

# **InfraStrata plc**

2012 Annual Report &  
Financial Statements

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# Chairman's statement

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The past few years have been challenging and in response to a fundamental shift in market conditions, I am pleased to report that we have worked successfully to reposition the business and identify routes to build significant shareholder value within a realistic timeframe. We have made considerable progress on our exploration projects and we have advanced the Islandmagee gas storage project through to successful receipt of planning approval.

Chronologically, your company was created on the back of a single large gas storage project based at Portland in Dorset and our difficulties in securing funding or otherwise realising value from the project have been well documented during an unprecedented shift in the fundamental economics and markets for seasonal gas storage facilities. In seeking to broaden our base we have embraced a smaller, more flexible and commercially attractive gas storage project, at Islandmagee in Northern Ireland. In addition to being able to meet the demands of seasonal storage, this facility would also be able to meet short-term fluctuations in demand on the gas network throughout the year, resulting in a greater value to the traded markets. We have also capitalised on our knowledge of the areas near to our storage projects and secured exploration licences PL1/10 and P1918 close to each and in this respect the emphasis of the Company's development has changed. Meanwhile we have continued to preserve the planning permissions for the Portland project and looked for additional or alternative projects to use both the site and those permissions.

The greater flexibility of the Islandmagee project compared to Portland has meant that, with our partner Mutual Energy, we were able to secure investment from BP Gas Marketing in the Islandmagee storage project. Our association with BP Gas Marketing and Mutual Energy in respect of the Islandmagee project is poised to enter a new phase now that planning permission has been granted and we expect shortly to be assessing how best to unlock value for shareholders in the near term.

The current poor market conditions for seasonal storage mean that we do not consider that it is likely we can realise the Portland gas storage project in the short term. As a result, we have been obliged to look critically at the cost pool. As a Board, we consider it is appropriate to take a conservative approach to the applicable accounting treatment of the project and the carrying value of the

asset in the Company's accounts. This has resulted in a substantial reduction in the financial asset value of the project cost carried on our balance sheet. There are no cash cost implications on the re-assessment and there remain clear commercial opportunities for the Portland site, which the Group will continue to assess and explore. Not least of these are those historic costs associated with the gas pipeline which has potential value for the P1918 petroleum licence or gas imports. The costs incurred in drilling the Portland-1 well and acquiring the Portland seismic data have been recognised as an exploration and evaluation intangible asset in the Group's financial statements. In the shorter term, the use of the brownfield site and attendant planning permissions are currently under appraisal as a potential for a salt solution mining facility, in its own right.

The Company also made significant progress during the year to 31 July 2012 with the petroleum exploration project in Northern Ireland where we are at an advanced stage of reviewing the additional seismic data acquired earlier this year. The data looks very encouraging and the prospects of drilling our first exploration well during 2013 appear strong.

In offshore Dorset the exploration is at an earlier stage following the formal award of the P1918 licence in first half 2012, but the presence of existing oil and gas discoveries within the licence area marks it out as prospective for the Company and good progress is anticipated in the coming year. These exciting developments encourage me to believe that there exists potential within these exploration projects to unlock significant shareholder value.

May I conclude by offering my thanks to our small but highly effective team for the progress made over the past eighteen months across both the exploration acreage and the Islandmagee gas storage project and also to our shareholders for their support. 2012 has been another challenging year but one in which significant progress has been made, one in which the emphasis of the Company has been repositioned and one in which our progress justifies my expectation that 2013 could be a very good year for your Company.

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**Ken Ratcliff**

Non-executive Chairman

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# Chief Executive's operating review

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The Company has continued to focus on oil and gas activities in two areas within the United Kingdom; County Antrim in Northern Ireland; and Dorset in Southern England. InfraStrata works alongside strong and experienced partners in projects in both areas. During the past two years the focus has shifted

towards the exploration projects in both areas where significant progress has been made and two wells are being planned for 2013, which together with the planned appraisal well for the Islandmagee gas storage project – all have the potential to unlock very significant value for shareholders.

## County Antrim, Northern Ireland

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### *Islandmagee Project*

Islandmagee Storage Limited (“IMSL”) was granted planning permission for a £400 million natural gas storage facility at Islandmagee, Co Antrim, in October 2012. IMSL was also granted a Gas Storage Licence from the Utility Regulator in October 2012. IMSL plans to create seven caverns, capable of storing up to a total of 500 million cubic metres of gas in Permian salt beds approximately 1,500 metres beneath Larne Lough.

IMSL is an independent Northern Ireland registered company; a joint venture between a wholly-owned subsidiary of InfraStrata plc (65% shareholder) and Moyle Energy Investments Limited, part of the Mutual Energy group of companies (35% shareholder). In January 2012 we were very pleased to announce that IMSL had entered into agreements with BP Gas Marketing Limited (“BPGM”) for the appraisal of the project and the option for BPGM to acquire a 50.495% equity interest in IMSL. Under the terms of a Joint Appraisal Agreement, BPGM has agreed to fund the activities necessary to develop the project, including the drilling of the first borehole, up to the point where a decision can be made on whether to proceed with its detailed engineering design. BPGM has also paid IMSL a total of £600,000 (a third on signing of an option agreement in September 2011, a third on signing the agreement in January 2012 and the remainder on the grant of planning permission in October 2012). The first payment was used to complete a land purchase for the project and the remaining funds were used to settle a portion of InfraStrata’s loan account to IMSL.

The Islandmagee project has a number of advantages which enhance its commercial case. These include being immediately adjacent to gas and electrical infrastructure, the salt being at an optimum depth for gas storage and close to a water source for solution mining of the salt to create the caverns. The project is also designed to access the extrinsic value of the gas storage market in the UK and Ireland by being able to respond to short-term volatility.

The proposed gas storage facility will make a significant contribution to the security of gas supplies for the whole island of Ireland. Ireland is dependent on gas for around 65% of electricity generation with 90% of the island’s gas imported

via a single pipeline from Scotland. The facility, when complete, will store enough gas to satisfy Northern Ireland’s demand for around 60 days. Northern Ireland has a target to generate 40% of electricity from renewables by 2020 – this will primarily be achieved through wind-powered generation. A shift to renewable energy sources is likely to result in an increasing reliance on gas-fired power stations to support the inherently intermittent supply from wind. Rapid cycle gas storage facilities, such as this planned project, will be important to respond to the increasingly fluctuating demands for gas to fuel this electricity generation requirement.

The estimated timescale for the project is approximately seven years, with the first cavern becoming operational after five years. The initial appraisal well drilling is planned, subject to confirmation on the regulatory framework for the project, in 2013. Samples of the Permian salt will provide the technical confirmation and final design parameters for the project.

### *Petroleum Exploration Project – PL1/10 Larne-Lough Neagh Basin*

A group led by InfraStrata plc was awarded Petroleum Licence PL1/10 in March 2011 by the Department of Enterprise, Trade and Investment (“DETI”). The licence covers an area of 663 square kilometres over what the Company believes is a very prospective largely unexplored sedimentary basin. The licence term is five years with a drill-or-drop decision required by March 2014. InfraStrata plc has a direct operated interest of 30%, with a further 40% shareholding in Brigantes Energy Limited which holds a 40% interest in the licence – resulting in an overall net licence interest of 46%. The other partners in the licence are Cairn Energy (20%) and Terrain Energy (10%).

The licence is located within the Larne-Lough Neagh Basin, a SW-NE trending Permo-Triassic Basin, overlying an older Carboniferous sequence. The basin has historically received little attention from explorers - the primary reason is the thick development of Palaeocene Antrim Flood Basalts overlying the target horizons. This has been a barrier to effective seismic imaging but with the recent technological advances in data processing, it is now opening up.

The group has acquired, using onshore specialist contractor Tesla

Exploration International Limited, a total of 400 kilometres of 2D seismic data over two campaigns, the first in October/November 2011 and the second in June 2012. Following the first survey, structures were identified below the basalt and large leads mapped in the east of the licence area. This eastern area became the focus for the second survey. The Company believes the new data has the potential to open up an exciting new area for petroleum exploration with significant potential.

There has been a limited amount of drilling in the Larne-Lough Neagh Basin over the past 40 years; largely for coal exploration and geothermal feasibility. However this has confirmed the development of good sandstone reservoirs and seals within the thick Permo-Triassic sedimentary section, similar to those found in our analogue, the prolific East Irish Sea Basin. Oil-prone source rocks have been identified on the margins of the Basin within the Carboniferous section, and gas-prone coals have also been mined to the west in the Coalisland area, and along the North Antrim coast. The basin is also along trend from the Midland Valley of Scotland where oil and gas prone rocks of Carboniferous age are well known. It is anticipated that in the

more deeply buried areas of the Larne-Lough Neagh Basin the Carboniferous will have been buried sufficiently to generate oil and possibly also gas. As with any new exploration province anywhere, the presence of a working petroleum basin remains the highest risk of the play and can only be resolved by drilling.

The 2011 data, together with the new 2012 survey were both processed by Fugro Seismic Imaging Limited, a world leader in the processing of challenging land data, during July to October 2012. Since October 2012 the interpretation has been on-going. A trend of large structures within the eastern half of the licence has been high-graded.

The initial licence term commitments to DETI have now been exceeded. The joint venture proposes to drill its first exploration well during 2013. Work is now commencing on identifying a suitable surface site from which to drill, and engaging with local stakeholders. It is hoped that it will be possible to drill the well in a coordinated programme with the first well on the Islandmagee gas storage project, to realise technical synergies and in particular to save costs for both projects.

## Dorset, Southern England

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### *Portland Project – Gas storage and salt solution mining*

Planning permission was granted for a 1,000 million cubic metres gas storage facility and associated infrastructure in 2008. The Company has run two formal processes to unlock value in the project. The first in 2007/8 had to be halted when interested parties withdrew from the process as the financial markets collapsed in the autumn of 2008. A second process was run in 2009/10 and resulted in US company, eCORP International LLC (“eCORP”), taking a 50% interest in the project during 2010 in return for funding the project through the next stage of pre-construction activity.

Between 2010 and 2012, eCORP invested £1.9 million in the project, which included lease payments, securing the majority of landowner agreements for the 37 kilometre gas pipeline connection to the National Transmission System and undertaking works on the site to implement the main site planning permission. However this investment was against a backdrop of a closing of the summer-winter gas price spread, which undermines the financial case for all but the very flexible gas storage projects in the UK, such as the Islandmagee project, which are able to respond to the volatility in prices rather than longer-term seasonal trends. With the continuing poor market conditions for seasonal gas storage facilities and a refocusing of eCORP’s European operations, InfraStrata reached agreement with eCORP in June 2012 whereby InfraStrata acquired 100% of the project again and eCORP’s former funding obligations were restructured into an obligation to provide funding for a further US\$2.88 million, in the form of monthly payments of

US\$120,000 until May 2014. The deal was structured so that eCORP would earn a 7.5% share of the future profits from the Portland project in return for its total investment in Dorset projects of approximately £3.7 million.

The Company believes it is unlikely that the seasonal gas storage market will improve in the short-term, but it remains a longer-term play as pressure for reliable winter supplies increases and the UK’s indigenous production reduces further. Against this backdrop, InfraStrata has conducted a review of all the potential projects which could be sited at Portland in the short-term to build upon the existing planning permissions. These included the generation and export of electricity, carbon capture & storage (“CCS”), salt production and export, gas imports and the siting of petroleum production facilities.

An application for funding for a CCS pilot at the site to the Department of Energy and Climate Change (“DECC”) in 2012 proved unsuccessful. The Company is now focused on the potential for salt production at the site. The location adjacent to a deep water port makes the export of salt to UK and international markets potentially attractive. If such a project could be established in the shorter-term it would enable the Company to retain the option for gas storage in the longer-term.

The gas pipeline construction authorisation from DECC is viewed as being of considerable potential value and will be maintained pending its future use as a potential export line for gas from production in the area (discussed further below), or for gas imports.

A group led by InfraStrata plc was awarded Petroleum Licence P1918 in December 2011, effective February 2012. The licence term is four years with a drill-or-drop decision required by February 2014. InfraStrata has a direct operated interest of 70%, with a further 40% shareholding in Corfe Energy Limited which holds a 20% interest in the licence – resulting in an overall net licence interest of 78%. The other partner in the licence is Cairn Energy (10%). InfraStrata acquired a 50% licence interest from eCORP (subject to a 7.5% share of future profits) in June 2012.

The P1918 licence covers three offshore Blocks 97/14, 97/15 and 98/11, with a total area of 584 square kilometres adjacent to the Dorset coast and close to the giant Wytch Farm oilfield.

Within and immediately adjacent to the licence area there are a number of active oil and gas seeps. A total of seven wells have previously been drilled within the licence area, including the first

UK offshore well in 1963 on Lulworth Banks in Block 97/14. Six of these wells encountered oil or gas shows and three flowed oil or gas on test. The advances in technology and higher petroleum prices mean that the licensees are hopeful of being able to develop one of the existing discoveries profitably as a base from which to appraise the full potential of the area. The focus has been on the offshore extension of the Purbeck Prospect, an anticline in the east of the licence, up dip of the onshore well Southard Quarry-1, which encountered petroleum at several stratigraphic levels in 1989 but was not tested. This large structure lies largely within Licence P1918. InfraStrata will commence reprocessing of existing data to define further the sub-surface target location for a new appraisal well. It is proposed to drill the well directionally from an onshore location, subject to planning permission and project funding, in the latter part of 2013.

The gas pipeline consent for the Portland project may prove a key investment to export gas from the area and realise this potential.

## **Funding review**

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BPGM funded the Islandmagee gas storage project to the extent of £475,689 during the financial year under the terms of a Joint Appraisal Agreement. BPGM will continue funding the development of the Islandmagee gas storage project through 2013 including the drilling of an appraisal well. We anticipate that the drilling of this well will trigger the detailed engineering and design phase and an unlocking of value in the project for InfraStrata through a monetising of its interest in the project. The project proceeding to construction will also be a further cash boost to InfraStrata with settlement of partner Mutual Energy's share of the loan account which is due to InfraStrata and which currently stands at £1.2 million.

The Company has no debt and has been successful in attracting investment into its projects. In addition, cash revenue of £253,932 has been earned from partners for managing the various projects, resulting in a net cash outflow (before legal costs relating to transactions) during the financial year of £78,000 per month. A placing of shares in February 2012 has secured the necessary funds to meet administration and general expenditure of the Company and support processes to unlock the inherent value in our range of projects.

InfraStrata has been funded for its share of the PL1/10 seismic programme through the introduction of partners (gross expenditure to year end of £2.2 million). A portion of the first well in Northern Ireland is already funded under an existing farmout agreement. We expect to see continued significant interest from industry partners in our acreage and will assess the options for securing the balance of the funding for the first exploration well.

In the Dorset projects, the restructuring agreement with eCORP has secured \$120,000 per month funding until May 2014. At the same time as reaching agreement with eCORP, agreement was also reached with Portland Port Limited to modify the existing leases at the Portland site. Portland Gas Storage Limited is able to terminate, without financial penalty, the leases annually in June of each year until 2018.

InfraStrata has funded the majority of its share of the initial work programme in the Dorset exploration project, comprising seismic mapping and prospect characterisation, through a farmout of an 8% interest to Corfe Energy Limited in August 2012. InfraStrata is likely to seek to farmout a further interest in the licence to fund the drilling and testing of an appraisal well. The Company holds a large equity position, following the eCORP licence acquisition, with which to manage a farmout funding process during 2013.

InfraStrata also holds a shareholding in two independent exploration companies, Brigantes Energy and Corfe Energy, who are partners in its exploration projects and are self-funding. InfraStrata Director William Colvin represents the Company's interest on the Board of each exploration company.

Brigantes holds a 40% interest in licence PL1/10 in Northern Ireland, and Corfe a 20% interest in offshore Dorset licence P1918. The companies raised a further £750,000 each during 2012 in private share placings, diluting InfraStrata's shareholding from 50% to 40%. At an appropriate time InfraStrata could sell its interests in these companies to unlock the value of its investments for shareholders.

# Outlook

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Good progress has been made in assessing and defining the prospectivity within the Company's exploration acreage. The coming year will see an increasing focus of the Company's activities towards its exploration portfolio. The upside potential of the licences for the Company is expected to be very significant. Characterisation of the primary prospects in each licence will continue as preparations commence for drilling and testing the plays, which are expected during the second half of 2013.

The coming year will see the Islandmagee gas storage project progressing further following the successful granting of planning permission in October 2012. Drilling of the first well is expected to take place in 2013 subject to confirmation of the regulatory framework for the project. The data from the seismic acquisition on licence PL1/10 in Northern Ireland will be processed and interpreted and is expected to lead to an exploration well being drilled, hopefully using the same rig as the Islandmagee well.

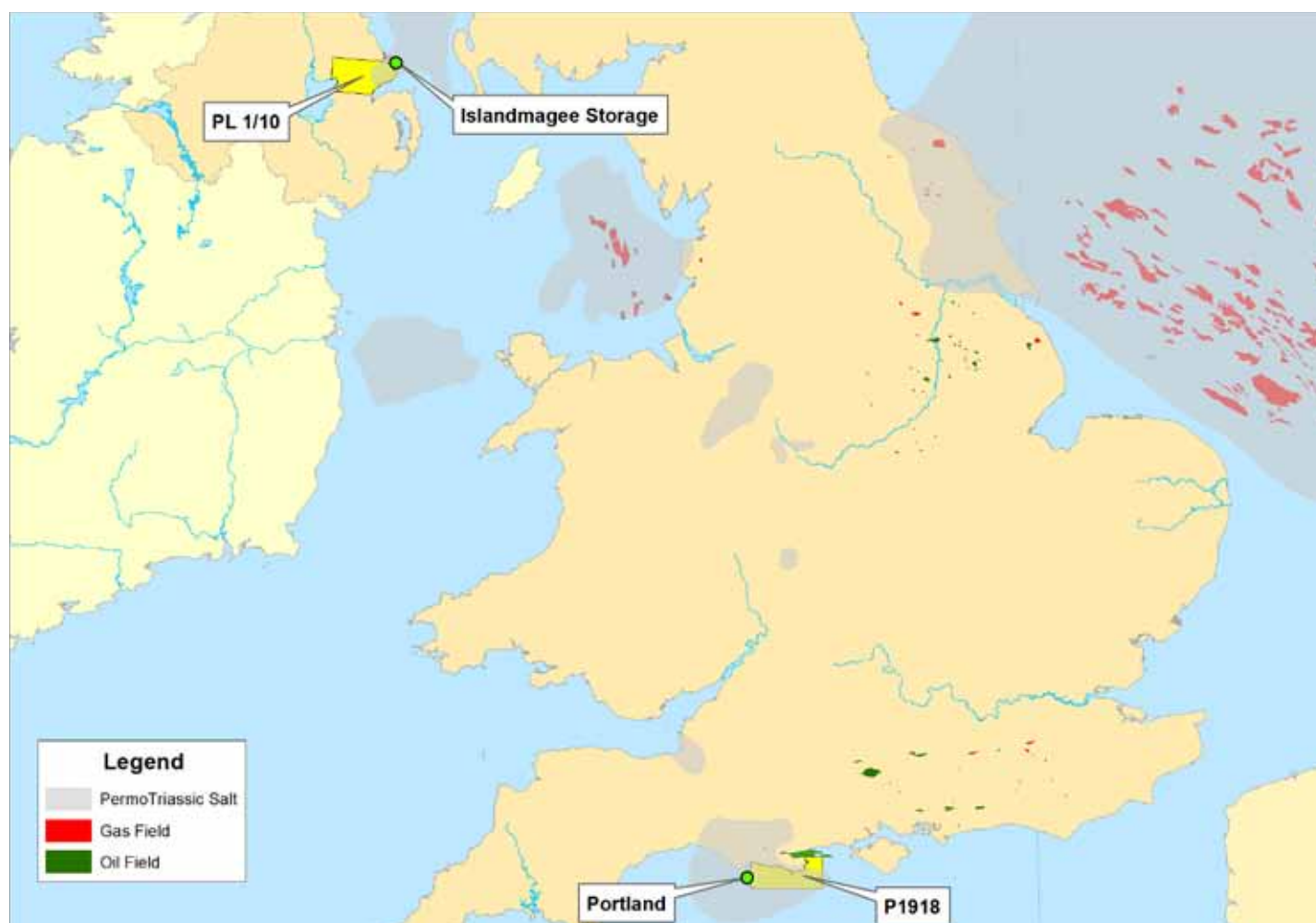
In Dorset, evaluation of existing data in licence P1918 will be progressed further with seismic reprocessing of data over the most prospective structure. It is anticipated that preparatory work, including the submission of a planning application, will be commenced to enable the joint venture to drill the first appraisal well in the licence from an onshore location. At Portland options to progress projects by building on existing technical work and consents will continue to be reviewed.

Unlocking the inherent value of the Company's projects during the coming 12 months is management's primary objective. The Company looks forward to working with partners and stakeholders to progress all of our projects.

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**Andrew Hindle**  
Chief Executive Officer

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# Corporate and Social Responsibility

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Through the work of the Portland Gas Trust, Portland Gas Limited continues to support local communities in its area of operation. The Trust is a registered charity that supports initiatives around education, geology and the environment. Throughout the year the Trust has continued to support local projects both financially, and in kind, through Rachel Barton, Manager of the Trust. During the year the Trust received various applications for funding. The Trust has continued to support suitable local applications and those that fitted with our objectives were successful.

This year saw the completion of the dry stone walling around the back of the Old Engine shed. Various walling courses were held over the winter months which meant lots could be achieved. Scrub was cleared with blackthorn and bramble being sprayed. The Trust is very grateful to Wessex Water for supporting the Trust with the costs of the spraying. Over 300 individuals helped as volunteers to complete the walling.

The Trust held two very successful fundraiser archive film nights at the Boat that Rocks which were oversubscribed and the Trust intends to host similar events in the coming year.

The responsible dog owner campaign was a great success. The Dog Fun day held in September was well attended with lots of people getting up to date information relating to dog ownership. The Trust has had awareness days out in the community promoting the bags, car stickers and information leaflets with the Island Ranger and the local authority Dog Warden.

Financial support was given, by the Trust, to the Project Pliosaur, the creation of a large dinosaur by local school children as part of the Cultural Olympiad. The Trust once again sponsored the Budmouth Geology Award.

The Trust supported various projects in kind which included the Portland Community Partnership. The Trust is also represented on the Board of Expia, a Community Interest Company based at HMP The Verne.

Looking forward, work will continue around the engine shed site, with the intent to rebuild the walls on the second field and clear away the remaining areas of scrub.

The Trust will continue to hold its own fundraising events and ensure that the local community is included and aware of the works that are undertaken.

Subject to obtaining full project funding, Islandmagee Storage Limited intends to set up a Trust with objectives around education, geology and the environment. An initial investment of £1 million over three years, with a further £50,000 per annum for a minimum of six years thereafter is planned. Consultation with local residents and interest groups indicated that there is a need to upgrade the community centre. Islandmagee Storage Limited has agreed to assist with this as part of its primary investment phase which in turn will help with the development of the Gobbins tourism project sponsored by Larne Borough Council.

The company is continuing discussions with local residents and community groups in the Larne Lough area with regard to ideas and initiatives which could be funded through the proposed Trust. Local businesswoman, Judith Tweed, is the company Community Liaison Consultant; Judith is collating a wide range of ideas for potential funding.



# Directors, secretary, advisors and shareholder information

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**Directors** Kenneth Maurice Ratcliff (*Non-executive Chairman*)  
Andrew David Hindle (*Chief Executive Officer*)  
Craig Stuart Gouws (*Chief Financial Officer*)  
Walter Rookehurst Roberts (*Legal and Commercial Director*)  
Maurice Edward Hazzard (*Non-executive Director*)  
William Colvin (*Non-executive Director*)

**Company secretary** Walter Rookehurst Roberts

**Registered office** Blackstable House  
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**Registrars** Capita Registrars Limited  
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34 Beckenham Road  
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**Solicitors** Field Fisher Waterhouse LLP  
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**Bankers** Bank of Scotland plc  
33 Old Broad Street  
London, EC2N 1HZ

**Investor and public relations** Buchanan Communications Limited  
107 Cheapside  
London, EC2V 6DN



# Report of the Directors

## for the year ended 31 July 2012

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The Directors have pleasure in presenting their report and audited financial statements for the year ended 31 July 2012.

### Principal activities and review of business

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The principal activities of the Group throughout the year were petroleum exploration and the development of sub-surface gas storage facilities.

#### General

InfraStrata plc is incorporated and domiciled in England and Wales.

#### Business review

During the year the Group continued to develop its gas storage and petroleum exploration business.

#### Funding

In February 2012 the Company completed the placing of 12,727,273 new ordinary shares at 11p per share and raised £1,400,000 before expenses. Following the placing, the Company has 90,991,599 ordinary shares in issue. The shares were placed by Seymour Pierce Limited largely with existing and new institutional investors. The net proceeds of the placing receivable by the Company together with the existing cash prior to the placing and anticipated income, particularly from project partners in return for management activities, are being applied to the general and administrative expenditure of the Company with the majority of the proceeds of the placing being used to strengthen the balance sheet of the Company and assist the Company to unlock the inherent value in its four projects as they all proceed to key milestones through its 2012/2013 financial year.

An agreement was entered into with BP Gas Marketing Limited ("BPGM") regarding the appraisal of the Islandmagee gas storage facility development project in County Antrim, and the grant of an option to BPGM to acquire a 50.495% equity interest in Islandmagee Storage Limited ("IMSL"). In consideration for the work undertaken in developing the project, Islandmagee Storage Limited received an amount of £400,000. £200,000 was paid on signature of a Joint Appraisal Agreement ("JAA") and a further £200,000 was paid following award of planning permission for the project on the 18 October 2012. These funds were used to repay a portion of the InfraStrata plc loan account to Islandmagee Storage Limited. In addition, Islandmagee Storage Limited was paid £200,000 by BPGM on the grant of exclusivity in 2011.

The Company signed a Restructuring Agreement with eCORP

Oil & Gas UK Limited ("eCORP") during June 2012, following a refocusing of eCORP's European operations. The provisions of the Restructuring Agreement include a revised funding arrangement. eCORP's 50% interest in Portland Gas Limited ("PGL") was converted into preference shares and eCORP's former funding obligations have been restructured into an obligation to subscribe a further US\$2.88 million for further preference shares over a period of two years. The preference shares will provide eCORP with a 7.5% share of the future profits distributed by Portland Gas Limited.

Associate companies Brigantes Energy Limited ("Brigantes") and Corfe Energy Limited ("Corfe") have each raised £750,000 through a placing of shares during July 2012. The InfraStrata plc interest in each Company was reduced to 40% however these associate companies are now adequately funded for the foreseeable future.

Following year end the Company also farmed out a further 8% interest in English Channel licence P1918 to Corfe Energy Limited. Under the terms of the agreement Corfe will carry the first £96,000 of InfraStrata's expenditure under the licence. The farmout to Corfe is part of InfraStrata's strategy to bring investment into its projects and de-risk its programme on the licence.

#### Islandmagee project

On 19 January 2012 an agreement was entered into with BPGM regarding the appraisal of the Islandmagee gas storage facility development project in County Antrim, and the grant of an option to BPGM to acquire a 50.495% equity interest in Islandmagee Storage Limited. Islandmagee Storage Limited is the gas storage developer in Northern Ireland currently owned by InfraStrata (65%) and Moyle Energy Investments Limited ("Moyle") (35%). Should the option be exercised, InfraStrata's equity interest in Islandmagee Storage Limited will become 32.178% and the remaining 17.327% will be owned by Moyle.

Under the terms of the JAA, BPGM has agreed to fund the activities necessary to develop the project, including the drilling of the first well, up to the point where a decision can be made on whether to proceed with a detailed engineering design. In addition to the planning permission, now received, the drilling of the well is subject to Islandmagee Storage Limited confirmation that a regulatory and operational framework will be adopted by the Northern Ireland and Republic of Ireland authorities to

facilitate commercial operations of the facility on a level playing field with storage elsewhere in the UK and Ireland.

During the appraisal stage of the project, BPGM is responsible for managing surface and sub-surface engineering matters. Islandmagee Storage Limited is managing the regulatory, land and stakeholder relations together with drilling and operating the well. All costs incurred by Islandmagee Storage Limited in undertaking these activities are and will be recovered from BPGM.

Islandmagee Storage Limited had received £475,689 from BPGM at 31 July 2012 in accordance with the agreement.

The Islandmagee gas storage project is, with the valued participation of stakeholders, progressing as anticipated.

#### *Portland project*

Planning permission for this project was granted in May 2008 by Dorset County Council and implemented in June 2011 following completion of permanent works within the wellpad area at Upper Osprey on the Isle of Portland.

Following a very challenging time and facing the unlikely prospect of securing full funding for the gas storage project in the near to medium term, alternative business streams have and are being investigated and developed for the site.

During June 2012 the Company signed a Restructuring Agreement with eCORP (a subsidiary of eCORP International, LLC), following a refocusing of eCORP's European operations.

The provisions of the Restructuring Agreement included the following:

- eCORP's 50% interest in Portland Gas Limited has been converted into preference shares and eCORP's former funding obligations have been restructured into an obligation to subscribe a further US\$2,880,000 for further preference shares over the next two years. The preference shares will provide eCORP with a 7.5% share of the future profits distributed by Portland Gas Limited. Following the restructuring, InfraStrata UK Limited, a wholly owned subsidiary of InfraStrata plc, now holds 100% of the ordinary shares in Portland Gas Limited;
- InfraStrata plc has also acquired eCORP's 50% interest in the 26th Round petroleum exploration licence P1918, offshore Dorset (increasing the Company's direct interest to 78%). In return InfraStrata plc has granted eCORP a 7.5% share of the future net profits generated on the acquired licence interest.

As a consequence of the Restructuring Agreement the Group de-recognized its 50% interest in the Portland Gas Limited joint venture and recognized an investment in a wholly owned subsidiary being the same company. The transaction resulted in the Group recognizing the fair value of intangible assets being the Portland-1 well data (well data obtained from the well which was drilled on Portland in 2006 and the seismic data acquired

in the same year) and the 50% interest in the P1918 licence acquired from eCORP.

An agreement was also reached with Portland Port Limited to modify the existing leases at the Portland site. These modifications include permission for a wider range of uses of the land, such as the generation and export of electricity, carbon capture & storage, salt production and export, and the siting of petroleum production facilities. A restructuring of lease payments was also agreed, whereby the rental payments in the early years are reduced, but could be higher in the longer term if there are multiple uses of the land. There is also flexibility for Portland Gas to terminate the leases during the next five years.

The Company has been reviewing a range of business options which build on synergies with Portland Port, together with the engineering, environmental and consenting work undertaken to date on the gas storage project.

The unique combination of thick Triassic salt strata present below the Portland area, and access to Port facilities, provides an attractive opportunity to establish the production and export of salt as an initial business. This opportunity is under appraisal and is the current focus of the Company with investment being sought for the project.

There is potential to store CO<sub>2</sub> in salt caverns. A bid was submitted in the Carbon Capture Storage ("CCS") Innovation Programme of the Department of Energy and Climate Change ("DECC") for a research and development project at Portland but this application was not successful.

The Pipeline Construction Authorisation from the DECC was most recently renewed in June 2012. An eight year extension to planning permissions related to the pipeline infrastructure was approved by the Dorset County Council in December 2011. In the face of the uncertainty surrounding the development of the gas storage project, the Company believes the pipeline could be used exporting hydrocarbons from the P1918 licence area, or for gas importation.

#### *Petroleum exploration activities*

During the financial year the main conventional exploration activities were focused on the central part of the Larne - Lough Neagh Basin following the award of petroleum exploration licence PL1/10 in March 2011. The licence covers an area of 663 square kilometres. The initial licence term is five years with a decision on drilling a well required within three years. InfraStrata plc is the operator of the licence and holds a 30% direct interest, with an additional net 16% interest via a 40% shareholding in partner company Brigantes Energy Limited which has a 40% interest. The other partners in the licence are Cairn Energy plc (20%) and Terrain Energy Limited (10%). The acquisition of approximately 275 line kilometres of 2D seismic data commenced in mid-September 2011 and was completed in early November 2011.

Tesla Exploration International Limited completed a further infill Vibroseis seismic programme in June 2012 comprising a total of 111 kilometres of 2D seismic data. Processing the

seismic data was undertaken by Fugro Seismic Imaging Limited between July and October 2012. The new survey has enabled the project partners to refine their evaluation of the petroleum prospectivity of the licence area, and plans are being made to drill the first well during 2013.

The Dorset petroleum licence, P1918, comprising Blocks 97/14, 97/15 and 98/11 was offered to the Company in December 2011 and formally awarded to InfraStrata plc and eCORP effective February 2012. InfraStrata plc acquired eCORP's 50% interest in the licence P1918 in June 2012. In return InfraStrata plc has granted eCORP a 7.5% share of the future profits generated on the acquired licence interest.

InfraStrata is the operator of the P1918 licence with a 70% interest, Cairn Energy plc has a 10% interest and Corfe Energy Limited has the remaining 20% interest. Corfe is 40% owned by InfraStrata plc.

A total of seven wells have been previously drilled within the P1918 licence area, including the first UK offshore well in 1963

on Lulworth Banks in Block 97/14. Six of these wells encountered oil or gas shows and three flowed oil or gas.

Following year end the Company also farmed out a further 8% interest in the P1918 licence to Corfe Energy Limited. In the terms of the agreement, Corfe will carry the first £96,000 of InfraStrata's expenditure under the licence. The farmout to Corfe is part of InfraStrata's strategy to bring investment into its projects and de-risk its programme on the licence.

The priority of the initial 2012/13 work programme will be to establish the potential commerciality of the most highgraded of the existing discoveries in the licence. The work will include reprocessing of existing seismic data to better define the extent and size of the prospect.

### Health, safety and environment

There were no reportable health, safety or environmental incidents during the period.

### Key performance indicators

Key performance indicators, both financial and non-financial, are used by the Board to monitor progress against predetermined objectives:

Objective	Definition	Strategy
We seek to identify new project opportunities	Identify new project opportunities which are expected to increase shareholder value once development commences	Develop a balanced portfolio of projects
We endeavour to develop projects in accordance with project schedules	Predetermined and agreed project development schedules adhered too including submission of planning applications	Delivery of projects to sensible time schedules. Submit and achieve planning permission approvals in a cost effective and timely manner
We aim to control general and administrative costs keeping costs as low as possible	Management and control of group general and administrative costs	Maintain low cost of Group general and administration expenditure and conserve cash to the extent possible
We aim to prudently manage Group working capital	Management and control of working capital ensuring liquidity as is necessary	Management of working capital to ensure liquidity to develop projects as planned in development schedules

Our Group KPIs provide a measure of our progress and performance against our strategy. Key performance indicators include identification of new economic project opportunities, submission of project planning applications in accordance with project scheduling, project development in accordance with project development programme, management of general and administrative costs and Group working capital management.

The KPIs are reported at Board meetings. Measurement entails analysing variance between expected and actual progress, financial position and financial performance. Relevant

performance measures for 2012 include:

- A number of new business opportunities including salt production and carbon capture and storage where considered during the financial year. The carbon capture and storage business proposal was not pursued following the Portland project application to DECC being unsuccessful.
- The prudent application of available cash resources. The cash balance at the financial year end was £1,918,201, £1,203,232 higher than that at the previous year end.
- Net general and administration expenditure was well

controlled during the financial year, a decrease of £48,989 before legal transaction costs when compared to the prior year.

- Issuance of new capital to raise £1,400,000 to meet working capital requirements during the financial year.
- Completion of the Portland Gas Limited restructuring transaction with eCORP and securing an agreement whereby eCORP is to subscribe for \$2,880,000 preference shares in Portland Gas Limited.
- Completion of the initial Islandmagee Storage Limited funding transaction with BPGM concluded.
- Completing the PL1/10 seismic acquisition to schedule and budget.
- P1918 exploration licence award effective February 2012.
- Although no planning awards took place during the financial year, the grant of the Islandmagee gas storage project planning permission occurred on 18 October 2012.

### **Principal risk factors**

The Directors are responsible for the effectiveness of the Group's risk management activities and internal control processes. As a participant in the gas storage development and upstream oil & gas industries, the Group is exposed to a wide range of business risks in the conduct of its operations. The Group is exposed to financial, operational, strategic and external risks which are further described below. These risks are not exhaustive and additional risks or uncertainties may arise or become material in the future. Any of these risks, as well as other risks and uncertainties in this document, could have a material effect on the Group's business.

#### *Financial risks - failure to meet financial obligations*

- Cost inflation and over runs.
- Access to working capital.

#### *Operational risks - damage to shareholder value, environment, personnel or communities caused by operational failures*

- Loss of key employees.
- Delays in planning application awards.
- Sustained exploration failures.
- Failure of third party services.
- Once hydrocarbon production projects become operational there will be an increased environmental risk for example hydrocarbon spillage.
- Failure to be seen to be acting in a socially responsible manner and/or failure to maintain good local community relations.

#### *Strategic and external risks - failure to manage and grow the business while creating shareholder value*

- Future deterioration of capital markets, reducing ability to raise new equity funding.
- Misalignment with partners.
- Shareholder sentiment.
- Mix of storage and upstream interests.
- Corporate governance failings.

There is no assurance that the Group's exploration and development activities will be successful. The Directors seek to manage and mitigate these risks by developing a balanced portfolio of projects, recruitment and retention of suitably skilled personnel, through compliance with applicable legislation and careful management of cash resources and requirements.

The successful progression of the Group's activities depends not only on technical success, but also on the ability of the Group to obtain appropriate financing through equity financing, farm downs, disposing of interest in projects or other means. If the Group is unable to obtain additional financing needed to fulfil its planned work programmes some interests may be relinquished and/or the scope of operations reduced.

### **Share capital**

On the 15 February 2011 the Company placed 12,727,273 new ordinary shares of 10 pence each at 11 pence per share to raise £1,400,000 before expenses. The shares were placed by Seymour Pierce Limited with existing and new institutional investors. Following the placing, the Company has 90,991,599 ordinary shares in issue.

### **Outlook**

Good progress has been made in assessing and defining the prospectivity within the Company's exploration acreage. The coming year will see an increasing focus of the Company activities towards its exploration portfolio. The upside potential of the licences for the Company is expected to very significant. Characterisation of the primary prospects in each licence will continue as preparations commence for drilling and testing the plays, which are expected during the second half of 2013.

The coming year will see the Islandmagee gas storage project progressing further following the successful granting of planning permission in October 2012. Drilling of the first well is expected to take place in 2013 subject to confirmation of the regulatory framework for the project. The data from the seismic acquisition on licence PL1/10 in Northern Ireland will be processed and interpreted and expected to lead to an exploration well being drilled, hopefully using the same rig as the Islandmagee well.

In Dorset, evaluation of existing data in licence P1918 will be progressed further with seismic reprocessing of data over the most prospective structure. It is anticipated that preparatory work, including the submission of a planning application, will be commenced to enable the joint venture to drill the first exploration well in the licence from an onshore location. At Portland options to progress projects building on existing technical work and consents will continue to be reviewed.

Unlocking the inherent value of the Company's projects during the coming 12 months is management's primary objective. The Company looks forward to working with partners and stakeholders to progress all of our projects.

## Results and dividends

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The 2012 financial year was an active period for the Group during which an exploration programme of £2,261,262 was undertaken of which the Company incurred a cash cost of only £34,564.

A non-cash share of loss of the joint venture of £10,306,395 and non-cash share of loss of associates of £174,869 was accounted for during the year. The loss on the joint venture primarily arose from impairment charges in respect of the Portland project as it is now unlikely that the project will secure full funding in the near to medium term. The Company derecognised its 50% joint venture investment in Portland Gas Limited and an investment in a 100% held subsidiary, being the same Company, was recognised. This gave rise to a net non-cash accounting loss of £8,113,730.

The Group recognised cash revenue of £253,932 which arose from operatorship income, consulting and technical services. These revenues offset corporate and administrative expenditure. Corporate and administrative expenditure, before gas storage lease costs and transaction legal fees of £190,659, was £1,068,547.

Largely as a result of non-cash transactions, the Group incurred a loss after tax of £19,727,362 (2011: profit after tax of £4,310,311). The loss for the year, together with the balance of £138,605 loss brought forward leaves a retained loss of £19,865,967 to be carried forward.

Following the impairments of the Portland project, the InfraStrata plc investment in InfraStrata UK Limited and the related inter-company receivable were impaired and this resulted in a non-cash expense of £23,141,684 being recognised in the InfraStrata plc company loss for the year.

The Directors do not recommend the payment of a dividend (2011: £nil).

In accordance with international financial reporting standards, the Islandmagee Storage project assets and liabilities continue to be classified as a disposal group and they are shown as held for sale and in the consolidated statement of financial position - note 21. As a corollary, the net loss attributable to this project company, representing costs that could not be capitalized, has been classified as arising from discontinued operations in the statement of comprehensive income.

## Charitable and political donations

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During the year the Group made various charitable contributions in the UK totalling £250 (2011: £200). No donations were made for political purposes (2011: £nil).

## Events after the reporting period

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Islandmagee Storage Limited received planning approval on 18 October 2012 for its development of a natural gas storage facility at Islandmagee, County Antrim.

## Payment of creditors

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The Group's policy for all suppliers is to fix terms of payment when entering into a business transaction, ensure that the supplier is aware of those terms and to abide by the agreed terms of payment. The number of days' trade creditors was 26 (2011: 16) for the Group.

## Risk Management

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The financial risk management objectives and policies of the Company in relation to the use of financial instruments, and the exposure of the Company and its subsidiary undertakings to its main risks, credit risk and liquidity risk, are set out in note 24 to the financial statements.

# Directors

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The Directors, who served during the year and subsequently, were as follows:

**Executive Directors:** A D Hindle, C S Gouws, W R Roberts. **Non-executive Directors:** K M Ratcliff, M E Hazzard, W Colvin

All Directors benefit from the provisions of individual Directors' Personal Indemnity insurance policies. Premiums payable to third parties are as described in note 6. The Company operates a share option scheme and the particulars of share options granted to Directors are detailed in note 6 to the financial statements. Directors of the Company at 31 July 2012 and their abridged CVs are as follows:

## Ken Ratcliff (Non-Executive Chairman)

Ken Ratcliff, JP, BSc., FCA, (62) is a Chartered Accountant with extensive finance and business experience. He is currently College Accountant at Epsom College and co-founder of Geokinetics Processing UK Limited, an oil and gas industry seismic contractor. He was an audit manager with Touche Ross & Co in London before moving into accountancy and finance positions within

the oil and gas industry in 1978. Ken has previously held senior management positions with Ensign Geophysics Limited, Seismic Geocode Limited, Tenneco Corporation and Merlin Geophysical Limited. He joined the Board in 2007 and became Chairman in October 2007. Ken has been a non-executive director of Egdon Resources plc since 2001.

## Andrew Hindle (Chief Executive Officer)

Andrew Hindle, BSc., MSc., PhD, FGS, CGeol, (50) is a highly experienced geologist with over 25 years worldwide experience. He holds a degree in Geological Sciences gained in 1983 from Leeds University and, following a year with BP, gained a MSc. degree in Petroleum Geology in 1985 from Aberdeen University. In 1998 he completed a PhD (part-time) through the Open University. He received the J. C. "Cam" Sproule Memorial Award from the American Association of Petroleum Geologists in 1999. He worked for Texaco from 1985 until 1996 on UK and

international petroleum exploration and development projects, working overseas from 1990 to 1994. Subsequently, he worked for Anadarko Algeria Corporation from 1996 to 1997. In 1997 he became a founding director of Egdon Resources plc and, following the demerger of Egdon and InfraStrata, remained a non-executive director of Egdon until February 2011. Andrew has been the Chief Executive of the Group since 2005. Andrew is also a director of Geofocus Limited and Toffee Limited

## Craig Gouws (Chief Financial Officer)

Craig Gouws, BSc., CA (SA) ACA, (45) is a Chartered Accountant and holds an engineering degree. He worked within the forestry sector in South Africa before qualifying as a Chartered Accountant with Ernst & Young in 2001. His finance experience

includes working for major auditing organisations in senior financial positions in South Africa, the Middle East and the United Kingdom. Craig joined the Group in an executive role during 2007.

## Walter Roberts (Legal and Commercial Director and Company Secretary)

Walter Roberts, MA (Cantab.), (61) is an oil and gas lawyer with a strong record in commercial and legal management. Walter qualified as a solicitor with Simmons & Simmons before joining Phillips Petroleum in 1980. He then worked for Lasmo in both the UK and in Australia where he set up its legal department. Walter was the principal negotiator for UK joint venture commercial negotiations and gas sales for Talisman Energy (UK)

Limited (previously Bow Valley Petroleum (U.K.) Limited) until 1995. More recently he was the London partner of Cummings & Co. and he is currently an executive director of Pinnacle Energy Limited and a non-executive director of Egdon Resources plc. Walter joined the Board of Egdon Resources plc in 2001 as a non-executive director. He joined the Group in an executive role in 2007.

## Maurice Hazzard (Non-Executive Director)

Maurice Hazzard, (74) has extensive business experience in the oil and gas industry, particularly in large offshore projects. He has held senior positions with Phillips Petroleum, Hamilton Bros. Oil & Gas Limited and Halyard Offshore Limited. Between 1979 and 1989 Maurice was responsible for development of the Energy Division of the Tung Group of companies, based in Hong Kong, and during this period was Executive Chairman of

Houlder Marine Drilling Limited. From 1989 to 1996 he was a consultant with Maritime Audit & Technical Services Limited, consulting to the international offshore oil and marine services industry. From 1996 to 1999 he was Chairman and CEO of PD Systems International Limited, a UK electronics manufacturer. He is also non-executive Chairman of Orbitron Technologies Limited, a software company.

## William Colvin (Non-Executive Director)

William Colvin, BCom. CA, (54) is a Chartered Accountant and has wide experience in the oil and gas, and healthcare sectors in senior management and board positions of large corporations. He was Finance Director of British-Borneo Oil & Gas Plc from 1992 to 1999. From 1990 to 1992, William was Finance Manager/Director at Oryx UK Energy. From 1984 to 1989, he worked in

a variety of financial roles for Atlantic Richfield (ARCO) Inc. He qualified as a Scottish Chartered Accountant in 1982 and holds a Bachelor of Commerce degree from the University of Edinburgh. William is currently a non-executive director of Energy XXI, the independent oil & natural gas exploration and production company.

## Directors' emoluments

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The Directors' emoluments are disclosed in note 6 to the financial statements.

## Directors and substantial shareholdings

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The Directors of the Company held the following beneficial shareholdings as at 20 November 2012.

<b>Ordinary shares of 10p each</b>	<b>Number</b>	<b>%</b>
Ken Ratcliff	104,000	0.11
Andrew Hindle	7,172,625	7.88
Craig Gouws	277,226	0.30
Walter Roberts	1,132,378	1.24
Maurice Hazzard	19,326	0.02
William Colvin	272,727	0.30

The Company has received notification of the following interests in 3% or more of the Company's issued share capital at 20 November 2012. The percentages presented are at the date of notification.

<b>Ordinary shares of 10p each</b>	<b>Number</b>	<b>%</b>
JP Morgan Asset Management Holdings Inc	15,516,600	19.83
Mark Abbott	6,294,806	6.92
Investec Wealth and Investment Management	5,299,112	5.82
Maven Income and Growth VCT 5 PLC	2,974,013	3.80
Calculus Nominees Limited	1,858,950	3.60

## Corporate Governance

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### **The UK Corporate Governance Code**

The Directors recognise the value of the UK Corporate Governance Code ("the Code") and whilst under the AIM rules compliance is not required the Directors believe that the Company applies the recommendations in so far as is appropriate for a public company of its size. The Company therefore does not fully comply with the Code.

### **The Board**

At the financial year end the Board was comprised of three Executive Directors and three Non-executive Directors whose background and experience are relevant to the Company's activities. As such, the Directors are of the opinion that the Board has a suitable balance and that the recommendations of

the Code have been implemented to an appropriate level. The Board, through the Directors, maintain regular contact with its advisors and public relations consultants in order to ensure that the Board develops an understanding of the views of major shareholders about the Company. All Directors have access to the advice and services of the company secretary who is responsible to the Board for ensuring that the Board procedures are followed and that the applicable rules and regulations are complied with. In addition, the company secretary will ensure that the Directors receive appropriate training as necessary. The appointment and removal of the company secretary is a matter for the Board as a whole.

The table overleaf contains details on the number of meetings held during the period and individual director attendance.



	<b>Board</b>	<b>Audit Committee</b>	<b>Remuneration Committee</b>
Number of meetings held during the 2012 financial year	7 <sup>s</sup>	4	1
	<b>Number of meetings attended</b>	<b>Number of meetings attended</b>	<b>Number of meetings attended</b>
<i>Executive directors</i>			
Andrew Hindle	6	-	-
Craig Gouws	7	-	-
Walter Roberts	7	-	-
<i>Non-executive directors</i>			
Ken Ratcliff	5	4	1
Maurice Hazzard	5	-	1
William Colvin	4	4	1

§ Of which 2 were minimally attended but to finalise business already approved by all directors

### **Audit Committee**

The Audit Committee met four times in the year to 31 July 2012. Its members are William Colvin (Chairman) and Ken Ratcliff. Members of the committee at the time of meetings attended all meetings either in person or by telephone. In addition, the committee met in August and November 2012 and senior representatives of the external auditors attended these meetings. The external auditor has unrestricted access to the Chairman of the committee.

The role of the Audit Committee includes:

- Consideration of the appointment of the external auditor and the audit fee.
- Reviewing the nature, scope and results of the external audit.
- Monitoring the integrity of the financial statements and

interim report.

- Discussing with the Group's auditors problems and reservations arising from the interim and final results.
- Reviewing the external auditor's management letter and management's response.
- Reviewing on behalf of the Board the Group's system of internal control and making recommendations to the Board.

The Committee also keeps under review the necessity for establishing an internal audit function but considers that, given the size of the Group and the close involvement of senior management in day-to-day operations, there is currently no requirement for such a function. Notwithstanding the absence of an internal audit function, the Committee keeps under review the effectiveness of the Group's internal controls and risk management systems.

### **Remuneration Committee**

The members of the Remuneration Committee are Maurice Hazzard (Chairman), Ken Ratcliff and William Colvin. The committee met once during the year and the meeting was attended by all current members. The Group's policy is to remunerate senior executives fairly in such a manner as to facilitate the recruitment, retention and motivation of staff. The Remuneration Committee recommends to the Board a framework for the remuneration of the Chairman, the Executive Directors and the senior management of the Group. During the year, the Remuneration Committee discussed the continuing need to maintain motivation of the Executive during a period of intense activity and changing focus. The conclusion of their considerations was that, while current salary burden was regarded as being high in the overall context of the Company's performance, it would not be wise to do anything to jeopardise the possible outcome of current negotiations but the focus during 2012/13 would be on reducing the overall burden. The Executive was invited to propose possible ways of achieving this

and recommendations put forward during the financial year have been implemented.

The principal objectives of the Committee include:

- Determining and recommending to the Board the remuneration policy for the Chief Executive and Executive Directors;
- Reviewing the design of share incentive plans for approval by the Board and determining the annual award policy to Executive Directors under existing plans.

The view of the Committee is that the salaries remain competitive, but are not over generous, and therefore did not recommend an adjustment during the current financial year. Non-executive fees are considered and agreed by the Board as a whole and there has been no specific review in this regard during the period.

## Nomation Committee

The Company has not established a Nomination Committee as the Directors are of the opinion that such a committee is inappropriate given the current size of the Company.

## Relations with Shareholders

Communication with shareholders is given high priority and the Company therefore communicates regularly with shareholders including the release of announcements for the interim and annual results and after significant developments. The Annual General Meeting is normally attended by all Directors. Shareholders, including private investors, are invited to ask questions on matters including the Group's operations and performance and to meet with the Directors after the formal proceedings have ended.

Representatives of the Board, at least twice per year, together with the Company brokers go on road shows during which existing and new investors are updated on Company affairs.

## Internal controls

The Directors are responsible for the Group's system of internal controls, the setting of appropriate policies on those controls, and regular assurance that the system is functioning effectively and that it is effective in managing business risk. Internal control systems are designed to meet the particular needs of the Group and to manage rather than eliminate the risk of failure to meet business objectives. The internal controls cover financial, operational and compliance matters and are reviewed on an on-going basis.

The Directors consider that the frequency of Board meetings and the information provided to the Board in relation to

The Company maintains a website ([www.infraStrata.co.uk](http://www.infraStrata.co.uk)) for the purpose of improving information flow to shareholders as well as potential investors. The website contains all press announcements and financial reports as well as extensive operational information about the Group's activities and enquiries from individual shareholders on matters relating to their shareholdings and the business of the Group are welcomed. The Board encourages shareholders to attend the Annual General Meeting, at which members of the Board are available to answer questions.

Arden Partners plc was appointed as Nominated Advisor and broker to the Company during the financial year.

Group operations assists the identification, evaluation and management of significant risks relevant to its operations on a continuous basis.

The Group's internal controls can only provide reasonable and not absolute assurance against material misstatement or loss or the risk of failure to meet business objectives. Having thus monitored risk management and internal control processes in place, the Board considers that the Company's internal control systems operated appropriately during the year and up to the date of signing of the Annual Report and Financial Statements.

## Going concern

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The Directors have prepared the financial statements on the going concern basis which assumes that the Group will continue in operational existence for the foreseeable future.

The Islandmagee gas storage project, in which InfraStrata plc currently holds a 65% interest, is funded by BPGM. Under the terms of a JAA, BPGM agreed to fund the activities necessary to develop the project, including the drilling of the first well, up to the point where a decision can be made on whether to proceed with its detailed engineering design.

The exploration of licence PL1/10 has largely been funded to date by partners, however InfraStrata plc will be required to fund its interest once the initial phase of exploration is complete and the partners decide to drill an exploration well. InfraStrata plc is currently funded for a third of its interest of a well and will be seeking to farmout a further interest to complete the funding.

On 1 June 2012, eCORP agreed to subscribe for US\$2.88 million of Portland Gas Limited preference shares over the following two

years. It is anticipated that these funds will enable the Company to settle existing commitments. Petroleum exploration activities in P1918 have largely been and are expected to be funded through farmouts as and when considered necessary.

The Directors believe that the disposal of an interest in Islandmagee Storage Limited is the best way of maximising shareholder value by allowing an entity other than InfraStrata plc to develop this project. It is expected that such a disposal will provide working capital for the Group and will transfer responsibility for funding future development of the Islandmagee gas storage project to the new shareholder.

After making inquiries and considering all the relevant factors in relation to the Group, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

# Directors' responsibilities

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The Directors are responsible for preparing the Report of the Directors' and the financial statements in accordance with applicable law and regulations.

UK Company law requires the directors to prepare Group and Company financial statements for each financial year. Under that law the Directors have elected (as required by the rules of the AIM market of the London Stock Exchange) to prepare Group financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU") and have elected to prepare the Company financial statements in accordance with IFRS as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006.

The Group financial statements are required by law and IFRS adopted by the EU to present fairly the financial position and performance of the Group; the Companies Act 2006 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the Group and of the profit or loss of the group for that period.

In preparing each of the Group and Company financial

statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the InfraStrata plc website.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

# Disclosure of information to the auditor

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In the case of each person who was a Director at the time this report was approved: - so far as the Director was aware there was no relevant available audit information of which the Company's auditor was unaware; and that the Director had taken all steps that the Director ought to have taken as a director to make himself aware of any relevant information and to establish that

the Company's auditor was aware of that information.

This information is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

# Auditor

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A resolution to re-appoint the auditor, Nexia Smith & Williamson, will be proposed at the forthcoming Annual General Meeting.

By order of the Board

A Hindle  
Director  
23 November 2012



# Independent auditor's report to the members of InfraStrata plc

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We have audited the financial statements of InfraStrata plc for the year ended 31 July 2012 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated and Parent Company Statements of Financial Position, the Consolidated and Parent Company Statements of Cash Flow, the Consolidated and Parent Company Statements of Changes in Equity, and the related notes 1 to 38. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and as regards the parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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

## Respective responsibilities of Directors and auditors

As explained more fully in the Directors' Responsibilities Statement on page 19, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

## Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at [www.frc.org.uk/apb/scope/private.cfm](http://www.frc.org.uk/apb/scope/private.cfm)

## Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and the parent Company's affairs as at 31 July 2012 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- the parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

## Opinion on other matter prescribed by the Companies Act 2006

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

## Matters on which we are required to report by exception

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

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

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**Andrew Bond**

Senior Statutory Auditor

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for and on behalf of  
Nexia Smith & Williamson  
Statutory Auditor  
Chartered Accountants

Walnut Tree Close  
1 Bishops Wharf  
Walnut Tree Close  
Guildford, GU1 4RA

23 November 2012

# Consolidated statement of comprehensive income for the year ended 31 July 2012

	Notes	2012 £	2011 £
<b>Continuing operations</b>			
Revenue		253,932	240,290
Cost of sales		-	-
<b>Gross profit</b>		253,932	240,290
Administrative expenses	4	(1,259,206)	(1,180,485)
<b>Operating loss</b>		(1,005,274)	(940,195)
Finance income	9	2,596	11,139
Share of loss of Joint Venture	16	(10,306,395)	(452,089)
Impairment of interest in Joint Venture	16	(10,626,210)	-
Gain arising on assuming control of the former Joint Venture	16	2,512,480	-
Share of loss of Associates	16	(174,869)	-
<b>Loss before taxation</b>		(19,597,672)	(1,381,145)
Taxation	10	-	-
<b>Loss for the year from continuing operations</b>		(19,597,672)	(1,381,145)
<b>(Loss)/profit for the year from discontinued operations</b>	11	(129,690)	5,691,456
<b>(Loss)/profit for the year attributable to the equity holders of the parent</b>		(19,727,362)	4,310,311
<b>Other comprehensive income</b>		-	-
<b>Total comprehensive (loss)/profit for the year attributable to the equity holders of the parent</b>		(19,727,362)	4,310,311
<b>Basic and diluted earnings per share</b>			
Continuing operations	12	(23.30)p	(1.82)p
Discontinued operations		(0.15)p	7.49p
Continuing and discontinued operations		(23.45)p	5.67p

# Consolidated statement of financial position as at 31 July 2012

	Notes	2012 £	2011 £
<b>Non-current assets</b>			
Intangible fixed assets	14	3,399,473	-
Property, plant and equipment	15	7,471	15,161
Investment in joint venture	16	-	22,473,516
Investments in associates	16	2,705,131	2,880,000
Other receivables	17	768,102	-
		<hr/>	<hr/>
<b>Total non-current assets</b>		6,880,177	25,368,677
		<hr/>	<hr/>
<b>Current assets</b>			
Trade and other receivables	18	1,114,145	140,526
Available for sale financial assets	19	12,500	12,500
Cash and cash equivalents	20	1,918,201	714,969
		<hr/>	<hr/>
		3,044,846	867,995
Assets classified as held for sale	21	3,206,003	2,744,731
		<hr/>	<hr/>
Total current assets		6,250,849	3,612,726
		<hr/>	<hr/>
<b>Current liabilities</b>			
Trade and other payables	22	(905,750)	(104,158)
Liabilities directly associated with assets classified as held for sale	21	(73,032)	(29,928)
		<hr/>	<hr/>
Total current liabilities		(978,782)	(134,086)
		<hr/>	<hr/>
<b>Net current assets</b>		5,272,067	3,478,640
		<hr/>	<hr/>
<b>Non-current liabilities</b>			
Deferred income tax liabilities	23	(1,201,296)	-
		<hr/>	<hr/>
<b>Net assets</b>		10,950,948	28,847,317
		<hr/>	<hr/>
<b>Shareholders' funds</b>			
Share capital	25	9,099,160	7,826,433
Share premium		11,920,219	11,848,946
Merger reserve	26	8,988,112	8,988,112
Share based payment reserve	27	333,735	322,431
Retained earnings		(19,865,967)	(138,605)
		<hr/>	<hr/>
<b>Attributable to owners of the parent</b>		10,475,259	28,847,317
Non-controlling interests	28	475,689	-
		<hr/>	<hr/>
<b>Total equity</b>		10,950,948	28,847,317
		<hr/>	<hr/>

Company registration number: 06409712

Approved and authorised for issue by the Board on 23 November 2012

A Hindle  
Director

C Gouws  
Director

# Company statement of financial position as at 31 July 2012

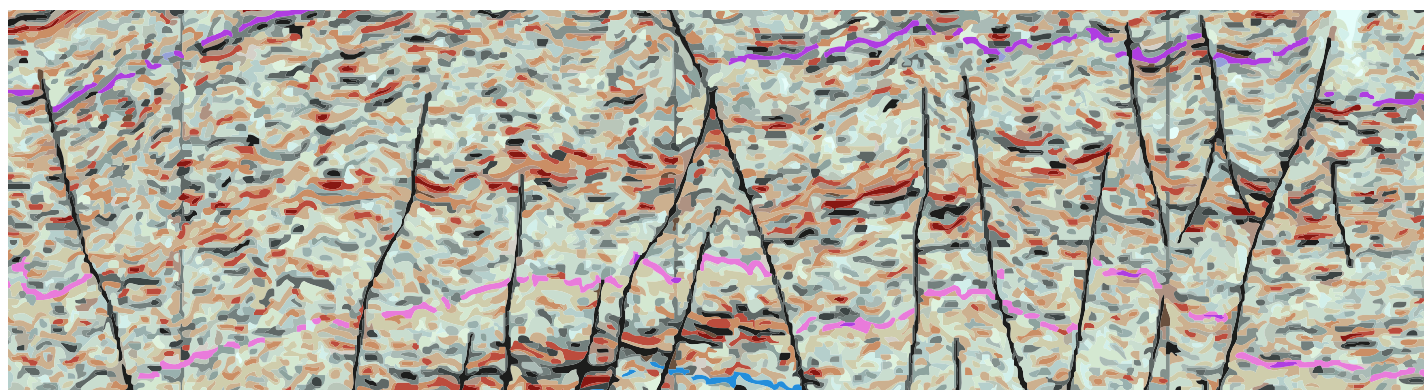
	Notes	2012 £	2011 £
<b>Non-current assets</b>			
Intangible exploration assets	14	34,564	-
Property, plant and equipment	15	7,153	14,022
Investments	16	600	15,249,611
<b>Total non-current assets</b>		<b>42,317</b>	<b>15,263,633</b>
<b>Current assets</b>			
Trade and other receivables	18	3,623,518	11,765,975
Available for sale assets	19	12,500	12,500
Cash and cash equivalents	20	1,814,603	118,448
<b>Total current assets</b>		<b>5,450,621</b>	<b>11,896,923</b>
<b>Current liabilities</b>			
Trade and other payables	22	(858,636)	(86,261)
<b>Net current assets</b>		<b>4,591,985</b>	<b>11,810,662</b>
<b>Net assets</b>		<b>4,634,302</b>	<b>27,074,295</b>
<b>Shareholders' funds</b>			
Share capital	25	9,099,160	7,826,433
Share premium		11,920,219	11,848,946
Merger reserve	26	8,466,827	8,466,827
Share based payment reserve	27	333,735	322,431
Retained earnings		(25,185,639)	(1,390,342)
<b>Total equity</b>		<b>4,634,302</b>	<b>27,074,295</b>

Company registration number: 06409712

Approved and authorised for issue by the Board on 23 November 2012

A Hindle  
Director

C Gouws  
Director



# Consolidated statement of changes in equity for the year ended 31 July 2012

	Share capital £	Share premium £	Merger reserve £	Share based payment reserve £	Retained earnings £	Attributable to the owners of the parent £	Non-controlling interest £	Total equity £
<b>Balance at 31 July 2010</b>	7,380,420	11,381,095	8,988,112	302,435	(4,489,808)	23,562,254	-	23,562,254
Profit for the year	-	-	-	-	4,310,311	4,310,311	-	4,310,311
Total comprehensive profit for the year	-	-	-	-	4,310,311	4,310,311	-	4,310,311
Shares issued	446,013	467,851	-	-	-	913,864	-	913,864
Share based payments	-	-	-	60,888	-	60,888	-	60,888
Share options lapsed	-	-	-	(40,892)	40,892	-	-	-
<b>Balance at 31 July 2011</b>	7,826,433	11,848,946	8,988,112	322,431	(138,605)	28,847,317	-	28,847,317
Loss for the year	-	-	-	-	(19,727,362)	(19,727,362)	-	(19,727,362)
Total comprehensive loss for the year	-	-	-	-	(19,727,362)	(19,727,362)	-	(19,727,362)
Shares issued	1,272,727	71,273	-	-	-	1,344,000	-	1,344,000
Share based payments	-	-	-	11,304	-	11,304	-	11,304
BP Gas Marketing Limited - Islandmagee Storage Limited option (note 28)	-	-	-	-	-	-	475,689	475,689
<b>Balance at 31 July 2012</b>	9,099,160	11,920,219	8,988,112	333,735	(19,865,967)	10,475,259	475,689	10,950,948



# Company statement of changes in equity for the year ended 31 July 2012

	Share capital £	Share premium £	Merger reserve £	Share based payment reserve £	Retained earnings £	Total equity £
<b>Balance at 31 July 2010</b>	7,380,420	11,381,095	8,466,827	302,435	(574,996)	26,955,781
Loss for the year	-	-	-	-	(856,238)	(856,238)
<b>Total comprehensive loss for the year</b>	-	-	-	-	(856,238)	(856,238)
Shares issued	446,013	467,851	-	-	-	913,864
Share based payments	-	-	-	60,888	-	60,888
Share options lapsed	-	-	-	(40,892)	40,892	-
<b>Balance at 31 July 2011</b>	7,826,433	11,848,946	8,466,827	322,431	(1,390,342)	27,074,295
Loss for the year	-	-	-	-	(23,795,297)	(23,795,297)
<b>Total comprehensive loss for the year</b>	-	-	-	-	(23,795,297)	(23,795,297)
Shares issued	1,272,727	71,273	-	-	-	1,344,000
Share based payments	-	-	-	11,304	-	11,304
<b>Balance at 31 July 2012</b>	9,099,160	11,920,219	8,466,827	333,735	(25,185,639)	4,634,302

# Consolidated statement of cash flows for the year ended 31 July 2012

	Notes	2012 £	2011 £
<b>Net cash (used in) operating activities</b>	29	(266,553)	(982,526)
<b>Investing activities</b>			
Interest received		2,596	11,139
Purchase of intangible assets		(34,564)	(324,520)
Purchase of plant and equipment		(371,510)	(108,706)
Cash outflow on disposal of subsidiary		-	(6,264)
Cash inflow on acquisition of subsidiary		53,574	-
<b>Net cash (used in) investing activities</b>		(349,904)	(428,351)
<b>Financing activities</b>			
Proceeds on issue of ordinary shares		1,344,000	864,864
Non-controlling interest		475,689	-
<b>Net cash generated from financing activities</b>		1,819,689	864,864
<b>Net increase/(decrease) in cash and cash equivalents</b>		1,203,232	(546,013)
Cash and cash equivalents at beginning of year		714,969	1,260,982
<b>Cash and cash equivalents at end of year</b>		1,918,201	714,969
Cash and cash equivalents consist of:			
Cash at bank	20	£1,918,201	£714,969

## Significant non-cash transactions

The significant non-cash transaction for the year ended 31 July 2012 was the assumption of control over the previous joint venture – see note 16.

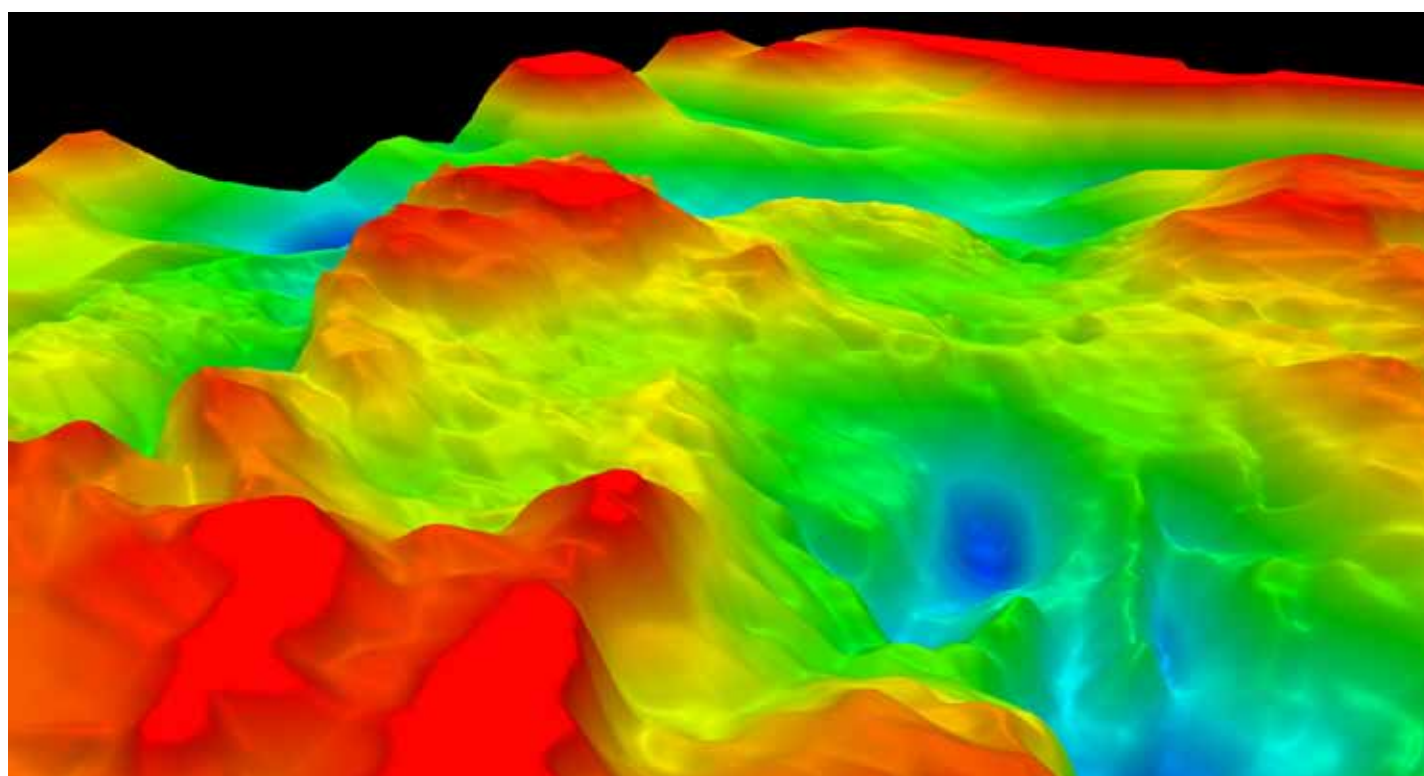
Significant non-cash transactions for the year ended 31 July 2011 comprise the loss of control of three companies which were previously subsidiaries – see note 16.

## Cash flows arising from discontinued activities

Cash flows arising from discontinued operations are analysed in note 29.

# Company statement of cash flows for the year ended 31 July 2012

	Notes	2012 £	2011 £
<b>Net cash (used in) operating activities</b>	29	385,086	(1,803,324)
<b>Investing activities</b>			
Interest received		1,633	2,228
Purchase of intangible assets		(34,564)	-
Purchase of plant and equipment		-	(17,380)
<b>Net cash (used in) investing activities</b>		(32,931)	(15,152)
<b>Financing activities</b>			
Proceeds on issue of ordinary shares		1,344,000	864,864
<b>Net cash generated from financing activities</b>		1,344,000	864,864
<b>Net increase/(decrease) in cash and cash equivalents</b>		1,696,155	(953,612)
Cash and cash equivalents at beginning of year		118,448	1,072,060
<b>Cash and cash equivalents at end of year</b>		1,814,603	118,448
Cash and cash equivalents consist of:			
Cash at bank	20	£1,814,603	£118,448



# Notes to the financial statements for the year ended 31 July 2012

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## 1. General information

InfraStrata plc is a company incorporated in England & Wales under the Companies Acts 2006 and is domiciled in the United Kingdom and is listed on the AIM market of the London Stock Exchange.

## 2. Accounting policies

The financial statements are based on the following accounting policies which have been consistently applied.

### Basis of preparation

InfraStrata plc adopted International Financial Reporting Standards (IFRS) as adopted by the European Union effective in July 2012, as the basis for preparation of its financial statements. The financial information has been prepared under the historical cost convention as modified by the revaluation of certain financial assets.

### Going concern

The Directors have prepared the financial statements on the going concern basis which assumes that the Group will continue in operational existence for the foreseeable future.

The Islandmagee gas storage project in which InfraStrata plc currently holds a 65% interest is funded by BPGM. Under the terms of a JAA, BPGM agreed to fund the activities necessary to develop the project, including the drilling of the first well, up to the point where a decision can be made on whether to proceed with its detailed engineering design.

The exploration of licence PL1/10 has largely been funded to date by partners, however InfraStrata plc will be required to fund its interest once the initial phase of exploration is complete and the partners decide to drill an exploration well. InfraStrata plc is currently funded for a third of its interest of a well and will be seeking to farmout a further interest to complete the funding.

On 1 June 2012, eCORP agreed to subscribe for US\$2.88 million of Portland Gas Limited preference shares over the following two years. It is anticipated that these funds will enable the Company to settle existing commitments. Petroleum exploration activities in P1918 have largely been and are expected to be funded through farmouts as and when considered necessary.

The Directors believe that the disposal of an interest in Islandmagee Storage Limited is the best way of maximising shareholder value by allowing an entity other than InfraStrata plc to develop this project. It is expected that such a disposal will provide working capital for the Group and will transfer responsibility for funding future development of the Islandmagee gas storage project to the new partner.

After making inquiries and considering all the relevant factors in relation to the Group, the Directors have a reasonable

expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

### Adoption of new and revised standards

At the date of approval of these financial statements, the following Standards and Interpretations which have not yet been applied in these financial statements were in issue but not yet effective (and in some cases, had not yet been adopted by the EU) and that may have an impact going forward:

IFRS 9 Financial Instruments: Recognition and measurement (revised 2009)  
IFRS 10 Consolidated Financial Statements  
IFRS 11 Joint Arrangements  
IFRS 12 Disclosure of Interests in Other Entities  
IFRS 13 Fair Value Measurement  
IAS 27 Separate Financial Statements (revised 2011)  
IAS 28 Investments in Associates and Joint Ventures (revised 2011)

The Directors anticipate that all of the above standards and interpretations will be adopted in the Group's financial statements in future periods. Adoption of these standards is not expected to have a material impact on the Group.

### Basis of consolidation

The financial information incorporates the financial information of the Company and entities controlled by the Company. Control is achieved where the Company has power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

### Business combinations and goodwill

On acquisition, the assets and liabilities and contingent liabilities of subsidiaries are measured at their fair values at the date of acquisition. Any excess of cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. Any deficiency of the cost of acquisition below the fair values of the identifiable net assets acquired (i.e. discount on acquisition) is credited to the income statement in the period of acquisition. Goodwill arising on consolidation is recognised as an asset and reviewed for impairment at least annually. Any impairment is recognised immediately in the income statement and is not subsequently reversed.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date and the resulting gain or loss, if any, is recognised in profit or loss in the statement of comprehensive income.

### Interests in joint venture entities

A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control and a jointly controlled entity is a joint venture that involves a separate entity in which each venturer has an interest. The Group recognises its interest in jointly controlled entities using equity accounting. The financial statements of the joint venture are prepared for the same reporting year as the parent company, using consistent accounting policies.

### Oil and gas exploration joint ventures

The Group is engaged in oil and gas exploration and development which may lead to production through unincorporated joint ventures. The Group accounts for its share at cost of the results and net assets of these joint ventures as jointly controlled assets based on its percentage ownership of these joint ventures. In addition, where the Group acts as operator to the joint venture, the gross liabilities and receivables (including amounts due to and from non-operating partners) of the joint venture are included in the statement of financial position. Details of the Group's oil & gas exploration joint ventures accounted for as jointly controlled assets are provided in note 36.

### Interests in associates

The Group has interests in associates, which are entities over which the Group has significant influence but not control and which are not joint ventures. The Group recognises its interest in associates using equity accounting. The financial statements of the associates are prepared for the same reporting year as the parent company, using consistent accounting policies.

### Disposal groups held-for-sale

Disposal groups are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell if their carrying amount is to be recovered principally through a sale transaction rather than through continuing use.

### Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker as required by IFRS 8 "Operating Segments". The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors.

The accounting policies of the reportable segments are consistent

with the accounting policies of the Group as a whole. Segment profit represents the profit earned by each segment without allocation of gains or losses on the disposal of available-for-sale investments, investment income, interest payable and tax. This is the measure of profit that is reported to the Board of Directors for the purpose of resource allocation and the assessment of segment performance.

When assessing segment performance and considering the allocation of resources, the Board of Directors review information about segment assets and liabilities.

### Property plant and equipment

Property plant and equipment is stated at cost less accumulated depreciation and any recognised impairment loss.

The initial cost of an asset comprises its purchase price or construction cost and any costs directly attributable to bringing the asset into operation.

Depreciation is charged so as to write off the cost of assets, over their estimated useful lives, using the straight-line method, once the asset has been brought into use, on the following basis:

Office equipment	20-33%
Freehold land	0%

Capitalised tangible gas storage inclusive of related and pipeline costs are not depreciated as the facility is under construction and not in use.

The carrying values of property plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

### Gas storage research and development costs

Research expenditure, incurred when undertaking exploration activities for gas storage opportunities, is written off in the year in which it is incurred.

### Capitalisation and impairment of intangible gas storage assets

Costs of development of gas storage facilities are capitalised as intangible assets once it is probable that future economic benefits that are attributable to the assets will flow to the Group and until consent to construct has been awarded, at which time the capitalised costs are transferred to plant and equipment provided there being reasonable certainty of construction proceeding. The nature of these costs includes all direct costs incurred in project development. No amortisation or depreciation is provided until the storage facility is brought into commercial use.

An impairment test is performed annually and whenever events or circumstances arising during the development phase indicate that the carrying value of a development asset may exceed its recoverable amount. The aggregate carrying value is compared

## Notes to the financial statements for the year ended 31 July 2012

against the expected recoverable amount of the cash generating unit, generally by reference to the present value of the future net cash flows expected to be derived from storage revenue. The present value of future cash flows is calculated on the basis of future storage prices and cost levels as forecast at the balance sheet date. Capitalisation of project rental costs are reviewed on a regular basis and expensed when the physical progress on the project is in the Directors opinion, significantly less than expected.

The cash generating unit applied for impairment test purposes is generally an individual gas storage facility. Where the carrying value of the facility is greater than the present value of its future cash flows a provision is made. Any such provisions are charged to cost of sales.

### **Oil & gas exploration and evaluation expenditure and assets**

The Group accounts for oil & gas expenditure under the full cost accounting method.

Pre-licence costs (other than payments to acquire rights to explore) are those costs incurred prior to acquiring the rights to explore are charged directly to the income statement.

All costs incurred after the rights to explore an area have been obtained, such as geological, geophysical, data costs and other direct costs of exploration and appraisal are accumulated and capitalised as exploration and evaluation assets ("E&E").

E&E costs are not amortised prior to the conclusion of appraisal activities. If technical feasibility is demonstrated and commercial reserves are discovered, then following development sanction, the carrying value of the relevant E&E asset will be reclassified as a development and production asset, but only after the carrying value of the E&E asset has been assessed for impairment, and where appropriate, its carrying value adjusted. Development assets will be depreciated on the unit production method.

If after completion of appraisal activities in an area, it is not possible to determine technical feasibility or commercial viability, then the costs of such unsuccessful exploration and evaluation are written off to the income statement as a component of costs of sales in the period the relevant events occur. The costs associated with any wells which are abandoned are fully amortised when the abandonment decision is taken.

When oil or gas is sold from E&E assets, the carrying value of the E&E asset is reduced by the gross profit generated from the sale.

### **Investments**

Investments in subsidiaries are stated at cost less provision for impairments.

### **Taxation**

Tax expense represents the sum of the tax currently payable and

any deferred tax. The taxable result differs from the net result as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantially enacted by the balance sheet date. Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised.

Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current assets and liabilities on a net basis.

### **Foreign currency**

Transactions in foreign currency are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date and gains or losses are taken to operating profit.

### **Leases**

Leases are classified as finance leases or hire purchase lease contracts whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Rental costs under operating leases are charged on a straight-line basis over the lease term.

### **Share based payment transactions**

Employees (including senior executives) of the Group receive part of their remuneration in the form of share based payment transactions, whereby employees render services as consideration for equity instruments (equity settled transactions).

The cost of equity settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the vesting date). The cumulative expense recognised for equity settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The income statement charge or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period. No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

Where the terms of an equity settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any modification, which increases the total fair value of the share based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

### **Retirement benefit costs**

The Company has a defined contribution plan which requires contributions to be made into an independently administered fund. The amount charged to the income statement in respect of pension costs reflects the contributions payable in the year. Differences between contributions payable during the year and contributions actually paid are shown as either accrued liabilities or prepaid assets in the balance sheet.

### **Financial instruments**

Financial assets and financial liabilities are recognised on the balance sheet when the Group becomes a party to the contractual provisions of the instrument.

Trade and other receivables are measured at initial recognition at fair value and are subsequently measured at amortised cost using the effective interest method. A provision is established when there is objective evidence that the Group will not be able to collect all amounts due. The amount of any provision is recognised in the income statement. Cash and cash equivalents comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less.

Trade and other payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

Financial liabilities and equity instruments issued by the Group are classified in accordance with the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Interest bearing bank loans, overdrafts and other loans are recorded at the proceeds received, net of direct issue costs. Finance costs are accounted for on an accruals basis in the income statement using the effective interest method.

Available for sale financial assets are those non-derivative financial assets that are designated as available for sale or are not classified as financial assets at fair value through profit and loss, held to maturity investments or loans and receivables. After initial recognition available for sale financial assets are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in the income statement. The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date. For investments where there is no active market, fair value is determined using appropriate valuation techniques.

### **Revenue**

Revenue is recognised as the fair value of the consideration received or receivable and represents the amounts receivable for services delivered during the normal course of business. Revenue is recognised as the services are delivered.

### **Operating activities**

The activities of investments controlled by InfraStrata plc are treated as operating activities in the Group financial statements.

### **Finance income**

Finance income is recognised when it is probable that the economic benefits will flow to the group and the amount of income can be measured reliably. Income is accrued on a time basis, by reference to the principal outstanding and the effective interest rate applicable.

## Notes to the financial statements for the year ended 31 July 2012

### 3. Segment information

The Directors have determined the Group's operating segments by reference to the risk profile of the Group's activities, which are affected predominately by location of the Group's assets. The Group's head office is located in the United Kingdom with operations located in Dorset and Northern Ireland. The segmental businesses activities are the development and construction of gas storage and associated facilities, and petroleum exploration.

2012	Dorset		Northern Ireland		Unallocated	Total
	Gas storage	Exploration	Gas storage	Exploration		
Continuing activities	£	£	£	£	£	£
Revenue from services provided to joint venture and associates	150,000	-	-	97,142	6,790	253,932
Administrative expenses	(183,559)	-	-	-	(1,075,647)	(1,259,206)
Share of loss of joint venture	(10,306,395)	-	-	-	-	(10,306,395)
Share of loss of associates	-	(83,354)	-	(91,515)	-	(174,869)
Impairment of interest in joint venture	(10,626,210)	-	-	-	-	(10,626,210)
Gain arising on assuming control of the former joint venture	1,218,334	1,294,146	-	-	-	2,512,480
Finance income	-	-	-	-	2,596	2,596
	(19,747,830)	1,210,792	-	5,627	(1,066,261)	(19,597,672)
<b>Discontinued activities</b>						
Administrative expenses	-	-	(129,690)	-	-	(129,690)
	(19,747,830)	1,210,792	(129,690)	5,627	(1,066,261)	(19,727,362)
<b>Analysis of:</b>						
Assets by segment	1,846,155	4,721,556	*3,206,003	1,383,048	1,974,265	13,131,027
Liabilities by segment	(567,201)	(773,930)	*(73,032)	-	(765,916)	(2,180,079)
Net assets per segment	1,278,954	3,947,626	*3,132,971	1,383,048	1,208,349	10,950,948
Capital expenditure	-	-	*371,510	34,564	-	406,074
Depreciation	-	-	-	-	7,690	7,690

\* discontinued activities

2011	Dorset		Northern Ireland		Unallocated	Total
	Gas storage	Exploration	Gas storage	Exploration		
Continuing activities	£	£	£	£	£	£
Revenue from services provided to joint venture	240,290	-	-	-	-	240,290
Administrative expenses	-	-	-	-	(1,180,485)	(1,180,485)
Share of loss of joint venture	(452,089)	-	-	-	-	(452,089)
Finance income	-	-	-	-	11,139	11,139
	(211,799)	-	-	-	(1,169,346)	(1,381,145)



	Dorset		Northern Ireland		Unallocated	Total
	Gas storage	Exploration	Gas storage	Exploration		
	£	£	£	£	£	£
<b>2011</b>						
<b>Discontinued activities</b>						
Administrative expenses	(31,570)	-	(120,388)	-	-	(151,958)
Profit arising on loss of control of subsidiaries	2,964,014	-	-	-	-	5,843,414
	2,932,444	1,439,700	(120,388)	1,439,700	-	5,691,456
	2,720,645	1,439,700	(120,388)	1,439,700	(1,169,346)	4,310,311
<b>Analysis of:</b>						
Assets by segment	22,473,516	1,439,700	*2,744,731	1,439,700	883,156	28,981,403
Liabilities by segment	-	-	*(29,928)	-	(104,158)	(134,086)
Net assets per segment	22,473,516	1,440,000	*2,714,803	1,440,000	778,998	28,847,317
Capital expenditure	*252,977	-	*286,003	-	17,380	556,360
Depreciation	-	-	-	-	9,499	9,499

\* discontinued activities

#### 4. Other expenditure

	2012	2011
	£	£
Fees payable to the Group's auditor and its associates:		
- for the audit of the Company's annual financial statements	16,000	15,610
- for the audit of the Company's subsidiaries	21,650	8,290
- other services relating to taxation	9,150	7,780
- all other services	6,550	6,100
Depreciation	7,690	9,499
Net foreign exchange (profit)	(961)	(2,024)
Operating lease rentals – land and buildings	180,000	154,262
Research costs	55,791	43,217

#### 5. Employee information

	2012	2011
	Number	Number
Executive Directors and staff	5	5
	£	£
Staff costs for the above persons and Non-executive Directors were:		
Wages and salaries	698,670	682,851
Social security costs	82,416	77,080
Defined contribution pension plan expenditure	17,925	18,190
Share based payments	11,304	60,888
	810,315	839,009

**6. Directors' and key management emoluments and compensation  
Group and company**

2012	Salary & fees £	Bonus £	Benefits £	Pension £	Total 2012 £
<b>Executive Directors</b>					
Andrew Hindle	*279,167	-	2,358	-	281,525
Craig Gouws	120,000	-	1,674	6,000	127,674
Walter Roberts	123,960	-	3,363	6,000	133,323
<b>Non-executive Directors</b>					
Ken Ratcliff	37,500	-	-	1,875	39,375
Maurice Hazzard	15,000	-	-	750	15,750
William Colvin	15,000	-	-	-	15,000
	590,627	-	7,395	14,625	612,647
				Share based payment attributable to Directors	-
				Employers national insurance contributions	72,000
					684,647

\*Andrew Hindle agreed during the financial year to reduce his cash remuneration for 12 months by the sum of £50,000 and in return he was issued 454,545 ordinary shares in the February 2012 placing at the placing price. The £50,000 was expensed on issuance of the ordinary shares, resulting in a proportionally greater salary falling within the current year.

2011	Salary & fees £	Bonus £	Benefits £	Pension £	Total 2011 £
<b>Executive Directors</b>					
Andrew Hindle	250,000	25,000	2,170	-	277,170
Craig Gouws	121,067	12,000	1,552	6,000	140,619
Walter Roberts	86,320	12,000	2,971	6,000	107,291
<b>Non-executive Directors</b>					
Ken Ratcliff	37,500	-	-	1,875	39,375
Mark Abbott	7,500	-	-	-	7,500
Jonathan Davie	5,000	-	-	-	5,000
Maurice Hazzard	15,000	-	-	750	15,750
William Colvin	7,500	-	-	-	7,500
	529,887	49,000	6,693	14,625	600,205
				Share based payment attributable to Directors	36,285
				Employers national insurance contributions	67,378
					703,868

The bonus of £49,000 awarded to Executive Directors during the 2011 financial year which was paid by way of the issue of shares.

The total of short-term employee benefits for Directors was £670,022 (2011: £652,958).

The Directors are considered to be the Group's key management.

Aggregate emoluments above include amounts for the value of options to acquire ordinary shares in the Company granted or held by Directors. Details of Enterprise Management Incentive and other options granted on the 25 January 2008 are as follows:

	Number	Exercise price £	Exercisable from	Exercisable to
<b>Executive Directors</b>				
Andrew Hindle	43,859	2.28	1 January 2011	31 December 2017
Craig Gouws	43,859	2.28	1 January 2011	31 December 2017
Walter Roberts	43,859	2.28	1 January 2011	31 December 2017
<b>Non-executive Directors</b>				
Ken Ratcliff	21,929	2.28	1 January 2011	31 December 2017
Maurice Hazzard	21,929	2.28	1 January 2011	31 December 2017

No options were granted to Directors and no options were exercised by Directors in 2012 or 2011.

Key man insurance premiums of £1,927 (2011: £1,862) were paid for Executive Directors and directors' indemnity insurance premiums of £23,479 (2011: £20,140) were paid in respect of all Directors. Two Executive and two Non-executive Directors participate in the Group Stakeholder Pension Plan under which Group Life Cover is offered.

## 7. Share based payment plans

A share based payment plan was created in the year ended 31 July 2008. All Directors and employees are entitled to a grant of options subject to the Board of Directors' approval. The options do not have a cash settlement alternative. The options granted are Enterprise Management Incentive share options for qualifying employees.

There were no options issued during 2012 (2011: 98,879). The following table illustrates the number and weighted average exercise prices (WAEP) of, and movements in, share options during year.

	2012 Number	2012 WAEP £	2011 Number	2011 WAEP £
Outstanding at the beginning of the year	352,407	1.50	301,098	2.06
Granted during the year	-	-	98,879	0.15
Forfeited during the year	-	-	(47,570)	2.28
<hr/>				
Outstanding at the end of the year	352,407	1.50	352,407	1.50
<hr/>				
Exercisable at the end of the year	352,407	1.50	208,328	2.28
<hr/> <hr/>				

The weighted average remaining vesting period for the share options outstanding at 31 July 2012 is 0.06 years (2011: 0.39 years). The range of exercise prices for options outstanding at the end of the year was £0.15 - £2.28. The weighted average remaining option life for the share options outstanding at 31 July 2012 is 7 years (2011: 8 years).

The fair value of equity settled options granted is estimated as at the date of the grant using a Black-Scholes model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used to value the options issued in 2011 and 2010.

	2011	
Expected volatility (%)	35%	The expected volatility reflects the assumption that the historical volatility of a sample of oil and gas companies is indicative of future trends for InfraStrata plc, which may not necessarily be the actual outcome. The expected life of the options is based on Directors' best estimate and may not necessarily be indicative of the patterns that may occur.
Risk free interest rate	0.5%	
Weighted average contractual life of option (years)	10	
Expected dividend yield	Nil	
Exercise price of options	0.15	
Weighted average share price (£)	0.1517	

## Notes to the financial statements for the year ended 31 July 2012

### 8. Retirement benefits

The Group operates a defined contribution retirement plan for all qualifying employees who wish to participate. The assets of the scheme are held separately from those of the Group in funds under the control of independent trustees.

The total cost charged to expenses of £17,925 (2011: £17,398) represents contributions payable to the scheme by the Group at rates specified in the rules of the scheme for the year. As at 31 July 2012, employer and employee contributions of £3,295 (2011: £3,295) due in respect of the current period had not been paid over to the scheme, the payment was made on the 10 August 2012 (2011: 10 August 2011).

### 10. Income tax

The major components of income tax expense for the years ended 31 July 2012 and 2011 are:

#### a) Income tax recognised in profit or loss

	2012 £	2011 £
Current income tax charge	-	-
Adjustments in respect of current income tax of previous years	-	-
Deferred tax	-	-

b) A reconciliation between tax expense and the product of accounting loss from continuing operations for the years ended 31 July 2012 and 2011 is as follows:

Accounting loss before tax from continuing operations	(19,597,672)	(1,381,145)
Loss on continuing activities multiplied by the standard rate of tax (25.33%; 2011:27.33%)	(4,996,941)	(377,467)
Expenses not permitted for tax purposes and pre-trading expenditure	4,500,328	29,792
Other timing differences	-	2,596
Tax losses carried forward	496,613	345,079
Income tax expense reported in the profit or loss relating to continuing operations	-	-

A reconciliation between tax expense and the product of accounting profit/(loss) for discontinued operations for the years ended 31 July 2012 and 2011 is as follows:

	2012 £	2011 £
Accounting (loss)/profit before tax from discontinued operations	(129,690)	5,691,456
(Loss)/profit on discontinued activities multiplied by the standard rate of tax (25.33%; 2011:27.33%)	(32,850)	1,555,475
Expenses not permitted for tax purposes and pre-trading expenditure	32,850	(1,782)
Non-taxable income	-	(1,553,693)
Income tax expense reported in the profit or loss relating to discontinued operations	-	-

#### c) Factors that may affect the future tax charge

The Group has trading losses of £1,573,810 (2011: £1,341,015) which may reduce future tax charges. Future tax charges may also be reduced by capital allowances on cumulative capital expenditure.

### 9. Finance income

	2012 £	2011 £
Interest on bank deposits	2,596	11,139

The Government has announced a reduction in the corporation rate to 22% to be in force for 2013/14 but this has not yet been substantively enacted.

**10. Income tax (continued)**

The Group's potential charge to tax arising from its investments in the associates is dependent on the source of future inflows to the Group. Inflows arising from the partial or complete disposal by way of sale are not expected to be subject to tax. The Group has no current expectation of receiving distributions of profits from these investments in the foreseeable future and therefore no deferred tax liability arises.

<b>11. Discontinued operations</b>	<b>2012</b>	<b>2011</b>
	<b>£</b>	<b>£</b>
Revenue	-	-
Net operating costs	(129,690)	(151,958)
Profit arising on loss of control of subsidiaries		
Portland Gas Limited	-	2,964,014
Corfe Energy Limited	-	1,439,700
Brigantes Energy Limited	-	1,439,700
	<hr/>	<hr/>
(Loss)/profit before tax	(129,690)	5,691,456
Tax charge (note 10)	-	-
	<hr/>	<hr/>
(Loss)/profit after tax	(129,690)	5,691,456
	<hr/> <hr/>	<hr/> <hr/>

Details of the discontinued operations are given in note 21.

**12. Earnings per share**

<b>(Loss)/profit</b>	<b>2012</b>	<b>2011</b>
	<b>£</b>	<b>£</b>
The (loss)/profit for the purposes of basic and diluted loss per share being the net loss attributable to equity shareholders:		
Continuing operations	(19,597,672)	(1,381,145)
Discontinued operations	(129,690)	5,691,456
Continuing and discontinued operations	(19,727,362)	4,310,311
<b>Number of shares</b>		
Weighted average number of ordinary shares for the purposes of basic earnings per share	84,122,359	75,978,414
<b>Basic and diluted earnings per share</b>		
Continuing operations	(23.30)p	(1.82)p
Discontinued operations	(0.15)p	7.49p
Continuing and discontinued operations	(23.45)p	5.67p

For 2012, the share options were not dilutive as a loss was incurred. For 2011 diluted earnings per share calculations are not presented as there was no material difference between the weighted average number of ordinary shares for the purposes of basic earnings per share and the weighted average number of ordinary shares for the purposes of diluted earnings per share; the basic and diluted earnings per share are the same for both years.

**13. Losses attributable to InfraStrata plc**

The loss for the period dealt with in the financial statements of InfraStrata plc was £23,795,297 (2011: £856,238). As provided by s408 of the Companies Act 2006, no income statement is presented in respect of InfraStrata plc.

**Notes to the financial statements for the year ended 31 July 2012**

**14. Intangible assets - Group**

<b>2012</b>	<b>Exploration &amp; evaluation</b>	<b>£</b>
<b>Cost</b>		
At 1 August 2011	-	
Additions	34,564	
Arising on acquisition (note 16)	3,364,909	
	<hr/>	
At 31 July 2012	3,399,473	
	<hr/>	
<b>Amortisation</b>		
At 1 August 2011	-	
Charge for the year	-	
	<hr/>	
At 31 July 2012	-	
	<hr/>	
<b>Net book value</b>		
At 31 July 2012	3,399,473	
	<hr/> <hr/>	

**Intangible assets - Company**

<b>2012</b>	<b>Exploration &amp; evaluation</b>	<b>£</b>
<b>Cost</b>		
At 1 August 2011	-	
Additions	34,564	
	<hr/>	
At 31 July 2012	34,564	
	<hr/>	
<b>Amortisation</b>		
At 1 August 2011	-	
Charge for the year	-	
	<hr/>	
At 31 July 2012	-	
	<hr/>	
<b>Net book value</b>		
At 31 July 2012	34,564	
	<hr/> <hr/>	

**15. Plant and equipment - Group**

<b>2012</b>	<b>Office equipment</b>	<b>£</b>
<b>Cost</b>		
At 1 August 2011	87,028	
Additions	-	
	<hr/>	
At 31 July 2012	87,028	
	<hr/>	
<b>Depreciation</b>		
At 1 August 2011	71,867	
Charge for the year	7,690	
	<hr/>	
At 31 July 2012	79,557	
	<hr/>	
<b>Net book value</b>		
At 31 July 2012	7,471	
	<hr/> <hr/>	

**Plant and equipment - Group**

<b>2011</b>	<b>Office equipment</b>	<b>£</b>
<b>Cost</b>		
At 1 August 2010	69,648	
Additions	17,380	
	<hr/>	
At 31 July 2011	87,028	
	<hr/>	
<b>Depreciation</b>		
At 1 August 2010	62,368	
Charge for the year	9,499	
	<hr/>	
At 31 July 2011	71,867	
	<hr/>	
<b>Net book value</b>		
At 31 July 2011	15,161	
	<hr/> <hr/>	

<b>Plant and equipment - Company</b>		<b>Plant and equipment - Company</b>	
<b>2012</b>	<b>Office equipment</b>	<b>2011</b>	<b>Office equipment</b>
<b>Cost</b>	<b>£</b>	<b>Cost</b>	<b>£</b>
At 1 August 2011	17,380	At 1 August 2010	-
Additions	-	Additions	17,380
	<hr/>		<hr/>
At 31 July 2012	17,380	At 31 July 2011	17,380
	<hr/>		<hr/>
<b>Depreciation</b>		<b>Depreciation</b>	
At 1 August 2011	3,358	At 1 August 2010	-
Charge for the year	6,869	Charge for the year	3,358
	<hr/>		<hr/>
At 31 July 2012	10,227	At 31 July 2011	3,358
	<hr/>		<hr/>
<b>Net book value</b>		<b>Net book value</b>	
At 31 July 2012	7,153	At 31 July 2011	14,022
	<hr/> <hr/>		<hr/> <hr/>

**16. Investments**

<b>Group</b>	<b>2012</b>	<b>2011</b>
	<b>£</b>	<b>£</b>
<b>Investment in joint venture (note 16A)</b>		
At 1 August	22,473,516	-
Additions	-	22,925,605
Share of losses	(10,306,395)	(452,089)
Impairment	(10,626,210)	-
Disposal	(1,540,911)	-
	<hr/>	<hr/>
At 31 July	-	22,473,516
	<hr/>	<hr/>
<b>Investment in associates (note 16B)</b>		
At 1 August	2,880,000	-
Additions	-	2,880,000
Disposals	-	-
Share of losses	(174,869)	-
	<hr/>	<hr/>
At 31 July	2,705,131	2,880,000
	<hr/>	<hr/>
	<hr/>	<hr/>
Total investments at the end of the year	2,705,131	25,353,516
	<hr/> <hr/>	<hr/> <hr/>

**A. Joint venture - Portland Gas Limited**

The Group held 50% of the ordinary shares of Portland Gas Limited as at 31 July 2011. Portland Gas Limited is involved in developing a gas storage facility on the Isle of Portland, Dorset and the related gas pipelines between Portland and Mappowder. This joint venture is a private company, registered in England and Wales and is not listed on any public exchange.

Under the terms of a Restructuring Agreement on 1 June 2012, the 50% interest of the ordinary shares of Portland Gas Limited, held by eCORP, were converted into non-voting preference shares. Accordingly, as from that date, the Group owned all the ordinary shares and held all the voting rights. In accordance with IFRS, the change in the control is accounted for as the disposal of the interest in the joint venture and the acquisition of a subsidiary. Therefore the investment is accounted for as a wholly owned subsidiary in the Group financial statements at 31 July 2012. The primary reason for the Restructuring Agreement was the refocusing of eCORP's European operations.

The provisions of the Restructuring Agreement, include the following:

- eCORP's 50% interest in Portland Gas Limited has been converted into preference shares and eCORP's former funding obligations have been restructured into an obligation to subscribe a further US\$2,880,000 (\$120,000 per month; eCORP receivable) for further preference shares of Portland Gas Limited over the next two years. The preference shares will provide eCORP with a 7.5% share of the future profits distributed by Portland Gas Limited.
- InfraStrata plc has also acquired eCORP's 50% interest in the 26th Round petroleum exploration licence P1918, offshore Dorset (increasing the Company's direct interest to 78%). In return InfraStrata plc has granted eCORP a 7.5% share of the future profits generated on the acquired licence interest.

Portland Gas Limited fully impaired its investment in the Portland Project prior to the restructuring. The Portland gas storage project, like many other developing gas storage projects in the United Kingdom has not achieved full funding. This is largely due to the project being only marginally economic at the current winter/summer natural gas price differential and the project construction start date is thus uncertain. The Group's share of the impairment charge and other losses was £10,306,395.

The Group's investment in the joint venture was then subject to an impairment review and as a result, an impairment loss of £10,626,210 was recognised. The impairment reduced the group's investment in the joint venture to its estimated fair value. This fair value was estimated by considering the estimated value of the underlying assets of Portland Gas Limited; the only assets considered to have a value for accounting purposes is the Portland-1 well data and seismic data, which are described more fully below.

The Portland Gas Limited gain on bargain purchase, as described below, arises due to the net assets acquired having a higher fair value than the fair value of the Group's 50% interest in the ordinary share capital of Portland Gas Limited immediately prior to the Restructuring Agreement. The gain on bargain purchase has been credited to profit or loss in the statement of comprehensive income and will not impact the Group income tax.



**Notes to the financial statements for the year ended 31 July 2012**

Portland Gas Limited assets acquired at 1 June 2012:

	<b>Book value of assets acquired £</b>	<b>Fair value adjustments £</b>	<b>Fair value of assets acquired £</b>
<i>Non-current assets</i>			
<i>Intangible assets</i>			
- Portland-1 well data	-	2,764,909	2,764,909
- P1918 licence interest	-	600,000	600,000
<i>Financial asset</i>			
- eCORP receivable	-	922,763	922,763
<i>Current assets</i>			
eCORP receivable	-	935,356	935,356
Cash	53,574	-	53,574
Accounts receivable	226,111	-	226,111
<i>Current liabilities</i>			
Accounts payable	(248,026)	-	(248,026)
<i>Non-current liabilities</i>			
Inter-company balance	(127,437)	127,437	-
Deferred tax liabilities	-	(1,201,296)	(1,201,296)
<hr/>			
Total identifiable net assets	(95,778)	4,149,169	4,053,391
			<hr/>
Consideration (fair value of interest previously accounted for as a joint venture)			1,540,911
			<hr/>
Gain on bargain purchase			2,512,480
			<hr/> <hr/>

The fair value of the Portland-1 well data comprises the fair value of the well data obtained from the well which was drilled on Portland in 2006 and the seismic data acquired in the same year. Reference was made to the historic cost to estimate the fair value. The fair value of the 50% interest in the P1918 licence acquired from eCORP was determined by reference to the farmout of an 8% interest to Corfe Energy Limited in August 2012. The fair value of the eCORP receivable was determined by estimating the present value of future Portland Gas Limited preference share subscription receipts expected. The deferred tax liability raised is attributable to the assets acquired based on the difference between the respective fair values recognised and the tax based of the underlying assets at an enhanced tax rate of 23%.

The fair value of the joint venture interest (£1,540,911) represents the Group's 50% share of the Portland-1 well data and seismic data value.

**Net cash inflow arising on acquisition: £**

Cash consideration	-
Cash acquired	53,574

Amount of revenue and net loss of Portland Gas Limited since the acquisition date:

Revenue	-
Net loss	183,430

Amount of revenue and net loss of the combined entity as if the acquisition date had been as of the beginning of the reporting period (the net loss presented below includes the impairment of the Portland Gas Limited net assets):

Revenue	73,932
Net loss	21,121,970

## Notes to the financial statements for the year ended 31 July 2012

### B. Associates

The Group has 40% interests (2011: 50%) in both of Corfe Energy Limited and Brigantes Energy Limited which are involved in the hydrocarbon exploration. The associates are private companies, incorporated in England and Wales and are not listed on any public exchanges.

The following table summarises the Group's share of the assets and liabilities of each of these associates as recorded in each associates' audited financial statements made up to 31 July 2012 and after making adjustments to align the accounting policies of the associates with those of the Group:

<i>Corfe Energy Limited</i>	<b>2012</b>	<b>2011</b>	<i>Brigantes Energy Limited</i>	<b>2012</b>	<b>2011</b>
	£	£		£	£
Long-term asset	32,320	99,372	Long-term asset	376,234	108,284
Current assets	781,356	719,694	Current assets	428,412	720,839
Current liability	(10,012)	(106,334)	Current liability	(7,335)	(117,028)
Long-term liability	(1,210)	-	Long-term liability	(1,210)	-
	<u>          </u>	<u>          </u>		<u>          </u>	<u>          </u>
Group's share of net assets of associates	<u>802,454</u>	<u>712,732</u>	Group's share of net assets of associates	<u>796,101</u>	<u>712,095</u>

The revenue and net loss of each of these associates as recorded in each associates' audited financial statements made up to 31 July 2012 and after making adjustments to align the accounting policies of the associates with those of the Group:

<i>Corfe Energy Limited</i>	<b>2012</b>	<b>2011</b>	<i>Brigantes Energy Limited</i>	<b>2012</b>	<b>2011</b>
	£	£		£	£
Revenue	69,491	14,911	Revenue	69,491	14,911
Total loss for the year	63,864	13,776	Total loss for the year	60,653	13,776
Group's share of losses	83,354	-	Group's share of losses	91,515	-
Group's share of other comprehensive loss	<u>          </u>	<u>          </u>	Group's share of other comprehensive loss	<u>          </u>	<u>          </u>

The 2011 share of associate losses are accounted for in the 2012 financial year.

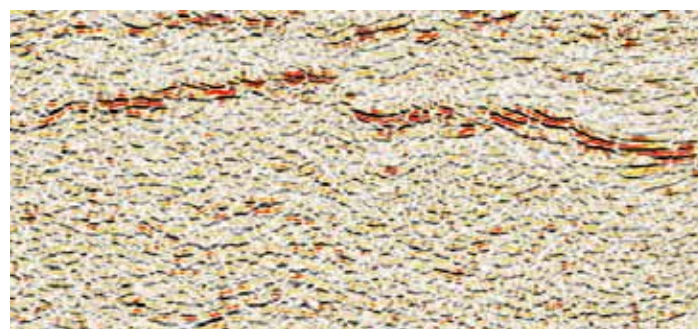
<b>C. Company</b>	<b>2012</b>	<b>2011</b>
	<b>£</b>	<b>£</b>
<b>Cost</b>		
Balance at 1 August	15,249,611	15,257,966
Additions	-	500
Disposals	(2,000)	(8,855)
	<hr/>	<hr/>
Balance at 31 July	15,247,611	15,249,611
	<hr/>	<hr/>

**Impairment**

Balance at 1 August	-	-
Charge for the year	(15,247,011)	-
	<hr/>	<hr/>
Balance at 31 July	(15,247,011)	-
	<hr/>	<hr/>

**Net book value**

Balance at 31 July	600	15,249,611
	<hr/>	<hr/>

**Subsidiaries**

The Company's subsidiary undertakings at 31 July 2012, all of which are wholly owned unless indicated otherwise, are as follows:

	<b>Principal undertaking</b>	<b>Country of incorporation</b>
	InfraStrata UK Limited	England
	<i>InfraStrata UK Limited owns the following subsidiary:</i>	
	Islandmagee Storage Limited (65% owned)	Northern Ireland

In January 2010 InfraStrata UK Limited, Moyle and Islandmagee Storage Limited entered into a preliminary shareholders agreement whereby Moyle acquired a 35% interest in Islandmagee Storage Limited. On 19 January 2012 an agreement was entered into with BPGM regarding the appraisal of the Islandmagee gas storage facility development project in County Antrim, and the grant of an option to BPGM to acquire a 50.495% equity interest in Islandmagee Storage Limited. Under the terms of a JAA, BPGM has agreed to fund the activities necessary to develop the project up to the point where a decision can be made on whether to proceed with a detailed engineering design. InfraStrata UK Limited continues to assume one hundred percent of the risks and rewards of ownership of Islandmagee Storage Limited (including voting rights) and therefore InfraStrata plc includes the total assets and liabilities in its consolidated results.

InfraStrata UK Limited also owns 100% (2011: 50%) of the issued equity share capital of Portland Gas Limited. Portland Gas Limited, which was a joint venture at the prior year end and is now classified as a subsidiary, owns the subsidiaries listed below:

	<b>Principal undertaking</b>	<b>Country of incorporation</b>
Portland Gas Storage Limited	Sub surface gas storage developer	England
Portland Gas Transportation Limited	Gas storage pipeline developer	England

The Company impaired the Infrastrata UK Limited investment and the loan receivable by £15,247,011 and £7,894,673 respectively during the year. These impairments follow the impairment of the Portland Gas Limited project investments as described in this note.

<b>Investment in associates</b>	<b>2012</b>	<b>2011</b>	
	<b>£</b>	<b>£</b>	
Balance at beginning of year	600	-	The company owns 40% (2011: 50%) of the issued share capital of the following companies, both of which are incorporated in England and are involved in oil and gas exploration:
Reclassifications	-	600	Corfe Energy Limited
			Brigantes Energy Limited
Balance at the end of the year	600	600	
	<hr/>	<hr/>	

**Notes to the financial statements for the year ended 31 July 2012**

<b>17. Non-current receivables</b>	<b>Group 2012 £</b>	<b>Group 2011 £</b>
Other receivables	768,102	-
	<u>768,102</u>	<u>-</u>

The non-current receivables are amounts due from eCORP. The receivable is denominated in United States dollars and is expected to be received within a period of 22 months. The fair value of the receivable is £768,102.

**18. Trade and other receivables**

	<b>Group 2012 £</b>	<b>Group 2011 £</b>	<b>Company 2012 £</b>	<b>Company 2011 £</b>
Amounts due from Group undertakings	-	-	3,478,924	11,625,452
Trade receivables	107,829	83,754	107,629	83,754
Other receivables	970,449	12,900	1,205	12,897
Prepayments	35,867	43,872	35,760	43,872
	<u>1,114,145</u>	<u>140,526</u>	<u>3,623,518</u>	<u>11,765,975</u>

An element of the Company and Group's credit risk is attributable to its trade and other receivables. Based on prior experience and an assessment of the current economic environment, the Directors did not consider any provision for irrecoverable amounts was required and consider that the carrying amounts of these assets approximates to their fair value.

**19. Available for sale financial assets**

	<b>Group 2012 £</b>	<b>Group 2011 £</b>	<b>Company 2012 £</b>	<b>Company 2011 £</b>
At 1 August	12,500	12,500	12,500	12,500
At 31 July	<u>12,500</u>	<u>12,500</u>	<u>12,500</u>	<u>12,500</u>

The investment in securities above represents an investment in Egdon Resources plc redeemable preference shares. The assets are held at cost as an approximation of fair value. These are the only financial assets which the Group and Company are required to carry at fair value.

**20. Cash and cash equivalents**

	<b>Group 2012 £</b>	<b>Group 2011 £</b>	<b>Company 2012 £</b>	<b>Company 2011 £</b>
Cash at bank	1,918,201	714,969	1,814,603	118,448

The Directors consider that the carrying amount of these assets approximates their fair value. The credit risk on liquid funds is limited because the counter-parties are banks with high credit ratings.

**21. Assets held for sale and discontinued operations (disposal group)**

The Company has announced, together with Moyle, that it has entered into an agreement with BPGM regarding the acquisition of an equity interest in Islandmagee Storage Limited owned by InfraStrata plc (65%) and Moyle (35%). Under the agreements, the equity interest will arise through the issue of shares by Islandmagee Storage Limited rather than the sale of equity by the Group and the majority of the proceeds from the issue of equity will be retained in Islandmagee Storage Limited to fund project development. Islandmagee Storage Limited was classified as held for sale in 2011 and continues to be so classified as, in the opinion of the directors, it is highly probable that BPGM will exercise its option and the delay in the disposal was due to events outside the control of the company.

Whilst the assets held for sale are classified as current assets, due to the nature of the arrangements described above, the Group does not expect to receive cash inflows equivalent to, or in excess of, the book value of the assets so classified. The measurement basis is the carrying amount.

	2012 £	2011 £
<b>Assets classified as held for sale</b>		
Freehold land	440,100	-
Intangible assets – gas storage development costs	2,631,755	2,700,345
Trade and other receivables	64,772	1,066
Cash and cash equivalents	69,376	43,320
	<u>3,206,003</u>	<u>2,744,731</u>
<b>Liabilities classified as held for sale</b>		
<i>Current liabilities</i>		
Trade creditors	69,518	1,192
Accruals	3,514	28,736
	<u>73,032</u>	<u>29,928</u>

**22. Trade and other payables**

	Group 2012 £	Group 2011 £	Company 2012 £	Company 2011 £
Trade creditors	818,782	27,138	794,267	14,393
Preference shares (note 25)	12,500	12,500	12,500	12,500
Other taxation and social security	18,137	30,540	17,126	30,540
Accruals	56,331	33,980	34,743	28,828
	<u>905,750</u>	<u>104,158</u>	<u>858,636</u>	<u>86,261</u>

The Directors consider that the carrying amount of trade and other payables approximates their fair value.

**23. Non-current liabilities – Deferred tax**

	Group 2012 £	Group 2011 £
Deferred income tax liabilities in relation to:		
Intangible assets	773,929	-
Financial assets	427,367	-
	<u>1,201,296</u>	<u>-</u>

The gross movement on the deferred tax account is as follows:

	Group 2012 £	Group 2011 £
At August	-	-
Acquisition of subsidiary (note 16)	1,201,296	-
	<u>1,201,296</u>	<u>-</u>

Deferred tax has been calculated at a rate of 23% which is the tax rate which is the currently enacted tax rate for tax years starting on 1 April 2013. The Government has announced a reduction in the corporation rate to 22% to be in force for 2013/14 but this has not yet been substantively enacted.

## 24. Financial assets and liabilities

The Group and Company's financial instruments comprise financial assets, cash and cash equivalents and items such as trade payables and other receivables which arise directly from the Group's operations. The Group's operations expose it to a variety of financial risks including credit risk, liquidity risk, interest rate risk and foreign currency exchange risk. Given the size of the Group, the Directors have not delegated the responsibility of monitoring financial risk management to a subcommittee of the board. The objectives of the financial instrument policies are to reduce the Group and Company's exposure to financial risk. The policies set by the board of Directors are implemented by the Company's finance department. The Group is also indirectly exposed to risks arising from its interests its associates. The Group is not required to give detailed information relating to these risks.

### *Credit risk*

The credit risk on liquid funds is limited because the Group and Company policy is to only deal with counter parties with high credit ratings and more than one institution is utilised to deposit cash holdings. The Group held funds in the Bank of Scotland, Investec, Northern Rock and Lloyds TSB bank accounts during the last two years, at year end all of the funds were held in Bank of Scotland, Investec and Lloyds TSB accounts. In the Directors' view there is a low risk of one of the banks holding the Groups funds at year end failing in the foreseeable future. As at 31 July 2012, the Group is also exposed to the credit risk in relation to the eCORP receivable (£1,706,592), which is payable over 22 months.

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	Group 2012 £	Group 2011 £	Company 2012 £	Company 2011 £
Non-current receivables	784,314	-	-	-
Trade and other receivables	1,101,820	96,654	107,629	96,651
Cash and cash equivalents	1,918,201	714,969	1,814,603	118,448

The reconciling item between non-current receivables as shown above and as presented in note 17 is the discount to fair value. The reconciling items between the trade and other receivables presented above and that presented in note 18 and 21 are VAT receivable, prepayments and the discount to fair value. No receivables are past due but not impaired.

### *Interest rate risk*

The Company and Group is exposed to interest rate risk as a result of positive cash balances, denominated in sterling, which earn interest at a variable rate. These attract interest at rates that vary with bank interest rates. Cash at bank at floating rates consisted of money market deposits which earn interest at rates set in advance from periods of 1-3 months by reference to Sterling LIBOR. An effective interest rate increase or decrease by 1% on the cash and cash equivalents balance at year end would result in a before tax financial effect of an increase or decrease in investment revenues and equity for the Group of £19,182 (2011: £7,344) and for the Company of £18,146 (2011: £1,184).

### *Foreign currency risk*

The Group is exposed to foreign currency rate risk as a result of the eCORP receivable, which is denominated in dollars and trade payables, which are settled in Euros. During the year the Group and Company did not enter into any arrangements to hedge these risks, as the Directors did not consider the exposure to be significant given the short term nature of the balances. The Group and Company will review this policy as appropriate in the future. As at 31 July 2012, if the Euro had weakened or strengthened 10% against sterling with all other variables held constant, the Group's net loss and equity would have decreased or increased by £782 (2011: £1,178). As at 31 July 2012, if the USD had weakened or strengthened 10% against sterling with all other variables held constant, the Group's net loss and equity would have decreased or increased by £267,593 (2011: £nil).

The currency risk disclosures at 31 July 2012 are as follows:

	USD	Euro
Accounts payable	-	£6,145
Non-current accounts receivable	£768,102	-
Current accounts receivable	£938,491	-

The currency risk disclosures at 31 July 2011 are as follows:

Accounts payable	-	£10,606
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The book value of financial assets and liabilities disclosed is considered to be equal to fair value.

*Liquidity risk*

The Group and Company policy is to actively maintain a mixture of long-term and short-term deposits that are designed to ensure it has sufficient available funds for operations. The total carrying value of Group and Company financial liabilities is disclosed in notes 21 (assets held for sale and discontinued operations) and 22 (trade and other payables). The Company issues share capital when external funds are required. The reconciling items between the contractual maturities presented below and that presented in notes 21 and 22 are taxes. The following table shows the contractual maturities of the Group's and Company's financial liabilities, all of which are measured at amortised cost.

	Group 2012 £	Group 2011 £	Company 2012 £	Company 2011 £
Within one month	951,439	98,371	826,953	42,789

**25. Share capital and redeemable preference shares**

	Number	Authorised		Allotted, called up and fully paid	
		£	£	Number	£
<b>Ordinary share capital</b>					
At 31 July 2010					
- Ordinary shares of 10 pence each	100,000,000	10,000,000		73,804,201	7,380,420
Issue 10 pence ordinary shares	-	-		4,460,125	446,013
At 31 July 2011					
Ordinary shares of 10p each	100,000,000	10,000,000		78,264,326	7,826,433
Issue 10 pence ordinary shares	-	-		12,727,273	1,272,727
At 31 July 2012					
Ordinary shares of 10p each	100,000,000	10,000,000		90,991,599	9,099,160
<b>Redeemable preference shares of £1 each (classified as liabilities)</b>					
At 31 July 2012, 2011 and 2010	50,000	50,000		50,000	12,500

On 15 February 2012 the Company completed a placing of 12,727,273 new ordinary shares at 11p per share and raised £1,400,000 before expenses. The expenses of the issue, which were taken to the share premium account, were £56,000.

On the 7 February 2011 the Company completed a placing of 4,095,000 new ordinary shares of 10p each at 22p per share with an existing institutional investor to raise £900,900 before expenses. The expenses of the issue, which were taken to the share premium account, were £36,063.

## Notes to the financial statements for the year ended 31 July 2012

### *Preference shares*

The preference shares carry the right to an annual dividend out of distributable profits of 0.00001% per annum on the amount for the time being paid up on each such share and do not carry any voting rights. The Company may redeem the shares at any time by giving preference shareholders one week's notice. Preference shareholders may require the Company to redeem their shares at any time by giving six months' notice. In each case, any redemption is at par and is subject to the provisions of the Companies Act. The preference shares are treated as short-term liabilities and included within trade payables.

### *Objectives, policies and processes for managing capital*

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to achieve its operational objectives.

The Group defines capital as being share capital plus reserves. The Board of Directors monitors the level of capital as compared to the Group's forecast cash flows and long term commitments and when necessary issues new shares. Dilution of existing shareholder value is considered during all processes which may result in an alteration of share capital in issue.

Ordinary share capital in issue is managed as capital and the redeemable preference shares in issue are managed as current liabilities.

The Group is not subject to any externally imposed capital requirements.

## **26. Merger reserve**

### Company

The merger reserve arose on the demerger of the Portland Gas Group of companies from Egdon Resources Plc when the Company issued shares at a premium to their nominal value on acquisition of InfraStrata UK Limited. The reserve is not distributable.

### Group

The merger reserve represents the difference between the nominal value of the shares issued on the demerger and the combined share capital and share premium of InfraStrata UK Limited at the date of the demerger.

## **27. Share based payment reserve**

The reserve for share based payments is used to record the value of equity settled share based payments awarded to employees and transfers out of this reserve are made upon the exercise or expiration of the share awards.

The transfer in of £11,304 (2011: £60,888) relates to share options granted in prior periods. There were no options forfeited during the year (2011: £40,892). For further information on the share based payment scheme see note 7.

## **28. Non-controlling interest**

BPGM paid an amount of £475,689 to Islandmagee Storage Limited in relation to their option to acquire an interest in that Company during the financial year. Should BPGM exercise its option, as described below, this amount will form part of the consideration for the equity issued to BPGM.

On 19 January 2012 an agreement was entered into with BPGM regarding the appraisal of the Islandmagee gas storage facility development project in County Antrim, and the grant of an option to BPGM to acquire a 50.495% equity interest in Islandmagee Storage Limited.

Under the terms of a JAA, BPGM has agreed to fund the activities necessary to develop the project up to the point where a decision can be made on whether to proceed with a detailed engineering design. The greatest item of the expenditure during the appraisal period is the drilling of the first well. The drilling of the well is subject to Islandmagee Storage Limited obtaining other key

consents and approvals for the project, and a regulatory and operational framework being adopted by the Northern Ireland and Republic of Ireland authorities to facilitate commercial operations of the facility on a level playing field with storage elsewhere in the UK and Ireland.

During the appraisal stage of the project, BPGM is responsible for managing surface and sub-surface engineering matters. Islandmagee Storage Limited is managing the regulatory, land and stakeholder relations together with drilling and operating the well.

Islandmagee Storage Limited has received £200,000 on the grant of exclusivity to BPGM in 2011, £200,000 was paid on signature of the agreement and a further £200,000 was paid on the grant of planning permission for the project in October 2012. Islandmagee Storage Limited received £75,689 during the year for works undertaken on the project which BPGM undertook to fund in terms of the JAA.



<b>29. Cash (used in) operations Group</b>	<b>2012 £</b>	<b>2011 £</b>
Operating loss for the year from continuing operations	(1,005,274)	(940,195)
Depreciation	7,690	9,499
Increase in trade and other receivables	(35,128)	(29,794)
Increase/(Decrease) in trade and other payables	801,592	(174,449)
Share option expense	11,304	60,888
Shares issued in lieu of salary or bonus	50,000	49,000
Loss on sale of subsidiary	-	8,355
Cash (used in)/from discontinued operations	(96,737)	34,170
	<hr/>	<hr/>
Cash (used in) continuing and discontinued operations	(266,553)	(982,526)
	<hr/>	<hr/>
<b>Cash flows arising from discontinued activities Group</b>	<b>2012 £</b>	<b>2011 £</b>
Cash (used in)/from discontinued operations	(96,737)	34,170
	<hr/>	<hr/>
Investing activities	(371,510)	(415,846)
	<hr/>	<hr/>
Financing activities	475,689	-
	<hr/>	<hr/>
<b>Cash from/(used in) operations Company</b>	<b>2012 £</b>	<b>2011 £</b>
Operating loss for the year	(23,793,664)	(858,467)
Depreciation	6,869	3,358
Decrease/(Increase) in trade and other receivables	8,142,456	(892,408)
Increase/(Decrease) in trade and other payables	721,110	(174,050)
Share option expense	11,304	60,888
Shares issued in lieu of salary or bonus	50,000	49,000
Loss on sale of subsidiary	-	8,355
Impairment of inter-company receivables	15,247,011	-
	<hr/>	<hr/>
Cash from/(used) in operations	385,086	(1,803,324)
	<hr/>	<hr/>

**30. Operating lease commitments**

Future minimum rentals payable under non-cancellable operating leases as at 31 July are as follows:

	<b>Land and buildings 2012 £</b>	<b>Land and buildings 2011 £</b>
Amounts due:		
Within one year	765,000	30,000
Within 2 to 5 years	-	22,438
After more than 5 years	-	-
	<hr/>	<hr/>
	765,000	52,438
	<hr/>	<hr/>

## Notes to the financial statements for the year ended 31 July 2012

Operating lease payments represent rentals payable by the Group for office premises and land which is for the purposes of gas storage facility development.

The office premises lease rentals are fixed for 5 years and the escalation clause is linked to market rates agreed between the landlord and tenant. The lease provides for a break clause at the fifth anniversary of the lease which is on 30 October 2012, exercisable at the Company's option. The landlord and the Company agreed on 16 May 2012 that there will be no rent review and that either party may terminate the lease at any time on or after 30 October 2012 by serving six months written notice.

At 31 July 2012 rent due by Portland Gas Storage Limited is payable under the gas storage development land leases and deed of variation dated 1 June 2012. The lease payments are fixed with variations linked to business development trigger events. The deed has break dates of 1 June 2013, 1 June 2014, 1 June 2015, 1 June 2016 and 1 June 2017. Prior to the execution of the deed of variation the leases were fixed to the first review date on the 20 October 2011 and the escalation clause is linked to the Retail Price Index published by the Office for National Statistics in terms of lease agreements entered into in April 2008 and 20 October 2006. These leases provided for a break clauses at the fifteenth anniversary of the lease, exercisable at the Company's option. Until such time as the Group has secured funding for the Portland project only minimal cash payments were due, with the balance of the liability being settled by way of interest bearing loans, which are payable once the associated gas storage project is fully funded. This loan liability ceased to exist on execution of the 1 June 2012 lease deed of variation.

### 31. Contingent liability

Portland Gas Storage Limited entered into a Section 106 deed of agreement relating to the development of the gas storage facility on the Isle of Portland on 13 June 2012 which supersedes the original deed of agreement dated 17 June 2008.

On first material operation of the development of the gas storage facility gas pipeline block value at Osmington, Dorset, Portland Gas Storage Limited covenants:

- To work with the Portland Gas Trust to complete the Engine Shed refurbishment at a cost of approximately £2,000,000.
- On completion of the Engine Shed to pay to the Portland Gas Trust a sum of £100,000 per annum for a period of not less than twenty years.
- To pay to the Portland Gas Trust a sum of not less than £350,000 to fund projects on the gas storage pipeline route and Portland.

### 32. Related party transactions

InfraStrata UK Limited leases the Group's head office from Toffee Limited, a company of which Andrew Hindle is a director and shareholder. A fair market rent paid during the period was £45,000 (2011: £45,000). The balance outstanding at 31 July 2012 was £nil (2010: £nil). The Company paid professional fees to Pinnacle Energy Limited of £nil (2011: £35,000), a company of which Walter Roberts is a director. The balance outstanding at 31 July 2012 was £nil (2011: £nil).

The Group has related party relationships with its associates and joint ventures in the course of normal operations. The Group recovered overhead and technical support costs from its joint venture of £161,856 (2011: £212,655).

The following balances were outstanding at 31 July 2012:

	<i>Amounts owed by related parties</i>	<i>Amounts owed to related parties</i>
	£	£
Associates	-	600
Other	-	600

The following balances were outstanding at 31 July 2011:

	<i>Amounts owed by related parties</i>	<i>Amounts owed to related parties</i>
	£	£
Joint ventures		
Nominal value of convertible unsecured loan notes	22,865,368	-
Other	21,090	-
Associates		
Other	-	600

## Company

The Company has related party relationships with its subsidiaries, associates and joint ventures in the course of normal operations.

InfraStrata plc recovered overhead and technical support costs from InfraStrata UK Limited of £177,242 (2011: £182,863), Portland Gas Storage Limited of £35,746 (2011: £193,450), Islandmagee Storage Limited of £123,282 (2011: £113,826) and Portland Gas Transportation Limited of £nil (2011: £19,205).

The balances outstanding at 31 July 2012, which are not secured, are provided in the following table.

The balances outstanding at 31 July 2011, which are not secured, are provided in the following table.

<i>Related party</i>	<i>Amounts owed by related parties</i>	<i>Amounts owed to related parties</i>	<i>Related party</i>	<i>Amounts owed by related parties</i>	<i>Amounts owed to related parties</i>
	£	£		£	£
<i>Subsidiaries</i>			<i>Subsidiaries</i>		
InfraStrata UK Limited	10,687,534	-	InfraStrata UK Limited	11,082,221	-
Portland Gas Storage Limited	102,247	-	Islandmagee Storage Limited	543,231	-
Islandmagee Storage Limited	583,818	-	Corfe Energy Limited	-	300
Corfe Energy Limited	-	300	Brigantes Energy Limited	-	300
Brigantes Energy Limited	-	300			

The amounts due from Group undertakings in note 18 are stated net of an impairment provision of £8,248,775 (2011 - £nil) relating to Infrastrata UK Limited.

### 33. Judgements in applying accounting policies and key sources of estimation uncertainty

Amounts included in the financial statements involve the use of judgement and/or estimation. These estimates and judgements are based on management's best knowledge of the relevant facts and circumstances, having regard to previous experience, but actual results may differ from the amounts included in the financial statements. Information about such judgements and estimation is contained in the accounting policies and/or the notes to the financial statements, and the key areas are summarised below.

#### *Capitalisation of project costs*

The assessment of whether costs incurred on project exploration and evaluation should be capitalised or expensed involves judgement. Any expenditure which is considered to relate to gas storage exploration research activities or where it is not probable that future economic benefits will flow to the Group are expensed. Management considers the nature of the costs incurred and the stage of project development and concludes whether it is appropriate to capitalise the costs. The key assumptions depend on whether rights to explore an area have been obtained, the rock mechanical properties of the halite, the availability of a suitable site for construction of the required facilities and the likelihood of gaining the relevant permissions.

#### *Review of project asset carrying values*

The assessment of capitalised project costs for any indications of impairment involves judgement. When facts or circumstances suggest that impairment exists, a formal estimate of recoverable amount is performed and an impairment loss recognised to the extent that the carrying amount exceeds recoverable amount. Recoverable amount is determined to be the higher of fair value less costs to sell and value in use. The key assumptions are the net income expected to be generated from the facilities, the cost of construction and the date from which the facilities become operational. Management assigns values and dates to these inputs after taking into account market information, engineering design costing and the project programme. A discount rate of 8% is applied in determining gas storage project net present values. Salt cavern gas storage projects are long term investments and cash flows are therefore projected over periods greater than 5 years. Engineering design provides for Project life of 40 years. It is assumed that 100% of a project's capacity will be sold from the date that the capacity becomes operational, therefore no cash flow growth is used when performing cash flow projections.

## Notes to the financial statements for the year ended 31 July 2012

### *Impairments of exploration and evaluation assets*

IFRS 6 requires that exploration and evaluation assets be assessed for impairment when facts and circumstances suggest that the carrying amount of an exploration and evaluation asset may exceed its recoverable amount. Management therefore consider annually whether there are any such facts and circumstances and, if so, undertake an impairment review. In making the initial judgements, management consider the outcome of exploration and evaluation activities to date and, in particular, data from any seismic surveys and drilling activities. Management also consider the continuity of the license interests and market data, including oil and gas prices.

Where an impairment test is required, a comparison is made between the carrying value of the assets at the reporting date with the expected discounted cash flow from the Group's license interest. For the discounted cash flows to be calculated, management use production profiles based on its best estimate of reserves and a range of assumptions, including oil/gas prices and discount rates.

### *Share based payments*

The estimation of share based payment costs requires the selection of an appropriate valuation model and consideration as to the inputs necessary for the valuation model chosen. The Group has made estimates as to the volatility of its own shares, the probable life of options granted, and the time of exercise of those options. The model used by the Group is the Black-Scholes model. The key assumptions are detailed in note 7.

### *Going concern*

The preparation of the financial statements requires an assessment on the validity of the going concern assumption and the estimates supporting that assumption. The validity of the going concern assumption is dependent on the availability of adequate financial resources to allow the Group to continue in operational existence for the foreseeable future. Should the going concern basis not be appropriate, adjustments would have to be made to the assets and liabilities in the balance sheet of the Group.

### *Investments in joint ventures and associates*

In order to establish whether an entity is a consolidated subsidiary, a joint venture or an associate, key areas of judgment include:

- Quantitative analysis of an entity including review of, amongst other factors, its capital structure, contractual terms, which interests create or absorb variability, related party relationships and design of the entity.
- Rights of partners reflecting significant business decisions, including dispositions and acquisitions of assets.
- Board and management representation.
- Ability to make financing decisions.
- Operating and capital budget approvals and contractual rights of other parties.

Refer to note 16 for additional information.

### *Identification of assets and liabilities arising on a business combination*

Management are required to identify the assets and liabilities arising on a business combination, having regard to contractual rights and obligations and whether cash flows are expected to arise from such rights and obligations.

*Fair values*

Management are required to assess the fair value of assets and liabilities acquired on business combinations. As part of this assessment management considers:

- Third party disposals or acquisitions of the asset or liability (or part thereof)
- In respect of assets, any costs avoided as a result of owning the asset
- Expected future discounted cash flows

Management also need to fair value the interests in the joint venture on disposal. Management consider the fair value of any underlying assets and liabilities and use these to impute a value to the joint venture as a whole and thence to the Group's share of the interest in the joint venture.

**34. Significant change to estimated amounts reported in the interim report**

The Group interim result at 31 January 2012 were presented prior to the impairment of the Portland Project assets and the investment in the Portland Gas Limited joint venture. Following the issue of these interim results the Portland Project assets and the investment were impaired – refer to note 16. The significant change in estimate relates predominately to the uncertainty of project construction commencement date.

**35. Guarantee**

The Company has guaranteed the lease payments to be made by Portland Gas Storage Limited to Portland Port Limited. The financial commitment under this guarantee at 31 July 2012 is £750,000 (2011: £18,474,200).

**36. Jointly controlled oil & gas exploration activities**

Group and Company

Country	Licence	Field name	Operator	Licence
Northern Ireland	PL1/10	Larne-Lough Neagh Basin	InfraStrata	46%
England	PL1918	English Channel	InfraStrata	78%

The Company has entered into agreements with partners whereby the Company's share of initial exploration costs to reporting date are covered by the partners to the extent of £2.3 million, therefore the company has incurred expenditure to the extent of £34,564 (2011: £nil) in developing its share of the assets.

**37. Events after the reporting period**

Islandmagee Storage Limited received planning approval on 18 October 2012 for its development of a natural gas storage facility at Islandmagee, County Antrim.

**38. Control of the Group**

There is no ultimate controlling party of InfraStrata plc.



# Letter from the Chairman

## with Notice of Annual General Meeting

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*Directors:*

Kenneth Ratcliff (Non-executive Chairman)  
Andrew Hindle (Chief Executive Officer)  
Craig Gouws (Chief Financial Officer)  
Walter Roberts (Legal and Commercial Director)  
William Colvin (Non-executive Director)  
Maurice Hazzard (Non-executive Director)

*Registered Office:*

Blackstable House  
Longridge  
Sheepscombe  
Stroud  
GL6 7QX

12 December 2012

Dear Shareholder,

### **1 Introduction**

Notice of the Company's forthcoming annual general meeting to be held on Friday 25 January 2013 ("AGM" or "Annual General Meeting") appears on the following pages.

As in previous years your Board is not recommending the payment of a dividend.

### **2 Resolutions to be proposed at the AGM**

#### Ordinary Business

##### *Annual Report and Accounts (Resolution 1)*

A copy of the annual report and accounts (together with the Directors' and Auditors' reports on the annual report and accounts) for the Company for the financial year ended 31 July 2012 (the "Accounts") has been sent to you with this document. Shareholders will be asked to receive the Accounts at the Annual General Meeting.

##### *Re-appointment of Auditors (Resolution 2)*

The Company is required at each general meeting at which accounts are presented to appoint auditors to hold office until the next such meeting. Nexia Smith & Williamson Audit Limited have indicated their willingness to continue in office. Accordingly, Resolution 2 proposes their re-appointment as auditors of the Company to hold office from the conclusion of the Annual General Meeting until the conclusion of the next annual general meeting of the Company at which Accounts are laid, and authorises the Directors to determine their remuneration.

##### *Retirement by Directors (Resolutions 3 & 4)*

Craig Gouws and Maurice Hazzard are the Directors retiring by rotation this year and each offers himself for reelection. All members of the Board are required to submit themselves for re-election at least once every three years. Brief biographical details of each of the Directors appear on page 15 of the Accounts.

#### Special Business

##### *Authority of Directors to Allot Shares (Resolution 5)*

The authority given to the Directors to allot further shares in the capital of the Company requires the prior authorisation of the shareholders in general meeting under section 551 Companies Act 2006. Upon the passing of Resolution 5, pursuant to paragraph (A) of the Resolution, the Directors will have authority to allot shares up to a maximum of £3,033,053 which is approximately one third of the current issued share capital as at 12 December 2012, being the latest practicable date before the publication of this Letter. This authority will expire immediately following the next annual general meeting or, if earlier, six months following the date

to which the Company's next annual report and accounts are made up.

In addition, in accordance with the guidance from the Association of British Insurers ("ABI") on the expectations of institutional investors in relation to the authority of directors to allot shares, upon the passing of Resolution 5, the Directors will have authority (pursuant to paragraph (B) of the Resolution) to allot an additional number of ordinary shares up to a maximum of £3,033,053, which is approximately a further third of the current issued ordinary share capital as at 12 December 2012, being the latest practical date before the publication of this Letter. However, the Directors will only be able to allot those shares for the purposes of a rights issue in which the new shares are offered to existing shareholders in proportion to their existing shareholdings. This authority will also expire immediately following the next annual general meeting or, if earlier, six months following the date to which the Company's next annual report and accounts are made up to.

As a result, if Resolution 5 is passed, the Directors could allot shares representing up to two-thirds of the current issued share capital pursuant to a rights issue.

#### Disapplication of Pre-emption Rights (Resolution 6)

If the Directors wish to exercise the authority under Resolution 5 and offer unissued shares (or sell any shares which the Company may purchase and elect to hold as treasury shares) for cash, the Companies Act 2006 requires that unless shareholders have given specific authority for the waiver of the statutory pre-emption rights, the new shares be offered first to existing shareholders in proportion to their existing shareholdings. In certain circumstances, it may be in the best interests of the Company to allot new shares (or to grant rights over shares) for cash without first offering them to existing shareholders in proportions to their holdings.

Resolution 6 would authorise the Directors to do this by allowing the Directors to allot shares for cash (i) by way of a rights issue (subject to certain exclusions), (ii) by way of an open offer or other offer of securities (not being a rights issue) in favour of existing shareholders in proportions to their shareholdings (subject to certain exclusions) and (iii) to persons other than existing shareholders up to an aggregate nominal value of £1,819,831 which is equivalent to 20 per cent of the issued share capital of the Company on 12 December 2012, being the latest practicable date prior to the publication of this Letter. If given, the authority will expire on the conclusion of the next annual general meeting or, if earlier, six months following the date to which the Company's next annual reports and accounts are made up.

For this purpose the ABI recommendation for companies on the LSE main list is 5% although it is generally recognised that for smaller companies and those on AIM this may be too constrictive. The nature of our business and the critical phase of so many of the projects in which we are involved, which can both be expected to require up-front investment and can take a long time to fully develop means that your Board considers 5% to be insufficient. Consequently I would ask that you approve a 20% disapplication of pre-emption rights to provide your Board with the flexibility to pursue such opportunities without incurring the costs of a rights issue or the need to market part of the investment opportunity to third parties.

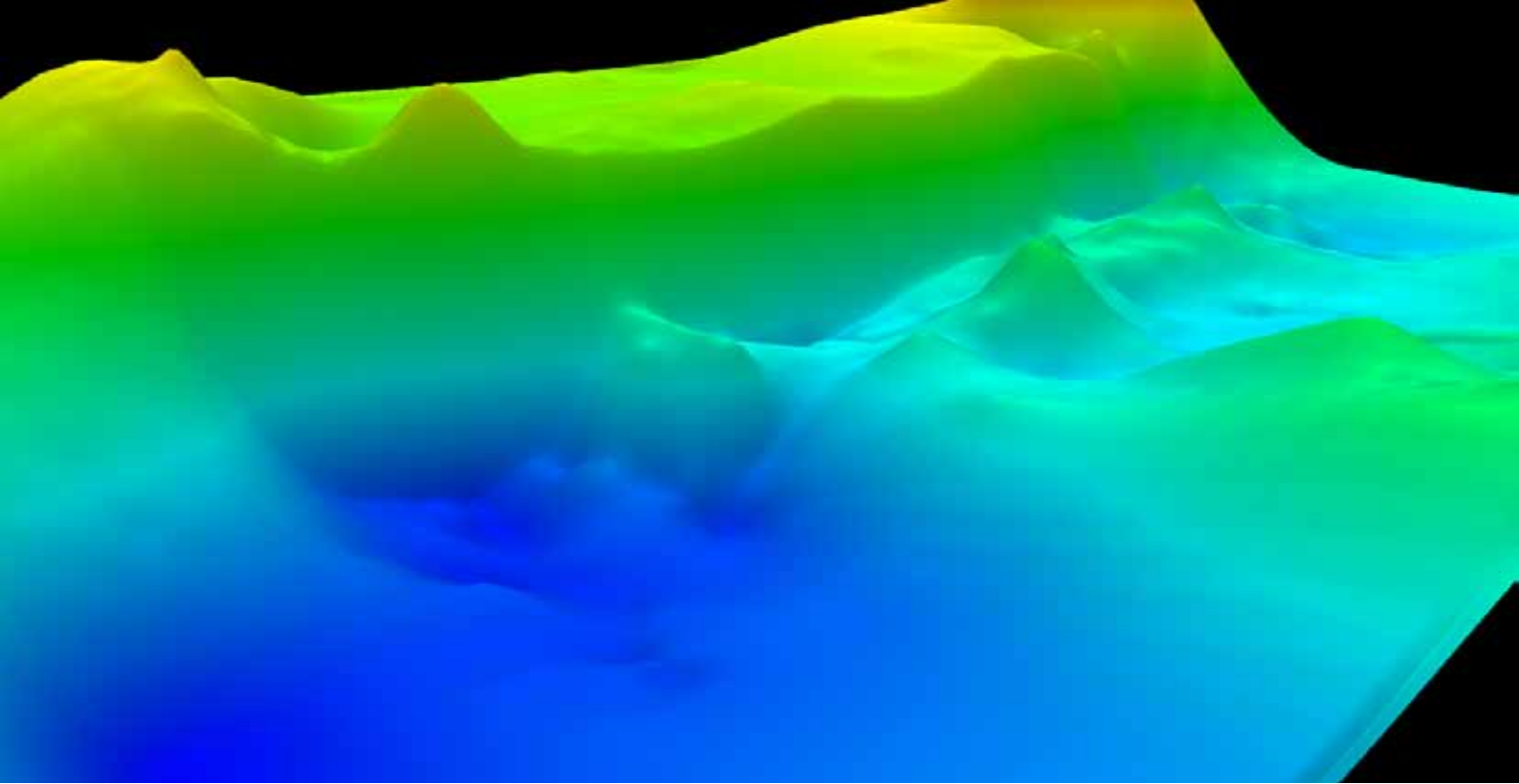
### **3 Recommendation**

Your Directors consider the Resolutions to be proposed at the AGM to be in the best interests of the Company and its shareholders as a whole. Consequently, the Directors recommend shareholders to vote in favour of the Resolutions as they intend to do in respect of their own beneficial holdings totalling 8,943,282 ordinary shares (representing 9.83 per cent. of the Company's issued share capital as at the date of this Letter).

A form of proxy is included for use at the AGM. Forms of proxy should be completed, signed and returned as soon as possible and in any event so as to be received by Capita Registrars at The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU not less than 48 hours prior to the time appointed for the holding of the AGM on 25 January 2013.

Completion of a proxy form will not prevent you from attending the AGM in person if you so wish.

Yours sincerely,  
Ken Ratcliff  
Non-executive Chairman



## Notes:

1. A proxy need not be a member of the Company but must attend the meeting to represent you. If you wish to appoint as a proxy a person other than the Chairman of the AGM, please delete the words “the Chairman of the AGM” and insert the name of the other person. All alterations made to this Proxy Form must be initialled by the signatory. If you sign and return this Proxy Form with no name inserted in the box, the Chairman of the AGM will be deemed to be your proxy. If the proxy is being appointed in relation to less than your full voting entitlement, please enter the number of shares in relation to which they are authorised to act as your proxy. If left blank your proxy will be deemed to be authorised in respect of your full voting entitlement (or if this Proxy Form has been issued in respect of a designated account for a shareholder, the full voting entitlement for that designated account).
2. To be effective, this Proxy Form (together with any power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such authority) must be received by post or (during normal business hours only) by hand at the office of the Company’s Registrars, being Capita Registrars at PXS, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU, by no later than 11.00 a.m. on 23 January 2013.
3. You are entitled to appoint more than one proxy provided that each proxy is appointed to exercise rights attached to a different share or shares held by you. You may not appoint more than one proxy to exercise rights attached to any one share. To appoint more than one proxy, (an) additional Proxy Form(s) may be obtained by contacting the Registrars helpline on 0871 664 0300 if calling within the United Kingdom or +44 (0)20 8639 3399 if calling from outside the United Kingdom. Lines are open 8:30am – 5:30pm Mon-Fri. Calls to the helpline from within the United Kingdom cost 10 pence per minute (including VAT) from a BT landline. Other service providers’ costs may vary. Calls to the helpline from outside the United Kingdom will be charged at applicable international rates. Calls may be recorded for security and training purposes. Or you may photocopy this form. Please indicate next to the proxy holder’s name the number of shares in relation to which they are authorised to act as your proxy. Please also indicate by ticking the box provided if the proxy instruction is one of multiple instructions being given. All forms must be signed and should be returned together in the same envelope.
4. Completion and return of this Proxy Form will not prevent you from attending in person and voting at the AGM should you subsequently decide to do so.
5. If you wish your proxy to cast all of your votes “For” or “Against” a resolution you should insert an “X” in the appropriate box. If you wish your proxy to cast only certain votes “For” and certain votes “Against”, insert the relevant number of shares in the appropriate box. In the absence of instructions, your proxy may vote or abstain from voting as he or she thinks fit on the specified resolution and, unless instructed otherwise, may also vote or abstain from voting as he or she thinks fit on any other business (including on a motion to amend a resolution to propose a new resolution or to adjourn the AGM) which may properly come before the AGM.
6. The “Vote Withheld” option is provided to enable you to instruct your proxy

to abstain from voting on a particular resolution. A “Vote Withheld” is not a vote in law and will not be counted in the calculation of the proportion of the votes “For” or “Against” a resolution. The “Discretionary” option is provided to enable you to give discretion to your proxy to vote or abstain from voting on a particular resolution as he or she thinks fit.

7. In accordance with the permission in Regulation 41 of the Uncertificated Securities Regulations 2001 (SI 2001 No. 3755), only those holders of ordinary shares who are registered on the Company’s share register at 1800 hours on 23 January 2013 shall be entitled to attend the above AGM (or 1800 hours on the day which is two days before the day of any adjourned meeting) and to vote in respect of the number of shares registered in their names at that time. Changes to entries on the share register after 1800 hours on 23 January 2013 shall be disregarded in determining the rights of any person to attend and/or vote at the AGM.

8. This Proxy Form must be signed by the shareholder or his/her attorney. Where the shareholder is a corporation, the signature must be under seal or signed by a duly authorised representative stating their capacity (e.g. Director, secretary). In the case of joint shareholders, any one shareholder may sign this Proxy Form or may vote in person at the Meeting. If more than one joint shareholder is present at the AGM either in person or by proxy, that one of them whose name stands first in the register of members in respect of the share shall alone be entitled to vote (whether in person or by proxy) in respect of it.

9. To change your proxy instructions simply submit a new proxy appointment using the methods set out above. Note that the cut-off time for receipt of proxy appointments (see above) also apply in relation to amended instructions; any amended proxy appointment received after the relevant cut-off time will be disregarded.

10. In order to revoke a proxy instruction you will need to inform the Company by sending notice in writing clearly stating your intention to revoke your proxy appointment to the Company’s Registrars, being Capita Registrars at PXS, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU. In the case of a member which is a company, the revocation notice must be executed under its common seal or signed on its behalf by an officer of the company or an attorney for the company. Any power of attorney or any other authority under which the revocation notice is signed (or a duly certified copy of such power or authority) must be included with the revocation notice. The revocation notice must be received by the Company no later than 48 hours before the time of the holding of the meeting or any adjournment thereof. If you attempt to revoke your proxy appointment but the revocation is received after the time specified then your proxy appointment will remain valid. If you have appointed a proxy and attend the meeting in person, your proxy appointment will automatically be terminated.

11. If you submit more than one valid proxy appointment in respect of the same share or shares, the appointment received last before the latest time for the receipt of proxies will take precedence. If the Company is unable to determine which was received last, none of the proxy appointments in respect of that share or shares shall be valid.



# Proxy form

## InfraStrata plc (the "Company")

(Incorporated and registered in England and Wales with registered number 06409712)

Proxy Form for use by Shareholders at the Annual General Meeting ("AGM") of InfraStrata plc (the "Company") to be held at the offices of Buchanan Communications Limited, 107 Cheapside, London, EC2V 6DN, United Kingdom on Friday 25 January 2013 at 11.00 a.m.

Please read the Notice of the AGM and the accompanying notes carefully before completing this Proxy Form.

As a Shareholder of the Company you have the right to attend, speak at and vote at the AGM. If you cannot, or do not want to attend the AGM, but still want to vote, you can appoint someone to attend the AGM and vote on your behalf. That person is known as a "proxy". You can use this Proxy Form to appoint the Chairman of the AGM, or someone else, as your proxy. Your proxy does not need to be a Shareholder of the Company.

I/We, \_\_\_\_\_ (in BLOCK CAPITALS please)

being a Shareholder/Shareholders of InfraStrata plc, appoint the Chairman of the AGM or \_\_\_\_\_

(see note 1) as my/our proxy to attend and, on a poll, to vote for me/us and on my/our behalf as indicated below at the AGM and at any adjournment thereof (see notes below).

Please clearly mark the boxes below to instruct your proxy how to vote.

Ordinary resolutions	For	Against	Vote Withheld	Discretionary
1. To receive the Report and Accounts for the year ended 31 July 2012				
2. To re-appoint Nexia Smith & Williamson Audit Limited as auditors at a remuneration to be determined by the Directors				
3. To re-elect Craig Gouws				
4. To re-elect Maurice Hazzard				
5. To grant the Directors authority to allot shares on the basis set out in the Notice of AGM				
<b>Special resolutions</b>				
6. To disapply pre-emption rights on the basis set out in the Notice of AGM				

Signature(s) \_\_\_\_\_ (see note 8)

Date \_\_\_\_\_

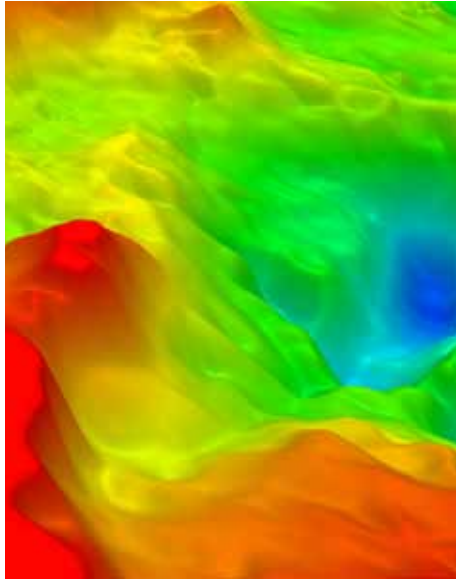
Fold 2 here

PLEASE  
AFFIX  
POSTAGE  
STAMP  
HERE

**Capita Registrars  
PXS  
The Registry  
34 Beckenham Road  
Beckenham  
Kent  
BR3 4TU**

Fold 1 here

Fold 3 here and tuck in



**InfraStrata plc**

80 Hill Rise

Richmond

Surrey

TW10 6UB

[www.infrastrata.co.uk](http://www.infrastrata.co.uk)