

IGas
Energy

Delivering secure gas, onshore



IGas Energy plc
Annual Report and
Accounts 2010

Focused on delivering commercial production.

- / 100% ownership and operatorship
- / Resources more than doubled
- / Funds in place for accelerated drilling programme
- / Team in place to deliver

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/ Our highlights

Strategic

/ Gained control

- > Secured 100% ownership of assets and operatorship through acquisition of Nexen Exploration UK Ltd

/ Secured funding

- > Completed fundraising to ensure cash resources in place for accelerated drilling programme

/ Built execution capability

- > Substantial increase in personnel
- > Investment in rig capacity through Meehan Drilling JV

Operational

/ HSESQS

- > OSPAR accreditation achieved

/ Exploration and appraisal

- > DECC approval for License extension at Point of Ayr
- > Planning in place for two additional sites

/ Development Plans

- > Established generic production site plan
- > FEED study for full production facilities on-going

/ Pilot Production

- > Continued at Doe Green with 94% up-time 2H 2010
- > 2nd pilot site completed at Keele, work over under evaluation

/ Resources

- > Initial evaluation of shale potential at up to 4.6tcf

Financial

- > Revenue – £656k (2009 £828k)

- > Operating Loss – £1,713k (2009 £515k loss)

- > Loss for the year – £1,543k (2009 £504k loss)

/ Cash

- > £12.08m at 31 December 2010 (2009 £17.5m)
- > Capital raise in February 2011 of £20.6m gross
- > £30.6m at 30 April 2011



/ At a glance

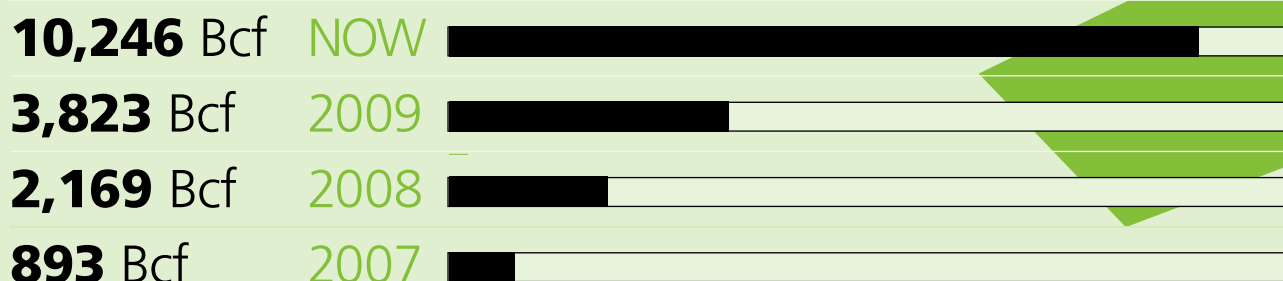
IGas' unique position offers more than 1.7Tcf (290 MMboe) of technically recoverable gas with customers on our doorstep

24,106 Bcf
GIIP (high-case including shale)

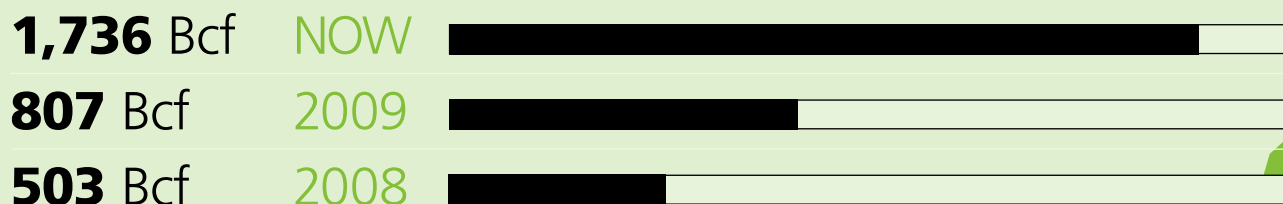
1,736 Bcf
Contingent recoverable resource (P50)

432,000 acres
Areal extent of licensed areas

GIIP (mid-case)



Contingent recoverable resource (P50)



4. Drax

1. Northwest

3. Point of Ayr

2. Swallowcroft

Regional focus

1. Northwest

PEDL 145, PEDL 116, PEDL 184,
PEDL 190, PEDL 193

Areal extent

784 km²

Net risked

GIIP Range Low – 2,096 Bcf,
Mid – 3,616 Bcf, High – 8,694 Bcf

Wells drilled

Three wells (2007(2), 2008)

Wells on production test

Doe Green

Permitted sites

Six

2011 plans

New wells at Doe Green, Barton,
Ellesmere Port and Ince Marshes

2. Swallowcroft

PEDL 40-1 and 56-1, PEDL 78-1,
PEDL 78-2, PEDL 115-1, PEDL 115-2

Areal extent

463 km²

Net risked

GIIP Range Low – 1,266 Bcf,
Mid – 2,769 Bcf, High – 5,370 Bcf

Wells drilled

Three wells (2008(2), 2010)

Wells on production test

Keele

Permitted sites

Two

2011 plans

Potential work over of KP-1
Potential drilling of KP-2

3. Point of Ayr

PEDL 107, SPL 1481 (110/18,
110/19, 110/23)

Areal extent

211 km²

Net risked

GIIP Range Low – 1,410 Bcf,
Mid – 2,070 Bcf, High – 4,261 Bcf

Wells drilled

One well (2007)

Wells on production test

None

Permitted sites

On-going

2011 plans

Commence work on pilot
production site

4. Drax

PEDL 92-1

Areal extent

200 km²

Net risked

GIIP Range Low – 383 Bcf,
Mid – 652 Bcf, High – 1,134 Bcf

Wells drilled

One well (2007)

Wells on production test

None

Permitted sites

None

2011 plans

Evaluate options

/ Chairman's statement



Francis Gugen
Non-Executive Chairman

We have now completed the important step of taking control of day to day operations by acquiring Nexen Exploration UK Ltd, a transaction that closed on 9 March 2011. As a consequence IGas is now 100% owner and operator of all of its assets and Nexen is a 24.77% shareholder in IGas.

In March 2011 we took the opportunity to strengthen our capital base. Following the acquisition of Nexen Exploration we placed 27.5 million shares for gross proceeds of £20.6 million. In doing so we have also widened our institutional shareholder base.

These measures, being the increased asset base, the control afforded by operatorship and the additional funding, when taken together, put IGas in a strong position to pursue aggressively its primary goal, to demonstrate commercial production. To support this goal we have been recruiting a wider team and developing arrangements with key suppliers. We now have in-house capability supplemented by arrangements with quality service and equipment providers

Looking at the wider energy market in the UK we have been seeing rising prices for gas and electricity and an increasing focus on security of supply. Against this backdrop, IGas' portfolio of domestic assets, close to customers and distribution networks, is uniquely positioned. Security of supply is a growing political issue in the UK and it is my view that gas fired power generation will be an increasingly material part of the mix. With a growing demand for gas and the UK increasingly relying on importing gas, the benefits of supplying local gas to local consumers, via existing infrastructure, are considerable. Our gas also has a lower carbon footprint as it does not suffer the high environmental penalty that comes from transporting gas over long distances.

2011 and beyond will see us concentrating on delivering secure gas onshore, commercially, using the assets, the team, the control and the funds that have now been put in place.

I would like to thank the whole IGas team for having brought the Company to the point of being able to now focus on demonstrating commercial production. I would also like to thank Brent Cheshire one of the founders who is now retiring from the Board but will continue his involvement as an advisor to the Company.



Francis Gugen
Non-Executive Chairman



/ CEO's report



Andrew Austin
Chief Executive Officer

Since our last annual report, the most important change in our business has been the acquisition of Nexen Exploration Ltd and the consequential assumption of operatorship and 100% ownership of all of our assets. This highly accretive deal has increased our 2C contingent resource from 893bcf to 1,736bcf.

Our financial results show an expected drop in revenue and an increase in our operating loss. The majority of our revenue since 2006 had resulted from a Management Services Agreement with Nexen, which expired at the end of 2009, though in the financial year under review we continued to generate revenues from Nexen for a range of services. In 2011 with the acquisition of Nexen Exploration Ltd we will, by definition, see a significant drop in revenue as these services will now all be in-house.

The acquisition of Nexen Exploration Ltd transforms our business. During 2010 we were already building the team and capacity to ensure we are able to deliver on our plans to demonstrate commercial production in 2011. To this end we recruited a team that has skills in drilling and completions, geology, and reservoir engineering, as well as land experts and facilities specialists; while additional knowledge and expertise is available via our secondment agreement with Nexen Petroleum. In addition to this, we have a close knit team of contractors who work with our staff and assist in the execution of our plans. We are also in the process of establishing a joint venture with an Irish drilling contractor, Meehan Drilling, whereby we will jointly own drilling equipment and IGas will have preferential access to drilling capacity. The rig we are using is a Schramm TXD 200 which is a design of rig which has been extensively used in North America for drilling for unconventional gas.

As part of this transaction we have managed to secure ancillary equipment such as mud pumps, mud tanks, shakers and blow out preventers in continental Europe and this equipment is now being assembled in Market Rasen (Lincolnshire) in advance of beginning drilling operations in the second half of 2011. We are also signing up a second rig, the BDF Rig 28 for a four well programme. This is a rig and crew that we have worked successfully with before and look forward to working with again in our programme this year.



Our operations at Doe green continue with a very encouraging 94% uptime in the second half of 2010, despite some very challenging weather conditions. We have also seen a significant increase in the price we are receiving for the electricity we are generating at the site though this will not have a material effect on our revenue since this is still a pilot production site. This has gone from £36 per megawatt hour in the summer of 2010 to a rate of £58 per megawatt hour this year. This translates into an effective gas price of \$11.00 per mcf. Our ability to achieve high prices for our gas is a consequence of our proximity to the grid and customers which remains one of our key strengths. We are looking to drill two additional wells at Doe Green in the coming months. This will involve drilling a lateral and branches off that lateral into a different seam from that which is the source of the production at DG2z. Following site works which will begin shortly, where we will set two cellars and conductors, we will be upgrading the production facilities to deal with the increased production we expect from the site.

We will shortly be commencing ground works at our site at Barton having complied with planning conditions. This site within PEDL 193 is one of the sites that we have access to under our framework agreement with the Peel estate. Here we plan to initially drill two wells with lateral sections in the coals.

Site preparation will also begin shortly at both Ince Marshes and Ellesmere Port in PEDLs 190 and 184 respectively. We are looking to initially drill a single well on each site, which we will log and core in advance of committing to further drilling. At each site, however, we will ensure that the site construction and well configuration allows us the option to convert these exploration wells into production.

We drilled a pilot production well at Keele in July 2010 and put it into production test in September of last year. We have been de-watering and producing some gas from this test. While there have been some mechanical issues to overcome, which we believe have considerably constrained the productive section of the coal, we remain encouraged by the quality of the coal and are planning a work-over to re-enter the well. As part of this process, we are also considering drilling a second well at the site.

At Point of Ayr we had identified a suitable brown field site but unfortunately were unable to agree access terms with the owner of the business occupying the site. However, we continue to work with local landowners to secure access to a suitable site and have a number of negotiations on-going. In recognition of the difficulties we encountered, we have been granted an extension by DECC on the first term of this licence and now have until March 2012 to fulfill the obligation. We are also now considering drilling this obligation

well from offshore which will reduce the technical complexity of the well. A decision on this will be made before the end of 2011.

Finally I would like to thank all of the team at IGas, staff, contractors, the board and advisors for their hard work throughout 2010, particularly in delivering the acquisition of Nexen Exploration. I am confident we have the right people, skills and relationships in place to operate our first commercial sites and to deliver secure gas, onshore.



Andrew Austin
Chief Executive Officer

/ Corporate Social Responsibility report



Places and Environment

IGas has obtained permission to drill twenty-five wells at fourteen sites. To date we have drilled nine wells and have reinstated five sites. In all locations our objectives are to have as minimal impact as possible while operating and to leave the environment as we found it. To this end we have developed site construction techniques and practices that ensure our ability to deliver on this promise. Groundwater management and aquifer protection are always at the core of our site construction and well plans. Above are some images from our activities at Doe Green in Cheshire, showing our tree planting schemes, our ground water monitoring system and the hedges we are cultivating from natural indigenous species. In total we have now planted 460 trees, 75 Oaks, 50 Ash, 25 Birch, 110 Field Maple, 100 Hazel and 100 Willow as well as more than 5,000 indigenous hedging plants.

We have also now established community liaison groups in areas where we are looking to establish production sites. As part of the permitting and well planning process we engage with groups including the Environment Agency, local and parish councils, the Countryside Commission of Wales, English Nature and many others. In all locations, whether we are only on site for a short period for an appraisal well or on sites where we will be producing for many years, our priority is to be a good neighbour and contribute to the environmental development of the area.

People, Health and Safety

Our people and our neighbours are central to our business, without the contribution of our staff and contractors and the support of the communities in which we operate we would be unable to deliver.

Providing healthy and safe working conditions for our employees and contractors is vital to our success. We have now instigated a Company Management System, which is there to ensure that all the activities we undertake are done so safely and with a minimal impact on the environment in which we operate. A summary of the principles and objectives of the system are given in the extract opposite.

In March 2011 IGas was awarded OSPAR accreditation which means that we have in place systems audited and acceptable to DECC and the HSE to operate both on-shore and offshore in the UK. We intend to apply for both ISO14001 (environment) and ISO9001 (quality) certification in the course of 2011; as a further step in demonstrating our commitment to Health, Safety, Environment, Social, Quality and Security performance.



IGAS ENERGY PLC HSESQS POLICY STATEMENT

IGas Energy Plc produces and markets domestic sources of gas from unconventional sources such as coal bed methane (CBM) and shales. IGas is committed to conducting its business in a way that ensures the minimisation of risks to Health, Safety, Environment, Social, Quality and Security performance. IGas will manage risks through compliance with the company Management System (MS), which will be reviewed and improved to ensure continued effectiveness. The MS enables IGas activities and services to comply with agreed company principles, these being:

GENERAL PRINCIPLES:

- > Maintain the MS, seeking continual improvement.
- > Measure the effectiveness of the MS, in order to monitor and meet progression towards targets.
- > Comply with all applicable requirements including regulations, legislation, permits, codes of practice, contract terms, and stakeholder expectations.
- > Engage with stakeholders, proactively communicating and addressing concerns.

ENVIRONMENT, HEALTH AND SAFETY MANAGEMENT PRINCIPLES:

- > Regularly seek out and review Environment, Health and Safety risks so that potential hazards are identified at an early stage and mitigated where necessary.
- > Implement Elements, Standards, Work Instructions, Guidance and other process requirements to ensure that EHS risks from projects, offices, facilities and functions are controlled.
- > Prevent pollution by the appropriate storage, transfer, handling, disposal and use of materials.
- > Ensure continual improvement by setting and meeting performance objectives and targets.
- > Ensure staff and contractors meet the IGas expectations for EHS practices, conducting operations in a safe, healthy and environmentally sensitive manner.

QUALITY MANAGEMENT PRINCIPLES:

- > Establish improvement objectives, and monitor performance and progress towards these objectives to ensure the desired quality is achieved and retained.
- > Check that staff and contractors are competent to a level that allows them to meet the required standards.

SECURITY MANAGEMENT PRINCIPLES:

- > Encourage a culture that promotes security as everyone's responsibility to minimise risk to/from employees, business functions, projects, contractors, suppliers and other stakeholders.
- > Implement measures under the MS that will minimise and control security risks including threats to data and information, personnel, company reputation and physical assets.

IGas Energy plc will encourage compliance with this Policy through the operation of the MS. Non-conformances will be identified and corrected. The requirements of the MS will be communicated widely so that all staff and contractors are aware of it and thus able to conform.

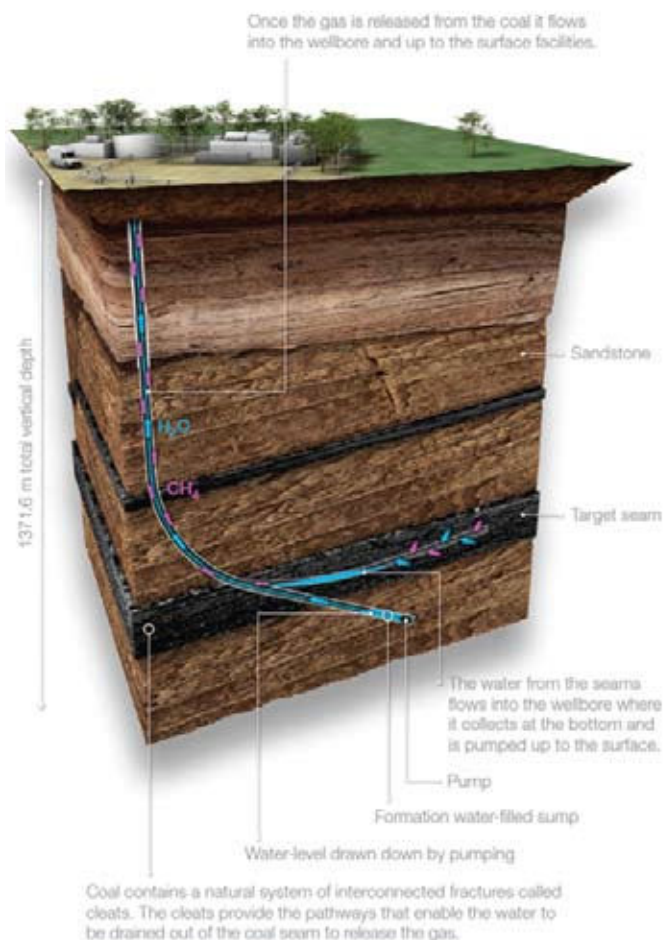
Signed

John M. Blayney

COO IGas Energy plc

Date

24 MARCH 2011



AQUIFER PROTECTION



/ Directors

1. Francis Gugen

Non-Executive Chairman

Francis is a founder and Non-Executive Chairman and has over 30 year's oil and gas industry experience. Between 1982 and 2000 he helped grow Amerada Hess in North West Europe, ultimately becoming CEO. Currently he is also non-executive chairman of Petroleum Geophysical Services ASA, of Chrysaor Limited and of CEOC Limited; and a board member of SBM offshore NV all involved in conventional oil and gas. Until 2006 he served as non-executive chairman of North Sea gas fields and pipelines operator CH4 Energy Limited before it was acquired in 2006 by Venture Petroleum Plc. He is a member of the CBI's Economic Affairs Committee, past president of the UK Offshore Operators Association, past chair of the industries representation on the UK Government Oil & Gas Task Force (Pilot) and past 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.

2. John Bryant

Senior Independent

Non-Executive Director

John is the Chairman of AIM listed Weatherly International plc. He was until recently 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.

3. 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 for the last four years has been CEO with full time responsibility for day to day operations and business development. Prior to joining IGas Andrew has been involved in ventures as principal and has also raised substantial funds from 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.

4. John Blaymires

Chief Operating Officer

John has 27 years of international experience in the oil and gas industry gained with the Hess Corporation and Shell International. Before joining IGas he was director of Technology Development for Hess based in Houston, where he helped develop a global engineering and geoscience technology group responsible for providing support across the E&P (exploration and production) business, from deepwater to unconventional resources. Prior to that John was Technical Director for Hess' operations in West Africa, and subsequently South East Asia with responsibility for several major oil and gas developments. John has a BSc and PhD in Mining Engineering from Leeds University.

5. John Hamilton

Non-Executive Director

John is the Managing Director of Levine Capital Management Advisors Limited, a UK incorporated company and Interim Chairman of President Petroleum Corporation Plc. John was previously the Group Finance Director of Imperial Energy Corporation Plc. Prior to joining Imperial Energy, John held senior positions at ABN AMRO.

6. 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, such as Weatherly International plc and Artium plc. In most cases, he has joined the Board of these companies and has played a major role in helping them to acquire or establish operating businesses. He is currently a Director of a number of unquoted companies.



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 two Executive Directors and four Non-Executive Directors; with Mr Armstrong and Mr Bryant being considered to be independent. The Senior Independent Non-Executive Director is John Bryant and biographies of all the Directors are included on page 10.

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 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 John Hamilton. 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 John Hamilton. 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 are 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 is 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.

UK Bribery Act

IGas is aware of the draft legislation for the Bribery Act and is ensuring that it has in place appropriate policies, procedures and will be reporting in full in the 2011 Annual Report and Accounts.

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 our remuneration policy for Directors and sets out how decisions regarding Directors' pay for the year under review have been taken.

Remit of the Remuneration committee

The remit of the Remuneration Committee is provided in the Corporate Governance section on page 12.

In 2010, the committee engaged PricewaterhouseCoopers LLP ("PwC") to provide wholly independent advice on executive compensation and to assist the committee in the implementation of its long term incentive arrangements. There were no other services provided by PwC to the Group during the period.

Remuneration policy

The Company's policy is to maintain levels of remuneration sufficient to attract, motivate and retain senior executives of the highest calibre who can deliver growth in shareholder value. Executive remuneration currently consists of basic salary, benefits, annual bonus (based on annually set targets), and long term incentives (to reward long term performance). The Company seeks to strike an appropriate balance between fixed and performance-related reward, therefore, the total remuneration package is structured so that a significant proportion is subject to the achievement of performance targets, forming a clear link between pay and performance. The performance targets are aligned to the key drivers of the business strategy, thereby creating a strong alignment of interest between executives and shareholders.

The committee has recently conducted a review of the Company's remuneration arrangements, which has resulted in changes to the remuneration policy for 2010 in recognition that the Company has developed rapidly since its reverse in December 2007 and the farm-ups in 2009. In this regard, a number of changes have been made to ensure that the policy is more compliant with best practice and institutional shareholder guidelines.

The committee does not intend to make further changes to the remuneration policy for 2011, however, the committee will continue to review the Company's remuneration package and make amendments, if necessary, to ensure it remains fit for purpose for the Company, driving high levels of executive performance and remains competitive against the market.

Base salary

When setting the salary of the Directors, the committee has considered the following:

- levels of salary for similar positions in similar organisations (based on size, complexity and sector);
- the performance of the individual Director; and
- the individual Director's experience and responsibilities.

Bonus

Executives and employees are eligible to participate in a discretionary bonus plan. The percentage of maximum bonus entitlement received is based on the achievement of challenging corporate and personal targets.

For 2011, the maximum potential bonus entitlement for certain Directors under the plan will be increased to up to 100% of base salary.

Benefits

The Company does not provide significant levels of benefits in kind.

Long Term Incentives

The review of the Company's remuneration arrangements undertaken by the committee identified a gap in the Company's remuneration structure compared to the market as the Company did not have a long term incentive in place. In October 2010, the Board approved the introduction of the IGas Energy Plc Super Long Term Incentive Plan ("LTIP") and the IGas Energy Plc Share Option Plan ("Share Option Plan") to fill this gap in the remuneration package and also to drive high long-term performance.

LTIP

The LTIP is intended to drive the performance of members of the executive team. Under the LTIP, participants can each be granted nil cost options over up to 1.5% of the issued share capital of the Company (subject to an overall plan limit of 7.5% of the issued share capital of the Company for all participants). The LTIP has a three year performance period and awards vest subject to the achievement of stretching share price targets. On a change of control prior to the third anniversary of the grant date, a revised share price target reflecting the reduction in the performance period shall instead be used to determine the extent to which LTIP options vest. Other than on a change of control, 50% of vested awards can be exercised and sold on vesting, with the remaining 50% becoming exercisable on the first anniversary of vesting.

Share Option Plan

Both executives and employees may participate in the Share Option Plan. Typically each individual participant can be granted options under the Share Option Plan with a market value at grant of up to 100% of his base salary, although this limit can be exceeded in exceptional circumstances. Share options vest in three equal tranches over a three year period from the date of grant and vested options are exercisable subject to the attainment of a Company share price target.

2010 grants under the Share Option Plan are subject to an exercise price of 70p per share.

The Groups share price as at 31 December 2010 was 65.75p per share. The highest price during the period was 91p per share and the lowest share price during the period was 61p per share.

Current arrangements

Executive Directors

The Executive Directors are employed under evergreen contracts with notice periods of twelve months or less from the Company or executive.

Directors' emoluments for the year were as follows:

Executive Directors	Salary £000	Bonus £000	Taxable Benefits £000	Pensions £000	2010 Total £000	2009 Total £000
F Gugen – Executive Chairman (to 19 October 2010)	83	–	–	–	83	150
A Austin – Chief Executive Officer	235	117	1	–	353	300
B Cheshire – Executive Technical Director	100	25	–	–	125	150
J Blaymires – COO (Appointed 19 October 2010)	29	9	1	–	39	–
Total – Executive Directors	447	151	2	–	600	600

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

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

As at 31 December 2010, the outstanding long term incentives held by the Directors who served during the year was as set out in the tables below:

Under the LTIP:

	Date of Grant	At 1 January 2010	Granted	Exercised	Lapsed	As at 31 December 2010	Earliest vesting date
A Austin	19.10.10	–	700,000	–	–	700,000	19 October 2013
J Blaymires	19.10.10	–	375,000	–	–	375,000	19 October 2013

Under the Share Option Plan:

	Date of Grant	At 1 January 2010	Granted	Exercised	Lapsed	As at 31 December 2010	*Earliest vesting date
J Blaymires	19.10.10	–	910,930	–	–	910,930	1/3rd 6 April 2011 1/3rd 6 April 2012 1/3rd 6 April 2013

* Vested Options will become exercisable when the Company's share price target has been achieved for an average of five consecutive days.

LTIPs and Share Options issued expire 10 years from date of grant.

Directors' remuneration report continued

Non-Executive Directors

The Non-Executive Directors are employed under evergreen contracts with notice periods of twelve months or less, under which they are not entitled to any pension, benefits or bonuses.

	2010 Emoluments Total £000	2009 Emoluments Total £000
F Gugen – Non-Executive Chairman (from 19 October)	17	–
J Bryant – Senior Independent	35	20
R Armstrong	35	20
J Hamilton	35	1
Former Directors*	–	29
Total – Non-Executive Directors	122	70

* Relates to P Redmond.

Warrants held by Non-Executive Directors are detailed in Note 5 of the financial statements.

John Bryant

Chairman Remuneration Committee

20 May 2011

Directors' report

The Directors present their report together with the Group and Parent Company financial statements for the year ended 31 December 2010.

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 page 4 and the Chief Executive's report on pages 6 and 7.

Results and dividends

The Group's loss for the year after taxation was £1.5 million (2009: loss £0.5 million). 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 2011 and 2012, and taking into consideration the acquisition of Nexen Exploration UK Ltd and the placing in March 2011, the current operating environment, the risks outlined in Note 15 and the Group's liquidity risk management as set out below, the Directors are satisfied that the Group has adequate resources to continue as a going concern. It is therefore appropriate to adopt the going concern basis in preparing the 2010 Annual Report and Financial Statements.

Principal activity

The Group's principal area of activity is unconventional gas including coal bed methane ("CBM"), intended to result in the production and marketing of methane gas for industrial and domestic use from virgin 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 2 of the consolidated financial statements.

Share Capital

Details of changes to share capital in the period are set out in Note 16 to the consolidated financial statements.

Directors and their interests

The Directors who served during the year were as follows:

F R Gugen	Non-Executive Chairman
A P Austin	Chief Executive Officer
B Cheshire	Executive Technical Director
J M Blaymires	Chief Operating Officer – Appointed 19 October 2010
J Bryant	Non-Executive
R J Armstrong	Non-Executive
J A Hamilton	Non-Executive

The interests of the Directors in the shares of the Company at 31 December 2010 were as follows:

	31 December 2010 Ordinary 50p Shares		31 December 2009 Ordinary 50p Shares		31 December 2010 Warrants*	31 December 2009 Warrants*
	Number	%	Number	%		
F R Gugen	27,615,764	29.66	27,615,764	30.34	—	—
A P Austin**	11,429,253	12.28	11,429,253	12.56	—	—
B Cheshire	11,429,253	12.28	11,429,253	12.56	—	—
J Bryant	50,370	0.05	50,370	0.06	—	110,000
R J Armstrong	58,460	0.06	58,460	0.06	—	110,000
J A Hamilton	85,000***	0.09	85,000	0.09	—	—
Former Directors	—	—	—	—	—	****

* On 31 December 2010 warrants issued to Non-Executive Directors lapsed.

** On 22 March 2011, A Austin disposed of 770,000 Shares.

*** J Hamilton is beneficially interested in 85,000 Ordinary Shares out of a total of 12,080,000 held by Peter Levine and Levine Capital Management Ltd, the latter of whom he is deemed to be associated for these purposes.

**** Former Directors was in relation to P Redmond who still held the same shares and warrants as at 31 December 2009 but these were not reported as he was no longer a Director.

Directors' report continued

Rotation and re-election of Directors

In accordance with the Articles of Association A Austin, J Bryant, R Armstrong and J Blaymires 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 2006, 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 2006. The nature and extent of the indemnities is as described in Section 60 of the Company's Articles of Association as adopted on 10 July 2009. These provisions remained in force throughout the year and remain in place at the date of this report.

Substantial shareholders

At 20 May 2011 the company had received notification from the following institutions, in accordance with Chapter 5 of the Disclosure and Transparency Rules, of interests in excess of 3 per cent of the company's issued Ordinary Shares with voting rights:

	Number of Shares	%
Peter Levine and Levine Capital Management Ltd	14,429,135	9.00
Baillie Gifford & Co	8,088,217	5.04
Artemis Investment Management LLP	5,298,333	3.30

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.
- 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 15 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);
 - competition;
 - key personnel; and
 - litigation.

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 11 to 13 to the consolidated financial statements. The Group's financial risk management objectives are set out in Note 15 to the consolidated financial statements.

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 15 days of daily purchases for the Company (2009: 17 days).

Charitable and political contributions

During the year, the Group made no donations (2009: 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.

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 20 June 2011 as stated in the Notice of Meeting which accompanies this Annual Report.

By order of the Board

Mofo Secretaries Limited

Secretary

20 May 2011

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”).

Under Company Law the Directors must not approve the Group financial statements unless they are satisfied that they 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;
- state that the Group has complied with IFRSs, subject to any material departures disclosed and explained in the financial statements; and
- make judgements and estimates that are reasonable and prudent.

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 2006. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors confirm that they have complied with these requirements and, having a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future, will continue to adopt the going concern basis in preparing the accounts.

Independent auditor's report to the members of IGas Energy plc

We have audited the group financial statements of IGas Energy plc for the year ended 31 December 2010 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Balance Sheet, the Consolidated Statement of Changes in Equity, the Consolidated Cash Flow Statement and the related notes 1 to 20. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Statement of Responsibilities set out on page 20, the directors are responsible for the preparation of the group financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the group financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the group financial statements:

- give a true and fair view of the state of the group's affairs as at 31 December 2010 and of its loss for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Other matter

We have reported separately on the parent company financial statements of IGas Energy plc for the year ended 31 December 2010.

Gary Donald

(Senior Statutory Auditor)

for and on behalf of Ernst & Young LLP, Statutory Auditor
London

20 May 2011

Consolidated income statement

For the year ended 31 December 2010

	Notes	2010 £000	2009 £000
Revenue	2	656	828
Cost of sales		(589)	(671)
Gross profit		67	157
Administrative expenses		(1,780)	(672)
Operating loss		(1,713)	(515)
Finance income	6	170	11
Loss on ordinary activities before tax		(1,543)	(504)
Tax on loss on ordinary activities	7	–	–
Loss from continuing operations attributable to equity shareholders of the Group		(1,543)	(504)
Basic and diluted (loss) per share (£/share)	8	(0.0169)	(0.0076)

Consolidated statement of comprehensive income

For the year ended 31 December 2010

	2010 £000	2009 £000
Loss for the year	(1,543)	(504)
Other comprehensive income for the year	–	–
Total comprehensive loss for the year	(1,543)	(504)

Consolidated balance sheet

As at 31 December 2010

	Notes	2010 £000	2009 £000
Non-current assets			
Intangible exploration and evaluation assets	9	4,644	1,334
Property, plant and equipment	10	205	–
		4,849	1,334
Current assets			
Trade and other receivables	11	589	258
Cash and cash equivalents	12	12,087	17,501
		12,676	17,759
Current liabilities			
Trade and other payables	13	(797)	(931)
Net current assets		11,879	16,828
Total assets less current liabilities		16,728	18,162
Net assets		16,728	18,162
Capital and reserves			
Called up share capital	16	19,665	18,617
Share premium account	18	2,500	2,203
Share plan/warrant reserve	17	63	131
Treasury shares	18	(1,299)	–
Retained earnings/(accumulated deficit)		(4,201)	(2,789)
Shareholders' funds		16,728	18,162

These financial statements were approved and authorised for issue by the Board on 20 May 2011 and are signed on its behalf by:



Francis Gugen
Non-Executive Chairman



Andrew Austin
Chief Executive Officer

Consolidated statement of changes in equity

For the year ended 31 December 2010

	Called up share capital (Note 16) £000	Share premium account £000	Share plan/ warrant reserve £000	Treasury shares £000	Retained earnings/ (accumulated deficit) £000	Total £000
Balance at 1 January 2009	4,275	420	167	–	(2,285)	2,577
Changes in equity for 2009						
Total comprehensive loss for the year	–	–	–	–	(504)	(504)
Transfer to Share premium account	–	36	(36)	–	–	–
Issue of shares during year	14,342	2,868	–	–	–	17,210
Share issue costs	–	(1,121)	–	–	–	(1,121)
Balance at 31 December 2009	18,617	2,203	131	–	(2,789)	18,162
Changes in equity for 2010						
Total comprehensive loss for the year	–	–	–	–	(1,543)	(1,543)
Lapse of warrants	–	–	(131)	–	131	–
Employee share plans – cost under IFRS2 (note 17)	–	–	63	–	–	63
Issue of shares during year	1,048	297	–	(1,299)	–	46
Balance at 31 December 2010	19,665	2,500	63	(1,299)	(4,201)	16,728

Consolidated cash flow statement

For the year ended 31 December 2010

	Notes	2010 £000	2009 £000
Operating activities:			
Loss for the year		(1,543)	(504)
Depreciation, depletion and amortisation	3	9	–
Share-based payment charge		37	–
Finance income	6	(170)	(11)
Increase in trade and other receivables		(331)	(408)
Increase in trade and other payables, net of accruals related to investing activities		196	338
Net cash used in operating activities		(1,802)	(445)
Investing activities			
Acquisition of exploration and evaluation assets		(3,608)	(432)
Acquisition of property, plant and equipment		(220)	–
Interest received	6	170	11
Net cash used in investing activities		(3,658)	(421)
Financing activities			
Cash proceeds from issue of Ordinary Share Capital	16	46	17,210
Share issue costs	18	–	(1,121)
Net cash from financing activities		46	16,089
Net (decrease)/increase in cash and cash equivalents in the year		(5,414)	15,223
Cash and cash equivalents at the beginning of the year		17,501	2,278
Cash and cash equivalents at the end of the year	12	12,087	17,501

Consolidated financial statements – notes

As at 31 December 2010

1 Accounting policies

(a) Basis of preparation of financial statements

The consolidated financial statements of IGas Energy 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 2010, and with the Companies Act 2006. The accounts were approved by the Board and authorised for issue on 20 May 2011. IGas Energy plc is a public limited company incorporated and registered in England and Wales.

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

During the year, the Group adopted the following new and amended IFRS which were applicable to the Group’s activities as of 1 January 2010.

Effective date

International Accounting Standards (IFRS/IAS)

IFRS 2	Amendment to IFRS 2 – Group Cash-settled Share-based Payment Transactions – This amendment clarifies that there shall now be included transactions where the transfer of cash or other assets is based on the price (or value) of the equity instruments of another Group entity. The Group has considered the effect of this interpretation and has concluded that it is not expected to have any impact on the financial statements.	1 January 2010
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Certain new standards, interpretations and amendments to existing standards have been published and are mandatory only for the Group’s accounting periods beginning on or after 1 January 2011 or later periods but which the Group has not adopted early. Those that may be applicable to the Group in future are as follows:

Effective date

International Accounting Standards (IFRS/IAS)

IAS 24	Amendment to IAS 24 – Related Party Disclosures – This amendment clarifies the definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in its application. The revised standard introduces a partial exemption of disclosure requirements for government-related entities. The Group has considered the effect of this interpretation and has concluded that there is no impact on the financial statements.	1 January 2011
IFRS 9	IFRS 9 – Financial Instruments: Classification and Measurement – IFRS 9 as issued reflects the first phase of the IASB’s work on the replacement of IAS 39 and applies to classification and measurement of financial assets as defined in IAS 39. The standard is effective for annual periods beginning on or after January 2013. In subsequent phases, the IASB will address classification and measurement of financial liabilities, hedge accounting and derecognition. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Group’s financial assets. The Group will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.	1 January 2013

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

Improvements to IFRS

In May 2010 the IASB issued an omnibus of amendments to its standards. The amendments have not been adopted as they become effective for annual periods starting on or after either 1 July 2010 or 1 January 2011:

- IFRS 3 Business Combinations
- IFRS 7 Financial Instruments: Disclosures
- IAS 1 Presentation of Financial Statements
- IAS 27 Consolidated and Separate Financial Statements

The Group, however, expects no impact from the adoption of the amendments on its financial position or performance.

Consolidated financial statements – notes continued

As at 31 December 2010

1 Accounting policies continued

(b) Going concern

After reviewing the Group's budgets and cash flow projections for 2011 and 2012, and taking into consideration the acquisition of Nexen Exploration UK Ltd and the placing in March 2011, the current operating environment, the risks and the Group's liquidity risk management outlined in Note 15, the Directors are satisfied that the Group has adequate resources to continue as a going concern. It is therefore appropriate to adopt the going concern basis in preparing the 2010 Annual Report and Financial Statements.

(c) Basis of consolidation

The consolidated financial statements present the results of IGas Energy 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. Where shares are issued to an Employee Benefit Trust, and the Company is the sponsoring entity it is treated as an extension of the entity.

At 31 December 2010 the Group comprised the Company and its subsidiaries Island Gas Limited and Island Gas Operations Limited (formerly KP Renewables (Operations) Ltd).

(d) Joint ventures

The Group's licence interests are all held jointly with others under arrangements whereby unincorporated and jointly controlled 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 (h) below. Where the Group enters into a farm-up agreement involving a licence in the exploration and evaluation phase, the Group records all costs that it incurs under the terms of the joint operating agreement as amended by the farm-up agreement as they are incurred.

(e) 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 in the UK. Costs are capitalised in accordance with the accounting policy as described at (h). Initial capitalisation of costs is based on management's judgement that capitalisation of such costs is in accordance to applicable standards and that over time there will be an economic benefit associated with such cost.

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 (h) below. Any impairment reviews, where required, involves estimates and assumptions related to matters (when appropriate), such as recoverable reserves; production profiles; review of forward 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 9.

(f) Exceptional items

Exceptional items are material items of income or expenditure which, in the opinion of the Directors, due to their nature and infrequency require separate identification on the face of the income statement to allow a better understanding of the financial performance in the year. A full explanation of such items is given, where applicable, in the notes to the financial statements.

(g) 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 and electricity 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.

1 Accounting policies *continued*

(h) 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. These costs include employee remuneration, materials and consumables, equipment costs and payments made to contractors.
- Any costs incurred prior to obtaining the legal rights to explore an area are expensed immediately to the Income Statement. Expenditures related to development and production activities are not recognised as exploration and evaluation assets.
- Tangible assets acquired for use in exploration and evaluation activities are classified as property, plant and equipment. 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 the exploration and evaluation asset.
- 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 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.
- 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 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 and gas 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 and the carrying value that would have been determined (net of depletion) had no impairment loss been recognised in prior periods.

Consolidated financial statements – notes continued

As at 31 December 2010

1 Accounting policies continued

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 appropriate category of the Group's non-current assets (intangible exploration and evaluation assets and property plant and equipment), depending on the accounting treatment adopted for the underlying operations/asset leading to the decommissioning provision. The asset is assessed for impairment and or depleted in accordance with the Group's policies as set out above.

Carried interests

Where the Group has entered into carried interest agreements and the Group's interest is being carried by a third party, 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 Group's share of production, the Group 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; 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
Motor Vehicles	– over four years on a straight line basis
Furniture and fixtures	– over five years on a straight line basis
Equipment used for exploration and evaluation	– between six and twelve years on a straight line basis
Leasehold property improvements	– over the period of the lease

The Group does not capitalise amounts considered to be immaterial.

(i) 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, 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 payable.

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.

(j) Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date including whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

Operating leases

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

1 Accounting policies continued

(k) 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 differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. 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.

(l) 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, but only those related to service and performance, 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. All other vesting conditions, including Market vesting conditions, are factored into 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 for as a cost against profit and loss 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.

Where shares are issued to an Employee Benefit Trust, and the Company is the sponsoring entity, the value of such shares at issue will be recorded in share capital and share premium account in the ordinary way, but will not affect shareholders' funds since this same value will be shown as a deduction from shareholders' funds by way of a separate component of equity (Treasury shares).

(m) 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.

(n) Foreign currency

Transactions denominated in currencies other than the functional currency UK pound sterling are translated at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rate of exchange ruling at the balance sheet date. All differences that arise are recorded in the income statement.

2 Revenue and segment information

IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the Chief Operating Decision Maker ("CODM") to make decisions about resources to be allocated to the segment and assess its performance, and for which financial information is available. In the case of the Group the CODM are the Chief Executive Officer and the Board of Directors and all information reported to the CODM is based on the consolidated results of the Group as a single operating segment as the Group's activities all relate to unconventional gas, including CBM in the UK. Therefore the Group has only one operating and reportable segment as reflected in the Group's consolidated financial statements.

Consolidated financial statements – notes continued

As at 31 December 2010

2 Revenue and segment information continued

All revenue which represents turnover arises within the United Kingdom and relates to external parties. The revenue for 2010 and 2009 related to the supply of CBM services and expertise under management service contracts (£536 thousand), to the supply of electricity generation services and to sales of electricity associated with CBM production (£120 thousand). £592 thousand of the Group's revenue was derived from a single customer (2009: £816 thousand).

All the Group's non-current assets are in the United Kingdom.

3 Operating loss

	2010 £000	2009 £000
Operating loss is stated after charging:		
Staff Costs (see notes 4 and 5)	1,123	807
Depreciation	9	–
Auditor's remuneration:		
Audit of the financial statements	57	35
Other fees paid to Ernst & Young LLP – Audits of subsidiaries	10	43

£39 thousand of the Group's remuneration costs has been capitalised in accordance with the Group's accounting policy.

4 Employee information

	2010 £000	2009 £000
Staff costs comprised:		
Wages and salaries	923	718
Social Security Costs	137	89
Employee share based cost under IFRS 2	63	–
	1,123	807

	No.	No.
Average number of employees in the period:		
Operations, including services	4	3
Administrative	2	2
	6	5

£39 thousand of the Group's remuneration costs has been capitalised in accordance with the Group's accounting policy.

5 Directors' emoluments

The remuneration of the Directors for the year was as follows:

	Salary/Fees £000	Bonus £000	Taxable Benefits £000	Pensions £000	2010 Total £000	2009 Total £000
Executive Directors						
F Gugen – Executive Chairman (to 19 October)	83	–	–	–	83	150
A Austin – Chief Executive Officer	235	117	1	–	353	300
B Cheshire – Executive Technical Director	100	25	–	–	125	150
J Blaymires – COO (Appointed 19 October 2010)	29	9	1	–	39	–
Total – Executive Directors	447	151	2	–	600	600
Non-Executive Directors						
F Gugen – Non-Executive Chairman (from 19 October)	17	–	–	–	17	–
J Bryant – Senior Independent	35	–	–	–	35	20
R Armstrong	35	–	–	–	35	20
J Hamilton – (Appointed 10 December 2009)	35	–	–	–	35	1
P Redmond (Resigned 10 December 2009)	–	–	–	–	–	29
Total – Non-Executive Directors	122	–	–	–	122	70

5 Directors' emoluments continued

Directors' share schemes/warrants

At 31 December 2010 the Executive Directors held the following awards under the Long Term Incentive Plan and the Share Option scheme as follows;

Long Term Incentive Plan

	2010 Number	Exercise price (p/share)	2009 Number	Exercise price (p/share)
A Austin	700,000	—	—	—
J Blaymires	375,000	—	—	—

Share Option Plan

	2010 Number	Exercise price (p/share)	2009 Number	Exercise price (p/share)
J Blaymires	910,930	70	—	—

Warrants

At 31 December 2010 the Directors held the following warrants over the Ordinary Shares of 50p each of the Company as follows;

	2009 Number	Exercise price (p/share)	Lapsed in year	2010 Number
R J Armstrong	82,500	55	(82,500)	—
	27,500	75	(27,500)	—
J Bryant	82,500	55	(82,500)	—
	27,500	75	(27,500)	—

6 Finance income

	2010 £000	2009 £000
Interest receivable comprised:		
Interest on short-term deposits	170	11

7 Tax on loss on ordinary activities

	2010 £000	2009 £000
UK corporation tax:		
Current tax on income for the year	—	—
Total UK taxation	—	—
Tax on loss on ordinary activities	—	—

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 small profits rate of corporation tax in the United Kingdom of 21% (2009: 21%). A reconciliation of the UK small companies statutory corporation tax rate applicable to the Group's loss before tax to the Group's total tax charge is as follows:

	2010 £000	2009 £000
(Loss) on ordinary activities before tax	(1,543)	(504)
(Loss) on ordinary activities multiplied by the small profit rate of corporation tax in the UK for small companies of 21% (2009: 21%)	(324)	(106)
Tax effect of expenses not allowable for tax purposes	6	1
Net increase in unrecognised losses carried forward	318	105
Tax on loss on ordinary activities	—	—

Consolidated financial statements – notes continued

As at 31 December 2010

7 Tax on loss on ordinary activities continued

Tax losses

The Group's tax losses amount to:

	2010 £000	2009 £000
Not considered sufficiently certain of utilisation to set up deferred tax assets*:		
Company:		
Excess management expenses	4,830	3,488
Related to share based payment transactions	13	–
IGL:		
Petroliferous – Trading loss	156	17
Island Gas Operations Limited ("IGO"):		
Trading loss	1,200	1,200

Not affecting deferred taxes, as they relate to undepreciated capitalised costs**:

IGL:		
Petroliferous – Mineral Extraction Allowances	4,644	1,386

* Deferred tax losses have not been recognised in respect of temporary differences of Group companies whose future profits are not considered sufficiently certain to offset these temporary differences.

** As at 31 December 2010 no temporary difference arises as a result of Minerals Extraction Allowances as they have not been claimed and depreciation of the related capitalised costs has not commenced (2009: nil).

In 2009 IGL was awarded a Field Development Plan and so commenced a Petroliferous Trade (as defined for tax purposes), which will enable it to offset its losses against any future Petroliferous Trade profits. IGO's losses may only be offset against future profits of IGO, if any. The tax losses have no expiry date.

8 Earnings 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:

	2010	2009
Basic EPS – Ordinary Shares of 50p each (£)	(0.0169)	(0.0076)
Diluted EPS – Ordinary Shares of 50p each (£)	(0.0169)	(0.0076)
(Loss) for the year attributable to equity holders of the parent – £000	(1,543)	(504)
Weighted average number of Ordinary Shares in the year – basic EPS	91,070,160	66,412,564
Weighted average number of Ordinary Shares in the year – diluted EPS	91,070,160	66,412,564

There are 2,447,304 potentially dilutive warrants and options over the Ordinary Shares at 31 December 2010 (2009: 440,450), 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.

9 Intangible exploration and evaluation assets

	2010 £000	2009 £000
Cost		
At 1 January	1,334	476
Additions	3,310	858
At 31 December	4,644	1,334
Amortisation		
At 1 January	–	–
Charge for the year, including impairment	–	–
At 31 December	–	–
Net book amount		
At 31 December	4,644	1,334
At 1 January	1,334	476

Under certain agreements which the Group had in place with Nexen Exploration U.K. Limited (“Nexen” and the “Nexen Carry Agreements”) as at 31 December 2010, Nexen provides 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 was 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 2010 £5.6 million had been carried (2009: £5.1 million), which has not been recorded as either non-current assets or liabilities, since to 31 December 2010 expenditure has been mainly related to appraisal work and repayment was not then sufficiently certain.

On 5 August 2009 and 11 December 2009 the Group entered into farm-up agreements with Nexen (the “Farm-up Agreements”), under which the Group had agreed to meet 100% of certain costs incurred in relation to certain licences, thereby discharging what, but for these agreements, would have been Nexen’s share of such licence costs. The Group’s commitment was for up to £2 million of gross costs in the case of the agreement of 5 August 2009 and for £5 million of gross costs in the case of the agreement of 11 December 2009. In return the Group’s interest in the Swallowcroft licences in Staffordshire (excluding PEDL 78-2) rose from 20% to 35%, in the Point of Ayr licences from 50% to 75% and in Northwest licences from 20% to 35%.

10 Property, plant and equipment

	Used for exploration and evaluation £000	Fixtures, fittings and equipment £000	Motor vehicles £000	Total £000
Cost				
At 1 January 2009 and 1 January 2010	–	–	–	–
Additions	179	21	20	220
Disposals	–	–	–	–
At 31 December 2010	179	21	20	220
Accumulated depreciation				
At 1 January 2009 and 1 January 2010	–	–	–	–
Charge for the year	6	4	5	15
Disposals	–	–	–	–
At 31 December 2010	6	4	5	15
Carrying amount				
At 31 December 2010	173	17	15	205
At 31 December 2009	–	–	–	–

Consolidated financial statements – notes continued

As at 31 December 2010

11 Trade and other receivables

	2010 £000	2009 £000
VAT recoverable	375	99
Trade debtors	61	114
Accrued income	73	–
Other debtors	–	3
Prepayments	80	42
	589	258

The carrying value of each of the Group's financial assets being trade debtors is considered to be a reasonable approximation of its fair value.

All of the Group's financial assets are from debtors of good credit standing and have been reviewed for indicators of impairment and no impairment provision was found to be required (2009: £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 £61 thousand (2009: £114 thousand) were past due but not impaired at the reporting date, of which the ageing was:

	2010 £000	2009 £000
Not more than three months	61	50
More than three months but not more than six months	–	64
More than six months but not more than one year	–	–
	61	114

12 Cash and cash equivalents

	2010 £000	2009 £000
Cash at bank and in hand	12,087	17,501
	12,087	17,501

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, except that the Group will make deposits with banks where the UK government is the major shareholder.

13 Current liabilities

	2010 £000	2009 £000
Trade and other payables:		
Trade creditors	240	109
Employment related taxation	42	102
Deferred revenue	–	89
Accruals and other creditors	515	631
	797	931

The carrying value of each of the Group's financial liabilities being trade creditors 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 (2009: all within one month).

14 Commitments

The Group's capital and lease commitments comprised:

	2010 £000	2009 £000
Capital Commitments:		
Obligation under 13th licensing round	1,000	1,000
Decommissioning	26	26
Less: Amounts covered by Nexen Carry Agreements	(141)	(637)
	885	389
Obligation under the 11 December 2009 farm-up agreement with Nexen	2,036	5,000
Total capital commitments	2,921	5,389

The Nexen Carry Agreements and the farm-up agreements are as further described in note 9, including the up to £2 million provided for by the first farm-up agreement, which is not a firm binding commitment.

Operating lease commitments:

Minimum lease payments under operating leases recognised in income for the year	63	35
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At the balance sheet date the Group had outstanding commitments for future minimum lease payments under non cancellable operating leases, all falling due in under one year

45	64
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15 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 Group's 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. Details of the maturity dates of the Group's financial liabilities are provided in note 13.

Interest rate risk profile of financial assets

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

Interest rate sensitivity analysis

The Group is exposed to interest rate risk from changes in interest rates impacting future cash flows arising from its financial instruments, principally cash balances held at the balance sheet date. A sensitivity analysis has been performed to demonstrate the sensitivity of financial assets and financial liabilities to a reasonably possible change in interest rates applied to a full year from the balance sheet date, assuming the amount of the assets at balance sheet date are available for the whole year. An increase/ decrease in interest rates of 50 basis points, with all other variables held constant, results in a decrease/increase in the Group's loss before tax of £60 thousand/£(60) thousand respectively (2009: decrease/increase of £88 thousand/£(88) thousand). There is no effect on the Group's equity other than the equivalent effect to that on loss before tax. This is wholly attributable to the Group's exposure to interest rates on its variable rate cash and cash equivalents.

Credit risk

The maximum exposure to credit risk is equal to the balances as disclosed for trade debtors in note 11 and for cash in note 12.

Cash and Treasury

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, except that the Group will make deposits with banks where the United Kingdom government is the major shareholder. £11.7 million (2009: £16 million) of cash and cash equivalents is deposited with a single institution.

Consolidated financial statements – notes continued

As at 31 December 2010

15 Financial instruments continued

Trade receivables

Trade receivables credit risks are mitigated by only dealing with institutions that have investment grade credit ratings. £61 thousand (2009: £111 thousand) of trade receivables are due from a single counterparty.

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. The Group's principal cash source has been the issuance of share capital.

16 Share capital

On 31 December 2007 the Company completed a reverse takeover whereby 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").

In accordance with the required accounting for a reverse, the nominal value of the Company's share capital is not reflected in the Group's consolidated equity. For the purposes of the consolidated accounts share capital was recorded at the date of the Reverse at a value 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.

Accordingly, share capital and the share capital account comprised:

	Ordinary Shares		Deferred shares	
	No.	£000 Nominal value	No.	£000 Nominal value
Authorised				
1 January 2009, Ordinary Shares of 50p each	89,114,796	44,557		
1 January 2009, Deferred Shares of .95p each			46,589,662	443
10 December 2009 new Ordinary Shares created	22,916,667	11,459		
31 December 2009	112,031,463	56,016	46,589,662	443
31 December 2010	112,031,463	56,016	46,589,662	443
	Ordinary Shares		Deferred shares	
	No.	£000 Nominal value	No.	£000 Nominal value
Issued and fully paid				
1 January 2009, Ordinary Shares of 50p each	62,329,642	31,165		
14 July 2009 shares issued	5,766,666	2,883		
10 December 2009 shares issued	22,916,667	11,459		
31 December 2009, Ordinary Shares of 50p each	91,012,975	45,507	–	–
23 April 2010 shares issued	82,500	41		
26 October 2010 shares issued	2,013,956	1,007		
31 December 2010, Ordinary Shares of 50p each	93,109,431	46,555	–	–
				£000
Share capital account				
At 1 January 2009				4,275
Shares issued during the year				14,342
At 31 December 2009				18,617
Shares issued during the year				1,048
At 31 December 2010				19,665

16 Share capital continued

The following share transactions took place since 1 January 2009:

- 14 July 2009 – The Company issued 5,766,666 Ordinary 50p Shares at a price of 60p each;
- 10 December 2009 – The Company issued 22,916,667 Ordinary 50p Shares at a price of 60p each;
- 23 April 2010 – Company issued 82,500 Ordinary 50p Shares at a price of 55p each; and
- 26 October 2010 – The Company issued 2,013,956 Ordinary 50p shares at a price of 64.5p each

Deferred shares have no voting rights and shall not be entitled to any dividends or any other right or participation in the profits of the Group.

17 Share plan/warrant reserve

The Company has made equity settled share-based payments, valued as follows:

	2010 £000	2009 £000
Directors:		
Balance 1 January	131	167
Transfer to retained earnings/(accumulated deficit) account re warrants	(131)	(36)
Employee share plans – cost under IFRS 2	63	–
Balance 31 December	63	131

Warrants

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 were expected to 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.

Movement in the Share warrant reserve during the year was as follows:

	2010 No.	2010 Weighted average exercise price (pence)	2009 No.	2009 Weighted average exercise price (pence)
At 1 January	440,000	60	523,830	58
Exercised in Period	(82,500)	55	–	–
Lapsed in Period	(357,500)	60	(83,830)	50
Outstanding at 31 December	–		440,000	60
Exercisable at 31 December	–		440,000	60

The weighted average remaining contractual life for the warrants outstanding as at 31 December 2010 is nil (2009: 12 months) with no maximum remaining term of options granted, (2009: 12 months).

Employee share plans – Equity settled

Long Term Incentive Plan (“LTIP”)

In October 2010 the Company adopted a Long Term Incentive Plan scheme for certain key employees of the Group. Under the LTIP, participants can each be granted nil cost options over up to 1.5% of the issued share capital of the Company (subject to an overall plan limit of 7.5% of the issued share capital of the Company for all participants). The LTIP has a three year performance period and awards vest subject to the achievement of stretching share price targets. On a change of control prior to the third anniversary of the grant date, a revised share price target reflecting the reduction in the performance period shall instead be used to determine the extent to which LTIP options vest. Other than on a change of control, 50% of vested awards can be exercised and sold on vesting, with the remaining 50% becoming exercisable on the first anniversary of vesting.

Consolidated financial statements – notes continued

As at 31 December 2010

17 Share plan/warrant reserve continued

Details of the LTIPs outstanding during the year are as follows:

	Number of LTIPs	2010 Weighted average exercise price (in £)	Number of LTIPs	2009 Weighted average exercise price (in £)
Outstanding at beginning of year	–	–	–	–
Granted during the year	1,125,000	nil	–	–
Forfeited during the year	–	–	–	–
Exercised during the year	–	–	–	–
Outstanding at the end of the year	1,125,000	nil	–	–
Exercisable at the end of the year	–	–	–	–

There were no LTIPs exercised during the year. The LTIPs outstanding at 31 December 2010 had both a weighted average remaining contractual life and maximum remaining term of 9.75 years.

The total charge for the year was £6 thousand. Of this amount, £2 thousand was capitalised and £4 thousand was charged to the income statement in relation to the fair value of the awards granted under the LTIP scheme measured at grant date using a Monte Carlo Simulation Model.

The inputs into the Monte Carlo model were as follows:

	2010
Weighted average share price	64.5p
Weighted average exercise price	Nil
Expected volatility	35%
Expected life	6.5 years
Risk-free rate	1.09%
Expected dividends	0%

The expected life is the period from date of grant to the assumed exercise date. Expected volatility was determined by calculating the historical volatility of the Company's share price. The weighted average fair value of the awards granted in 2010 was 6p (2009: nil).

Share option plan

In October 2010 the Company adopted a Share option plan for certain key employees of the Group. Both executives and employees may participate in the Share Option Plan. Typically each individual participant can be granted options under the Share Option Plan with a market value at grant of up to 100% of his base salary, although this limit can be exceeded in exceptional circumstances. Share options vest in three equal tranches over a three year period from the date of grant and vested options are exercisable subject to the attainment of a Company share price target.

2010 grants under the Share Option Plan are subject to an exercise price of 70p per share.

Details of the Share options outstanding during the year are as follows:

	Number of share options	2010 Weighted average exercise price (in £)	Number of share options	2009 Weighted average exercise price (in £)
Outstanding at beginning of year	–	–	–	–
Granted during the year	1,322,204	0.70	–	–
Forfeited during the year	–	–	–	–
Exercised during the year	–	–	–	–
Outstanding at the end of the year	1,322,204	0.70	–	–
Exerciseable at the end of the year	–	–	–	–

17 Share plan/warrant reserve continued

There were no Options exercised during the year. The unvested Options outstanding at 31 December 2010 had both a weighted average remaining contractual life and maximum remaining term of 9.75 years.

The total charge for the year was £57 thousand. Of this amount, £24 thousand was capitalised and £33 thousand was charged to the income statement in relation to the fair value of the awards granted under the Share Option scheme measured at grant date using a Monte Carlo Simulation Model.

The inputs into the Monte Carlo model are as follows:

	2010
Weighted average share price	64.5p
Weighted average exercise price	Nil
Expected volatility	35%
Expected life	5–6.5 years
Risk-free rate	1.09%
Expected dividends	0%

The expected life is the period from date of grant to the assumed exercise date. Expected volatility was determined by calculating the historical volatility of the Company's share price. The weighted average fair value of the awards granted in 2010 was 12p (2009: nil).

18 Other reserves

- Share premium account – The share premium account of the Group arises from the capital that the Company raises upon issuing shares for consideration in excess of the nominal value of the shares net of the costs of issuing the new shares. During the year the Company issued 82,500 and 2,013,956 Ordinary 50p Shares at a price of 55p and 64.5p each (2009: 28,683,333 Ordinary 50p Shares at a price of 60p each). The cost of the issue was nil (2009: £1,121 thousand). Together these events resulted in a net movement in the Share Premium reserve of £297 thousand (2009: £1,783 thousand).
- Treasury shares – The Treasury shares of the Group has arisen in connection with the shares issued to the IGas Employee Benefit Trust, of which the Company is the sponsoring entity. The value of such shares is recorded in share capital and share premium account in the ordinary way and is also shown as a deduction from equity in this separate other reserve account; and so there is no net effect on shareholders' funds. During the period 2,013,956 shares were issued to the Employee Benefit Trust.
- Retained earnings/(accumulated deficit) – This represents the historic accumulated losses less profits made by the Group accounted for under reverse accounting as explained in Note 1(m) and from transfers from the Share plan/warrant reserve, when warrants lapse.

19 Related party transactions

Key management personnel

There are no key management personnel other than Directors of the Company.

	2010 £000	2009 £000
Short-term employee benefits	854	746
Share plan	22	–
	876	746

Short-term employee benefits

These amounts comprise fees paid to the Directors in respect of salary and benefits earned during the relevant financial year, plus bonuses awarded for the year.

Share plan

This is the cost to the Group of Directors' participation in LTIPs and Share Option plans, as measured by the fair value of LTIPs and options granted, accounted for in accordance with IFRS 2.

Further details regarding transactions with the Directors of the Group are disclosed in Note 5.

There are no other related party transactions.

Consolidated financial statements – notes continued

As at 31 December 2010

20 Subsequent events

On 9 March 2011, the Company acquired the entire issued share capital of Nexen Exploration UK Limited (renamed IGas Exploration Limited) for a consideration of £25.6 million (the “Acquisition”). 39,714,290 new ordinary shares of 50p were allotted to Nexen Petroleum U.K. Limited credited as fully paid in consideration for the Acquisition. The acquisition is aligned with the Group’s strategy by securing 100% ownership of assets and operatorship through the purchase of Nexen Exploration UK Limited.

The Company raised gross proceeds of £20.625 million for 27,500,000 new ordinary 50p shares when the Acquisition became unconditional on 9 March 2011.

Following completion of the Placing and the Acquisition, the Company’s current issued share capital is 160,323,721 Ordinary Shares.

On 22 March 2011, A Austin disposed of 770,000 shares.

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”).

Under Company Law the Directors must not approve the Group financial statements unless they are satisfied that they 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;
- state that the Parent Company has complied with IFRSs, subject to any material departures disclosed and explained in the financial statements; and
- Make judgements and estimates that are reasonable and prudent.

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 2006. 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.

The Directors confirm that they have complied with these requirements and, having a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future, will continue to adopt the going concern basis in preparing the accounts.

Independent auditor's report to the members of IGas Energy plc

We have audited the parent company financial statements of IGas Energy plc for the year ended 31 December 2010 which comprise the Parent Company Statement of Comprehensive Income, the Parent Company Balance Sheet, the Parent Company Statement of Changes in Equity, the Parent Company Cash Flow Statement and the related notes 1 to 14. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 43, the directors are responsible for the preparation of the parent company financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the parent company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the parent company financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2010;
- have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

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

Other matter

We have reported separately on the group financial statements of IGas Energy plc for the year ended 31 December 2010.

Gary Donald
(Senior Statutory Auditor)

for and on behalf of Ernst & Young LLP, Statutory Auditor
London

20 May 2011

Parent Company statement of comprehensive income

For the year ended 31 December 2010

	2010 £000	2009 £000
Loss for the year	(1,401)	(500)
Other comprehensive income for the year	–	–
Total comprehensive loss for the year	(1,401)	(500)

Parent Company balance sheet

As at 31 December 2010

	Notes	2010 £000	2009 £000
Non-current assets			
Investments in subsidiaries	2	50,555	50,512
Property, plant and equipment	3	32	–
Loans to subsidiaries	4	5,013	436
		55,600	50,948
Current assets			
Trade and other receivables	4	289	102
Cash and cash equivalents	5	11,772	17,485
		12,061	17,587
Current liabilities			
Trade and other payables	6	(530)	(112)
		(530)	(112)
Net current assets		11,531	17,475
Total assets less current liabilities		67,131	68,423
Net assets		67,131	68,423
Capital and reserves			
Called up share capital	10	46,555	45,507
Merger reserve	12	22,222	22,222
Share premium account	12	6,392	6,095
Share plan/warrant reserve	11	63	131
Treasury shares	11	(1,299)	–
Retained earnings (accumulated deficit)		(6,802)	(5,532)
Shareholders' funds		67,131	68,423

These financial statements were approved and authorised for issue by the Board on 20 May 2011 and are signed on its behalf by:



Francis Gugen
Non-Executive Chairman



Andrew Austin
Chief Executive Officer

Parent Company statement of changes in equity

For the year ended 31 December 2010

	Called up share capital (Note 10) £000	Merger reserve £000	Share premium account £000	Share plan/ warrant reserve £000	Treasury shares £000	Retained earnings/ (accumulated deficit) £000	Total £000
Balance at 1 January 2009	31,165	22,222	4,312	167	–	(5,032)	52,834
Changes in equity for 2009							
Loss for the year	–	–	–	–	–	(500)	(500)
Transfers to Share premium account	–	–	36	(36)	–	–	–
Issue of shares:	14,342	–	2,868	–	–	–	17,210
Share issue costs	–	–	(1,121)	–	–	–	(1,121)
Balance at 31 December 2009	45,507	22,222	6,095	131	–	(5,532)	68,423
Changes in equity for 2010							
Loss for the year	–	–	–	–	–	(1,401)	(1,401)
Lapse of warrants	–	–	–	(131)	–	131	–
Employee share plans cost under IFRS2 (note 11)	–	–	–	63	–	–	63
Issue of shares	1,048	–	297	–	(1,299)	–	46
Balance at 31 December 2010	46,555	22,222	6,392	63	(1,299)	(6,802)	67,131

Parent Company cash flow statement

For the year ended 31 December 2010

	Notes	2010 £000	2009 £000
Operating activities:			
Loss for the year		(1,401)	(500)
Depreciation, depletion and amortisation		9	–
Share-based payment charge		20	–
Finance income		(170)	(11)
(Increase)/decrease in trade and other receivables		(86)	37
Increase/(decrease) in trade and other payables		418	(140)
Decrease in creditors due after one year		–	–
Net cash used in operating activities		(1,210)	(614)
Investing activities			
Acquisition of property, plant and equipment		(41)	–
Loans granted to subsidiaries		(4,678)	(211)
Interest received		170	11
Net cash used investing activities		(4,549)	(200)
Financing activities			
Cash proceeds from issue of Ordinary Share Capital	10	46	17,210
Share issue costs	10	–	(1,121)
Net cash from financing activities		46	16,089
Net (decrease)/increase in cash and cash equivalents in the year		(5,713)	15,275
Cash and cash equivalents at the beginning of the year		17,485	2,210
Cash and cash equivalents at the end of the year	5	11,772	17,485

Parent Company financial statements – notes

As at 31 December 2010

1 Accounting policies

(a) Basis of preparation of financial statements

The Parent Company financial statements of IGas Energy 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 2010, and with the Companies Act 2006. The financial statements were approved and authorised for issue by the Board of Directors on 20 May 2011. IGas Energy plc is a public limited company incorporated and registered in England and Wales.

The Company’s financial statements are presented in UK pound 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 408 of the Companies Act 2006.

During the year, the Company adopted the following new and amended IFRS which were applicable to the Company’s activities as of 1 January 2010.

		Effective date
International Accounting Standards (IFRS/IAS)		
IFRS 2	Amendment to IFRS 2 – Cash-settled Share-based Payment Transactions – This amendment clarifies that there shall now be included transactions where the transfer of cash or other assets is based on the price (or value) of the equity instruments of another Group entity. The Company has considered the effect of this interpretation and has concluded that it is not expected to have any impact on the financial statements.	1 January 2010

Certain new standards, interpretations and amendments to existing standards have been published and are mandatory only for the Company’s accounting periods beginning on or after 1 January 2011 or later periods but which the Group has not adopted early. Those that may be applicable to the Company in future are as follows:

		Effective date
International Accounting Standards (IFRS/IAS)		
IAS 24	Amendment to IAS 24 – Related Party Disclosures – This amendment clarifies the definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in its application. The revised standard introduces a partial exemption of disclosure requirements for government-related entities.	1 January 2011
IFRS 9	IFRS 9 – Financial Instruments: Classification and Measurement – IFRS 9 as issued reflects the first phase of the IASBs work on the replacement of IAS 39 and applies to classification and measurement of financial assets as defined in IAS 39. The standard is effective for annual periods beginning on or after January 2013. In subsequent phases, the IASB will address classification and measurement of financial liabilities, hedge accounting and derecognition. The completion of this project is expected in early 2011. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Group’s financial assets. The Group will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.	1 January 2013

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

Parent Company financial statements – notes continued

As at 31 December 2010

1 Accounting policies continued

Improvements to IFRS

In May 2010 the IASB issued an omnibus of amendments to its standards. The amendments have not been adopted as they become effective for annual periods starting on or after either 1 July 2010 or 1 January 2011.

- IFRS 7 Financial Instruments: Disclosures
- IAS 1 Presentation of Financial Statements

None of the amendments that are effective for the year ended 31 December 2010 had any impact on the accounting policies, financial position or performance of the Company. None of the amendments that are effective for the year beginning 1 January 2011 are expected to have any impact on the accounting policies, financial position or performance of the Company.

(b) Going concern

After reviewing the Company's budgets and cash flow projections for 2011 and 2012, and taking into consideration the acquisition of Nexen Exploration UK Ltd and the placing in March 2011, the current operating environment, the risks and the company's liquidity risk management outlined in Note 9, the Directors are satisfied that the Company has adequate resources to continue in business as a going concern. It is therefore appropriate to adopt the going concern basis in preparing the 2010 Annual Report and Financial Statements.

(c) Significant accounting estimates

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 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 in (d) below. Any impairment review, where required, involves estimates and associated assumptions related to matters (when appropriate), such as recoverable reserves; production profiles; review of forward gas and electricity prices; development, operational 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 affected any impairment provisions, are accounted for when such revisions are made. Details of the Company's Investments are disclosed in note 2.

(d) Non-current assets

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 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 is charged to the income statement.

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 and gas 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.

1 Accounting policies continued

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 and the carrying value that would have been determined had no impairment loss been recognised in prior periods.

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
Motor Vehicles	– over four years on a straight line basis
Furniture and fixtures	– over five years on a straight line basis

(e) 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.

(f) Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date including whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

Operating leases

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

(g) 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.

Parent Company financial statements – notes continued

As at 31 December 2010

1 Accounting policies continued

(h) 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, but only those related to service and performance, 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. All other vesting conditions, including Market vesting conditions, are factored into 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.

Where shares are issued to an Employee Benefit Trust, and the Company is the sponsoring entity, the value of such shares at issue will be recorded in share capital and share premium account in the ordinary way, but will not affect shareholders' funds since this same value will be shown as a deduction from shareholders' funds by way of a separate component of equity (Treasury shares).

(i) 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.

(j) Foreign Currency

Transactions denominated in currencies other than the functional currency UK pound sterling are translated at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rate of exchange ruling at the balance sheet date. All differences that arise are recorded in the income statement.

2 Non-current assets – investments in subsidiaries

Investments in subsidiaries comprises:

	£000
At 1 January 2009	50,512
Acquisition in the year, at fair value	–
Employee share based payment cost under IFRS 2	43
Disposals in the year	–
At 31 December 2009	50,555
At 31 December 2010	50,555

The subsidiary undertakings of the Company at 31 December 2010 and 2009 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 unconventional gas, including Coal Bed Methane
Island Gas Operations Limited	Electricity Generation

3 Property, plant and equipment

	Fixtures, fittings and equipment £000	Motor vehicles £000	Total £000
Cost			
At 1 January 2009 and 1 January 2010	–	–	–
Additions	21	20	41
Disposals	–	–	–
At 31 December 2010	21	20	41
Accumulated depreciation			
At 1 January 2009 and 1 January 2010	–	–	–
Charge for the year	4	5	9
Disposals	–	–	–
At 31 December 2010	4	5	9
Carrying amount			
At 31 December 2010	17	15	32
At 31 December 2009	–	–	–

4 Trade and other receivables

	2010 £000	2009 £000
Amounts falling due within one year:		
VAT recoverable	131	59
Other debtors	2	3
Amounts due from subsidiary undertakings	101	–
Prepayments	55	40
	289	102
Amounts falling due after more than one year:		
Amounts due from subsidiary undertakings	5,013	436
	5,013	436

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

All of the Company's financial assets are from debtors of good credit standing and have been reviewed for indicators of impairment and no impairment provision was found to be required (2009: £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 financial assets reported above are from the Company's subsidiary undertakings which represents a concentration of credit risk.

5 Cash and cash equivalents

	2010 £000	2009 £000
Cash at bank and in hand	11,772	17,485
	11,772	17,485

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 credit ratings of "AA" or better, except that the Company will make deposits with banks where the UK government is the major shareholder.

Parent Company financial statements – notes continued

As at 31 December 2010

6 Current liabilities

	2010 £000	2009 £000
Trade and other payables:		
Trade creditors	76	32
Taxation and social security	42	–
Accruals and other creditors	412	80
	530	112

The carrying value of each of the Company's financial liabilities being trade creditors 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 (2009: all within one month).

7 Taxation

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

	2010 £000	2009 £000
Trading loss	–	–
Excess management expenses	4,830	3,488
Related to share based payment transactions	13	–

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

8 Commitments

At the balance sheet date the Company had outstanding commitments for future minimum lease payments under non cancellable operating leases, all falling due in under one year of £45 thousand (2009: £48 thousand).

9 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. Details of the maturity dates of the Company's financial liabilities are provided in note 6.

Interest rate risk profile of financial assets

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

Interest rate sensitivity analysis

The Company is exposed to interest rate risk from changes in interest rates impacting future cash flows arising from its financial instruments, principally cash balances held at the balance sheet date. A sensitivity analysis has been performed to demonstrate the sensitivity of financial assets and financial liabilities to a reasonably possible change in interest rates applied to a full year from the balance sheet date, assuming the amount of the assets at balance sheet date are available for the whole year. An increase/decrease in interest rates of 50 basis points, with all other variables held constant, results in a decrease/increase in the Company's loss before tax of £59 thousand/£(59) thousand respectively (2009: decrease/increase of £87 thousand/£(87) thousand). There is no effect on the Company's equity other than the equivalent effect to that on loss before tax. This is wholly attributable to the Company's exposure to interest rates on its variable rate cash and cash equivalents.

Credit risk

The maximum exposure to credit risk is equal to the balances as disclosed for amounts due from subsidiary undertakings in note 4 and cash in note 5.

9 Financial instruments continued

Cash and Treasury

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, except that the Company will make deposits with banks where the United Kingdom government is the major shareholder. £11.7 million (2009: £16 million) of cash and cash equivalents is deposited with a single institution.

Trade receivables

Trade receivables credit risks are mitigated by only dealing with institutions that have investment grade credit ratings or that are subsidiaries where risks are managed as explained in the Directors Report under the heading "Principal risks and uncertainties" on page 7.

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. The Company's principle cash sources have been the issuance of share capital.

10 Share capital

Accordingly, share capital and the share capital account comprised:

	Ordinary Shares		Deferred shares	
	No.	£000 Nominal value	No.	£000 Nominal value
Authorised				
1 January 2009, Ordinary Shares of 50p each	89,114,796	44,557		
1 January 2009, Deferred Shares of .95p each			46,589,662	443
10 December 2009 new Ordinary Shares created	22,916,667	11,459		
31 December 2009	112,031,463	56,016	46,589,662	443
31 December 2010	112,031,463	56,016	46,589,662	443
	Ordinary Shares		Deferred shares	
	No.	£000 Nominal value	No.	£000 Nominal value
Issued and fully paid				
1 January 2009, Ordinary Shares of 50p each	62,329,642	31,165		
14 July 2009 shares issued	5,766,666	2,883		
10 December 2009 shares issued	22,916,667	11,459		
31 December 2009, Ordinary Shares of 50p each	91,012,975	45,507	–	–
23 April 2010 shares issued	82,500	41		
26 October 2010 shares issued	2,013,956	1,007		
31 December 2010, Ordinary Shares of 50p each	93,109,431	46,555	–	–

The following share transactions took place since 1 January 2009:

- 14 July 2009 – The Company issued 5,766,666 Ordinary 50p Shares at a price of 60p each;
- 10 December 2009 – The Company issued 22,916,667 Ordinary 50p Shares at a price of 60p each;
- 23 April 2010 – The Company issued 82,500 Ordinary 50p Shares at a price of 55p each; and
- 26 October 2010 – The Company issued 2,013,956 Ordinary 50p Shares at a price of 64.5p each

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

Deferred shares have no voting rights and shall not be entitled to any dividends or any other right or participation in the profits of the Company.

Parent Company financial statements – notes continued

As at 31 December 2010

11 Share plan/warrant reserve

The Company has made equity settled share based payments, valued as follows:

	2010 £000	2009 £000
Balance 1 January	131	167
Transfers to Share Premium re: warrants	(131)	(36)
Employee share based payment cost under IFRS 2	63	–
Balance 31 December	63	131

Warrants

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.

Movement in the Share warrant reserve during the year was as follows:

	2010 No.	2010 Weighted average exercise price (pence)	2009 No.	2009 Weighted average exercise price (pence)
At 1 January	440,000	60	523,830	58
Exercised in Period	(82,500)	55	–	–
Lapsed in Period	(357,500)	60	(83,830)	50
Outstanding at 31 December	–	–	440,000	60
Exercisable at 31 December	–	–	440,000	60

The weighted average remaining contractual life for the warrants outstanding as at 31 December 2010 is nil (2009: 12 months) with no maximum remaining term of options granted, (2009: 12 months).

Employee share plans – Equity settled

Long Term Incentive Plan (“LTIP”)

In October 2010 the Company adopted a Long Term Incentive Plan scheme for certain key employees of the Group. Under the LTIP, participants can each be granted nil cost options over up to 1.5% of the issued share capital of the Company (subject to an overall plan limit of 7.5% of the issued share capital of the Company for all participants). The LTIP has a three year performance period and awards vest subject to the achievement of stretching share price targets. On a change of control prior to the third anniversary of the grant date, a revised share price target reflecting the reduction in the performance period shall instead be used to determine the extent to which LTIP options vest. Other than on a change of control, 50% of vested awards can be exercised and sold on vesting, with the remaining 50% becoming exercisable on the first anniversary of vesting.

Details of the LTIPs outstanding during the year were as follows:

	Number of LTIPs	2010 Weighted average exercise price (in £)	LTIPs	2009 Weighted average exercise price (in £)
Outstanding at beginning of year	–	–	–	–
Granted during the year	1,125,000	nil	–	–
Forfeited during the year	–	–	–	–
Exercised during the year	–	–	–	–
Outstanding at the end of the year	1,125,000	nil	–	–
Exercisable at the end of the year	–	–	–	–

There were no LTIPs exercised during the year. The LTIPs outstanding at 31 December 2010 had both a weighted average remaining contractual life and maximum remaining term of 9.75 years.

11 Share plan/warrant reserve continued

The total charge for the year was £6 thousand. Of this amount, £3 thousand was charged to the subsidiary and £3 thousand was charged to the income statement in relation to the fair value of the awards granted under the LTIP scheme measured at grant date using a Monte Carlo Simulation Model.

The inputs into the Monte Carlo model are as follows:

	2010
Weighted average share price	64.5p
Weighted average exercise price	Nil
Expected volatility	35%
Expected life	6.5 years
Risk-free rate	1.09%
Expected dividends	0%

The expected life is the period from date of grant to the assumed exercise date. Expected volatility was determined by calculating the historical volatility of the Company's share price. The weighted average fair value of the awards granted in 2010 was 6p (2009: nil).

Share option plan

In October 2010 the Company adopted a Share option plan for certain key employees of the Group. Both executives and employees may participate in the Share Option Plan. Typically each individual participant can be granted options under the Share Option Plan with a market value at grant of up to 100% of his base salary, although this limit can be exceeded in exceptional circumstances. Share options vest in three equal tranches over a three year period from the date of grant and vested options are exercisable subject to the attainment of a Company share price target.

2010 grants under the Share Option Plan are subject to an exercise price of 70p per share.

Details of the Share options outstanding during the year are as follows:

	Number of share options	2010 Weighted average exercise price (in £)	Number of share options	2009 Weighted average exercise price (in £)
Outstanding at beginning of year	—	—	—	—
Granted during the year	1,322,204	0.70	—	—
Forfeited during the year	—	—	—	—
Exercised during the year	—	—	—	—
Outstanding at the end of the year	1,322,204	0.70	—	—
Exercisable at the end of the year	—	—	—	—

There were no Options exercised during the year. The unvested Options outstanding at 31 December 2010 had both a weighted average remaining contractual life and maximum remaining term of 9.75 years.

The total charge for the year was £57 thousand. Of this amount, £40 thousand was charged to the subsidiary and £17 thousand was charged to the income statement in relation to the fair value of the awards granted under the Share Option scheme measured at grant date using a Monte Carlo Simulation Model.

The inputs into the Monte Carlo model are as follows:

	2010
Weighted average share price	64.5p
Weighted average exercise price	Nil
Expected volatility	35%
Expected life	5–6.5 years
Risk-free rate	1.09%
Expected dividends	0%

The expected life is the period from date of grant to the assumed exercise date. Expected volatility was determined by calculating the historical volatility of the Company's share price. The weighted average fair value of the awards granted in 2010 was 12p (2009: nil).

Parent Company financial statements – notes continued

As at 31 December 2010

12 Other reserves

- Merger reserve – The merger reserve arose as a result of a reverse acquisition on 31 December 2007 whereby IGL became a wholly owned subsidiary of the Company but with IGL's shareholders acquiring 94% of the Ordinary Share Capital of the Company. The reserve represents the difference in the fair value and the nominal value of the shares issued. The reserve is not distributable.
- Share Premium account – The share premium account of the Company arises from the capital that the Company raises upon issuing shares for consideration in excess of the nominal value of the shares net of the costs of issuing the new. During the year the Company issued 82,500 and 2,013,956 Ordinary 50p Shares at a price of 55p and 64.5p each (2009: 28,683,333 Ordinary 50p Shares at a price of 60p each). The cost of the issue was nil (2009: £1,121 thousand). Together these events resulted in a net movement in the Share Premium reserve of £297 thousand (2009: £1,783 thousand).
- Treasury shares – The Treasury shares of the Company has arisen in connection with the shares issued to the IGL Employee Benefit Trust of which the Company is the sponsoring entity. The value of such shares is recorded in share capital and share premium account in the ordinary way and is also shown as a deduction from equity in this separate Treasury shares account; and so there is not net effect on shareholders' funds.
- Retained Earnings/(accumulated deficit) – This represents the historic accumulated losses made by the Company shares and from transfers from the Share plan/warrant reserve, when warrants lapse.

13 Related party transactions

(a) With Group companies

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

	2010 £000	2009 £000
Subsidiaries:		
Amounts due from/to subsidiary:		
Island Gas Limited:		
Balance 1 January	436	225
Services performed by subsidiary	–	(112)
Net cash advances	4,046	(196)
Services performed for subsidiary	531	519
Balance 31 December	5,013	436
Island Gas Operations Limited:		
Balance 1 January	–	–
Net cash advances	101	(519)
Balance 31 December	101	225

A summary of year end balances is as follows:

Amounts due from Subsidiary:		
Island Gas Limited	5,013	436
Island Gas Operations Limited	101	–

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 Notes 5 and 19 to the consolidated accounts.

14 Subsequent events

On 9 March 2011, the Company acquired the entire issued share capital of Nexen Exploration UK Limited (renamed IGL Exploration Limited) for a consideration of £25.6 million (the "Acquisition"). 39,714,290 new ordinary shares of 50p were allotted to Nexen Petroleum U.K. Limited credited as fully paid in consideration for the Acquisition. The acquisition is aligned with the Group's strategy by securing 100% ownership of assets and operatorship through the purchase of Nexen Exploration UK Limited.

The Company raised gross proceeds of £20.625 million for 27,500,000 new Ordinary 50p Shares when the Acquisition became unconditional on 9 March 2011.

Following completion of the Placing and the Acquisition, the Company's current issued share capital is 160,323,721 Ordinary Shares.

On 22 March 2011, A Austin disposed of 770,000 shares.

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 IGas Energy 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:

"2006 Act"	the Companies Act 2006
"Accounts"	the audited financial statements of the Company for the year ended 31 December 2010
"Annual General Meeting" or "AGM"	the annual general meeting of the Company convened for Monday 20 June 2011 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
"Company"	IGas Energy plc
"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

Annual General Meeting

The Annual General Meeting of the Company will be held at the offices of Morrison & Foerster (UK) LLP, Citypoint, One Ropemaker Street, London EC2Y 9AW at 10:30 am on Monday 20 June 2011, at which the following resolutions will be proposed:

1. to receive and adopt the Company's Annual Report and Accounts for the financial year ended on 31 December 2010, 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 2010 and the Independent Auditors' Report on the auditable part of the Remuneration Report;
3. to reappoint as a Director Richard Armstrong 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 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;
5. to reappoint as a Director John Bryant who, in accordance with the Articles, is required to retire by rotation at the Annual General Meeting and, being eligible, offers himself for reappointment;
6. to reappoint as a Director John Blaymires who, in accordance with the Articles, having been appointed since the last annual general meeting is required to retire at the Annual General Meeting and, being eligible, offers himself for reappointment;
7. to reappoint Ernst & Young LLP as the auditors of the Company until the next annual general meeting;
8. to authorise the Directors to determine the level of the remuneration of the auditors;
9. to grant the Directors authority to allot shares in the capital of the Company; and
10. to grant the Directors the power to disapply the statutory pre-emption rights for certain shares in the capital of the Company.

Resolutions 1 and 2 and 7 and 8 are self explanatory. Information on the other Resolutions is provided below. Resolutions 1 to 9 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. Resolution 10 is a special resolution that requires to be passed the approval of 75% of such Shareholders, determined in the same way as for the ordinary resolutions.

Proposed business of the Annual General Meeting continued

Resolution 3 – reappointment of Richard Armstrong as a Director

Mr Armstrong 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 a Non-Executive Director.

As well as being a Non-Executive Director of the Company, Mr Armstrong 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, such as Weatherly International plc and Artidium plc. In most cases he has joined the Board of these companies and has played a major role in helping them to acquire or establish operating businesses. He is currently a Director of a number of unquoted companies.

Resolution 4 – 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 is the Chief Executive Officer of the Company. He previously specialised in energy projects in the gas, electricity and renewables sector. Mr Austin has been an Executive Director since 2004 and for the last four years has been Chief Executive Officer with full time responsibility for day to day operations and business development. Prior to joining the Company, Mr Austin has been involved in ventures as principal and has also raised substantial funds from private and public equity for clients during the course of his career. 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 5 – reappointment of John Bryant as a Director

Mr Bryant 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 Senior Independent Non-Executive Director.

Mr Bryant is the Chairman of AIM listed Weatherly International plc. He was until recently a board member of the Attiki Gas Company, which supplies natural gas to Athens and the surrounding districts. Mr Bryant 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, Mr Bryant 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. Mr Bryant is a Fellow of the Institute of Directors and a Fellow of the Royal Society of Arts.

Resolution 6 – reappointment of John Blaymires as a Director

Mr Blaymires was appointed as Chief Operating Officer in April 2010 and as a Director of the Company on 19 October 2010, which was subsequent to the last annual general meeting and, in accordance with the Articles, he must retire at this Annual General Meeting, but he offers himself for re-appointment. Upon appointment, the Board considered that his experience made him a suitable candidate to complement the board. The Nomination Committee has considered his re-appointment and considers that his performance remains effective, particularly having regard to his responsibilities as Chief Operating Officer.

Mr Blaymires has 27 years of international experience in the oil and gas industry gained with the Hess Corporation and Shell International. Before joining the Company he was Director of Technology Development for Hess based in Houston, where he helped develop a global engineering and geoscience technology group responsible for providing support across the E&P business, from deepwater to unconventional resources. Prior to that, Mr Blaymires was Technical Director for Hess' operations in West Africa, and subsequently South East Asia with responsibility for several major oil and gas developments. Mr Blaymires has a BSc and PhD in Mining Engineering from Leeds University.

Resolution 9 – authority to issue shares

At the Annual General Meeting held on 7 June 2010, the Directors were authorised, in accordance with section 551 of the 2006 Act, to allot Ordinary Shares, grant rights to subscribe or to convert any security into Ordinary Shares up to an aggregate nominal amount of £15,168,829. This authority expires at the conclusion of this Annual General Meeting.

In addition, at the General Meeting held on 4 March 2011, the Directors were authorised, in accordance with section 551 of the 2006 Act, to allot Ordinary Shares, grant rights to subscribe for shares or to convert any security into Ordinary Shares up to an aggregate

nominal amount of £33,607,145 (in addition to the existing authority conferred on the Directors by the ordinary resolution passed by the Company on 7 June 2010). The Directors of the Company allotted Ordinary Shares to the extent of this authority pursuant to each of the acquisition of Nexen Exploration UK Limited and the placing of 27,500,000 Ordinary Shares in the capital of the Company, as announced on 9 March 2011.

It is therefore proposed to revoke the existing authority and replace it with a new authority, granted under section 551 of the 2006 Act, which will allow the Directors to allot Ordinary Shares and to grant rights to subscribe for or to convert any securities into Ordinary Shares up to an aggregate nominal amount of £26,720,620 representing approximately one third of the issued ordinary share capital of the Company and a further aggregate nominal amount of £26,720,620 representing approximately a further third of such issued share capital, which will be available only for rights issues and other pre-emptive issues of equity shares.

The proposal that the authority to allot new Ordinary 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 ("ABI") which confine the use of this amount to rights issues only. The Directors have no present intention of exercising this authority. However, if they do exercise the authority, the Directors intend to follow the emerging best practice as regards its use (including as regards Directors standing for re-election) as recommended by the ABI and the National Association of Pension Funds.

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 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 10 – disapplication of pre-emption rights

Section 561 of the 2006 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 £12,024,279 representing approximately 15 per cent. of the equity share capital of the Company (including treasury shares) 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 per cent. 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 9 and 10 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 greater 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.

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, Bridgwater Road, Bristol BS99 6ZY, as soon as possible, but in any event no later than 10:30 am on 16 June 2011. Alternatively, you may e-mail or fax your completed proxy form by following the instructions in Note (3) to the Notice of Annual General Meeting.

Such an electronic appointment must also be made no later than 10:30 am on 16 June 2011.

The return of a Form of Proxy or the electronic appointment of a proxy does not preclude you from attending and voting at the Annual General Meeting if you so wish.

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 comprising 38,483,847 Ordinary Shares, representing approximately 24% of the issued share capital.

Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting of IGas Energy plc will be held at the offices of Morrison & Foerster (UK) LLP, Citypoint, One Ropemaker Street, London EC2Y 9AW at 10:30 am on Monday 20 June 2011 to consider, and if thought fit, pass the following resolutions of which resolutions 1 to 9 will be proposed as ordinary resolutions and resolution 10 will be proposed as a special resolution.

Ordinary business

1. To receive and adopt the Company's Annual Report and Accounts for the financial year ended 31 December 2010 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 2010 and the Independent Auditors' Report on the auditable part of the Remuneration Report.
3. To reappoint as a Director, Richard Armstrong, who is retiring by rotation in accordance with Article 38 of the Company's Articles of Association and who being eligible is offering himself for reappointment.
4. To reappoint as a Director, Andrew Austin, who is retiring by rotation in accordance with Article 38 of the Company's Articles of Association and who being eligible is offering himself for reappointment.
5. To reappoint as a Director, John Bryant, who is retiring by rotation in accordance with Article 38 of the Company's Articles of Association and who being eligible is offering himself for reappointment.
6. To reappoint as a Director, John Blaymires, who having been appointed since the last annual general meeting is retiring in accordance with Article 33.2 of the Company's Articles of Association and who being eligible is offering himself for reappointment.
7. 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.
8. To authorise the Directors to determine the remuneration of the auditors.

Special business

9. 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 551 of the Companies Act 2006 (the "2006 Act") to exercise all the powers of the Company to:
 - (A) allot shares in the Company and to grant rights to subscribe for or to convert any security into such shares (all of which transactions are hereafter referred as an allotment of "relevant securities") up to an aggregate nominal amount of £26,720,620; and
 - (B) allot equity securities (within the meaning of section 560(1) of the 2006 Act) up to an aggregate nominal amount of £26,720,620 in connection with a rights issue or other pre-emptive offer 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.

10. That, subject to and conditionally upon the passing of resolution 9, the Directors are hereby empowered pursuant to section 570 of the 2006 Act to allot equity securities (as defined by section 560 of the 2006 Act) for cash pursuant to the authority conferred by resolution 9 as if section 561 of the 2006 Act did not apply to any such allotment provided that such power:

(A) shall, subject to the continuance of the authority conferred by resolution 9, 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 £26,720,620 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 (B)(1) up to an aggregate maximum nominal amount of £12,024,279.

20 May 2011

By Order of the Board

MoFo Secretaries Limited

International House

1-6 Yarmouth Place

London

W1J 7BU

Registered in England & Wales

Company No: 04981279

Notice of Annual General Meeting continued

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) A corporation which is a Shareholder may appoint one or more corporate representatives who have one vote each on a show of hands and otherwise may exercise on behalf of the Shareholder all of its powers as a shareholder provided that they do not do so in different ways in respect of the same shares.
- (3) 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, Bridgewater Road, Bristol BS99 6ZY not later than 10:30am on 16 June 2011 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. In calculating the said periods of 48 and 24 hours for deposit of a proxy, there is to be excluded any part of a day which is a Saturday or Sunday, Christmas Day, Good Friday or a bank holiday in England. 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 by telephoning them on 0870 707 1106. 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. Alternatively you may e-mail your completed proxy form as an attachment to an e-mail headed "Appointment of proxy for AGM of IGas Energy plc on Monday 20 June 2011" addressed to the Company Secretary at igas@mofo.com or faxing it to the registrars with a cover sheet similarly endorsed on 020 7496 8564 in each case with evidence of the authority of the person submitting it, where required. A notice of a revocation of a proxy's authority can only be accepted electronically by this method and if using this method the heading or cover sheet should read "Revocation of proxy appointment for AGM of IGas Energy plc on Monday 20 June 2011".

A proxy form or a revocation of a proxy's authority submitted by any of these electronic means must be received by the same deadline as applies to proxy forms submitted by post or by hand.

Completion and return of the Form of Proxy or the electronic appointment of a proxy will not preclude Shareholders from attending and voting in person at the meeting.

- (4) An abstention (or "vote withheld") option has been included on the Form of Proxy and in the available options for electronic proxy voting. 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.
- (5) 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 10:30 am on 16 June 2011 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.
- (6) No e-mail address or fax number referred to in this document may be used for any purpose other than as specified in this document.
- (7) Shareholders, proxies and authorised representatives may raise questions at the meeting concerning any business being dealt with at the meeting and will receive answers, except that a question need not be answered where it would interfere unduly with the preparation of the meeting, would involve the disclosure of confidential information, where the answer has already been given on a website in the form of an answer to a question or where it is undesirable in the interests of the Company or the good order of the meeting that the question be answered.
- (8) Please note that the Annual General Meeting is a private meeting for shareholders, proxies and any other duly authorised representatives. Other persons, including spouses and partners of those entitled to attend are not entitled as of right to admission to the meeting.

Glossary

£	The lawful currency of the United Kingdom
1C	Low estimate or low case of Contingent Recoverable Resource quantity
2C	Best estimate or mid case of Contingent Recoverable Resource quantity
3C	High estimate or high case of Contingent Recoverable Resource quantity
AIM	AIM market of the London Stock Exchange
Bcf	Billions of standard cubic feet
CBM	Coal bed methane
Contingent Recoverable Resource	<p>Contingent Recoverable Resource estimates are prepared in accordance with the Petroleum Resources Management System (PRMS), an industry recognised standard. A Contingent Recoverable Resource is defined as discovered potentially recoverable quantities of hydrocarbons where there is no current certainty that it will be commercially viable to produce any portion of the contingent resources evaluated. Contingent Recoverable Resources are further divided into three status groups: marginal, sub-marginal, and undetermined. IGas' Contingent Recoverable Resources all fall into the undetermined group. Undetermined is the status group where it is considered premature to clearly define the ultimate chance of commerciality.</p> <p>All amounts shown in this annual report have been compiled by statistical aggregation</p>
DECC	Department of Energy and Climate Change
GIIP	Gas initially in place
IGL	The Company's subsidiary holding all its licences
MMboe	Millions of barrels of oil equivalent
MMscfd	Millions of standard cubic feet per day
PEDL	United Kingdom petroleum exploration and development licence
Scf	Standard cubic feet
Tcf	Trillions of standard cubic feet of gas
UK	United Kingdom

Notes

/ General information

Directors

F R Gugen – Non-Executive Chairman
A P Austin – Chief Executive Officer
J Blaymires – Chief Operating Officer
R J Armstrong – Non-Executive
J Bryant – Non-Executive
J A Hamilton – Non-Executive

Company Secretary

Mofo Secretaries Limited

Citypoint
One Ropemaker Street
London EC2Y 9AW

Nominated Adviser and Broker

RBS Hoare Govett Limited

250 Bishopsgate
London EC2M 4AA

Registrars

Computershare Investor Services PLC

The Pavilions
Bridgwater Road
Bristol BS13 8AE

Auditors

Ernst & Young LLP

1 More London Place
London SE1 2AF

Public Relations

Kreab Gavin Anderson

Scandinavian House
2–6 Cannon Street
London
EC3M 6XJ

Bankers

HSBC

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

Lloyds TSB Bank Plc

Beech House
28–30 Wimborne Road
Poole
Dorset
BH15 2BL

Registered Office

International House
1–6 Yarmouth Place
London W1J 7BU

Copies of Reports and Accounts

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



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

+44 (0)20 7993 9899
www.igasplc.com

Financial and Public Relations
Kreab & Gavin Anderson and Company
Scandinavian House
2-6 Cannon Street
London
EC4M 6XJ
United Kingdom

Tel: +44 (0)20 7074 1800

