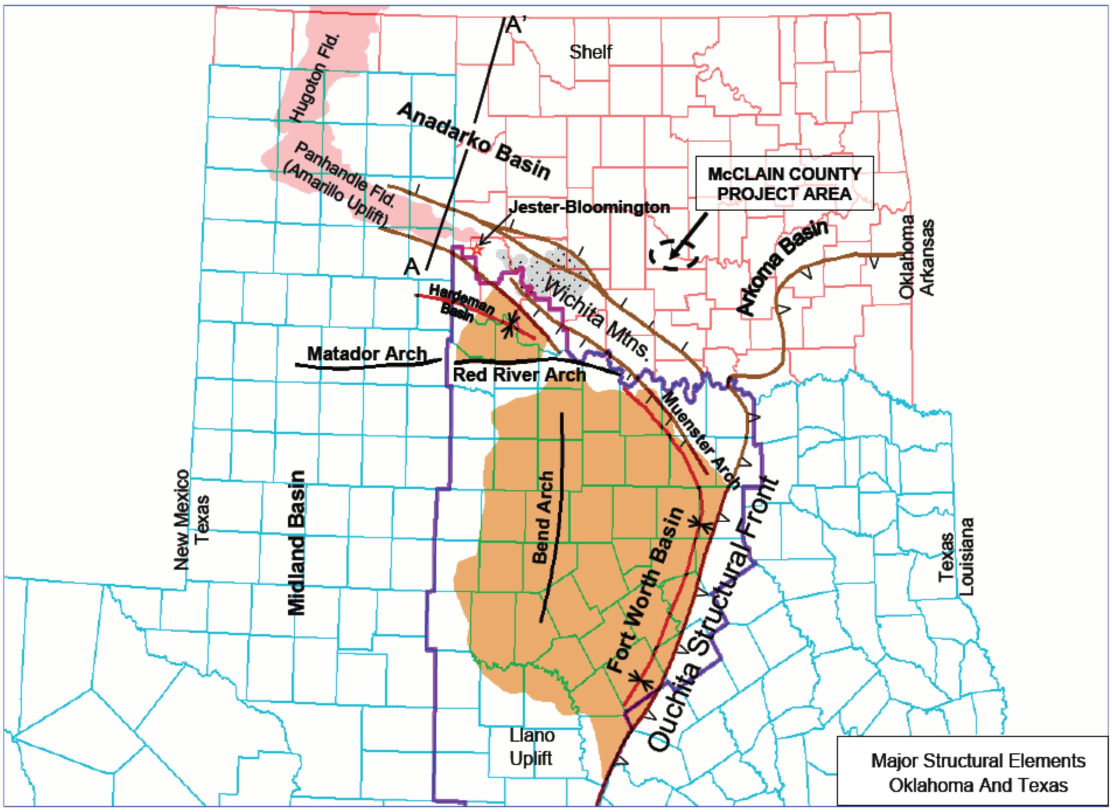
The Company currently has the following business strategies and prospects over the medium to long term:

- complete the recapitalisation of the Company (see above for details);
- assess options available to the Group in respect to the 27.5 million Marion Shares it now holds;
- continuing to examine other new business development opportunities in the energy sector; and
- seek to maximise the value of the Group's current oil and gas assets, located in Oklahoma, USA.

Operations

In mid 2008 Odyssey acquired a 50% working interest in a new project area in Oklahoma comprising 1,626 gross acres, and targeting gas and associated oil in the Woodford Shale at between 6,000 and 8,000 feet.

The Company is undertaking desktop geological and other technical studies which will, initially focusing on the results achieved by other operations in the area.



McClain County Oil & Gas Project, South-Central Oklahoma

Risk Management

The Board is responsible for the oversight of the Consolidated Entity's risk management and control framework. Responsibility for control and risk management is delegated to the appropriate level of management with the Managing Director having ultimate responsibility to the Board for the risk management and control framework.

Arrangements put in place by the Board to monitor risk management include regular reporting to the Board in respect of operations and the financial position of the Group.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

There were no significant changes in the state of affairs of the Group during the year other than the following:

- The fair value of the Company's shareholding in Marion Energy Limited reduced from $6,875,000 at 30 June 2009 to $687,500 at 30 June 2010 resulting in an impairment in value being recorded of $6,187,500.
- As a result of the decline in the fair value of this shareholding, the net assets of the Group reduced from $2,616,177 to a net liability of $4,155,481.

SIGNIFICANT POST BALANCE DATE EVENTS

Other than as outlined below as at the date of this report there are no matters or circumstances, which have arisen since 30 June 2010 that have significantly affected or may significantly affect:

- the operations, in financial years subsequent to 30 June 2010, of the Consolidated Entity;
- the results of those operations, in financials years subsequent to 30 June 2010, of the Consolidated Entity; or
- the state of affairs, in financial years subsequent to 30 June 2010, of the Consolidated Entity.

Recapitalisation of Company

As announced to the ASX on 30 September 2010, the Company has mandated Argonaut Capital, on a reasonable endeavours basis, to manage following recapitalisation process:

- Share Placement – the issue of up to 125 million shares at $0.02 per share. One option will also be granted for every two new shares subscribed for at no further consideration. These options will be exercisable at $0.05 on or before 31 December 2014;

- Debt for Equity – Conversion of up to $2.0 million of the debt relating to convertible notes into equity in the Company on the same terms as the share placement referred to above; and

- 1 for 2 non-renounceable entitlements issue - new shares under an entitlements issue will be offered at $0.02 per share with the same rights to options as the share placement.

The share placement and debt for equity conversion are subject to shareholder approval. The directors of the Company intend to seek shareholder approval for their respective participation in the share placement.

The entitlements issue will be undertaken after the completion of the share placement and debt for equity conversion.

The Company will no longer proceed with the previously announced entitlements issue and debt for equity conversion.

DIRECTORS' REPORT
(Continued)

ENVIRONMENTAL REGULATION AND PERFORMANCE

The Consolidated Entity's operations are subject to various environmental laws and regulations under the relevant government's legislation, including Oklahoma, USA. Full compliance with these laws and regulations is regarded as a minimum standard for all operations to achieve.

Instances of environmental non-compliance by an operation are identified either by external compliance audits or inspections by relevant government authorities. There have been no significant known breaches by the Consolidated Entity during the financial year.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

It is the Board's current intention that following the successful recapitalisation, the Group will seek to progress exploration, appraisal and field development activities on its remaining oil and gas projects. The Company will also continue to examine new opportunities in the energy sector. The Board will examine the most appropriate alternatives for the shareholding in Marion Energy.

These activities are inherently risky and there can be no certainty that the Group will be able to successfully achieve the objectives. In the opinion of the Directors, any further disclosure of information regarding likely developments in the operations of the Group and the expected results of these operations in subsequent financial years may prejudice the interests of the Company and accordingly further information has not been disclosed.

INFORMATION ON DIRECTORS' INTERESTS IN SECURITIES OF ODYSSEY

The following table sets out each Director's relevant interest in shares, options and convertible notes of the Company as at the date of this report:

	Interest in Securities at the date of this Report	
	Shares[1]	$0.65 Convertible Notes[3]
Ian Middlemas	2,900,000	-
David Cruse	453,000	77,000
Mark Pearce	1,016,000	-

Notes:
[1] "Shares" means fully paid ordinary shares in the capital of the Company.
[2] $1.00 "Unlisted Options" means an option to subscribe for 1 ordinary Share in the capital of the Company at an exercise price of $1.00 which expired on 31 December 2009.
[3] $0.65 "Convertible Notes" means an option to subscribe for 1 ordinary Share in the capital of the Company at an exercise price of $0.65.

SHARE OPTIONS

There are no share options on issue at 30 June 2010 and as at the date of this report.

During the year 1,400,000 share options lapsed. No shares were issued as a result of the exercise of share options.

MEETINGS OF DIRECTORS

The following table sets out the number of meetings of the Company's directors held during the year ended 30 June 2010, and the number of meetings attended by each director.

Current Directors	Board Meetings Number Eligible to Attend	Board Meetings Number Attended
Ian Middlemas	4	3
David Cruse	4	1
Mark Pearce	4	4

REMUNERATION REPORT - AUDITED

This Remuneration Report, which forms part of the Directors' Report, sets out information about the remuneration of Key Management Personnel **("KMP")** of the Group.

Details of Key Management Personnel

The KMP of the Group during or since the end of the financial year were as follows:

Non-Executive Directors

Mr Ian Middlemas	Non-Executive Chairman
Mr David Cruse	Non-Executive Director
Mr Mark Pearce	Non-Executive Director and Company Secretary

Unless otherwise disclosed, the KMP held their position from 1 July until the date of this report.

Remuneration Policy

The remuneration policy for the Group's KMP (including the Managing Director) has been developed by the Board taking into account:

- the size of the Group;
- the size of the management team for the Group;
- the nature and stage of development of the Group's current operations; and
- market conditions and comparable salary levels for companies of a similar size and operating in similar sectors.

In addition to considering the above general factors, the Board has also placed emphasis on the following specific issues in determining the remuneration policy for KMP:

- the Company is currently focused on identifying new business projects, and undertaking exploration, appraisal and development activities;
- risks associated with energy companies whilst acquiring, exploring and developing projects; and
- other than profit which may be generated from asset sales, the Company does not expect to be undertaking profitable operations until sometime after the successful commercialisation, production and sales of gas from one or more of its current projects, or the acquisition of a profitable project.

REMUNERATION REPORT – AUDITED (Continued)

Remuneration Policy (Continued)

Remuneration Policy for Executives

The Group's remuneration policy is to provide a fixed remuneration component and a performance based component (including options, see below). The Board believes that this remuneration policy is appropriate given the considerations discussed in the section above and is appropriate in aligning KMP objectives with shareholder and business objectives.

Fixed Remuneration

Fixed remuneration consists of base salaries, as well as employer contributions to superannuation funds and other non-cash benefits.

Fixed remuneration is reviewed annually by the Board. The process consists of a review of company and individual performance, relevant comparative remuneration externally and internally and, where appropriate, external advice on policies and practices.

Performance Based Remuneration – Short Term Incentive

Executives may be entitled to an annual cash bonus upon achieving various key performance indicators ("KPI's"), as set by the Board. The Board has focused the Consolidated Entity's efforts on finding and completing new business opportunities. The Board considers that the prospects of the Consolidated Entity and resulting impact on shareholder wealth are largely linked to the success of this approach, rather than by referring to current or prior year earnings.

Accordingly, the Board may pay a bonus to executive KMP's based on the success in generating suitable new business opportunities. A further bonus may also be paid upon the successful completion of a new business acquisition. No bonuses were paid during the current financial year.

Performance Based Remuneration – Long Term Incentive

The Board may issue incentive options to some executives as a key component of the incentive portion of their remuneration, in order to attract and retain the services of the executives and to provide an incentive linked to the performance of the Consolidated Entity. The Board considers that each executive's experience in the resources industry will greatly assist the Consolidated Entity in progressing its projects to the next stage of development and the identification of new projects. As such, the Board believes that the number of incentive options to be granted to executives will be commensurate to their value to the Consolidated Entity.

The Board has a policy of granting incentive options to executives with exercise prices at and/or above market share price (at the time of agreement). As such, incentive options granted to executives will generally only be of benefit if the executives perform to the level whereby the value of the Consolidated Entity increases sufficiently to warrant exercising the incentive options granted.

Other than service-based vesting conditions, there are not expected to be additional performance criteria on the incentive options granted to executives, as given the speculative nature of the Consolidated Entity's activities and the small management team responsible for its running, it is considered the performance of the executives and the performance and value of the Consolidated Entity are closely related.

The Company does not currently have a policy regarding executives entering into arrangements to limit their exposure to Incentive Options granted as part of their remuneration package.

Relationship between Remuneration of KMP and Shareholder Wealth

During the Company's project identification, acquisition, exploration and development phases of its business, the Board anticipates that the Company will retain earnings (if any) and other cash resources for the exploration and development of its resource projects. Accordingly the Company does not currently have a policy with respect to the payment of dividends and returns of capital. Therefore there was no relationship between the Board's policy for determining, or in relation to, the nature and amount of remuneration of KMP and dividends paid and returns of capital by the Company during the current and previous four financial years.

The Board did not determine, and in relation to, the nature and amount of remuneration of the KMP by reference to changes in the price at which shares in the Company traded between the beginning and end of the current and the previous four financial years. However, as noted above, a number of KMP have received Incentive Options which generally will only be of value should the value of the Company's shares increase sufficiently to warrant exercising the Incentive Options.

Relationship between Remuneration of KMP and Earnings

As discussed above, the Company is currently undertaking new project acquisition, exploration and development activities, and does not expect to be undertaking profitable operations (other than by way of material asset sales, none of which is currently planned) until sometime after the successful commercialisation, production and sales of commodities from one or more of its projects. Accordingly the Board does not consider earnings during the current and previous four financial years when determining, and in relation to, the nature and amount of remuneration of KMP.

Remuneration Policy for Non-Executive Directors

The Board policy is to remunerate Non-Executive Directors at market rates for comparable companies for time, commitment and responsibilities. Given the current size, nature and risks of the Company, incentive options have been used to attract and retain Non-Executive Directors. The Board determines payments to the Non-Executive

Directors and reviews their remuneration annually, based on market practice, duties and accountability. Independent external advice is sought when required.

The maximum aggregate amount of fees that can be paid to Non-Executive Directors is subject to approval by shareholders at a General Meeting. Total directors' fees paid to all non-executive directors is not to exceed $150,000 per annum. Director's fees paid to Non-Executive Directors accrue on a daily basis. Fees for Non-Executive Directors are not linked to the performance of the economic entity. However, to align Directors' interests with shareholder interests, the Directors are encouraged to hold shares in the Company and Non-Executive Directors may in limited circumstances receive incentive options in order to secure their services.

Fees for the Chairman are presently $36,000 (2009: $36,000) and fees for Non-Executive Directors' are presently $15,000 per annum (2009: $15,000). These fees cover main board activities only. Non-Executive Directors may receive additional remuneration for other services provided to the Company, including but not limited to, membership of committees.

General

In addition to a focus on operating activities, the Board is also focused on finding and completing new business and other corporate opportunities. The Board considers that the prospects of the Company and resulting impact on shareholder wealth will be enhanced by this approach. Accordingly, the Board may pay a bonus or issue securities to Key Management Personnel (executive or non-executive) based on their success in generating suitable new business or other corporate opportunities. A bonus may be paid or an issue of securities may also be made upon the successful completion of a new business or corporate transaction. No bonus was paid during the current financial year.

Where required, Key Management Personnel receive superannuation contributions, currently equal to 9% of their salary, and do not receive any other retirement benefit. From time to time, some individuals have chosen to sacrifice part of their salary to increase payments towards superannuation.

All remuneration paid to Key Management Personnel is valued at cost to the company and expensed. Incentive options are valued using the Binomial option valuation methodology. The value of these incentive options is expensed over the vesting period.

DIRECTORS' REPORT
(Continued)

REMUNERATION REPORT – AUDITED (Continued)

Remuneration of Key Management Personnel

Details of the nature and amount of each element of the remuneration of each director of the Company for the year ended 30 June 2010 are as follows (other than directors, there were no other key management personnel employed by the Group during the 2010 or 2009 financial years):

2010 Directors	Short-term Salary & Fees $	Short-term Other [3] $	Post-employment Super-annuation benefits $	Share based Payments Value of Unlisted Options $	Total $	Performance Related %
Mr Ian Middlemas (Chairman)	36,000	-	3,240	-	39,240	-
Mr David Cruse (Non-Executive Director)	15,000	-	1,350	-	16,350	-
Mr Mark Pearce (Non-Executive Director)	15,000	-	-	-	15,000	-
Total Remuneration – Directors	**66,000**	**-**	**4,590**	**-**	**70,590**	**-**

2009 Directors	Short-term Salary & Fees $	Short-term Other [3] $	Post-employment Super-annuation benefits $	Share based Payments Value of Unlisted Options $	Total $	Performance Related %
Mr Ian Middlemas (Chairman)	36,000	-	-	-	36,000	-
Mr David Cruse (Non-Executive Director)	11,096	-	-	-	11,096 [1]	-
Mr Mark Pearce (Finance Director)	20,000	-	-	-	20,000	-
Mr Mark O'Clery (Managing Director)	-	35,250	-	-	35,250 [2]	-
Total Remuneration – Directors	**67,096**	**35,250**	**-**	**-**	**102,346**	**-**

Notes:
[1] Mr Cruse was appointed Director on 3 October 2008.
[2] Mr O'Clery resigned as Director on 3 October 2008.
[3] This relates to consulting fees paid to Mark O'Clery during the period in the capacity as a contractor to the Company.
[4] During the year, no remuneration was paid in the form of a long-term incentive bonus, non-monetary benefit, prescribed benefit or other benefit to key management personnel.

Options Granted to Key Management Personnel

Details of options granted to each Key Management Personnel of the Company or Group during the financial year are as follows:

2010

No options were granted as part of their remuneration to key management personnel during the 2010 financial year.

During the 2010 financial year, 1,400,000 $1.00 unlisted options expired on 31 December 2009.

2009

No options were granted as part of their remuneration to key management personnel during the 2009 financial year.

There were no options granted, exercised or that lapsed for any Key Management Personnel of the Company or Group during the financial year.

Employment Contracts with Key Management Personnel

No employment contracts have been entered into with any directors or executives of the Company.

Mr Pearce is a Director and beneficial shareholder of Apollo Group Pty Ltd, which provided a fully serviced office, administration services (including company secretarial) and other services for a fixed monthly retainer of $15,000 for the year ended 30 June 2010 (2009: $12,500). This arrangement is able to be terminated by one month's notice by either party.

This is the end of the audited Remuneration Report.

INSURANCE OF OFFICERS AND AUDITORS

The Constitution of the Company requires the Company, to the extent permitted by law, to indemnify any person who is or has been a director or officer of the Company or Group for any liability caused as such a director or officer and any legal costs incurred by a director or officer in defending an action for any liability caused as such a director or officer.

During or since the end of the financial year, no amounts have been paid by the Company or Group in relation to the above indemnities.

During or since the end of the financial year, the Company or Group has not paid, or agreed to pay, a premium in respect of a contract insuring against a liability incurred by a person who is or has been a director, officer or auditor of the Company or Group.

NON-AUDIT SERVICES

There were no non-audit services provided by the auditor (or by another person or firm on the auditor's behalf) during the financial year.

DIRECTORS' REPORT
(Continued)

AUDITOR'S INDEPENDENCE DECLARATION

The auditor's independence declaration is on page 13 of the Annual Financial Report and forms part of this report.

This report is made in accordance with a resolution of the directors made pursuant to section 298(2) of the Corporations Act 2001.

For and on behalf of the Directors

IAN MIDDLEMAS
Director

Perth, 30 September 2010

Deloitte.

Deloitte Touche Tohmatsu
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The Board of Directors
Odyssey Energy Limited
Level 9, 28 The Esplanade
PERTH WA 6000

30 September 2010

Dear Board Members

Odyssey Energy Limited

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of Odyssey Energy Limited.

As lead audit partner for the audit of the financial statements of Odyssey Energy Limited for the financial year ended 30 June 2010, I declare that to the best of my knowledge and belief, there have been no contraventions of:

(i) the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and

(ii) any applicable code of professional conduct in relation to the audit.

Yours sincerely

Deloitte Touche Tohmatsu

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Partner

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2010

	Notes	2010 $	2009 $
Continuing operations			
Revenue	2(a)	**232**	**1,172**
Administration costs		(282,350)	(323,322)
Business development costs		(10,501)	(2,635)
Exploration costs		(19,219)	(45,381)
Finance costs	2(b)	(335,799)	(306,109)
Impairment losses	2(e)	(6,187,500)	(11,101,528)
Loss before income tax expense		**(6,835,137)**	**(11,777,803)**
Income tax expense	3	-	-
Loss from continuing operations		**(6,835,137)**	**(11,777,803)**
Discontinued Operation			
Profit(loss) from discontinued operation, net of income tax	12	-	(1,975,882)
Loss for the year		**-**	**(13,753,685)**
Loss attributable to members of Odyssey Energy Limited		**(6,835,137)**	**(13,753,685)**
Other comprehensive income			
Exchange differences on translation of foreign operations		350	3,626,859
Other comprehensive income for the period, net of tax		**350**	**3,626,859**
Total comprehensive loss for the period		**(6,834,787)**	**(10,126,826)**
Total comprehensive loss attributable to members of Odyssey Energy Limited		**(6,834,787)**	**(10,126,826)**
Loss per share			
Basic loss per share (cents per share)	20	(11.75)	(23.65)
Diluted loss per share (cents per share)	20	(11.75)	(23.65)
Continuing operations			
Basic loss per share (cents per share)	20	(11.75)	(20.25)
Diluted loss per share (cents per share)	20	(11.75)	(20.25)

The accompanying notes form parts of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 30 JUNE 2010

	Notes	2010 $	2009 $
Current Assets			
Cash and cash equivalents	21(b)	22,596	31,094
Trade and other receivables	4	39,527	22,670
Total Current Assets		62,123	53,764
Non-current Assets			
Property, plant and equipment	5	1,535	2,328
Available-for-sale financial assets	6	687,500	6,875,000
Total Non-current Assets		689,035	6,877,328
TOTAL ASSETS		**751,158**	**6,931,092**
Current Liabilities			
Trade and other payables	8	1,141,739	850,015
Borrowings	9	3,764,900	640,000
Total Current Liabilities		4,906,639	1,490,015
Non-current Liabilities			
Borrowings	10	-	2,824,900
Total Non-current Liabilities		-	2,824,900
TOTAL LIABILITIES		**4,906,639**	**4,314,915**
NET ASSETS		**(4,155,481)**	**2,616,177**
EQUITY			
Contributed equity	11(a)	18,323,288	18,260,159
Reserves	11(c)	94,859	445,209
Accumulated losses		(22,573,628)	(16,089,191)
TOTAL EQUITY		**(4,155,481)**	**2,616,177**

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2010

	Notes	2010 $	2009 $
Cash flows from operating activities			
Interest received		233	1,187
Payments to suppliers and employees		(103,339)	(262,035)
Receipts from customers		-	347,650
Refunds of GST received		12,986	34,954
Interest paid		(190,681)	(254,241)
Net cash outflow from operating activities	21(a)	**(280,801)**	**(132,485)**
Cash flows from investing activities			
Investment – Transaction costs on sale of OEL		(27,697)	(46,377)
Exploration expenditure		-	(136,308)
Net cash inflow/(outflow) from investing activities		**(27,697)**	**(182,685)**
Cash flows from financing activities			
Proceeds from borrowings		300,000	290,000
Net cash inflow from financing activities		**300,000**	**290,000**
Net increase/(decrease) in cash and cash equivalents held		**(8,498)**	**(25,170)**
Net foreign exchange differences		**-**	**(642)**
Cash and cash equivalents at the beginning of financial year		**31,094**	**56,906**
Cash and cash equivalents at the end of the financial year	21(b)	**22,596**	**31,094**

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2010

	Issued Capital $	Currency Translation Reserve $	Option Premium Reserve $	Accumulated Losses $	Total equity $
Balance at 1 July 2008	**18,260,159**	**(3,532,350)**	**641,305**	**(2,626,111)**	**12,743,003**
Net movement in currency translation reserve	-	3,626,859	-	-	3,626,859
Net income and expense recognised directly in equity	**-**	**3,626,859**	**-**	**-**	**3,626,859**
Net loss for the year	-	-	-	(13,753,685)	(13,753,685)
Total comprehensive income for the year attributable to members of Odyssey Energy Limited	**-**	**3,626,859**	**-**	**(13,753,685)**	**(10,126,826)**
Transactions with equity holders in their capacity as equity holders:					
Expired vested options	-	-	(290,605)	290,605	-
As at 30 June 2009	**18,260,159**	**94,509**	**350,700**	**(16,089,191)**	**2,616,177**
Net movement in currency translation reserve	-	350	-	-	350
Net income and expense recognised directly in equity	**-**	**350**	**-**	**-**	**350**
Net loss for the year	-	-	-	(6,835,137)	(6,835,137)
Total comprehensive income for the year attributable to members of Odyssey Energy Limited	**-**	**350**	**-**	**(6,835,137)**	**(6,834,787)**
Transactions with equity holders in their capacity as equity holders:					
Expired vested options	-	-	(350,700)	350,700	-
Issue of shares	64,779	-	-	-	64,779
Share issue costs	(1,650)	-	-	-	(1,650)
As at 30 June 2010	**18,323,288**	**94,859**	**-**	**(22,573,628)**	**(4,155,481)**

The accompanying notes form part of these financial statements.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in preparing the financial report of the Company, Odyssey Energy Limited and its consolidated entities ("Consolidated Entity" or "Group") for the year ended 30 June 2010 are stated to assist in a general understanding of the financial report.

Odyssey Energy Limited is a company limited by shares incorporated in Australia whose shares are publicly traded on the Australian Securities Exchange.

The financial report of the Company for the year ended 30 June 2010 was authorised for issue in accordance with a resolution of the Directors on 30 September 2010.

(a) Basis of Preparation

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards ("AASBs") and interpretations adopted by the Australian Accounting Standards Board ("AASB") and the Corporations Act 2001.

The financial report has also been prepared on a historical cost basis, except for other financial assets at fair value through profit or loss and available-for-sale investments, which have been measured at fair value.

The financial report is presented in Australian dollars.

(b) Statement of Compliance

The financial report complies with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards (AIFRS). Compliance with AIFRS ensures the financial report also complies with International Financial Reporting Standards (IFRS).

In the current year, the Group has adopted all of the new and revised Standards and Interpretations issued by the AASB that are relevant to its operations and effective for the current annual reporting period. Details of the impact of the adoption of these new accounting standards are set out in the individual accounting policy notes set out below.

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective have not been adopted by the Group for the annual reporting period ended 30 June 2010. These are outlined in the table over:

Reference	Title	Summary	Application date of standard	Impact on Group financial report	Application date for Group
AASB 2009-5	Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 5, 8, 101, 107, 117, 118, 136 & 139]	The amendments to some Standards result in accounting changes for presentation, recognition or measurement purposes, while some amendments that relate to terminology and editorial changes are expected to have no or minimal effect on accounting except for the following: The amendment to AASB 101 stipulates that the terms of a liability that could result, at anytime, in its settlement by the issuance of equity instruments at the option of the counterparty do not affect its classification. The amendment to AASB 107 explicitly states that only expenditure that results in a recognised asset can be classified as a cash flow from investing activities. The amendment to AASB 136 clarifies that the largest unit permitted for allocating goodwill acquired in a business combination is the operating segment, as defined in IFRS 8 before aggregation for reporting purposes. The other changes clarify the scope exemption for business combination contracts and provide clarification in relation to accounting for cash flow hedges.	1 January 2010	These amendments are not expected to have any significant impact on the Group's financial report.	1 July 2010
AASB 2009-8	Amendments to Australian Accounting Standards – Group Cash-settled Share-based Payment Transactions [AASB 2]	This Standard makes amendments to Australian Accounting Standard AASB 2 *Share-based Payment* and supersedes Interpretation 8 *Scope of AASB 2* and Interpretation 11 *AASB 2 – Group and Treasury Share Transactions*. The amendments clarify the accounting for group cash-settled share-based payment transactions in the separate or individual financial statements of the entity receiving the goods or services when the entity has no obligation to settle the share-based payment transaction. The amendments clarify the scope of AASB 2 by requiring an entity that receives goods or services in a share-based payment arrangement to account for those goods or services no matter which entity in the group settles the transaction, and no matter whether the transaction is settled in shares or cash.	1 January 2010	These amendments are not expected to have any significant impact on the Group's financial report.	1 July 2010
AASB 2009-9	Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards.*	The amendments address the retrospective application of IFRSs to particular situations and are aimed at ensuring that entities applying IFRSs will not face undue cost or effort in the transition process. Specifically, the amendments: • exempt entities using the full cost method from retrospective application of IFRSs for oil and gas assets • exempt entities with existing leasing contracts from reassessing the classification of those contracts in accordance with IFRIC 4 *Determining whether an Arrangement contains a Lease* when the application of their national accounting requirements produced the same result.	1 January 2010	These amendments are not expected to have any significant impact on the Group's financial report.	1 July 2010

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2010
(Continued)

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Statement of Compliance (Continued)

Reference	Title	Summary	Application date of standard	Impact on Group financial report	Application date for Group
AASB 2009-10	Amendments to Australian Accounting Standards – Classification of Rights Issues [AASB 132]	The amendment provides relief to entities that issue rights in a currency other than their functional currency, from treating the rights as derivatives with fair value changes recorded in profit or loss. Such rights will now be classified as equity instruments when certain conditions are met.	1 February 2010	These amendments are not expected to have any significant impact on the Group's financial report.	1 July 2010
AASB 2009-11	Amendments to Australian Accounting Standards arising from AASB 9 [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 121, 127, 128, 131, 132, 136, 139, 1023 & 1038 and Interpretations 10 & 12]	The revised Standard introduces a number of changes to the accounting for financial assets, the most significant of which includes: • two categories for financial assets being amortised cost or fair value. • removal of the requirement to separate embedded derivatives in financial assets • strict requirements to determine which financial assets can be classified as amortised cost or fair value. Financial assets can only be classified as amortised cost if (a) the contractual cash flows from the instrument represent principal and interest and (b) the entity's purpose for holding the instrument is to collect the contractual cash flows. • an option for investments in equity instruments which are not held for trading to recognise fair value changes through other comprehensive income with no impairment testing and no recycling through profit or loss on derecognition. • reclassifications between amortised cost and fair value no longer permitted unless the entity's business model for holding the asset changes. • changes to the accounting and additional disclosures for equity instruments classified as fair value through other comprehensive income.	1 January 2013	These amendments are not expected to have any significant impact on the Group's financial report.	1 July 2013
AASB 2009-12	Amendments to Australian Accounting Standards [AASBs 5, 8, 108, 110, 112, 119, 133, 137, 139, 1023 & 1031 and Interpretations 2, 4, 16, 1039 & 1052]	This amendment makes numerous editorial changes to a range of Australian Accounting Standards and Interpretations. The amendment to AASB 124 clarifies and simplifies the definition of a related party as well as providing some relief for government-related entities (as defined in the amended standard) to disclose details of all transactions with other government-related entities (as well as with the government itself).	1 January 2011	These amendments are not expected to have any significant impact on the Group's financial report.	1 July 2011
AASB 2009-13	Amendments to Australian Accounting Standards arising from Interpretation 19 [AASB 1]	This amendment to AASB 1 allows a first-time adopter may apply the transitional provisions in Interpretation 19 as identified in AASB 1048.	1 July 2010	These amendments are not expected to have any significant impact on the Group's financial report.	1 July 2010

Reference	Title	Summary	Application date of standard	Impact on Group financial report	Application date for Group
AASB 2009-14	Amendments to Australian Interpretation – Prepayments of a Minimum Funding Requirement	These amendments arise from the issuance of Prepayments of a Minimum Funding Requirement (Amendments to IFRIC 14). The requirements of IFRIC 14 meant that some entities that were subject to minimum funding requirements could not treat any surplus in a defined benefit pension plan as an economic benefit. The amendment requires entities to treat the benefit of such an early payment as a pension asset. Subsequently, the remaining surplus in the plan, if any, is subject to the same analysis as if no prepayment had been made.	1 January 2011	These amendments are not expected to have any significant impact on the Group's financial report.	1 July 2011
Interpret-ation 19	Interpretation 19 Extinguishing Financial Liabilities with Equity Instruments	This interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability are "consideration paid" in accordance with paragraph 41 of IAS 39. As a result, the financial liability is derecognised and the equity instruments issued are treated as consideration paid to extinguish that financial liability. The interpretation states that equity instruments issued in a debt for equity swap should be measured at the fair value of the equity instruments issued, if this can be determined reliably. If the fair value of the equity instruments issued is not reliably determinable, the equity instruments should be measured by reference to the fair value of the financial liability extinguished as of the date of extinguishment.	1 July 2010	These amendments are not expected to have any significant impact on the Group's financial report.	1 July 2010

(c) Principles of Consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Odyssey Energy Limited ("Company" or "Parent Entity") as at 30 June 2010 and the results of all subsidiaries for the year then ended. Odyssey Energy Limited and its subsidiaries together are referred to as the Consolidated Entity or Group.

Subsidiaries are all those entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies, so as to obtain benefits from its activities, generally accompanying a shareholding of more than one-half of the voting rights. The existence and potential effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

The financial statements of the subsidiaries are prepared for the same reporting year as the Parent Entity, using consistent accounting policies. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Intercompany transactions and balances, income and expenses and profits and losses between Group companies, are eliminated.

Investments in subsidiaries are accounted for at cost less impairment in the individual financial statements of the Company.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Operating Segments

An operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity), whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance and for which discrete financial information is available. This includes start up operations which are yet to earn revenues. Management will also consider other factors in determining operating segments such as the existence of a line manager and the level of segment information presented to the board of directors.

Operating segments have been identified based on the information provided to the chief operating decision makers – being the executive management team.

The group aggregates two or more operating segments when they have similar economic characteristics, and the segments are similar in each of the following respects:

- Nature of the products and services,
- Nature of the production processes,
- Type or class of customer for the products and services,
- Methods used to distribute the products or provide the services, and if applicable
- Nature of the regulatory environment.

Operating segments that meet the quantitative criteria as prescribed by AASB 8 are reported separately. However, an operating segment that does not meet the quantitative criteria is still reported separately where information about the segment would be useful to users of the financial statements.

Information about other business activities and operating segments that are below the quantitative criteria are combined and disclosed in a separate category for “all other segments”.

(e) Foreign Currency Translation

Both the functional and presentation currency of the Parent Entity at 30 June 2010 was Australian Dollars.

The following table sets out the functional currency of the company controlled by the Parent Entity during the year:

Company Name	Functional Currency
OEL E&P (USA), Inc	United States Dollars

Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Transactions in foreign currencies are initially recorded in the functional currency at the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the reportingdate.

All exchange differences in the consolidated financial report are taken to the profit and loss statement with the exception of differences in foreign currency borrowings that provide a hedge against a net investment in a foreign entity. These are taken directly to equity until the disposal of the net investment, at which time they are recognised in the profit and loss statement. Tax charges and tax credits attributable to exchange differences on those borrowings are also recognised in equity.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction. Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rate at the date when the fair value was determined.

Where the functional currency of a subsidiary of the Parent Entity is not Australian Dollars the assets and liabilities of the subsidiary at reporting date are translated into the presentation currency of the Parent Entity at the rate of exchange ruling at the reporting date and the profit and loss statements are translated by applying the monthly average exchange rate.

Any exchange differences arising on this retranslation are taken directly to other comprehensive income.

On disposal of a foreign entity, the deferred cumulative amount recognised in equity and relating to that particular foreign operation is recognised in the Profit and loss statement.

(f) Revenue Recognition

Revenue is recognised to the extent that it is probable that economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable. The following specific recognition criteria must also be met before revenue is recognised:

(i) Sale of Goods

Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and can be measured reliably. Risks and rewards are considered passed to the buyer at the time of delivery of the goods to the customer.

(ii) Interest

Interest revenue is recognised as the interest accrues (using the effective interest method, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument) to the net carrying value amount of the financial asset.

(g) Income Tax

The income tax expense for the year is the tax payable on the current year's taxable income based on the national income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted for each jurisdiction. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. An exception is made for certain temporary differences arising from the initial recognition of an asset or a liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they arose on goodwill or in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the Parent Entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Income Tax (Continued)

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Unrecognised deferred income tax assets are reassessed at each balance date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against tax liabilities and the deferred tax liabilities relate to the same taxable entity and the same taxation authority.

The Parent Entity and its wholly owned Australian controlled entities (if any) have not implemented the tax consolidation legislation.

(h) Business Combinations

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The consideration for each acquisition is measured at the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.

Where applicable, the consideration for the acquisition includes any asset or liability resulting from a contingent consideration arrangement, measured at its acquisition-date fair value. Subsequent changes in such fair values are adjusted against the cost of acquisition where they qualify as measurement period adjustments (see below). All other subsequent changes in the fair value of contingent consideration classified as an asset or liability are accounted for in accordance with relevant Standards. Changes in the fair value of contingent consideration classified as equity are not recognised.

Where a business combination is achieved in stages, the Group's previously held interests in the acquired entity are remeasured to fair value at the acquisition date (i.e. the date the Group attains control) and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss, where such treatment would be appropriate if that interest were disposed of.

The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under AASB 3(2008) are recognised at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with AASB 112 *Income Taxes* and AASB 119 *Employee Benefits* respectively*;*
- liabilities or equity instruments related to the replacement by the Group of an acquiree's sharebased payment awards are measured in accordance with AASB 2 *Share-based Payment*; and
- assets (or disposal groups) that are classified as held for sale in accordance with AASB 5 *Noncurrent Assets Held for Sale and Discontinued Operations* are measured in accordance with that Standard.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see below), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

The measurement period is the period from the date of acquisition to the date the Group obtains complete information about facts and circumstances that existed as of the acquisition date – and is subject to a maximum of one year.

(i) Impairment of Assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of its fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets and the asset's value in use cannot be estimated to be close to its fair value. In such cases the asset is tested for impairment as part of the cash-generating unit to which it belongs. When the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset or cash-generating unit is considered impaired and is written down to its recoverable amount.

In assessing the 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. Impairment losses relating to continuing operations are recognised in those expense categories consistent with the function of the impaired asset.

An assessment is also made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss. After such a reversal the depreciation charge is adjusted in future years to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

(j) Cash and Cash Equivalents

"Cash and cash equivalents" includes cash on hand, deposits held at call with financial institutions and other short-term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. For the purposes of the Cash Flow Statement, cash and cash equivalents consist of cash and cash equivalents as defined.

(k) Trade and Other Receivables

Trade receivables are initially recognised at fair value and subsequently carried at amortised cost less an allowance for any uncollectible amounts. Trade receivables are due for settlement no more than 30 days from the date of recognition. An allowance for doubtful debts is made when there is objective evidence that the Group will not be able to collect the debts. Bad debts are written off when identified.

Impairment

If there is objective evidence that an impairment loss on trade and other receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through use of an allowance account. The amount of the loss is recognised in profit or loss.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(l) Financial Assets

Financial assets in the scope of AASB 139 Financial Instruments: Recognition and Measurement are classified as either loans and receivables, or available-for-sale investments, as appropriate. When financial assets are recognised initially they are measured at fair value, plus, directly attributable transaction costs. The Group determines the classification of its financial assets after initial recognition and, when allowed and appropriate, re-evaluates this designation at each financial year-end.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

Available-for-sale financial assets

Available-for-sale financial assets, comprising principally marketable equity securities, are non-derivatives that are either designated in this category or not classified in any other category. They are included in non-current assets unless management intends to dispose of the investment within twelve months of the reporting date.

Purchases and sales of investments are recognised on trade date, the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Unrealised gains and losses arising from changes in the fair value of non-monetary securities classified as available-for-sale are recognised in equity in the investments available-for-sale reserve. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments previously reported in equity are included in the profit and loss statement as gains and losses. Reversals of previous impairments of available-for-sale assets are not recognised through profit and loss.

Subsequent to initial recognition, investments in subsidiaries are measured at cost less impairment. Subsequent to initial recognition, investments in associates are accounted for under the equity method in the consolidated financial statements and the cost method in the company financial statements.

(m) Fair Value Estimation

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted market prices at the reporting date. The quoted market price used for financial assets held by the Group is the current bid price; the appropriate quoted market price for financial liabilities is the current ask price.

The fair value of financial instruments that are not traded in an active market is determined using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt instruments held. Other techniques, such as discounted cash flows, are used to determine fair value for the remaining financial instruments.

The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

(n) Property, Plant and Equipment

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

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the profit and loss statement during the financial period in which they are incurred.

Plant and equipment are depreciated or amortised on a reducing balance or straight line basis at rates based upon their expected useful lives as follows:

	Life
Plant and equipment	2 - 15 years

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

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the profit and loss statement.

(o) Trade and Other Payables

Trade and other payables are recognised initially at fair value and subsequently at amortised cost and represent liabilities for the goods and services provided to the Group prior to the end of the financial period that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services. The amounts are unsecured and are usually paid within 30 days.

(p) Employee Leave Benefits

Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled within twelve months of the reporting date are recognised in provisions in respect of employees' services up to the reporting date, and are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and measured at the rates paid or payable.

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

Contributions to the defined contribution superannuation fund are recognised as an expense as they become payable. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

(q) Contributed Equity

Ordinary shares are classified as equity. Issued and paid up capital is recognised at the fair value of the consideration received by the Company.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(r) Dividends

Provision is made for the amount of any dividend declared on or before the end of the year but not distributed at balance date.

(s) Earnings per Share (EPS)

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

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

(t) Exploration and Evaluation Expenditure

Expenditure on exploration and evaluation is accounted for in accordance with the 'area of interest' method and with AASB 6 Exploration for and Evaluation of Mineral Resources, which is the Australian equivalent of IFRS 6.

Exploration licence acquisition costs are capitalised and subject to impairment testing every six months. All exploration and evaluation costs, including general permit activity, geological and geophysical costs and new venture activity costs are expensed as incurred except where:

- the expenditure relates to an exploration discovery that, at balance date, has not been recognised as an area of interest, as assessment of the existence or otherwise of economically recoverable reserves is not yet complete; or
- an area of interest is recognised, and it is expected that the expenditure will be recouped through successful exploitation of the area of interest, or alternatively, by its sale.

The costs of drilling exploration wells are initially capitalised pending the results of the well. Costs are expensed where the well does not result in the successful discovery of economically recoverable hydrocarbons and the recognition of an area of interest. Areas of interest are recognised at the field level. Subsequent to the recognition of an area of interest, all further costs relating to the area of interest are capitalised.

Each potential or recognised area of interest is reviewed every six months to determine whether economic quantities of reserves have been found or whether further exploration and evaluation work is underway or planned to support the continued carry forward of capitalised costs.

Data licenses acquired are carried initially at cost and are amortised on a straight line basis over the number of wells in the drilling program to which the acquisition related. Where a determination is made that there is no further value to be extracted from the data licenses then any unamortised balance is written off.

Once management has determined the existence of economically recoverable reserves for an area of interest, deferred costs are reclassified from exploration and evaluation expenditure to oil and gas properties on the statement of financial position.

The recoverability of the carrying amount of the exploration and evaluation assets is dependent on successful development and commercial exploitation, or alternatively, sale of the respective areas of interest.

(u) Oil and Gas Properties

Oil and gas properties are carried at cost and include acquisition costs, drilling, completion, operating costs and transferred exploration and evaluation expenditure.

Oil and gas properties are amortised using a units-of-production method, based on the ratio of actual production to remaining proved and probable reserves (2P) as estimated by independent petroleum engineers.

The recoverability of the carrying amount of the oil and gas property is dependent on successful development and commercial exploitation, or alternatively, sale of the respective areas of interest.

(v) Goods and Services Tax

Revenues, expenses and assets are recognised net of the amount of GST except:

- when the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

Cash flows are included in the Cash Flow Statement on a gross basis and the GST components of cash flows arising from investing and financing activities, which are recoverable from, or payable to, the taxation authority are classified as operating cash flows.

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

(w) Share Based Payments

Equity settled transactions

The Group provides benefits to Directors, employees, consultants and other advisors of the Group in the form of share-based payments, whereby the Directors, employees, consultants and other advisors render services in exchange for shares or rights over shares (equity-settled transactions).

The cost of these equity-settled transactions is measured by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by an external valuer using a binomial model.

In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the market price of the shares of the Company if applicable.

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 recipient becomes fully entitled to the award (the vesting period).

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects (i) the extent to which the vesting period has expired and (ii) the Group's best estimate of the number of equity instruments that will ultimately vest. No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date. The profit and loss statement charge or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is only conditional upon a market condition.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(w) Share Based Payments (Continued)

Equity settled transactions (Continued)

If the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the recipient, as measured at the date of modification.

If 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 award are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of earnings per share.

(x) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

When the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the profit and loss statement net of any reimbursement.

(y) Convertible Notes

Convertible notes that can be converted to share capital at the option of the holder, where the number of shares issued does not vary with changes in their fair value, are accounted for as compound financial instruments. Transaction costs that relate to the issue of a compound financial instrument are allocated to the liability and equity components in proportion to the allocation of proceeds. The equity component of the convertible notes is calculated as the excess of the issue proceeds over the present value of the future interest and principal payments, discounted at the market rate of interest applicable to similar liabilities that do not have a conversion option. The interest expense recognised in the profit and loss statement is calculated using the effective interest method.

(z) Non-current Assets held for Sale and Discontinued Operations

Immediately before classification as held for sale, the measurement of the assets (and all assets and liabilities in a disposal group) is brought up-to-date in accordance with applicable accounting standards. Then, on initial classification as held for sale, non-current assets and disposal groups are recognised at the lower of carrying amount and fair value less costs to sell.

Impairment losses on initial classification as held for sale are included in profit or loss. The same applies to gains and losses on subsequent remeasurement.

A discontinued operation is a component of the Company's business that represents a separate major line of business or geographical area of operations or is a subsidiary acquired exclusively with a view to resale.

Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. A disposal group that is to be abandoned may also qualify.

(aa) Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the profit and loss statement over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities, which are not an incremental cost relating to the actual draw-down of the facility, are recognised as prepayments and amortised on a straight-line basis over the term of the facility.

Borrowings are removed from the statement of financial position when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in other income or other expenses.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

(ab) Going Concern

The consolidated financial statements have been prepared on a going concern basis. For the year ended 30 June 2010, the Consolidated Entity incurred losses of $6,835,137 (2009: $13,753,685), experienced net cash outflows from operations of $280,801 (2009: $132,485) and had net current liabilities of $4,844,516 at that date. For the year ended 30 June 2010, the Company incurred losses of $6,837,272 (2009: $13,828,811) and had net current liabilities of $4,844,516 (2009: $1,433,766) as disclosed in Note 22. These conditions give rise to a material uncertainty that may cast significant doubt about the ability of the Company and Consolidated Entity to continue as going concerns.

The net current liability position as at 30 June 2010 is due to the following:

- An amount owing to Apollo Group Pty Ltd (an entity controlled by a director). The Company has been informed that this amount will not be called until such time as the Company has the ability to pay.
- Other creditors totalling $616,627 which have either been settled subsequent to 30 June 2010, have confirmed they will not seek payment until such time as the company has the ability to pay, or can be satisfied through the sale of available-for-sale shares on the market if required.
- A loan of $1,072,208, including accrued interest, which is due and payable on 31 December 2010. This loan will be repaid following the recapitalisation process referred to below.
- Convertible notes of $2,824,900 due for repayment on 23 March 2011. Conversion or settlement of the convertible notes is part of the recapitalisation process referred to below.

The ability of the Company and Consolidated Entity to continue as going concerns is principally dependent upon the ability to:

- raise further capital;
- negotiate a debt for equity conversion of its current borrowings, in particular the convertible notes;
- sell the Company's available-for-sale financial assets on market should the need arise to generate additional cash resources.

The Directors have forecasted the cash flow requirements of the Company and Consolidated Entity for the period of 12 months from the date of this report, which includes the recapitalisation process referred to below.

As announced on 30 September 2010, the Board has mandated Argonaut Capital, on a reasonable endeavours basis, to manage the following recapitalisation process:

- Share Placement – the issue of up to 125 million shares at $0.02 per share in November 2010. One option will also be granted for every two new shares subscribed for at no further consideration. These options will be exercisable at $0.05 on or before 31 December 2014;
- Debt for Equity – Conversion of up to $2.0 million of the debt relating to convertible notes into equity in the Company on the same terms as the share placement referred to above.
- 1 for 2 non-renounceable entitlements issue in December 2010 – new shares under an entitlements issue will be offered at $0.02 per share with the same rights to options as the share placement.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(ab) Going Concern (Continued)

The share placement and debt for equity conversion are subject to shareholder approval. The directors of the Company intend to seek shareholder approval for their respective participation in the share placement. The entitlements issue will be undertaken after the completion of the share placement and debt for equity conversion.

Based on the assumption of raising the funds from the share placement and entitlements issue and the debt for equity conversion, the Directors are satisfied that the going concern basis of preparation is appropriate. The financial report has therefore been prepared on a going concern basis, which assumes continuity of normal business activities and the realisation of assets and the settlement of liabilities in the ordinary course of business.

However, if the Company and Consolidated Entity are unable to achieve a successful outcome in relation to the matters discussed above, there is significant uncertainty the Company and consolidated entity will be able to continue as a going concerns.

Should the Company and Consolidated Entity be unable to continue as going concerns, they may be required to realise their assets and extinguish their liabilities other than in the ordinary course of business, and at amounts that differ from those stated in the financial statements. These financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amounts or classification of liabilities and appropriate disclosures that may be necessary should the Company and Consolidated Entity be unable to continue as going concerns.

(ac) Critical Accounting Estimates, Assumptions and Judgements

In applying the Group's accounting policies, management continually evaluates judgements, estimates and assumptions based on experience and other factors, including expectations of future events that may have an impact on the Group. All judgements, estimates and assumptions made are believed to be reasonable based on the most current set of circumstances available to management. Actual results may differ from the judgements, estimates and assumptions. Significant judgements, estimates and assumptions made by management in the preparation of these financial statements are outlined on the next page.

(i) Critical accounting estimates and assumptions

(A) Impairment of assets

In determining the recoverable amount of assets, in the absence of quoted market prices, estimations are made regarding the present value of future cash flows.

In relation to the Company's investment in Marion Energy Limited, which is classified as an available for sale financial asset, an impairment loss of $6,187,500 (2009: $10,656,250) was recognised as an expense in the Profit and loss statement rather than being recognised directly in equity, due to the substantial deterioration in capital markets worldwide.

(B) Reserve estimates

Estimates of recoverable quantities of proven and probable reserves reported include judgemental assumptions regarding commodity prices, exchange rates, discount rates and production and transportation costs for future cash flows. It also requires interpretation of complex and difficult geological and geophysical models in order to make an assessment of the size, shape, depth and quality of reservoirs, and their anticipated recoveries. The economic, geological and technical factors used to estimate reserves may change from period to period. Changes in reported reserves can impact asset carrying values, the provision for restoration and the recognition of deferred tax assets, due to changes in expected future cash flows. Reserves are integral to the amount of depreciation, depletion and amortisation charged to the profit and loss statement and the calculation of inventory.

(ii) Critical judgements in applying the Group's accounting policies

(A) Exploration and evaluation

The group's accounting policy for exploration and evaluation assets is set out at Note 1(t). The application of this policy requires management to make certain estimates and assumptions as to future events and circumstances, in particular, the assessment of whether economic quantities of reserves have been found. Any such estimates and assumptions may change as new information becomes available. If, after having capitalised expenditure under the policy, the Group concludes that it is unlikely to recover the expenditure by future exploitation or sale, then the relevant capitalised amount will be written off to the profit and loss statement. All exploration and evaluation expenditure has been impaired because of the substantial decline in the gas price in the USA impacting on the projects viability.

	Consolidated			
	Continuing Operations		Discontinued Operation (see note 12)	
	2010	2009	2010	2009
	$	$	$	$
2. REVENUE AND EXPENSES				
(a) Revenue				
Income from production	-	-	-	171,459
Interest revenue	232	1,172	-	15
	232	**1,172**	**-**	**171,474**
(b) Finance Costs				
Interest expense on convertible notes	255,460	254,241	-	-
Interest expense on borrowings	80,339	51,868	-	-
	335,799	**306,109**	**-**	**-**
(c) Employee Expenses				
Directors remuneration	60,590	77,096	-	-
(d) Depreciation and Amortisation Expense				
Depreciation of plant and equipment	793	1,471	-	-
	793	**1,471**	**-**	**-**
(e) Impairment of assets				
Impairment of exploration expenditure (note 7)	-	445,278	-	-
Impairment of available for sale assets (note 6)	6,187,500	10,656,250	-	-
	6,187,500	**11,101,528**	**-**	**-**

3. INCOME TAX

(a) Recognised in the statement of comprehensive income

	2010 $	2009 $
Current income tax		
Current income tax benefit	(180,541)	(202,819)
Adjustments in respect of current income tax of previous years	12,686	-
Deferred income tax		
Origination and reversal of temporary differences	(1,865,402)	(6,945,491)
Tax losses attributable to subsidiary sold	-	1,524,756
Deferred tax assets not previously brought to account	-	-
Deferred tax assets not brought to account	2,033,257	5,623,554
	-	**-**

(b) Reconciliation Between Tax Expense and Accounting Loss Before Income Tax

Accounting loss before income tax	(6,835,137)	(13,753,686)
At the domestic income tax rate of 30% (2009: 30%)	(2,050,541)	(4,126,106)
Expenditure not allowable for income tax purposes	4,598	2,343
Loss on sale of subsidiary not deductible for income tax purposes	-	634,199
Income not assessable for income tax purposes	-	(67,365)
Foreign exchange translation adjustment	-	-
Adjustments in respect of current income tax of previous years	12,686	-
Effect of valuation of CGT assets for tax purposes	-	(2,066,625)
Deferred tax assets not previously brought to account	-	-
Deferred tax assets not brought to account	2,033,257	5,623,554
Income tax expense attributable to profit/(loss)	**-**	**-**

3. INCOME TAX (Continued)

(b) Reconciliation Between Tax Expense and Accounting Loss Before Income Tax

	2010 %	2009 %
Effective Tax Rate	**0**	**0**

(c) Deferred Income Tax

Deferred income tax at balance date relates to the following:

	2010 $	2009 $
Deferred Tax Liabilities	-	
Exploration and evaluation assets	-	-
Deferred Tax Assets used to offset Deferred Tax Liabilities	-	-
	-	**-**
Deferred Tax Assets		
Available-for-sale financial assets	7,119,750	5,263,500
Other financial assets	-	-
Exploration and evaluation assets	122,869	122,869
Accrued expenditure	48,926	30,779
Borrowing costs	-	8,994
Depreciable assets	-	-
Tax losses available to offset against future taxable income	731,380	563,526
Deferred tax assets used to offset deferred tax liabilities	-	-
Deferred tax assets not brought to account	(8,002,925)	(5,989,668)
	-	**-**

The benefit of deferred tax assets not brought to account will only be brought to account if:

- future assessable income is derived of a nature and of an amount sufficient to enable the benefit to be realised;
- the conditions for deductibility imposed by tax legislation continue to be complied with; and
- no changes in tax legislation adversely affect the Company in realising the benefit.

(d) Tax Consolidation

There are currently no entities eligible for consolidation for tax purposes. The Board will review this position should this change.

	Notes	2010 $	2009 $
4. CURRENT ASSETS – TRADE AND OTHER RECEIVABLES			
GST receivable		39,527	22,670
Total trade and other receivables		**39,527**	**22,670**
5. NON-CURRENT ASSETS – PROPERTY, PLANT & EQUIPMENT			
(a) Office Furniture and Equipment			
Cost		3,564	11,921
Accumulated depreciation		(2,029)	(9,593)
Net carrying amount		**1,535**	**2,328**
(b) Reconciliation			
Carrying amount at beginning of period, net of accumulated depreciation		2,328	3,799
Depreciation charge for the period		(793)	(1,471)
Carrying amount at end of year, net of accumulated depreciation and impairment		**1,535**	**2,328**
6. NON-CURRENT ASSETS - AVAILABLE-FOR-SALE FINANCIAL ASSETS			
Shares in listed company	(a)	17,531,250	17,531,250
Less impairment in value		(16,843,750)	(10,656,250)
		687,500	**6,875,000**

(a) The Company holds 27,500,000 fully paid ordinary shares in Marion Energy Limited, which is listed on the ASX under the code MAE.

	Notes	2010 $	2009 $
7. NON-CURRENT ASSETS – EXPLORATION AND EXPENDITURE			
The Group had oil and gas exploration costs carried forward in respect of the following areas of interest:			
Areas of interest			
McClain County Prospect		-	-
		-	**-**
Reconciliation			
Balance at the beginning of year		-	342,814
Currency translation difference		-	102,464
Impairment	2(e)	-	(445,278)
Balance at end of year		**-**	**-**

The recoverability of the carrying amount of the exploration and evaluation assets is dependent on the successful development and commercial exploitation, or alternatively the sale, of the respective areas of interest.

	Notes	2010 $	2009 $
8. CURRENT LIABILITIES – TRADE AND OTHER PAYABLES			
Accounts Payable[(a)]		846,445	695,551
Accrued Expenses		163,086	102,596
Accrued borrowing costs		132,208	51,868
Total trade and other payables		**1,141,739**	**850,015**

(a) Terms & Conditions
Trade creditors are non interest bearing and are normally settled on 30 day terms.

	Notes	2010 $	2009 $
9. CURRENT LIABILITIES – BORROWINGS			
Loan from unrelated party[(a)]		940,000	640,000
Convertible Notes – Unsecured[(b)]		2,824,900	-
Total borrowings		**3,764,900**	**640,000**

(a) Terms & Conditions
Loan is unsecured, repayable on 31 December 2010 and incurs interest at a rate of 10% per annum.

(b) Convertible Notes are re-payable on 23 March 2011.

Terms & Conditions of Convertible Notes

On 23 March 2006, the Company issued 4,500,000 Convertible Notes each with a face value of $0.65. On 17 July 2007, 154,000 Convertible Notes were converted into ordinary shares. Other key terms and conditions are:

- the notes are unsecured;
- coupon rate of 9%, payable 3 monthly in arrears, with shares able to be issued in lieu of cash payments of interest at the option of the Company;
- redeemable by the Company after 2 ½ years from date of issue;
- convertible into ordinary shares on a one for one basis any time after 4 December 2006; and
- repayable after 5 years.

	Notes	2010 $	2009 $
10. NON-CURRENT LIABILITIES – BORROWINGS			
Convertible Notes – Unsecured[(a)]		**-**	**2,824,900**

(a) There was no movement of the convertible notes on issue during the financial years ended 30 June 2010 and 30 June 2009. However, they have been re-classified as Current Liabilities as at 30 June 2010, as they are repayable on 23 March 2011.

	Notes	2010 $	2009 $
11. CONTRIBUTED EQUITY AND RESERVES			
(a) Issued and paid up capital			
59,904,791 (2009 : 58,154,002) fully paid ordinary shares		**18,323,288**	**18,260,159**

Effective 1 July 1998, the corporations legislation in place abolished the concepts of authorised capital and par value shares. Accordingly, the Parent Entity does not have authorised capital nor par value in respect of its issued shares.

(b) Movements in Ordinary Share Capital for Years Ended 30 June 2010 and 30 June 2009 were as follows:

Date	Details	Number of Shares	Issue Price	$
1 July 2008	**Opening Balance**	**58,154,002**		**18,260,159**
30 June 2009	**Closing Balance**	**58,154,002**		**18,260,159**
30 June 2010	Share issue in lieu of interest payment	1,750,789	$0.037	64,779
	Share issue costs			(1,650)
30 June 2010	**Closing Balance**	**59,904,791**		**18,323,288**

	2010 $	2009 $
(c) Reserves		
Share based payment reserve (Note 11 (d) & (f))		
- 1,400,000 $1.00 options	-	350,700
Foreign currency translation reserve (Note 11 (e) & (f))	94,859	94,509
	94,859	**445,209**

11. CONTRIBUTED EQUITY AND RESERVES (Continued)

(d) Movements in the Share Based Payment Reserve for Years Ended 30 June 2010 and 30 June 2009 were as follows:

Date	Details	Number of Options	$
1 July 2008	**Opening Balance**	**2,550,000**	**641,305**
31 Dec 2008	Expiry of $0.20 unlisted options	(300,000)	(30,420)
30 June 2009	Expiry of $0.60 unlisted options	(850,000)	(260,185)
30 June 2009	**Closing Balance**	**1,400,000**	**350,700**
31 Dec 2009	Expiry of $1.00 unlisted options	(1,400,000)	(350,700)
30 June 2010	**Closing Balance**	**-**	**-**

(e) Movements in the Foreign Currency Translation Reserve for Years ended 30 June 2010 and 30 June 2009 were as follows:

	2010 $	2009 $
Balance at the beginning of year	94,509	(3,532,350)
Foreign currency translation – continuing operations	350	96,915
Foreign currency translation – discontinued operations	-	2,504,211
Transfer to profit and loss of foreign currency translation realised on deconsolidation	-	1,025,733
Balance at end of year	**94,859**	**94,509**

(f) Nature and Purpose of Reserves

(i) Share Based Payment Reserve

The share based payment reserve is used to record the fair value of share based payments made by the Company which have not been exercised.

(ii) Foreign Currency Translation Reserve

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries.

(iii) Investments Available For Sale Reserve

Changes in the fair value and exchange differences arising on translation of investments classified as available-for-sale financial assets are taken to the investments available for sale reserve as described in Note 1(l). Amounts are recognised in profit and loss when the associated assets are sold or impaired.

(g) Rights Attaching to Shares

(i) General

The ordinary shares ("Shares") are ordinary shares and rank equally in all respects with all ordinary shares in the Company.

The rights attaching to the Shares arise from a combination of the Company's Constitution, statute and general law. Copies of the Company's Constitution are available for inspection during business hours at its registered office.

(ii) Reports and Notices

Shareholders are entitled to receive all notices, reports, accounts and other documents required to be furnished to shareholders under the Company's Constitution, the Corporations Act and the Listing Rules.

(iii) Voting

Subject to any rights or restrictions at the time being attached to any class or classes of shares, at a general meeting of the Company on a show of hands, every ordinary Shareholder present in person, or by proxy, attorney or representative (in the case of a company) has one vote and upon a poll, every Shareholder present in person, or by proxy, attorney or representative (in the case of a company) has one vote for any Share held by the Shareholder.

A poll may be demanded by the Chairperson of the meeting, any 5 Shareholders entitled to vote in person or by proxy, attorney or representative or by any one or more Shareholders holding not less than 5% of the total voting rights of all Shareholders having the right to vote.

(iv) Variation of Shares and Rights Attaching to Shares

Shares may be converted or cancelled with member approval and the Company's share capital may be reduced in accordance with the requirements of the Corporations Act.

Class rights attaching to a particular class of shares may be varied or cancelled with the consent in writing of holders of 75% of the shares in that class or by a special resolution of the holders of shares in that class.

(v) Unmarketable Parcels

The Company may procure the disposal of Shares where the member holds less than a marketable parcel of Shares within the meaning of the Listing Rules (being a parcel of shares with a market value of less than $500). To invoke this procedure, the Directors must first give notice to the relevant member holding less than a marketable parcel of Shares, who may then elect not to have his or her Shares sold by notifying the Directors.

(vi) Changes to the Constitution

The Company's Constitution can only be amended by a special resolution passed by at least three quarters of the members present and voting at a general meeting of the Company. At least 28 days written notice specifying the intention to propose the resolution as a special resolution must be given.

12. DISCONTINUED OPERATION

On 24 June 2008 the Company entered into an agreement to sell two of its current projects (North Helper and Jester-Bloomington) by selling one of its wholly owned US subsidiaries OEL Operating (USA) Inc to Marion Energy Limited. The sale was completed on 4 September 2008.

	Notes	2010 $	2009 $
Results of discontinued operation			
Revenue	2(a)	-	171,474
Expenses		-	(33,360)
Results from operating activities		-	138,114
Income tax expense		-	-
Results from operating activities, net of income tax		-	138,114
Loss on sale of discontinued operation	21(e)	-	(2,113,996)
Profit (loss) from discontinued operation net of income tax		**-**	**(1,975,882)**
Cash flows from (used in) discontinued operation			
Net cash from (used in) operating activities		-	286,414
Net cash used in investing activities		-	(136,308)
Net cash used in financing activities		-	-
Net cash from (used in) discontinued operation		**-**	**150,106**

13. FRANKING ACCOUNT

In respect to the payment of dividends (if any) by the Company in subsequent financial years, no franking credits are currently available, or are likely to become available in the next 12 months.

14. KEY MANAGEMENT PERSONNEL DISCLOSURES

(a) Details of Key Management Personnel

The Key Management Personnel of the Group during or since the end of the financial year were as follows:

Non-Executive Directors

Mr Ian Middlemas	Non-Executive Chairman
Mr David Cruse	Non-Executive Director
Mr Mark Pearce	Non-Executive Director and Company Secretary

Unless otherwise disclosed, the KMP held their position from 1 July until the date of this report.

(b) Key Management Personnel Compensation

Company and Consolidated	2010 $	2009 $
Short-term employee benefits	66,000	102,346
Post-employment benefits	4,590	-
Share based payments	-	-
Total compensation	**70,590**	**102,346**

(c) Optionholdings of Key Management Personnel

2010	Held at 1 July 2009 (#)	Granted as Remuner-ation (#)	Options Exercised (#)	Net Change Other (#)	Held at 30 June 2010 (#)	Vested and exercisable at 30 June 2010 (#)
Ian Middlemas	-	-	-	-	-	-
David Cruse	-	-	-	-	-	-
Mark Pearce [4]	250,000	-	-	(250,000)	-	-
	250,000	**-**	**-**	**(250,000)**	**-**	**-**

2009	Held at 1 July 2008 (#)	Granted as Remuner-ation (#)	Options Exercised (#)	Net Change Other (#)	Held at 30 June 2009 (#)	Vested and exercisable at 30 June 2009 (#)
Ian Middlemas	-	-	-	-	-	-
David Cruse	-	-	-	-	-	-
Mark Pearce [1]	500,000	-	-	(250,000)	250,000	250,000
Mark O'Clery [1, 2]	1,500,000	-	-	-	1,500,000[3]	1,500,000[3]
	2,000,000	**-**	**-**	**(250,000)**	**1,750,000**	**1,750,000**

Notes:

[1] 850,000 unlisted options exercisable at $0.60 expired on 30 June 2009.
[2] 300,000 unlisted options exercisable at $0.20 expired on 31 December 2008.
[3] As at date of resignation.
[4] 250,000 unlisted options exercisable at $1.00 expired on 31 December 2009.

14. KEY MANAGEMENT PERSONNEL DISCLOSURES (Continued)

(d) Shareholdings of Key Management Personnel

2010	Held at 1 July 2009	Granted	Sales	Held at 30 June 2010
Ian Middlemas	2,900,000	-	-	2,900,000
David Cruse	453,000	-	-	453,000
Mark Pearce	1,016,000	-	-	1,016,000
	4,369,000	**-**	**-**	**4,369,000**

2009	Held at 1 July 2008	Granted	Sales	Held at 30 June 2009
Ian Middlemas	2,900,000	-	-	2,900,000
David Cruse	453,000[1]	-	-	453,000
Mark Pearce	1,016,000	-	-	1,016,000
Mark O'Clery	500,000	-	-	500,000[2]
	4,869,000	**-**	**-**	**4,869,000**

Notes:
[1] Held as at date of appointment.
[2] As at date of resignation.
[3] No shares were granted as compensation during the reporting period.

(e) Convertible Notes holdings of Key Management Personnel

2010	Held at 1 July 2009	Granted	Sales	Held at 30 June 2010
David Cruse	77,000	-	-	77,000
	77,000	**-**	**-**	**77,000**

2009	Held at 1 July 2008	Granted	Sales	Held at 30 June 2009
David Cruse	77,000[1]	-	-	77,000
	77,000	**-**	**-**	**77,000**

Notes:
[1] Held as at date of appointment.

(f) Loans to Key Management Personnel

There were no loans made to any key management personnel during the year ended 30 June 2010 (2009: Nil).

(g) Other Transactions

Apollo Group Pty Ltd, a company of which Mr Mark Pearce is a Director and beneficial shareholder, was paid/payable $180,000 (2009: $166,000) for the provision of serviced office facilities and administration services. The amount is based on a monthly retainer due and payable in advance and is able to be terminated by either party with one month's notice. This item has been recognised as an expense in the Profit and loss statement. The balance payable to Apollo Group Pty Ltd included in the statement of financial position at 30 June 2010 is $296,500 (2009: $116,500).

15. CONTROLLED ENTITIES

All controlled entities are included in the consolidated financial statements. The parent entity does not guarantee to pay the deficiency of its controlled entities in the event of a winding up of any controlled entity. The financial year-end of the controlled entities is the same as that of the parent entity.

Name of Controlled Entity	Place of Incorporation	% of Shares held 2010	% of Shares held 2009
OEL E&P (USA), Inc[a]	USA	100	100

The abovenamed investment in controlled entity has a carrying value at balance date of nil.
(a) Incorporated on 24 June 2008.

16. RELATED PARTIES

Transactions with Related Parties in the Consolidated Group

The consolidated group consists of Odyssey Energy Limited (the ultimate parent entity in the wholly owned group) and its controlled entities (see Note 15).

Odyssey Energy Limited entered into the following transactions during the year with related parties in the wholly owned group:

(i) *Entity Name*

- OEL E&P (USA), Inc

(ii) *Terms and Conditions:*

- The loans to controlled entities were undertaken on commercial terms and conditions, except that: there is no fixed time for repayment of loans between the parties; and
- no interest is payable on the loans.
- Remuneration of Key Management Personnel is disclosed in Note 14(b) and the Remuneration Report section of the Directors Report.
- Equity holdings of Key Management Personnel are disclosed in Notes 14(c) and 14(d).

These transactions were undertaken on commercial terms and conditions, except that:

- there was no fixed repayment of loans between the related parties; and
- no interest was payable on the loans.

	2010 $	2009 $
17. REMUNERATION OF AUDITORS		
Amounts received or due and receivable by Deloitte Touche Tohmatsu for an audit or review of the financial report of the Company	**12,400**	-
Amounts received or due and receivable by PKF Chartered Accountants for an audit or review of the financial report of the Company	**6,500**	-
Amounts received or due and receivable by BDO Kendalls Audit & Assurance (WA) for an audit or review of the financial report of the Company	**-**	23,988
Total Auditor's Remuneration	**18,900**	**23,988**

18. EMPLOYEE BENEFITS

	2010	2009
The number of full time equivalent people employed by the Consolidated Entity at balance date	-	-

19. SEGMENT INFORMATION

The Consolidated Entity has adopted AASB 8 *Operating Segments* with effect from 1 July 2009. AASB 8 requires operating segments to be identified on the basis of internal reports about components of the Consolidated Entity that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance.

The Consolidated Entity operates in one segment, being the resources sector in the United States of America. This is the basis on which internal reports are provided to the Directors for assessing performance and determining the allocation of resources within the Consolidated Entity.

As a result, following the adoption of AASB 8, there has been no change in the Consolidated Entity's reportable segments.

	2010 cents	2009 cents
20. EARNINGS PER SHARE		
(a) Basic Profit/(Loss) per Share		
From continuing operations	(11.75)	(20.25)
From discontinued operations	-	(3.40)
Total basic profit/(loss) per share	**(11.75)**	**(23.65)**
(b) Diluted Profit/(Loss) per Share		
From continuing operations	(11.75)	(20.25)
From discontinued operations	-	(3.40)
Total diluted profit/(loss) per share	**(11.75)**	**(23.65)**

The following reflects the income and share data used in the calculations of basic and diluted earnings per share:

	Consolidated 2010 $	Consolidated 2009 $
Net loss of the Continuing Entity before income tax expense	(6,835,137)	(11,777,803)
Net loss of the Discontinued Entity before income tax expense	-	(1,975,882)
Net loss used in calculating basic and diluted earnings per share	**(6,835,137)**	**(13,753,685)**

	Number of Shares 2010	Number of Shares 2009
Weighted average number of ordinary shares and potential ordinary shares used in calculating basic earnings per share	59,904,791	58,154,002
Effect of dilutive securities (see below)	-	-
Adjusted weighted average number of ordinary shares and potential ordinary shares used in calculating basic and diluted earnings per share	**59,904,791**	**58,154,002**

(c) Non-dilutive Securities

As at balance date, 4,346,000 Convertible Notes (which represent 4,346,000 potential ordinary shares) were not dilutive as they would decrease the loss per share.

(d) Conversions, Calls, Subscriptions or Issues after 30 June 2010

Nil.

	2010 $	2009 $
21. STATEMENT OF CASH FLOWS		
(a) Reconciliation of Net Loss After Income Tax Expense to Net Cash Outflow from Operating Activities		
Net loss after income tax expense	(6,835,137)	(13,753,685)
Adjustment for non-cash income and expense items		
Impairment of investments available for sale	6,187,500	10,656,250
Non-cash settlement of interest expense	64,779	-
Impairment of exploration asset	-	445,278
Loss on sale of discontinued operation	-	2,113,996
Depreciation	793	1,471
Movement in foreign exchange gain/loss related to operating assets	(8,492)	173,287
Changes in assets and liabilities		
Change in receivables	(16,856)	(2,240)
Change in payables	326,612	492,876
Change in assets held for sale	-	96,256
Change in liabilities held for sale	-	(355,974)
Net cash outflow from operating activities	**(280,801)**	**(132,485)**

(b) Reconciliation of Cash Assets

	2010 $	2009 $
Cash at bank and on hand	22,596	31,094

(c) Credit Standby Arrangements

At balance date, the Company had the following used and unused financing facilities from unrelated parties:

- loan facility of $1,000,000 drawn down to $940,000. On 14 September 2010, the Company entered into a revised unsecured short term loan facility of up to $1,100,000, repayable on 31 December 2010.

21. STATEMENT OF CASH FLOWS (Continued)

(d) Loss on Sale of Subsidiary

On 24 June 2008 the Company entered into a Share Sale Agreement to sell to Marion Energy Limited all of its shares in its wholly owned subsidiary OEL Operating (USA). The consideration for the sale and purchase was the issue of 27,500,000 Marion Energy Shares. Completion of the sale and purchase was approved by shareholders on 12 August 2008. The sale settled on 4 September 2008.

	2009 $
Consideration Received	
27,500,000 ordinary shares in Marion Energy Limited (ii)	17,531,250
Cash received	-
Total value of consideration received on sale	17,531,250
Net assets relinquished at 4 September 2008	
Exploration and Evaluation Assets	18,531,689
Property, Plant & Equipment	22,858
Liabilities	-
Net value of assets in OEL Operating (USA) Inc	18,554,547
Foreign currency translation reserve movement	1,025,733
Transaction costs paid	46,377
Transaction costs (accrued)	18,589
Total transaction costs	64,966
Cash relinquished	-
Net assets relinquished at date of deconsolidation	19,645,246
Consolidated loss on sale of OEL Operating (USA) Inc	**(2,113,996)**

(i) The loss recognised in the Company on the sale of OEL Operating (USA) Inc for the year ended 30 June 2009 was $2,148,002. This consisted of consideration received being the issue of 27.5 million Marion Shares at the fair value of $17,531,250 less the investment balance in the subsidiary of OEL Operating (USA) Inc and transaction costs associated with the sale.

(ii) On 24 June 2008 the Company entered into a Share Sale Agreement to sell to Marion Energy Limited ("Marion") all of its shares in its wholly owned subsidiary OEL Operating (USA) ("OEL"). The consideration for the sale and purchase was the issue of 27,500,000 Marion Shares.

At 30 June 2008, the value of the consideration to be received exceeded the carrying value of net assets relinquished pursuant to the sale, however the value of the consideration declined between the period 1 July 2008 and the date the sale was completed.

Completion of the sale and purchase was approved by shareholders on 12 August 2008. The sale settled on 4 September 2008. These shares were subject to escrow until 4 June 2009.

The Directors sought advice regarding the fair value of the Company's investment in Marion. Based on that advice, the Board determined the fair value at the date of settlement (4 September 2008) to be $17,531,250. The net fair value of the Company's investment in Marion Energy was determined using a valuation technique, with reference to the market price of Marion's shares discounted by 15% due to the escrow of the shares.

	Notes	2010 $	2009 $
22. PARENT ENTITY DISCLOSURES			
(a) Financial Position			
Assets			
Current Assets		**62,123**	53,764
Non-Current Assets		**689,035**	6,877,328
Total Assets		**751,158**	6,931,092
Liabilities			
Current Liabilities		**4,906,639**	1,487,530
Non-Current Liabilities		**-**	2,824,900
Total Liabilities		**4,906,639**	4,312,430
Equity			
Contributed equity		**18,323,288**	18,260,159
Accumulated losses		**(22,478,769)**	(15,992,197)
Option premium reserve		**-**	350,700
Total Equity		**(4,155,481)**	2,618,662
(b) Financial Performance			
Loss for the year		**(6,837,272)**	(13,828,811)
Total comprehensive income		**(6,837,272)**	(13,828,811)

23. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

(a) Overview

The Group's principal financial instruments comprise receivables, payables, cash and short-term deposits. The main risks arising from the Group's financial instruments are interest rate risk, equity price risk, foreign currency risk, credit risk and liquidity risk.

This note presents information about the Group's exposure to each of the above risks, its objectives, policies and processes for measuring and managing risk, and the management of capital. Other than as disclosed, there have been no significant changes since the previous financial year to the exposure or management of these risks. Further quantitative disclosures are included throughout this financial report.

The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework. Given the nature and size of the business, no formal risk management committees have been established, however responsibility for control and risk management is delegated to the appropriate level of management with the chief executive officer and chief financial officer (or their equivalent) having ultimate responsibility to the Board for the risk management and control framework.

Risk management policies are established to identify and analyse the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities.

23. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(a) Overview (Continued)

Arrangements put in place by the Board to monitor risk management include monthly reporting to the Board in respect of the operations and financial position of the Company and Group. The Board also reviews risks that relate to operations and financial instruments as required, but at least every six months.

Given the uncertainty as to the timing and amount of cash inflows and outflows, the Company has not implemented any additional strategies to mitigate the financial risks and no hedging has been put in place. As the Company's operations change, the Directors will review this policy periodically going forward.

The Company's policy is that no trading in financial instruments shall be undertaken for the purposes of making speculative gains.

The Company currently does not engage in any hedging or derivative transactions to manage market risk.

Due to the changes in the global economy there has been a significant decline in the value of available for sale financial assets.

(b) Credit Risk

Credit risk is the risk of financial loss to the Company or Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. This arises principally from cash and cash equivalents, and trade and other receivables.

There are no significant concentrations of credit risk within the Consolidated Entity. The carrying amount of the Consolidated Entity's financial assets represents the maximum credit risk exposure, as represented below:

	Notes	2010 $	2009 $
Cash and cash equivalents	21(b)	22,596	31,094
Trade and other receivables	4	39,527	22,670
		62,123	**53,764**

The Consolidated Entity does not have any significant customers and accordingly does not have any significant exposure to bad or doubtful debts.

Trade and other receivables comprise trade receivables, interest accrued and GST refunds due. Where possible the Consolidated Entity trades only with recognised, creditworthy third parties. It is the Consolidated Entity's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Consolidated Entity's exposure to bad debts is not significant. At 30 June 2010, none (2009: none) of the Consolidated Entity's receivables are past due.

With respect to credit risk arising from cash and cash equivalents, the Consolidated Entity's exposure to credit risk arises from default of the counter party, with a maximum exposure equal to the carrying amount of these instruments.

(c) Liquidity Risk

Liquidity risk is the risk that the Company and Group will not be able to meet its financial obligations as they fall due. The Board's approach to managing liquidity is to ensure, as far as possible, that the Company will always have sufficient liquidity to meet its liabilities when due. This is monitored by the preparation of monthly cash flow reports, and regular forecasts as required but at least every six months.

The contractual maturities of financial liabilities, including estimated interest payments, are provided below. There are no netting arrangements in respect of financial liabilities.

	Carrying Amount $	Contractual cash flows $	6 months or less $	6-12 months $	1-2 years $	2-5 years $
2010 – Group						
Trade and other payables	1,009,531	(1,009,531)	(1,009,531)	-	-	-
Loans and borrowings	940,000	(1,072,208)	-	(1,072,208)	-	-
Convertible Notes	2,824,900	(3,015,580)	(127,120)	(2,888,460)	-	-
2009 – Group						
Trade and other payables	850,015	(850,015)	(850,015)	-	-	-
Loans and borrowings	640,000	(691,868)	-	(691,868)	-	-
Convertible Notes	2,824,900	(3,396,942)	(127,120)	(127,120)	(3,142,702)	-

(d) Currency Risk

(i) Exposure to currency risk

The Company and the Group are exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than the respective functional currencies of the Company and its controlled entity. The functional currency of the Company is Australian Dollars (AUD) and of its controlled entity is United States Dollars (USD).

As the Company's loan to its controlled entity is denominated in AUD the Company has not been exposed to currency risk in respect to this balance. Foreign currency gains/losses recorded by the subsidiary are taken to foreign currency reserve.

Foreign currency risk also arises on translation of the net assets of the controlled entity into AUD for consolidation purposes. The foreign currency gains or losses arising from this risk are recorded through the foreign currency translation reserve.

As a result of activities overseas, the Group's statement of financial position can be affected by movements in exchange rates.

The Group also has transactional currency exposures. Such exposure arises from sales or purchases denominated in foreign currencies. The Group currently does not engage in any hedging or derivative transactions to manage foreign currency risk.

(ii) Sensitivity analysis for currency risk

A sensitivity of 10% has been selected as this is considered reasonable given the current level of exchange rates and the volatility observed both on an historical basis and market expectations for future movement. The year end USD exchange rate was 0.8567 (2009: 0.8048). Had this increased by 10% to 0.9424 (2009: 0.8853) consolidated equity would have increased by $597 (2009: increase of $45,179) and consolidated loss would have increased by $40,262 (2009: $90,115). Had this decreased by 10% to 0.7710 (2009: 0.7243) consolidated equity would have decreased by $597 (2009: decrease of $45,179) and consolidated loss would have decreased by $40,262 (2009: $90,115).

There would be no impact on profit or loss arising from changes in the currency risk variables relating to the Group's activities overseas as all changes in value are taken to a reserve.

23. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(e) Interest Rate Risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the cash and short-term deposits with a floating interest rate.

These financial assets with variable rates expose the Group to cash flow interest rate risk. All other financial assets and liabilities, in the form of receivables and payables are non-interest bearing or are fixed interest bearing (in the case of the convertible notes and the short term borrowing facility).

(i) Exposure to interest rate risk

At the reporting date, the interest rate profile of the Group's interest-bearing financial instruments were:

		2010 $	2009 $
Interest-bearing financial instruments			
Cash at bank and on hand	(i)	22,596	31,094
Loans and borrowings	(ii)	(940,000)	(640,000)
Convertible notes payable	(iii)	(2,824,900)	(2,824,900)
		(3,742,304)	**(3,433,806)**

(i) The weighted average interest rate of the Company cash balances was 2.25% (2009: 0.75%) and for other consolidated cash balances this rate was 2.25% (2009: 0.75%).

(ii) At 30 June 2010, the Company had an unsecured loan from an unrelated party. The loan is unsecured, repayable on 31 December 2010 and has interest payable of 10% per annum on repayment of the full amount.

(iii) The convertible notes payable have a fixed interest rate of 9% and are repayable on 23 March 2011, if not redeemed or converted prior to this date. Refer to Note 9 for further details of terms and conditions.

The Group currently does not engage in any hedging or derivative transactions to manage interest rate risk.

(ii) Cash flow sensitivity analysis for variable rate instruments

A sensitivity of 20% has been selected as this is considered reasonable given the current level of both short term and long term interest rates. A 20% movement in interest rates at the reporting date would have increased (decreased) equity and profit and loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2009.

	Profit or loss		Equity	
	20% increase	20% decrease	20% increase	20% decrease
2010				
Group				
Cash and cash equivalents	121	(121)	121	(121)
2009				
Group				
Cash and cash equivalents	46	(46)	46	(46)

(f) Commodity Price Risk

The Group is exposed to commodity price risk. These commodity prices can be volatile and are influenced by factors beyond the Group's control. As the Group is currently engaged in exploration and business development activities, no sales of commodities are forecast for the next 12 months, and accordingly, no hedging or derivative transactions have been used to manage commodity price risk.

(g) Equity Price Risk

(i) Exposure to equity price risk

The Company is exposed to equity price risk arising from its equity investment in Marion Energy Limited (Marion). The equity investment is currently held for strategic rather than trading purposes. The Company does not actively trade these investments and no hedging or derivative transactions have been used to manage equity price risk.

The Company holds 27.5 million shares in Marion which are listed on the ASX (under the code of MAE). Marion has recently announced that it has renegotiated its debt facilities, and that it expects recommenced operations at its Clear Creek project to bring wells back into production. It is expected that the result of these activities, and its ability to continue refinance its debt, will impact on the price at which Marion Energy's shares trade on the ASX.

With respect to equity price risk arising from the Company's equity investments, the maximum exposure is equal to the carrying amount of the Company's equity investments.

The Company's investment in classified as available-for-sale and is carried at fair value. The Directors have determined the fair value to be $687,500, based on the market value for the company's shares traded on the ASX. A deferred tax asset has not been recognised in respect of this investment (refer Note 3).

(ii) Sensitivity analysis for equity price risk

The sensitivity analyses below have been determined based on the exposure to equity price risks at the reporting date, which has been determined based on recent movements in the price of the underlying financial assets. At reporting date, if the equity prices had been 100% higher or lower. A sensitivity of 40% was applied in 2009. The higher percentage was applied in 2010 due to the increased volatility in the market price of the shares:

- net loss for the year ended 30 June 2010 would increase/decrease by $687,500 as although the equity investments are classified as available for sale and no investments were disposed of the directors have treated the movement in value as being an impairment; and
- equity reserves would increase/decrease by $687,500 (2009: $2,750,000) for the Company as a result of the changes in fair value of available for sale investments.

(h) Fair Value

The net fair value of financial assets and financial liabilities approximate their carrying value. The methods for estimating fair value values are outlined in the relevant notes to the Financial Statements.

(i) Capital Management

The Board's policy is to maintain a suitable capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. Given the stage of development of the Company, the Board's objective is to minimise debt going forward and to raise funds as required through the issue of new shares. However, the Board will undertake short term borrowings to provide temporary funding where appropriate. The Company is currently examining new business opportunities where acquisition/working capital requirements of a new project may involve additional funding in some format (which may include debt, where appropriate).

There were no changes in the Company's approach to capital management during the year.

The Company is not subject to externally imposed capital requirements.

24. COMMITMENTS AND CONTINGENCIES

(a) Commitments

The Group has no commitments for expenditure. However, it should be noted that the Group intends to conduct exploration and appraisal activities on its oil and gas leases.

(b) Contingencies

At balance date the Group has no contingent assets or liabilities.

25. SUBSEQUENT EVENTS

As announced on 30 September 2010, the Company has mandated Argonaut Capital, on a reasonable endeavours basis, to manage following recapitalisation process:

- Share Placement – the issue of up to 125 million shares at $0.02 per share. One option will also be granted for every two new shares subscribed for at no further consideration. These options will be exercisable at $0.05 on or before 31 December 2014;

- Debt for Equity – Conversion of up to $2.0 million of the debt relating to convertible notes into equity in the Company on the same terms as the share placement referred to above.

- 1 for 2 non-renounceable entitlements issue - new shares under an entitlements issue will be offered at $0.02 per share with the same rights to options as the share placement.

The share placement and debt for equity conversion are subject to shareholder approval. The directors of the Company intend to seek shareholder approval for their respective participation in the share placement.

The entitlements issue will be undertaken after the completion of the share placement and debt for equity conversion.

The Company will no longer proceed with the previously announced entitlements issue and debt for equity conversion.

Other than as outlined above, as at the date of this report there are no matters or circumstances which have arisen since 30 June 2010 that have significantly affected or may significantly affect:

- the operations, in financial years subsequent to 30 June 2010, of the Company or Consolidated Entity;
- the results of those operations, in financials years subsequent to 30 June 2010, of the Company or Consolidated Entity; or
- the state of affairs, in financial years subsequent to 30 June 2010, of the Company or Consolidated Entity.

26. SHARE BASED PAYMENTS

(a) Recognised Share-Based Payment Expense

From time to time, the Group provides incentive options to officers, employees, consultants and other key advisors as part of remuneration and incentive arrangements. The number of options granted, and the terms of the options granted are determined by the Board. Shareholder approval is sought where required. During the past two years, no equity-settled share-based payments have been made.

(b) Summary of Options Granted

There were no incentive options granted during the 2010 or 2009 financial years.

The following table illustrates the number (No.) and weighted average exercise prices (WAEP) of and movements in share options :

	2010 No.	2009 No.	2010 WAEP	2009 WAEP
Outstanding at beginning of year	1,400,000	2,550,000	$1.00	$0.77
Granted during the year	-	-	-	-
Expired during the year	(1,400,000)	(1,150,000)	($1.00)	$0.44
Outstanding and exercisable at end of year	**-**	**1,400,000**	**-**	**$1.00**

- 1,400,000 unlisted options over ordinary shares with an exercise price of $1.00 each expired on 31 December 2009.

(c) Weighted Average Remaining Contractual Life

No share options were outstanding at 30 June 2010. The weighted average remaining contractual life for the share options outstanding as at 30 June 2009 was 0.5 years.

(d) Range of Exercise Prices

The exercise prices for share options outstanding as at 30 June 2010 was $nil (2009: $1.00).

(e) Weighted Average Fair Value

There were no options issued during the 2010 or 2009 financial years.

DIRECTORS' DECLARATION

In accordance with a resolution of the directors of Odyssey Energy Limited:

1. In the opinion of the directors:

   (a) the attached financial statements, notes and the additional disclosures included in the directors' report designated as audited, are in accordance with the Corporations Act 2001, including:

      (i) section 296 (compliance with accounting standards and Corporations Regulations 2001); and

      (ii) section 297 (gives a true and fair view of the financial position as at 30 June 2010 and of the performance for the year ended on that date of the Company and consolidated group); and

   (b) there are reasonable grounds to believe that the Company and the Group will be able to pay its debts as and when they become due and payable.

2. The attached financial statements are in compliance with International Financial Reporting Standards, as stated in note 1 to the financial statements.

3. The Directors have been given a declaration required by section 295A of the Corporations Act 2001 for the financial year ended 30 June 2010.

On behalf of the Board

IAN MIDDLEMAS
Director

Perth, 30 September 2010

Deloitte.

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Independent Auditor's Report to the Members of Odyssey Energy Limited

We have audited the accompanying financial report of Odyssey Energy Limited, which comprises the consolidated statement of financial position as at 30 June 2010, and the consolidated statement of comprehensive income, the consolidated statement of cash flows and the consolidated statement of changes in equity for the year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year as set out on pages 14 to 56.

Directors' Responsibility for the Financial Report

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

Auditor's Responsibility

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

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

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

Auditor's Independence Declaration

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

Deloitte.

Auditor's Opinion

In our opinion:

(a) the financial report of Odyssey Energy Limited is in accordance with the *Corporations Act 2001*, including:

  (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2010 and of its performance for the year ended on that date; and
  (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and

(b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

Material Uncertainty Regarding Continuation as a Going Concern

Without qualifying our opinion, we draw attention to Note 1(ab) in the financial report which indicates that the consolidated entity has incurred a net loss of $6,835,137 and experienced net cash outflows from operating activities of $208,801 for the year ended 30 June 2010 and as of that date, the consolidated entity's current liabilities exceeded current assets by $4,844,516. These conditions, along with other matters set forth in Note 1(ab), indicate the existence of a material uncertainty which may cast significant doubt about the company's and consolidated entity's ability to continue as going concerns and whether they will realise their assets and extinguish their liabilities in the normal course of business and at the amounts stated in the financial report.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 7 to 11 of the directors' report for the year ended 30 June 2010. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's Opinion

In our opinion the Remuneration Report of Odyssey Energy Limited for the year ended 30 June 2010, complies with section 300A of the *Corporations Act 2001*.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Conley Manifis
Partner
Chartered Accountants
Perth, 30 September 2010