

Company Number: 04981279

ISLAND GAS RESOURCES PLC

**Interim Report
Six months ended**

30 June 2008

ISLAND GAS RESOURCES PLC

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CHAIRMAN'S STATEMENT

In the first half of 2008 we continued to build on the foundations laid during 2007. In my Statement accompanying the annual report, I highlighted three integral parts to these foundations, where the progress in 2008 to date has been as follows:

1. Deliverability of Gas
 - We have drilled a well at Fox Hill Farm near Liverpool with encouraging results.
 - Progress is now being made on our Swallowcroft acreage where we recently spudded our first well at Willoughbridge; which is still drilling.
 - Generation equipment for the Doe Green site has now been ordered. Subject to planning permission, which has been applied for, this equipment will be delivered to site in the fourth quarter and is expected to be generating electricity by year end; which will then utilise available gas at Doe Green.
 - We are making provision for increased gas production by negotiating with the distribution network for a grid connection.
2. Asset Growth
 - In May we were awarded seven blocks in the 13th on-shore licensing round in conjunction with our joint venture partner Nexen.
 - These blocks are located in our key area of the North West of England and are adjacent to existing acreage.
 - This now gives us rights over a total area of 1,640km²; an increase of 65% compared to the previously held gross acreage.
 - We are now carrying out detailed analysis of this acreage, both in terms of geological resource and drill site acquisition; preliminary results are expected before year end.
 - We have now appointed DeGolyer and MacNaughton as independent resource auditors. DeGolyer and MacNaughton are highly regarded globally experienced reserves auditor with a strong international reputation.
3. Financial Flexibility
 - In June we raised £2.1 million (before expenses) by means of a placement. These funds will help ensure we have the resources we require to enable us to secure drilling and exploration services needed to develop our acreage.

Our objectives for 2008 remain:

1. Commencing initial gas sales from at least one property by the end of 2008.
2. Secure other routes to market.
3. Gather data and production experience to allow our independent auditors to classify a proportion of our gas as "recoverable resource".
4. Fulfil licence obligations to secure licences into second term.
5. Gaining additional acreage in the 13th onshore licensing round; which has now been achieved.

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As can be seen, against these goals we continue to make good progress and remain on track to achieve them by year-end. IGas continues to operate in a tight market for services and it remains a top priority of the Board to ensure the skills and equipment required to execute our plans are secured. Various solutions are currently being evaluated and our recent fundraising increases our flexibility in relation to the range of options open to the venture.

Finally, I would like to thank the whole team and our partners for enabling us to make good progress towards our goals for 2008.

Francis Gugen
Chairman
1 September 2008

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CONDENSED INTERIM CONSOLIDATED INCOME STATEMENT for the six months ended 30 JUNE 2008

	Notes	Six months ended 30 June 2008	Six months ended 30 June 2007
		Unaudited £000	Unaudited £000
Revenue		300	391
Cost of sales		(221)	(307)
Gross Profit		79	84
Administrative expenses		(164)	(19)
Operating (loss)/profit		(85)	65
Finance income		24	10
(Loss)/profit before tax		(61)	75
Tax on (loss)/profit on ordinary activities	3	1	(14)
Retained (loss)/profit for period		(60)	61
(Loss)/earnings per share			
Basic and diluted (loss)/earnings per share (£/share)	4	(0.0010)	0.0011

The notes on pages 9 to 12 form an integral part of this condensed consolidated interim financial information.

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CONDENSED INTERIM CONSOLIDATED BALANCE SHEET for the six months ended 30 JUNE 2008

	Notes	30 June 2008	31 December 2007
		Unaudited £000	Unaudited £000
Non-current assets			
Intangible exploration and evaluation assets	5	302	109
Property, plant and equipment		-	-
		<hr/>	<hr/>
		302	109
		<hr/>	<hr/>
Current assets			
Trade and other receivables		332	283
Cash and cash equivalents	6	2,769	1,414
		<hr/>	<hr/>
		3,101	1,697
		<hr/>	<hr/>
Current liabilities			
Trade and other payables		(500)	(751)
Current taxation liabilities		-	(1)
		<hr/>	<hr/>
		(500)	(752)
		<hr/>	<hr/>
Net current assets		2,601	945
		<hr/>	<hr/>
Total assets less current liabilities		2,903	1,054
Non-current liabilities			
Trade and other payables		-	(78)
		<hr/>	<hr/>
Net assets		2,903	976
		<hr/>	<hr/>
Capital and reserves			
Called up share capital	7	4,275	2,664
Preference shares		-	-
Share premium account	7	420	44
Share warrant reserve		167	167
(Accumulated deficit)		(1,959)	(1,899)
		<hr/>	<hr/>
Shareholders' funds		2,903	976
		<hr/>	<hr/>

The notes on pages 9 to 12 form an integral part of this condensed consolidated interim financial information.

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CONDENSED INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY for the six months ended 30 June 2008

	Called up share capital	Preference shares	Share premium account	Share warrant reserve	(Accumulated deficit)/ retained earnings	Total
	Unaudited £000	Unaudited £000	Unaudited £000	Unaudited £000	Unaudited £000	Unaudited £000
2008						
Balance at 1 January	2,664	-	44	167	(1,899)	976
Loss for the period					(60)	(60)
Issue of shares during period	1,611		484			2,095
Cost of issue of shares during period			(108)			(108)
Balance at 30 June 2008 (unaudited)	4,275	-	420	167	(1,959)	2,903
Balance at 1 January 2007	1	44	44	-	118	207
Profit for the period					61	61
Balance at 30 June 2007 (unaudited)	1	44	44	-	179	268

The notes on pages 9 to 12 form an integral part of this condensed consolidated interim financial information.

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CONDENSED INTERIM CONSOLIDATED CASH FLOW STATEMENT for the six months ended 30 June 2008

	Notes	Six months ended 30 June 2008	Six months ended 30 June 2007
		Unaudited £000	Unaudited £000
Operating activities			
Retained (loss)/profit for the period		(60)	61
Finance income		(24)	(10)
(Increase) in trade and other receivables		(49)	(202)
(Decrease)/increase in trade and other payables		(251)	339
(Decrease)/increase in current taxation liabilities		(1)	15
(Decrease) in non-current liabilities		(78)	-
Net cash (used in)/from operating activities		(463)	203
Investing activities			
Acquisition of exploration and evaluation assets	5	(193)	(15)
Interest received		24	10
Net cash (used in) investing activities		(169)	(5)
Financing activities			
Cash proceeds from issue of shares		2,095	-
Less : Share issue costs		(108)	-
Net cash from financing activities		1,987	-
Net increase in cash and cash equivalents in the period		1,355	198
Cash and cash equivalents at the beginning of the period		1,414	227
Cash and cash equivalents at the end of the period		2,769	425

The notes on pages 9 to 12 form an integral part of this condensed consolidated interim financial information.

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NOTES TO THE INTERIM REPORT for the six months ended 30 June 2008

1. Corporate information

The interim condensed consolidated financial statements of the Group for the six months ended 30 June 2008, which are unaudited, were authorised for issue in accordance with a resolution of the directors on 1 September 2008.

Island Gas Resources plc is a limited company incorporated and domiciled in England whose shares are publicly traded.

The principal activity of the Company and its subsidiaries ("the Group") is coal bed methane ("CBM"), intended to result in the production and marketing of methane gas for industrial and domestic use from virgin coal seams within its UK acreage. This requires acreage to be explored, appraised and developed and in connection with which the Group also provides technical and other related services.

2. Basis of preparation and accounting policies

The financial information has been prepared under the historical cost convention and on a going concern basis and in accordance with International Financial Reporting Standards and IFRIC interpretations adopted for use in the European Union ("IFRS"). The financial information for the period ended 30 June 2008 has not been audited or reviewed in accordance with the International Standard on Review Engagements 2410 issued by the Auditing Practices Board. The figures were prepared using applicable accounting policies and practices consistent with those adopted in the statutory accounts for the period ended 31 December 2007.

The financial information contained in this document does not constitute statutory accounts as defined by Section 240 of the Companies Act 1985 (England & Wales).

Statement of compliance

These condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34 - Interim Financial Reporting as adopted by the European Union. Accordingly the interim financial statements do not include all of the information or disclosures required in the annual financial statements, and therefore should be read in conjunction with the consolidated financial statements and the notes thereto in the Group's annual report and accounts for the year ended 31 December 2007

Basis of consolidation

The consolidated financial statements present the results of the Company and its subsidiaries (the "Group") as if they formed a single entity. Intercompany transactions and balances between Group companies are therefore eliminated in full.

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

Revenue, segment information and seasonality

All revenue, which represented turnover, arose within the United Kingdom and is attributable to activities in the Coal Bed Methane (CBM) sector. The Group's business is not affected by seasonality.

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NOTES TO THE INTERIM REPORT for the six months ended 30 June 2008 (continued)

3. Tax on (loss)/profit on ordinary activities

	For the six months ended 30 June	
	2008	2007
	Unaudited £000	Unaudited £000
Current tax		
Current tax on income for the period	-	(14)
Adjustment in respect of prior years	1	-
	<hr/>	<hr/>
	1	(14)
Deferred tax	-	-
	<hr/>	<hr/>
	1	(14)
	<hr/>	<hr/>

Current tax arising in the subsidiary company, Island Gas limited, for the six months ended 30 June 2008 has been wholly relieved by the surrender of excess management charges of the Company, as group relief (2007 - £Nil).

Tax losses are not considered to be sufficiently certain of utilisation to justify setting up deferred tax assets.

4. (Loss)/earnings per share (EPS)

Basic EPS amounts are calculated by dividing the profit for the period attributable to ordinary equity holders of the parent by the weighted average number of Ordinary Shares outstanding during the period 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 (in £/share):

	For the six months ended 30 June	
	2008	2007
	Unaudited £000	Unaudited £000
Basic EPS – Ordinary Shares of 50p each	(0.0010)	0.0011
Diluted EPS – Ordinary Shares of 50p each	(0.0010)	0.0011
(Loss)/profit for the period attributable to equity holders of the parent – (£000)	(60)	61
Weighted average number of ordinary shares in the period – basic EPS	59,124,888	55,555,365
Weighted average number of ordinary shares in the period – diluted EPS	59,124,888	55,555,365

There are 525,280 potentially dilutive warrants and options over the Ordinary Shares at 30 June 2008 (2007: nil) which are not included in the calculation of diluted earnings per share because they were anti-dilutive for the period as their conversion to Ordinary Shares would decrease the loss per share.

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NOTES TO THE INTERIM REPORT for the six months ended 30 June 2008 (continued)

5. Intangible exploration and evaluation assets

	Total £000
Cost	
At 1 January 2008	109
Additions	193
Disposals	-
	<hr/>
At 30 June 2008 (unaudited)	302
	<hr/>
Amortisation	
At 1 January 2008	-
Charge for the period, including impairment	-
Disposals	-
	<hr/>
At 30 June 2008 (unaudited)	-
	<hr/>
Net book value	
At 30 June 2008 (unaudited)	302
	<hr/>
At 1 January 2008	109
	<hr/> <hr/>

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

At 30 June 2008 £3,429 thousand had been carried (2007: £1,576 thousand), which has not been recorded as either non-current assets or liabilities, since repayment is currently sufficiently uncertain.

6. Cash and cash equivalents

	30 June 2008	31 December 2007
	Unaudited £000	Unaudited £000
Cash at bank and in hand	1,938	425
Short-term deposits	831	-
	<hr/>	<hr/>
Total	2,769	425
	<hr/> <hr/>	<hr/> <hr/>

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Cash and cash equivalents (continued)

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 published credit ratings.

7. Called up share capital and share premium account

	Ordinary Shares	Nominal Value
	Unaudited Number	Unaudited £
At 1 January 2008	59,107,182	2,664,344
Shares issued during period	3,222,460	1,611,230
At 30 June 2008 (unaudited)	62,329,642	4,275,574

Effective 30 June 2008 the Company placed 3,222,460 new ordinary shares of 50 pence each with institutional investors at a price of 65 pence per share to raise approximately £2.1 million (before expenses); representing £1,611 thousand of called up share capital and £484 thousand of share premium.

The net proceeds of this placing will be used primarily to fund the Group's working capital requirements and to enable the Group to secure drilling and exploration services required in developing the Group's existing and recently-awarded acreage. Based on the Group's current projections, the net proceeds of the placing will provide the Group with more than sufficient working capital for at least 12 months from the date of placing.

8. Commitments

The Group had no lease or capital commitments at 30 June 2008 (2007: £nil).

As at 30 June 2008, no amounts have been included for exploration and appraisal as these are expected to be covered by the Nexen Carry Agreements as referred to in Note 5 above (2007: £nil).

9. Related party transactions

There were no related party transactions during the period. (2007 – As disclosed in the Group's annual report and accounts for 2007).

DIRECTORS AND ADVISERS

Directors	F R Gugen – Chairman (appointed 27 December 2007) A P Austin – Chief Executive Officer (appointed 27 December 2007) B Cheshire– Technical Director (appointed 27 December 2007) R J Armstrong – Non-Executive (appointed 10 April 2007) J Bryant – Non-Executive (appointed 10 April 2007) P Redmond – Non-Executive (appointed 10 April 2007)
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Brokers	Brewin Dolphin Investment Banking 12 Smithfield Street London EC1A 9BA
Auditors	Libertas Capital Securities Ltd 16 Berkeley Square London W1J 8DZ Ernst & Young LLP 1 More London Place London SE1 2AF
Bankers	HSBC 165 High Street Southampton Hampshire SO14 2NZ
Financial PR	Gavin Anderson and Company 85 Strand London WC2R 0DW
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Company's registered number	04981279