

ISLAND GAS RESOURCES

("IGas", "the Company" or "the Group")

RESULTS FOR THE YEAR TO 31 DECEMBER 2008

Island Gas Resources (IGas), a leading Coal Bed Methane ("CBM") developer in the UK producing North Sea quality gas from virgin coal seams, today announces results for the year to 31 December 2008.

Financial Highlights as at 31 December 2008

- Revenue of £0.992 million (2008: £0.811 million)
- Cash and cash equivalents of £2.3 million (2008: £1.4 million)
- Operating loss of £0.458 million (2008: £2.024 million)
- Carry agreements in place to meet 2009 and 2010 budgeted work programmes
- Funding of £4.5 million available at 31 December 2008

Operational Highlights as at 31 December 2008

- Increased acreage by 69% to 1,656 square kilometres following 13th onshore oil and gas licensing round
- Secured agreement with Peel Environmental Ltd (Peel) to gain access to CBM production sites in North West
- Secured electricity grid connection agreement for Doe Green site and installed generator.
- All licence obligations satisfied until 2011
- Drilled three additional wells and several lateral legs

Operational Highlights as at 15 June 2009

- Achieved first commercial sales of electricity from CBM production at Doe Green – a first for the UK
- Initial production rates indicate that IGas' threshold for commerciality should be exceeded
- Independently verified 142% increase in Gas Initially In Place (GIIP) resources: risk weighted* mid-case 2,169 billion cubic feet (bcf) as assessed by Equipoise Solutions
- Contingent Recoverable Resource assessed as 733 bcf by DeGolyer and McNaughton
- Field Development Plans approved for Doe Green and Swallowcroft and a further 20 sites identified

* takes account of risk factors related to the potential of coals being absent or falling outside the cut off ranges used for GIIP

Francis Gugen, Chairman of IGas said:

"I am pleased to report that we have delivered on all the objectives we set ourselves for last year. The sale of electricity generated from coal bed methane is a first for the UK, and proves the commercial potential of the industry. We will continue to progress our plans to establish a second production site at Swallowcroft in Staffordshire and put in place a long-term plan to convert our Contingent Recoverable Resources to Commercially Recoverable Reserves."

-Ends-

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Notes to Editors:

Island Gas Resources plc (“IGAS.L”)

Founded in 2003, the Company’s subsidiary, Island Gas Limited, was set up to produce and market the methane gas which is found in seams of coal. The coal seam both generates and traps the gas, which can be extracted by drilling horizontally into the seam and collected for use as fuel. CBM is exactly the same as other forms of natural gas, and is used to provide both industrial and domestic power and has the potential to be an important new source of energy for the UK. The CBM industry in the UK is in its infancy, but with the continuing decline in natural gas reserves from the North Sea, it is likely to become an increasingly attractive alternative potential source of energy.

CBM has become a significant source of gas both in North America and Australia over a relatively short period of time during which both have seen an almost exponential growth in CBM production. The Group has ownership interests of between 20 and 50 per cent in eleven PEDLs in the UK, wholly owns two methane drainage licences and has a 50 per cent interest in three offshore blocks under one Seaward Petroleum Production Licence. These licences cover a gross area of approximately 1,656sq. km. In an independent evaluation of its net Contingent Recoverable Resources, DeGolyer and MacNaughton has concluded that IGas has a potentially recoverable resource of up to 733 bcf (3C), which is equivalent to 116 million barrels of oil; as derived from a statistical aggregation of contingent resource ranges calculated on an individual coal seam basis.

For further information please visit www.igasplc.com.

Equipoise Solutions

Equipoise is a privately owned independent consulting company established in 1998 with offices in South London. The company specialises in petroleum geology and geophysics. The work has been supervised by Dr Adam Law, Director of Equipoise, a post graduate in Geology and a Fellow of the Geological Society of London. He has 15 years experience in the evaluation of oil and gas fields and acreage. Mr Donald Alastair Scott has reviewed and approved these estimates. Mr Scott is a Director of Equipoise, and has over 40 years experience in the evaluation of oil and gas acreage.

For further information of Equipoise Solutions, please visit www.equipoisesolutions.ltd.uk.

DeGolyer and MacNaughton

DeGolyer and MacNaughton performs a variety of services related to the upstream sector of the petroleum industry, including evaluation of the hydrocarbon potential of exploration areas, estimation and classification of reserves to be recovered from new discoveries, verification of hydrocarbon reserves, production forecasting, and appraisal of properties for prospective acquisition, divestiture, issuance of securities, or financing purposes. During seven decades, the firm has successfully performed studies on hundreds of thousands of petroleum properties in more than 100 countries and provides independent reserve auditing services to some of the world’s largest oil & gas companies.

For further information on DeGolyer and MacNaughton please visit

<http://www.demac.com/>

The Contingent Recoverable Resources estimates presented here have been prepared in accordance with the Petroleum Resources Management System (PRMS) approved in March 2007 by the Society of Petroleum Engineers, the World Petroleum Council, the American Association of Petroleum Geologists and the Society of Petroleum Evaluation Engineers

The statistical aggregated net Contingent Recoverable Resource quantities are summarised below in terms of billions of standard cubic feet (bcf).

Net Contingent Recoverable Resources*	1C	2C	3C
Statistical Aggregate	346 bcf	503 bcf	733 bcf

In addition, DeGolyer and MacNaughton have arithmetically summed the total net Contingent Recoverable Resources. The arithmetically summed net Contingent Recoverable Resource quantities are summarised below in terms of billions of standard cubic feet (bcf).

Net Contingent Recoverable Resources*	1C	2C	3C
Arithmetically Summed	215 bcf	438 bcf	929 bcf

*A Contingent Recoverable Resource is defined as quantities of petroleum estimated, as of a given date, to be potentially recoverable from known accumulations by application of development projects, but which are not currently considered to be commercially recoverable due to one or more contingencies. Further, there is, as of a given date, no certainty that it will be commercially viable to produce any portion of the contingent resources evaluated. Contingent Recoverable Resources are further divided into three status groups: marginal, sub-marginal, and undetermined. IGas's contingent resources all fall into the undetermined group. Undetermined is the status group where it is considered premature to clearly define the ultimate chance of commerciality.

Chairman's statement

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

These foundations have three integral parts:

01 Deliverability of gas

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

02 Asset growth

- Successful 13th licensing round applications have resulted in us being awarded interests in three more licences over an additional 680 square kilometres.
- These new awards build on our core position and knowledge base in the north west.
- In September we announced a framework agreement with Peel Environmental Ltd to allow access to sites within their land holding for the production of CBM. We have now identified a further 20 potential production sites in the north west to be evaluated.
- Independent verification of mid case gas initially in place has been revised upwards by 142% to 2,169 bcf, based on latest data; source Equipoise Solutions Ltd.
- We are now also evaluating the potential for conventional hydrocarbon plays within our acreage position. This activity is particularly focused at Point of Ayr.

03 Financial flexibility

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

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

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

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

Francis Gugen

Executive Chairman

Business review Operations

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

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

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

Gas production

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

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

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

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

Four Oaks

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

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

Swallowcroft

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

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

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

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

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

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

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

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

North Dee

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

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

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

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

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

Parkside

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

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

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

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

Key financial highlights

Income statement

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

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

Total licence expenditure

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

Cash position

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

Principal risks and uncertainties

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

Environment, Health and Safety

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

Consolidated income statement

For the year ended 31 December 2008

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

Consolidated balance sheet

As at 31 December 2008

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

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

Francis Gugen Andrew Austin
Chairman Chief Executive Officer

Consolidated statement of changes in equity

For the year ended 31 December 2008

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

Consolidated cash flow statement

For the year ended 31 December 2008

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

Consolidated financial statements – notes

As at 31 December 2008

1 Accounting policies

(a) Basis of preparation of financial statements

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

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

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

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

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

International Financial Reporting Interpretations Committee (IFRIC)

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

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

(b) Going concern

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

(c) Basis of consolidation

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

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

(d) Reverse acquisitions

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

(e) Joint ventures

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

(f) Significant accounting judgements and estimates

Critical judgements in applying the Group's accounting policies

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

Estimates and assumptions:

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

- Carrying value of intangible exploration and evaluation assets:

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

(g) Exceptional items

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

(h) Revenue

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

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

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

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

Property plant and equipment, interests in oil and gas properties

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

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

Impairment

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

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

Decommissioning

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

Carried interests

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

Non oil and gas related property plant and equipment

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

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

(j) Financial instruments

Cash and cash equivalents

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

Trade and other receivables

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

Trade and other payables

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

Impairment of financial assets

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

(k) Operating leases

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

(l) Taxation

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

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

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

(m) Share based payments

Where share options or warrants are awarded to employees (including Directors), the fair value of the options or warrants at the date of the grant is recorded in equity over the vesting period. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each balance sheet date so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of options that eventually vest. Market vesting conditions are factored in to the fair value of the options or warrants granted. As long as all other vesting conditions are satisfied, the amount recorded is computed irrespective of whether the market vesting conditions are satisfied. The

cumulative amount recognised is not adjusted for the failure to achieve a market vesting condition; although equity no longer required for options or warrants may be transferred to another equity reserve.

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

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

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

(n) Equity

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

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

2 Business combination

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

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

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

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

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

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

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

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

3 Revenue and segment information

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

4 Operating loss

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

*

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

5 Employee information

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

6 Directors' emoluments

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

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

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

Charged through reserves:

Directors' emoluments and benefits comprised:		
Amounts payable in respect of qualifying services	–	56
Share based payments	–	131
	–	187

The highest paid Director received emoluments and benefits as follows:

Emoluments	–	55
Pension contributions	–	–
	–	55

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

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

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

Directors' warrants

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

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

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

7 Exceptional item – impairment of goodwill on reverse

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

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

8 Finance income

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

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

9 Tax on loss on ordinary activities

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

Factors affecting the tax charge

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

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

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

10 (Loss) per share (EPS)

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

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

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

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

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

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

11 Intangible exploration and evaluation assets

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

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

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

12 Trade and other receivables

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

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

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

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

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

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

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

13 Cash and cash equivalents

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

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

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

14 Current liabilities

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

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

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

15 Non-current liabilities

	2008 £000	2007 £000
Trade and other payables, due 31 March 2009	–	78
	–	78
Tax losses, none of which is considered sufficiently certain of utilisation to set up deferred tax assets, amount to:		
	2008 £000	2007 £000
Company:		
Excess management expenses	2,998	2,618
IGL:		
Petroliferous – Trading loss	17	17
Petroliferous – Minerals extraction allowances	548	161
KP Renewables (Operations) Limited (“KPRO”):		
Trading loss	1,200	1,194

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

16 Commitments

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

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

17 Financial instruments

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

Financial assets and liabilities

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

Liquidity risk

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

17 Financial instruments continued

Interest rate risk profile of financial assets

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

Credit risk

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

Capital management

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

18 Share capital

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

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

£000

Share capital account*

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

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

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

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

19 Share warrant reserve

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

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

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

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

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

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

20 Other reserves

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

21 Related party transactions

Key management personnel

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

Arising in 2007

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

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

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

22 Subsequent events

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