



Delivering secure gas, onshore



Island Gas Resources plc

Annual report and accounts 2008

We are a leading developer of Coal Bed Methane (“CBM”) in the UK and producer of North Sea quality gas from virgin coal seams. The Group has licences to extract oil and gas across the north of Wales and the north of England covering an area of more than 1,656 square kilometres. Mid case GIIP (Gas initially In place) is up 142% from 893 at year end 2007 to 2,169 Billion cubic feet (“bcf”) (source Equipoise Solutions Ltd) and independent analysis by world leading reservoir engineers, DeGolyer and McNaughton, confirms Contingent Recoverable Resource of 733 bcf of gas, equivalent to 116 million barrels of oil.

In conjunction with our joint venture partner Nexen Exploration U.K. Limited (“Nexen”) we have now drilled seven wells and multiple lateral legs. Having carried out extensive production testing at our Doe Green site in Cheshire, we are now selling electricity through our on-site generation, a UK first. Our initial production rates indicate that we should exceed our threshold for commerciality.

Delivering secure gas, onshore

Contents

Overview

- 01 Our highlights
- 02 Our strategy
- 03 What we do
- 04 Chairman’s statement
Business review
- 06 Operations
- 10 Key financial highlights
- 12 Directors
- 14 Corporate governance
- 15 Directors’ remuneration
report
- 16 Directors’ report

Consolidated financial statements

- 18 Directors’ statement of responsibilities
in respect thereof
- 19 Independent auditor’s report
- 20 Consolidated income statement
- 21 Consolidated balance sheet
- 22 Consolidated statement of changes in equity
- 23 Consolidated cash flow statement
- 24 Consolidated financial statements – notes

Parent financial statements

- 37 Directors’ statement of responsibilities
in respect thereof
- 38 Independent auditor’s report
- 39 Parent company balance sheet
- 40 Parent company statement of changes in equity
- 41 Parent company cash flow statement
- 42 Parent company financial statements – notes

Annual General Meeting

- 51 Proposed business of the Annual General Meeting
- 55 Notice of Annual General Meeting
- IBC General information

Our highlights

Operational

- Gas Sales – First electricity sales from CBM production in the UK
- Our initial production rates indicate that we should exceed our threshold for commerciality
- Gas in Place – Mid case up 142% to 2,169 bcf; independently verified based on latest data
- Contingent Recoverable Resource – World renowned DeGolyer and McNaughton confirms 733 bcf
- Licensed acreage – 69% increase to 1,656 square kilometres
- Drilling – three additional wells and several lateral legs
- Licence commitments – Satisfied until 2011
- Production sites – Two Field Development Plans approved, an initial 20 sites identified

Financial

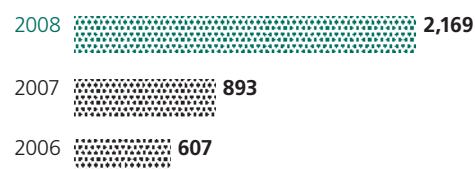
- Revenue – £992 thousand
- Operating loss – £458 thousand
- Loss for the year – £386 thousand
- Cash – £2.3 million at 31 December 2008
- Carry agreements – sufficient for 2009 and 2010 budgeted work programmes
- Funding – £4.5 million available at 31 December 2008

Gas initially in place (net to IGas)

Growth year on year +142%

2,169^{bcf}

2008

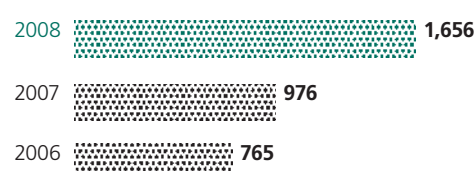


Licensed acreage

Growth year on year +69%

1,656^{km²}

2008



Our strategy

2008 – Now delivered

At the beginning of 2008 our immediate objectives were:

- Commence initial gas sales from at least one property by the end of 2008; *after decision to carry out further drilling we are now selling electricity from our gas*
- Secure other routes to market
- Gather data and production experience to allow independent reserve auditors to classify a proportion of our gas as “recoverable resource”
- Fulfil licence obligations to secure licences into second terms
- Apply for further acreage in 13th onshore licensing round

2009

Our Strategy remains to develop our UK asset base and our immediate objectives for 2009 are:

- Doe Green – Carry out long-term production test and continue commercial gas sales
- Swallowcroft – Establish a fully permitted production site
- Point of Ayr – Assess potential for a conventional gas play to supplement Contingent Recoverable Resource
- Land bank – Establish a bank of permitted drill sites
- Reserves – Establish a long-term plan for the conversion of Contingent Recoverable Resource to commercially recoverable reserves

About Us



< Drilling operations in Staffordshire



Additional lateral > drilling at Doe Green

What we do

IGas produces gas in the UK from CBM.

CBM is a naturally occurring gas, similar to North Sea gas, trapped in virgin coal seams. Where significant volumes of this gas are held in the coal and the coal is suitably permeable (and therefore allows the gas to flow through it), it is possible to drill into the coal and extract the water within the strata thereby reducing the pressure in the reservoir, and allow the gas to flow through the bore hole to be produced and sold.

While CBM production is in its infancy in the UK, CBM already forms a significant part of the energy mix in North America and Australia.



< Drilling at Willoughbridge in Pedl 78

Chairman's statement

The financial year ending 31 December 2008 was certainly a year of challenges for many businesses! The changing environment from the start of the year through the very high prices for commodities reached in the summer followed by the collapse in both financial markets and hydrocarbon prices has formed the backdrop for our year. However, I am pleased to report that we have now delivered all our stated near-term objectives and have continued to build on the foundations we laid in 2007 as set out in my statement to you last year.

These foundations have three integral parts:

01 Deliverability of gas

- At Doe Green, since year end, we have been granted a Field Development Plan ("FDP") and started to produce gas; now being used to generate electricity for sale to the grid.
- At Doe Green we decided to carry out additional drilling before commencing further production tests and during dewatering our initial production rates indicate that we should exceed our threshold for commerciality.
- In Swallowcroft, we drilled two more assay wells, obtained planning permission to drill at Keele University and have been granted a Field Development Plan over acreage in the Potteries.
- World renowned DeGolyer and MacNaughton's report on our Contingent Recoverable Resources provides independent confirmation of a potential 733 bcf, with a "most likely" of 503 bcf; all net to IGas

02 Asset growth

- Successful 13th licensing round applications have resulted in us being awarded interests in three more licences over an additional 680 square kilometres.
- These new awards build on our core position and knowledge base in the north west.
- In September we announced a framework agreement with Peel Environmental Ltd to allow access to sites within their land holding for the production of CBM. We have now identified a further 20 potential production sites in the north west to be evaluated.



Well head at DG1
V

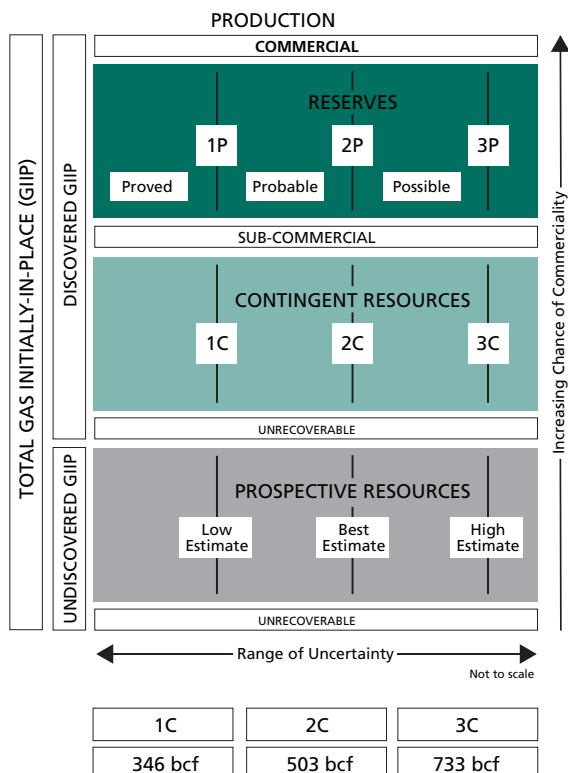


- Independent verification of mid case gas initially in place has been revised upwards by 142% to 2,169 bcf, based on latest data; source Equipose Solutions Ltd.
- We are now also evaluating the potential for conventional hydrocarbon plays within our acreage position. This activity is particularly focused at Point of Ayr.

03 Financial flexibility

- On 30 June 2008 we closed a fund raising of £2.1 million before expenses at 65p per share.
- This additional funding combined with our carry agreements with Nexen leaves us very well placed to continue to add value to our assets through 2009, 2010 and into 2011.

I would like to draw particular attention to the report prepared independently by world renowned DeGolyer and McNaughton on our Contingent Recoverable Resources. In this they opined that we have undetermined contingent recoverable resources as shown in the table below:



(Source: IGas Resource audit conducted by D&M. "Society of Petroleum Engineers. PRMS Guide for Non-Technical Users")

In categorising the resource as "undetermined contingent" D&M are supporting the deliverability of the gas from the acreage but not commenting on the commerciality of the proposition. As we are now producing and selling gas from our assets, our objectives for 2009 are clearly to further demonstrate not only the deliverability but also the commercial viability of what we own.

Whilst there is some uncertainty in the macro backdrop to our business, several key themes continue to develop positively and these will support our growth. Firstly CBM as a sector within the oil and gas markets continues to develop strongly. Very significant merger and acquisition ("M&A") activity in 2008, particularly for CBM players in Australia, made CBM M&A activity the fastest growing sector in what was otherwise a contracting market. Also pipeline interruptions in Russia and the Ukraine again focused minds on the importance of energy security in the UK. Meanwhile an article in the Wall Street Journal in February 2009 pointed out that "Coal seam gas is also seen as a greener alternative to other fossil fuels. It contains relatively little carbon dioxide and sulphur, so it's more clean-burning than coal, oil or conventional gas." Coal seam gas is another name for CBM.

I would like to welcome Cenkos to the team having taken over as nominated adviser and broker since May this year. Finally I would like to thank our executive and non-executive teams for successfully steering the Company through 2008 and into 2009 and delivering on our strategy. While the backdrop for 2009 is still uncertain, I am confident that we are well placed to continue to add value to our assets and demonstrate the ability of our asset base to deliver secure gas, onshore.

Francis Guzen
Executive Chairman

Business review Operations

The business of the Group is the development of a series of coal bed methane assets in England and Wales with the objective of becoming a significant onshore producer of gas.

Development of these assets is taking place in conjunction with our joint venture partner Nexen. In all cases Nexen is operator of the assets and the Group is the non-operating partner.

During the year and in early 2009, activity has concentrated on achieving commercial production from Four Oaks, on the Swallowcroft acreage and on gaining three further licences covering two new geographical areas adjacent to our existing properties; North Dee and Parkside.

Gas production

The Group now has a pilot production site at Doe Green in Cheshire, between Warrington and Widnes. We have drilled two wells at this location and have drilled several lateral legs from one well. We have now lined a total of c. 2,500 feet of lateral within this well and this is now producing gas to surface.

In December 2008 an electricity generating set was installed at the site, which is now powered by our CBM and has capacity to export enough electricity to power 1,200 homes.

This pilot site represents, we believe, the first commercially produced gas from CBM in the UK.

In 2009 we intend to fully permit a second production site in our Swallowcroft acreage. The final location for such a site has yet to be determined, but this could be at Brancote, where many of the necessary permits have recently been granted.

Four Oaks

Much progress has been made in this area with activity in both PEDL 116 and PEDL 145. At Doe Green in PEDL 145 we now have our first production site in operation. Generators installed at the site can export electricity to the grid generated from the methane produced. To date we have only accessed one seam of a potential thirteen seams available at this location.

In April 2008 we spudded a well at Fox Hill Farm within PEDL 116. This well was plugged and abandoned as planned and the results from this well helped to further corroborate previous samples and coring results. This well also fulfilled the licence obligations for PEDL 116 and ensures the extension of the licence into its second term.



Electricity substation for export
at Doe Green



Swallowcroft

The Swallowcroft area includes licences PEDL 40–1, 56–1, 78–1, 115–1 and 115–2. The area extends from, Newcastle-under-Lyme in the west across to Lichfield in the east, within the county of Staffordshire.

Central Swallowcroft (PEDLs 40–1 and 56–1); Geologically, the area is formed by a series of open, westward-plunging anticlines and synclines, outcropping rocks of Triassic to Carboniferous Age at surface, with Carboniferous Westphalian coal measures sequence outcropping to the north of the licences, where they were worked as part of the Staffordshire coalfields. A large fault, the Wem Fault, downthrows Carboniferous strata to the very westerly edge of the licences and although quantification of this throw is uncertain, it is likely that the Carboniferous strata to the west of this fault are too deep for CBM exploration at present.

Greater Swallowcroft (PEDLs 78–1, 115–1 and 115–2); Geologically, the area under licence is formed by strata of Carboniferous and Permo-Triassic Age. Solid geological maps show the area to be generally dipping from south to north, with a complex of north-south trending normal faults, commonly down throwing to the east in the case of PEDL 78–1 and to the west in the case of PEDLs 115–1 and 2.

Extensive work has now been undertaken to select appropriate sites from which to drill, using the Group's existing geological data whilst being ever mindful of the Group's objective to limit environmental impacts.

On 31 July 2008, a well was spudded at Willoughbridge in PEDL 78-1. This assay well was drilled to core and log the coal measures and extend our knowledge of the coal seam development in the area. The well successfully achieved its objectives; proving better coal seam development than had been expected and, as planned, was plugged and abandoned in early September. The drilling of this well satisfies the commitments under the first term of the licence and extends it into its second term.

A well was spudded at Fradley in October 2008 and this fulfilled the licence obligations for PEDL 115–2 and ensures the extension of the licence into its second term.

In PEDL 56–1, an agreement has been struck with Keele University to drill within the curtilage of their new science park and to supply the University with gas produced from the site. Planning has recently been obtained for initial drilling.

On 30 April 2009 we were granted a Field Development Programme ("FDP") by the government Department of Energy and Climate Change ("DECC") for the commercial production of CBM gas from our sites in the Swallowcroft area in Staffordshire.



◀ Pedl 40–1 and 56–1. A portion of the Swallowcroft acreage in Staffordshire

Drilling at Fradley Junction
V



North Dee

PEDL 184 and PEDL 190 are located in North Dee, incorporating the areas around Ellesmere Port and Runcorn. The area extends between the tidal estuary of the Dee and the Mersey, with the peninsula of the Wirral (Cheshire) lying between them. The area was awarded to a partnership of Nexen and IGas as part of the 13th round of onshore licences announced by the Secretary of State on 28 May 2008.

These licences target the CBM potential of the eastern extension of the North Wales coalfields and the south western extension of the Lancashire coalfields. These coals are proven to extend eastwards for at least 20 kilometres in the North Dee area from Buckley to Chester, and southwards from the Wirral to Wrexham.

The licence area lies on the south eastern margin of the East Irish Sea basin and on the north western margin of the Permo-Triassic Cheshire basin, forming part of the larger Pennine coal measures basin. The Westphalian Pennine coal measures group of the Pennine basin extends as outcrop or at subcrop across northern England to the west and east of the Pennines, central England and north Wales. The licence area forms part of the south westerly edge of the basin.

The south western area of PEDL 190 includes the Collinge Borehole drilled by the National Coal Board ("NCB") as part of an old coalfield exploration programme. The Collinge borehole demonstrates the presence of multiple thick (>1m) coal seams within the Upper Carboniferous, Westphalian. A NCB depth structure map confirms the regional structure of the Coal Measures as dipping gently to the south east toward the Cheshire basin.

It is the intention of the partnership to confirm the CBM production potential of each licence by drilling a well into each PEDL from an onshore surface location, contingent upon achieving the required planning permission. Identification of potential well sites is ongoing, including in conjunction with the arrangements with Peel Environmental Ltd.



Pedl 190



Parkside

This area is located in South Lancashire to the south east of the old Parkside Colliery area of the South Lancashire coalfields and north west of Warrington. The area was awarded to a partnership of Nexen and IGas as part of the 13th round of onshore licences announced by the Secretary of State on 28 May 2008.

Geographically, the licence is on the southern margin of the Rossendale anticline and on the western margin of the Pennine Axis, and targets the CBM potential of the southern extension of the South Lancashire coalfield which is proven, by prior NCB boreholes, to extend for at least 5 kilometres to the south east.

The oldest rocks present in the area belong to the upper part of the Millstone Grit Series of Upper Carboniferous age and are followed conformably by the Lower and Middle Coal Measures. These geologic strata consist of alternating shales, sandstones and coal seams. The northern and western area of the licence includes part of the underground workings of the abandoned South Lancashire coalfield. The workings demonstrate the presence of multiple thick (>1m) coal seams within the Upper Carboniferous, Westphalian, Pennine coal measures. Exploration work carried out by the former NCB confirms the regional structure of the coal measures as gently dipping to the south (at depths up to and exceeding 1,200 metres) and being broken up by a series of normal faults.

It is the intention of the partnership to confirm the CBM production potential of the licence by drilling a well into the application area from an onshore surface location, contingent upon achieving the required planning permission. Identification of potential well sites is ongoing.



< Pedl 193



Key financial highlights

Income statement

| £000 | 2008 | 2007 |
|-------------------|-------|----------|
| Revenue | 992 | 811 |
| Operating loss | (458) | (2,024)* |
| Loss for the year | (386) | (2,015)* |

* Includes Exceptional item – Impairment of Goodwill on Reverse of (£2,040) thousand. Refer to note 7 in the consolidated financial statements.

Total licence expenditure

| Cumulative to end (£000) | 2008 | 2007 |
|--------------------------|-------|-------|
| Incurred by Group | 476 | 109 |
| Carried by Nexen | 4,072 | 2,664 |

Cash position

- The Group manages its cash and other sources of finance, including its agreements with Nexen, so as to have access to adequate funds to meet the costs of future exploration and development programmes. At 31 December 2008, the Group's capital employed amounted to £2.6 million (2007: £1 million) all provided by equity, as the Group has no borrowings.
- As at 31 December 2008 the Group had a consolidated cash position of £2.3 million (2007: £1.4 million). In addition the Group has committed income of £500,000 for 2009 as a result of a management services agreement with Nexen. The Group also has access to carry agreements with Nexen under which, as at 31 December 2008, a further £1.7 million (2007: £3.1 million) of the Group's share of the cost of future licence work programmes (which have to be approved by the Group) will be carried by Nexen.
- Accordingly, at 31 December 2008, in total, the Group had access to in excess of £4.5 million (2007: £4.0 million) of funding.



< Operations in Staffordshire

Principal risks and uncertainties

- The Group is exposed, through its operations, to liquidity risk, which is managed by the Board who regularly review the Group's cash forecasts and the adequacy of available facilities to meet the Group's cash requirements. At the Group's current stage of development, the Board does not consider foreign currency and credit risks to be material.
- The Group is exposed to market price risk through variations in the wholesale prices of gas and electricity in the context of its future production volumes. Currently the Group has not entered into any forward contracts to fix the prices of these commodities. The Board will continue to monitor the benefit of entering into such contracts.
- The Group is exposed to risks associated with geological uncertainty. No guarantee can be given that gas can be produced from any or all of the Group's assets or that gas can be delivered economically.
- The Group is exposed to planning, environmental, licensing and other permitting risks associated with its operations and, in particular, with drilling and production operations. To date, authorities have appeared supportive but there can be no guarantee this will continue.
- The Group is exposed to capital risk resulting from its capital structure. Currently the Group has no borrowings and is solely equity funded. However, the capital structure is continually monitored to ensure it is in line with the business needs and ongoing asset development. Further details of the Group's capital management policy are disclosed in note 17 to the consolidated financial statements.
- The Group is also exposed to a variety of other risks including those related to:
 - operational matters (including cost increases, availability of equipment and successful project execution);
 - Nexen operating agreements (including their pursuit of projects);
 - competition;
 - key personnel; and
 - litigation.

Environment, Health and Safety

The Group is committed to preserving the environment and to ensuring we provide safe and healthy work conditions for all our employees and contractors. Nexen, which operates all of our assets, has Environmental and Health and Safety policies that can be found at www.nexeninc.com.



Generator at Doe Green >

Directors

Francis Gugen

Executive Chairman

Francis is a founder, largest shareholder and Executive Chairman and has over thirty year's oil and gas industry experience. Between 1982 and 2000 he helped grow Amerada Hess in north west Europe, ultimately becoming CEO. He is a member of the CBI's Economic Affairs Committee. Francis is also a past president of the UK Offshore Operators Association, past chair of the industries representation on the UK Government Oil & Gas Task Force (Pilot) and the chair of the CBI's Environmental Affairs Committee.

Francis is a chartered accountant having worked for Arthur Andersen for eight years until 1982, principally as an oil and gas specialist. Currently he is Chairman of the board of Petroleum Geophysical Services ASA and is a non-executive director and member of the audit committee of the Britannia Building Society. Until 2006 he served as non-executive director of North Sea gas fields and pipelines operator CH4 Energy Limited before it was acquired in 2006 by Venture Petroleum Plc for Euro 224 million. Francis is also the non-executive chair of Chrysaor Limited, focused on developing North Sea oil and gas fields and of Fraudscreen Limited, a financial services business.

Francis devotes such time to the Group as is required to discharge his duties.

Andrew Austin

Chief Executive Officer

Andrew is one of the founders and the Chief Executive Officer and previously he specialised in energy projects in the gas, electricity and renewables sector. Andrew has been an Executive Director since 2004 and now has full time responsibility for day to day operations and business development.

Andrew has been involved in ventures as principal and has also raised substantial funds of private and public equity for clients during the course of his career to date. Andrew spent 17 years working in investment banking in the City of London with Merrill Lynch, Nomura, Citibank and Barclays Capital. Latterly he was general manager of Creditanstalt Investment Bank in London. He also has six years of management and consultancy experience with clean tech companies including Generics Group and Whitfield Solar.

Brent Cheshire

Executive Technical Director

Brent is one of the founders and is the Technical Director. After 14 years at Shell, he joined Amerada Hess in 1991, where he had a range of roles culminating in Senior VP E&P Worldwide Technology and CEO Scandinavia. Brent has significant experience in geology, drilling technology and project management and is managing director of DONG E&P (UK) Limited, under arrangements that allow him to devote appropriate time to IGas.

He was responsible for Amerada's entry into Denmark through identifying the potential of the undrilled South Arne prospect, managing its acquisition and developing its production. Brent is a petroleum engineer having graduated as a geologist from Durham University. Since leaving Amerada, he has been a senior adviser to the Danish Oil and Natural Gas Company, assisting it with the design and implementation of its growth strategy.



Francis Gugen
Executive Chairman



Andrew Austin
Chief Executive Officer



Brent Cheshire
Executive Technical
Director

John Bryant

Senior Independent Non-Executive Director

John is chairman of Gas Turbine Efficiency plc and is a non-executive director of Weatherly plc. These are both quoted on AIM. He is also a board member of the Attiki Gas Company, which supplies natural gas to Athens and the surrounding districts.

John previously served as president of Cinergy Global Resources Corp, responsible for all international business and global renewable power operations of this US-based electricity and gas utility provider. Before joining Cinergy, John was executive director with Midlands Electricity plc. He has been involved in developing a number of large gas fired power stations both in the UK and overseas, together with both electricity and gas distribution in Europe and Africa, renewable power in Europe and North America and gas and electricity trading. His prior experience was at British Sugar plc, Drexel Limited, the British Oxygen Company and Unilever plc. Drexel, where he was president, was a global oil and gas equipment manufacturing and servicing company.

John is a Fellow of the Institute of Directors and a Fellow of the Royal Society of Arts.

Richard Armstrong

Non-Executive Director

Richard is an associate with Fiske plc, the AIM quoted stockbrokers. He is a former equity analyst with extensive experience in reconstructing and raising capital for turnaround situations especially in the quoted microcap sector. He is currently a Director of AIM quoted Bella Media plc and PLUS quoted Petrocapital Resources plc.

Peter Redmond

Non-Executive Director

Peter has over 20 years' experience in corporate finance and venture capital. After leaving Durlacher Limited in 2003, he joined Merchant House Group plc and is now chief executive officer of its corporate finance subsidiary, Merchant Capital Limited. He has been active in reconstructing a number of AIM companies as investing companies in recent years including Optimisa plc, and Artilium plc; and each of these have since acquired or established operating businesses. Peter is a director of AIM quoted Bella Media plc.



John Bryant
Senior Independent
Non-Executive Director



Richard Armstrong
Non-Executive Director



Peter Redmond
Non-Executive Director

Corporate governance

The Board of Directors support high standards of corporate governance and the guidance set out in the Combined Code on Corporate Governance (the "Combined Code"). As a Company that is quoted on AIM, it is not required to comply with the Combined Code but all the Directors intend to comply with its main provisions as far as is practicable having regard to the size and composition of the Group.

The Board and its committees

The Board of the Company consists of three Executive Directors and three Non-Executive Directors; with the latter all being considered to be independent. The Senior Independent Non-Executive Director is John Bryant and biographies of all the Directors are included on pages 12 and 13.

The Board retains full and effective control over the Group. The Board meets regularly at least eight times a year to consider reports on the operational and financial performance of the Group and to decide on matters reserved unto itself, which include formulating, reviewing and approving the Group's strategy, budgets, major items of capital expenditure and senior personnel appointments.

The Chairman of the Board, who is executive, has a second casting vote in the event of deadlock at Board Meetings; so long as the three Executive Directors collectively hold shares representing more than 75% of the outstanding voting rights comprised of the issued Ordinary Share capital.

The Directors have established separate committees each chaired by a Non-Executive Director as follows:

Audit committee

The committee comprises only Non-Executive Directors; being chaired by Richard Armstrong and having as other members: John Bryant and Peter Redmond. The Chairman and Chief Executive Officer may attend only at the invitation of the committee.

The committee receives and reviews reports from management and the Group's auditors relating to the Group's annual report and accounts and from management relating to interim results announcements. The committee focuses particularly on compliance with legal requirements, accounting standards and the AIM Rules and on ensuring that effective systems of internal financial and non-financial controls (including for the management of risk and whistle-blowing) are maintained. However, the ultimate responsibility for reviewing and approving the annual report and accounts remains with the Board of Directors. The committee is also responsible for making recommendations to the Board of Directors on the appointment of the external auditors and their remuneration. The committee keeps under review the external auditors' independence and considers the nature, scope, and results of the auditor's work and develops policy on and reviews (reserving the right to approve) any non-audit services that are provided by the external auditors.

The committee normally meets at least three times a year and meets the external auditors at least annually without the presence of the Executive Directors.

Remuneration committee

The Committee comprises only Non-Executive Directors; being chaired by John Bryant and having as other members Richard Armstrong and Peter Redmond. The committee, which normally meets at least twice a year, has responsibility for making recommendations to the Board of Directors on the Company's policy on the remuneration of the Chairman, Executive Directors and other senior executives (as is delegated to the committee to consider) and for determining, within agreed terms of reference, specific remuneration packages for each of them, including pension rights, any compensation payments and the implementation of executive incentive schemes. In accordance with the committee's terms of reference, no Director may participate in discussions relating to their own terms and conditions of service or remuneration.

Nomination committee

The nomination committee is chaired by the Senior Independent Non-Executive Director, John Bryant, and its other members are the Non-Executive Director, Richard Armstrong, and the Chairman, Francis Gugen. The committee, which meets as required throughout the year, has responsibility for considering the size, structure and composition of the Board of Directors, retirements and appointments of additional and replacement Directors and making appropriate recommendations to the Board of Directors. The committee is also tasked with ensuring that plans are in place for orderly succession to the Board of Directors and senior management positions, so as to maintain an appropriate balance of skills and experience within the Group and the Board of Directors. The Chief Executive Officer of the Company will be invited to attend meetings of the committee when the committee is discussing matters related to executive management and such other matters as the committee chairman deems appropriate.

At each Annual General Meeting at least one-third of the Directors shall retire from office by rotation. The Directors to retire by rotation shall include, firstly, any Director who wishes to retire at the meeting and not offer himself for re-election and, secondly, those Directors who have been longest in office since their last appointment or reappointment, provided always that each Director shall be required to retire and offer himself for re-election at least every three years. Directors appointed by the Board hold office only until the dissolution of the Annual General Meeting of the Company next following such appointment.

Internal control

The Board acknowledges that it is responsible for establishing and maintaining the Group's system of internal controls and reviewing its effectiveness. The procedures that include, inter alia, financial, operational and compliance matters and risk management are reviewed on an ongoing basis. The internal control system can only provide reasonable and not absolute assurance against material misstatement or loss. The Board has considered the need for a separate internal audit function but, bearing in mind the present size and composition of the Group, does not consider it necessary at the current time.

Relations with shareholders

Communications with shareholders are considered important by the Directors. The primary contact with shareholders, investors and analysts is the Chief Executive Officer. The other Executive Directors, however, regularly speak to investors and analysts during the year. Company circulars and press releases have also been issued throughout the year in relation to various proposals and for keeping investors informed about the Group's progress.

The Company also maintains a website on the internet (www.igasplc.com) that is regularly updated and contains a wide range of information about the Group.

Directors' remuneration report

This report explains how decisions regarding Directors' pay are taken.

Remit of the Remuneration committee

The Committee comprises only Non-Executive Directors; being chaired by John Bryant and having as other members Richard Armstrong and Peter Redmond. The committee, which normally meets at least twice a year, has responsibility for making recommendations to the Board of Directors on the Company's policy on the remuneration of the Chairman, Executive Directors and other senior executives (as is delegated to the committee to consider) and for determining, within agreed terms of reference, specific remuneration packages for each of them, including pension rights, any compensation payments and the implementation of executive incentive schemes. In accordance with the committee's terms of reference, no Director may participate in discussions relating to their own terms and conditions of service or remuneration.

Nature of remuneration

The Remuneration committee considers the following as potential elements of reward:

- Annual Salary.
- Annual Bonus.
- Long-Term Incentive.
- Other Benefits, including Pension.

These elements are considered in aggregate when assessing competitiveness against the market.

Current arrangements

As explained elsewhere in this Annual Report, the Company was the subject of a reverse take over on 31 December 2007 (the "Reverse"), whereby the Company became the legal parent of Island Gas Limited ("IGL") and IGL's three Directors became the Executive Directors of the Company and together the holders of over 84% of the Company's issued share capital. Following an additional placing of shares as outlined in Note 18 to the consolidated financial statements, IGL's three Executive Directors now own 81% of the Company's issued share capital.

As part of the Reverse the Company chose to take over the employment arrangements that had applied to the three Executive Directors, except that their contracts of employment, which are evergreen, were extended from one month to twelve months' notice; as deemed appropriate for an AIM listed company. Under these arrangements, the three Executive Directors currently have no Long-Term Incentive Plan and are not entitled to any other Benefits, including Pension, and received Annual Salary and Annual Bonuses, all earned as Directors, as follows:

| Executive Directors | Salary £000 | Bonus £000 | 2008 Total £000 | Salary and fees £000 | Bonus £000 | 2007* Total £000 |
|------------------------------------|----------------|---------------|-----------------------|----------------------------|---------------|------------------------|
| F Gugen – Chairman | 100 | – | 100 | 100 | – | 100 |
| A Austin – Chief Executive Officer | 200 | 75 | 275 | 200 | 40 | 240 |
| B Cheshire – Technical Director | 100 | 20 | 120 | 100 | – | 100 |
| Total – Executive Directors | 400 | 95 | 495 | 400 | 40 | 440 |

* All earned as Directors of IGL

Each of the Executive Directors devotes such time as is required to discharge his duties, which in the case of Andrew Austin is full time.

Each Executive Director is entitled to receive a bonus dependent on the achievement of various objective targets and milestones as set by the Remuneration Committee.

Non-Executive Directors are paid solely by fees and do not receive any salary, pension, benefits or bonuses. Aggregate information relating to Directors emoluments is provided in Note 6 in the Consolidated Financial Statements.

John Bryant

Chairman Remuneration Committee
11 June 2009

Directors' report

The Directors present their report together with the Group and Parent Company financial statements for the year ended 31 December 2008.

Business review and future developments

A review of the business and the future developments of the Group are presented in the Chairman's statement on pages 4 and 5 and in the Group's Business review on pages 6 to 11.

Results and dividends

The Group's loss for the year after taxation was £386 thousand (2007: loss £2,015 thousand). The Directors do not recommend the payment of a dividend for the year.

Going Concern

After reviewing the Group's budgets and cash flow projections for 2009 and 2010 and taking into consideration the current operating environment, the risks outlined in Note 17 to the consolidated financial statements and the Group's liquidity risk management as set out under Cash position in the Business review on page 10, the Directors are satisfied that the Group has adequate resources to continue in business for the foreseeable future. It is therefore appropriate to adopt the going concern basis in preparing the financial statements.

Principal activity

The Group's principal area of activity is coal bed methane ("CBM"), intended to result in the production and marketing of methane gas for industrial and domestic use from virgin coal seams within its UK acreage. This requires acreage to be explored, appraised and developed and in connection with which the Group also provides technical and other related services details of which are outlined in Note 3 of the consolidated financial statements.

Share Capital

Details of changes to share capital in the period are set out in Note 18 to the consolidated financial statements.

Directors and their interests

The Directors who served throughout the year were as follows:

| | |
|---------------|-------------------------|
| F R Gugen | Executive Chairman |
| A P Austin | Chief Executive Officer |
| B Cheshire | Technical Director |
| J Bryant | Non-Executive |
| R J Armstrong | Non-Executive |
| P Redmond | Non-Executive |

The interests of the Directors in the shares of the Company at 31 December 2008 were as follows:

| | 31 December 2008 Ordinary 50p Shares | | 31 December 2007 Ordinary 50p Shares | | 31 December 2008 Warrants* | 31 December 2007 Warrants* |
|---------------|---|-------|---|-------|----------------------------------|----------------------------------|
| | Number | % | Number | % | | |
| F R Gugen | 27,419,097 | 43.99 | 27,419,097 | 46.39 | — | — |
| A P Austin | 11,429,253 | 18.34 | 11,429,253 | 19.34 | — | — |
| B Cheshire | 11,429,253 | 18.34 | 11,429,253 | 19.34 | — | — |
| J Bryant | 50,370 | 0.08 | 50,370 | 0.09 | 110,000 | 110,000 |
| R J Armstrong | 58,460 | 0.09 | 20,000 | 0.03 | 110,000 | 110,000 |
| P Redmond | 50,770 | 0.08 | 20,000 | 0.03 | 110,000 | 110,000 |

* Of the warrants issued to each Non-Executive Director, 82,500 are exercisable into Ordinary 50p Shares at a price of 55p per Ordinary Share and 27,500 are exercisable at a price of 75p per Ordinary Share.

Rotation and re-election of Directors

In accordance with the Articles of Association Andrew Austin and Peter Redmond retire by rotation and being eligible offer themselves for re-election.

Directors' insurance and indemnity provisions

Subject to the conditions set out in the Companies Act 1985, the Company has arranged appropriate directors and officers Insurance to indemnify the directors and officers against liability in respect of proceedings brought by third parties. Such provision remains in force at the date of this report.

The Company indemnifies the Directors against actions they undertake or fail to undertake as Directors or officers of any Group company, to the extent permissible for such indemnities to meet the test of a qualifying third party indemnity provision as provided for by the Companies Act 1985 and 2006. The nature and extent of the indemnities is as described in Section 60 of the Company's Articles of Association as adopted on 27 December 2007. These provisions remained in force throughout the year and remain in place at the date of this report.

Substantial shareholders

Apart from the Directors' holdings, the only other holding in excess of 3% of the share capital of the Company at the date of this report was R Smith who held 2,564,100 (2007: 2,564,100) shares representing 4.1% (2007: 4.3%) of the Ordinary Shares in issue.

Financial instruments

The Group's principal financial instruments comprise cash balances and other debtors and creditors that arise through the normal course of business as set out in Notes 12 to 15 to the consolidated financial statements. The Group's financial risk management objectives are set out in Note 17 to the financial statements and the Business review on page 10.

Employment policy

It is the policy of the Group to operate a fair employment policy. No employee or job applicant is less favourably treated than another on the grounds of their sex, sexual orientation, age, marital status, religion, race, nationality, ethnic or national origin, colour or disability and all appointments and promotions are determined solely on merit. The Directors encourage employees to be aware of all issues affecting the Group and place considerable emphasis on employees sharing in its success.

Creditor payment policy and practice

It is the Group's normal practice to agree payment terms with its suppliers and abide by such terms. Payment becomes due when it can be confirmed that goods and/or services have been provided in accordance with the relevant contractual conditions. The amount owed by the Company to trade creditors at the end of the financial year represented 22 days of daily purchases for the Company (2007: 4 days).

Charitable and political contributions

During the year, the Group made no donations. (2007: nil)

Status

The Company is not a close company as defined in the Income and Corporation Taxes Act 1988.

The Company is domiciled in the UK and incorporated and registered in England.

Board committees

Information on the Audit, Remuneration and Nomination committees is included in the Corporate Governance section of the annual report on page 14.

Auditors

A resolution to reappoint Ernst & Young LLP as auditor will be proposed at the Annual General Meeting at a fee to be agreed in due course by the Audit Committee and the Board.

Directors' statement as to disclosure of information to the auditors

So far as each person who was a Director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware. Having made enquiries of fellow Directors, each Director has taken all the steps that a Director might reasonably be expected to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Annual General Meeting

The Annual General Meeting will be held on 10 July 2009 as stated in the Notice of Meeting which accompanies this Annual Report.

By order of the Board

Mofo Secretaries Limited

Secretary
11 June 2009

Consolidated financial statements – Directors' statement of responsibilities in respect thereof

The Directors are responsible for preparing the Annual Report and Group financial statements in accordance with applicable United Kingdom law and those International Financial Reporting Standards as adopted by the European Union ("IFRSs").

The Directors are required to prepare Group financial statements for each financial year which present fairly the financial position of the Group and the financial performance and cash flows of the Group for that period. In preparing those Group financial statements the Directors are required to:

- select suitable accounting policies in accordance with IAS 8: *Accounting policies, Changes in Accounting Estimates and Errors* and then apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's financial position and financial performance; and
- state that the Group has complied with IFRSs, subject to any material departures disclosed and explained in the financial statements.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Group and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent auditor's report to the members of Island Gas Resources plc

We have audited the Group financial statements of Island Gas Resources plc for the year ended 31 December 2008 which comprise the Consolidated Income Statement, the Consolidated Balance Sheet, the Consolidated Statement of Changes in Equity, the Consolidated Cash Flow Statement, and the related Notes 1 to 22. These Group financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the parent company financial statements of Island Gas Resources plc for the year ended 31 December 2008.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the Group financial statements in accordance with applicable United Kingdom law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the Group financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the Group financial statements give a true and fair view and whether the Group financial statements have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. The information given in the Directors' Report includes that specific information presented in the Chairman's Statement and the Business Review that is cross referred from the Business Review and Future Developments section of the Directors' Report.

In addition we report to you if, in our opinion, we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited Group financial statements. The other information comprises only the Chairman's Statement, the Business Review, the Corporate Governance Report, the Directors' Remuneration Report and the Directors' Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Group financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Group financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the Group financial statements, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Group financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the group financial statements.

Opinion

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at 31 December 2008 and of its loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the group financial statements.

Ernst & Young LLP
Registered Auditors
London
11 June 2009

Consolidated income statement

For the year ended 31 December 2008

| | Notes | 2008 £000 | 2007 £000 |
|--|-------|--------------|--------------|
| Revenue | 3 | 992 | 811 |
| Cost of sales | | (826) | (726) |
| Gross profit | | 166 | 85 |
| Administrative expenses | | (624) | (69) |
| Exceptional item – Impairment of goodwill on Reverse | 7 | – | (2,040) |
| Operating loss | 4 | (458) | (2,024) |
| Finance income | 8 | 72 | 16 |
| Loss on ordinary activities before tax | | (386) | (2,008) |
| Tax on loss on ordinary activities | 9 | – | (7) |
| Loss for the year | | (386) | (2,015) |
| Basic and diluted (loss) per share (£/share) | 10 | (0.0064) | (.0360) |

Consolidated balance sheet

As at 31 December 2008

| | Notes | 2008 £000 | 2007 £000 |
|--|-------|--------------|--------------|
| Non-current assets | | | |
| Intangible exploration and evaluation assets | 11 | 476 | 109 |
| Property plant and equipment | | – | – |
| | | 476 | 109 |
| Current assets | | | |
| Trade and other receivables | 12 | 666 | 283 |
| Cash and cash equivalents | 13 | 2,278 | 1,414 |
| | | 2,944 | 1,697 |
| Current liabilities | | | |
| Trade and other payables | 14 | (843) | (751) |
| Current taxation liabilities | 14 | – | (1) |
| | | (843) | (752) |
| Net current assets | | 2,101 | 945 |
| Total assets less current liabilities | | 2,577 | 1,054 |
| Non-current liabilities | | | |
| Trade and other payables | 15 | – | (78) |
| Net assets | | 2,577 | 976 |
| Capital and reserves | | | |
| Called up share capital | 18 | 4,275 | 2,664 |
| Preference shares | | – | – |
| Share premium account | 20 | 420 | 44 |
| Share warrant reserve | 19 | 167 | 167 |
| Retained earnings/(accumulated deficit) | 20 | (2,285) | (1,899) |
| Shareholders' funds | | 2,577 | 976 |

These financial statements were approved and authorised for issue by the Board on 11 June 2009 and are signed on its behalf by:



Francis Gugen
Chairman



Andrew Austin
Chief Executive Officer

Consolidated statement of changes in equity

For the year ended 31 December 2008

| | Called up share capital (Note 18) £000 | Preference Shares £000 | Share premium account £000 | Share warrant reserve £000 | Retained earnings/ (accumulated deficit) £000 | Total £000 |
|------------------------------------|---|------------------------------|-------------------------------------|-------------------------------------|---|---------------|
| Balance at 1 January 2007 | 1 | 44 | 44 | – | 116 | 205 |
| Changes in equity for 2007 | | | | | | |
| Loss for the year | – | – | – | – | (2,015) | (2,015) |
| Reverse and scheme of arrangement | 2,663 | (44) | – | – | – | 2,619 |
| Share based payments | – | – | – | 167 | – | 167 |
| Balance at 31 December 2007 | 2,664 | – | 44 | 167 | (1,899) | 976 |
| Changes in equity for 2008 | | | | | | |
| Loss for the year | – | – | – | – | (386) | (386) |
| Issue of shares during year | 1,611 | – | 484 | – | – | 2,095 |
| Share issue costs | – | – | (108) | – | – | (108) |
| Balance at 31 December 2008 | 4,275 | – | 420 | 167 | (2,285) | 2,577 |

Consolidated cash flow statement

For the year ended 31 December 2008

| | Notes | 2008 £000 | 2007 £000 |
|---|-------|--------------|--------------|
| Operating activities: | | | |
| Loss for the year | | (386) | (2,015) |
| Impairment of goodwill on Reverse | 7 | – | 2,040 |
| Finance income | 8 | (72) | (16) |
| (Increase) in trade and other receivables | | (383) | (170) |
| Increase in trade and other payables | | 92 | 106 |
| (Decrease) in current taxation liabilities | | (1) | (18) |
| (Decrease)/increase in non-current liabilities | | (78) | 78 |
| Net cash (used in)/from operating activities | | (828) | 5 |
| Investing activities | | | |
| Acquisition of exploration and evaluation assets | 11 | (367) | (95) |
| Interest received | 8 | 72 | 16 |
| Net cash used in investing activities | | (295) | (79) |
| Financing activities | | | |
| Cash acquired on Reverse | 2 | – | 1,305 |
| Redemption of preference shares | | – | (44) |
| Cash proceeds from Issue of Ordinary Share Capital | 18 | 2,095 | – |
| Share Issue Costs | | (108) | – |
| Net cash from financing activities | | 1,987 | 1,261 |
| Net increase in cash and cash equivalents in the year | | 864 | 1,187 |
| Cash and cash equivalents at the beginning of the year | | 1,414 | 227 |
| Cash and cash equivalents at the end of the year | | 2,278 | 1,414 |

Consolidated financial statements – notes

As at 31 December 2008

1 Accounting policies

(a) Basis of preparation of financial statements

The consolidated financial statements of Island Gas Resources plc (the “Company”) and subsidiaries (the “Group”) have been prepared under the historical cost convention in accordance with International Financial Reporting Standards, adopted for use by the European Union (“IFRSs”) as they apply to the Group for the year ended 31 December 2008, and with the Companies Act 1985 and 2006 where relevant. The accounts were approved by the board on 11 June 2009. Island Gas Resources plc is a public limited company incorporated and registered in England and Wales.

The Group financial statements are presented in Sterling and all values are rounded to the nearest thousand (£000) except when otherwise indicated.

Certain new standards, interpretations and amendments to existing standards have been published and are mandatory for the Group’s accounting periods beginning on or after 1 January 2008 or later periods but which the Group has not adopted early. Those that may be applicable to the Group are as follows:

| Effective date | | |
|--|--|----------------|
| International Accounting Standards (IAS/IFRSs) | | |
| IFRS 2 | Amendment to IFRS 2 – <i>Vesting Conditions and Cancellations</i> – This clarifies that only service conditions and performance conditions are vesting conditions and other features of a share-based payment is not vesting conditions. In addition, it specifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The Group has considered the effect of this interpretation and has concluded that there is no impact on the financial statements | 1 January 2009 |
| IFRS 3 | <i>Business Combinations (revised January 2008)</i> – This introduces a number of changes in the accounting for business combinations occurring after this date and will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results. IAS 27R requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as an equity transaction. Therefore, such transactions will no longer give rise to goodwill, nor will they give rise to gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by partially-owned subsidiaries as well as the loss of control of a subsidiary. Other consequential amendments were made to IAS 7 “ <i>Statement of Cash Flows</i> ”, IAS 12 “ <i>Income Taxes</i> ”, IAS 21 “ <i>The Effects of Changes in Foreign Exchange Rates</i> ”, IAS 28 “ <i>Investment in Associates</i> ” and IAS 31 “ <i>Interests in Joint Ventures</i> ”. The changes to IFRS 3R and IAS 27R will affect future acquisitions or loss of control and transactions with minority interests. Management does not currently expect this standard to have any impact on its financial statements. | 1 July 2009 |
| IFRS 8 | <i>Operating Segments</i> – This standard introduces the “management approach” to segment reporting. IFRS 8, which becomes mandatory for the Group’s 2009 financial information, will require the disclosure of segment information based on the internal reports regularly reviewed by the Group’s Chief Operating Decision Maker in order to assess each segment’s performance and to allocate resources to them. The Group currently only has one business segment, and so the adoption of this standard will not have any effect on the financial performance or position of the Group but may give rise to additional disclosures. | 1 January 2009 |
| IFRS 7 | <i>Improving Disclosures about Financial Instruments</i> – The amendments require enhanced disclosures about fair value measurements and liquidity risk. Management does not currently expect this standard to have any impact on its financial statements. | 1 January 2009 |
| IAS 1 | <i>Presentation of Financial Statements (revised September 2007)</i> – The Standard separates owner and non-owner changes in equity. The statement of changes in equity will include only details of transactions with owners, with non-owner changes in equity presented as a single line. In addition, the Standard introduces the statement of comprehensive income: it presents all items of recognised income and expense, either in one single statement, or in two linked statements. Management does not currently expect this standard to have any impact on its financial statements. | 1 January 2009 |
| IAS 23 | <i>Borrowing Costs (revised March 2007)</i> – IAS 23 (Revised) has removed the option of immediately recognising as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. An entity is, therefore, required to capitalise borrowing costs as part of the cost of such assets. The revised standard applies to borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009. This is currently not relevant to the Group as it has no borrowing arrangements. | 1 January 2009 |

1 Accounting policies continued

Effective date

International Accounting Standards (IAS/IFRSs) continued

| | | |
|-------------------|---|-------------|
| IFRS 1 and IAS 27 | <i>Consolidated and Separate Financial Statements (revised January 2008)</i> – The amendments to IFRS 1 allows an entity to determine the cost of investment in subsidiaries, jointly controlled entities or associates in its opening IFRS financial statements in accordance with IAS 27 or using a deemed cost. The amendment to IAS requires all dividends from subsidiary, jointly controlled entity or associate to be recognised in the income statement. Management does not currently expect this standard to have any impact on its financial statements. | 1 July 2009 |
| IAS 39 | <i>Eligible Hedged Items</i> – The amendment addresses the designation of a one-sided risk in a hedged item, and the designation of inflation as a hedged risk or portion in particular situations. It clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item. This is not relevant to the Group's operations as it currently has no such arrangements. | 1 July 2009 |

International Financial Reporting Interpretations Committee (IFRIC)

| | | |
|----------|---|----------------|
| IFRIC 17 | <i>Distribution of Non-Cash Assets to Owners</i> – IFRIC 17 clarifies that a dividend payable should be recognised when the dividend is appropriately authorised and is no longer at the discretion of the entity. It also clarifies that an entity should measure the dividend payable at the fair value of the net assets to be distributed and that an entity should recognise the difference between the dividend paid and the carrying amount of the net assets distributed in profit or loss. This is not currently relevant to the Groups operations. | 1 July 2009 |
| IFRIC 15 | <i>Agreement for the Construction of Real Estate</i> – The interpretation is to be applied retrospectively. It clarifies when and how revenue and related expenses from the sale of a real state unit should be recognised if an agreement between a developer and buyer is reached before the construction of the real estate is completed. Furthermore, the interpretation provides guidance on how to determine whether an agreement is within the scope of IAS 11 or IAS 18. IFRIC 15 will not have an impact on the consolidated financial statement because the Group does not conduct such activity. | 1 January 2009 |

The Directors do not anticipate that the adoption of these standards and interpretations will have a material impact on the Group's financial statements in the period of initial application. Furthermore, the Group does not anticipate adopting these standards and interpretations ahead of their effective date.

(b) Going concern

After reviewing the Group's budgets and cash flow projections for 2009 and 2010, and taking into consideration the current operating environment, the risks outlined in Note 17 and the Group's liquidity risk management as set out under Cash position in the Business review on page 10, the Directors are satisfied that the Group has adequate resources to continue in business for the foreseeable future. It is therefore appropriate to adopt the going concern basis in preparing the financial statements.

(c) Basis of consolidation

The consolidated financial statements present the results of Island Gas Resources plc and its subsidiaries as if they formed a single entity. The financial statements of subsidiaries used in the preparation of consolidated financial statements are based on consistent accounting policies to the parent. All intercompany transactions and balances between Group companies, including unrealised profits arising from them, are eliminated in full.

On 31 December 2007 the Company completed a reverse takeover whereby a private company, Island Gas Limited ("IGL"), became a wholly-owned subsidiary of the Company but with IGL's shareholders acquiring 94% of the Ordinary Share capital of the combined entity (the "Reverse"); these arrangements, being more fully described in an admission document dated 27 November 2007 (the "Admission Document"). As a result of the Reverse and in accordance with IFRS and the provisions of the Companies Act 1985 the Group's results up to the date of the Reverse become those of IGL and the comparative financial information is therefore that of IGL. At 31 December 2008 the Group comprised the Company and its subsidiaries IGL and KP Renewables (Operations) Limited.

(d) Reverse acquisitions

A business combination where the company making the acquisition ends up under the control of the shareholders of the company being acquired is considered to be a reverse takeover. In the event of a reverse takeover, consolidated financial statements following the takeover are prepared based primarily on the financial statements of the company being acquired (the acquiree); essentially as if it was in fact the acquiree making the acquisition.

(e) Joint ventures

The Group's licence interests are all held jointly with others under arrangements whereby unincorporated and jointly controlled joint ventures are used to explore, evaluate and ultimately develop and produce from its gas interests. Accordingly, the Group accounts for its share of assets, liabilities, income and expenditure of these jointly controlled assets, classified in the appropriate Balance Sheet and Income Statement headings, except where its share of such amounts remain the responsibility of another party in accordance with the terms of the carried interests as described at (i) below.

Consolidated financial statements – notes continued

As at 31 December 2008

1 Accounting policies continued

(f) Significant accounting judgements and estimates

Critical judgements in applying the Group's accounting policies

The Group invests in the exploration, evaluation, development and production of gas from the UK. The assessment of the production rates to be derived from such expenditure is a matter of judgement, as is the forecasting of the future economic benefit that may be derived from such production. Finally, the period of time over which the economic benefit associated with the expenditure incurred will arise is also a matter of judgement. These judgements affect the carrying value of non-current assets and impairment calculations related to such assets.

Estimates and assumptions:

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

- Carrying value of intangible exploration and evaluation assets:

The Group has capitalised intangible exploration and evaluation assets in accordance with IFRS 6, which are evaluated for impairment as described at (i) below. Any impairment reviews, where required, involve significant judgement related to matters such as recoverable reserves; production profiles; gas and electricity prices; development, operating and off-take costs; nature of land access agreements and planning permissions; application of taxes; and other matters. Where the final outcome or revised estimates related to such matters differ from the estimates used in any earlier impairment reviews, the results of such differences, to the extent that they actually affect any impairment provisions, are accounted for when such revisions are made. Details of the Groups Intangible exploration and evaluation assets are disclosed in note 11.

(g) Exceptional items

Exceptional items are those not considered to be part of the normal operation of the business. Such items are identified as exceptional and a full explanation is given in the notes to the financial statements.

(h) Revenue

Revenue comprises the invoiced value of goods and services supplied by the Group, net of value added tax and trade discounts. Revenue is recognised in the case of gas sales when goods are delivered and title has passed and in the case of services rendered only once a legally binding contract is in place. Amounts billed for services where the contract provides for their delivery over a period of time are recognised evenly over the relevant period; amounts due for all other services are recognised as the services are provided.

(i) Non-current assets (intangible exploration and evaluation assets and property plant and equipment)

Intangible exploration and evaluation assets

The Group accounts for exploration and evaluation costs in accordance with the requirements of IFRS 6 "*Exploration for and Evaluation of Mineral Resources*" as follows:

- Exploration and evaluation assets are carried at cost less any impairment and are not depreciated or amortised.
- Expenditures recognised as exploration and evaluation assets comprise those related to acquisition of rights to explore; topographical, geological, geochemical and geophysical studies; exploratory drilling (including coring and sampling); activities in relation to evaluating the technical feasibility and commercial viability of extracting gas (including appraisal drilling and production tests); any land rights acquired for the sole purpose of effecting these activities.
- Expenditures not recognised as exploration and evaluation assets include those related to development and production costs and any costs incurred prior to obtaining the legal rights to explore an area; these latter costs are expensed immediately to the Income Statement.
- Tangible assets acquired for use in exploration and evaluation activities are classified as property, plant and equipment, interests in oil and gas properties. However, to the extent that such tangible assets are consumed in developing an intangible exploration and evaluation asset, the amount reflecting that consumption is recorded as part of exploration and evaluation asset costs.
- Expenditures recognised as exploration and evaluation assets are initially accumulated and capitalised by reference to appropriate geographic areas (cash generation units or CGU), which may not be larger than a business segment, currently the entirety of the Group's UK gas business.
- Expenditure recognised as exploration and evaluation assets are transferred to property plant and equipment, interests in oil and gas properties when technical feasibility and commercial viability of extracting gas is demonstrable. Exploration and evaluation assets are assessed for impairment (on the basis described below), and any impairment loss recognised, before reclassification.
- Expenditures recognised as exploration and evaluation assets are tested for impairment whenever facts and circumstances suggest that they may be impaired, which includes when a licence is approaching the end of its term and is not expected to be renewed; there are no substantive plans for continued exploration or evaluation of an area; the Group decides to abandon an area; whilst development is likely to proceed in an area there are indications that the exploration and evaluation asset costs are unlikely to be recovered in full either by development or through sale.
- Net proceeds from any disposal of exploration and evaluation assets are initially credited against previously capitalised costs, with any surplus proceeds being credited to the consolidated Income Statement.

Property plant and equipment, interests in oil and gas properties

Property plant and equipment, interests in oil and gas properties are those assets which have been assessed for economic recoverability and are accounted for as follows:

- Expenditure relating to evaluated properties is depleted on a unit-of-production basis, commencing at the start of commercial production. The depletion charge is calculated according to the proportion that production bears to the recoverable reserves for each property.

1 Accounting policies continued

- The Group's property plant and equipment, interests in oil and gas properties are assessed for indications of impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable, when impairment is computed on the basis as set out below. Any impairment in value is charged to the Income Statement as additional depreciation.
- Net proceeds from any disposal of development/producing assets are compared to the previously capitalised costs for the relevant asset or group of assets. A gain or loss on disposal of a development/producing asset is recognised in the Income Statement to the extent that the net proceeds exceed or are less than the appropriate portion of the net capitalised costs of the asset or group of assets.

Impairment

Impairment reviews, when required as described above, are carried out on the following basis:

- By comparing the sum of any amounts carried as exploration and evaluation assets and as property plant and equipment, interests in oil and gas properties as compared to the recoverable amount.
- The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. The Group generally relies on fair value less cost to sell assessed either by reference to comparable market transactions between a willing buyer and a willing seller or on the same basis as used by willing buyers and sellers in the oil industry. When assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.
- Where there has been a charge for impairment in an earlier period that charge will be reversed in a later period where there has been a change in circumstances to the extent that the recoverable amount is higher than the net book value at the time. In reversing impairment losses, the carrying amount of the asset will be increased to the lower of its original carrying value or the carrying value that would have been determined (net of depletion) had no impairment loss been recognised in prior periods.

Decommissioning

Where a liability for the removal of production facilities or site restoration exists, a provision for decommissioning is recognised. The amount recognised is discounted to its present value and is reflected in the Group's non-current liabilities. A corresponding asset is included in the Group's property plant and equipment, interest in oil and gas properties. The asset is depleted in accordance with the Group's policy on depletion.

Carried interests

Where the Group has entered into carried interest agreements, no amounts are recorded in the financial statements where expenditure incurred under such agreements is not refundable. Where expenditure is refundable, out of what would but for the carry agreements have been the Company's share of production, the Company records amounts as non-current assets, with a corresponding offset in current liabilities or non-current liabilities, as appropriate, but only once it is apparent that it is more likely than not that future production will be adequate to result in a refund under the terms of any carry agreement; when the Group records refunds only to the extent that they are expected to be repayable.

Non oil and gas related property plant and equipment

Other property plant and equipment is stated at cost less accumulated depreciation. Depreciation is provided at rates calculated to write off the cost of fixed assets, less their estimated residual values, over their estimated useful lives at the following rates, with any impairment being accounted for as additional depreciation:

| | |
|---------------------------------|---|
| Computer equipment | – over three years on a straight line basis |
| Furniture and fixtures | – over five years on a straight line basis |
| Leasehold property improvements | – over the period of the lease |

(j) Financial instruments**Cash and cash equivalents**

Cash and cash equivalents comprise cash on hand and cash held on current account or on short-term deposits at variable interest rates with maturity periods of up to three months. Any interest earned is accrued monthly and classified as interest income within finance income.

Trade and other receivables

Trade receivables are initially recognised at fair value when related amounts are invoiced, then carried at this amount less any allowances for doubtful debts or provision made for impairment of these receivables.

Trade and other payables

These financial liabilities are all non interest bearing and are initially recognised at the fair value of the consideration received.

Impairment of financial assets

In relation to trade receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Group will not be able to collect all of the amounts due under the original terms of the invoice. The carrying amount of receivables is reduced through use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

Consolidated financial statements – notes continued

As at 31 December 2008

1 Accounting policies continued

(k) Operating leases

Rentals are charged to the Income Statement on a straight line basis over the period of the lease.

(l) Taxation

The tax expense represents the sum of current tax and deferred tax.

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered or paid to the tax authorities. Taxable (loss)/profit differs from the (loss)/profit before taxation as reported in the Income Statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised in respect of all temporary differences that have originated but not reversed at the balance sheet date. Temporary differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements. Deferred tax liabilities are not discounted. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered.

(m) Share based payments

Where share options or warrants are awarded to employees (including Directors), the fair value of the options or warrants at the date of the grant is recorded in equity over the vesting period. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each balance sheet date so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of options that eventually vest. Market vesting conditions are factored in to the fair value of the options or warrants granted. As long as all other vesting conditions are satisfied, the amount recorded is computed irrespective of whether the market vesting conditions are satisfied. The cumulative amount recognised is not adjusted for the failure to achieve a market vesting condition; although equity no longer required for options or warrants may be transferred to another equity reserve.

Where the terms and conditions of options or warrants are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also recorded in equity over the remaining vesting period.

Where equity instruments are granted to persons other than employees, the amount recognised in equity is the fair value of goods and services received.

Charges corresponding to the amounts recognised in equity are accounted as a cost against the profit and loss which will usually be to the Consolidated Income Statement unless the services rendered (and discharged by share based payments) relate to an issuance of equity or qualify for capitalisation as a non-current asset. In the case of an issuance of equity, the charge is to the same equity reserve as cash costs related to such an issuance would be charged. Costs may be capitalised within non-current assets in the event of services being rendered in connection with an acquisition or intangible exploration and evaluation assets or property plant and equipment.

(n) Equity

Equity instruments issued by the Company are usually recorded at the proceeds received, net of direct issue costs, and allocated between called up share capital and share premium accounts as appropriate.

However, as required by IFRS 3, the effect on the Group's Equity of the Reverse is to extinguish all previously recorded amounts and to record instead amounts equal to the deemed costs of the Reverse, being the adjusted market value of the Company as last quoted immediately prior to the announcement of the Reverse, plus the Equity of IGL; the effective acquiring company. See Note 2 for further information on the Reverse. Also retained within Group Equity is the cost of outstanding warrants issued by the Company and surviving the Reverse.

2 Business combination

On 31 December 2007 the Company completed a reverse takeover whereby a private company, Island Gas Limited ("IGL"), became a wholly-owned subsidiary of the Company but with IGL's shareholders acquiring 94% of the Ordinary Share capital of the combined entity (the "Reverse").

IGL is a private company operating in England and Wales, whose principal activity is Coal Bed Methane ("CBM").

As a result of the Reverse, and in accordance with IFRS, the cost of the business combination and the fair value of the assets acquired are those of the Company (the entity which is deemed to have been acquired) at the date of acquisition, with IGL being the deemed acquirer whose assets and liabilities have not been remeasured.

Immediately prior to the Reverse, the Company held £1,305 thousand of cash and cash equivalents, which was acquired by the Group at the date of the Reverse and has been included as a finance item for the purposes of the Consolidated Cash Flow Statement.

2 Business combination continued

The book and fair values of the Company's net assets at the date of acquisition were as follows:

| | Book value £000 | Fair value to Group £000 |
|--|--------------------|--------------------------------|
| Trade and other receivables | 79 | 79 |
| Cash and cash equivalents | 1,305 | 1,305 |
| Trade and other payables | (594) | (594) |
| Net assets | 790 | 790 |
| Goodwill arising on Reverse, written off (Note 7) | | 2,040 |
| | | 2,830 |
| Discharged by: | | |
| Fair value of equity of Company issued on Reverse | | 2,664 |
| Fair value of warrants of Company taken over | | 166 |
| | | 2,830 |

From the date of the Reverse to 31 December 2007, the contribution of the Company (the entity which is deemed to have been acquired) to the loss of the Group was £2,040 thousand; representing the impairment of goodwill on Reverse, as explained in Note 7.

If the combination had taken place at the beginning of 2007, the results of the Group would have been unchanged from those as reported, except for £33 thousand being the effect of interest income earned on cash acquired net of the costs of the Reverse. Accordingly, the retained loss for the year would have been £1,982 thousand and the revenue from continuing operations of £811 thousand.

3 Revenue and segment information

All revenue which represented turnover arose within the United Kingdom and is attributable to activities in the CBM sector. The Group did not sell any CBM gas prior to 31 December 2008, and revenue for 2008 and 2007 related to the supply of CBM services and expertise under management service contracts. The Group's activities are all related to CBM and so the Group only has one business segment as its primary reporting segment.

4 Operating loss

| | 2008 £000 | 2007 £000 |
|---|--------------|--------------|
| Operating profit is stated after charging: | | |
| Auditor's remuneration: | | |
| Charged to Consolidated Income Statement: | | |
| Audit of the financial statements* | 25 | – |
| Other fees paid to Ernst & Young LLP – Audits of subsidiaries | 13 | 22 |
| Other fees paid to Ernst & Young LLP – Relating to taxation | 5 | – |
| Not charged to Consolidated Income Statement: | | |
| Audit of the financial statements – Ernst & Young LLP* | – | 20 |

*Audit fees relating to the audit of the 2007 annual financial statements have not been charged to the Consolidated Income Statement due to the use of reverse acquisition accounting principles, such fees having been charged to the Company's income statement prior to the Reverse.

5 Employee information

| | 2008 £000 | 2007 £000 |
|--|--------------|--------------|
| Staff costs comprised: | | |
| Wages and salaries | 495 | 440 |
| Social Security Costs | 63 | 54 |
| | 558 | 494 |
| | No. | No. |
| Average number of employees in the period: | | |
| Services | 2 | 2 |
| Administrative | 1 | 1 |
| | 3 | 3 |

Consolidated financial statements – notes continued

As at 31 December 2008

6 Directors' emoluments

The remuneration of the Directors for the year, excluding that charged through reserves, was as follows:

| | 2008 £000 | 2007 £000 |
|--|--------------|--------------|
| Directors' emoluments and benefits comprised: | | |
| Directors' emoluments | 495 | 440 |
| Social Security Costs | 63 | 54 |
| Pension contributions | – | – |
| | 558 | 494 |
| The highest paid Director received emoluments and benefits as follows: | | |
| Emoluments | 275 | 240 |
| Social Security Costs | 35 | 30 |
| Pension contributions | – | – |
| | 310 | 270 |

A proportion of the Group's directors remuneration costs have been capitalised in accordance with the Group's accounting policy.

Charged through reserves:

| | | |
|--|---|-----|
| Directors' emoluments and benefits comprised: | | |
| Amounts payable in respect of qualifying services | – | 56 |
| Share based payments | – | 131 |
| | – | 187 |
| The highest paid Director received emoluments and benefits as follows: | | |
| Emoluments | – | 55 |
| Pension contributions | – | – |
| | – | 55 |

Non-Executive Directors are paid solely fees and do not receive any salary, pension, benefits or bonuses. In 2008 Non-Executive fees were £53 thousand (2007: £60 thousand of which £56 thousand was charged through reserves as noted below).

Directors' emoluments, other than those charged through reserves, in 2007 were those of the Directors of IGL, who were also Directors of the Company at 31 December 2007, for services rendered as Directors of IGL during the year; which fall due to be charged to the Consolidated Income Statement under reverse acquisition accounting principles (See Note 1 above).

Directors' emoluments not charged to the Consolidated Income Statement in 2007 were those paid to the Directors of the Company prior to the Reverse. P Redmond, a Director prior to the Reverse, is also a director of Merchant Capital Limited, which received payments from the Company as set out in Note 21.

Directors' warrants

At 31 December 2008 the Directors held warrants over the Ordinary Shares of 50p each of the Company as follows; for which they paid £nil and all of which were granted on 27 December 2007:

| | 2007 Number | Exercise price (p/share) | Exercisable at any time up to | 2008 Number |
|-------------|----------------|-----------------------------|----------------------------------|----------------|
| R Armstrong | 82,500 | 55 | 31 December 2010 | 82,500 |
| | 27,500 | 75 | 31 December 2010 | 27,500 |
| J Bryant | 82,500 | 55 | 31 December 2010 | 82,500 |
| | 27,500 | 75 | 31 December 2010 | 27,500 |
| P Redmond | 82,500 | 55 | 31 December 2010 | 82,500 |
| | 27,500 | 75 | 31 December 2010 | 27,500 |

The share price at 31 December 2008 was 37.5p (2007: 72.5p)

7 Exceptional item – impairment of goodwill on reverse

| | 2008 £000 | 2007 £000 |
|-----------------------------------|--------------|--------------|
| Impairment of goodwill on Reverse | – | 2,040 |

As a result of the Reverse as outlined in the basis of consolidation in note 1(c), the Group recognised goodwill on acquisition of £2,040 thousand related to the Company, which had no cash generating units at acquisition, and which was considered not to relate to any of IGL's cash generating units, and so has been impaired in full.

8 Finance income

| | 2008 £000 | 2007 £000 |
|--------------------------------|--------------|--------------|
| Interest receivable comprised: | | |
| Bank interest | 72 | 16 |

Bank interest represents the total interest income for financial assets not at fair value through profit and loss.

9 Tax on loss on ordinary activities

| | 2008 £000 | 2007 £000 |
|------------------------------------|--------------|--------------|
| UK corporation tax: | | |
| Current tax on income for the year | – | 7 |
| Total UK taxation | – | 7 |
| Tax on loss on ordinary activities | – | 7 |

Factors affecting the tax charge

The tax assessed for the year does not reflect a credit equivalent to the loss on ordinary activities multiplied by the standard rate of corporation tax in the United Kingdom of 21% (2007: 20%), for small companies. From 1 April 2008 the Group's rate of corporation tax on profits increased from 20% to 21% as a result of changes enacted in the Finance Act 2007. The Group has used an adjusted rate of 20.75% for the year ended 31 December 2008 (2007: 19.75%) to reflect this change. A reconciliation of the UK small companies statutory corporation tax rate applicable to the Group's profit before tax to the Group's total tax charge is as follows:

| | 2008 £000 | 2007 £000 |
|---|--------------|--------------|
| (Loss) on ordinary activities before tax | (386) | (2,008) |
| (Loss) on ordinary activities multiplied by the standard rate of corporation tax in the UK for small companies of 20.75% (2007: 19.75%) | (81) | (397) |
| Tax effect of Exceptional item – Goodwill on Reverse written off | – | 403 |
| Tax effect of expenses not allowable for tax purposes | 1 | – |
| Costs related to Petroliferous Trade not triggered | – | 1 |
| Net increase in unrecognised losses carried forward | 80 | – |
| Tax on loss on ordinary activities | – | 7 |

Information regarding the Group's tax losses is presented in Note 15.

10 (Loss) per share (EPS)

Basic EPS amounts are calculated by dividing the loss for the year attributable to ordinary equity holders of the parent by the weighted average number of Ordinary Shares outstanding during the year.

Diluted EPS amounts are calculated by dividing the loss attributable to the ordinary equity holders of the parent by the weighted average number of shares outstanding during the year plus the weighted average number of Ordinary Shares that would be issued on the conversion of all the dilutive potential Ordinary Shares into Ordinary Shares.

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

| | 2008 | 2007 |
|---|------------|------------|
| Basic EPS – Ordinary Shares of 50p each (£) | (0.0064) | (.0360) |
| Diluted EPS – Ordinary Shares of 50p each (£) | (0.0064) | (.0360) |
| (Loss) for the year attributable to equity holders of the parent – £000 | (386) | (2,015) |
| Weighted average number of Ordinary Shares in the year – basic EPS | 60,780,044 | 55,594,289 |
| Weighted average number of Ordinary Shares in the year – diluted EPS | 60,780,044 | 55,594,289 |

There are 525,280 potentially dilutive warrants and options over the Ordinary Shares at 31 December 2008 (2007: 525,280), which are not included in the calculation of diluted earnings per share because they were anti-dilutive for the year as their conversion to Ordinary Shares would decrease the loss per share.

There have been no other transactions involving Ordinary Shares or potential Ordinary Shares between the reporting date and the date of completion of these financial statements.

Consolidated financial statements – notes continued

As at 31 December 2008

11 Intangible exploration and evaluation assets

| | 2008 £000 | 2007 £000 |
|---|--------------|--------------|
| Cost | | |
| At 1 January | 109 | 14 |
| Additions | 367 | 95 |
| At 31 December | 476 | 109 |
| Amortisation | | |
| At 1 January | – | – |
| Charge for the year, including impairment | – | – |
| At 31 December | – | – |
| Net book amount | | |
| At 31 December | 476 | 109 |
| At 1 January | 109 | 14 |

Under certain agreements which the Group has in place with Nexen (the “Nexen Carry Agreements”), Nexen will provide 100% of the funding required for work programmes up to a gross spend of £26.5 million. The repayment to Nexen of any amounts carried under these arrangements is dependent, on a licence by licence basis, on successful operations yielding sufficient production to support repayment in accordance with terms of the Nexen Carry Agreements.

At 31 December 2008 £4,072 thousand had been carried (2007: £2,664 thousand), which has not been recorded as either non-current assets or liabilities, since repayment is currently sufficiently uncertain.

12 Trade and other receivables

| | 2008 £000 | 2007 £000 |
|-----------------|--------------|--------------|
| VAT recoverable | 126 | 78 |
| Trade debtors | 504 | 173 |
| Prepayments | 36 | 32 |
| | 666 | 283 |

The carrying value of each of the Group’s financial assets as stated above is considered to be a reasonable approximation of its fair value.

All of the Group’s financial assets as stated above are from debtors of good credit standing and have been reviewed for indicators of impairment and no impairment provision was found to be required (2007: £nil).

The maximum exposure to credit risk at the reporting date is the carrying value of each class of assets listed in the table above.

The trade debtor balance reported above is from one customer which represents a concentration of credit risk.

Of the Group’s financial assets as stated above £127 thousand (2007: £208 thousand) were past due but not impaired at the reporting date, of which the ageing was:

| | 2008 £000 | 2007 £000 |
|---|--------------|--------------|
| Not more than three months | 35 | 44 |
| More than three months but not more than six months | 77 | 161 |
| More than six months but not more than one year | 15 | 3 |
| | 127 | 208 |

13 Cash and cash equivalents

| | 2008 £000 | 2007 £000 |
|--------------------------|--------------|--------------|
| Cash at bank and in hand | 2,278 | 1,414 |
| | 2,278 | 1,414 |

The carrying value of the Group’s cash and cash equivalents as stated above is considered to be a reasonable approximation of their fair value.

The Group only deposits cash surpluses with major banks that have acceptable credit ratings of “AA” or better.

14 Current liabilities

| | 2008 £000 | 2007 £000 |
|------------------------------|--------------|--------------|
| Trade and other payables: | | |
| Trade creditors | 244 | 401 |
| Taxation and social security | 62 | 39 |
| Deferred revenue | 210 | – |
| Accruals and other creditors | 327 | 311 |
| | 843 | 751 |
| Corporation tax | – | 1 |
| | 843 | 752 |

The carrying value of each of the Group's financial liabilities as stated above is considered to be a reasonable approximation of its fair value. All creditors are payable within one month and no creditors have been outstanding for longer than three months (2007 – £602 thousand within one month, £75 thousand between one and three months and £75 thousand between three and six months).

Information regarding the Group's tax losses is presented in Note 15.

15 Non-current liabilities

| | 2008 £000 | 2007 £000 |
|---|--------------|--------------|
| Trade and other payables, due 31 March 2009 | – | 78 |
| | – | 78 |

Tax losses, none of which is considered sufficiently certain of utilisation to set up deferred tax assets, amount to:

| | 2008 £000 | 2007 £000 |
|---|--------------|--------------|
| Company: | | |
| Excess management expenses | 2,998 | 2,618 |
| IGL: | | |
| Petroliferous – Trading loss | 17 | 17 |
| Petroliferous – Minerals extraction allowances | 548 | 161 |
| KP Renewables (Operations) Limited ("KPRO"): | | |
| Trading loss | 1,200 | 1,194 |

The availability of Petroliferous amounts to offset future profits is dependent on IGL commencing a Petroliferous Trade (as defined for tax purposes), which itself is dependent on the award of a CBM Field Development Plan. KPRO's losses may only be offset against future profits of KPRO, if any.

16 Commitments

The Group had no lease or capital commitments at 31 December 2008 (2007: £nil).

As at 31 December 2008, no amounts have been included for exploration and appraisal as these are expected to be covered by the Nexen Carry Agreements as referred to in Note 11 above (2007: £nil).

17 Financial instruments

The Group's financial instruments principally comprise cash at bank, and various items such as trade debtors and creditors that arise directly from operations. The main purpose of these financial instruments is to provide finance for the Group's operations.

Financial assets and liabilities

The Group's policy is to ensure that adequate cash is available and the Group does not trade in financial instruments and has not entered into any derivative transactions.

Liquidity risk

Liquidity risk arises from the Group's management of working capital and is the risk that the Group will not be able to meet its financial obligations as they fall due. Cash forecasts and plans are updated frequently and reviewed regularly by management and the Board. The Groups liquidity requirements have been met principally through the Nexen Carry Agreements and internal cash resources. The Group has no long-term borrowings, and based on current projections the Group has sufficient funds to meet current obligations as they fall due.

Consolidated financial statements – notes continued

As at 31 December 2008

17 Financial instruments continued

Interest rate risk profile of financial assets

Cash at bank earns interest at floating rates related to the published rate of the bank.

Credit risk

Cash and treasury credit risks are mitigated through the exclusive use of institutions that carry published grade “AA” or better credit ratings so as to minimise counterparty risk.

Capital management

The Group considers its capital to comprise its Ordinary Share capital and share premium. In managing its capital, the Group’s primary objective is to ensure its continued ability to provide a return to equity shareholders, principally through capital growth. The Group currently has no borrowings, and information regarding the Group’s management of capital is provided in the Business Review under Cash position on page 10.

18 Share capital

| | Ordinary Shares | | Deferred shares | |
|---|--------------------|------------------------|-------------------|------------------------|
| | No. | £000 Nominal value* | No. | £000 Nominal value* |
| Authorised | | | | |
| 1 January 2007, Ordinary Shares of 1p each | 100,000,000 | 1,000 | | |
| 10 April 2007 conversion of each issued Ordinary Share of 1p each into: | (46,589,662) | (466) | | |
| New Ordinary Shares of .05p | 46,589,662 | 23 | | |
| New deferred shares of .95p each | | | 46,589,662 | 443 |
| 10 April 2007 consolidation of each new Ordinary Share of .05p into: | (46,589,662) | | | |
| Ordinary Shares of 1p each – 20 for 1 | 2,329,483 | | | |
| 10 April 2007 additional Ordinary Shares created | 500,000,000 | 5,000 | | |
| 27 December 2007 consolidation of each 1p Ordinary Share into: | (555,739,821) | | | |
| New Ordinary Shares of 50p – 50 for 1 | 11,114,796 | | | |
| 27 December 2007 new Ordinary Shares created | 78,000,000 | 39,000 | | |
| 31 December 2007 and 2008 | 89,114,796 | 44,557 | 46,589,662 | 443 |

| | Ordinary Shares | | Deferred shares | |
|--|-------------------|------------------------|-----------------|------------------------|
| | No. | £000 Nominal value* | No. | £000 Nominal value* |
| Issued and fully paid | | | | |
| 1 January 2007, Ordinary Shares of 1p each | 46,589,662 | 466 | | |
| 10 April share conversion of each Ordinary Share of 1p each into: | (46,589,662) | (466) | | |
| New Ordinary Shares of .05p | 46,589,662 | 24 | | |
| New deferred shares of .95p each | | | 46,589,662 | 443 |
| 10 April 2007 consolidation of each new Ordinary Share of .05p into: | (46,589,662) | | | |
| Ordinary Shares of 1p each – 20 for 1 | 2,329,483 | | | |
| 10 April shares issued for cash | 75,000,000 | 750 | | |
| 10 April shares issued in lieu of fees | 6,500,000 | 65 | | |
| 7 November shares allotted to former creditors | 832,127 | 8 | | |
| 27 December consolidation of each 1p Ordinary Share into | (84,661,610) | | | |
| New Ordinary Shares of 50p – 50 for 1 | 1,693,232 | | | |
| 27 December 2007 deferred shares repurchased | | | (46,589,662) | (443) |
| 31 December shares issued to redeem loan notes | 1,636,363 | 818 | | |
| 31 December shares issued for acquisition of IGL | 55,555,365 | 27,778 | | |
| 31 December shares issued in lieu of fees | 222,222 | 111 | | |
| 31 December 2007, Ordinary Shares of 50p each | 59,107,182 | 29,554* | – | – |
| 25 June 2008 shares issued for cash | 3,222,460 | 1,611 | | |
| 31 December 2008, Ordinary Shares of 50p each | 62,329,642 | 31,165 | – | – |

£000

Share capital account*

| | |
|---|--------------|
| At 1 January 2007 | 1 |
| Market Capitalisation of the Company on the last day of trading prior to announcement of the Reverse: | |
| Shares in issue | 1,354 |
| Loan Notes converting mandatorily on Reverse | 1,309 |
| Adjusted value | 2,663 |
| At 31 December 2007 | 2,664 |
| Shares issued during the year | 1,611 |
| At 31 December 2008 | 4,275 |

* In accordance with the accounting for a reverse take-over (as per Note 1(n)) nominal values do not appear in the Group balance sheet since all previously recorded amounts are extinguished and instead there are recorded in share capital account amounts equal to the deemed cost of the Reverse, being the adjusted market value of the Company as last quoted immediately prior to the announcement of the Reverse, plus the Equity of IGL, the effective acquiring company.

18 Share capital continued

The following share transactions took place since 1 January 2007, pursuant to the CVA and related arrangements made on 10 April 2007 (all as explained in more detail in a circular to shareholders dated 16 March 2007 and in an Admission Document issued to shareholders on 27 November 2007) and the Reverse take-over and related arrangements as of 27 December 2007 (all as explained in more detail in an Admission Document issued to shareholders on 27 November 2007):

- 10 April 2007 – Each issued Ordinary 1p Share was subdivided into one deferred .95p share and one new Ordinary .05p Share;
- 10 April 2007 – Each new Ordinary .05p Share was consolidated on a 1 to 20 basis into a new consolidated Ordinary 1p Share;
- 10 April 2007 – The authorised share capital of the Company was increased by £5 million to £6 million through the creation of 500 million Ordinary 1p Shares;
- 10 April 2007 – The Board allotted 75 million Ordinary 1p Shares pursuant to a fund raising;
- 10 April 2007 – The Board allotted 6.5 million Ordinary 1p Shares as consideration for services provided to the Company in the aggregate total amount of £65,000 payable for fees;
- 10 April 2007 – The Company granted warrants to acquire up to 4,191,474 Ordinary Shares at a price of 1p each. Following the Reverse these have been rebased as rights to acquire 83,830 at a price of 50p each;
- 2 November 2007 – The Company issued £900,000 of Loan Notes at par value;
- 7 November 2007 – The Company allotted 832,127 Ordinary 1p Shares to former creditors pursuant to the CVA;
- 27 December 2007 – Each existing Ordinary 1p Share was consolidated on a 1 for 50 basis into one share of 50p;
- 27 December 2007 – The authorised share capital of the Company was increased by £39 million to £45 million through the creation of 78 million new Ordinary 50p Shares;
- 27 December 2007 – The Company repurchased all the issued deferred shares for an aggregate amount of 1p;
- 27 December 2007 – The Company issued 440,000 warrants to three Directors and one former Director of the Company;
- 31 December 2007 – The Company issued 1,636,363 Ordinary 50p Shares at a price of 55p each to redeem the Loan Notes;
- 31 December 2007 – The Company issued 55,555,365 Ordinary 50p Shares at a price of 90p each to the shareholders of IGL in consideration for the acquisition of their shares.
- 31 December 2007 – The Company issued 222,222 Ordinary 50p Shares as consideration for services provided to the Company in the aggregate total amount of £200,000 payable for fees; and
- 25 June 2008 – The Company issued 3,222,460 Ordinary 50p Shares at a price of 65p each.

19 Share warrant reserve

The Company has made equity settled share based payments, all valued using Black-Scholes, as follows:

| | 2008 £000 | 2007 £000 |
|--|--------------|--------------|
| Directors: | | |
| Balance 1 January | 167 | – |
| Charge for the year | – | – |
| In respect of serving Directors at year end, as per Note 6 | – | 110 |
| In respect of Directors resigning during the year | – | 21 |
| | 167 | 131 |
| In respect of Professional advisers | – | 36 |
| Balance 31 December | 167 | 167 |

All warrants vested on grant and accordingly the key assumptions made in arriving at the Black-Scholes valuations were: share price on date of grant, adjusted for subsequent consolidations where appropriate and the length of time for which the warrants will remain exercisable. A long-term risk free interest rate of 5% and an implied volatility of 20% were used in valuing the warrants at the time of granting. It was also assumed that no dividends would be paid during the life of the warrants.

Movements in the Share warrant reserve during the period were as follows :

| | No | 2008 Weighted average exercise price (pence) | No | 2007 Weighted average exercise price (pence) |
|-----------------------------------|----------------|---|----------------|---|
| At 1 January | 523,830 | 58 | 1,450,000 | 1 |
| Granted in Period | – | – | 4,191,474 | 1 |
| Rebased on Reverse | – | – | (5,117,644) | – |
| Outstanding at 31 December | 523,830 | 58 | 523,830 | 58 |
| Exercisable at 31 December | 523,830 | 58 | 523,830 | 58 |

The weighted average remaining contractual life for the equity settled share options outstanding as at 31 December 2008 is 21 months (2007: 33 months) with the maximum remaining term of options granted being 24 months (2007: 36 months). The range of exercise prices for options outstanding at the end of the year was 50p to 75p (2007: 50p to 75p). In 2007, the Company received services from certain professional advisers in exchange for the Company's shares. A share-based payment was recognised with respect to the fair value of the services received. Details of share options granted to Directors are disclosed in note 6.

Consolidated financial statements – notes continued

As at 31 December 2008

20 Other reserves

- Share Premium reserve – The share premium account of the Group arises from the capital that the Company raises upon issuing shares that are in excess of the nominal value of the shares net of the costs of issuing the new shares. During the year the Company issued 3,222,460 Ordinary 50p Shares at a price of 65p each. The cost of the issue was £108 thousand resulting in a movement in the Share Premium reserve of £376 thousand
- Retained Earnings – This represents the historic accumulated losses less profits made by the Group accounted for under reverse accounting as explained in Note 1(n).

21 Related party transactions

Key management personnel

There are no key management personnel other than Directors of the Company; details of whose remuneration is set out in Note 6.

Arising in 2007

P Redmond, as well as being a Director of the Company is also a director of Merchant Capital Limited (“MCL”), a wholly-owned subsidiary of Merchant House Group plc, with which group the Company had the following transactions during the year.

- The Company entered into an engagement letter with Merchant Capital plc (“MCP”) on 1 February 2007, whereby MCP received £128 thousand for corporate finance services in relation to the reconstruction and refinancing of the Company on 10 April 2007, of which a total of £50 thousand was taken in Ordinary Shares at the then refinancing price and there was a grant of warrants; being to acquire up to 83,830 Ordinary Shares at an exercise price of 50p per share exercisable up to 10 April 2009.
- This agreement was amended on 30 April 2007 pursuant to which MCP was engaged to provide additional services for a monthly retainer of £2 thousand for one full day per week. This retainer was terminated on 13 September 2007.
- The Company entered into an engagement letter with MCP on 3 November 2007 under which MCP agreed to act as adviser to the Company in respect of the Reverse in consideration for the issue of £100 thousand in value of Ordinary Shares at 90p per share.

As a result of the above arrangements at 31 December 2008 and 2007, MCL held 211,111 Ordinary Shares and the warrants to acquire 83,830 Ordinary Shares as described above.

22 Subsequent events

- On 19 January the Company received approval of a field development plan (“FDP”) for Doe Green, which FDP also covers most of the area of PEDL 145. The approval of the FDP also triggers the commencement of a petroliferous trade for UK corporation tax purposes and accordingly the Group’s petroliferous trade losses become available to relieve future petroliferous trade taxable profits. Losses carried forward at 31 December 2008 and 2007 are as set out in Note 15, which will now be supplemented by a small time value of money allowance which becomes available upon the triggering of a petroliferous trade.
- On 22 May 2009, the Group generated first electricity from gas production at Doe Green in PEDL 145. Under the terms of the Nexen Carry Agreements cumulative production and costs related to PEDL 145 will be monitored to determine if there will be a future requirement to repay to Nexen any amounts incurred in the development and operation of PEDL 145. The Group will in 2009, on the basis of continuing production experience and further developments plans for PEDL 145, determine if it has become more likely than not that any amounts will be due to Nexen.

Parent Company financial statements – Directors' statement of responsibilities in respect thereof

The Directors are responsible for preparing the Annual Report and Parent Company financial statements in accordance with applicable United Kingdom law and those International Financial Reporting Standards as adopted by the European Union ("IFRSs").

The Directors are required to prepare the Parent Company financial statements for each financial year which present fairly the financial position of the Parent Company and its financial performance and cash flows for that period. In preparing the Parent Company financial statements the Directors are required to:

- select suitable accounting policies in accordance with IAS 8: *Accounting policies, Changes in Accounting Estimates and Errors* and then apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Parent Company's financial position and financial performance; and
- state that the Parent Company has complied with IFRSs, subject to any material departures disclosed and explained in the financial statements.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Parent Company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Parent Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent auditor's report to the members of Island Gas Resources plc

We have audited the Parent Company financial statements of Island Gas Resources plc for the year ended 31 December 2008 which comprise the Parent Company Balance Sheet, the Parent Company Statement of Changes in Equity, the Parent Company Cash Flow Statement and Notes 1 to 12. These Parent Company financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the Group financial statements of Island Gas Resources plc for the year ended 31 December 2008.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the Parent Company financial statements in accordance with applicable United Kingdom law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the Parent Company financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the Parent Company financial statements give a true and fair view and whether the Parent Company financial statements have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the Parent Company financial statements. The information given in the Directors' Report includes that specific information presented in the Chairman's Statement and the Business Review that is cross referred from the Business Review and Future Developments section of the Directors' Report.

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited Parent Company financial statements. The other information comprises only the Chairman's Statement, the Business Review, the Corporate Governance Report, the Directors' Remuneration Report and the Directors' Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Parent Company financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Parent Company financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the Parent Company financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Parent Company financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the Parent Company financial statements.

Opinion

In our opinion:

- the Parent Company financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 1985, of the state of the Company's affairs as at 31 December 2008;
- the Parent Company financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the directors' report is consistent with the Parent Company financial statements.

Ernst & Young LLP
Registered Auditors

London
11 June 2009

Parent Company balance sheet

As at 31 December 2008

| | Notes | 2008 £000 | 2007 £000 |
|--|-------|----------------|--------------|
| Non-current assets | | | |
| Investments in subsidiaries | 2 | 50,512 | 50,512 |
| | | 50,512 | 50,512 |
| Current assets | | | |
| Trade and other receivables | 3 | 364 | 81 |
| Cash and cash equivalents | 4 | 2,210 | 1,305 |
| | | 2,574 | 1,386 |
| Current liabilities | | | |
| Trade and other payables | 5 | (252) | (516) |
| | | (252) | (516) |
| Net current assets | | 2,322 | 870 |
| Total assets less current liabilities | | 52,834 | 51,382 |
| Non-current liabilities | | | |
| Trade and other payables | 6 | – | (78) |
| Net assets | | 52,834 | 51,304 |
| Capital and reserves | | | |
| Called up share capital | 9 | 31,165 | 29,554 |
| Merger reserve | 11 | 22,222 | 22,222 |
| Share premium account | 11 | 4,312 | 3,936 |
| Share warrant reserve | 10 | 167 | 167 |
| (Accumulated deficit) | | (5,032) | (4,575) |
| Shareholders' funds | | 52,834 | 51,304 |

These financial statements were approved and authorised for issue by the Board on 11 June 2009 and are signed on its behalf by:



Francis Gugen
Chairman



Andrew Austin
Chief Executive Officer

Parent Company statement of changes in equity

For the year ended 31 December 2008

| | Called up share capital £000 | Merger reserve £000 | Share premium account £000 | Share capital redemption reserve £000 | Share warrant reserve £000 | (Accumulated deficit) £000 | Total £000 |
|-------------------------------------|------------------------------------|---------------------------|-------------------------------------|---|-------------------------------------|----------------------------------|---------------|
| Balance at 1 January 2007 | 466 | – | 3,734 | – | 244 | (5,021) | (577) |
| Changes in equity for 2007 | | | | | | | |
| Profit for the year | | | | | | 446 | 446 |
| Issue and conversion of shares: | | | | | | | |
| At time of CVA | 815 | | | | | | 815 |
| Pre Reverse | 938 | | 171 | | | | 1,109 |
| At Reverse | 27,778 | 22,222 | | | | | 50,000 |
| Repurchase of deferred shares | (443) | | | 443 | | | – |
| Cost of issue of shares: | | | | | | | |
| At time of CVA | | | (192) | | | | (192) |
| Pre Reverse | | | | (90) | | | (90) |
| At Reverse | | | (21) | (353) | | | (374) |
| Issue of warrants: | | | | | | | |
| At time of CVA | | | | | 36 | | 36 |
| To Directors | | | | | 131 | | 131 |
| Transfer from share warrant reserve | | | 244 | | (244) | | – |
| Balance at 31 December 2007 | 29,554 | 22,222 | 3,936 | – | 167 | (4,575) | 51,304 |
| Changes in equity for 2008 | | | | | | | |
| Loss for the year | | | | | | (457) | (457) |
| Issue of shares | 1,611 | | 484 | | | | 2,095 |
| Share issue costs | | | (108) | | | | (108) |
| Balance at 31 December 2008 | 31,165 | 22,222 | 4,312 | – | 167 | (5,032) | 52,834 |

Parent Company cash flow statement

For the year ended 31 December 2008

| | Notes | 2008 £000 | 2007 £000 |
|--|-------|----------------|--------------|
| Operating activities: | | | |
| (Loss)/profit for the year | | (457) | 446 |
| Loss on disposal of subsidiary | | – | 41 |
| Finance income | | (62) | (26) |
| (Increase) in trade and other receivables | | (283) | (41) |
| Decrease in project development costs | | – | 13 |
| (Decrease) in trade and other payables | | (264) | (127) |
| (Decrease)/increase in creditors due after one year | | (78) | 78 |
| Net cash (outflow)/inflow from operating activities | | (1,144) | 384 |
| Investing activities | | | |
| Loss on disposal of subsidiary | | – | (40) |
| Interest received | | 62 | 26 |
| Net cash from/(used in) investing activities | | 62 | (14) |
| Financing activities | | | |
| Value of equities issued net of share issue costs | | 1,987 | 51,435 |
| Less: subsidiary acquired for equities | 2 | – | (50,512) |
| Net cash proceeds from the issue of equities | | 1,987 | 923 |
| Net cash from financing activities | | 1,987 | 923 |
| Net increase in cash and cash equivalents in the year | | 905 | 1,293 |
| Cash and cash equivalents at the beginning of the year | | 1,305 | 12 |
| Cash and cash equivalents at the end of the year | | 2,210 | 1,305 |

Parent Company financial statements – notes

As at 31 December 2008

1 Accounting policies

(a) Basis of preparation of financial statements

The Parent Company financial statements of Island Gas Resources plc (the “Company”) have been prepared under the historical cost convention in accordance with International Financial Reporting Standards, adopted for use by the European Union (“IFRSs”) as they apply to the Company for the year ended 31 December 2008, and with the Companies Act 1985 and 2006 where relevant. The financial statements were authorised for issue by the Board of Directors on 11 June 2009. Island Gas Resources plc is a public limited company incorporated and registered in England and Wales.

The Company’s financial statements are presented in Sterling and all values are rounded to the nearest thousand (£000) except when otherwise indicated.

As a Consolidated Income Statement is published in this Annual Report, a separate Income Statement for the Company is not presented within these financial statements as permitted by Section 230(4) of the Companies Act 1985.

Certain new standards, interpretations and amendments to existing standards have been published and are mandatory for the Company’s accounting periods beginning on or after 1 January 2008 or later periods but which the Company has not adopted early. Those that may be applicable to the Company are as follows:

| Effective date | | |
|--|--|----------------|
| International Accounting Standards (IAS/IFRSs) | | |
| IFRS 2 | Amendment to IFRS 2 – <i>Vesting Conditions and Cancellations</i> – This clarifies that only service conditions and performance conditions are vesting conditions and other features of a share-based payment is not vesting conditions. In addition, it specifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The Company have considered the effect of this interpretation and have concluded that there is no impact on the financial statements. | 1 January 2009 |
| IFRS 3 | <i>Business Combinations (revised January 2008)</i> – This introduces a number of changes in the accounting for business combinations occurring after this date and will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results. IAS 27R requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as an equity transaction. Therefore, such transactions will no longer give rise to goodwill, nor will they give rise to gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by partially-owned subsidiaries as well as the loss of control of a subsidiary. Other consequential amendments were made to IAS 7 “ <i>Statement of Cash Flows</i> ”, IAS 12 “ <i>Income Taxes</i> ”, IAS 21 “ <i>The Effects of Changes in Foreign Exchange Rates</i> ”, IAS 28 “ <i>Investment in Associates</i> ” and IAS 31 “ <i>Interests in Joint Ventures</i> ”. The changes to IFRS 3R and IAS 27R will affect future acquisitions or loss of control and transactions with minority interests. Management does not currently expect this standard to have any impact on its financial statements. | 1 July 2009 |
| IFRS 8 | <i>Operating Segments</i> – This standard introduces the “management approach” to segment reporting. IFRS 8, which becomes mandatory for the Group’s 2009 financial information, will require the disclosure of segment information based on the internal reports regularly reviewed by the Group’s Chief Operating Decision Maker in order to assess each segment’s performance and to allocate resources to them. The Company currently only has one business segment, and so the adoption of this standard will not have any effect on the financial performance or position of the Company but may give rise to additional disclosures. | 1 January 2009 |
| IFRS 7 | <i>Improving Disclosures about Financial Instruments</i> – The amendments require enhanced disclosures about fair value measurements and liquidity risk. Management does not currently expect this standard to have any impact on its financial statements. | 1 January 2009 |
| IAS 1 | <i>Presentation of Financial Statements (revised September 2007)</i> – The Standard separates owner and non-owner changes in equity. The statement of changes in equity will include only details of transactions with owners, with non-owner changes in equity presented as a single line. In addition, the Standard introduces the statement of comprehensive income: it presents all items of recognised income and expense, either in one single statement, or in two linked statements. Management does not currently expect this standard to have any impact on its financial statements. | 1 January 2009 |
| IAS 23 | <i>Borrowing Costs (revised March 2007)</i> – IAS 23 (Revised) has removed the option of immediately recognising as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. An entity is, therefore, required to capitalise borrowing costs as part of the cost of such assets. The revised standard applies to borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009. This is currently not relevant to the Company as it has no borrowing arrangements. | 1 January 2009 |

1 Accounting policies continued

Effective date

International Accounting Standards (IAS/IFRSs) continued

| | | |
|-------------------|--|-------------|
| IFRS 1 and IAS 27 | <i>Consolidated and Separate Financial Statements (revised January 2008)</i> – The amendments to IFRS 1 allows an entity to determine the cost of investment in subsidiaries, jointly controlled entities or associates in its opening IFRSs financial statements in accordance with IAS 27 or using a deemed cost. The amendment to IAS requires all dividends from subsidiary, jointly controlled entity or associate to be recognised in the income statement. Management does not currently expect this standard to have any impact on its financial statements. | 1 July 2009 |
| IAS 39 | <i>Eligible Hedged Items</i> – The amendment addresses the designation of a one-sided risk in a hedged item, and the designation of inflation as a hedged risk or portion in particular situations. It clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item. This is not relevant to the Company's operations as it currently has no such arrangements. | 1 July 2009 |

International Financial Reporting Interpretations Committee (IFRIC)

| | | |
|----------|--|----------------|
| IFRIC 17 | <i>Distribution of Non-Cash Assets to Owners</i> – IFRIC 17 clarifies that a dividend payable should be recognised when the dividend is appropriately authorised and is no longer at the discretion of the entity. It also clarifies that an entity should measure the dividend payable at the fair value of the net assets to be distributed and that an entity should recognise the difference between the dividend paid and the carrying amount of the net assets distributed in profit or loss. This is not currently relevant to the Company's operations. | 1 July 2009 |
| IFRIC 15 | <i>Agreement for the Construction of Real Estate</i> – The interpretation is to be applied retrospectively. It clarifies when and how revenue and related expenses from the sale of a real state unit should be recognised if an agreement between a developer and buyer is reached before the construction of the real estate is completed. Furthermore, the interpretation provides guidance on how to determine whether an agreement is within the scope of IAS 11 or IAS 18. IFRIC 15 will not have an impact on the financial statement because the Company does not conduct such activity. | 1 January 2009 |

The Directors do not anticipate that the adoption of these standards and interpretations will have a material impact on the Company's financial statements in the period of initial application. Furthermore, the Company does not anticipate adopting these standards and interpretations ahead of their effective date.

(b) Going concern

After making enquiries, and reviewing budget and cash flow projections for 2009 and 2010, the Directors are satisfied that the Company has adequate resources to continue in operational existence for the foreseeable future. It is therefore appropriate to adopt the going concern basis in preparing the financial statements.

(c) Acquisition in 2007 of the Company's principal subsidiary

On 31 December 2007 the Company was the subject of a reverse takeover whereby a private company, Island Gas Limited ("IGL"), became a wholly-owned subsidiary of the Company but with IGL's shareholders acquiring 94% of the Ordinary Share capital of the combined entity (the "Reverse"); these arrangements, being more fully described in an admission document dated 27 November 2007 (the "Admission Document"). In accordance with IFRSs the Company has accounted for the acquisition at cost, being the fair value of the shares issued, with the difference between their nominal value and fair value being accounted for as a Merger reserve, as permitted under the Companies Act 1985.

(d) Significant accounting judgements and estimates**Critical judgements in applying the Company's accounting policies**

The principal activity of the Company's major subsidiary, IGL, which has been accounted for at fair value at acquisition less provision for impairment, is Coal Bed Methane ("CBM"). The testing of the Company's investment in subsidiary for impairment involves the assessment of IGL's CBM business, including IGL's production rates which are a matter of judgement, as is the forecasting of the future economic benefit that may be derived from such production. Finally, the period of time over which the economic benefit associated with the investment in subsidiary might arise is also a matter of judgement. These judgements affect the carrying value of non-current assets and impairment calculations related to such assets.

Estimates and assumptions:

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

- Carrying value of investment in subsidiaries:
The Company evaluates investments in subsidiaries, that have been accounted for at fair value at acquisition less provision for impairment as described at (e) below. Any impairment reviews, where required, involve significant judgement related to matters such as recoverable reserves; production profiles; gas and electricity prices; development, operating and offtake costs; nature of land access agreements and planning permissions; application of taxes; and other matters. Where the final outcome or revised estimates related to such matters differ from the estimates used in any earlier impairment reviews, the results of such differences, to the extent that they actually affect any impairment provisions, are accounted for when such revisions are made.

Parent company financial statements – notes continued

As at 31 December 2008

1 Accounting policies continued

(e) Non-current assets (investments in subsidiaries)

Investments in subsidiaries

Investments held as non-current assets are held at cost less provision for impairment unless the investments were acquired in exchange for the issue or part issue of shares in the Company, when they are initially recorded in the Company's balance sheet at the fair value of the shares issued together with the fair value of any consideration paid, including costs of acquisition less any provision for impairment which may subsequently be required.

The Company's investments held as non-current assets are assessed for indications of impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable, when impairment is calculated on the basis as set out below. Any impairment in value is charged to the Income Statement as additional depreciation.

Impairment

Impairment reviews, when required as described above, are carried out on the following basis:

- By comparing any amounts carried as investments held as non-current assets with the recoverable amount.
- The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. The Company generally relies on fair value less cost to sell assessed either by reference to comparable market transactions between a willing buyer and a willing seller or on the same basis as used by willing buyers and sellers in the oil industry. When assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash-generating unit.

Where there has been a charge for impairment in an earlier period that charge will be reversed in a later period where there has been a change in circumstances to the extent that the recoverable amount is higher than the net book value at the time. In reversing impairment losses, the carrying amount of the asset will be increased to the lower of its original carrying value or the carrying value that would have been determined had no impairment loss been recognised in prior periods.

(f) Financial Instruments

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and cash held on current account or on short-term deposits at variable interest rates with original maturity periods of up to three months. Any interest earned is accrued monthly and classified as interest income within finance income.

Trade and other receivables

Trade receivables are initially recognised at fair value when related amounts are invoiced, less any allowances for doubtful debts or provision made for impairment of these receivables.

Trade and other payables

These financial liabilities are all non interest bearing and are initially recognised at the fair value of the consideration received.

Impairment of financial assets

In relation to trade receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Company will not be able to collect all of the amounts due under the original terms of the invoice. The carrying amount of the receivable is reduced through use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

(g) Operating leases

Rentals are charged to the Income Statement in the year on a straight line basis over the period of the lease.

(h) Taxation

The tax expense represents the sum of current tax and deferred tax.

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered or paid to the tax authorities. Taxable (loss)/profit differs from the (loss)/profit before taxation as reported in the Income Statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised in respect of all temporary differences that have originated but not reversed at the balance sheet date. Temporary differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements. Deferred tax liabilities are not discounted. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered.

1 Accounting policies continued**(i) Share based payments**

Where share options or warrants are awarded to employees (including Directors), the fair value of the options or warrants at the date of the grant is recorded in equity over the vesting period. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each balance sheet date so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of options that eventually vest. Market vesting conditions are factored in to the fair value of the options or warrants granted. As long as all other vesting conditions are satisfied, the amount recorded is computed irrespective of whether the market vesting conditions are satisfied. The cumulative amount recognised is not adjusted for the failure to achieve a market vesting condition; although equity no longer required for options or warrants may be transferred to another equity reserve.

Where the terms and conditions of options or warrants are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also recorded in equity over the remaining vesting period.

Where equity instruments are granted to persons other than employees, the amount recognised in equity is the fair value of goods and services received.

Charges corresponding to the amounts recognised in equity are accounted as a cost against the profit and loss which will usually be to the parent company Income Statement unless the services rendered (and discharged by share based payments) relate to an issuance of equity or qualify for capitalisation as a non-current asset. In the case of an issuance of equity, the charge is to the same equity reserve as cash costs related to such an issuance would be charged. Costs may be capitalised within non-current assets in the event of services being rendered in connection with an acquisition or intangible exploration and evaluation assets or property, plant and equipment.

(j) Equity

Equity instruments issued by the Company are usually recorded at the proceeds received, net of direct issue costs, and allocated between called up share capital, share premium accounts or merger reserve as appropriate.

2 Non-current assets – investments in subsidiaries

Investments in subsidiaries comprises:

| | £000 |
|--|---------------|
| At 1 January 2007 | – |
| Acquisition in the year, at fair value | 50,512 |
| Disposals in the year | – |
| At 31 December 2007 | 50,512 |
| At 31 December 2008 | 50,512 |

The subsidiary undertakings of the Company at 31 December 2008 and 2007 which are all 100% owned directly by the Company and are all incorporated in England and Wales, were:

| Name | Principal activity |
|------------------------------------|--|
| Island Gas Limited | Production and marketing of Coal Bed Methane |
| KP Renewables (Operations) Limited | Electricity Generation |

3 Trade and other receivables

| | 2008 £000 | 2007 £000 |
|--|--------------|--------------|
| VAT recoverable | 125 | 57 |
| Amounts due from subsidiary undertakings | 225 | – |
| Prepayments | 14 | 24 |
| | 364 | 81 |

The carrying value of each of the Company's financial assets as stated above is considered to be a reasonable approximation of its fair value.

Amounts due from subsidiary undertakings result from services provided by and payments on behalf of IGL. Payment of amounts outstanding, which are payable on demand, are made to meet the Company's liquidity management requirements.

All of the Company's financial assets as stated above are from debtors of good credit standing and have been reviewed for indicators of impairment and no impairment provision was found to be required (2007: £nil).

Parent company financial statements – notes continued

As at 31 December 2008

3 Trade and other receivables continued

Of the Company's financial assets as stated above £112 thousand (2007: £27 thousand) were past due but not impaired at the reporting date, the ageing of which was:

| | 2008 £000 | 2007 £000 |
|---|--------------|--------------|
| Not more than three months | 35 | – |
| More than three months but not more than six months | 77 | 27 |
| | 112 | 27 |

4 Cash and cash equivalents

| | 2008 £000 | 2007 £000 |
|--------------------------|--------------|--------------|
| Cash at bank and in hand | 2,210 | 1,305 |
| | 2,210 | 1,305 |

The carrying value of the Company's cash and cash equivalents as stated above is considered to be a reasonable approximation of their fair value.

The Company only deposits cash surpluses with major banks that have acceptable published credit ratings of "AA" or better.

5 Current liabilities

| | 2008 £000 | 2007 £000 |
|------------------------------|--------------|--------------|
| Trade and other payables: | | |
| Trade creditors | 89 | 384 |
| Taxation and social security | – | – |
| Accruals and other creditors | 163 | 132 |
| | 252 | 516 |

The carrying value of each of the Company's financial liabilities as stated above is considered to be a reasonable approximation of its fair value. All creditors are payable within one month and no creditor has been outstanding for longer than three months (2007 – £366 thousand within one month, £75 thousand between one and three months £75 thousand between three and six months).

Information regarding the Company's tax losses is presented in Note 6.

6 Non-current liabilities

| | 2008 £000 | 2007 £000 |
|------------------------------------|--------------|--------------|
| Trade creditors, due 31 March 2009 | – | 78 |
| | – | 78 |

Tax losses, none of which is considered sufficiently certain of utilisation to set up deferred tax assets, amount to:

| | 2008 £000 | 2007 £000 |
|----------------------------|--------------|--------------|
| Trading loss | – | – |
| Excess management expenses | 2,998 | 2,618 |

Excess management expenses may only be offset against future profits, if any, of the Company generated in its capacity as a Group holding company.

7 Commitments

The Company had no lease or capital commitments at 31 December 2008 (2007: £nil).

8 Financial instruments

The Company's financial instruments principally comprise cash at bank, and various items such as trade debtors and creditors that arise directly from operations. The main purpose of these financial instruments is to provide finance for the Company's operations.

Financial assets and liabilities

The Company's policy is to ensure that adequate cash is available and the Company does not trade in financial instruments and has not entered into any derivative transactions.

Liquidity risk

Liquidity risk arises from the Company's management of working capital and is the risk that the Company will not be able to meet its financial obligations as they fall due. Cash forecasts and plans are updated frequently and reviewed regularly by management and the Board. The Company's liquidity requirements have been met principally through internal cash resources. The Company has no long-term borrowings, and based on current projections the Company has sufficient funds to meet current obligations as they fall due.

Interest rate risk profile of financial assets

Cash at bank earns interest at floating rates related to the published rate of the bank.

Credit risk

Cash and treasury credit risks are mitigated through the exclusive use of institutions that carry acceptable published grade "AA" or better credit ratings so as to minimise counterparty risk.

Capital management

The Company considers its capital to comprise its ordinary share capital and share premium. In managing its capital, the Company's primary objective is to ensure its continued ability to provide a return to equity shareholders, principally through capital growth. The Company currently has no borrowings, and information regarding the Group's management of capital is provided in the Business Review under Cash position on page 10.

9 Share capital

| | Ordinary Shares | | Deferred shares | |
|---|--------------------|-----------------------|-------------------|-----------------------|
| | No. | £000 Nominal value | No. | £000 Nominal value |
| Authorised | | | | |
| 1 January 2006 and 2007, Ordinary Shares of 1p each | 100,000,000 | 1,000 | | |
| 10 April 2007 conversion of each issued Ordinary Share of 1p each into: | (46,589,662) | (466) | | |
| New Ordinary Shares of .05p | 46,589,662 | 23 | | |
| New deferred shares of .95p each | | | 46,589,662 | 443 |
| 10 April 2007 consolidation of each new Ordinary Share of .05p into: | (46,589,662) | | | |
| Ordinary Shares of 1p each – 20 for 1 | 2,329,483 | | | |
| 10 April 2007 additional Ordinary Shares created | 500,000,000 | 5,000 | | |
| 27 December 2007 consolidation of each 1p Ordinary Share into: | (555,739,821) | | | |
| New Ordinary Shares of 50p – 50 for 1 | 11,114,796 | | | |
| 27 December 2007 new Ordinary Shares created | 78,000,000 | 39,000 | | |
| 31 December 2007 and 2008 | 89,114,796 | 44,557 | 46,589,662 | 443 |
| | | | | |
| | Ordinary Shares | | Deferred shares | |
| | No. | £000 Nominal value | No. | £000 Nominal value |
| Issued and fully paid | | | | |
| 1 January 2006 and 2007, Ordinary Shares of 1p each | 46,589,662 | 466 | | |
| 10 April share conversion of each Ordinary Share of 1p each into: | (46,589,662) | (466) | | |
| New Ordinary Shares of .05p | 46,589,662 | 24 | | |
| New deferred shares of .95p each | | | 46,589,662 | 443 |
| 10 April 2007 consolidation of each new Ordinary Share of .05p into: | (46,589,662) | | | |
| Ordinary Shares of 1p each – 20 for 1 | 2,329,483 | | | |
| 10 April shares issued for cash | 75,000,000 | 750 | | |
| 10 April shares issued in lieu of fees | 6,500,000 | 65 | | |
| 7 November shares allotted to former creditors | 832,127 | 8 | | |
| 27 December consolidation of each 1p Ordinary Share into | (84,661,610) | | | |
| New Ordinary Shares of 50p – 50 for 1 | 1,693,232 | | | |
| 27 December 2007 deferred shares repurchased | | | (46,589,662) | (443) |
| 31 December shares issued to redeem loan notes | 1,636,363 | 818 | | |
| 31 December shares issued for acquisition of IGL | 55,555,365 | 27,778 | | |
| 31 December shares issued in lieu of fees | 222,222 | 111 | | |
| 31 December 2007, Ordinary Shares of 50p each | 59,107,182 | 29,554 | – | – |
| 25 June 2008 shares issued for cash | 3,222,460 | 1,611 | | |
| 31 December 2008, Ordinary Shares of 50p each | 62,329,642 | 31,165 | – | – |

Parent Company financial statements – notes continued

As at 31 December 2008

9 Share capital continued

The following share transactions took place since 1 January 2007, pursuant to the CVA and related arrangements made on 10 April 2007 (all as explained in more detail in a Circular to shareholders dated 16 March 2007 and in an Admission Document issued to shareholders on 27 November 2007) and the Reverse take-over and related arrangements as an Admission Document issued to shareholders on 27 November 2007):

- 10 April 2007 – Each issued Ordinary 1p Share was subdivided into one deferred .95p share and one new Ordinary .05p Share;
- 10 April 2007 – Each new Ordinary .05p Share was consolidated on a 1 to 20 basis into a new consolidated Ordinary 1p Share;
- 10 April 2007 – The authorised share capital of the Company was increased by £5 million to £6 million through the creation of 500 million Ordinary 1p Shares;
- 10 April 2007 – The Board allotted 75 million Ordinary 1p Shares pursuant to a fund raising;
- 10 April 2007 – The Board allotted 6.5 million Ordinary 1p Shares as consideration for services provided to the Company in the aggregate total amount of £65,000 payable for fees;
- 10 April 2007 – The Company granted warrants to acquire up to 4,191,474 Ordinary Shares at a price of 1p each. Following the Reverse these have been rebased as rights to acquire 83,830 at a price of 50p each;
- 2 November 2007 – The Company issued £900,000 of Loan Notes at par value;
- 7 November 2007 – The Company allotted 832,127 Ordinary 1p Shares to former creditors pursuant to the CVA;
- 27 December 2007 – Each existing Ordinary 1p Share was consolidated on a 1 for 50 basis into one share of 50p;
- 27 December 2007 – The authorised share capital of the Company was increased by £39 million to £45 million through the creation of 78 million new Ordinary 50p Shares;
- 27 December 2007 – The Company repurchased all the issued deferred shares for an aggregate amount of 1p;
- 27 December 2007 – The Company issued 440,000 warrants to three Directors and one former Director of the Company;
- 31 December 2007 – The Company issued 1,636,363 Ordinary 50p Shares at a price of 55p each to redeem the Loan Notes;
- 31 December 2007 – The Company issued 55,555,365 Ordinary 50p Shares at a price of 90p each to the shareholders of IGL in consideration for the acquisition of their shares;
- 31 December 2007 – The Company issued 222,222 Ordinary 50p Shares as consideration for services provided to the Company for the aggregate total amount of £200,000 payable for fees; and
- 25 June 2008 – The Company issued 3,222,460 Ordinary 50p Shares at a price of 65p each.

The costs of all share issues have all been charged to either share premium account or share capital redemption reserve and are as disclosed in the parent company statement of changes in equity.

10 Share warrant reserve

The Company has made equity settled share based payments, all valued using Black-Scholes, as follows:

| | 2008 £000 | 2007 £000 |
|---|--------------|--------------|
| Directors: | | |
| Balance 1 January | 167 | – |
| Charge for year | – | – |
| In respect of Directors serving at year end | – | 110 |
| In respect of Directors Resigning during the year | – | 21 |
| | 167 | 131 |
| In respect of Professional advisers | – | 35 |
| Balance 31 December | 167 | 167 |

All warrants vested on grant and accordingly the key assumptions made in arriving at the Black-Scholes valuations were: share price on date of grant, adjusted for subsequent consolidations where appropriate and the length of time for which the warrants will remain exercisable. A long-term risk free interest rate of 5% and an implied volatility of 20% were used in valuing the warrant at the time of granting. It was also assumed that no dividends would be paid during the life of the warrants.

Movements in the Share warrant reserve during the period were as follows:

| | No | 2008 Weighted average exercise price (pence) | No | 2007 Weighted average exercise price (pence) |
|-----------------------------------|----------------|---|----------------|---|
| At 1 January | 523,830 | 58 | 1,450,000 | 1 |
| Granted in Period | – | – | 4,191,474 | 1 |
| Rebased on Reverse | – | – | (5,117,644) | – |
| Outstanding at 31 December | 523,830 | 58 | 523,830 | 58 |
| Exercisable at 31 December | 523,830 | 58 | 523,830 | 58 |

10 Share warrant reserve continued

The weighted average remaining contractual life for the equity settled share options outstanding as at 31 December 2008 is 21 months (2007: 33 months) with the maximum remaining term of options granted being 24 months, (2007: 36 months). The range of exercise prices for options outstanding at the end of the year was 50p to 75p (2007: 50p to 75p). In 2007, the Company received services from certain professional advisors in exchange for the Company's shares. A share-based payment was recognised with respect to the fair value of the services received.

Directors' warrants

At 31 December 2008 the Directors held warrants over the Ordinary Shares of 50p each of the Company as follows; for which they paid £nil and all of which were granted on 27 December 2007:

| | 2007 Number | Exercise price (p/share) | Exercisable at any time up to | 2008 Number |
|-------------|----------------|-----------------------------|----------------------------------|----------------|
| R Armstrong | 82,500 | 55 | 31 December 2010 | 82,500 |
| | 27,500 | 75 | 31 December 2010 | 27,500 |
| J Bryant | 82,500 | 55 | 31 December 2010 | 82,500 |
| | 27,500 | 75 | 31 December 2010 | 27,500 |
| P Redmond | 82,500 | 55 | 31 December 2010 | 82,500 |
| | 27,500 | 75 | 31 December 2010 | 27,500 |

The share price at 31 December 2008 was 37.5p (2007: 72.5p)

11 Other reserves

- Share Premium reserve – The share premium account of the Company arises from the capital that the Company raises upon issuing shares that are in excess of the nominal value of the shares net of the costs of issuing the new shares. During the year the Company issued 3,222,460 Ordinary 50p Shares at a price of 65p each. The cost of the issue was £108 thousand resulting in a movement in the Share Premium reserve of £376 thousand.
- Merger reserve – The merger reserve arose as a result of the Reverse as detailed in the Accounting Policy note above and represents the difference in the fair value and the nominal value of the shares issued. The reserve is not distributable.
- Retained Earnings – This represents the historic accumulated losses made by the Company.

12 Related party transactions**(a) With Group companies**

A summary of the transactions in the year is as follows:

| | 2008 £000 | 2007 £000 |
|--|--------------|--------------|
| Subsidiaries: | | |
| Amounts due from/(to) subsidiary: | | |
| Island Gas Limited : | | |
| Balance 1 January | – | – |
| Services performed by subsidiary | (30) | – |
| Net Cash advances | (264) | – |
| Services performed for subsidiary | 519 | – |
| Balance 31 December | 225 | – |
| KPR (Operations) Limited: | | |
| Balance 1 January | – | 1,195 |
| Balance forgiven on Reverse | – | (1,195) |
| Balance 31 December | – | – |
| A summary of year end balances is as follows: | | |
| Amounts due from Subsidiary: | | |
| Island Gas Limited | 225 | – |

Payment terms are as mutually agreed between the Group's companies.

(b) With Directors

Key management are those persons having authority and responsibility for planning, controlling and directing the activities of the Group. In the opinion of the Board, the Group's key management are the Directors of the Company. Information regarding their compensation is given in Note 6 to the consolidated accounts.

Of the total emoluments in 2008 disclosed in Note 6 to the consolidated accounts, £39 thousand is directly related to services provided to the Company, with the remainder relating to services provided to Island Gas Limited. In 2007 emoluments charged to reserves in accordance with reverse acquisition accounting related to services provided to the company and all other emoluments related to services provided to Island Gas Limited.

Parent Company financial statements – notes continued

As at 31 December 2008

12 Related party transactions continued

(c) With others all arising in 2007

P Redmond, as well as being a Director of the Company, is also a director of Merchant Capital Limited ("MCL"), a wholly-owned subsidiary of Merchant House Group plc, with which group the Company had the following transactions during the year:

- The Company entered into any engagement letter with Merchant Capital plc ("MCP") on 1 February 2007, whereby MCP received £128 thousand for corporate finance services in relation to the reconstruction and refinancing of the Company on 10 April 2007, of which a total of £50 thousand was taken in Ordinary Shares at the then refinancing price and there was a grant of warrants over 83,830 Ordinary Shares at an exercise price of 50p per share exercisable up to 10 April 2009.
- This agreement was amended on 30 April 2007 pursuant to which MCP was engaged to provide additional services for a monthly retainer of £2 thousand for one full day per week. This retainer was terminated on 13 September 2007.
- The Company entered into an engagement letter with MCP on 3 November 2007 under which MCP agreed to act as adviser to the Company in respect of the Reverse in consideration for the issue of £100 thousand in value of Ordinary Shares at 90p per share.

As a result of the above arrangements at 31 December 2008 and 2007, MCL held 211,111 Ordinary Shares and the warrants to acquire 83,830 Ordinary Shares as described above.

Proposed business of the Annual General Meeting

Introduction

You will find set out at the end of this document the formal Notice of the Annual General Meeting of Island Gas Resources plc. This section provides some additional information on the Resolutions being proposed at the Annual General Meeting. The following definitions apply throughout this section of the document unless the context requires otherwise:

| | |
|--|---|
| "1985 Act" | the Companies Act 1985 |
| "2006 Act" | the Companies Act 2006 |
| "Accounts" | the audited financial statements of the Company for the year ended 31 December 2008 |
| "Annual General Meeting" or "AGM" | the annual general meeting of the Company convened for Friday 10 July 2009 pursuant to the Notice of Annual General Meeting which appears at the end of this document |
| "Articles" | the articles of association of the Company in force at the date of this document |
| "Board" or "Directors" | the Board of Directors of the Company |
| "Form of Proxy" | the form of proxy accompanying this document for use at the Annual General Meeting |
| "Ordinary Shares" | Ordinary Shares of 50p each in the capital of the Company |
| "Resolutions" | the resolutions set out in the Notice of Annual General Meeting which appears at the end of this document |
| "Shareholders" | holders of Ordinary Shares |
| "Share Plans" | together the share plans constituted by the rules of (i) The Island Gas Resources plc 2009 Enterprise Management Incentive Share Option Scheme; and (ii) The Island Gas Resources plc 2009 Long Term Incentive Plan |

Annual General Meeting

The Annual General Meeting of the Company is convened at the offices of Kreab & Gavin Anderson and Company, 85 The Strand, London, WC2R 0DW for 10:00 am on Friday 10 July 2009, at which resolutions will be proposed:

1. to receive and adopt the Company's Annual Report and Accounts for the financial year ended on 31 December 2008, and the Directors' Report and the Independent Auditors' Report on those accounts;
2. to receive and approve the Remuneration Report of the Directors for the financial year ended on 31 December 2008 and the Independent Auditors' Report on the auditable part of the Remuneration Report;
3. to reappoint as a Director Andrew Austin who, in accordance with the Articles, is required to retire by rotation at the Annual General Meeting and, being eligible, offers himself for reappointment;
4. to reappoint as a Director Peter Redmond who, in accordance with the Articles, is required to retire by rotation at the Annual General Meeting and, being eligible, offers himself for reappointment;
5. to reappoint Ernst & Young LLP as the auditors of the Company until the next Annual General Meeting;
6. to authorise the Directors to determine the level of the remuneration of the auditors;
7. to grant the Directors authority to allot unissued shares in the capital of the Company;
8. to grant the Directors the power to disapply the statutory pre-emption rights for certain shares;
9. to amend the Company's Articles of Association to allow the Company to hold general meetings (other than Annual General Meetings) on 14 days' notice;
10. to amend the Company's Articles of Association to facilitate electronic communication and website communication with, inter alia, shareholders; and
11. to adopt the Share Plans.

Proposed business of the Annual General Meeting continued

Resolutions 1 and 2 and 5 are self explanatory. Information on the other Resolutions is provided below. Resolutions 1–7 and 11 are ordinary resolutions which require to be passed the approval of a simple majority of Shareholders present and voting in person or by proxy or authorised representative. On a show of hands each Shareholder so present has one vote, but should a poll be demanded each such shareholder has one vote for each share held by him or her. Resolutions 8–10 are special resolutions that require to be passed the approval of 75% of such Shareholders, determined in the same way as for the ordinary resolutions.

Resolution No 3 – reappointment of Andrew Austin as a Director

Mr Austin is liable to retire by rotation at the Annual General Meeting under the Articles, and offers himself for re-election. Having considered his re-election, the Nomination Committee considers that his performance remains effective, particularly having regard to his responsibilities as Chief Executive Officer.

Mr Austin is one of the founders and the Chief Executive Officer and previously he specialised in energy projects in the gas, electricity and renewables sector. Mr Austin has been an Executive Director since 2004 and now has full time responsibility for day to day operations and business development.

Mr Austin has been involved in ventures as principal and has also raised substantial funds of private and public equity for clients during the course of his career to date. Mr Austin spent 17 years working in investment banking in the City of London with Merrill Lynch, Nomura, Citibank and Barclays Capital. Latterly he was General Manager of Creditanstalt Investment Bank in London. He also has six years of management and consultancy experience with clean tech companies including Generics Group and Whitfield Solar.

Resolution No 4 – reappointment of Peter Redmond as a Director

Mr Redmond is liable to retire by rotation at the Annual General Meeting under the Articles, and offers himself for re-election. Having considered his re-election, the Nomination Committee considers that his performance remains effective, particularly having regard to his responsibilities as Non-Executive Director.

Peter Redmond has over 20 years' experience in corporate finance and venture capital. After leaving Durlacher Limited in 2003, he joined Merchant House Group plc and is now Chief Executive Officer of its corporate finance subsidiary, Merchant Capital Limited. He has been active in reconstructing a number of AIM companies as investing companies in recent years including Optimisa plc, and Artilium plc; and each of these have since acquired or established operating businesses. Mr Redmond is a director of AIM quoted Bella Media plc.

Resolution No 7 – authority to issue shares

At the Annual General Meeting held on 7 July 2008, the Directors were authorised, in accordance with section 80 of the 1985 Act, to allot unissued Ordinary Shares and other relevant securities up to an aggregate nominal amount of £9,851,197. This authority expires at the conclusion of this Annual General Meeting and it is therefore proposed to replace it with a new authority, which will allow the Directors to allot unissued Ordinary Shares and other relevant securities up to an aggregate nominal amount of £10,388,273 representing one third of the issued Ordinary Share capital of the Company as at 31 December 2008 and a further aggregate nominal amount of £10,388,273 representing a further third of such issued share capital, which will be available only for rights issues and other pre-emptive offerings of equity shares.

The proposal that the authority to allot new shares shall extend to a further third of the issued share capital is in accordance with the guidelines issued by the Association of British Insurers which confine the use of this amount to rights issues only.

Assuming the passing of the resolution, the new authority will expire fifteen months from the date of the passing of the resolution or until the conclusion of the next Annual General Meeting, if earlier, and will revoke all previous authorities to the extent that they have not already been utilised apart from other specific authorities taken in respect of outstanding warrants and options which will continue unaffected. The Directors have no present intention of issuing any of the authorised but unissued share capital of the Company, but the passing of this Resolution will enable the Directors to take advantage of any opportunities which may arise.

Resolution No 8 – disapplication of pre-emption rights

Section 89 of the 1985 Act contains pre-emption rights that require all equity shares which it is proposed to allot for cash to be offered to existing shareholders in proportion to existing shareholdings, unless a special resolution is passed to disapply such rights. Such rights do not apply to an issue otherwise than for cash, such as an issue in consideration of an acquisition. The Directors believe that these requirements are too restrictive and, it is proposed that the Directors should be able to allot shares amounting to no more than an aggregate nominal amount of £4,674,723 representing 15% of the equity share capital of the Company (including treasury shares) at the date of the Accounts otherwise than on a pre-emptive basis.

In addition, it is customary to disapply the statutory pre-emption rights altogether, and substitute similar non-statutory provisions because, for technical reasons, the statutory rights are difficult to apply in certain circumstances. The proposed resolution therefore provides that all allotments for cash in excess of the 15% limit, must be in the form of rights issues, open offers or other pre-emptive issues except for the one third of the existing issued share capital reserved only for rights issues in accordance with the previous resolution, and free of the statutory constraints. The broadening of the proposed resolution to include pre-emptive issues other than rights issues is a departure from the strict wording of the ABI guidelines which is limited to rights issues, which the Directors regard as too restrictive, especially as AIM companies normally make open offers and not rights issues. The above departures in resolutions 7 and 8 from the strict wording of the ABI guidelines should not be taken to indicate that they are being disregarded, but rather that the proposed resolutions are designed to provide flexibility for the Directors to determine the form of any future pre-emptive issues in the light of market conditions and practice, at the time such an issue may be proposed, whilst at all times complying with the one third and 15% limits set by the ABI guidelines.

Resolution No 9 – notice period for general meetings

The Companies Act 2006 permits a public company, subject to its Articles, to hold all general meetings other than Annual General Meetings on 14 days' notice, whether or not a special resolution is proposed. The Company has not yet amended its Articles in order to reduce the notice period for a general meeting, other than an Annual General Meeting, to 14 days. Resolution No 9 therefore proposes an amendment to the Articles to that effect, the amendment will also dispense with the concepts of ordinary and special business at annual general meetings as these are now technically redundant under the 2006 Act.

Resolution 10 – amendment of articles of association

The Resolution, if passed, will amend the Articles to allow the Company to take advantage of electronic communications in giving notices to its shareholders and facilitate website communication. A separate letter is enclosed with this document outlining the changes and asking shareholders for email addresses to facilitate electronic communications. It is important to note that even if shareholders do not respond to the enclosed letter the 2006 Act deems their consent to have been given to website communication. If shareholders elect to take up electronic communications, significant cost savings to the Company can be expected.

Resolution 11 – adoption of the Share Plans

The Board proposes the adoption of two new share plans which will be used to provide options and awards, the Company currently having no share plans which can be used to incentivise executive management. The terms of the new plans are described below:

(a) The Island Gas Resources plc 2009 Enterprise Management Incentive Share Option Plan (the "EMI")

The EMI plan is a HMRC approved tax advantaged option plan and provides favourable tax treatment if relevant criteria are met. It is a discretionary plan which provides that the Company may grant options with a value at the date of grant of up to £120,000 to an individual employee.

Grant of Options

Options will normally be granted within the period of 42 days commencing on the day after any of the following:

- (A) the date on which the Company releases its half-yearly or annual results; or
- (B) the date on which the plan is adopted.

Options can also be granted during the period of 14 days immediately after a person becomes an eligible person for the purposes of the plan.

If the Remuneration Committee of the Board considers that there are exceptional circumstances, options may be granted outside these periods.

The Remuneration Committee of the Board may also require an objective performance condition to be satisfied before an option may be exercised. The Remuneration Committee of the Board can waive or amend these conditions if they think they are no longer appropriate.

An option granted under the plan may not be transferred, assigned, charged or alienated other than to the eligible employee's personal representative on death. Any other transfer, assignment, charge, disposal or dealing with the rights and interest of the option will make the option lapse immediately.

Limits on the issue of new shares

The plan is subject to the following limits on the overall number of Ordinary Shares which may be issued:

- (A) in any 10 year period, not more than 10% of the issued Ordinary Share capital of the Company may in aggregate be placed under option under the plan and any other share option plan adopted by the Company; and
- (B) in any 10 year period, not more than 10% of the issued Ordinary Share capital of the Company may in aggregate be placed under option under the plan and any other executive share incentive plan,

in both cases taking into account the potential effect of any long-term cash bonus awards granted pursuant to the LTIP Plan or otherwise.

Exercise of Option

Normally, options may be exercised after three years and within 10 years of their initial date of grant and then to the extent only that the performance conditions are met. If an optionholder ceases to be an employee in certain circumstances including death, retirement, redundancy, injury or disability, the option may be exercisable within a specified period from the date of the event causing such termination of employment to the extent that conditions of exercise have been satisfied. The Remuneration Committee of the Board also has discretion to allow the options to be exercised on cessation of employment in other circumstances to the extent that any performance condition has been satisfied. Options may be exercised on a change of control in the Company to the extent determined by the Remuneration Committee of the Board, having regard to which performance conditions are satisfied and the portion of the vesting period which has elapsed.

Adjustments

Following an adjustment of the share capital of the Company, the Remuneration Committee of the Board may adjust the number of Ordinary Shares under the option and/or the option exercise price.

Proposed business of the Annual General Meeting

continued

National Insurance Contributions

If required by the Company, the optionholder must enter into an election to bear the liability to employers' national insurance contributions arising in relation to exercise of options.

Amendment to the Plan

The Remuneration Committee of the Board may at any time amend the rules of the EMI plan provided that if such amendment is to the advantage of the optionholder it must be approved by the Company in general meeting, unless such alteration is minor and to benefit the administration of the EMI plan or take account of changes to legislation or maintain favourable taxation.

(b) The Island Gas Resources plc 2009 Long-Term Incentive Plan (the "LTIP")

The LTIP is designed to be a long-term incentive plan under which the Company may make awards based on meeting of the performance criteria and on the condition of exit of the Company and is awarded to the individual. The value received by the individuals will be based on a percentage of the exit value. The LTIP will be administered by the Remuneration Committee of the Board and it also gives the possibility for an employee benefit trust to make and/or satisfy the award.

Eligibility

Awards may be given to all eligible employees of the Company, as selected by the Remuneration Committee of the Board.

Grant of Awards

The awards are conditional on exit of the Company and then only upon satisfaction of performance conditions during the measurement period. Awards may take the form of cash bonuses at the discretion of the Remuneration Committee of the Board.

Limits on the Awards

In any 10 year period, the number of shares which may be issued or issuable under the LTIP and any other share plan must not exceed 10% of the Company's issued share capital. The Remuneration Committee of the Board will also take account of the comparative value of any cash bonus awards in determining these thresholds.

Satisfaction of Awards

On exit, the LTIP awards will be awarded and on the condition that performance criteria have been satisfied.

Tax Liability

The participant will be responsible for any income tax and employee's national insurance arising on the awards. In addition, it is the intention to transfer the employers' national insurance liability in respect of the awards to the participants.

Termination of Employment

If a participant ceases to hold office or employment with the Company and is considered a "good leaver" in accordance with the LTIP rules, then the Remuneration Committee of the Board shall have the discretion as to whether and to what extent the award vests. In cases where the participant is a "bad leaver" or the Remuneration Committee of the Board do not exercise their discretion, the award will lapse.

Amendments to the LTIP

The Remuneration Committee of the Board may at any time amend the rules of the LTIP provided that if such amendment is to the advantage of the participant it must be approved by the Company in general meeting, unless such alteration is minor and to benefit the administration of the LTIP or take account of changes to legislation or maintain favourable taxation for the Company.

Action to be Taken

A Form of Proxy for use at the Annual General Meeting is enclosed. If you are a Shareholder you are advised to complete and return the form in accordance with the instructions printed on it so as to arrive at the Company's registrars, Computershare Investor Services plc, The Pavilions, Bridgewater Road, Bristol BS1 8AE, as soon as possible, but in any event no later than 10:00am on Wednesday 8 July 2009.

Recommendation

The Directors consider the Resolutions to be proposed at the Annual General Meeting to be in the best interests of the Company and its Shareholders. Accordingly, the Directors unanimously recommend Shareholders to vote in favour of all the Resolutions, as they intend to do in respect of their own beneficial holdings.

Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting of Island Gas Resources plc will be held at the offices of Kreab & Gavin Anderson and Company, 85 The Strand, London, WC2R 0DW for 10:00 am on Friday 10 July 2009, to consider, and if thought fit, pass the following resolutions of which resolutions 1–7 and 11 will be proposed as ordinary resolutions and resolutions 8–10 will be proposed as special resolutions.

Ordinary Business

1. To receive and adopt the Company's Annual Report and Accounts for the financial year ended 31 December 2008 and the Directors' Report, and the Independent Auditors' Report on those accounts.
2. To receive and approve the Remuneration Report of the Directors for the financial year ended on 31 December 2008 and the Independent Auditors' Report on the auditable part of the Remuneration Report.
3. To reappoint as a Director, Andrew Austin, who is retiring by rotation in accordance with the Company's Articles of Association and who being eligible is offering himself for reappointment.
4. To reappoint as a Director, Peter Redmond, who is retiring by rotation in accordance with the Company's Articles of Association and who being eligible is offering himself for reappointment.
5. To reappoint Ernst & Young LLP as auditors of the Company from the conclusion of this Meeting until the conclusion of the next annual general meeting of the Company at which accounts are laid.
6. To authorise the Directors to determine the remuneration of the auditors.

Special Business

7. That, in substitution for all existing authorities for the allotment of shares by the Directors, which are hereby revoked but without prejudice to any allotment, offer or agreement already made pursuant thereto, the Directors of the Company be and are hereby generally and unconditionally authorised, pursuant to section 80 of the Companies Act 1985 (the "1985 Act") to exercise all the powers of the Company to:
 - (A) allot relevant securities (within the meaning of that section) up to an aggregate nominal amount of £10,388,273; and
 - (B) allot equity securities (within the meaning of Section 94(2) of the Act) up to an aggregate nominal amount of £10,388,273 in connection with a rights issue, which satisfies the conditions and may be subject to all or any of the exclusions specified in paragraph (B)(1) of the next following resolution

in each case for a period expiring (unless previously renewed, varied or revoked by the Company in general meeting) 15 months after the date of the passing of this resolution or at the conclusion of the next Annual General Meeting of the Company following the passing of this resolution, whichever occurs first, provided that the Company may before such expiry, variation or revocation make an offer or agreement which would or might require such relevant or equity securities to be allotted after such expiry, variation or revocation and the Directors may allot relevant or equity securities pursuant to such an offer or agreement as if the authority conferred hereby had not expired or been varied or revoked.

8. That, subject to and conditionally upon the passing of resolution No 7, the Directors are hereby empowered pursuant to section 95 of the 1985 Act to allot equity securities (as defined by section 94(2) of the 1985 Act) for cash pursuant to the authority conferred by resolution No 7 as if section 89(1) of the 1985 Act did not apply to any such allotment provided that such power:
 - (A) shall, subject to the continuance of the authority conferred by resolution No 7, expire fifteen months after the passing of this resolution or at the conclusion of the next Annual General Meeting of the Company following the passing of this resolution, whichever occurs first, but may be previously revoked or varied from time to time by Special Resolution but so that the Company may before such expiry, revocation or variation make an offer or agreement which would or might require equity securities to be allotted after such expiry, revocation or variation and the Directors may allot equity securities in pursuance of such offer or agreement as if such power had not expired or been revoked or varied; and
 - (B) shall be limited to:
 - (1) the allotment of equity securities of up to an aggregate nominal amount of £10,388,273 pursuant to a rights issue, open offer, scrip dividend scheme or other pre-emptive offer or scheme which is in each case in favour of holders of Ordinary Shares and any other persons who are entitled to participate in such issue, offer or scheme where the equity securities offered to each such holder and other person are proportionate (as nearly as may be) to the respective numbers of Ordinary Shares held or deemed to be held by them for the purposes of their inclusion in such issue, offer or scheme on the record date applicable thereto, but subject to such exclusions or other arrangements as the Directors may deem fit or expedient to deal with fractional entitlements, legal or practical problems under the laws of any overseas territory, the requirements of any regulatory body or stock exchange in any territory, shares being represented by depositary receipts, directions from any holders of shares or other persons to deal in some other manner with their respective entitlements or any other matter whatever which the Directors consider to require such exclusions or other arrangements with the ability for the Directors to allot equity securities and sell relevant shares not taken up to any person as they may think fit; and
 - (2) the allotment of equity securities for cash otherwise than pursuant to sub-paragraph (a) up to an aggregate maximum nominal amount of £4,674,723.

Notice of Annual General Meeting continued

9. That Article 26 of the Articles of Association of the Company be deleted and replaced with the following article:

26. Notices of general meetings

- 26.1 An annual general meeting shall be called by not less than 21 clear days' notice in writing. A general meeting other than an Annual General Meeting shall be called by not less than 14 clear days' notice in writing. The notice shall specify the place, date and time of Meeting and the general nature of that business, and there shall appear with reasonable prominence in every such notice a statement that a Member entitled to attend and vote is entitled to appoint one or more proxies to attend, speak and vote instead of him, provided that if he appoints more than one proxy each is appointed to exercise the rights attaching to a different share or shares held by him, and that a proxy need not be a Member of the Company. Where satellite meeting places are to be provided in accordance with Article 27.6 the notice shall specify such places. The notice convening an Annual General Meeting shall specify the meeting as such, and the notice convening a meeting to pass a special resolution shall specify the intention to propose the resolution as a special resolution as the case may be and proposals relating substantially dissimilar matters shall be included as separate resolutions. Subject to the provisions of the Companies Acts, notice of every general meeting shall be given in manner specified in Article 55 to all Members other than such as under the provisions of these Articles or the terms of issue of the shares they hold are not entitled to receive such notices from the Company, to all persons entitled to a share by reason of the death or bankruptcy of a Member or otherwise by operation of law, to all Directors and also to the Auditors. No notice need be given to the Company in respect of any shares held by it in treasury. In the case of shares which can be transferred using a Relevant System, the Company may, as provided in the 2001 Regulations, determine to give notice to Members on the relevant register of securities at the close of business on a day decided by the Company, not being more than 21 days prior to the day on which the notices are despatched. All other provisions of the 2001 Regulations which relate to the rights of shareholders to attend meetings shall also apply.
- 26.2 Notwithstanding that a general meeting of the Company is called by shorter notice than that specified in Article 26.1, it shall be deemed to have been duly called if it is so agreed:
- (A) in the case of a meeting called as an annual general meeting, by all the Members entitled to attend and vote thereat; and
 - (B) in the case of any other general meeting, by a majority in number of the Members entitled to attend and vote thereat, being a majority together holding not less than 95 per cent. by nominal value of the shares giving that right.
- 26.3 The accidental omission to give notice of a meeting or send any other notice or circular relating thereto or (in cases where instruments of proxy are sent out with the notice) the accidental omission to send such instrument of proxy to, or the non-receipt of notice of a meeting or other notice or circular relating thereto or such instrument of proxy by any person entitled to receive such notice shall not invalidate the proceedings at that meeting.
- 26.4 If the Board, in its absolute discretion, considers that it is impractical or undesirable for any reason to hold a general meeting on the date or at the time or place specified in the notice calling the general meeting, or on the date or at the time or place to which the general meeting has been postponed under this Article 26.4, or adjourned, it may postpone the meeting to another date, time or place. When a meeting is postponed for 30 days or more not less than seven days' notice of the postponed meeting shall be given in like manner as in the case of the original meeting. Otherwise, when a meeting is postponed, notice of the date time and place of the postponed meeting shall be placed in at least two national newspapers circulating throughout the United Kingdom; save as aforesaid, it shall not be necessary to give any notice of the business to be transacted at such postponed meeting. The arrangements made by the Board under Article 27.1 for such general meeting shall, unless varied, apply to the postponed meeting.

10. That Article 55 of the Articles of Association of the Company be deleted and replaced with the following article:

55. Service of notices and other documents

- 55.1 Subject to Article 55.2 (in relation to websites) and to Articles 55.3, 55.4, 55.5, and 55.6 any notice or other document may be served on or delivered to any Member by any of the methods and in the manner in relation to each which are specified in schedule 5 to the 2006 Act. A notice or other document need not be served or delivered to all Members in the same manner.
- 55.2 Where a notice or other document is to be given by being placed on a website as permitted by Article 55.1, it shall be deemed to be duly served on a member where:
- (A) the Company has first given notice to the Member in the manner required by Article 55.1 (but not including by means of a website) of its intention to serve notices on other documents in that manner, either in relation to all future notices or other documents or in relation to a particular notice or other document;

- (B) the Member has agreed to receive notices or other documents by their being placed on a website as specified in the notice referred to in Article 55.2(A) or is deemed to have so agreed by virtue of his failure to respond to such notice within 28 days of its being sent and the member has not subsequently revoked his agreement or deemed agreement; and
- (C) the Company has, in like manner as is specified in Article 55.2(A), notified the Member of the presence of the notice or other document on the website, the place on the website where the same may be accessed and details of how to access the same on the website.

- 55.3 Any Member described in the Register by an address not within the United Kingdom who shall, from time to time, give to the Company a postal address within the United Kingdom at which notices may be served upon him shall be entitled to have notices served upon him, otherwise than by Electronic Communications or by placement on a website, at such address but, save as aforesaid, no Member other than a Member described in the Register by an address within the United Kingdom shall be entitled to receive any notice from the Company.
- 55.4 Any such notice or other document, if sent by first class post, shall be deemed to have been served or delivered 48 hours after it was put in the post and in proving such service or delivery it shall be sufficient to prove that the notice or document was properly addressed, prepaid and put in the post. Proof that a notice or other document contained in an Electronic Communication was sent in accordance with guidance issued by the Institute of Chartered Secretaries and Administrators shall be conclusive evidence that the notice or other document was given or sent. Any notice or other document delivered or left at a registered address otherwise than by post shall be deemed to have been served or delivered on the day it was so delivered or left. Any notice or other document contained in an Electronic Communication shall be deemed to have been delivered at the expiration of 48 hours after it was sent except that a notification of availability of a notice or other document on a website shall be deemed to be delivered when it is sent. A notice or other document placed on a website in accordance with Article 55.2 shall be deemed to have been served on the date on which notification of the presence of the same on the website was served or deemed to be served on the member concerned or, if later, the date on which the notice or other document first appears on the website.
- 55.5 Any notice or other document delivered or sent by post to or left at the registered address of any Member or which is given by using Electronic Communications or placement on a website in pursuance of these Articles shall, notwithstanding that such Member is then dead or bankrupt or that any other event has occurred, and whether or not the Company has notice of the death or bankruptcy or other event, be deemed to have been duly served or delivered in respect of any share registered in the name of such Member as sole or joint holder unless his name shall, at the time of the service or delivery of the notice or document, have been removed from the Register as the holder of the share. Such service or delivery shall for all purposes be deemed a sufficient service or delivery of such notice or document on all persons interested (whether jointly with or as claiming through or under him) in the share.
- 55.6 If at any time by reason of the suspension or curtailment of postal services within the United Kingdom, the Company is unable effectively to convene a general meeting by notices sent through the post, a general meeting may be convened by a notice advertised on the same day in at least two leading national daily newspapers and such notice shall be deemed to have been duly served on all Members entitled thereto at noon on the day when the advertisement appears. In any such case the Company shall send confirmatory copies of the notice by post if at least seven days before the meeting if the posting of notices to addresses throughout the United Kingdom again becomes practicable.
- 55.7 Any summons, notice, order or other document required to be sent to or served upon the Company, or upon any officer of the Company, whether by a Member or otherwise, may be sent or served by any of the methods and in the manner in relation to each which are specified in schedule 4 to the 2006 Act.
- 55.8 Any notice or other document may be served or delivered by the Company by reference to the Register as it stands at any time not more than 21 days before the date of dispatch by the Company. No change in the Register after that time shall invalidate that service or delivery. Where any notice or other document is served on, or delivered to, any person in respect of a share in accordance with these Articles, no person deriving any title or interest in that share shall be entitled to any further service or delivery of that notice or document and shall be bound by such notice or document.
- 55.9 Nothing in any of the preceding Articles shall affect any requirement of the Companies Acts that any particular offer, notice or other document be served in any particular manner.

and that the words "but not including the placing of a document on a website" be deleted in their entirety from the definition of "Electronic Communication" set out in Article 2 of the Articles of Association.

Notice of Annual General Meeting continued

11. That the share incentive schemes comprising the Island Gas Resources plc 2009 EMI Share Option Plan and the Island Gas Resources plc 2009 Long-Term Incentive Plan (together the "Share Plans"), copies of which are now produced to the Meeting and initialled by the Chairman for the purposes of identification, be approved and adopted by shareholders subject to the Remuneration Committee of the Board having discretion to make such minor amendments to the rules of the Share Plans as they see fit.

11 June 2009

By Order of the Board

MoFo Secretaries Limited

International House
1-6 Yarmouth Street
London W1J 7BU
Registered in England & Wales
Company No: 04981279

Notes

- (1) A Shareholder entitled to attend and vote at the meeting is also entitled to appoint one or more proxies to attend, speak and vote on a show of hands and on a poll instead of him or her. A proxy need not be a member of the Company. Where a Shareholder appoints more than one proxy, each proxy must be appointed in respect of different shares comprised in his or her shareholding which must be identified on the proxy form. Each such proxy will have the right to vote on a poll in respect of the number of votes attaching to the number of shares in respect of which the proxy has been appointed. Where more than one joint Shareholder purports to appoint a proxy in respect of the same shares, only the appointment by the most senior Shareholder will be accepted as determined by the order in which their names appear in the Company's register of members. If you wish your proxy to speak at the meeting, you should appoint a proxy other than the chairman of the meeting and give your instructions to that proxy.
- (2) To be effective an instrument appointing a proxy and any authority under which it is executed (or a notarially certified copy of such authority) must be deposited at the offices of Computershare Investor Services plc, at The Pavilions, Bridgwater Road, Bristol BS13 8AE not later than 10:00 am on Wednesday 8 July 2009 except that, (a) should the meeting be adjourned, such deposit may be made not later than 48 hours before the time of the adjourned meeting and (b) in the case of a poll taken more than 48 hours after it was demanded, such deposit may be made not later than 24 hours before the time appointed for the taking of the poll. A Form of Proxy is enclosed with this notice. Shareholders who intend to appoint more than one proxy can obtain additional Forms of Proxy from Computershare Investor Services plc. Alternatively, the form provided may be photocopied prior to completion. The Forms of Proxy should be returned in the same envelope and each should indicate that it is one of more than one appointments being made. Completion and return of the Form of Proxy will not preclude Shareholders from attending and voting in person at the meeting.
- (3) An abstention (or "vote withheld") option has been included on the Form of Proxy. The legal effect of choosing the abstention option on any resolution is that the shareholder concerned will be treated as not having voted on the relevant resolution. The number of votes in respect of which there are abstentions will however be counted and recorded, but disregarded in calculating the number of votes for or against each resolution.
- (4) In accordance with Regulation 41 of the Uncertificated Securities Regulations 2001, the Company specifies that only those Shareholders registered in the register of members of the Company as at 10:00 am on Wednesday 8 July 2009 or, in the event that the meeting is adjourned, in such register not later than 48 hours before the time of the adjourned meeting, shall be entitled to attend, or vote (whether in person or by proxy) at the meeting in respect of the number of shares registered in their names at the relevant time. Changes after the relevant time will be disregarded in determining the rights of any person to attend or vote at the meeting.
- (5) In order to facilitate voting by corporate representatives at the meeting, arrangements will be put in place at the meeting so that (i) if a corporate shareholder has appointed the Chairman of the meeting as its corporate representative with instructions to vote on a poll in accordance with the directions of all the other corporate representatives for that shareholder at the meeting who have been appointed in respect of different parts of the holding of that corporate shareholder then on a poll those corporate representatives will give voting directions to the Chairman and the Chairman will vote (or withhold a vote) in respect of each different part of the shareholding as corporate representative in accordance with the directions he has received from such corporate representatives in relation to the respective parts of the shareholding in respect of which they are each appointed or (ii) if more than one corporate representative for the same corporate shareholder attends the meeting but the corporate shareholder has not appointed the Chairman of the meeting as its corporate representative, a designated corporate representative will be nominated, from those corporate representatives who attend, who will vote on a poll in accordance with the directions he receives from the other corporate representatives in respect of the parts of the corporate shareholders shareholding in respect of which such corporate representatives have each been appointed. Corporate shareholders are referred to the guidance issued by the Institute of Chartered Secretaries and Administrators on proxies and corporate representatives – www.icsa.org.uk – for further details of this procedure. The guidance includes a sample form of representation letter if the Chairman is being appointed as described in (i) above.

Notes

Notes

General information

Directors

F R Gugen – Chairman
A P Austin – Chief Executive Officer
B Cheshire – Executive Technical Director
R J Armstrong – Non-Executive
J Bryant – Non-Executive
P Redmond – Non-Executive

Company Secretary

Mofo Secretaries Limited
Citypoint
One Ropemaker Street
London EC2Y 9AW

Nominated Adviser and Broker

Cenkos Securities Plc
6.7.8 Tokenhouse Yard
London EC2R 7AS

Registrars

Computershare Investor Services plc
The Pavilions
Bridgwater Road
Bristol BS13 8AE

Auditors

Ernst & Young LLP
1 More London Place
London SE1 2AF

Bankers

HSBC
3rd Floor, HSBC Floor
Mitchell Way
Eastleigh
Hampshire SO18 2XU

Copies of Reports and Accounts

Further copies of this Annual report and accounts can be obtained from the Registered Office of Island Gas Resources plc (IGas).



AIM Ticker
IGAS

Company Number
04981279

Registered Office
International House
1–6 Yarmouth Place
London W1J 7BU

+44 207 993 9899
www.igasplc.com

Financial Public Relations
Kreab & Gavin Anderson and Company
85 Strand
London WC2R 0DW