



19th October 2009

Island Gas Resources plc

(‘IGas’ ‘the Company’ or ‘the Group’)

IGas Operational Update

The board of IGas, the leading coal bed methane (CBM) developer in the UK, is delighted to provide an update on the development of its acreage. The acreage owned by IGas and Nexen has sufficient resource to generate enough electricity to power more than four million homes for fifteen years

Doe Green

- Doe Green well 2 (DG2) in production – generating electricity from CBM, a first for the UK.
- DG2 now has over 12 months of production history and the average production rate attained is approximately 45,000 standard cubic feet (scf) per day of high quality methane.
- Workover operations started at Doe Green well 1 (DG1).

IGas has now commenced workover operations at its well DG1. This well is on its pilot production site between Warrington and Widnes, where IGas is producing gas and generating electricity for export via National Grid and on-sold to a major utility. DG1 was IGas’ first well on the site and was drilled in 2006. The well was cored and logged and down hole pressure gauges were set to identify if and when pressure connectivity was established with the DG2 production well. DG2 was drilled initially with one 1,000 ft lateral section in coal and now has over 12 months of successful production history.

DG1 intersects the full column of coal seams. The objective of the workover is to perforate the coals in nine seams representing 63 feet and then “frac” the seams using clean water. The purpose of the fracturing is to induce pathways through which gas can migrate into the borehole and be produced. The completion of a vertical well such as DG1 is a simpler and cheaper method than that employed at DG2 and IGas will be monitoring the relative benefits of this appraisal to evaluate both approaches. The de-watering and gas handling equipment is already installed at the site and any gas produced will be used to generate electricity from the on-site generation equipment and the electricity sold to the grid. The production and generation equipment is now capable of 24-hour remote operation. In the event that this test of a “vertical” wellbore yields unsatisfactory results, in-seam laterals in the coal seams can be drilled from DG1 in the future.

At DG2 the Z lateral now has over 12 months of production history. The average production rate attained has been rate of approximately 45,000scf/day of high quality methane with a constant very low level of water production after experiencing higher initial water production. This lateral leg is approximately 1,000 feet in length. IGas believes, based on its current cost base, that this production rate from laterals of this



length is commercial when upscaled and the Group is encouraged by the stability of the production.

The DG2V and W laterals were initially connected to the production equipment in June of this year. They have been drilled at approx 90 degrees to the Z lateral and in the same coal seam to test the effects of the stress regime on permeability and flow. While these laterals have to date produced significantly more water than that produced from DG2Z, an indication of higher permeability, the Group still awaits a gas contribution from these legs. Production analogues from the Black warrior Basin in North America (which IGas believe is comparable to the coals across the Group's acreage based on its very significant coal data set) suggests that it can take up to two years before the production of water creates sufficient pressure differential in the reservoir for the gas to be produced. IGas is therefore continuing to dewater these laterals and will keep the market informed of progress.

Keele

- IGas to be on site to begin operations at the Keele University Science Park site in Swallowcroft by the end of this year.
- Gas produced will be sold directly to Keele University.

IGas has now finalised the well design for its well at Keele University Science Park and the land agreements are in place. The Group expects to begin site construction shortly. The objective of this well is to produce gas from a lateral in the Great Row seam, which is at a depth of 1,757 feet from surface and is around 11 feet thick at this location. Logs from the Group's well at Willoughbridge, 5.5 miles south west of the location, provide encouragement as to the permeability of the coals in this area and the Group is expecting that the production results will be in line with those experienced at Doe Green.

Point of Ayr

- Intention to drill a well in 2010 to demonstrate productivity.
- IGas carrying out extensive modeling exercise.
- IGas sourcing technical support to assess production potential of shale gas.

It is the Group's intention to drill a well to demonstrate the productivity of this acreage in 2010. Prior to planning that well, IGas has commissioned Equipoise Solutions to carry out an extensive modeling exercise including re-interpreting 890 km of pre-existing 2D seismic and the logs of 15 wells in the locality. The objective of this work is to identify the possibility that conventional gas bearing structures and accumulations exist on the acreage. IGas anticipates that the work will be completed by year end and will update the market on the results. This will then inform the choice of a well site location for demonstrating the productivity of the extensive coal resource in the area and potentially that of a conventional resource if present.



In addition IGas is sourcing technical support for evaluating the gas production potential of the Hollywell shales also known to be present across IGas' acreage in the North West.

Future Plans

Once the production pilots at these three locations have been completed in 2010 IGas will be looking to establish a full production site in 2011. The location of this facility will be determined once the results of the pilots have been evaluated.

IGas has shown that coal bed methane is capable of being a commercial proposition in the UK. The contribution this home-grown resource can make to powering UK homes and businesses could be significant. According to a recent Wood Mackenzie report on the Cheshire basin, where IGas has a large proportion of its reserves, this area alone has enough gas to power the whole of the UK for over a year.

The Board of IGas continues to review opportunities, both corporate and operational, which have the potential to further accelerate the commercialisation of the Company's growing resource base. These include considering possible acquisitions, disposals, farm-ins / farm-outs, data and/or other intellectual capital exchanges, all with a view to further increasing the Group's position within the UK gas market. The Board will make further announcements as and when appropriate.

Ends

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Notes to Editors:

Island Gas Resources plc ("IGas")

Island Gas plc (IGas) was set up to produce and market the methane gas which is found in seams of coal. IGas is now producing gas from its pilot production site at Doe Green in Warrington and selling electricity through its on-site generation, a UK



first. Initial production rates indicate that the Company should exceed its threshold for commerciality.

IGas has ownership interests of between 20 and 100 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 1,756 sq. km. The mid case GIIP is up 181 per cent from 893 at year end 2007 to 2,508 bcf (source Equipoise Solutions Ltd). Independent analysis by world leading reservoir engineers, DeGolyer and McNaughton, confirms Contingent Recoverable Resource of up to 821 bcf of gas (3C), equivalent to around 135 million barrels of oil. The Contingent Recoverable Resource is derived from a statistical aggregation of contingent resource ranges calculated on an individual coal seam basis.

In May 2009 the Group announced it had been granted a further Field Development Programme approval by DECC for its plans for the commercial production of CBM gas from the Swallowcroft area.

The coal seam both generates and traps the gas, which can be extracted by drilling 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.

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 on Equipoise Solutions, please visit:
www.eupoisesolutions.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 www.demac.com.

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	398bcf	571bcf	821bcf

In addition, DeGolyer and MacNaughton has arithmetically summed the total net Contingent Recoverable Resources. The arithmetically summed net Contingent Recoverable Resource quantities are summarised below in terms of bcf:

Net Contingent Recoverable Resources*	1C	2C	3C
Arithmetically Summed	240bcf	492bcf	1,049bcf

*A Contingent Resource is classified 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' 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.

Nexen Inc.

Nexen Inc. is an independent, Canadian-based global energy company, listed on the Toronto and New York stock exchanges under the symbol NXY. It is uniquely



positioned for growth in the North Sea, Western Canada (including the Athabasca oil sands of Alberta and unconventional gas resource plays such as shale gas and coalbed methane), deep-water Gulf of Mexico, offshore West Africa and the Middle East.

For further information on Nexen please visit www.nexeninc.com.

Qualified Person

Brent Cheshire, Executive Technical Director of IGas, and a qualified person as defined in the Guidance Note for Mining, Oil and Gas Companies, March 2006, of the London Stock Exchange, has reviewed and approved the technical information contained in this announcement. Mr Cheshire has more than 30 years experience.

Glossary

The following definitions apply throughout this announcement, unless the context requires otherwise:

bcf	billions of standard cubic feet of gas
boe	barrel of oil equivalent
CBM	coal bed methane
DECC	The Department for Energy and Climate Change
FDP	field development programme
GIIP	gas initially in place
PEDL	Petroleum Exploration and Development Licence