

25 June 2014

**IGas Energy plc ("IGas" or "the Company")**

**Preliminary results for the year ended 31 March 2014**

IGas, one of the leading producers of onshore hydrocarbons in Britain, is pleased to announce its preliminary results for the year ended 31 March 2014.

**Financial Highlights<sup>1,5</sup>**

- Revenues of £75.9m (2013: £68.3m)
- Total Production c.1.0mmboe (2013: c. 0.9mmboe)
- EBITDA<sup>2</sup> of £34.3m (2013: £32.3m)
- Underlying operating profit<sup>3</sup> of £20.3m (2013: £22.1m)
- Net profit/(loss) before tax of £2.3m (2013: (£6.0m))
- Net cash from operating activities £25.2m (2013: £28.9m)
- Cash and cash equivalents at 31 March 2014 were £28.3m (2013: £9.8m)
- Net debt of £80.4m<sup>4</sup> (2013: £77.4m)
- Completed issue of US\$165m secured bonds in April 2013, and issued US\$30m unsecured bonds in December.

**Operational Highlights**

- Farm-out agreement with Total E&P UK Limited ("Total") signed, under which Total acquired a 40% interest in PEDL 139/140 Licences. Total will fund a fully carried work programme of up to \$46.5 million, with a minimum commitment of \$19.5 million. IGas was appointed operator on the Licences with an increase in equity interest to 14.5%.
- Exploration well successfully completed at Barton Moss, Eccles. Full laboratory analysis of the cores is underway, the results of which are expected in the Autumn.
- Following completion of seismic acquisition for PEDL 139/140 we are now implementing a programme to acquire c. 100 km<sup>2</sup> of 3-D seismic data in the North West with a view to firming up several potential exploration and development sites in the area.
- Acquisition of Caithness from Caithness Petroleum plc for £7.9m (including assumed borrowings and closing adjustments) which was financed by issuing 7,488,301 ordinary shares.
- Progress on 'Chase the Barrels' initiative continues with a focus on sustainable long term production enhancements.
- Post year end proposed acquisition of Dart Energy Limited valuing the total share capital of Dart, on announcement, at approximately A\$211.5m on a fully diluted basis (being equivalent to £117.1m).

#### *Notes*

*1 On 28 February 2013, the Company completed the acquisition of PR Singleton from Providence Resources plc and therefore the 2013 results reflect one month's contribution from PR Singleton*

*2 EBITDA relates to earnings before gains/(losses) on oil price derivatives, net finance costs, tax, depletion, depreciation and amortisation, acquisition costs and impairment of exploration and evaluation assets*

*3 Underlying operating profit excludes the gains/(losses) on oil price derivatives, acquisition costs and impairment of exploration and evaluation assets*

*4 Net debt is borrowings less cash and restricted cash*

*5 On 6 December 2013 the Company completed the acquisition of Caithness Oil Limited and therefore the 2014 results reflects four month's contribution from Caithness Oil*

Commenting on the announcement Andrew Austin, CEO, said:

“2013 has been another successful year for IGas. We continued to deliver on our strategy of becoming the leading onshore independent company developing and producing discovered hydrocarbons in Britain.

The proposed Dart acquisition puts IGas at the heart of unlocking Britain's energy potential and demonstrates our commitment to, and confidence in, the British onshore oil and gas sector. The transaction will further strengthen our position financially, operationally and also significantly increases our licenced acreage as we seek to unlock the untapped energy resource that exists in Britain.

In addition to exploration wells, it is our intention during 2015, in conjunction with partners, to drill and flow test wells on either side of the Pennines; one in the North West, and one in the East Midlands, subject to being able to obtain all the necessary permits in place. The acquisition of ca. 100 km<sup>2</sup> of 3-D seismic surveys is underway across the North West with a view to confirming suitability of potential exploration and development sites in the area.”

#### **ENQUIRIES**

**For further information please contact:**

##### **IGas Energy Plc**

Andrew Austin – Chief Executive Officer

Stephen Bowler – Chief Financial Officer

Ann-marie Wilkinson – Head of Communications

Tel: +44 (0)20 3675 6059

##### **Jefferies International Limited**

Sara Hale/Jason Grossman

Tel: +44 (0)20 7029 8000

##### **Canaccord Genuity Limited**

Tim Redfern/Henry Fitzgerald-O'Connor

Tel: +44 (0)20 7523 8000

**MHP**

Rupert Trefgarne

Tel: +44 (0)20 3128 8100

## **Chairman's Statement**

I am delighted to report on a year of material developments for both IGas and the wider onshore oil and gas industry in Britain.

Production has been in line with budget, we have acquired an additional producing asset in Scotland, successfully completed an exploration well in the North West and have a significant forward programme for both our existing producing assets as well as shale and coal bed methane appraisal.

During the course of the year there has been meaningful progress made in developing the regulatory and associated framework to support shale gas development. The Government has now put its full support behind shale gas and there is a broad cross party consensus in favour of its development in Britain. As part of this progress the government is putting in place a considerable number of measures whereby local communities will benefit directly from shale activity, starting at the exploratory phase and increasing very substantially in the event of commercial production.

Recent studies in Britain by a number of eminent institutions and individuals including the Royal Society and Royal Academy of Engineering, Public Health England, the Chartered Institute of Water and Environmental Management and Professor David Mackay and Dr Tim Stone have all concluded that any potential risks associated with hydraulic fracturing can be managed in a properly regulated industry.

## **Financial Results**

Revenues attributable to oil and gas production during the period were £75.9 m (2013: £68.3m) on production of c. 1.0mmboe (2013: c. 0.9mmboe).

EBITDA<sup>2</sup> for the year to 31<sup>st</sup> March 2014 was £34.3m (2013: £32.3m) and we made a net profit of £2.3m against a loss in 2013 of £6.0m.

The Company ended the period with £28.3m of cash and cash equivalents (2013:£9.8m), net debt of £80.4m (2013: £77.4m) and net current assets of £74.3m (2013: £59.1m).

We completed a successful refinancing of the Macquarie debt through the completion of US\$165m five year term bonds in April 2013, which listed on the Oslo Børs in September. In December we completed the arrangement of a US\$ 30m senior unsecured bonds issue, which were listed on the Oslo alternative bond market shortly thereafter.

<sup>2</sup>EBITDA relates to earnings before gains/(losses) on oil price derivatives, net finance costs, tax, depletion, depreciation and amortisation, acquisition costs and impairment of exploration and evaluation assets

## **Operational Review**

In December 2013 we acquired Caithness Oil Limited, a producing asset in Scotland, with upside potential through the monetisation of associated gas. This is in line with our strategy of supplementing organic growth with acquisitions that have a complementary fit with the business.

Earlier this year IGas, along with our partners Egdon Resources, Dart Energy and eCorp signed a Farm-out Agreement with Total E&P UK Limited for a fully funded work programme of up to US\$46.5m on two of our licence areas in the Gainsborough Trough in Lincolnshire. IGas became operator of the licences on completion of the deal in February and, unusually increased its interest in the licence through the transaction.

The entry of the first super major into British shale gas licences is a further endorsement of the potential that exists following the commitments by Centrica and GDF Suez to other UK acreage, and demonstrates strong support for our operating capability.

We completed drilling operations at our exploration well at Barton Moss in Eccles in a safe and environmentally responsible manner. The well encountered the coal measures at anticipated depths and also found a package comprising the Sabden and Bowland Shale formations.

With three decades of experience of onshore exploration and developments in Britain, the IGas Group is well aware of the challenge of managing both above and below ground risks. The former, in particular, have grown in complexity more recently as we are rightly being held ever more accountable for the impact of our operations.

We are investing heavily in building our organisational capabilities, continuously seeking to improve our understanding, engagement and social performance. We are determined to maximise local business opportunities and are committed to engaging with the communities in which we operate with integrity and transparency.

## **People**

Enabling people to fulfil their potential is central to achieving both our strategy and our vision of creating shared prosperity for our shareholders, our staff and the communities with whom we work. Our workforce now totals 161 people. We remain focused on building capacity in our areas of operation and creating local employment opportunities.

The contribution and efforts of the executive team at IGas has led to significant value creation for your Company over the last year and I would like to commend them particularly on this result.

I would also like to thank all of our employees and contractors for their hard work and commitment to the future success of the Company.

## **Outlook**

The global appetite for energy continues to grow. Domestically, North Sea oil and gas output has fallen by 38 % over the last three years and by 2020 Britain is set to be reliant on imports to meet 70 % of the country's gas needs. The vulnerability of energy supplies has also been exposed by international political unrest. When it comes to security of supply, there is a pressing need for solutions and we believe we have successfully positioned IGas to be part of the solution.

Since the year end, as part of our strategy to secure access to more resources, we have announced the proposed acquisition of Dart Energy which will create a market leading onshore British oil and gas company with the largest area in Britain under licence of over 1 million net acres, including a presence in each of Britain's major shale basins.

We also intend to be an active participant in the 14th UK Onshore licensing round which is currently expected to be announced around mid-year.

Your Board remains committed to creating long-term sustainable value for all of our stakeholders.

## **Chief Executive Officer's Review**

This has been another successful year for IGas. We continued to deliver our strategy of becoming the leading onshore independent company developing and producing discovered hydrocarbons in Britain.

We have seen further growth in the business whilst constantly maintaining our focus on operational excellence. The recent announcement of the proposed acquisition of Dart Energy will create a British national energy champion with a track record of drilling wells safely and on budget, placing the enlarged group in a strong position to deliver on its existing asset base and for future licensing rounds.

Confidence in British shale has been demonstrated over the period by Centrica's investment into Cuadrilla's acreage, which is situated close to our licences in the North West, GDF Suez's farm-in transaction with Dart Energy, whose acreage is located immediately to the South of our acreage in the North West and adjacent to our licences in the East Midlands and our own farm-out agreement with Total E&P UK Limited in our PEDL139/140 Licences located in the Gainsborough Trough.

During the year significant progress has been made in developing the regulatory and associated framework to support shale gas development.

In June 2013, the DECC announced a benefits package for communities near new shale gas drilling sites. Under the proposals operators will offer local communities £100,000 per hydraulically fractured well when wells are tested, as well as 1% of revenues once sites become commercial. The industry, under the umbrella of the United Kingdom Onshore Operators Group (UKOOG), the representative body for UK onshore oil and gas companies, subsequently launched a pilot scheme, for the first few exploration sites. The scheme, will be in partnership with UK Community Foundations (UKCF), which works for communities through a UK-wide network of community foundations, to independently administer the funds on behalf of the community. UKOOG has also launched a consultation programme across a range of stakeholders to gauge community opinion on a number of different potential schemes to create a community benefit mechanism to distribute the 1% share of production revenue.

The EA has published draft technical guidance for onshore oil and gas exploration drilling, covering both conventional and unconventional targets. This consultation closed on 23<sup>rd</sup> October 2013. The EA has announced that it will develop a single application pack for all Environmental Permit Regulators including mining waste and NORM (naturally occurring radioactive materials), to streamline the existing processes.

In September 2013, the Government published the Mackay Stone report compiled by Professor David MacKay, chief scientific advisor at DECC, and Dr Tim Stone, Special Advisor to the Secretary of State, into the subject of greenhouse gas emissions from shale gas operations. The report concluded that, with the right safeguards in place, the net effect on greenhouse gas emissions from shale gas production in Britain will be relatively small and is likely to have a greenhouse gas footprint similar to other fossil fuels that society currently depends on.

Public Health England released a report in October on the potential public health risks from shale gas production. The report states that properly run and regulated shale gas extraction represents a low risk to public health.

In the Autumn Statement the Chancellor announced a new fiscal regime for the onshore oil and gas sector. The regime reduces the tax rate on a portion of a company's profits from 62% to 30% to reflect the challenges of shale gas exploration. Companies will receive an allowance equal to 75% of capital spent on projects.

In January 2014, DECC announced that local councils will be able to keep 100% of business rates generated from onshore production sites bringing new sites into line with renewables projects.

More recently, the latest Intergovernmental Panel on Climate Change (IPCC) Report stated that shale gas can help the world to avoid dangerous climate change if it replaces coal in power stations.

## **Operational Review**

### **Producing Assets**

The average net production in the 12 months to 31 March 2014 was 2,783 boepd (2013: 2,470 boepd).

We have made good progress on our Chase the Barrels initiative and during the period, the technical team has investigated a number of opportunities to increase oil production through relatively low cost well intervention and production enhancement operations. Comprehensive subsurface studies were carried out to identify and rank the most attractive short term well re-entry opportunities, including for example re-perforation, water shut off and recompletions.

### **Caithness**

In December 2013, we acquired Caithness Oil (which includes a 100% interest in the Lybster field), a subsidiary of Caithness Petroleum Limited, a privately-owned British independent oil and gas exploration and production company for a total consideration of £7.9 m (including assumed borrowings and closing adjustments) paid through the issue of 7,488,301 shares.

The Lybster field was discovered in 1996 by Premier Oil and was put into production in May 2012. The oil is currently transported and sold to facilities at Nigg. We have carried out routine workovers on the well and production has averaged over 100 bopd.

This acquisition represented a good opportunity to increase our existing production and one that offers significant upside potential through gas monetization of up to 2 mmscf/d of associated gas as well as additional upside through utilisation of significant existing tax losses

### **North West**

Last June we released our estimated volume of Gas Initially In Place associated with the Shales in the North West, including the Bowland Shale, at up to 102 Tcf (in the midcase).

We constructed a geological model utilising 330 kms of reprocessed seismic lines, subsurface data (including cores, logs) from c. 20 offset wells and geological data from our well at Ince Marshes. This data has been analysed to give estimates of the reservoir characteristics of the shale formations and the thickness of the shale. These estimates cover an area of 300 square miles giving an average mid case in place volume of c. 340 Bcf/ square mile with a range of 93 Bcf/square mile to 677 Bcf/square mile across our North West acreage. As part of our drilling programme to further refine these estimates we successfully drilled an exploration well at Barton Moss in Eccles, Greater Manchester over the winter.

### **Exploration Well at Barton Moss**

The operation commenced in November 2013 and the drilling was completed in March, on time and on budget.

The well encountered the coal measures at anticipated depths and also successfully intersected the secondary target of the Dinantian limestone to calibrate the seismic data and in doing so, the well also found a package comprising the Sabden and Bowland Shale formations. Over 400 feet of core was acquired across the shale intervals and a full suite of wire line logs was run which together with the core data will be used to further evaluate the prospectivity of both the shale interval as well as the coal measures.

The well is now suspended and full laboratory analyses of the cores is underway the results of which are expected in the late Autumn. The results from the core analyses together with the wireline log data will be integrated and utilised to determine the next steps in the appraisal process. The core data will be very beneficial in understanding the geomechanical aspects of the shales and this will help provide key data to optimise the design of any future programme involving hydraulic fracturing of the Bowland Shale.

We are now in the process of implementing a programme to acquire c. 100 km<sup>2</sup> of 3-D seismic data in the North West with a view to firming up several potential exploration and development sites in the area, prior to the drilling of our next well. This 3-D seismic will also be fully compliant with UKOOG Shale Gas guidelines, the recommendations of the Royal Society and Royal Academy of Engineers and the requirements of the DECC consent process prior to any shale gas hydraulic fracturing and flow testing operations being undertaken. This data will inform any future hydraulic fracture design and help to ensure minimal environmental impact.

### **East Midlands - PEDL 139/140**

In February, IGas and our partners Egdon Resources, Dart Energy and eCorp announced a Farm-out Agreement with Total E&P UK Limited ("Total"), under which Total acquired a 40% interest in the PEDL 139 /140 Licences. Total will fund a fully carried work programme of up to US\$46.5 m, with a minimum commitment of US\$19.5 m. The Licences cover an area of 240Km<sup>2</sup> and border PL178 and PEDL006 at Beckingham, one of our existing producing fields. We were appointed operator on the Licences at completion, which together with the increase in our own equity holding as a result of the farm-out, is an endorsement of the value of our operating capability.

The programme will include the acquisition of 3D seismic; the drilling and testing of a vertical exploration well and associated well pad construction; and, conditional on the success of the testing of the exploration well, the drilling and testing of a second appraisal horizontal well.

We have now completed our 3-D seismic acquisition on PEDL 139/140 on behalf of our joint venture partners. Accordingly, we will now appraise the results with a view to site selection, before preparing both an Environmental Risk Assessment and subsequently a full Environmental Impact Assessment for the identified exploration well. In parallel, a comprehensive community engagement programme in the selected area is being implemented.

### **Health & Safety**

Nothing is more important to IGas than safety – from our people and the communities in which we operate, to the integrity of the assets and facilities that we manage and operate.

I am delighted that we have been awarded a RoSPA Gold Award for the eighth consecutive year and have had no lost time incidents through the period.

### **IGas in the Community**

Supporting and sustaining the communities in which we operate is fundamental to our success and communicating with our neighbours is an essential part of our everyday operations.

We have now announced the successful recipients of the 2014 round of our IGas Energy Community Fund. This independently administered fund was established to help local communities located close to the oil and gas exploration and production sites where we operate.

### **Share Incentive Plan**

In 2013 we introduced an Inland Revenue approved all-employee Share Incentive Plan (“SIP”) to encourage wider share ownership amongst staff and to reward the achievement of quarterly production forecast targets with company sponsored ‘matching shares’. Under the plan, employees contribute up to £150 per month (£125 per month prior to April 2014) from their gross salary which is used to acquire shares in IGas, which are held in Trust to benefit from income and capital gains tax allowances.

Following the initial subscription and matching award in March 2013, the Company has subsequently made 2-for-1 matching contributions in 3 of the 4 quarterly periods, reflecting the successes there have been with production. Employees who have made the maximum contribution since inception have now contributed £3,000 towards the plan and in addition to their holding of 3,475 ‘Partnership’ shares, also hold 6,498 performance-related Company ‘matching’ shares, with a combined value in excess of £13,000.

The scheme has already won two awards the ESOP *Best Employee Share Ownership Plan for companies with fewer than 1,500 employees* and the IFS Proshare *Best Commitment to Employee Share Ownership (Small Company)*.

## **Outlook**

In addition to exploration wells it is our intention, in conjunction with partners, to drill and flow test wells during 2015 on either side of the Pennines; one in the North West, and one in the East Midlands, subject to being able to obtain all the necessary permits in place. The acquisition of ca. 100 km<sup>2</sup> of 3-D seismic surveys is underway across the North West with a view to confirming suitability of potential exploration and development sites in the area.

Our 'Chase the Barrels' initiative continues to help us get the most out of our producing assets and work continues on an increasing number of gas monetisation opportunities. The results of technical work designed to produce a detailed understanding of our producing reservoirs is being used to develop work programmes which will continue this coming year. If successful, these programmes will offset natural decline and support current production. We also continue to identify infill drilling opportunities.

The proposed acquisition of Dart Energy will be voted on by both sets of shareholders in the coming weeks. With their support, the combined asset base of the businesses would reinforce our position at the heart of unlocking Britain's energy potential and further demonstrates our commitment to, and confidence in, the British onshore oil and gas sector. The transaction would further strengthen our position financially, operationally and also significantly increase our licensed acreage.

We are committed to delivering both existing and potential hydrocarbons across the country in partnership with local communities, as we work together to unlock what could be a strategically important resource for Britain.

## **Producing Assets**

### **Current production**

The average net production in the twelve months to 31 March 2014 was 2,783 boepd (2013: 2,470 boepd).

Our production is evenly spread between our fields in the East Midlands in the North and the Weald Basin in the South. Following the Caithness acquisition oil production from the Lybster field has been average over 100 bopd.

We continue to identify opportunities to enhance recovery and production from our conventional fields. Our 'chase the barrels' initiative and other technical studies have demonstrated the potential to add new production.

Our total conventional reserves and resources have been independently assessed by Senergy this year as 23.9mmboe (2P and 2C). In comparison, the assessment at the time of 2012 CPR by Senergy was 16.4mmboe (2P and 2C). The 2014 figures include the 2P reserves and resources in relation to the acquisitions of Singleton (including the Baxter's Copse field) and Caithness assessed by Senergy.

The Doe Green pilot Coal Bed Methane ("CBM") site continues to produce gas which is used to generate electricity and is then exported to the National Grid.

### **Chase the barrels**

Progress on our Chase the Barrels initiative has continued with activity to realise incremental production and opex optimisation. This has been augmented by an increasing focus on more sustainable long term production enhancements such as the pilot water flood initiatives at Welton and Beckingham. It is hoped that success in these areas will help lift reserves.

During the period, the technical team continued to evaluate a number of opportunities to increase oil production through relatively low cost well intervention and production enhancement operations. Based on comprehensive subsurface studies the most attractive short term well entry opportunities, including for example re-perforations, water shut offs and recompletions were identified, ranked and some have been implemented.

We have continued to pursue well interventions to enhance performance, examples include, workover of Stockbridge and Storrington wells to enhance production and install downhole gauges (STOR-1) to monitor reservoir pressure and optimise offtake. Similar activities have been conducted to optimise jet pump performance at various locations.

We continue to look for new innovative technology applications that may be of benefit, notable examples include the re-perforation of Glentworth-11. Other examples include running perforating tools on rods which have significant cost savings over more traditional approaches.

We have also successfully trialled the installation of a wax reduction tool in a number of wells. The results from the long Clawson C2 well suggest that we can reduce the need for "hot washing" from twenty six times per annum to just four which results in a reduction of deferred production of some 2,000 bbls per annum. This trial is to be extended to other wells which have a similar waxing issues.

If successful, this will increase well up-time and reduce the need for costly workovers and associated deferred production.

The programme of work for the installation of technology to optimise rod pumping wells using Rod Pump Off Controllers (RPOC) has continued. To date we have installed 49 systems out of the initial tranche of 50. In addition to increased well uptime due to lower rod wear/breakages and associated operating expenditure savings, we have also seen a significant reduction in deferred production. Due to the success of the initial installations, we plan to extend this initiative across the portfolio where appropriate.

The pilot water flood projects at Welton and Beckingham are progressing well with surface infrastructure enabling works largely completed (intelligent pigging of existing lines, pipeline hydraulics completed, Project HAZOP, modifications to manifolds and equipment orders placed). The completions in the candidate water injection wells have been installed and commissioning of the plant is expected in the second half of the 2014/15 financial year.

There are a number of stranded gas monetisation projects that are being evaluated including Albury. Planning permission was granted earlier this year for a change of use for the Albury site, including the potential installation of a Liquefied Natural Gas (LNG) plant. This will allow natural gas production from the site to be compressed into LNG for transportation off-site. There are many uses for LNG, including as an alternative road fuel. Advanced commercial negotiations are currently nearing completion for the offtake of the LNG from the site, as a precursor to formal project sanction. The potential for using this mini LNG technology elsewhere in the portfolio as a means of monetising stranded gas is something we are actively pursuing and evaluating.

Similar studies are underway to assess how to monetise the gas potential at Lybster. Preliminary studies indicate a solution involving Compressed Natural Gas. A project team to advance this has been established.

Field development studies continue aimed at increasing ultimate recovery and reserves and identifying infill well drilling opportunities.

## Chief Financial Officer's Review

|  | Year to<br>31 March<br>2014 <sup>1</sup> | Year to<br>31 March<br>2013 <sup>5</sup> |
|--|--|--|
| Revenues                                 | <b>£75.9m</b>                            | £68.3m                                   |
| EBITDA <sup>2</sup>                      | <b>£34.3m</b>                            | £32.3m                                   |
| Underlying operating profit <sup>3</sup> | <b>£20.3m</b>                            | £22.1m                                   |
| Profit/(loss) before tax                 | <b>£2.3m</b>                             | (£6.0m)                                  |
| Net cash from operating activities       | <b>£25.2m</b>                            | £28.9m                                   |
| Net debt <sup>4</sup>                    | <b>£80.4m</b>                            | £77.4m                                   |
| Cash and cash equivalents                | <b>£28.3m</b>                            | £9.8m                                    |
| Net assets                               | <b>£74.3m</b>                            | £59.1m                                   |

### Notes

1 On 6 December 2013 the Company completed the acquisition of Caithness Oil Limited and therefore the 2014 results reflects approximately four month's contribution from Caithness Oil

2 EBITDA relates to earnings before gains/(losses) on oil price derivatives, net finance costs, tax, depletion, depreciation and amortisation, acquisition costs and impairment of exploration and evaluation assets

3 Underlying operating profit excludes the gains/(losses) on oil price swaps, acquisition costs and impairment of exploration and evaluation assets

4 Net debt is borrowings less cash and restricted cash

5 On 28 February 2013, the Company completed the acquisition of PR Singleton from Providence Resources plc and therefore the 2013 results reflect one month's contribution from PR Singleton

The year ended 31 March 2014 has been another extremely active year for the IGas Group, including the completion of the US\$165m secured bond issue in April 2013, which was subsequently listed on the Oslo Bors in September 2013, the completion of the acquisition of Caithness Oil Limited ("Caithness") and the arrangement of US\$30m unsecured bonds.

On 6 December 2013, the Company completed the acquisition of Caithness from Caithness Petroleum plc for £7.9m (including assumed borrowings) which was financed by issuing 7,488,301 ordinary shares. The acquisition represented a good opportunity to increase the Group's existing production and offers significant upside potential through gas monetisation. Caithness also came with significant existing tax losses.

In December 2013, the Company issued US\$30m of unsecured bonds, which were shortly thereafter listed on the Oslo alternative bond market. The bonds have a 5 year tenure carry a fixed interest of 10% p.a., payable semi-annually, and have a borrowing limit of US\$60m. The proceeds from the bond issue will be used for general corporate purposes, including gas monetisation.

### Income Statement<sup>1, 3</sup>

The Group recorded revenues of £75.9m in the year (2013: £68.3m), £65.5m excluding 3<sup>rd</sup> party oil of £10.4m (2013: £61.0 million). As stated above, the Group completed the acquisition of Caithness on 6 December 2013 and therefore the income statement includes approximately four month's contribution from Caithness.

Group production in the year was 1,015,866 boe, representing an average of 2,783 boepd (2013: 2,470 boepd). If the Group had owned Caithness since 1 April 2013, Group production would have averaged 2,838 boepd for the year ended 31 March 2014.

The average realised price per barrel pre-hedge was £66.5 (US\$106.1) (2013: £69.4 (US\$109.6)) with narrow discounts to Brent continuing to be achieved. After taking into account the cash effect of hedging, which amounted to an average of £2.0 (US\$3.2) per barrel (2013: £6.9 (US\$10.9)), the average realised oil price was £64.5 (US\$102.9) (2013: £62.5 (US\$98.7)) per barrel. The Company has now changed the way in which it hedges oil production through the use of zero cost collars and therefore this cost is expected to be reduced moving forward.

Cost of sales of £47.9m (2013: £38.0m), includes depreciation, depletion and amortisation (“D,D&A”) of £13.9m (2013: £10.0m) and operating costs of £34.1m (2013: £28.1m) including £9.9m in relation to third party oil (2013: £7.0m) and £1.1m in relation to Caithness. Operating costs per barrel of oil equivalent (“boe”) were £23.3 (2013: £21.6), excluding costs associated with third party oil. Operating costs include transportation costs of £2.84/boe (2013: £3.15/boe) and the costs of our well service team of £3.45/boe (2013: £2.89/boe). Net back per boe (on a profit and loss basis) were US\$50.7 (£31.8) (2013: US\$60.9 (£38.6)).

Administrative expenses were £7.9m (2013: £8.4m). A charge for the impairment of exploration and evaluation assets of £3.3m (2013: £1.1m) was incurred during the year following the relinquishment of PEDLs116, 107 and SSPL 1481 exploration licences in Staffordshire and Point of Ayr. Loss on oil price derivatives was £2.1m (2013: profit £0.9m).

Net finance costs were £12.5m (2013: £27.9m), which primarily relates to the net effect of bond interest payable (£11.6m) and loss on the fair valuation of warrants outstanding (£8.1m), offset by a net revaluation gain of £7.8m, due to the strengthening of £ sterling versus the US dollar over the past twelve months.

Other income amounted to £0.2m (2013: £0.2m).

Gross profit of £28.0m was recognised in the year (2013: £30.3m) with underlying profit<sup>3</sup> of £20.3m (2013: £22.1m).

### **Cash Flow**

Cash and cash equivalents at 31 March 2014 were £28.3m (2013: £9.8m).

Cash generated from operating activities in the year amounted to £25.2m (2013: £28.9m).

On 6 December 2013, the Company raised US\$28.8m by issuing unsecured bonds, as set out above.

During the year, the Group repaid £5.1m (US\$8.25m) of debt principal in addition to interest of £10.6m (US\$16.3m) relating to the secured bonds.

The Group’s capital expenditure in the year ended 31 March 2014 was £14.4m (2013: £3.6m).

### **Balance Sheet**

The Group’s non-current assets increased by £7.1m during the period to £245.7m, principally due to the drilling of the well at Barton Moss and the acquisition of Caithness. The Caithness acquisition has been accounted for as a business combination by the acquisition method of accounting with an

effective date of 6 December 2013, being the date the Group gained control of Caithness. Goodwill of £7.1m was added to the balance sheet due to the acquisition of Caithness.

Net debt, being borrowings less cash and restricted cash, at the year-end amounted to £80.4m (2013: £77.4m). Transaction costs of £3.7m (2013:£2.8m) associated with the debt are offset against the drawn debt within the balance sheet and will be recognised over the life of the loan in accordance with the Group's accounting policies.

A deferred tax charge of £10.3m has been incurred for the year which has been created by the recognition of certain tax losses and other temporary timing differences within the Group. This has increased the deferred tax liability to £57.7m as at the balance sheet date. As at 31 March 2014, the Group has recognised corporation tax losses of £50.5m.

## Principal risks and uncertainties

The Group constantly monitors the Group's risk exposures and reports to the Audit Committee and the Board on a regular basis. The Audit Committee receives and reviews these reports and focuses on ensuring that the effective systems of internal financial and non-financial controls including the management of risk are maintained. The results of this work are reported to the Board, which in turn performs its own review and assessment.

The principal risks for the Group can be summarised as:

- 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 considers that such risks are partially mitigated through compliance with regulations, proactive engagement with regulators, communities and the expertise and experience of its team.
- The Group is exposed to risks associated with geological uncertainty. No guarantee can be given that oil or gas can be produced in the anticipated quantities from any or all of the Group's assets or that oil or gas can be delivered economically. The Group considers that such risks are mitigated partly given that its producing assets are located in established oil and gas producing areas coupled with the extensive expertise and experience of its operating staff.
- The Group is exposed to market price risk through variations in the wholesale price of oil in the context of the production from oil fields it owns and operates. The Group has hedged a total of 757,000 barrels over the period to 31 March 2015, through simple Put and Call options at zero cost (collars). Going forward, the Board will seek to underpin the Group's future cash flows by entering into a combination of Put and Call options structured at zero cost for baseline production to cover on average 12 months forward. The Board will continue to monitor the benefits of such hedging.
- The Group is also exposed to market price risk through variations in the wholesale price of gas and electricity in the context of its future unconventional 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 at the appropriate time.
- The Group is exposed to exchange rate risk through both its major source of revenue and its major borrowings being priced in US\$. The sterling denominated oil price Puts have been taken out in order to mitigate this risk as it affects the need to fund operating and administration costs which are normally paid in pounds sterling.
- 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.
- The Group is exposed to capital risk resulting from its capital structure. 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 23 to the consolidated financial statements.

- The Group is exposed to Political risk. This can include changes in Government or the effect of local or national referendum. These political risks can result in changes in the regulatory or fiscal environment (including taxation) which could affect the Group's ability to deliver its strategy. However, through UKOOG and other industry associations, the Group engages with government and other appropriate organisations to ensure the Group is kept abreast of expected potential changes and takes an active role in making appropriate representations.
- 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.

**Directors' responsibility Statement**

The directors confirm that, to the best of their knowledge;

- The financial statements, prepared in accordance with International Financial Reporting standards as adopted by the European Union, gives a true and fair view of the assets, liabilities, financial position and profit and loss of the Group and the undertakings included in the consolidation taken as a whole, and
- The Strategic report and the Directors' Report includes a fair review of the development and performance of the business and the position of the group, together with a description of the principal risks and uncertainties faced.

By order of the Board,

Andrew Austin

Chief Executive Officer

25 June 2014

Stephen Bowler

Chief Financial Officer

25 June 2014

# Consolidated Income Statement

For the year ended 31 March 2014

|   |       | Year ended      | Year ended |
|---|-------|-----------------|------------|
|   |       | 31 March        | 31 March   |
|   |       | 2014            | 2013       |
|   | Notes | £000            | £000       |
| Revenue   |       | <b>75,917</b>   | 68,304     |
| <b>Cost of sales:</b>                               |       |                 |            |
| Depletion, depreciation and amortisation            |       | <b>(13,878)</b> | (9,975)    |
| Other costs of sales                                |       | <b>(34,062)</b> | (28,067)   |
| <b>Total cost of sales</b>                          |       | <b>(47,940)</b> | (38,042)   |
| <b>Gross profit</b>                                 |       | <b>27,977</b>   | 30,262     |
| Administrative costs                                |       | <b>(7,875)</b>  | (8,351)    |
| Relinquishment of exploration and evaluation assets |       | <b>(3,259)</b>  | (1,093)    |
| Other income  |       | <b>174</b>      | 225        |
| (Loss)/gain on oil price derivatives                |       | <b>(2,095)</b>  | 938        |
| <b>Operating profit</b>                             |       | <b>14,922</b>   | 21,981     |
| <u>Exceptional item</u>                             |       |                 |            |
| Costs relating to acquisitions                      |       | <b>(47)</b>     | (59)       |
| Finance income                                      | 4     | <b>7,893</b>    | 26         |
| Finance costs                                       | 4     | <b>(20,422)</b> | (27,947)   |
| Net finance costs                                   |       | <b>(12,529)</b> | (27,921)   |

|   |       | Year ended      | Year ended      |
|---|-------|-----------------|-----------------|
|   |       | 31 March        | 31 March        |
|   |       | 2014            | 2013            |
|   | Notes | £000            | £000            |
| <b>Profit/(loss) on ordinary activities before tax</b>                                  |       | <b>2,346</b>    | <b>(5,999)</b>  |
| Income tax charge   | 5     | <b>(10,277)</b> | <b>(12,356)</b> |
| <b>Loss from continuing operations attributable to equity shareholders of the Group</b> |       | <b>(7,931)</b>  | <b>(18,355)</b> |
| Basic and diluted loss per share (pence/share)  | 6     | <b>(4.10p)</b>  | <b>(11.11p)</b> |
| Adjusted basic and adjusted diluted earnings/(loss) per share (pence/share)             | 6     | <b>2.88p</b>    | <b>(1.91p)</b>  |

## Consolidated Statement of Comprehensive Income

For the year ended 31 March 2014

|  |  | Year ended     | Year ended      |
|--|--|----------------|-----------------|
|  |  | 31 March       | 31 March        |
|  |  | 2014           | 2013            |
|  |  | £000           | £000            |
| <b>Loss for the year</b>                     |  | <b>(7,931)</b> | <b>(18,355)</b> |
| Other comprehensive income for the year      |  | —              | —               |
| <b>Total comprehensive loss for the year</b> |  | <b>(7,931)</b> | <b>(18,355)</b> |

## Consolidated Balance Sheet

As at 31 March 2014

|  |       | 31 March        |                    |
|--|-------|-----------------|--------------------|
|  |       | 2013            |                    |
|  |       | 2014            | £000               |
|  | Notes | £000            | Restated (note 12) |
| <b>Non-current assets</b>                    |       |                 |                    |
| Intangible exploration and evaluation assets |       | <b>90,997</b>   | 81,702             |
| Property, plant and equipment                |       | <b>115,478</b>  | 124,711            |
| Goodwill                                     |       | <b>39,227</b>   | 32,166             |
|  |       | <b>245,702</b>  | 238,579            |
| <b>Current assets</b>                        |       |                 |                    |
| Inventories                                  |       | <b>1,344</b>    | 1,056              |
| Trade and other receivables                  |       | <b>11,403</b>   | 8,569              |
| Cash and cash equivalents                    |       | <b>28,301</b>   | 9,831              |
| Other financial assets – Restricted cash     |       | –               | 102,865            |
|  |       | <b>41,048</b>   | 122,321            |
| <b>Current liabilities</b>                   |       |                 |                    |
| Trade and other payables                     |       | <b>(10,960)</b> | (14,056)           |
| Current tax liabilities                      |       | –               | (3,006)            |
| Borrowings – Bond                            | 8     | <b>(4,948)</b>  | (5,466)            |
| Borrowings – Macquarie                       | 8     | –               | (89,710)           |
| Other liabilities                            | 9     | <b>(6,804)</b>  | (8,208)            |
| Derivative financial instruments             |       | <b>(50)</b>     | (10,001)           |
|  |       | <b>(22,762)</b> | (130,447)          |
| <b>Net current assets/(liabilities)</b>      |       | <b>18,286</b>   | (8,126)            |
| <b>Total assets less current liabilities</b> |       | <b>263,988</b>  | 230,453            |

|                                |       | 31 March      |                    |
|--------------------------------|-------|---------------|--------------------|
|                                |       | 31 March      | 2013               |
|                                |       | 2014          | £000               |
|                                | Notes | £000          | Restated (note 12) |
| <hr/>                          |       |               |                    |
| <b>Non-current liabilities</b> |       |               |                    |
| Borrowings – Bond              | 8     | (103,753)     | (94,942)           |
| Deferred tax liabilities       |       | (57,665)      | (47,388)           |
| Provisions                     |       | (28,248)      | (29,005)           |
|                                |       | (189,666)     | (171,335)          |
| <hr/>                          |       |               |                    |
| <b>Net assets</b>              |       | <b>74,322</b> | <b>59,118</b>      |
| <hr/>                          |       |               |                    |
| <b>Capital and reserves</b>    |       |               |                    |
| Called up share capital        |       | 17,226        | 15,407             |
| Share premium account          |       | 58,933        | 37,747             |
| Capital redemption reserve     |       | 41,239        | 41,239             |
| Other reserves                 |       | (667)         | (797)              |
| Accumulated deficit            |       | (42,409)      | (34,478)           |
|                                |       |               |                    |
| <b>Shareholders' funds</b>     |       | <b>74,322</b> | <b>59,118</b>      |
| <hr/>                          |       |               |                    |
| <hr/>                          |       |               |                    |

These financial statements were approved and authorised for issue by the Board on 25 June 2014 and are signed on its behalf by:

**Andrew Austin**  
Chief Executive Officer

**Stephen Bowler**  
Chief Financial Officer

# Consolidated Statement of Changes in Equity

For the year ended 31 March 2014

|  | Called up<br>share capital<br>£000<br>Restated | Share<br>premium<br>account<br>£000 | Capital<br>redemption<br>reserve<br>£000<br>Restated | Other<br>reserves<br>£000 | Accumulated<br>deficit<br>£000 | Total<br>£000 |
|--|--|-------------------------------------|--|---------------------------|--------------------------------|---------------|
| <b>Balance at 1 April 2012</b>                                       | <b>54,213</b>                                  | <b>18,036</b>                       | <b>-</b>   | <b>(1,140)</b>            | <b>(16,151)</b>                | <b>54,958</b> |
| <b>Changes in equity for year ended 31 March 2013<br/>(Restated)</b> |  |                                     |  |                           |                                |               |
| Total comprehensive loss for the year                                | -  | -                                   | -  | -                         | (18,355)                       | (18,355)      |
| Employee share plans   | -  | -                                   | -  | 343                       | 28                             | 371           |
| Cancellation of Deferred Shares                                      | (41,239)                                       | -                                   | 41,239   | -                         | -                              | -             |
| Issue of shares during the year                                      | 2,433  | 19,711                              | -  | -                         | -                              | 22,144        |
| <b>Balance at 31 March 2013 (Restated)</b>                           | <b>15,407</b>                                  | <b>37,747</b>                       | <b>41,239</b>  | <b>(797)</b>              | <b>(34,478)</b>                | <b>59,118</b> |
| <b>Changes in equity for year ended 31 March 2014</b>                |  |                                     |  |                           |                                |               |
| Total comprehensive loss for the year                                | -  | -                                   | -  | -                         | (7,931)                        | (7,931)       |
| Employee share plans   | -  | -                                   | -  | 130                       | -                              | 130           |
| Warrants exercised   | -  | 9,508                               | -  | -                         | -                              | 9,508         |
| Issue of shares during the year                                      | 1,819  | 11,678                              | -  | -                         | -                              | 13,497        |
| <b>Balance at 31 March 2014</b>                                      | <b>17,226</b>                                  | <b>58,933</b>                       | <b>41,239</b>  | <b>(667)</b>              | <b>(42,409)</b>                | <b>74,322</b> |

# Consolidated Cash Flow Statement

For the year ended 31 March 2014

|   |       | Year<br>ended<br>31 March<br>2014<br>£000 | Year<br>ended<br>31 March<br>2013<br>£000 |
|---|-------|---|---|
|   | Notes |   |   |
| <b>Operating activities:</b>  |       |   |   |
| Profit/(loss) before tax for the year   |       | 2,346                                     | (5,999)                                   |
| Depreciation, depletion and amortisation  |       | 14,069                                    | 10,152                                    |
| Share based payment charge  |       | 494                                       | 347                                       |
| Gain on derivative financial instruments  |       | 46  | (6,939)                                   |
| Finance income  | 4     | (7,893)                                   | (26)                                      |
| Finance costs   | 4     | 20,422                                    | 27,949                                    |
| (Increase)/decrease in trade and other receivables                                      |       | (1,631)                                   | 4,473                                     |
| (Decrease) in trade and other payables, net of accruals related to investing activities |       | (2,537)                                   | (2,287)                                   |
| (Increase)/decrease in inventories  |       | (287)                                     | 17  |
| Relinquishment of exploration and evaluation licenses                                   |       | 3,259                                     | 1,093                                     |
| Abandonment costs incurred  |       | (168)                                     | (29)                                      |
| Other non-cash adjustments  |       | 36  | (122)                                     |
| Bad debt provision  |       | —   | 252                                       |
| Taxation paid*  |       | (3,006)                                   | (1)                                       |
| <b>Net cash from operating activities</b>   |       | <b>25,150</b>                             | <b>28,880</b>                             |

## Investing activities

|  |         |         |
|--|---------|---------|
| Acquisition of exploration and evaluation assets | (9,875) | (2,453) |
| Acquisition of property, plant and equipment     | (4,499) | (1,123) |

|  |       | Year<br>ended<br>31 March<br>2014<br>£000 | Year<br>ended<br>31 March<br>2013<br>£000 |
|--|-------|---|---|
|  | Notes |   |   |
| Acquisitions, net of cash acquired   | 7     | 2   | (13,877)                                  |
| Interest received  |       | 87  | 25  |
| <b>Net cash used in investing activities</b>                                 |       | <b>(14,285)</b>                           | <b>(17,428)</b>                           |
| <b>Financing activities</b>  |       |   |   |
| Cash proceeds from issue of Ordinary Share Capital                           |       | 4,451                                     | 23,114                                    |
| Share issue costs  |       | –   | (970)                                     |
| Interest paid  |       | (10,568)                                  | (6,727)                                   |
| Cash proceeds from loans and borrowings**                                    |       | 24,505                                    | 21,410                                    |
| Loan issue costs   |       | (3,690)                                   | (1,887)                                   |
| Repayment of loans and borrowings  |       | (5,128)                                   | (16,735)                                  |
| Repayment of assumed borrowings and associated fees relating to acquisitions |       | –   | (28,286)                                  |
| Repayment of finance lease/hire purchase agreement                           |       | –   | (51)                                      |
| <b>Net cash from/(used in) financing activities</b>                          |       | <b>9,570</b>                              | <b>(10,132)</b>                           |
| Net increase in cash and cash equivalents in the year                        |       | 20,435                                    | 1,320                                     |
| Net foreign exchange difference  |       | (1,965)                                   | 596                                       |
| Cash and cash equivalents at the beginning of the year                       |       | 9,831                                     | 7,915                                     |
| <b>Cash and cash equivalents at the end of the year</b>                      |       | <b>28,301</b>                             | <b>9,831</b>                              |

\*Tax paid related to the tax payable of the acquired Star Group as at 18 December 2011.

\*\* Cash proceeds from loans and borrowings are shown net and consists of gross proceeds from bond borrowings of £126.2 million less repayment of Macquarie loan of £89.7 million and hedges and early cancellation fees of £12 million. Further details on the repayment of the Macquarie loan can be found in note 8..

## 1 Corporate information

The financial information for the year ended 31 March 2014 set out in this announcement does not constitute statutory accounts within the meaning of section 434 of the Companies Act 2006. Statutory accounts for the year ended 31 March 2014 were approved by the Board of Directors on 25 June 2014; however these have not yet been delivered to the registrar. The latest statutory accounts delivered to the registrar were for the year ended 31 March 2013. The auditor has reported on both the accounts for the years ended 31 March 2014 and 31 March 2013; the reports were unqualified and did not include a reference to any matters to which the auditor drew attention by way of emphasis of matter and did not contain statements under section 498(2) or 498(3) of the Companies Act 2006.

IGas Energy plc is a public limited Company incorporated, registered in England and Wales and is listed on the Alternative Investment Market ("AIM"). The Company's principal area of activity is exploring for, appraising, developing and producing oil and gas resources in Great Britain.

## 2 Accounting policies

The accounting policies applied in this announcement are consistent with those of the annual financial statements for the year ended 31 March 2014, as described in those annual financial statements. The following standards IFRS 10, 11 and 12 were adopted early, in addition to this a number of amendments to existing standards and interpretations were applicable from 1 April 2013. The adoption of these amendments and standards did not have a material impact on the Company's financial statements for the year ended 31 March 2014.

### Statement of compliance

The consolidated financial statements of 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 March 2014 and with the Companies Act 2006.

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

The comparative amounts have been amended to reflect the finalisation of acquisition accounting for the Singleton acquisition (see Note 7).

## 3 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.

## 4 Finance income and costs

|                                 | Year<br>ended<br>31 March<br>2014<br>£000 | Year<br>ended<br>31 March<br>2013<br>£000 |
|---------------------------------|---|---|
| Finance income:                 |   |   |
| Interest on short-term deposits | 87  | 26  |
| Foreign exchange gains          | 7,806                                     | —   |

|   | Year<br>ended<br>31 March<br>2014<br>£000 | Year<br>ended<br>31 March<br>2013<br>£000 |
|---|---|---|
| Finance income recognised in Income Statement                                   | <b>7,893</b>                              | 26  |
| Finance expense:  |   |   |
| Finance lease charges   | –   | 25  |
| Other interest  | <b>130</b>                                | –   |
| Interest on borrowings – Bond   | <b>11,626</b>                             | 322                                       |
| Interest on borrowings – Macquarie  | –   | 8,882                                     |
| Interest on borrowings – Macquarie debt costs written off under amortised cost* | –   | 7,647                                     |
| Interest expense  | <b>11,756</b>                             | 16,876                                    |
| Loss on interest rate swaps   | –   | 573                                       |
| Foreign exchange loss   | –   | 3,275                                     |
| Unwinding of discount on provisions   | <b>562</b>                                | 457                                       |
| Loss on fair value of warrants  | <b>8,104</b>                              | 5,402                                     |
| Finance charges – early settlement fees for assumed Singleton loan              | –   | 1,364                                     |
| Finance expense recognised in income statement                                  | <b>20,422</b>                             | 27,947                                    |

\* Costs are in relation to the Group refinancing, further details can be found in note 8.

## 5 Taxation

|  | Year<br>ended<br>31 March<br>2014<br>£000 | Year<br>ended<br>31 March<br>2013<br>£000 |
|--|---|---|
| UK corporation tax:  |   |   |
| Current tax on income for the year   | –   | –   |
| Adjustments in respect of prior year   | –   | (161)                                     |
| Total current tax charge/(credit)  | –   | (161)                                     |
| Deferred tax:  |   |   |
| Current year charge relating to the origination or reversal of temporary differences | 10,317                                    | 13,274                                    |
| Credit in relation to prior year   | (40)                                      | (757)                                     |
| Total deferred tax charge  | 10,277                                    | 12,517                                    |
| Tax charge on profit on ordinary activities  | 10,277                                    | 12,356                                    |

The majority of the Group's profits are now generated by "ring-fence" businesses which attract UK corporation tax and supplementary charge at a combined rate of 62%.

## 6 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 potentially dilutive Ordinary Shares into Ordinary Shares.

Adjusted basic EPS amounts are calculated by dividing the adjusted profit/(loss) for the year, after adjusting for exceptional items, "mark to market" valuation adjustments and other one-off costs listed below which do not reflect the trading of the Group, attributable to the ordinary equity holders of the parent by the adjusted weighted average number of shares outstanding during the year.

Adjusted diluted EPS amounts are calculated by dividing the adjusted profit/(loss) for the year, after adjusting for

exceptional items, “mark to market” valuation adjustments and other one-off costs listed below which do not reflect the trading of the Group, 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 potentially dilutive Ordinary Shares into Ordinary Shares.

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

|   | Year<br>ended<br>31 March<br>2014<br>£000 | Year<br>ended<br>31 March<br>2013<br>£000 |
|---|---|---|
| Basic EPS – Ordinary Shares of 10p each (Pence)   | <b>(4.10p)</b>                            | (11.11p)                                  |
| Diluted EPS – Ordinary Shares of 10p each (Pence)   | <b>(4.10p)</b>                            | (11.11p)                                  |
| Adjusted basic EPS – Ordinary Shares of 10p each (Pence)  | <b>2.88p</b>                              | (1.91p)                                   |
| Adjusted diluted EPS – Ordinary Shares of 10p each (Pence)  | <b>2.88p</b>                              | (1.91p)                                   |
| Loss for the year attributable to equity holders of the parent – £000   | <b>(7,931)</b>                            | (18,355)                                  |
| Add back: Loss/(Gain) on oil price derivatives  | <b>2,095</b>                              | (938)                                     |
| Loss on interest rate swaps   | –   | 573                                       |
| Acquisition costs   | <b>47</b>                                 | 59  |
| Relinquishment of exploration and evaluation assets   | <b>3,259</b>                              | 1,093                                     |
| Loss on revaluation of warrants   | <b>8,104</b>                              | 5,402                                     |
| Early settlement fees for assumed Singleton loan  | –   | 1,364                                     |
| Debt costs written off  | –   | 7,647                                     |
| Adjusted profit /(loss) for the year  | <b>5,574</b>                              | (3,155)                                   |
| Weighted average number of Ordinary Shares in the year – basic, diluted, adjusted basic<br>and adjusted diluted EPS | <b>193,410,155</b>                        | 165,257,078                               |

There are 13,004,060 potentially dilutive warrants and options over the Ordinary Shares at 31 March 2014 (2013: 24,682,523), which are not included in the calculation of diluted earnings per share and adjusted earnings per share in 2014 because they were anti-dilutive for the year as their conversion to Ordinary Shares would decrease the loss per share.

## 7 Acquisitions

### Acquisition of Caithness Oil Limited (Renamed IGas Energy (Caithness) Limited)

On 6 December 2013, the Company acquired the entire issued share capital of Caithness Oil Limited (“Caithness”), an unlisted oil and gas exploration and production Company for a consideration of £7.9 million (including assumed borrowings of £7.9 million) which was funded by the issue of 7,488,301 ordinary shares of the company. In addition to increasing IGas’

current production, the acquisition offers additional upside through utilisation of significant existing tax losses and monetisation of associated gas.

The Caithness acquisition has been accounted for as a business combination by the acquisition method of accounting with an effective date of 6 December 2013, being the date the Group gained control of Caithness. The fair values of property, plant and equipment, provisions and related tax effect are provisional subject to further analysis of the oil and gas properties acquired, including the assessment of potential gas monetisation.

### Assets acquired and liabilities assumed

The fair values of the identifiable assets and liabilities of Caithness as at the date of acquisition were:

|   | Provisional<br>fair value<br>£'000 |
|---|------------------------------------|
| <b>Assets</b>   |                                    |
| Property, plant and equipment                           | 2,346                              |
| Cash and cash equivalents                               | 2                                  |
| Trade and other receivables                             | 317                                |
|   | <b>2,665</b>                       |
| <b>Liabilities</b>                                      |                                    |
| Trade and other payables                                | (970)                              |
| Borrowings  | (7,947)                            |
| Deferred tax liabilities                                | —                                  |
| Provisions  | (809)                              |
|   | <b>(9,726)</b>                     |
| <b>Total identifiable net liabilities at fair value</b> | <b>(7,061)</b>                     |
| <b>Purchase consideration</b>                           | <b>—</b>                           |
| <b>Goodwill</b>   | <b>7,061</b>                       |

The fair value of contractual receivables amounts to £0.2 million. The gross value of the contractual receivables amounts to £0.2 million all of which is expected to be received.

Transaction costs in respect of the Caithness acquisition of £47 thousand have been recognised in the Income Statement.

From the date of acquisition, Caithness has contributed £0.7 million of revenue and £0.5 million loss towards the net profit before tax of the Group. If the combination had taken place at 1 April 2013, the Group's revenue from continuing operations for the year would have been £77.0 million and the Group's operating profit before tax and acquisition costs for the Group would have been £14.4 million.

#### Analysis of cash flows on acquisition

|   | £'000    |
|---|----------|
| Consideration paid for Caithness net of cash acquired | 2        |
| <b>Net cash flow on acquisition of Caithness</b>      | <b>2</b> |

#### Acquisition of P.R. Singleton Limited (Renamed Island Gas (Singleton) Limited)

On 28 February 2013, the Company acquired the entire issued share capital of P.R. Singleton Limited ("Singleton"), an unlisted oil and gas exploration and production Company for a cash consideration of £15.1 million and assumed borrowings of £28.3 million. The acquisition of Singleton added 100% of PEDL 240, 50% of PEDL 233, bringing a number of development opportunities and an experienced execution team.

The Singleton acquisition has been accounted for as a business combination by the acquisition method of accounting with an effective date of 28 February 2013, being the date the Group gained control of Singleton.

The accounting for the acquisition of Singleton as of 28 February 2013 (acquisition date) was provisionally determined in respect of the fair values of certain assets acquired and liabilities assumed in the financial statements for the year ended 31 March 2013. During the year ended 31 March 2014, the necessary valuations and assessments have been undertaken so that the accounting for this acquisition has been finalised. The details of the adjustments of the provisionally determined fair values of assets acquired and liabilities assumed are shown below:

|                                 | Provisional |             |              | Final       |
|---------------------------------|-------------|-------------|--------------|-------------|
|                                 | fair value  | Adjustments |              | fair values |
|                                 | £'000       | £'000       | Comments     | £'000       |
| <b>Assets</b>                   |             |             |              |             |
| Exploration & evaluation assets | —           | 23,033      | <sup>1</sup> | 23,033      |
| Property, plant and equipment   | 41,568      | (13,667)    | <sup>1</sup> | 27,901      |

|  | Provisional<br>fair value<br>£'000 | Adjustments<br>£'000 | Comments     | Final<br>fair values<br>£'000 |
|--|------------------------------------|----------------------|--------------|-------------------------------|
| Cash and cash equivalents                          | –                                  | –                    |              | –                             |
| Trade and other receivables                        | 1,178                              | –                    |              | 1,178                         |
| Inventories  | 362                                | –                    |              | 362                           |
|  | <b>43,108</b>                      | <b>9,366</b>         |              | <b>52,474</b>                 |
| <b>Liabilities</b>                                 |                                    |                      |              |                               |
| Borrowings   | (26,939)                           | –                    |              | (26,939)                      |
| Deferred tax liabilities                           | (7,125)                            | (7,193)              | <sup>1</sup> | (14,318)                      |
| Provisions   | (4,776)                            | –                    |              | (4,776)                       |
|  | <b>(38,840)</b>                    | <b>(7,193)</b>       |              | <b>(46,033)</b>               |
| <b>Total identifiable net assets at fair value</b> | <b>4,268</b>                       | <b>2,173</b>         |              | <b>6,441</b>                  |
| <b>Purchase consideration transferred</b>          | <b>15,092</b>                      | <b>–</b>             |              | <b>15,092</b>                 |
| <b>Goodwill</b>                                    | <b>10,824</b>                      | <b>(2,173)</b>       |              | <b>8,651</b>                  |

1. Adjustments to the fair value of PP&E and E&E following remeasurement of 2P reserves and 2C resources and additional E&E assets related to Baxters Copse and related tax effects.

## 8 Borrowings

Borrowings are measured at amortised cost in accordance with IAS 39.

| 31 March 2014            |                                |               | 31 March 2013            |                                |               |
|--------------------------|--------------------------------|---------------|--------------------------|--------------------------------|---------------|
| Within<br>1 year<br>£000 | Greater<br>than 1 year<br>£000 | Total<br>£000 | Within<br>1 year<br>£000 | Greater<br>than 1 year<br>£000 | Total<br>£000 |
|                          |                                |               |                          |                                |               |

|                    | 31 March 2014 |             |         | 31 March 2013 |             |         |
|--------------------|---------------|-------------|---------|---------------|-------------|---------|
|                    | Within        | Greater     | Total   | Within        | Greater     | Total   |
|                    | 1 year        | than 1 year |         | 1 year        | than 1 year |         |
|                    | £000          | £000        |         | £000          | £000        |         |
| Bonds - secured*   | 4,948         | 87,186      | 92,134  | 5,466         | 94,942      | 100,408 |
| Bonds – unsecured* | –             | 16,567      | 16,567  | –             | –           | –       |
| Sub total          | 4,948         | 103,753     | 108,701 | 5,466         | 94,942      | 100,408 |
| Macquarie          | –             | –           | –       | 89,710        | –           | 89,710  |
| Total              | 4,948         | 103,753     | 108,701 | 95,176        | 94,942      | 190,118 |

\* Transaction costs of raising debt of £3.7 million (2013: £2.8 million) have been netted off against the liability

## Bond issuance

### Secured Bonds

On 21 March 2013, the Company and Norsk Tillitsmann (“Bond Trustee”) entered into a Bond Agreement for the Company to issue up to US\$165 million secured bonds. At 31 March 2013 US\$156.2 million of bonds had been placed with the funds paid into escrow.

By 10 April 2013, the conditions precedent under the Bond Agreement were met, with the related cash then released from escrow to the Company. Part of the net proceeds of the Bond were used to repay the outstanding loan balance with Macquarie Bank Ltd, plus outstanding interest and all associated break fees, termination fees and to pay costs associated with closing out hedges. The remainder is being used for general corporate purposes by the Group.

The Bond carries a coupon of 10% per annum (where interest is payable semi-annually in arrears) and semi-annual amortisation of 2.5% of the initial loan amount. Final maturity on the notes will be 22 March 2018.

The Bond Agreement contains certain representations, warranties and covenants customary for an instrument of this nature. Such covenants include the provision of financial and reporting information, compliance with environmental law, maintenance of financial ratios and certain restrictions on mergers, acquisitions, joint ventures, granting of security, disposals, issuances of loans, incurrence of financial indebtedness and on payments of dividends by the Company and its operating subsidiaries. The Bond Agreement also contains customary events of default, the occurrence of which allows The Bond Trustee (on behalf of the bond holders) to accelerate outstanding bonds and terminate the commitments. Under the terms of the Secured Bond agreement, the Bondholders have a fixed and floating charge over all these assets.

### Unsecured Bonds

On 11 December 2013, the Company and Norsk Tillitsmann (“Bond Trustee”) entered into a Bond Agreement for the Company to issue US\$30 million unsecured bonds, issued at 96% of par. The new bonds have been listed on the Alternative bond market in Oslo and the proceeds are to be used for general corporate purposes.

The Bond carries a coupon of 10% per annum (where interest is payable semi-annually in arrears) and has a borrowing limit of US\$60 million. Final maturity on the notes will be 11 December 2018.

The Bond Agreement contains certain representations, warranties and covenants customary for an instrument of this nature. Such covenants include the provision of financial and reporting information, compliance with environmental law, maintenance of financial ratios and certain restrictions on mergers, acquisitions, joint ventures, granting of security, disposals, issuances of loans, incurrence of financial indebtedness and on payments of dividends by the Company and its operating subsidiaries. The Bond Agreement also contains customary events of default, the occurrence of which allows The Bond Trustee (on behalf of the bond holders) to accelerate outstanding bonds and terminate the commitments.

### **Macquarie financing**

At 31 March 2013, the Group had outstanding borrowings with Macquarie (Macquarie facilities) but was undergoing a refinancing. In accordance with IAS 1 the Macquarie facilities were re-classified as current liabilities as at 31 March 2013 as the Group had intended to repay these facilities upon completion of the Bonds. The facilities were re-measured to £89.7 million at 31 March 2013 to take into account the change in the estimated future cashflows to repay the Macquarie facilities. A £7.6 million loss on re-measurement was recognised in finance costs in the income statement for the year ended 31 March 2013. On 10 April 2013, the Macquarie facilities were repaid in full, being the re-measured amount, plus £0.3 million of accrued interest.

### **9 Other liabilities**

During the year the Group issued 9,975,657 ordinary shares with a nominal value of 10p each upon the exercise of £9.5 million warrants

(31 March 2013: nil shares issued).

Warrants issued can be exercised in three different ways and, although the cost to the Group would be the same under each exercise option, these warrants do not qualify as equity instruments under IAS39 due to the variable number of shares that would be issued in each case. Accordingly they have been accounted for as financial liabilities.

All warrants vested on grant and accordingly the key assumptions made in arriving at the Black-Scholes valuations were: share price on date of valuation, adjusted for subsequent consolidations where appropriate and the length of time for which the warrants were expected to remain exercisable. A risk free interest rate of 1.09% and an implied volatility of 35% were used in valuing the warrants at the time of grant, and an interest rate of 1.38% and an implied volatility of 43.13% at 31 March 2014. It was also assumed that no dividends would be paid during the life of the warrants.

### **10 Related party transactions**

The information below sets out transactions and balances between the Group and related parties in the normal course of business for the year ended 31 March 2014.

Transactions between the Group and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note.

Nexen Petroleum UK Limited are no longer considered related by virtue of having less than a 20% share interest in the Group.

F Gugen currently holds US\$2.80 million bonds issued by the Group. These bonds earn interest at 10% per annum. In the year ended 31 March 2014, interest paid was US\$0.4 million (2013: US\$ nil). Accrued interest at 31 March 2014 amounted to US\$7.8 thousand (31 March 2013: US\$13.9 thousand).

C McDowell currently holds US\$ 0.29 million bonds issued in the Group. These bonds earn interest at 10% per annum. In the year ended 31 March 2014, the interest paid was US \$0.03 million (2013:US\$ nil). Accrued interest at 31 March 2014 amounted to US\$0.8 thousand (31 March 2013: US\$nil).

## **11 Subsequent events**

### **Acquisitions**

On 9 May 2014, the Company and Dart Energy limited ("Dart") announced that they have reached an agreement on the terms of a recommended acquisition by IGas of Dart, which values the total share capital of Dart at approximately A\$211.5 million on a fully diluted basis (being equivalent to £117.1 million). The acquisition will be via an Australian Scheme of Arrangement on a share exchange basis.

The combination will create a market leading onshore UK oil and gas company with the largest area in the UK under licence of over 1 million net acres including major UK shale basins.

It is anticipated that the transaction will be completed in September 2014.

### **Hedging**

In May 2014, the Group entered into new hedging arrangements by acquiring a series of put and call options for c.167,000 barrels at US\$90/barrel and equivalent GBP over the period January to March 2015.

### **Issued Shares**

On 8 April 2014, Macquarie exercised warrants over 1,500,000 ordinary 10p shares. The warrants were exercised at 55.8p per share.

On 22 April 2014, the Company issued 91,239 Ordinary 10p shares in relation to the Groups' SIP scheme.

## **12 Restatement**

As previously disclosed, during the year ended 31 March 2013 the Company repurchased 100% of its outstanding deferred shares. The deferred shares were not listed and therefore did not qualify as shares held in treasury. These shares were subsequently cancelled by the Company. As a result the prior year comparative information has been restated to reflect the cancellation of these deferred shares. This has resulted in a reduction in share capital of £41.2million and a corresponding recognition of a Capital Redemption Reserve of £41.2 million. There is no net effect on Shareholders' funds.

## **13 Preliminary Results Announced**

The Annual Report and Accounts 2014 will be posted to shareholders in due course and will be available on the Company's website  
([www.igasplc.com](http://www.igasplc.com))

#### **14 External Audit**

The preliminary announcement is consistent with the audited financial statements of the Company for the year ended 31 March 2014.

