IGas Energy Plc Annual report and accounts 2011/12

Onshore energy:

delivering a secure future

IGas Energy Plc
Annual report and accounts 2011/12

IGas Energy is an upstream oil and gas company focused on delivering discovered hydrocarbons in Britain.

We are now the largest operator of oil and gas fields onshore in Britain.

By focusing on delivering secure energy for Britain, we aim to deliver value to our shareholders.

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Highlights 2011/12

Revenue – 15 months to 31 March 2012
£22.1m

Daily production as at 31 March 2012
2,700 boe

Production – year to 31 March 2012*
960,000 boe

Number of staff
152

* Production shown is from 1 April 2011, the effective date of the acquisition of Star Energy Group Limited, until 31 March 2012. Production from 14 December 2011, the date of completion of the Star Energy acquisition, to 31 March 2012 was 280,000 boe.

Since last year IGas Energy has moved from being a non-operated partner in the appraisal of unconventional prospects, to operating and controlling material production and resources across Britain.

Strategic

- Acquisition of Nexen Exploration UK Ltd and Star Energy Group Limited leading to majority owned and operated asset base
- Since the acquisition of Star Energy[1]:
  - 2P reserves upgraded by ca. 1 million boe
  - 2P NPV_{10} materially increased to £173MM
- Secured both equity and debt (£101.5m (net proceeds)) to fund acquisitions and provide working capital
- Secured staff, equipment and fiscal synergies needed to pursue growing resource base
- Process commenced to identify suitable farm-in partner for IGas Energy's shale assets; Greenhill, the investment bank, mandated as its advisor

Operational

- Safety
  - One year with no LTI (lost time incidents)
  - RoSPA Gold Medal award
  - Attained ISO 9001 and ISO 14001 certification
- Drilled 3 wells (DG-3, DG-4, Ince Marshes-1)
- Significant shale resource potential identified
- CBM delivery appraisal on-going
- Production at year end of 2,700boepd
- 'Chase the barrels' initiative launched
- Integration of Nexen Exploration UK Ltd and Star Energy Group Limited acquisitions

Financial[2]

- Revenue – £22.1m (2010: £0.7m)
- Gross profit – £10.1m (2010: £0.1m)
- Underlying operating profit[3] – £5.3m (2010: loss £1.7m)
- Pro forma revenue[4] for 12 months to 31 March 2012 – £69.0m (2010: £0.7m)
- Cash at 31 March 2012 – £7.9m (31 December 2010: £12.1m)
- Borrowings less cash[5] at 31 March 2012 – £74.2m (31 December 2010: cash £12.1m)
- Debt of £7.6m will have been repaid in the period from drawdown to 30 June 2012 with an anticipated further debt principal repayment of £12.0m by 31 March 2013, a deleveraging of nearly 25%

1 Since acquisition of Star Energy Group Limited; with revision in reserves being due to an updated Competent Persons Report, with IGas now having access to all fields and data.
2 Accounts are for the fifteen month period from 1 January 2011 to 31 March 2012, due to change in accounting year end. The comparators are for the year ended 31 December 2010
3 Underlying operating profit excludes the loss on oil price swaps of £18.5m and acquisition costs of £3.0m
4 Revenue for Star Energy Group Limited for the 12 months from 1 April 2011 to 31 March 2012
5 Borrowings excludes capitalised transaction costs of £7.6m

Delivering
a secure energy future for Britain

IGas now has a leading position in both unconventional and conventional hydrocarbons on-shore in Britain. The early indications of the potential from the shale resource within our acreage show that it could be large enough to materially reduce Britain's reliance on imported gas.

Hydrocarbons from unconventional sources have transformed the global market. The results of this year's programme, particularly from our well at Ince Marshes, are potentially transformational for the Group. Here we logged and took samples over a c.1,000ft shale section and have now interpreted these results. This has led to a more than doubling of the pre-drill estimate of gas initially in place. Following a number of unsolicited expressions of interest, from companies with both significant shale exposure and expertise, we have now appointed investment bank Greenhill to secure industry partners for the development of our acreage in the Bowland Shale.

We continue with the testing of our coal bed methane assets. The wells at Doe Green are currently dewatering.

Our conventional production assets offer the opportunity to maintain and potentially enhance current production levels. To maximise this opportunity we have launched a 'chase the barrels' initiative to assess the existing fields and well stock so as to engineer potential projects based on current production technology and a better understanding of the sub surface.

"…I am fully alert to the potential [of shale] and I am looking very closely at this industry with energy independence and security of vital importance to our country…"

Rt Hon David Cameron, Prime Minister

"Natural Gas is a critical part of the UK energy mix today and will continue to have a crucial role tomorrow"

Charles Hendry MP, Minister of State for the Department of Energy and Climate Change.

Total operational sites

>100

IGas well services Division

- Eight service units
- 20 Technicians
- Country wide coverage

IGas at a Glance: From reservoir to refinery

With assets ranging from mature discoveries made more than 50 years ago, to unconventional resources only now recoverable as a result of technical advances in oil field practices, IGas has a very significant position in discovered and potentially deliverable hydrocarbon resources across Britain.

North West/Staffs

In the North West and Staffordshire we have more than 500,000 acres under licence, which are primarily for the development of unconventional resources.

The size of the CBM resource has been demonstrated and its delivery potential is currently being appraised. As regards shale, this year's activity has begun appraisal of the potential. Within this area we have drilled a total of ten wells and have an extensive library of other borehole data and pre-existing 2D and 3D seismic. With seven sites already permitted and a similar number being pursued in the area, we are well positioned to develop these resources close to markets and customers, once the appraisal phase is completed and repeatable commercial flow rates have been demonstrated from both the coal and shale horizons.

Number of fields

2

Total barrels of oil produced to date

Under appraisal

Potential production sites (approved permits)

7

East Midlands

In the East Midlands we have two primary production centres: Welton and Gainsborough/Beckingham.

Hydrocarbons have been produced in the East Midlands since 1959 and current production from this area accounts for approximately 60% of Group's total current production.

The Welton area is made up of six fields and a gathering centre where the produced oil, gas and water are separated. The produced oil is transported to Conoco Immingham via road tanker, gas is used for power generation and produced water is pumped for reinjection.

The Gainsborough/Beckingham area is made up of eleven fields and a processing facility. Oil is transported to Conoco Immingham via road tanker, gas is piped to Gainsborough-1 for power generation and produced water is pumped for reinjection.

Number of fields

17

Total barrels of oil produced to date[1]

>31million

Production sites

80

Weald Basin

The Weald basin is the source of approximately 40% of our current production.

With eight fields ranging from Stockbridge in the west, near Winchester, to Palmers Wood near Gatwick in the East. The area has produced more than 29 million barrels of oil to date. Our oil is collected by tanker from our sites and transported to our processing facilities at Holybourne. Here we have storage for more than 20,000 barrels and a rail terminal allowing us to transport our products to local refineries by train. We also handle oil on behalf of other operators in the area, providing IGas with a valuable additional revenue stream.

Number of fields

8

Total barrels of oil produced to date[1]

>29million

Production sites

17

1 Refers to the period since the wells came on stream

East Midlands
North West/Staffs
Weald basin

IGas delivering a secure future

Leading UK Oil & Gas onshore business with:

- Considerable scale
- Predominantly 100% owned and operated production and resources
- Footprint in the prolific producing East Midlands and Weald Basins
- Extensive acreage in the high potential unconventional basins of the North West/Staffs (including Bowland Shale) and North Wales
- Portfolio of booked reserves and material resources
- Significant cash flows, allowing for rapid deleveraging
- Experienced execution team
- Opportunity to leverage conventional assets, equipment, personnel and fiscal synergies to unlock unconventional resources potential

Resource and Reserves

IGas has had its reserves reassessed by Senergy[1] with IGas now having access to all fields and data. Adjusted for production, this shows an increase in 2P reserves of almost 1 million boe, as at 1 January 2012, and a reserves replacement ratio, on a 1P basis, of 117% and on a 2P basis of 194%[1].

Senergy CPR Results

	1P	2P	3P
CPR 1.7.11 (MMboe)	**6.52**	**11.13**	**16.65**
Cumulative production 1.7.11–31.12.11 (MMboe)	(0.47)	(0.47)	(0.47)
Revisions and additions (MMboe)	0.55	0.91	0.15
CPR 1.1.12 (MMboe)	**6.6**	**11.57**	**16.33**
Reserves replacement ratio	1.17	1.94	0.32

1 Senergy was requested to provide an update to its 2011 independent evaluation of the recoverable hydrocarbons expected for each asset categorised in accordance with the 2007 Petroleum Resources Management System, Gross reserves or resources are defined as the total estimated petroleum to be produced from the fields evaluated as at 1 January 2012

Balanced portfolio of producing and development assets

- Potential for significant upside to the existing oil production
- Combined business presents opportunities to grow production profile
- Considerable fiscal synergies

Experienced operational team

- 152 personnel experienced in both oil and gas production, development and operations
- Technical team with a proven track record
- Highly experienced site operators
- Operational assets to deliver
  - Own well services division including:
    - 3 work over rigs
    - 1 hot oil flush rig
    - 4 pump trucks
    - 6 road tanker tractor units
  - Significant oil storage and bunkering including 2 rail heads

Significant cash flows

- Facilitate rapid deleveraging
- Debt of £7.6m will have been repaid in the period from drawdown to 30 June 2012 with an anticipated further debt principal repayment of £12.0m by 31 March 2013, a deleveraging of nearly 25%

Chairman's statement

Since 1 January 2011 we have moved from being a non-operated partner having equity interests in CBM licences under appraisal, to delivering material hydrocarbon production, having full control (as operator) and ownership (100% in most cases) of our assets and having early indications of significant shale resource potential.

Unlocking potential

The potential of IGas as a dedicated upstream oil and gas company to contribute to the energy security of the country has become very much more significant. With our current production and potentially enormous unconventional resources we are set to be a material part of Britain's energy mix going forward. The comments by the chancellor in the budget regarding the importance of gas, by the Prime Minister regarding investigating shale (in a safe manner) and the anticipated agreement by DECC, after an independent review and public consultation into the resumption of hydraulic fraccing of shale, show the renewed commitment of the government to developing a gas based strategy to augment other forms of generation. This strategy is of course in the context of ensuring that domestic resources are fully utilised in a safe and environmentally responsible way; to which we too are fully committed.

Through the two acquisitions made in 2011, the first in March of Nexen Exploration UK Limited and then in December of Star Energy Group Limited, we have transformed our Company into being the largest operator of oil and gas fields onshore Britain. In financing these transactions we have strengthened our shareholder base with Nexen now holding 25% of IGas' equity. We have also raised more than £100 million of long-term debt and equity, to finance these transactions and our operations during the period. The Company's healthy production, has enabled debt of £7.6m to have been repaid in the period from drawdown to 30 June 2012, with an anticipated further debt principal repayment of £12.0m by 31 March 2013, a deleveraging of nearly 25%. Looking forward, in addition to healthy production, the coming year should see us starting to realise the synergies made available to us from last year's acquisitions, designed to help unlock the Company's very considerable resource potential. In this regard the announced plan to farm-out some of IGas' shale acreage, subject always to the terms being attractive for the Company and thereby shareholders, should be another important milestone.

With 152 employees at the year end, their health, safety and well-being are of upmost importance to the Board. We are pleased to report that we have now had more than a year with no lost time incidents.

Finally, I would like to welcome all of the former employees of Star Energy to IGas. Together, and focused on onshore energy, we are delivering a secure future.

Francis Gugen
Non-Executive Chairman

Period in review

MAR 2012
Analysis of Ince Marshes logs and samples

FEB 2012
Completion of drilling at Doe Green. Commence de-watering

JAN 2012
Completion of well at Ince Marshes

Appraisal of shale resources

DEC 2011
Completion of Star Energy Group Limited acquisition

NOV 2011
Drilling at Ince Marshes-1 commences

OCT 2011
Drilling at Doe Green-4 (DG-4) commences

SEPT 2011
Signed the sale and purchase agreement for acquisition of Star Energy Group Limited from Petronas

Appointed Stephen Bowler as CFO

JULY 2011
Construction of third well at Doe Green begins (DG-3)

JUNE 2011
Signed second drilling contract. Secured the BDF rig 28 for well programme

MAR 2011
Completion of Nexen Exploration UK Ltd acquisition and placing

FEB 2011
Announced joint venture with Meehan Drilling

JAN 2011
Signing of Nexen Exploration UK Ltd agreement

Chief Executive Officer's review

The outlook for 2012 and beyond sees IGas demonstrating the deliverability of our unconventional resources while continuing to deliver from our conventional fields.

"The development of gas from shale horizons clearly needs to be carried out in a way that engages with and is supported by other stakeholders in the area. In all of our operations to date both from conventional and unconventional reservoirs, our relations with those around us have always been key and will continue to remain so"
Andrew Austin, CEO, IGas Energy

The acquisition of Star Energy transforms our business.

The last fifteen months, since January 2011 have seen IGas move to controlling its assets and delivering production in Britain. The acquisition of Star Energy Group has brought us not only material current production and significant sub-surface upside potential but the people, skills, equipment and fiscal synergies that are essential to deliver onshore in Britain from both conventional and unconventional resources.

Our plans to demonstrate the deliverability of our unconventional assets continue. We have drilled three wells this year, two at Doe Green into different seams. DG-3 is a c.1,500ft lateral in the London Delph seam. Drilled with the BDF28 rig, the well was completed safely on the 4 October. The rig then drilled DG-4 well into the Plodder seam at a depth of 3,560ftTVSS. Again this well was drilled safely and the rig left site on 14 February 2012. Both wells were more complicated geologically than anticipated, however we were able to install slotted liners over a total length of c.2,500ft. All three wells (DG-2, DG-3 and DG-4) have now been hooked up to the production facilities on site since mid-March 2012 and we are currently de-watering the wells (this process is taking longer than anticipated). We look forward, post the de-watering process to announcing stabilised production rates from these wells to add to the production history we have from DG-2.

Getting the most from the mature assets in the Weald and East Midlands is a key priority for our Company and we are delighted with production levels, which at the year end were 2,700boepd. To this end, we have launched a 'chase the barrels' initiative which is to seek out opportunities for increasing production and up time and reducing lifting costs. Several projects have already been identified. Following a successful production test at Albury where gas was shown to flow at commercial rates, planning permission has been applied for to install export equipment. Other areas under

consideration include the installation of rod pump controllers to reduce wear and the need for work overs. Further installation of remote monitoring and energy management arrangements are also being considered to reduce operating expenditure. We are looking to carry out another well test in the Weald Basin shortly. This will be to assess the commerciality of previously shut in wells. Following this test a decision will be made on the installation of export facilities at this location.

While the basins have been in production for considerable periods of time, the proportion of in place hydrocarbons to date recovered is still low and using modern techniques we are confident of the future potential of the assets.

Successful appraisal of our unconventional resource potential continued with Ince Marshes-1 well, which was spudded on 4 November 2011. This well was planned to log and core the coals in the area around which less was known than elsewhere in our portfolio. The entire coal sequence was encountered shallower than anticipated and the decision was taken to continue to drill into the deeper horizons to better understand the geology and resource potential of the area. While it was anticipated that shale would be encountered, the results of the drilling, the logs and samples received, completely surpassed our expectations. We encountered and logged a significant Bowland Shale section of approximately 1,000ft. The well was TD'd in the Bowland Shale due to the limitations imposed by the CBM well design criteria. The well was suspended so that it might be re-entered and deepened at a later stage to fully appraise the entire thickness of the Bowland Shale. The logs and samples were sent for independent analysis. These results indicate a resource in excess of twice the pre-drill estimate and with the total organic carbon ("TOC") observed between 1.2 and 6.9 (average 2.7) and initial analysis of the samples support our view that we may have discovered a potentially world class shale resource. Clearly further wells and analysis are required to fully appraise the shale and critically flow tests need to be performed, however our results combined with those of operators in neighbouring licences in the Bowland Shale are extremely encouraging.

The development of gas from shale horizons clearly needs to be carried out in a way that engages with and is supported by other stakeholders in the area. In all of our operations to date both from conventional and unconventional reservoirs, our relations with those around us have always been key and will continue to remain so.

It is customary practice at IGas to fully consult with the local community and other relevant stakeholder groups in all the local areas in which we operate.

We believe that gas extracted locally, including shale gas is potentially a very important part of the future energy mix in the UK and provides a number of benefits including local jobs and secure and potentially cheaper energy to local consumers.

The shale horizons we have so far identified underlie existing identified CBM resources. This offers the opportunity to develop both resources in tandem and thereby enhancing the economics of both, but particularly of the CBM.

I am particularly pleased to announce that our production division has recently been awarded our 2nd Royal Society for the Prevention of Accidents Gold Medal Award to complement our 4 previous Gold Awards. Receipt of these 6 consecutive Awards is a terrific testament to the dedication and commitment of all employees and our appointed contractors in ensuring we continue to apply the highest safety standards across our operations.

The process of integrating both acquisitions made last year is proceeding well. The acquisition of Star Energy required integration of more than 150 people and a significant number of legacy systems. We have been successful in achieving all of our "100 day" goals and now have an integrated HSE, emergency response and IT platform as well as having relocated the head office staff to IGas offices in London.

Andrew Austin
Chief Executive Officer

Our strategy

IGas has accumulated a significant hydrocarbon resource base from 35 oil and gas exploration licences in the UK. The contingent recoverable resources, totaling some 317 million barrels of oil and gas equivalent (P50), largely from CBM, represent a portfolio of development opportunities which the Company intends to exploit over the medium term, delivering natural gas to the UK's grid, oil to UK refineries and enhanced value to the Company's shareholders.

Using the onshore expertise of the now expanded IGas team, the Company will seek to enhance recovery from its portfolio of mature wells, creating avenues to improve cash flow which will be applied to further develop the Company's resource base, while at the same time seeking synergistic opportunities to acquire new onshore oil and gas acreage.

Chief Financial Officer's review

	15 months to 31 March 2012	Year to 31 December 2010
Revenues	**£22.1m**	£0.7m
Gross profit	**£10.1m**	£0.1m
Underlying operating profit/(loss)[1]	**£5.3m**	£(1.7)m
Net cash used in operating activities	**£2.6m**	£1.8m
Borrowing less cash/(cash)[2]	**£74.2m**	£(12.1)m
Net assets	**£55.0m**	£16.7m

1. Underlying operating profit excludes the loss on oil price swap contracts of £18.5m and acquisition costs of £3.0m in the period to 31 March 2012
2. Borrowings excludes capitalised transaction costs of £7.6m

The substantial cash flows generated have already enabled the Group to rapidly deleverage.

The fifteen month period to 31 March 2012 was transformational for the IGas Group, through the acquisitions of Star Energy Group Limited ("Star Energy") and Nexen Exploration UK Limited alongside its drilling programme. Through this activity, IGas has become a full cycle oil and gas company with significant experience in operating onshore Britain.

Following the acquisition of Nexen Exploration UK Limited in March 2011, IGas became the operator and 100% owner of each of its licences across Britain and increased its Contingent Recoverable Resource 2C (P50) by 115% to 1,736bcf or 290 million barrels of oil equivalent (boe). In exchange, Nexen received 39,714,290 IGas shares equivalent to 29.9% of the then issued share capital. This accretive transaction laid the foundations for a share placing which raised net proceeds of £19.9m to fund the Company's drilling programme, whilst broadening and improving the Company's shareholder register.

On 14 December 2011, IGas completed the acquisition of Star Energy creating a substantial onshore oil and gas company. As a result, the financial results for the 15 months ended 31 March 2012 incorporate 3.5 months of results from Star Energy. The consideration of £110m was funded through the drawdown of new debt facilities with Macquarie Bank ($135m), cash generated by Star prior to closing (from the effective date of 1 April 2011) and IGas' existing cash resources.

Income statement

The Group recorded revenues of £22.1m in the period (2010: £0.7m), of which £2.0m (2010: £nil) was generated through the sale of third party oil. Group oil production in the period since 14 December 2011, the date the Star Energy acquisition was completed ("Period Post Completion"), was 280mboe, representing an average of 2,615boepd with production at the year end of 2,700boepd. In the Period Post Completion, the realised price per barrel (pre-hedge) averaged £73.4 ($117.0) per barrel with narrow discounts to Brent crude prices achieved. After taking into account the effect of long-term hedging at $93.4 the average realised oil price in the Period Post Completion was £65.1 ($103.2) per barrel. This hedging has the potential to be of considerable benefit if the oil price environment in existence at the time of writing this report continues.

Cost of sales of £12.0m (2010: £0.6m) includes depreciation, depletion and amortisation ("D,D&A") of £3.2m (2010: £nil), and operating costs of £8.8m (2010: £0.6m), including £1.8m charged in relation to processing third party oil. Operating costs per barrel of oil equivalent were £19.90 (Operating costs per barrel for Star Energy Group Limited for the 12 months from 1 April 2011 to 31 March 2012 £20.00), excluding the third party costs. These costs include transportation costs of £3.30/boe and the cost of the provision of our well services division of £2.64/boe.

Administrative expenses were £5.0m (2010: 1.8m). Acquisitions costs of £3.0m (2010: £nil) related to the acquisitions of Star Energy.

The Group entered into oil price hedging during the period and in accordance with International Auditing Standard (IAS) 39 – "Financial Instruments: Recognition and Measurement" a charge was made of £18.5m in relation to the loss on oil price swap contracts. Most of the loss on these contracts was incurred due to the mark to market cost of the financial derivatives which the Company had in place at the year end, of which £16.1m is non-cash. As at 31 March 2012, the Group had 2.28 million barrels hedged over the period to 31 December 2017 at an average price of $93.4/barrel (55% being in pounds sterling), of which 0.53m barrels are hedged in the year to 31 March 2013.

Other income amounted to £0.2m and related to agency revenues from the processing and sale of third party oil. Net finance costs amounted to £1.7m (2010: net finance income £0.2m) reflecting the debt drawn in December 2011 to fund the acquisition of Star Energy and a £1.7m gain on the revaluation of the warrants issued during the period.

Gross profit of £10.1m was recognised in the period (2010: £0.1m), with underlying profit, before the loss on forward oil contracts and acquisition costs of £5.3m (2010: loss £1.7m). Loss attributable to equity shareholders of the Group was £12.1m (2010: £1.5m).

Cash flow

Cash used in operating activities in the period amounted to £2.6m (2010: £1.8m).

On 9 March 2011, the Company raised gross proceeds of £20.6m for 27.5m new ordinary shares when the acquisition of Nexen Exploration U.K. Limited became unconditional on 9 March 2011.

The Group drew down £81.5m net of expenses under new debt facilities with Macquarie Bank to fund the acquisition of Star Energy in December 2011. The Group repaid £3.1m ($4.95m) of debt principal in the period and will have repaid over £7.6m ($12.2m) by the end of June 2012.

The Group incurred capital expenditure of £17.8m (2010: £3.6m), of which c.£12.5m related to drilling costs for its three well programme during the period; Ince Marshes-1, Doe Green-3 and Doe Green-4.

Balance sheet

The Group's non-current assets increased by £174.2m during the period to £179.1m and included the acquisitions of Star Energy and Nexen Exploration UK Limited as well as expenditure of £19.2m on appraisal drilling on the Group's unconventional assets in the North West.

Net assets increased by £38.3m over the period to £55.0m.

On 9 March 2011, the Group acquired the entire issued share capital of Nexen Exploration UK Limited for a consideration of £29.2m, satisfied through the issue of 39,714,290 IGas shares. The acquisition was aligned to the Group's strategy of securing 100% ownership of assets and operatorship.

On 14 December 2011, the Group acquired the entire issued share capital of Star Energy for a cash consideration of £110m. The Star acquisition has been accounted for as a business combination by the acquisition method of accounting with an effective date of 14 December 2011, being the date the Group gained control of Star Group. Goodwill of £15.6m (2010: £nil) relates to the acquisition of Star Energy and arises principally due to the intangible value gained by the Group through now benefiting from an experienced team of oil industry professionals operating in the UK onshore market; the relationships and reputation developed with central and local government in Great Britain; the considerable potential for discovery of additional reserves of both conventional and unconventional resources in Star's licence areas; and a deferred tax adjustment arising from the fair value exercise. A deferred tax asset of £18.0m has been recognised at 31 March 2012 for tax losses within the Group, principally in relation to £31.6m of corporation tax losses and £29.0m of supplementary charge losses carried forward, reducing the deferred tax liability to a net £23.6m.

Net debt, being borrowings less cash, at the year end amounted to £74.6m. Transaction costs of £7.6m associated with the debt are offset against the drawn debt within the balance sheet and will be recognised over the life of the loan in accordance with the Group's accounting policies.

IGas is now well positioned to exploit its significant asset base. The substantial cash flows generated by the conventional assets have already enabled the Group to rapidly deleverage with £3.1m ($4.95m) of debt principal repaid in the period to 31 March 2012, and over £7.6m ($12.1m) will have been repaid at 30 June 2012, with an anticipated further debt principal repayment of £12.0m ($19.1m) by 31 March 2013 a deleveraging of nearly 25%.

Stephen Bowler
Chief Financial Officer

Revenue
£22.1m

Pro forma revenue
£69m

Underlying profit
£5.3m

Deleveraging by 31 March 2013
25%

Corporate Social Responsibility Report

At IGas we are committed to the environment, our employees and the communities where we operate.

Cold Hanworth, an IGas production site in the East Midlands

Albury Produce Show & Music Festival

During the period we systematically worked to achieve a greater understanding of who our stakeholders are, on the basis of our current activities and operations. This process shall continue as our Company evolves, so that we remain aligned, as far as possible, with the expectations and needs of our stakeholders including readers of this Report. One of our key CSR aims is to engage effectively and report on issues that are material to our stakeholders.

We are aware of a number of recognised CSR standards and sector framework mechanisms, and shall continue to evaluate the most appropriate approaches to continue improving the quality of our future Reports. This year we have adopted the approach of the Business in the Community's (BITC) CR framework covering the four pillars of: environment, community, marketplace and workplace.

Feedback can be provided through the contact details noted in this Report or via our website (see http://www.igasplc.com/contactus.aspx). We are keen to solicit feedback on our performance in general and this Report specifically, from a growing number of stakeholders. At the end of 2011 the acquisition of Star Energy resulted in a step-change in our scale, and added a new conventional oil & gas aspect to our previously unconventional business, as well as additional lifecycle activities e.g. road and rail distribution.

During 2011 we developed SMART Objectives, Targets & Management Programmes, and these have evolved into KPIs ("key performance indicators"). Our aim for future CSR reporting is to focus on tangible metrics, and provide a description of material issues, governance and performance measurement. This year we have provided some case studies to demonstrate our performance.

Examples of local charities we have donated to:
- **Blindley Village Show**
- **Albury Produce Show & Music Festival**
- **Rempstone Village Jubilee Celebrations**
- **Southampton General hospital – childrens unit**

1. Environment
During 2011 we achieved certification to the Environmental Management standard, ISO 14001 for IGas Energy plc. This certification will be extended during 2012 to all Group companies. For all our sites we undertake initial risk assessments which focus on environmental issues (sensitivity screening reports), and have applied impact mitigation through all phases up to final site restoration. In addition our sites are monitored throughout the life of our developments. An example of effective mitigation is our Ellesmere Port site where we moved the existing grass habitat to a secure area of the site prior to Drilling operations. We continued to support the ecology here through low-impact species control, designed to help the most important species to thrive.

2. Community
Where appropriate we seek to set up Community Liaison Groups. These are designed to allow us to have effective dialogue with local community representatives, from preliminary planning phases through to operational activities. These are further designed to enable all parties to have their voices heard and concerns responded to in a timely fashion. Security and safety of personnel are a top priority. In terms of site safety, we routinely implement facility HSE and ER Plans which include risk assessments and mitigation that extend to considering issues within the local geographic area. To safeguard our sites and localities, we have Emergency Preparedness and Response arrangements (including regular drills and exercises) and Incident Response and Reporting processes.

3. Marketplace
During 2011 we achieved certification to the Quality Management standard ISO 9001 for IGas Energy plc. This certification will be extended during 2012 to all Group companies. We have developed Anti-bribery and Corruption policies and procedures and are actively working to ensure these continue to be thoroughly implemented throughout our supply chain. We operate on the basis of transparent purchasing, and collaborative relationships with contractors. Vendor selection and management includes HSE performance criteria, and as a result we also encourage good performance by our contractors. In addition we are a founder member of the recently reconstituted UKOOG association which represents the onshore oil industry through active engagement with stakeholders and promoting best practice.

4. Workplace
Our Management System is aligned to the requirements of the occupational health and safety standard, OHSAS 18001. Our aim for the future is to achieve certification to this standard. In the meantime we are committed to our responsibilities to provide appropriate working conditions for all our personnel, whether staff, contractor or visitor.

We believe that successful management of potential CSR risks and impacts is a precondition to the continued growth of our Company and this sector of the oil & gas industry within Britain, with positive implications for the supply chain as well as local communities.

One area that IGas has focused on is the establishment of a set of onshore industry guidelines for well integrity and fraccing operations. IGas, as a leading operator of unconventional resources (shale and CBM) has been a founder member of a cross-party work group, conducted under the auspices of UKOOG, drafting these guidelines. A key aim of these guidelines is to demonstrate, that although the industry is highly regulated by the relevant authorities (eg DECC/Health & Safety Executive and the Environmental Agency as well as local Planning authorities), it recognises the need to ensure that the concerns expressed regarding such issues as induced seismicity, aquifer protection, chemical transparency, water treatment, fugitive emissions etc are acknowledged and appropriately addressed by the industry. This commitment to establishing what are effectively "best practice" guidelines is another reflection of the importance IGas places on its' CSR obligations.

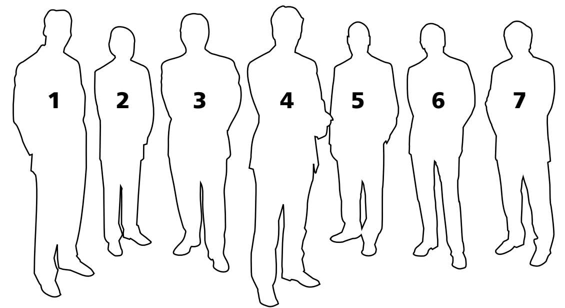
Star Energy Group Limited, which we acquired at the end of 2011, had a long history of effective HSE and CSR management. One example is the Albury drilling project (2009 onwards) in Surrey. Over and above the mitigation and restrictions imposed by the planning and other permit conditions, the project team instigated a number of additional measures which, we believe, provided some considerable benefit to the surrounding community. These included:

- Novel bespoke engineering solutions e.g. acoustic enclosure for rig;
- Considerate Constructors Scheme membership;
- Visits for the local village Primary school to site;
- Financial donations to community projects totaling nearly £35,000;
- Village enhancement (litter collections, new bus shelter and landscaping); and
- 24 hour complaint line.

We believe that while bringing any Project to a successful conclusion requires addressing the usual technical challenges, consideration must also be given to societal needs since working with the community towards the declared objective of being a 'good neighbour' forms a fundamental element of any successful company.

Working with the community towards the declared objective of being a 'good neighbour' forms a fundamental element of any successful company.

Directors



1. Francis Gugen
Non-Executive Chairman

Francis is a founder and Non Executive Chairman and has over thirty years' oil and gas industry experience. Between 1982 and 2000 he helped grow Amerada Hess in North West Europe, ultimately becoming CEO. Currently he is also non-executive chairman of Petroleum Geophysical Services ASA and of Chrysaor Limited and a board member of SBM Offshore NV, all involved in conventional oil & gas. Until 2006 he served as non-executive chairman of the start-up North Sea gas fields and pipelines operator CH4 Energy Limited, which was then disposed of for Euro 224m. He is past president of the UK Offshore Operators Association, past chair of the industries representation on the UK Government Oil & Gas Task Force (Pilot) and past chair of the CBI's Environmental Affairs Committee. Francis is a chartered accountant having worked for Arthur Andersen for eight years until 1982, principally as an oil and gas specialist.

2. John Bryant
Senior Independent Non-Executive Director

John is the Chairman of AIM listed Weatherley International plc, and a board member of AIM listed China Africa Resources Plc. He was until recently a board member of the Attiki Gas Company, which supplies natural gas to Athens and the surrounding districts. John previously served as president of Cinergy Global Resources Corp, responsible for all international business and global renewable power operations of this US based electricity and gas utility provider. Before joining Cinergy, John was executive director with Midlands Electricity plc. He has been involved in developing a number of large gas fired power stations both in the UK and overseas, together with both electricity and gas distribution in Europe and Africa, renewable power in Europe and North America and gas and electricity trading. His prior experience was at British Sugar plc, Drexel Limited, the British Oxygen Company and Unilever plc. Drexel, where he was president, was a global oil and gas equipment manufacturing and servicing company. John is a Fellow of the Institute of Directors and a Fellow of the Royal Society of Arts.

3. Stephen Bowler
Chief Financial Officer

Steve started his career at Touche Ross, now Deloitte, where he qualified as a chartered accountant having spent time in both their audit and corporate finance divisions. In 1999, Steve joined ABN Amro Hoare Govett, now Jefferies Hoare Govett, where he acted as adviser and broker to a wide range of companies with a particular focus on E&P. Steve joined the Company on 1 November 2011.

4. Andrew Austin
Chief Executive Officer

Andrew is one of the founders and the Chief Executive Officer and previously he specialised in energy projects in the gas, electricity and renewables sector. Andrew has been an Executive Director since 2004 and for the last five years has been CEO with full time responsibility for day to day operations and business development. Prior to joining IGas Andrew has been involved in ventures as principal and has also raised substantial funds from private and public equity for clients during the course of his career to date. Andrew spent 17 years working in investment banking in the City of London with Merrill Lynch, Nomura, Citibank and Barclays Capital. Latterly he was general manager of Creditanstalt Investment Bank in London. He also has six years of management and consultancy experience with clean tech companies including Generics Group and Whitfield Solar.

5. John Blaymires
Chief Operating Officer

John has 29 years of international experience in the oil and gas industry gained Hess Corporation and Shell International. Before joining IGas he was Director of Technology Development for Hess based in Houston, where he helped develop a global engineering and geoscience technology group responsible for providing support across the E&P business, from deepwater to unconventional resources. Prior to that John was Technical Director for Hess' operations in West Africa, and subsequently South East Asia with responsibility for several major oil and gas developments. John has a BSc and PhD in Mining Engineering from Leeds University.

6. John Hamilton
Non-Executive Director

John is the Managing Director of Levine Capital management Advisors Limited, a UK incorporated company and interim chairman at President Petroleum Corporation Plc. John was previously the Group Finance Director of Imperial Energy Corporation Plc. Prior to joining Imperial Energy, John held senior positions at ABN AMRO.

7. Richard Armstrong
Non-Executive Director

Richard is an associate with Fiske plc, the AIM quoted stockbrokers. He is a former equity analyst with extensive experience in reconstructing and raising capital for turnaround situations especially in the quoted microcap sector, such as Weatherly International plc and Artilium plc. In most cases, he has joined the board of these companies and has played a major role in helping them to acquire or establish operating businesses. He is currently a director of a number of unquoted companies.

Corporate governance

The Board of Directors support high standards of corporate governance and the guidance set out in the UK Corporate Governance Code. As a Company that is quoted on AIM, it is not required to comply with the UK Corporate Governance Code but all the Directors intend to comply with its main provisions as far as is practicable having regard to the size and composition of the Group.

The Board and its committees

The Board of the Company consists of three Executive Directors and four Non-Executive Directors; with Mr Armstrong and Mr Bryant being considered to be independent. The Senior Independent Non-Executive Director is John Bryant and biographies of all the Directors are included within this statement.

The Board retains full and effective control over the Group. The Board meets regularly, at least eight times a year, to consider reports on the operational and financial performance of the Group and to decide on matters reserved unto itself, which include reviewing and approving the Group's strategy, budgets, major items of capital expenditure and senior personnel appointments.

The Directors have established separate committees each chaired by a Non-Executive Director as follows:

Audit committee

The committee comprises only Non-Executive Directors; being chaired by Richard Armstrong and having as other members John Bryant and John Hamilton. The Chairman, Chief Executive Officer and Chief Financial Officer may attend only at the invitation of the committee.

The committee receives and reviews reports from management and the Group's auditors relating to the Group's annual report and accounts and to interim results announcements. The committee focuses particularly on compliance with legal requirements, accounting standards and the AIM Rules and on ensuring that effective systems of internal financial and non-financial controls (including for the management of risk and whistle-blowing) are maintained. However, the ultimate responsibility for reviewing and approving the annual report and accounts remains with the Board of Directors. The committee is also responsible for making recommendations to the Board of Directors on the appointment of the external auditors and their remuneration. The committee keeps under review the external auditors' independence and considers the nature, scope, and results of the auditor's work and develops policy on and reviews (reserving the right to approve) any non-audit services that are provided by the external auditors.

The committee normally meets at least three times a year and meets the external auditors at least annually without the presence of the Executive Directors.

Remuneration committee

The committee comprises only Non-Executive Directors, being chaired by John Bryant and having as other members Richard Armstrong and John Hamilton. The committee, which normally meets at least twice a year, has responsibility for making recommendations to the Board of Directors on the Company's policy on the remuneration of the Chairman, Executive Directors and other senior executives (as are delegated to the committee to consider) and for determining, within agreed terms of reference, specific remuneration packages for each of them, including pension rights, any compensation payments and the implementation of executive incentive schemes. In accordance with the committee's terms of reference, no Director may participate in discussions relating to their own terms and conditions of service or remuneration.

Nomination committee

The Nomination committee is chaired by the Senior Independent Non-Executive Director, John Bryant, and its other members are the Non-Executive Director, Richard Armstrong, and the Chairman, Francis Gugen. The committee, which meets as required throughout the year, has responsibility for considering the size, structure and composition of the Board of Directors, retirements and appointments of additional and replacement Directors and making appropriate recommendations to the Board of Directors. The committee is also tasked with ensuring that plans are in place for orderly succession to the Board of Directors and senior management positions, so as to maintain an appropriate balance of skills and experience within the Group and the Board of Directors. The Chief Executive Officer of the Company is invited to attend meetings of the committee when the committee is discussing matters related to executive management and such other matters as the committee chairman deems appropriate.

At each Annual General Meeting at least one-third of the Directors shall retire from office by rotation. The Directors to retire by rotation shall include, firstly, any Director who wishes to retire at the meeting and not offer himself for re-election and, secondly, those Directors who have been longest in office since their last appointment or reappointment, provided always that each Director shall be required to retire and offer himself for re-election at least every three years. Directors appointed by the Board hold office only until the dissolution of the Annual General Meeting of the Company next following such appointment.

Internal control

The Board acknowledges that it is responsible for establishing and maintaining the Group's system of internal controls and reviewing its effectiveness. The procedures that include, inter alia, financial, operational, health & safety, compliance matters and risk management are reviewed on an ongoing basis. The internal control system can only provide reasonable and not absolute assurance against material misstatement or loss. The Board has considered the need for a separate internal audit function but, bearing in mind the present size and composition of the Group, does not consider it necessary at the current time.

UK Bribery Act

IGas has reviewed the appropriate policies and procedures to ensure compliance with the UK Bribery Act. The Company continues actively to promote good practice throughout the Group and has initiated a rolling programme of anti-bribery and corruption training for all relevant employees.

Relations with shareholders

Communications with shareholders are considered important by the Directors. The primary contact with shareholders, investors and analysts is the Chief Executive Officer. The other Executive Directors, however, regularly speak to investors and analysts during the year. Company circulars and press releases have also been issued throughout the year for the purpose of keeping investors informed about the Group's progress.

The Company also maintains a website on the internet (www.igasplc.com) that is regularly updated and contains a wide range of information about the Group.

Directors' remuneration report

This report explains our remuneration policy for Directors and sets out how decisions regarding Directors' pay for the period under review have been taken.

Remit of the Remuneration committee

The remit of the Remuneration Committee is provided in the Corporate Governance section.

The committee has engaged the services of PricewaterhouseCoopers LLP ("PwC") to provide wholly independent advice on executive compensation and to assist the committee in the implementation and evaluation of its long term incentive arrangements. There were no other services provided by PwC to the Group during the period.

Remuneration policy

The Company's policy is to maintain levels of remuneration sufficient to attract, motivate and retain senior executives of the highest calibre who can deliver growth in shareholder value. Executive remuneration currently consists of basic salary, pensions, benefits, annual bonus (based on annually set targets), and long term incentives (to reward long term performance). The Company seeks to strike an appropriate balance between fixed and performance-related reward, therefore, the total remuneration package is structured so that a significant proportion is subject to the achievement of performance targets, forming a clear link between pay and performance. The performance targets are aligned to the key drivers of the business strategy, thereby creating a strong alignment of interest between executives and shareholders.

The committee will continue to review the Company's remuneration policy and make amendments, if necessary, to ensure it remains fit for purpose for the Company, driving high levels of executive performance and remains competitive in the market.

Base salary

When setting the salary of the Directors, the committee has considered the following:

- levels of salary for similar positions in similar organisations (based on size, complexity and sector);
- the performance of the individual Director; and
- the individual Director's experience and responsibilities.

Bonus

Executives and employees are eligible to participate in a discretionary bonus plan. The percentage of maximum bonus entitlement received is based on the achievement of challenging corporate and personal targets. The maximum potential bonus entitlement for certain Directors under the plan is to up to 100% of base salary.

The Remuneration Committee reviewed the financial performance of the Company and, in recognition of the performance achieved against agreed targets, determined that bonuses for the period should be at the following levels:

- Andrew Austin: £86,000
- John Blaymires: £33,000
- Stephen Bowler: £15,000

Benefits

The Company provides Executive Directors with benefits in kind, with a pension contribution up to 15% of base salary (as well as other less significant benefits in kind).

Long Term Incentives

The Remuneration Committee reviewed the long term element of the remuneration package as it was felt that the LTIP put in place in October 2010 was no longer appropriate. This review resulted in the introduction of the 2011 Long Term Incentive Plan ("2011 LTIP") to support the long term business strategy and drive executive performance. Since all of the Directors chose to waive their outstanding options, the 2011 LTIP is the only long term incentive that will be used for executives.

2011 LTIP

In November 2011, the Company adopted a Long Term Incentive Plan scheme for certain key employees of the Group. Under the LTIP, participants can each be granted two types of award: an Initial Award and an Annual Award. Both types of award are structured as nil cost options. Initial Awards can be granted over up to 300% of base salary and, in any year, Annual Awards can be granted over up to 150% of base salary (subject to an overall limit applying to all employee share plans operated by the Company of 10% of the issued share capital of the Company in any ten year period). To date, only Initial Awards have been granted under the 2011 LTIP. The Initial Awards granted to Directors (see table below) were granted as a retention tool and to ensure that the Directors have a significant performance-related element to their reward package, following the review of incentives referred to above.

The 2011 LTIP has a three year performance period and awards vest subject to share price performance exceeding the Company's weighted average cost of capital of 10%. This target has been selected to focus the executives' behaviour on driving company growth over the performance period. In addition, Annual Awards only vest where an agreed percentage of the participant's net bonus has been used to acquire Company shares which are still held at the end of the vesting period. On a change of control prior to the third anniversary of the grant date, a proportion of the options shall vest. The proportion of the options that vests will be determined by the Remuneration Committee taking into account relevant factors such as the time the Option has been held by the participant and the performance achieved in the period from the grant date.

The Group's share price as at 31 March 2012 was 46.5p per share. The highest price during the period was 84p per share and the lowest share price during the period was 43.5p per share.

Directors’ remuneration report continued

Current arrangements

Executive Directors

The Executive Directors are employed under evergreen contracts with notice periods of twelve months or less from the Company or executive.

Directors’ emoluments for the period were as follows:

		15 months ended 31 March 2012					Year ended 31 December 2010
Executive Directors	Current annual salary/fees £000	Salary/Fees £000	Bonus £000	Taxable Benefits £000	Pensions £000	Total £000	Total £000
F Gugen – Executive Chairman (to 19 October 2010)	–	–	–	–	–	–	83
A Austin – Chief Executive Officer	**260**	**325**	**86**	**4**	**49**	**464**	353
B Cheshire – Executive Technical Director (resigned 20 June 2011)	–	**50**	–	–	–	**50**	125
S Bowler – CFO (Appointed 01 November 2011)	**200**	**83**	**15**	–	**13**	**111**	–
J Blaymires – COO (Appointed 19 October 2010)	**200**	**250**	**33**	**4**	**37**	**324**	39
Total – Executive Directors	**660**	**708**	**134**	**8**	**99**	**949**	600

Non-Executive Directors		Emoluments £000	Other Consultancy Services £000	Taxable Benefits £000	Pensions £000	Total £000	Total £000
F Gugen – Non-Executive Chairman (from 19 October 2010)	**80**	**100***	–	–	–	**100**	17
J Bryant – Senior Independent	**45**	**56***	**35****	–	–	**91**	35
R Armstrong	**35**	**44**	**35****	–	–	**79**	35
J Hamilton	**35**	**64***	–	–	–	**64**	35
Total – Non-Executive Directors	**195**	**264**	**70**	–	–	**334**	122

* Part of these emoluments are paid to companies that provide the services

** Payments were made as a consequence of the acquisition of Nexen Exploration UK Limited

Each of the Executive Directors devotes such time as is required to discharge his duties, which in the case of A Austin, J Blaymires and S Bowler is full time.

Each Executive Director is entitled to receive a cash bonus dependent on the achievement of various objective targets and milestones as set by the Remuneration Committee.

As at 31 March 2012, the outstanding long term incentives held by the Directors who served during the period are as set out in the table below:

Long term incentive arrangements

	Date of Grant	At 1 January 2011	Granted	Exercised	Waived	As at 31 March 2012	Earliest vesting date	Lapse date
A Austin	19.10.10	700,000	–	–	(700,000)	–	–	–
	21.11.11	–	1,029,702	–	–	1,029,702	21/11/2014	21/11/2021
J Blaymires	19.10.10	375,000	–	–	(375,000)	–	–	–
	19.10.10	910,930	–	–	(910,930)	–	–	–
	21.11.11	–	681,743	–	–	681,743	21/11/2014	21/11/2021
S Bowler	21.11.11	–	396,040	–	–	396,040	21/11/2014	21/11/2021

Non-Executive Directors

The Non-Executive Directors are employed under evergreen contracts with notice periods of three months, under which they are not entitled to any pension, benefits or bonuses.

John Bryant
Chairman Remuneration Committee
29 June 2012

Directors' report

The Directors present their report together with the Group and Parent Company financial statements for the 15 months ended 31 March 2012.

Business review and future developments

A review of the business and the future developments of the Group are presented in the Chairman's statement, the Chief Executive's statement and the Chief Financial Officer's review.

Results and dividends

The Group's profit for the period after taxation but before costs of marking oil price, interest rate derivatives and warrants to market and acquisition costs was £2.6 million. After adjusting for these items amounting to £20.5 million the total loss for the period was £17.9 million (2010: loss £1.5 million). The Directors do not recommend the payment of any dividend.

Going Concern

The Directors consider that, having taken into consideration the factors set out in note 1(a) in the financial statements, the expected operating cash flows of the group combined with the current borrowing facilities give them confidence that the Group has adequate resources to continue as a going concern. The financial statements have, therefore, been prepared on the going concern basis.

Principal activity

The Group's principal area of activity is exploring for, appraising, developing and producing oil and gas resources in Great Britain.

Share Capital

Details of changes to share capital in the period are set out in note 24 to the consolidated financial statements.

Directors and their interests

The Directors who served during the year were as follows:

F R Gugen	Non-Executive Chairman
A P Austin	Chief Executive Officer
J M Blaymires	Chief Operating Officer
S D Bowler	Chief Financial Officer – Appointed 1 November 2011
B Cheshire	Executive Technical Director – Resigned 20 June 2011
J Bryant	Non-Executive
R J Armstrong	Non-Executive
J A Hamilton	Non-Executive

The interests of the Directors in the shares of the Company at 31 March 2012 were as follows:

	31 March 2012 Ordinary 50p Shares		31 December 2010 Ordinary 50p Shares	
	Number	**%**	Number	%
F R Gugen	**27,615,764**	**17.03**	27,615,764	29.66
A P Austin	**10,659,253**	**6.57**	11,429,253	12.28
J M Blaymires	**20,000**	**0.01**	0	0.00
S D Bowler	**40,000**	**0.02**	0	0.00
J Bryant	**57,870**	**0.04**	50,370	0.05
R J Armstrong	**65,960**	**0.04**	58,460	0.06
J A Hamilton	**85,000***	**0.05**	85,000	0.09
Former Directors	**	–	11,429,253	12.28

* J Hamilton is beneficially interested in 85,000 Ordinary Shares out of a total of 14,454,135 held by Peter Levine and Levine Capital Management Ltd, the latter of whom he is deemed to be associated with for these purposes.

** Former Directors was in relation to B Cheshire who still held the same shares as at 31 March 2012 but these were not reported as he is no longer a Director.

Rotation and re-election of Directors

In accordance with the Articles of Association F Gugen retires by rotation and being eligible offers himself for re-election. S D Bowler was appointed by the Board during the period and, in accordance with the Articles of Association, offers himself for re-election.

Directors' report continued

Directors' insurance and indemnity provisions

Subject to the conditions set out in the Companies Act 2006, the Company has arranged appropriate directors and officers Insurance to indemnify the directors and officers against liability in respect of proceedings brought by third parties. Such provision remains in force at the date of this report.

The Company indemnifies the Directors against actions they undertake or fail to undertake as Directors or officers of any Group company, to the extent permissible for such indemnities to meet the test of a qualifying third party indemnity provision as provided for by the Companies Act 2006. The nature and extent of the indemnities is as described in Section 60 of the Company's Articles of Association as adopted on 7 June 2010. These provisions remained in force throughout the year and remain in place at the date of this report.

Substantial shareholders

At 28 June 2012, in addition to the Directors' interests as set out above, the Company had received notification from the following institutions of interests in excess of 3% of the Company's issued Ordinary Shares with voting rights:

	Number of Shares	%
Nexen Petroleum UK Limited	39,714,290	24.77
Peter Levine and Levine Capital Management Ltd	14,454,135	8.91
Baillie Gifford & Co	8,088,217	4.99
Artemis Investment Management LLP	5,298,333	3.27

Principal risks and uncertainties

- The Group is exposed to market price risk through variations in the wholesale price of oil in the context of the production from oil fields it now owns and operates. The Group has entered into a series of oil price swaps until 31 December 2017 which have fixed the price of 1,023,829 barrels of oil at an average Brent price of $93.40 per barrel and a further 1,251,344 barrels at an average Brent price of £58.80 per barrel. The Board will continue to monitor the benefit of such contracts.
- The Group is also exposed to market price risk through variations in the wholesale price of gas and electricity in the context of its future unconventional production volumes. Currently the Group has not entered into any forward contracts to fix the prices of these commodities. The Board will continue to monitor the benefit of entering into such contracts at the appropriate time
- The Group is exposed to exchange rate risk through both its major source of revenue and its major borrowings being priced in US dollars. The UK pound sterling oil price swaps have been taken out in order to mitigate this risk as it affects the need to fund operating costs fixed in UK pound sterling.
- The Group is exposed to interest rate risk through its borrowings. This has been mitigated by entering into a series of interest rate swaps to fix the price of 50% of the group's borrowings.
- The Group is exposed, through its operations, to liquidity risk, which is managed by the Board who regularly review the Group's cash forecasts and the adequacy of available facilities to meet the Group's cash requirements.
- The Group is exposed to risks associated with geological uncertainty. No guarantee can be given that oil or gas can be produced in the anticipated quantities from any or all of the Group's assets or that oil or gas can be delivered economically. The Group considers that such risks are mitigated given its assets are located in established oil and gas producing areas coupled with the extensive expertise and experience of its operating staff.
- The Group is exposed to planning, environmental, licensing and other permitting risks associated with its operations and, in particular, with drilling and production operations. The Group considers that such risks are mitigated through compliance with regulations and the expertise and experience of its operating team.
- The Group is exposed to capital risk resulting from its capital structure. However, the capital structure is continually monitored to ensure it is in line with the business needs and ongoing asset development. Further details of the Group's capital management policy are disclosed in note 23 to the consolidated financial statements.
- The Group is also exposed to a variety of other risks including those related to:
  - operational matters (including cost increases, availability of equipment and successful project execution);
  - competition;
  - key personnel; and
  - litigation.

Financial instruments

The Group's principal financial instruments comprise cash balances, borrowings, derivative instruments and other debtors and creditors that arise through the normal course of business as set out in note 23 to the consolidated financial statements. The Group's financial risk management objectives are set out in note 23 to the consolidated financial statements and the Operational review.

Employment policy

It is the policy of the Group to operate a fair employment policy. No employee or job applicant is less favourably treated than another on the grounds of their sex, sexual orientation, age, marital status, religion, race, nationality, ethnic or national origin, colour or disability and all appointments and promotions are determined solely on merit. The Directors encourage employees to be aware of all issues affecting the Group and place considerable emphasis on employees sharing in its success.

Creditor payment policy and practice

It is the Group's normal practice to agree payment terms with its suppliers and abide by such terms. Payment becomes due when it can be confirmed that goods and/or services have been provided in accordance with the relevant contractual conditions. The amount owed by the Company to trade creditors at the end of the financial year represented 44 days of daily purchases for the Company (2010: 15 days).

Charitable and political contributions

During the period, the Group made charitable donations of £600 to local causes (2010: £nil). There were no political donations during the period (2010: £nil)

Status

The Company is not a close company as defined in the Income and Corporation Taxes Act 1988.

The Company is domiciled in the UK and incorporated and registered in England.

Board committees

Information on the Audit, Remuneration and Nomination committees is included in the Corporate Governance section of the annual report.

Auditors

A resolution to reappoint Ernst & Young LLP as auditor will be proposed at the Annual General Meeting at a fee to be agreed in due course by the Audit Committee and the Board.

Directors' statement as to disclosure of information to the auditors

So far as each person who was a Director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware. Having made enquiries of fellow Directors, each Director has taken all the steps that a Director might reasonably be expected to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

By order of the Board

Mofo Secretaries Limited
Secretary

IGas Energy plc
Registered Office:
7 Down Street
London
W1J 7AJ

Registered in the United Kingdom number: 04981279

Statement of Directors' responsibilities in relation to the Group financial statements and Annual Report

The Directors are responsible for preparing the Annual Report and the Group financial statements in accordance with applicable United Kingdom law and regulations. Company law requires the directors to prepare Group financial statements for each financial year. Under that law, the directors are required to prepare Group financial statements under IFRSs as adopted by the European Union. Under Company Law the directors must not approve the Group financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and of the profit or loss of the Group for that period. In preparing the Group financial statements the directors are required to:

- present fairly the financial position, financial performance and cash flows of the Group;
- select suitable accounting policies in accordance with IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors and then apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- make judgements that are reasonable;
- provide additional disclosures when compliance with the specific requirements in IFRSs as adopted by the European Union is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's financial position and financial performance; and
- state whether the Group financial statements have been prepared in accordance with IFRSs as adopted by the European Union, subject to any material departures disclosed and explained in the financial statements.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure that the Group financial statements comply with the Companies Act 2006 and Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. The Directors are also responsible for preparing the Directors' Report in accordance with the Companies Act 2006 and applicable regulations.

Independent auditor's report to the members of IGas Energy Plc

We have audited the group financial statements of IGas Energy plc for the 15 months ended 31 March 2012 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Balance Sheet, the Consolidated Statement of Changes in Equity, the Consolidated Cash Flow Statement and the related notes 1 to 28. 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.

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' Statement of Responsibilities, the directors are responsible for the preparation of the group financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the group 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

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report and Accounts to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the group financial statements:

- give a true and fair view of the state of the group's affairs as at 31 March 2012 and of its loss for the 15 months then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- 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 Directors' Report for the financial year for which the financial statements are prepared is consistent with the group 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:

- 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.

Other matter

We have reported separately on the parent company financial statements of IGas Energy plc for the 15 months ended 31 March 2012.

Daniel Trotman
(Senior Statutory Auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
29 June 2012

Consolidated income statement
For the 15 months ended 31 March 2012

	Notes	**15 months ended 31 March 2012 £000**	Year ended 31 December 2010 £000
Revenue	2	**22,120**	656
Cost of sales:			
Depletion, depreciation and amortisation		**(3,203)**	–
Other costs of sales		**(8,838)**	(589)
Total cost of sales		**(12,041)**	(589)
Gross profit		**10,079**	67
Administrative costs		**(4,998)**	(1,780)
Costs relating to the acquisition of Star Energy Group Ltd		**(2,986)**	–
Other income		**235**	–
Loss on oil price swaps		**(18,512)**	–
Operating loss	3	**(16,182)**	(1,713)
Finance income	6	**2,374**	170
Finance costs	6	**(4,089)**	–
Net finance (costs)/income		**(1,715)**	170
Loss on ordinary activities before tax		**(17,897)**	(1,543)
Income tax credit		**5,773**	–
Loss from continuing operations attributable to equity shareholders of the Group		**(12,124)**	(1,543)
Basic and diluted (loss) per share (pence/share)	8	**(8.14p)**	(1.69p)
Adjusted basic earnings per share (pence/share)	8	**5.6p**	
Adjusted diluted earnings per share (pence/share)	8	**5.4p**	

Consolidated statement of comprehensive income

For the 15 months ended 31 March 2012

	15 months ended 31 March 2012 £000	Year ended 31 December 2010 £000
Loss for the period	**(12,124)**	(1,543)
Other comprehensive income for the period	**–**	–
Total comprehensive loss for the period	**(12,124)**	(1,543)

Consolidated balance sheet

As at 31 March 2012

	Notes	31 March 2012 £000	31 December 2010 £000
Non-current assets			
Intangible exploration and evaluation assets	11	**57,237**	4,644
Property, plant and equipment	12	**106,243**	205
Goodwill	10	**15,599**	–
		179,079	4,849
Current assets			
Inventories	14	**716**	–
Trade and other receivables	15	**12,113**	589
Cash and cash equivalents	16	**7,915**	12,087
		20,744	12,676
Current liabilities			
Trade and other payables	17	**(10,480)**	(797)
Current tax liabilities	7	**(3,561)**	–
Finance lease liability	22	**(51)**	–
Borrowings	18	**(16,475)**	–
Other liabilities	19	**(2,806)**	–
Derivative financial instruments	23	**(8,713)**	–
		(42,086)	(797)
Net current (liabilities)/assets		**(21,342)**	11,879
Total assets less current liabilities		**157,737**	16,728
Non-current liabilities			
Borrowings	18	**(58,477)**	–
Derivative financial instruments	23	**(7,979)**	–
Deferred tax liabilities	7	**(23,231)**	–
Provisions	20	**(13,092)**	–
		(102,779)	–
Net assets		**54,958**	16,728
Capital and reserves			
Called up share capital	24	**54,213**	19,665
Share premium account	25	**18,036**	2,500
Other reserves	26	**(1,140)**	(1,236)
Retained earnings/(accumulated deficit)		**(16,151)**	(4,201)
Shareholders' funds		**54,958**	16,728

These financial statements were approved and authorised for issue by the Board on 29 June 2012 and are signed on its behalf by:

Andrew Austin
Chief Executive Officer

Stephen Bowler
Chief Financial Officer

Consolidated statement of changes in equity

For the 15 months ended 31 March 2012

	Called up share capital (Note 24) £000	Share premium account £000	Other reserves £000	Retained earnings (accumulated deficit) £000	Total £000
Balance at 1 January 2010	**18,617**	**2,203**	**131**	**(2,789)**	**18,162**
Changes in equity for 2010					
Total comprehensive loss for the year	–	–	–	(1,543)	(1,543)
Lapse of warrants	–	–	(131)	131	–
Employee share plans cost under IFRS (note 26)	–	–	63	–	63
Issue of shares during the year	1,048	297	(1,299)	–	46
Balance at 31 December 2010	**19,665**	**2,500**	**(1,236)**	**(4,201)**	**16,728**
Changes in equity for 2011					
Total comprehensive loss for the period	–	–	–	(12,124)	(12,124)
Capital contribution			47		47
Employee share plans cost under IFRS2 (note 26)	–	–	49	174	223
Issue of shares during the period	34,548	15,536	–	–	50,084
Balance at 31 March 2012	**54,213**	**18,036**	**(1,140)**	**(16,151)**	**54,958**

Consolidated cash flow statement
For the 15 months ended 31 March 2012

	Notes	15 months ended 31 March 2012 £000	Year ended 31 December 2010 £000
Operating activities:			
Loss before tax for the period/year		**(17,897)**	(1,543)
Depreciation, depletion and amortisation	3	**3,354**	9
Unwinding of discount of decommissioning		**197**	–
Share-based payment charge		**1,117**	37
Loss on derivative financial instruments		**16,160**	–
Finance income	6	**(2,374)**	(170)
Finance costs	6	**4,089**	–
Increase in trade and other receivables		**(3,866)**	(331)
Increase in trade and other payables, net of accruals related to investing activities		**(1,025)**	196
Increase in inventories		**(34)**	–
Impairment of E&E assets		**42**	–
Abandonment costs incurred		**(18)**	–
Revaluation		**3**	–
Taxation paid		**(2,340)**	–
Net cash used in operating activities		**(2,592)**	(1,802)
Investing activities			
Acquisition of exploration and evaluation assets		**(17,880)**	(3,608)
Acquisition of property, plant and equipment		**(653)**	(220)
Acquisition of Star Energy Group Ltd	9	**(79,630)**	–
Interest received		**336**	170
Net cash used in investing activities		**(97,827)**	(3,658)
Financing activities			
Cash proceeds from issue of Ordinary Share Capital	24	**19,944**	46
Capital contribution	26	**47**	–
Interest paid	6	**(2,143)**	–
Cash proceeds from loans and borrowings		**84,569**	–
Loan issue costs		**(3,141)**	–
Repayment of loans and borrowings		**(3,100)**	–
Repayment of finance lease/hire purchase agreement		**(21)**	–
Net cash from financing activities		**96,155**	46
Net (decrease) in cash and cash equivalents in the period/year		**(4,264)**	(5,414)
Net foreign exchange difference		**92**	–
Cash and cash equivalents at the beginning of the period/year		**12,087**	17,501
Cash and cash equivalents at the end of the period/year	16	**7,915**	12,087

* There was a significant non-cash transaction relating to the acquisition of Nexen Exploration UK Limited. Consideration consisted of 39,714,290 new ordinary shares of 50p, further details can be found in note 9.

Consolidated financial statements – notes

As at 31 March 2012

1 Accounting policies

(a) Basis of preparation of financial statements

The consolidated financial statements of IGas Energy plc (the "Company") and subsidiaries (the "Group") have been prepared under the historical cost convention in accordance with International Financial Reporting Standards, adopted for use by the European Union ("IFRSs") as they apply to the Group for the 15 months ended 31 March 2012 and with the Companies Act 2006. The accounting periods are not comparable with the prior year as this 15 month period represents a long period of account to align the year end with the newly acquired entity Star Energy Group Limited. The accounts were approved by the board and authorised for issue on 29 June 2012. IGas Energy plc is a public limited company incorporated and registered in England and Wales.

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

During the period, the Group adopted the following new and amended IFRS which were applicable to the Group's activities as of 1 January 2011.

International Accounting Standards (IFRS/IAS)		Effective date
IAS 24	Amendment to IAS 24 – Related Party Disclosures – This amendment clarifies the definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in its application. The revised standard introduces a partial exemption of disclosure requirements for government-related entities. The Group has considered the effect of this interpretation and has concluded that there is no impact on the financial statements	1 January 2011

New and amended standards and interpretations

The accounting policies adopted are consistent with those of the previous financial year, except for the following new and amended IFRS and IFRIC interpretations effective as of 1 January 2011.

- IAS 24 Related Party Disclosures
- IAS32 Financial Instruments: Presentation
- IFRIC 14 Prepayments of a Minimum Funding Requirement

These amendments have no impact on the financial position or performance of the Group.

Certain new standards, interpretations and amendments to existing standards have been published and are mandatory only for the Group's accounting periods beginning on or after 1 April 2012 or later periods and which the Group has not adopted early. Those that may be applicable to the Group in future are as follows:

International Accounting Standards (IFRS/IAS)		Effective date*
IAS 1	Amendment to IAS 1 – Financial Statement Presentation – This amendment changes the grouping of items presented in the Other Comprehensive Income. Items that could be reclassified to profit and loss at a future point in time (for example, upon de-recognition or settlement) would be presented separately from items which will never be reclassified. The amendment affects presentation only and therefore will have no impact on the Group's financial position or performance.	1 July 2012
IFRS 9	IFRS 9 – Financial Instruments: Classification and Measurement – IFRS 9 as issued reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets as defined in IAS 39. The standard is effective for annual periods beginning on or after January 2013. In subsequent phases, the IASB will address classification and measurement of financial liabilities, hedge accounting and derecognition. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets. The Group will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.	1 January 2015
IFRS 7/IAS 32	IFRS 7/IAS 32 -The amendments to IAS 32 and IFRS 7 on offsetting of financial instruments are intended to clarify existing application issues relating to the offsetting rules and reduce the level of diversity in current practice. The clarifying amendments to IAS 32 are effective for the annual periods beginning on or after 1 January 2014. The new disclosures in IFRS 7 are required for annual periods beginning on or after 1 January 2013. The Group is currently assessing the impact that these amendments will have on the financial position.	1 January 2013 1 January 2014
IFRS 10	IFRS10 – replaces the portion of IAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC-12 Consolidation —Special Purpose Entities. IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgement to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in IAS 27.	1 January 2013

Consolidated financial statements – notes continued

1 Accounting policies continued

IFRS 11	IFRS11 – Joint Arrangements – IFRS11 establishes principle of the financial reporting by parties to a joint arrangement. IFRS 11 supersedes IAS31. It removes the option for jointly controlled entities (JCE) using proportionate consolidation.	1 January 2013
IFRS 12	IFRS12 – Disclosures of involvement with other entities – IFRS12 combines, enhances and replaces the disclosure requirement for subsidiaries, joint arrangements, associates and in consolidated structured entities.	1 January 2013
IFRS 13	IFRS 13 – Fair Value Measurement – IFRS13 defines fair value, setting out in a single IFRS a framework for measuring fair value and requires disclosure about fair value measurements. IFRS 13 applies when other IFRSs require or permit fair value measurements. It does not introduce any new requirements to measure an asset or liability at fair value, change what is measured at fair value in IFRS or address how to present changes in fair value.	1 January 2013
IAS 28	IAS28 – Investments in Associates and Joint Venture- IAS28 has been renamed as a consequence of the new IFRS 11 and IFRS 12 and describes the application of the method to investments in joint venture in addition to associates.	1 January 2013
IAS 27 Revised	IAS 27 Revised – Consolidated and Separate Financial Statements. The objective of the Standard is to prescribe the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements.	1 January 2013

* The effective dates stated above are those given in the original IASB/IFRIC standards and interpretations. As the group prepares its financial statements in accordance with IFRS as adopted by the European Union (EU), the application of new standards and interpretations will be subject to their having been endorsed for use in the EU via the EU endorsement mechanism. In the majority of cases this will result in an effective date consistent with that given in the original standard or interpretation but the need for endorsement restricts the group's discretion to early adopt standards.

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

(b) Going concern

The Group's principal activity and principal risks and uncertainties are set out in the Directors' report. The ability of the Group to operate as a going concern is dependent upon the continued availability of bank funding, which in turn is dependent on the Group not breaching covenants, without cure or formal waiver from its bankers. Under its bank facilities the Group drew down $135 million of committed funds in connection with the acquisition of Star Energy Group Limited, which is repayable in tranches over the period of a five year term until December 2016. The Group regularly monitors forecasts to determine that breaches are not anticipated to occur in the future. On the basis of the Group's current forecasts, no breaches in covenants are anticipated. However these forecasts are based on certain assumptions particularly in relation to oil prices, production rates, operating costs, capital and general expenditure. The Group is protected to a material degree against volatility in the oil price, by having a significant proportion of its production hedged at above $90 per barrel. Despite this, there can be no certainty that these forecasts will be achieved, in which case the financial covenants could be breached. Should any breach be anticipated to arise, the Group would manage its working capital profile, reduce discretionary expenditure, where necessary and, if applicable, take additional mitigating actions that have already been identified as a precautionary measure. The Directors consider that the expected operating cash flows of the group combined with the current borrowing facilities give them confidence that the Group has adequate resources to continue as a going concern. The financial statements have, therefore, been prepared on the going concern basis.

(c) Basis of consolidation

The consolidated financial statements present the results of IGas Energy plc and its subsidiaries as if they formed a single entity. The financial statements of subsidiaries used in the preparation of consolidated financial statements are based on consistent accounting policies to the parent. All intercompany transactions and balances between Group companies, including unrealised profits arising from them, are eliminated in full. Where shares are issued to an Employee Benefit Trust, and the Company is the sponsoring entity, it is treated as an extension of the entity.

At 31 March 2012 the Group comprised the Company and entities controlled by IGas Energy plc (its subsidiaries) made up to the reporting period at this date. The results of subsidiaries acquired during the period are included in the consolidated income statement from the date that control passed to the Company.

(d) Business combinations

Business combinations are accounted for using the acquisition method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed and equity instruments issued by the Group in exchange for control of the acquiree. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 are recognised at their fair value at the acquisition date. Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in the income statement. Acquisition costs are expensed and shown as a separate line in the Income Statement.

1 Accounting policies continued

(e) Interest in associates

An associate is an entity in which the Group has a long-term equity interest and over which it has significant influence, but not control, through participation in the financial and operating policy decision of the investee. Significant influence can change if, for example, the entity goes into administration or liquidation.

This results in assets and liabilities of associates being incorporated in these financial statements using the equity method of accounting. Interests in associates are carried in the balance sheet at cost as adjusted by post-acquisition changes in the Group's share of the net assets of the associate, less any impairment in the value of individual investments. Where the Group's share of any retained loss in an associate exceeds its investment, the Group's investment is capped at zero. Should the associate subsequently report profits, the Group resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised. The Group's Income Statement reflects the share of the associate's results after tax. Where a group entity transacts with an associate of the Group, unrealised profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

(f) Joint ventures

A small proportion of the Group's licence interests are held jointly with others under arrangements whereby unincorporated and jointly controlled ventures are used to explore, evaluate and ultimately develop and produce from its oil and gas interests. Accordingly, the Group accounts for its share of assets, liabilities, income and expenditure of these jointly controlled assets, classified in the appropriate balance sheet and income statement headings, except where its share of such amounts remain the responsibility of another party in accordance with the terms of the carried interests as described at (j) below. Where the Group enters into a farm-up agreement involving a licence in the exploration and evaluation phase, the Group records all costs that it incurs under the terms of the joint operating agreement as amended by the farm-up agreement as they are incurred.

(g) Significant accounting judgements and estimates

The preparation of the Group's consolidated financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Estimates and assumptions are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcomes can differ from these estimates.

In particular, the Group has identified the following areas where significant judgements, estimates and assumptions are required, and where if actual results were to differ, this could materially affect the financial position or financial results reported in future periods. Further information on each of these and how they impact the various accounting policies are described in the relevant notes to the financial statements.

Carrying value of intangible exploration and evaluation assets

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

Carrying value of property, plant and equipment

Management reviews the Group's property, plant and equipment periodically for impairment indicators. The determination of recoverable amounts in any impairment test requires judgement around key assumptions. Key assumptions in the impairment models include those related to prices, that are based on forward curves and long-term corporate assumptions thereafter, discount rates, that are risked to reflect conditions specific to individual assets, future costs, both capital and operating, that are based on management's estimates having regard to past experience and the known characteristics of the individual assets and production and reserves, discussed further below.

Proved and probable reserves

The volume of proven and probable oil and gas reserves is an estimate that affects the unit of production depreciation of producing gas and oil property, plant and equipment as well as being a significant estimate affecting decommissioning provisions and impairment calculations. Proved and probable reserves are estimated using standard recognised evaluation techniques. Estimates are reviewed at least annually and are regularly estimated by independent consultants. Future development costs are estimated taking into account the level of development required to produce the reserves by reference to operators, where applicable, and internal engineers.

Decommissioning costs

The estimated cost of decommissioning at the end of the producing lives of fields is reviewed periodically and is based on proven and probable reserves, forecast price levels and technology at the balance sheet date. Provision is made for the estimated cost at the balance sheet date, using discounted cash flow methodology and a risk free rate of return.

Consolidated financial statements – notes continued

1 Accounting policies continued

Business combinations

When the Group acquires a business, it assesses the fair value of the assets and liabilities assumed by reference to the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. Those petroleum reserves and resources that can be reliably measured are recognised in the assessment of fair values on acquisition by reference to independent assessments of reserves and discounted cash flow models to reflect the revenues and expenditures related to the extraction of those reserves. Other assets and liabilities are valued by reference to market-based observations or independent valuations where possible, but where this is not feasible, a degree of judgement is required in establishing fair values.

Functional currency

The determination of functional currency often requires significant judgement where the primary economic environment in which a company operates may not be clear. This can have a significant impact on the consolidated results of the Group based on the foreign currency translation methods used.

(h) Exceptional items

Exceptional items are material items of income or expenditure which, in the opinion of the Directors, due to their nature and infrequency require separate identification on the face of the income statement to allow a better understanding of the financial performance in the year. A full explanation of such items is given, where applicable, in the notes to the financial statements

(i) Revenue

Revenue comprises the invoiced value of goods and services supplied by the Group, net of value added tax and trade discounts. Revenue is recognised in the case of oil, gas and electricity sales when goods are delivered and title has passed to the customer. This generally occurs when the product is physically delivered to the customer's premises or transferred into a vessel, pipe or other delivery mechanism.

Revenue from the production of oil, in which the Group has an interest with other producers, is recognised based on the Group's working interest and the terms of the relevant production sharing contracts. Where oil produced by third parties is processed and delivered to a refinery by the Group, the measurement of the revenue depends upon whether physical title to the oil passes to the Group or whether the Group simply acts an agent for the producer.

Revenue from services rendered is recognised only once a legally binding contract is in place. Amounts billed for services where the contract provides for their delivery over a period of time are recognised evenly over the relevant period; amounts due for all other services are recognised as the services are provided.

(j) Non-current assets

Goodwill

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised over the fair value of the identifiable net assets acquired and liabilities assumed.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Goodwill is tested for impairment annually (as at 31 March) and when circumstances indicate that the carrying value may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. Where the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

Intangible exploration and evaluation assets

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

- Exploration and evaluation assets are carried at cost less any impairment and are not depreciated or amortised.
- Expenditures recognised as exploration and evaluation assets comprise those related to acquisition of rights to explore, topographical, geological, geochemical and geophysical studies, exploratory drilling (including coring and sampling), activities in relation to evaluating the technical feasibility and commercial viability of extracting hydrocarbons (including appraisal drilling and production tests) and any land rights acquired for the sole purpose of effecting these activities. These costs include employee remuneration, materials and consumables, equipment costs and payments made to contractors.
- Any costs incurred prior to obtaining the legal rights to explore an area are expensed immediately to the Income Statement. Expenditures related to development and production activities are not recognised as exploration and evaluation assets.
- Tangible assets acquired for use in exploration and evaluation activities are classified as property, plant and equipment. However, to the extent that such tangible assets are consumed in developing an intangible exploration and evaluation asset, the amount reflecting that consumption is recorded as part of the exploration and evaluation asset.
- Expenditures recognised as exploration and evaluation assets are initially accumulated and capitalised by reference to appropriate geographic areas.
- Expenditure recognised as exploration and evaluation assets are transferred to property plant and equipment, interests in oil and gas properties when technical feasibility and commercial viability of extracting hydrocarbons is demonstrable. Exploration and evaluation assets are assessed for impairment (on the basis described below), and any impairment loss recognised, before reclassification.

1 Accounting policies continued

Property plant and equipment – interests in oil and gas properties

Property plant and equipment, interests in oil and gas properties are accounted for as follows:

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

Impairment

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

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

Decommissioning

Where a liability for the removal of production facilities or site restoration exists, a provision for decommissioning is recognised. The amount recognised is discounted to its present value and is reflected in the Group's non-current liabilities. A corresponding asset is included in the appropriate category of the Group's non-current assets (intangible exploration and evaluation assets and property plant and equipment), depending on the accounting treatment adopted for the underlying operations/asset leading to the decommissioning provision. The asset is assessed for impairment and or depleted in accordance with the Group's policies as set out above.

Carried interests

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

Other property plant and equipment

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

Equipment used for exploration and evaluation	– between six and twelve years on a straight line basis
Freehold Land	– indefinite useful life
Buildings/leasehold property improvements	– over five to ten years on a straight line basis/over the period of the lease
Fixtures, fittings and equipment	– between three and twenty years on a straight line basis
Motor Vehicles	– over four years on a straight line basis

The Group does not capitalise amounts considered to be immaterial.

(k) Financial instruments

Cash and cash equivalents

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

Trade and other receivables

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

Consolidated financial statements – notes continued

1 Accounting policies continued

Trade and other payables

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

Derivative financial instruments and hedge accounting

The Group has entered into swaps to manage its exposure to variability in the price and foreign exchange rate of a proportion of its newly acquired crude oil production for the next six years and its exposure to interest rates in respect of a proportion of its debt.

All derivative financial instruments are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value at each period end. Apart from those derivatives designated as qualifying cash flow hedging instruments, all changes in fair value are recorded as financial income or expense in the year in which they arise, otherwise they are recognised in other comprehensive income.

Fair value is the amount for which a financial asset, liability or instrument could be exchanged between knowledgeable and willing parties in an arm's length transaction. It is determined by reference to quoted market prices adjusted for estimated transaction costs that would be incurred in an actual transaction, or by the use of established estimation techniques such as option pricing models and estimated discounted values of cash flows. The fair value of derivative financial instruments has been calculated on a discounted cash flow basis by reference to forward market prices and risk free returns adjusted in the case of derivative financial liabilities by an appropriate credit spread.

Impairment of financial assets

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

(l) Borrowings

Borrowings are measured initially at fair value. After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the Effective Interest Rate ("EIR") method. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance costs in the income statement.

Derivatives embedded in host contracts, such as warrants attached to loans, are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at fair value though profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the Income Statement.

Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of these assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in the profit or loss in the period in which they are incurred.

(m) Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date including whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

Operating leases

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

Finance leases

Assets under finance leases are included under tangible fixed assets at their capital value and depreciated over their useful lives. Capital value is defined as the amount equal to the fair value of the leased property or, if lower the present value of the minimum lease payments, each determined at the inception of the lease. Lease payments consist of capital and finance charge elements; the finance charge element is charged to the income statement.

(n) Inventories

Inventories, consisting of crude oil, drilling materials and maintenance materials, are stated at the lower of cost and net realisable value. Costs comprise all costs of purchase, cost of conversion and other costs incurred in bringing the inventories to their present location and condition. Weighted average cost is used to determine the cost of ordinarily inter-changeable items.

1 Accounting policies continued

(o) Taxation

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

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

Deferred tax is recognised in respect of all temporary differences that have originated but not reversed at the balance sheet date. Temporary differences arise from differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are not discounted. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered.

The carrying amount of deferred tax is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the assets is realised or the liability is settled, based on the tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity.

(p) Share-based payments

Where share options or warrants are awarded to employees (including Directors), the fair value of the options or warrants at the date of the grant is recorded in equity over the vesting period. Non-market vesting conditions, but only those related to service and performance, are taken into account by adjusting the number of equity instruments expected to vest at each balance sheet date so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of options that eventually vest. All other vesting conditions, including market vesting conditions, are factored in to the fair value of the options or warrants granted. As long as all other vesting conditions are satisfied, the amount recorded is computed irrespective of whether the Market vesting conditions are satisfied. The cumulative amount recognised is not adjusted for the failure to achieve a Market vesting condition; although equity no longer required for options or warrants may be transferred to another equity reserve.

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

When an equity-settled award is cancelled, it is treated as if it vested on the date of cancellation, and any expense not yet recognised or the award is recognised immediately.

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

Charges corresponding to the amounts recognised in equity are accounted for as a cost against profit and loss unless the services rendered qualify for capitalisation as a non-current asset. Costs may be capitalised within non-current assets in the event of services being rendered in connection with an acquisition of intangible exploration and evaluation assets or property, plant and equipment.

Where shares are issued to an Employee Benefit Trust, and the Company is the sponsoring entity, the value of such shares at issue will be recorded in share capital and share premium account in the ordinary way, but will not affect shareholders' funds since this same value will be shown as a deduction from shareholders' funds by way of a separate component of equity.

(q) Post-retirement benefits

A subsidiary within the Group operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the Group in an independently administered fund. The amount charged to the income statement represents the contributions payable to the scheme in respect of the accounting period.

(r) Equity

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

Consolidated financial statements – notes continued

1 Accounting policies continued

(s) Foreign currency

The consolidated financial statements are presented in UK pound sterling, which is the parent company's and its subsidiaries' functional currency. The Group does not have any foreign operations. Transactions denominated in currencies other than the functional currency are translated at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rate of exchange ruling at the balance sheet date. All differences that arise are recorded in the income statement.

2 Revenue and segment information

IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the Chief Operating Decision Maker ("CODM") to make decisions about resources to be allocated to the segment and assess its performance, and for which financial information is available. In the case of the Group the CODM are the Chief Executive Officer and the Board of Directors and all information reported to the CODM is based on the consolidated results of the Group as one operating segment as the Group's activities relate to UK oil and gas. Therefore the Group has one operating and reportable segment as reflected in the Group's consolidated financial statements.

All revenue which represents turnover arises within the United Kingdom and relates to external parties. £21.9 million of the Group's revenue was derived from two customers (2010: £0.6 million).

All the Group's non-current assets are in the United Kingdom.

3 Operating loss

	15 months ended 31 March 2012 £000	Year ended 31 December 2010 £000
Operating loss is stated after charging:		
Staff Costs (see note 4)	**3,956**	1,123
Depletion and Depreciation	**3,354**	9
Impairment of intangible assets	**42**	–
Auditor's remuneration:		
Audit of the financial statements	**169**	57
Other fees paid to Ernst & Young LLP – Audits of subsidiaries	**80**	10
Other fees paid to Ernst & Young LLP – Services relating to taxation	**96**	–
Other fees paid to Ernst & Young LLP – Services relating to corporate finance transactions	**400**	–
Operating lease charges:		
Land and buildings	**522**	–
Other	**51**	–

4 Employee information

	15 months ended 31 March 2012 £000	Year ended 31 December 2010 £000
Staff costs comprised:		
Wages and salaries	**3,676**	923
Social Security Costs	**556**	137
Company contribution to pension scheme	**260**	–
Employee share-based payment cost under IFRS 2	**167**	63
	4,659	1,123

	No.	No.
Average number of employees in the period:		
Operations, including services	**34**	4
Administrative	**14**	2
	48	6

At 31 March 2012 the Group had 152 employees. In the 15 months to 31 March 2012 £703 thousand (2010: £39 thousand) of the Group's remuneration costs has been capitalised in accordance with the Group's accounting policy.

5 Directors' emoluments

The remuneration of the Directors for the period was as follows:

Executive Directors	Current annual salary/fees £000	15 months ended 31 March 2012 Salary/Fees £000	Bonus £000	Taxable Benefits £000	Pensions £000	Total £000	Year ended 31 December 2010 Total £000
F Gugen – Executive Chairman (to 19 October 2010)	–	–	–	–	–	–	83
A Austin – Chief Executive Officer	260	325	86	4	49	464	353
B Cheshire – Executive Technical Director (resigned 20 June 2011)	–	50	–	–	–	50	125
S Bowler – CFO (Appointed 01 November 2011)	200	83	15	–	13	111	–
J Blaymires – COO (Appointed 19 October 2010)	200	250	33	4	37	324	39
Total – Executive Directors	660	708	134	8	99	949	600

Non-Executive Directors	Current annual salary/fees £000	Emoluments £000	Other Consultancy Services £000	Taxable Benefits £000	Pensions £000	Total £000	Total £000
F Gugen – Non-Executive Chairman (from 19 October 2010)	80	100*	–	–	–	100	17
J Bryant – Senior Independent	45	56*	35**	–	–	91	35
R Armstrong	35	44	35**	–	–	79	35
J Hamilton	35	64*	–	–	–	64	35
Total – Non-Executive Directors	195	264	70	–	–	334	122

* Part of these emoluments are paid to companies that provide the services
** Payments were made as a consequence of the acquisition of Nexen Exploration UK Limited

Directors' share schemes/warrants

At 31 March 2012 the Executive Directors held the following awards under the Long Term Incentive Plans and the Share Option scheme as follows:

Long Term Incentive Plans

	15 months ended 31 March 2012 Number	Exercise price (p/share)	31 December 2010 Number	Exercise price (p/share)
A Austin	1,029,702	–	700,000	–
J Blaymires	681,743	–	375,000	–
S Bowler	396,040	–	–	–

Share Option Plan

	15 months ended 31 March 2012 Number	Exercise price (p/share)	31 December 2010 Number	Exercise price (p/share)
J Blaymires	–	–	910,930	70

Consolidated financial statements – notes continued

6 Finance income and costs

	15 months ended 31 March 2012 £000	Year ended 31 December 2010 £000
Finance income:		
Interest on short-term deposits	**373**	170
Gain on fair value of warrants	**1,651**	–
Foreign exchange gains	**350**	
Finance income recognised in income statement	**2,374**	170
Finance expense:		
Finance lease charges	**1**	–
Interest on bank loan	**3,165**	–
Interest expense	**3,166**	–
Loss on interest rate swaps	**632**	–
Foreign exchange loss	**94**	–
Unwinding of discount on provisions	**197**	–
Finance expense recognised in income statement	**4,089**	–

7 Tax credit on loss on ordinary activities

	15 months ended 31 March 2012 £000	Year ended 31 December 2010 £000
UK corporation tax:		
Current tax on income for the period	**–**	–
Adjustments in respect of prior periods	**–**	–
Total current tax charge/(credit)	**–**	–
Deferred tax:		
Current year (credit)	**(5,773)**	–
Charge/(credit) in relation to prior periods	**–**	–
Total deferred tax (credit)	**(5,773)**	–
Tax (credit) on profit or loss on ordinary activities	**(5,773)**	–

Factors affecting the tax charge or (credit)

The tax assessed for the year does not reflect a credit equivalent to the loss on ordinary activities multiplied by the rate of corporation tax and supplementary charge for ring-fenced businesses in the United Kingdom of 62% (2010: 21%). A reconciliation of the UK statutory corporation tax rate applicable to the Group's loss before tax to the Group's total tax credit is as follows:

	15 months ended 31 March 2012 £000	Year ended 31 December 2010 £000
(Loss) on ordinary activities before tax	**(17,897)**	(1,543)
Expected tax (credit) based on profit or loss on ordinary activities multiplied by the combined rate of corporation tax and supplementary charge in the UK of 62% (2010: 21%)	**(11,096)**	(324)
Tax effect of expenses not allowable for tax purposes	**565**	6
Tax effect of expenses not allowable for supplementary charge purposes	**135**	–
Impact of profits or losses tax at different rates	**2,364**	–
Net increase in unrecognised losses carried forward	**2,259**	318
Tax (credit) on loss on ordinary activities	**(5,773)**	–

Following the acquisition of Star, the majority of the Group's profits are now generated by "ring-fenced" businesses which attract UK corporation tax and supplementary charge at a combined rate of 62%, rather than the small companies rate of 21% borne by the Group in the previous year.

7 Tax credit on loss on ordinary activities continued

Tax losses

Deferred tax losses have been recognised in respect of tax losses and other temporary differences where directors believe it is probable that these assets will be recovered, giving rise to deferred tax assets. Such tax losses include £31.6 million of ring-fenced corporation tax losses and £29.0 million of supplementary charge losses.

The Group has further tax losses and other similar attributes carried forward of approximately £53 million (2010: 6.2 million) on which no deferred tax is recognised due to insufficient certainty regarding the availability of appropriate future taxable profits. This may affect future tax charges should certain subsidiaries in the group produce taxable trading profits in future period where there is currently uncertainty of the timing of future taxable profits.

The movement on the deferred tax liability is shown below:

	15 months ended 31 March 2012 £000	Year ended 31 December 2010 £000
Opening liability at beginning of period	**Nil**	
Tax charge/(credit) during the period recognised in profit and loss	**(5,773)**	–
Tax charge/(credit) during the period recognised in OCI	**–**	–
Deferred tax liability arising from business combinations	**29,004**	–
Closing liability at end of period	**23,231**	–

The following is an analysis of the deferred tax liability by category of temporary difference:

	31 March 2012 £000	31 December 2010 £000
Accelerated capital allowances	**59,285**	–
Tax losses carried forward	**(18,031)**	–
Decommissioning provision	**(7,962)**	–
Unrealised gains or losses on derivative contracts	**(10,147)**	
Share-based payments	**(40)**	–
Other	**126**	–
Deferred tax liabilities	**23,231**	–

In addition to the increase in the rate of supplementary charge the Government announced in the 2011 budget its intention to restrict the rate of relief on decommissioning expenditure for supplementary charge purposes to 20%. Draft legislation in respect of this restriction was published on 6 December 2011 and the change is expected to be enacted in Finance Bill 2012. The restriction in supplementary charge relief is therefore not substantively enacted at the balance sheet date and as such, the company has accounted for deferred tax on its decommissioning balances at 62%. Assuming the deferred tax relating to the decommissioning balances was provided at 50%, the deferred tax liability balance at 31 March 2012 would be lower by £0.6 million.

8 Earnings per share (EPS)

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

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

Adjusted EPS amounts are calculated by dividing the loss for the period, after adjusting for one-off costs relating to acquisitions and "mark to market" valuation adjustments which do not reflect the trading of the Group, attributable to the ordinary equity holders of the parent by the adjusted weighted average number of shares outstanding during the period.

Diluted adjusted EPS amounts are calculated by dividing the loss for the period, after adjusting for one-off costs relating to acquisitions and "mark to market" valuation adjustments which do not reflect the trading of the Group, attributable to the ordinary equity holders of the parent by the diluted adjusted weighted average number of shares outstanding during the period.

Consolidated financial statements – notes continued

8 Earnings per share (EPS) continued

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

	15 months ended 31 March 2012 £000	Year ended 31 December 2010 £000
Basic EPS – Ordinary Shares of 50p each (Pence)	**(8.14p)**	(1.69p)
Diluted EPS – Ordinary Shares of 50p each (Pence)	**(8.14p)**	(1.69p)
Adjusted EPS – Ordinary Shares of 50p each (Pence)	**5.6p**	(1.69p)
Adjusted Diluted EPS – Ordinary Shares of 50p each (Pence)	**5.4p**	–
(Loss) for the year attributable to equity holders of the parent – £000	**(12,124)**	(1,543)
Add back: Loss on oil price swaps	**18,512**	–
Loss on interest rate swaps	**632**	–
Acquisition costs	**2,986**	–
Gain on revaluation of warrants	**(1,651)**	–
Adjusted profit/(loss) for the year	**8,355**	(1,543)
Weighted average number of Ordinary Shares in the year – basic EPS, diluted basic EPS and adjusted EPS	**148,947,106**	91,070,160
Weighted average number of Ordinary Shares in the year – diluted adjusted EPS	**154,760,053**	91,070,160

There are 23,855,505 potentially dilutive warrants and options over the Ordinary Shares at 31 March 2012 (31 December 2010: 2,447,304), which are not included in the calculation of diluted basic earnings per share and diluted adjusted earnings per share in 2010 because they were anti-dilutive for the year as their conversion to Ordinary Shares would decrease the loss per share.

9 Acquisitions

Acquisition of Nexen Exploration UK Limited

On 9 March 2011, the Company acquired the entire issued share capital of Nexen Exploration UK Limited (renamed IGas Exploration UK Limited) for consideration of £29.2 million. 39,714,290 new ordinary shares of 50p were allotted to Nexen Petroleum U.K. Limited at the market price of 73.50p per share credited as fully paid in consideration for the company. The acquisition was made in pursuance of the Group's strategy to secure operatorship and 100% ownership of all its assets.

The Group has reviewed the nature and substance of the transaction, and determined that the acquisition of Nexen Exploration UK Limited constituted an asset purchase, as the acquisition does not meet the definition of a business under IFRS 3. The transaction has therefore been accounted for as an acquisition of a collection of assets and liabilities under the standards governing each type of asset and liability. As such, because this is not an acquisition as defined in IFRS 3, no goodwill arises. The effect of the acquisition has had no effect on reported revenue.

The purchase consideration of £29.5 million (including expenses) has been allocated against the identifiable assets and liabilities on the basis of their final fair values at the date of purchase:

	£000
Assets	
Intangible exploration and evaluation assets	29,710
Trade and other receivables	38
Liabilities	
Trade and other payables	(127)
Decommissioning	(143)

The gross amount of trade and other receivables acquired was £38 thousand, which was also their fair value. None of the trade and other receivables have been impaired and it is expected that the full contractual amount can be collected.

Cash transaction costs of the Nexen Exploration asset acquisition, included in cash flows from investing activities, amounted to an outflow of £288 thousand.

9 Acquisitions continued

Acquisition of Star Energy Group Limited

On 14 December 2011, the Group acquired the entire issued share capital of Star Energy Group Limited ("Star"), an unlisted oil and gas exploration and production company for a cash consideration of £110 million. The acquisition of Star added a portfolio of 25 UK onshore licences, occupying or owning 105 sites with an inventory of 247 wells (of which 85 are currently still in operation), a number of development and exploration opportunities and an experienced execution team.

The Group funded the acquisition by way of a $135 million debt facility from Macquarie Bank Limited; cash generated by Star and held in escrow prior to closing and IGas' existing cash resources.

The Star acquisition has been accounted for as a business combination by the acquisition method of accounting with an effective date of 14 December 2011, being the date the Group gained control of Star Group. The fair value allocation to Star's assets and liabilities is provisional due to the complexity of the acquisition and due to the inherently uncertain nature of the oil and gas sector, in particular, in valuing intangible exploration and evaluation assets and oil and gas properties, the underlying value of freehold land on which oil wells and related processing equipment are currently situated, as well as an associate. The review of the fair value of the identifiable assets and liabilities acquired will be completed within 12 months of the acquisition, at the latest.

Assets acquired and liabilities assumed

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

	Provisional fair value £000
Assets	
Intangible exploration and evaluation assets (Note 11)	3,775
Property, plant and equipment (Note 12)	108,739
Investment in associate	–
Cash and cash equivalents	30,707
Trade and other receivables	6,809
Inventories	1,368
	151,398
Liabilities	
Trade and other payables	(9,685)
Current tax liabilities	(5,934)
Deferred tax liabilities	(29,004)
Provisions (Note 20)	(12,324)
	(56,947)
Total identifiable net assets at fair value	94,451
Purchase consideration transferred*	110,050
Goodwill	15,599

* Total consideration was financed by $135 million (£84.5 million) facility with Macquarie Bank Limited and £25.5 million of cash generated by Star prior to closing that was held in escrow until the transaction date and existing IGas cash resources.

The fair value of contractual receivables amounts to £6.9 million. The gross value of the contractual receivables amounts to £7.5 million, with £0.6 million not expected to be received.

Transaction costs in respect of the Star acquisition of £3.0 million have been recognised in the Income Statement, including 1,881,188 ordinary 50p shares for £950 thousand, representing the fair value of services provided.

From the date of acquisition, Star has contributed £22.1 million of revenue and £10.2 million towards the reduction of net loss before tax of the Group, excluding losses on derivative transactions of £18.5 million that were novated by IGas to Star post-acquisition. If the combination had taken place at 1 April 2011, revenue from continuing operations for the year would have been £69.0 million and the operating profit before tax, acquisition costs and losses from derivative transactions for the Group would have been £29.8 million.

The goodwill of £15.6 million is discussed further in note 10.

Consolidated financial statements – notes continued

9 Acquisitions continued

Analysis of cash flows on acquisition

	£000
Consideration paid for Star (included in cash flows from investing activities)	(110,050)
Cash transaction costs of the Star acquisition (included in cash flows from operating activities)	(2,036)
Net cash acquired with Star (included in cash flows from investing activities)	30,707
Net cash flow on acquisition of Star	(81,617)

Certain transactions were entered into by the Group either in the months preceding or immediately after the completion of the acquisition of Star. These transactions are summarised as follows:

On 16 September 2011 the Group and Petronas Energy Trading Limited ("Petronas Energy") entered into a gas sales and marketing deed in which the Group will sell up to 150 bcf of gas to Petronas Energy and provide additional services. The price is set according to a formula linked to day ahead prices published by European Spot Gas Markets. Petronas has the exclusive right to purchase and market all commercial quantities of gas produced from the resource base, or properly nominated or delivered at the delivery points, until the quantity referred to has been delivered.

On 14 December 2011 the Group's subsidiary Star Energy Weald Basin Limited ("SEW") entered into a services agreement with Star Energy HG Gas Storage Limited ("Star Energy HG") (the "Star Energy HG Services Agreement") whereby SEW will provide certain operational and management services in respect of certain gas storage businesses retained by Petronas. Under the Star Energy HG Services Agreement, Star Energy HG will pay fees on a monthly basis related to personnel costs computed on a pro rata basis by reference to those incurred in the 12 month period prior to completion of the Acquisition plus 18% (subject to annual review).

On 14 December 2011 SEW and Star Energy HG entered into a services agreement ("the SEW Services Agreement") whereby Star Energy HG will provide control room access to certain personnel in connection with the monitoring, operating and managing of certain oil fields transferred to Petronas prior to the Acquisition and/or certain office facilities to assist in carrying out those activities. SEW will pay £10,000 monthly in arrears for the term of the SEW Services Agreement. The term of the SEW Services Agreement is six months unless otherwise agreed between the parties.

On 14 December 2011 Star Energy HG Gas Storage Limited ("HGGSL") and SEW entered into an oil sale and purchase agreement. Under this agreement SEW agreed to transfer its interests in a retained licence (licence number P116) and related assets to HGGSL and in return has agreed to purchase oil from HGGSL. The oil is in relation to production from the Humbly Grove and the Herriard fields. SEW will also arrange for the transportation of the oil. HGGSL warrants on an indemnity basis that the oil made available for delivery and sale is in accordance with the specification. Indicative volumes are to be agreed not less than one month before each following calendar year and provisions for detailing the quantity are provided for in the agreement. The agreement remains in force until the retained licence expires or, if earlier, then HGGSL serving 12 months' written notice on SEW. Payment due is in US dollars and is set by a formula linked to the price per barrel of oil.

10 Goodwill

	31 March 2012	31 December 2010
Goodwill	**15,599**	–

Goodwill of £15.6 million was all generated in the period, as described in note 9 above.

Goodwill all relates to the acquisition of Star and arises principally because of the following factors:
1) the requirement to recognise deferred income tax assets and liabilities for the difference between the assigned fair values and the tax bases of assets acquired and liabilities assumed in a business combination at amounts that do not reflect fair value;
2) the intangible value of an experienced team of oil industry professionals with experience of operating in the UK onshore market;
3) the relationships and reputation developed by the acquired group with central and local government in Great Britain; and
4) the considerable potential for discovery of additional reserves of both conventional and unconventional resources in Star's licence areas.

Impairment testing of goodwill

Goodwill from the acquisition of Star remains provisional, therefore management are not able to allocate it reliably to specific CGUs. There were no indicators of impairment during the period to 31 March 2012, therefore this goodwill has not yet been subject to impairment testing.

11 Intangible exploration and evaluation assets

	Exploration and evaluation £000
Cost	
At 1 January 2010	1,334
Additions	3,310
At 31 December 2010	4,644
Additions	19,150
Acquisitions (Note 10)	33,485
At 31 March 2012	**57,279**
Amortisation	
At 1 January 2010	–
Charge for the year	–
At 31 December 2010	–
Charge for the year	–
Impairment	42
At 31 March 2012	**42**
Net book amount	
At 31 December 2010	4,644
At 31 March 2012	**57,237**

Under certain agreements which the Group had in place with Nexen Exploration U.K. Limited ("Nexen" and the "Nexen Carry Agreements") as at 31 December 2010, Nexen provided 100% of the funding required for work programmes up to a gross spend of £26.5 million. On 9 March 2011, the Group completed the acquisition of Nexen, thereby transferring the carried balance within the Group.

On 5 August 2009 and 11 December 2009 the Group entered into farm-up agreements with Nexen (the "Farm-up Agreements"), under which the Group had agreed to meet 100% of certain costs incurred in relation to certain licences, thereby discharging what, but for these agreements, would have been Nexen's share of such licence costs. The acquisition of Nexen Exploration UK Limited transferred these agreements within the Group.

Impairment testing of exploration and evaluation assets

Expenditures recognised as exploration and evaluation assets are tested for impairment whenever facts and circumstances suggest that they may be impaired, which includes when a licence is approaching the end of its term and is not expected to be renewed, there are no substantive plans for continued exploration or evaluation of an area, the Group decides to abandon an area, or whilst development is likely to proceed in an area there are indications that the exploration and evaluation asset costs are unlikely to be recovered in full either by development or through sale.

During the year an impairment charge amounting to £42 thousand was made relating to expenditure on a site where no future exploration is planned.

Consolidated financial statements – notes continued

12 Property, plant and equipment

	Equipment Used for Exploration and Evaluation £000	Freehold land £000	Buildings/ leasehold property improvements £000	Oil and gas properties £000	Fixtures, fittings and equipment £000	Motor vehicles £000	Total £000
Cost							
At 1 January 2010	–	–	–	–	–	–	–
Additions	179	–	–	–	21	20	220
At 31 December 2010	179	–	–	–	21	20	220
Additions	–	–	–	592	72	8	672
Disposals	–	–	–	–	(19)	(8)	(27)
Acquisitions	–	2,126	539	104,275	593	1,206	108,739
At 31 March 2012	**179**	**2,126**	**539**	**104,867**	**667**	**1,226**	**109,604**
Depreciation							
At 1 January 2010	–	–	–	–	–	–	–
Charge for the year	6	–	–	–	4	5	15
At 31 December 2010	6	–	–	–	4	5	15
Charge for the year	25	–	336	2,756	139	98	3,354
Disposals	–	–	–			(8)	(8)
At 31 March 2012	**31**	**–**	**336**	**2,756**	**143**	**95**	**3,361**
Net book amount							
At 31 December 2010	173	–	–	–	17	15	205
At 31 March 2012	**148**	**2,126**	**203**	**102,111**	**524**	**1,131**	**106,243**

Included in the total net book value of fixed assets is £210 thousand (2010: £nil) in respect of assets held under finance leases and similar hire purchase contracts. Depreciation for the period on these assets was £12 thousand (2010: £nil).

Under the terms of the facility agreement, Macquarie Bank Limited has a fixed and floating charge over all these assets.

13 Investment in associate

Associate

Details of the Groups associate as at 31 March 2012 are as follows:

Associate	Country of incorporation	Principal activity	Class and percentage of shares held
Larchford Limited	United Kingdom	Oil rig contractor	33% Ordinary shares of £1 each

Larchford (in which a 33% interest was acquired as part of the acquisition of Star) was already in significant financial difficulties at the time that the Group purchased Star, and the company went into liquidation on March 6, 2012. As a result, the Group has ceased to have any significant influence over the company and the investment has a nil value both on acquisition and at 31 March 2012. Receivables due from Larchford are included in note 15.

14 Inventories

	31 March 2012 £000	31 December 2010 £000
Oil Stock	**429**	–
Drilling materials	**42**	–
Maintenance materials	**245**	–
	716	–

15 Trade and other receivables

	31 March 2012 £000	31 December 2010 £000
VAT recoverable	1,454	375
Trade debtors	8,656	61
Accrued income	–	73
Other debtors	220	–
Amount due from Larchford	252	–
Prepayments	1,531	80
	12,113	589

Of the Group's financial assets as stated above £878 thousand (2010: £61 thousand) were past due at the reporting date, and an impairment provision of £626 thousand has been provided against those amounts (2010: £nil). The ageing of the financial assets (trade debtors, other debtors and amounts due from associate) is as follows:

	31 March 2012 £000	31 December 2010 £000
Not yet due	8,876	–
Overdue by not more than three months	–	61
More than three months but not more than six months	–	–
More than six months but not more than one year	252	–
	9,128	61

16 Cash and cash equivalents

	31 March 2012 £000	31 December 2010 £000
Cash at bank and in hand	7,915	12,087
	7,915	12,087

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

The Group only deposits cash surpluses with major banks that have acceptable credit ratings of "A" or better, with the exception of banks where the UK government is the major shareholder.

17 Current liabilities

	31 March 2012 £000	31 December 2010 £000
Trade and other payables:		
Trade creditors	3,509	240
Employment related taxation	717	42
Accruals and other creditors	6,254	515
	10,480	797

The carrying value of each of the Group's financial liabilities is considered to be a reasonable approximation of its fair value. All creditors are payable within one month and no creditors have been outstanding for longer than three months (2010: all within one month).

18 Borrowings

	31 March 2012			31 December 2010		
	Within 1 year £000	Greater than 1 year £000	Total £000	Within 1 year £000	Greater than 1 year £000	Total £000
Facility A*	16,475	32,818	49,293	–	–	–
Facility B*	–	25,659	25,659	–	–	–
	16,475	58,477	74,952	–	–	–

* Transaction costs of raising debt of £7.6 million have been netted off against the liability

Consolidated financial statements – notes continued

18 Borrowings continued

On 21 November 2011 the Company and Macquarie entered into a senior secured facility agreement (the "Credit Agreement"). The Credit Agreement consists of three separate facilities:

(i) $90,000,000 5 year senior secured term loan, carrying interest at 5.5% over LIBOR and a 2% commitment fee;
(ii) $45,000,000 5 year senior secured term loan, carrying interest at 12% above LIBOR and a commitment fee of 3.5%; and
(iii) Up to $ 15,000,000 uncommitted working capital facility, which may be made available at the discretion of Macquarie (remained undrawn at 31 March 2012).

The Credit Agreement contains certain representations, warranties and covenants customary for a credit facility of this nature. Such covenants include the provision of financial and reporting information, compliance with environmental law, maintenance of financial ratios and certain restrictions on mergers, acquisitions, joint ventures, granting of security, disposals, issuances of loans, incurrence of financial indebtedness and on payments of dividends by the Company and its operating subsidiaries. The Credit Agreement also contains customary events of default, the occurrence of which allow Macquarie (and any other lender that accedes to the Credit Agreement) to accelerate outstanding loans and terminate the commitments. The facilities are required to be repaid in full on the date that is 60 months following the completion of the Acquisition of Star Energy Group Limited, or on a change of control and the sale of the assets of the Group.

The Group's financing under the Credit Agreement is denominated in US dollars.

19 Other liabilities

	15 months ending 31 March 2012 £000
At 1 January 2011	–
Warrants issued during period	**4,457**
Revaluation	**(1,651)**
At 31 March 2012	**2,806**

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

All warrants vested on grant and accordingly the key assumptions made in arriving at the Black-Scholes valuations were: share price on date of valuation, adjusted for subsequent consolidations where appropriate and the length of time for which the warrants were expected to remain exercisable. A risk free interest rate of 1.09% and an implied volatility of 35% were used in valuing the warrants at the time of granting, and an interest rate of 1.04% and the same implied volatility at year end. It was also assumed that no dividends would be paid during the life of the warrants.

Movement during the period was as follows:

	No	Weighted average exercise price (pence)
At 1 January 2011	–	–
Granted in Period	21,286,646	55.8
Lapsed in Period	–	–
Outstanding at 31 March 2012	**21,286,646**	**55.8**
Exercisable at 31 March 2012	**21,286,646**	**55.8**

The weighted average remaining contractual life for the warrants outstanding as at 31 March 2012 is 5.75 years.

20 Provisions for liabilities and charges

	31 March 2012			31 December 2010		
	Decommissioning £000	**Other £000**	**Total £000**	Decommissioning £000	Other £000	Total £000
At the beginning of the period	**–**	**–**	**–**	–	–	–
New provisions	**445**	**–**	**445**	–	–	–
Acquisition of a subsidiary	**12,307**	**160**	**12,467**	–	–	–
Unwinding of discount	**197**		**197**	–	–	–
Utilisation/write back of provision	**43**	**(60)**	**(17)**	–	–	–
At the end of the period	**12,992**	**100**	**13,092**	–	–	–

Provision has been made for the discounted future cost of restoring producing fields to a condition acceptable to the relevant authorities. The abandonment of the fields is expected to happen at various times between one to 35 years from the period end.

21 Pension Scheme

The Group operates a defined contribution pension scheme. The pension cost charge for the period ended 31 March 2012 represents contributions payable by the Group to pension funds and amounted to £260,000 (2010: £712,000).

Contributions amounting to £84,000 (2011: £55,000) were accrued at 31 March 2012 and are included in creditors.

22 Commitments

The Group's capital and lease commitments comprised:

	31 March 2012 £000	31 December 2010 £000
Capital Commitment:		
Obligation under 13th licensing round	**2,000**	1,000
Decommissioning	**–**	26
Less: Amounts covered by Nexen Carry Agreements	**–**	(141)
	–	885
Obligation under the 11 December 2009 farm-up agreement with Nexen	**–**	2,036
Total capital commitments	**2,000**	2,921

The Nexen Carry Agreements and the farm-up agreements are as further described in note 11, including the up to £2 million provided for by the first farm-up agreement, which was not a firm commitment. On 9 March 2011, the Group completed the acquisition of Nexen, thereby transferring the carried balance within the Group.

The Group used finance leases to acquire property, plant and equipment with a net book value of £210,000 (2010: £nil). These leases have terms of renewal but no purchase options or escalation clauses. Renewals are at the option of the lessee. Future minimum lease payments under finance leases are set out below:

	31 March 2012 £000	31 December 2010 £000
Future minimum lease payments payable within:		
1 year	**52**	–
1–2 years	**–**	–
2–3 years	**–**	–
	52	–
Less finance charge	**1**	–
Net obligations	**51**	–
Of which – payable within 1 year	**51**	–
– payable within 1 to 2 years	**–**	–
– payable within 2 to 3 years	**–**	–
	51	–

Security is given for net obligations under finance leases falling due within one year and after more than one year with a fixed charge over the relevant assets of the Group relative to the amount outstanding.

Consolidated financial statements – notes continued

22 Commitments continued

Operating lease commitments

	31 March 2012 £000	31 December 2010 £000
Minimum lease payments under operating leases recognised in profit for the year	**573**	63
At the balance sheet date the Group had minimum lease payments under non-cancellable operating lease for each of the following years		
– expiring within 1 year	**307**	45
– expiring within 1 to 5 years	**520**	–
Total	**827**	45

23 Financial instruments and risk management

Fair values

Set out below is a comparison by class of the carrying amounts and fair value of the financial instruments that are carried in the consolidated balance sheet.

	Carrying amount		Fair value	
	31 March 2012 £000	31 December 2010 £000	31 March 2012 £000	31 December 2010 £000
Financial assets				
Loans and receivables				
Cash and cash equivalents[1]	**7,915**	12,087	**7,915**	12,087
Trade and other receivables[1]	**9,128**	61	**9,128**	61
Financial liabilities				
Amortised cost				
Finance lease[2]	**51**	–	**51**	–
Borrowings (floating rate)[2]	**74,952**	–	**82,296**	–
Trade and other payables[1]	**3,509**	240	**3,509**	240
Fair value through profit and loss				
Commodity price swaps[3,4]	**16,161**	–	**16,161**	–
Interest rate swaps[3]	**532**	–	**532**	–
Warrants[5]	**2,806**	–	**2,806**	–

1 The carrying values of cash and cash equivalents, short-term receivables and payables are assumed to approximate their fair values where discounting is not material.
2 The fair value of borrowings and other financial liabilities has been calculated by discounting the expected future cash flows at prevailing market interest rates for instruments with substantially the same terms and characteristics.
3 The fair value of commodity price swaps and interest rate swaps are determined using discounted cash flow analysis at quoted interest rates.
4 Some 55% of the commodity price swaps include an embedded foreign currency forward which has not been accounted for or valued separately.
5 The fair value of warrants is estimated using a Black-Scholes valuation model.

Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of the financial instruments by valuation technique:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;
- Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and
- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The financial assets and liabilities measured at fair value are categorised into the fair value hierarchy as at the reporting dates are as follows:

	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
At 31 March 2012				
Commodity price swaps	**–**	**16,161**	**–**	**16,161**
Interest rate swaps	**–**	**532**	**–**	**532**
Warrants	**–**	**2,806**	**–**	**2,806**
Total	**–**	**19,499**	**–**	**19,499**
At 31 December 2010				
Commodity price swaps	–	–	–	–
Interest rate swaps	–	–	–	–
Warrants	–	–	–	–
Total	–	–	–	–

23 Financial instruments and risk management continued

Derivative financial instruments

The Group enters into certain swap contracts in order to manage its exposure to commodity price risk and foreign exchange risk associated with sales of oil in US dollars and interest rate risk associated with debt service costs.

The outstanding contracts as at 31 March 2012 are as follows:

	Term	Contract amount	Contract price/rate	Average Fixed Price/Rate	Fair value at 31 March 2012 £000
US dollar commodity price swaps	2012–2017	908 Mbbls oil	$90-$96/bbl	$92.94/bbl	**7,340**
Pound sterling commodity price swaps	2012–2017	1,001 Mbbls oil	£56.70-£60.75/bbl	£59.08/bbl	**8,821**
Interest rate swaps	2012–2016	$67.5m declining to $22.8m	0.91%-1.36%	1.15%	**532**

The group's commodity price swaps mature over the period from 1 January 2012 to 31 December 2017 on contracted volumes that decline in line with the Senergy 2P production profile. During the period to 31 March 2012 oil hedges for 146 thousand barrels matured generating a net cost of £2.3 million (2010: £nil).

The group's interest rate swaps mature over the period from 14 December 2011 to 13 December 2016 with a profile linked to the expected repayment of principal on the Macquarie Facilities.

As no derivative instrument has been designated for hedge accounting, all gains and losses are recognised immediately in the income statement.

Financial risk management

The Group's principal financial liabilities, other than derivatives, comprise borrowings, warrants and trade and other payables. The main purpose of these financial liabilities is to finance the Group's operations including the Group's capital expenditure programme and to fund acquisitions. The Group has trade and other receivables and cash and cash equivalents that are derived directly from its operations. The Group also enters into derivative transactions.

The Group manages its exposure to key financial risks in accordance with its financial risk management policy. The objective of the policy is to support the Group's financial targets while protecting future financial security. The Group is exposed to the following risks:
- Market risk, including commodity price, interest rate, and foreign currency risks
- Credit risk
- Liquidity risk

Management reviews and agrees policies for managing each of these risks which are summarised below. It is the Group's policy that all transactions involving derivatives must be directly related to the underlying business of the Group. The Group does not use derivative financial instruments for speculative exposures.

Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices, such as commodity price risk, interest rate risk and foreign currency risk.

The sensitivity analyses below have been prepared on the basis that the amount of net debt, and the proportion of financial instruments in foreign currencies are all constant and that financial derivatives are held to maturity. The sensitivity analysis is intended to illustrate the sensitivity to changes in market variables on the Group's financial instruments and show the impact on profit or loss and shareholders' equity, where applicable.

The following assumptions have been made in calculating the sensitivity analysis:
- The sensitivity of the relevant profit before tax item is the effect of the assumed changes in respective market risks. This is based on the financial assets and financial liabilities held at 31 March 2012 and 31 December 2010; and
- The impact on equity is the same as the impact on profit before tax and ignores the effects of deferred tax, if any.

Commodity price risk

The Group is exposed to the risk of fluctuations in prevailing market commodity prices (primarily crude oil) on the mix of oil and gas products it produces. The Group's policy is to manage these risks through the use of derivative financial instruments (commodity price swaps) to keep between 60% and 75% of its production over the next six years on fixed price.

The following table summarises the impact on profit before tax for changes in commodity prices on the fair value of derivative financial instruments. The impact on equity is the same as the impact on profit before tax as these derivative financial instruments have not been designated as hedges and are classified as held-for-trading.

Consolidated financial statements – notes continued

23 Financial instruments and risk management continued

The analysis is based on the assumption that the crude oil price moves 10%, with all other variables held constant.

	Increase/(decrease) in profit before tax for the period ended and to equity as at	
	31 March 2012 £000	31 December 2010 £000
10% increase in the price of oil	**(12,300)**	–
10% decrease in the price of oil	**12,300**	–

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's borrowings with floating interest rates. The Group's policy is to manage its interest cost using derivative financial instruments (interest rate swaps). The Group's policy is to keep approximately half of its borrowings at fixed rates of interest.

The following table summarises the impact on profit before tax for changes in interest rates on the fair value of derivative financial instruments interest rate swaps. The impact on equity is the same as the impact on profit before tax as these derivative financial instruments (interest rate swaps) have not been designated as hedges and are classified as held-for-trading.

The analysis is based on the assumption that US-dollar LIBOR moves 50 basis points, with all other variables held constant.

	Increase/(decrease) in profit before tax for the period ended and to equity as at	
	31 March 2012 £000	31 December 2010 £000
50 basis point increase in LIBOR	**800**	–
50 basis point decrease in LIBOR	**(800)**	–

Foreign currency risk

The Group has transactional currency exposures. Such exposure arises from sales or purchases in currencies other than the UK pound sterling, the functional currency of all group companies. The Group's sales are denominated in US dollars, and around 5% of costs are denominated in currencies other than the functional currencies of the entities within the Group, primarily US dollars. The Group manages this risk through the use of derivative financial instruments (commodity price swaps) which fix the price of oil in pounds sterling. The commodity price swaps denominated in sterling account for 55% of the total production covered by commodity price swaps (the remainder are denominated in US dollars), fixing the exchange rate.

The following table summarises the impact on profit before tax for changes in the US dollar/pound sterling exchange rate on the financial assets and liabilities in the balance sheet at period end. The impact on equity is the same as the impact on profit before tax.

The analysis is based on the assumption that the pound moves 10%, with all other variables held constant.

	Increase/(decrease) in profit before tax for the period ended and to equity as at	
	31 March 2012 £000	31 December 2010 £000
10% strengthening of the pound against the US dollar	**14,666**	–
10% weakening of the pound against the US dollar	**(14,666)**	–

Credit risk

The Group trades only with recognised, creditworthy third parties. It is the Group's policy to assess the credit risk of new customers before entering contracts. Under this policy, each new customer is analysed individually for creditworthiness before the Group's standard payment and delivery terms and conditions are offered. The Group's review includes external ratings, when available, and in some cases bank and trade references.

The exposure to credit risk from credit sales is not considered significant given the small number of well established credit customers and zero historic default rate.

At 31 March 2012, the Group had 2 customers (31 December 2010: one) that owed the Group more than £2.5 million each and accounted for approximately 95% (31 December 2010: 0%) of all receivables owing. The need for impairment is analysed at each reporting date on an individual basis for major clients.

23 Financial instruments and risk management continued

With respect to credit risk arising from the other financial assets of the Group, which comprise cash and cash equivalents, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments. The Group limits its counterparty credit risk on these assets by dealing only with financial institutions with credit ratings of at least "A" or equivalent.

Refer to note 15 for analysis of trade receivables ageing.

Liquidity risk

The Group manages liquidity risk by maintaining adequate reserves, banking facilities and borrowing facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities and future capital and operating commitments.

The table below summarises the maturity profile of the Group's financial liabilities at 31 March 2012 based on contractual undiscounted payments:

	On demand £000	< 1 year £000	1–2 years £000	2–3 years £000	>3 years £000	Total £000
At 31 March 2012						
Borrowings	–	**16,475**	**15,584**	**15,021**	**34,313**	**81,393**
Trade and other payables	–	**3,509**	–	–	–	**3,509**
Warrants	–	**2,806**	–	–	–	**2,806**
Derivative financial instruments						
Commodity price swaps	–	**8,694**	**5,290**	**2,488**	**1,424**	**17,896**
Interest rate swaps	–	**434**	**261**	**69**	**(241)**	**523**
	–	**31,918**	**21,135**	**17,578**	**35,496**	**106,127**
At 31 December 2011						
Trade and other payables		240				240
	–	240	–	–	–	240

Capital management

The Group manages its capital to ensure that it remains sufficiently funded to support its business strategy and maximise shareholder value. The Group's funding needs are met through a combination of debt and equity (2010: funding requirements through equity) and adjustments are made in light of changes in economic conditions. The Group's capital structure changed in the period to 31 March 2012 as a result of the acquisitions it made and the related financing. The Group's strategy is to maintain ratios in line with covenants associated with the senior debt facility.

The Group monitors capital using a gearing ratio, which is net debt divided by equity plus net debt. The Group includes within net debt, interest bearing bank loans less cash and cash equivalents. Capital includes share capital, share premium, other reserves and accumulated losses.

24 Share capital

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

In accordance with the required accounting for a reverse, the nominal value of the Company's share capital is not reflected in the Group's consolidated equity. For the purposes of the consolidated accounts share capital was recorded at the date of the Reverse at a value equal to the deemed cost of the Reverse, being the adjusted market value of the Company as last quoted immediately prior to the announcement of the Reverse, plus the equity of IGL; the effective acquiring company.

	Ordinary Shares	
	No.	£000 Nominal value
Issued and fully paid		
1 January 2010, Ordinary Shares of 50p each	**91,012,975**	**45,507**
23 April 2010 shares issued at a price of 55p each	82,500	41
26 October 2010 shares issued at a price of 64.5p each	2,013,956	1,007
31 December 2010, Ordinary Shares of 50p each	**93,109,431**	**46,555**
09 March 2011 Shares issued at a price of 73.50p each	39,714,290	19,857
10 March 2011 Shares issued at a price of 75p each	27,500,000	13,750
14 December 2011 Shares issued at a price of 50.5p each	1,881,188	941
31 March 2012, Ordinary Shares of 50p each	**162,204,909**	**81,103**

Consolidated financial statements – notes continued

24 Share capital continued

Accordingly, share capital and the share capital account comprised:

	£000
Share capital account	
At 1 January 2010	**18,617**
Shares issued during the year	**1,048**
At 31 December 2010	**19,665**
Shares issued during the period	**34,548**
At 31 March 2012	**54,213**

Deferred shares have no voting rights and shall not be entitled to any dividends or any other right or participation in the profits of the Group.

25 Share Premium Account

Share premium account – The share premium account of the Group arises from the capital that the Company raises upon issuing shares for consideration in excess of the nominal value of the shares net of the costs of issuing the new shares. During the period the Company issued 39,714,290 Ordinary 50p shares at a price of 73.50p each, 27,500,000 Ordinary 50p shares at a price of 75p each and 1,881,188 Ordinary 50p shares at a price of 50.5p each (2010: 82,500 and 2,013,956 Ordinary 50p Shares at a price of 55p and 64.5p each). The cost of these issues was £0.7 million (2010: £nil). Together these events resulted in a net movement in the Share Premium reserve of £15.5 million (2010: £0.3 million).

26 Other reserves

Other reserves can be analysed as follows:

	Warrant/Share Plan Reserves £000	Treasury Shares £000	Capital Contributions £000	Total £000
Balance 1 January 2010	131	–	–	131
Transfer to retained earnings/(accumulated deficit) account re warrants	(131)	–	–	(131)
Employee share plans – cost under IFRS 2	63	–	–	63
Treasury shares issued during the year	–	(1,299)	–	(1,299)
Balance 31 December 2010	63	(1,299)	–	(1,236)
Employee share plans – cost under IFRS 2	49	–	–	49
Capital contribution	–	–	47	47
Balance 31 March 2012	**112**	**(1,299)**	**47**	**(1,140)**

Warrant Reserve

Movement in the warrants during the period was as follows:

	No	Weighted average exercise price (pence)
At 1 January 2010	440,000	60
Exercised in Period	(82,500)	55
Lapsed in Period	(357,500)	60
Outstanding at 31 December 2010	**–**	**–**
Exercisable at 31 December 2010	**–**	**–**
Exercised in Period	–	–
Lapsed in Period	–	–
Outstanding at 31 March 2012	**–**	**–**
Exercisable at 31 March 2012	**–**	**–**

26 Other reserves continued

Employee share plans – Equity settled

Details of the share options under employee share plans outstanding during the year are as follows:

	LTIP		2011 LTIP		Share Option Plan	
	Number of Options	Weighted average exercise price (pence)	Number of Options	Weighted average exercise price (pence)	Number of Options	Weighted average exercise price (pence)
Outstanding at 1 January 2010		–	–	–	–	–
Granted during the Period	1,125,000	–	–	–	1,322,204	70
Forfeited during the Period	–	–	–	–	–	–
Exercised during the Period	–	–	–	–	–	–
Outstanding at 31 December 2010	**1,125,000**	**–**	**–**	**–**	**1,322,204**	**70**
Exercisable at 31 December 2010		**–**	**–**	**–**	**–**	**–**
Granted during the Period	–	–	2,107,485	–	–	–
Cancelled during the Period	(1,075,000)	–	–	–	(910,930)	70
Exercised during the Period	–	–	–	–	–	–
Outstanding at 31 March 2012	**50,000**	**–**	**2,107,485**	**–**	**411,274**	**70**
Exercisable at 31 March 2012	**–**	**–**	**–**	**–**	**–**	

Long Term Incentive Plan 2010 ("LTIP")

In October 2010 the Company adopted a Long Term Incentive Plan scheme for certain key employees of the Group. Under the LTIP, participants can each be granted nil-cost options over up to 1.5% of the issued share capital of the Company (subject to an overall plan limit of 7.5% of the issued share capital of the Company for all participants). The LTIP has a three year performance period and awards vest subject to the achievement of stretching share price targets. On a change of control prior to the third anniversary of the grant date, a revised share price target reflecting the reduction in the performance period shall instead be used to determine the extent to which LTIP options vest. Other than on a change of control, 50% of vested awards can be exercised and sold on vesting, with the remaining 50% becoming exercisable on the first anniversary of vesting. There were no LTIPs in this scheme exercised during the year. The LTIPs outstanding at 31 March 2012 had both a weighted average remaining contractual life and maximum term remaining of 8.5 years.

The total charge for the year was £52 thousand. Of this amount, £2 thousand was capitalised and £50 thousand was charged to the income statement in relation to the fair value of the awards granted under the LTIP scheme measured at grant date using a Monte Carlo Simulation Model.

Long Term Incentive Plan 2011 ("2011 LTIP")

In November 2011 the Company adopted a Long Term Incentive Plan scheme for certain key employees of the Group. Under the LTIP, participants can each be granted nil-cost options over up to 300% of remuneration for the Initial Award and up to 150% of remuneration for the Annual Award (subject to an overall plan limit of 10% of the issued share capital of the Company for all participants). The LTIP has a three year performance period and awards vest subject to share price performance exceeding the Company's weighted average cost of capital of 10%. On a change of control prior to the third anniversary of the grant date, a proportion of the options that vest will take into account items such as the time the Option has been held by the participant and the performance achieved in the period from the grant date. Other than on a change of control, 100% of vested awards can be exercised and sold on vesting.

There were no LTIPs exercised during the period. The LTIPs outstanding at 31 March 2012 had both a weighted average remaining contractual life and maximum term remaining of 9.5 years.

The total charge for the year was £58 thousand. Of this amount, £14 thousand was capitalised and £44 thousand was charged to the income statement in relation to the fair value of the awards granted under the Share Option scheme measured at grant date using a Monte Carlo Simulation Model.

Share Option Plan

In October 2010 the Company adopted a Share option plan for certain key employees of the Group. Both executives and employees may participate in the Share Option Plan. Typically each individual participant can be granted options under the Share Option Plan with a market value at grant of up to 100% of his base salary, although this limit can be exceeded in exceptional circumstances. Share options vest in three equal tranches over a three year period from the date of grant and vested options are exercisable subject to the attainment of a Company share price target.

2010 grants under the Share Option Plan are subject to an exercise price of 70p per share.

There were no Options exercised during the year. The unvested Options outstanding at 31 March 2012 had both a weighted average remaining contractual life and maximum remaining term of 8.5 years.

Consolidated financial statements – notes continued

26 Other reserves continued

The total charge for the year was £90 thousand. Of this amount, £17 thousand was capitalised and £89 thousand was charged to the income statement in relation to the fair value of the awards granted under the Share Option scheme measured at grant date using a Monte Carlo Simulation Model.

The inputs into the Monte Carlo model were as follows:

	LTIP	2011 LTIP	Share Option Plan
Weighted average share price	64.5p	50.5p	64.5p
Weighted average exercise price	Nil	Nil	70p
Expected volatility	35%	35%	35%
Expected life	6.5 years	6.5 years	5–6.5 years
Risk-free rate	1.09%	0.701%	1.09%
Expected dividends	0%	0%	0%
Weighted average fair value of awards granted in 2011	n/a	23.12p	n/a
Weighted average fair value of awards granted in 2010	6p	n/a	12p

Treasury shares

The Treasury shares of the Group has arisen in connection with the shares issued to the IGas Employee Benefit Trust, of which the Company is the sponsoring entity. The value of such shares is recorded in share capital and share premium account in the ordinary way and is also shown as a deduction from equity in this separate other reserve account; and so there is not net effect on shareholders' funds. During the 15 months to 31 March 2012 no shares were issued to the Employee Benefit Trust (2010: 2,013,956).

Capital contribution

The capital contribution of £47 thousand was received in cash following the acquisition of Nexen Exploration UK Ltd.

27 Related party transactions

The information below sets out transactions and balances between the Group and related parties in the normal course of business for the fifteen months ended 31 March 2012.

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

Nexen Petroleum UK Limited is related by virtue of having a 24.77% share in the Group as a result of the Company's acquisition of Nexen Exploration UK Limited. Pursuant to the terms of the Secondment Agreement dated 10 March 2011 entered into by the Company, Nexen Petroleum UK Limited provided various services in relation to the Group's operations. For the fifteen months ended 31 March 2012, the services provided to the Group amounted to £264 thousand of which £nil thousand remained outstanding (2010: there were no such related party trading transactions).

Larchford is related by virtue of the Group's 33% interest in the company. There were no transactions with Larchford during the period, but the Group is owed £878,000 under a loan agreement between Larchford and Star Energy Limited.

The Directors of the Company are considered to be the only key management personnel as defined by IAS 24 – Related Party Disclosures Transactions with key management personnel were as follows:

	15 months ended March 2012 £000	31 December 2010 £000
Short-term employee benefits	**1,425**	854
Share plan	**199**	22
	1,624	876

Short-term employee benefits: These amounts comprise fees paid to the Directors in respect of salary and benefits earned during the relevant financial year, plus bonuses awarded for the year.

Share plan: This is the cost to the Group of Directors' participation in LTIPs and Share Option plans, as measured by the fair value of LTIPs and options granted, accounted for in accordance with IFRS 2.

Further details regarding transactions with the Directors of the Group are disclosed in note 5.

There are no other related party transactions.

28 Subsequent events

There have been no events after the reporting period that require adjustment or disclosure in accordance with IAS10: "Events after the Reporting Period".

Parent Company financial statements – Directors' statement of responsibilities in respect thereof

The Directors are responsible for preparing the Annual Report and Parent Company financial statements in accordance with applicable United Kingdom law and those International Financial Reporting Standards as adopted by the European Union ("IFRSs").

Under Company Law the directors must not approve the Group financial statements unless they are satisfied that they present fairly the financial position of the Parent Company and its financial performance and cash flows for that period. In preparing the Parent Company financial statements the Directors are required to:

- select suitable accounting policies in accordance with IAS 8: Accounting policies, Changes in Accounting Estimates and Errors and then apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Parent Company's financial position and financial performance;
- state that the Parent Company has complied with IFRSs, subject to any material departures disclosed and explained in the
- financial statements; and
- make judgments and estimates that are reasonable and prudent.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Parent 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 Parent Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors confirm that they have complied with these requirements and, having a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future, will continue to adopt the going concern basis in preparing the accounts

Independent auditor's report to the members of IGas Energy Plc

We have audited the parent company financial statements of IGas Energy plc for the fifteen months ended 31 March 2012 which comprise the Parent Company Statement of Comprehensive Income, the Parent Company Balance Sheet, the Parent Company Statement of Changes in Equity, the Parent Company Cash Flow Statement and the related notes 1 to 16. 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 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, the directors are responsible for the preparation of the parent company financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the parent company 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

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report and Accounts to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the parent company financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2012;
- 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
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

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

Other matter

We have reported separately on the group financial statements of IGas Energy plc for the 15 months ended 31 March 2012.

Daniel Trotman
(Senior Statutory Auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
29 June 2012

Parent Company statement of comprehensive income
For the 15 months ended 31 March 2012

	15 months ended March 2012 £000	Year ended 31 December 2010 £000
Loss for the year	**(8,506)**	(1,401)
Other comprehensive income for the year	**–**	–
Total comprehensive loss for the year	**(8,506)**	(1,401)

Parent Company balance sheet
As at 31 March 2012

	Notes	31 March 2012 £000	31 December 2010 £000
Non-current assets			
Investments in subsidiaries	2	**190,154**	50,555
Property, plant and equipment	3	**72**	32
Loans to subsidiaries	4	**–**	5,013
		190,226	55,600
Current assets			
Trade and other receivables	4	**22,795**	289
Cash and cash equivalents	5	**3,452**	11,772
		26,247	12,061
Current liabilities			
Trade and other payables	6	**(29,205)**	(530)
Borrowings	8	**(16,475)**	–
Other liabilities	9	**(2,806)**	–
Derivative financial instruments	11	**(413)**	–
		(48,899)	(530)
Net current (liabilities)/assets		**(22,652)**	11,531
Total assets less current liabilities		**167,574**	67,131
Non-current liabilities			
Borrowings	8	**(58,477)**	–
Derivative financial instruments	11	**(119)**	–
		(58,596)	–
Net assets		**108,978**	67,131
Capital and reserves			
Called up share capital	12	**81,102**	46,555
Share premium account	13	**21,928**	6,392
Merger Reserve	14	**22,222**	22,222
Other reserves	15	**(1,140)**	(1,236)
Retained earnings (accumulated deficit)		**(15,134)**	(6,802)
Shareholders' funds		**108,978**	67,131

These financial statements were approved and authorised for issue by the Board on 29 June 2012 and are signed on its behalf by:

Andrew Austin
Chief Executive Officer

Stephen Bowler
Chief Financial Officer

Parent Company statement of changes in equity
For the 15 months ended 31 March 2012

	Called up share capital (Note 12) £000	Merger reserve £000	Share premium account £000	Other reserves £000	Retained earnings (accumulated deficit) £000	Total £000
Balance at 1 January 2010	**45,507**	**22,222**	**6,095**	**131**	**(5,532)**	**68,423**
Changes in equity for 2010						
Loss for the year	–	–	–	–	(1,401)	(1,401)
Lapse of warrants	–	–	–	(131)	131	–
Employee share plans cost under IFRS (note 15)	–	–	–	63	–	63
Issue of Shares	1,048	–	297	(1,299)	–	46
Balance at 31 December 2010	**46,555**	**22,222**	**6,392**	**(1,236)**	**(6,802)**	**67,131**
Changes in equity for 2011						
Loss for the period	–	–	–	–	(8,506)	(8,506)
Capital contribution	–	–	–	47	–	47
Employee share plans cost under IFRS2 (note 15)	–	–	–	49	174	223
Issue of shares	34,547	–	15,536	–	–	50,083
Balance at 31 March 2012	**81,102**	**22,222**	**21,928**	**(1,140)**	**(15,134)**	**108,978**

Parent Company cash flow statement

For the 15 months ended 31 March 2012

	Notes	15 months ended 31 March 2012 £000	Year ended 31 December 2010 £000
Operating activities:			
Loss for the year		**(8,506)**	(1,401)
Depreciation, depletion and amortisation		**24**	9
Share-based payment charge		**1,103**	20
Gain on revaluation on warrants		**(1,651)**	–
Finance income		**(246)**	(170)
Finance costs		**3,796**	–
Increase in trade and other receivables		**(248)**	(86)
Increase in trade and other payables		**841**	418
Revaluation		**101**	–
Net cash used in operating activities		**(4,786)**	(1,210)
Investing activities			
Acquisition of property, plant and equipment		**(63)**	(41)
Acquisition of subsidiaries		**(110,338)**	–
Loans granted to subsidiaries		**(17,246)**	(4,678)
Interest received		**246**	170
Net cash used investing activities		**(127,401)**	(4,549)
Financing activities			
Cash proceeds from issue of Ordinary Share Capital net of issue costs	12	**19,944**	46
Capital contribution	15	**47**	–
Interest paid		**(2,095)**	–
Cash proceeds from loans and borrowings		**84,569**	
Loan issue costs		**(3,141)**	–
Repayment of loans and borrowings		**(3,100)**	
Loans from subsidiary		**27,834**	
Net cash from financing activities		**124,058**	46
Net (decrease)/increase in cash and cash equivalents in the year		**(8,129)**	(5,713)
Net foreign exchange difference		**(191)**	–
Cash and cash equivalents at the beginning of the period		**11,772**	17,485
Cash and cash equivalents at the end of the year	5	**3,452**	11,772

Parent Company financial statements – notes
As at 31 March 2012

1 Accounting policies
(a) Basis of preparation of financial statements
The Parent Company financial statements of IGas Energy plc (the "Company") have been prepared under the historical cost convention in accordance with International Financial Reporting Standards , adopted for use by the European Union ("IFRSs") as they apply to the Company for the 15 months period ended 31 March 2012 and with the Companies Act 2006. The accounting period is not comparable with the prior year as this 15 month period represents a long period of account to align the year end with the newly acquired entity Star Energy Group Limited. The financial statements were approved and authorised for issue by the Board of Directors on 29 June 2012. IGas Energy plc is a public limited company incorporated and registered in England and Wales.

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

As a Consolidated income statement is published in this Annual Report, a separate income statement for the Company is not presented within these financial statements as permitted by Section 408 of the Companies Act 2006.

During the period, the Company adopted the following new and amended IFRS which were applicable to the Company's activities as of 1 January 2011.

International Accounting Standards (IFRS/IAS)		Effective date
IAS 24	Amendment to IAS 24 – Related Party Disclosures – This amendment clarifies the definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in its application. The revised standard introduces a partial exemption of disclosure requirements for government-related entities. The Company has considered the effect of this interpretation and has concluded that there is no impact on the financial statements	1 January 2011

New and amended standards and interpretations
The accounting policies adopted are consistent with those of the previous financial year, except for the following new and amended IFRS and IFRIC interpretations effective as of 1 January 2011.
- IAS 24 Related Party Disclosures
- IAS32 Financial Instruments: Presentation
- IFRIC 14 Prepayments of a Minimum Funding Requirement

These amendments have no impact from on its financial position or performance of the Company.

Certain new standards, interpretations and amendments to existing standards have been published and are mandatory only for the Company's accounting periods beginning on or after 1 April 2012 or later periods but which the Group has not adopted early. Those that may be applicable to the Company in future are as follows:

International Accounting Standards (IFRS/IAS)		Effective date
IAS 1	Amendment to IAS 1 – Financial Statement Presentation – This amendment changes the grouping of items presented in the Other comprehensive Income. Items that could be reclassified to profit and loss at a future point in time (for example, upon de-recognition or settlement) would be presented separately from items which will never be reclassified. The amendment affects presentation only and therefore will have no impact on the Company's financial position or performance.	1 July 2012
IFRS 9	IFRS 9 – Financial Instruments: Classification and Measurement – IFRS 9 as issued reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets as defined in IAS 39. The standard is effective for annual periods beginning on or after January 2013. In subsequent phases, the IASB will address classification and measurement of financial liabilities, hedge accounting and derecognition. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Company's financial assets. The Company will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.	1 January 2015
IFRS 11	IFRS11 – Joint Arrangements – IFRS11 establishes principle of the financial reporting by parties to a joint arrangement. IFRS 11 supersedes IAS31. It removes the option to jointly controlled entities (JCE) using proportionate consolidation.	1 January 2013
IFRS 12	IFRS12 – Disclosures of involvement with other entities- IFRS12 combines, enhances and replaces the disclosure requirement for subsidiaries, joint arrangements, associates and in consolidated structured entities.	1 January 2013

Parent Company financial statements – notes continued

1 Accounting policies continued

IFRS 13	IFRS 13 – Fair Value Measurement – IFRS13 defines fair value, set out in a single IFRS a framework for measuring fair value and requires disclosure about fair value measurements. IFRS 13 applies when other IFRSs require or permit fair value measurements. It does not introduce any new requirements to measure an asset or liability at fair value, change what is measured at fair value in IFRS or address how to present changes in fair value.	1 January 2013
IAS 28	IAS28 – Investments in Associates and Joint Venture – IAS28 has been renamed as a consequence of the new IFRS 11 and IFRS 12 and describes the application of the equity method to investments in joint venture in addition to associates.	1 January 2013
IAS 27 Revised	IAS 27 Revised – Consolidated and Separate Financial Statements. The objective of the Standard is to prescribe the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements.	1 January 2013

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

(b) Going concern

The Company's principal activity and principal risks and uncertainties are set out in the Directors' report. The ability of the Company to operate as a going concern is dependent upon the continued availability of bank funding, which in turn is dependent on the Company not breaching covenants, without cure or formal waiver from its bankers. Under its bank facilities the Company drew down $135 million of committed funds in connection with the acquisition of Star Energy Group Limited, which is repayable in tranches over the period of a five year term until December 2016. The Company regularly monitors forecasts to determine that breaches are not anticipated to occur in the future. On the basis of the Company's current forecasts, no breaches in covenants are anticipated. However these forecasts are based on certain assumptions particularly in relation to oil prices, production rates, operating costs, capital and general expenditure. The Company is protected to a material degree against volatility in the oil price, by having a significant proportion of its production hedged at above $90 per barrel. Despite this, there can be no certainty that these forecasts will be achieved, in which case the financial covenants could be breached. Should any breach be anticipated to arise, the Company would manage its working capital profile, reduce discretionary expenditure, where necessary and, if applicable, take additional mitigating actions that have already been identified as a precautionary measure. The Directors consider that the expected operating cash flows of the group and combined with the current borrowing facilities give them confidence that the Company has adequate resources to continue as a going concern. The financial statements have, therefore, been prepared on the going concern basis.

(c) Significant accounting judgements and estimates

The principal activity of the Company's major subsidiary, IGL, which has been accounted for at fair value at acquisition less provision for impairment, is the production of oil and gas.

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

Carrying value of investment in subsidiaries:

The Company evaluates investments in subsidiaries that have been accounted for at fair value at acquisition less provision for impairment as described in (d) below. Any impairment review, where required, involves estimates and associated assumptions related to matters (when appropriate), such as recoverable reserves; production profiles; review of forward gas and electricity prices; development, operational and offtake costs; nature of land access agreements and planning permissions; application of taxes, and other matters. Where the final outcome or revised estimates related to such matters differ from the estimates used in any earlier impairment reviews, the results of such differences, to the extent that they actually affected any impairment provisions, are accounted for when such revisions are made. Details of the Company's investments are disclosed in note 2.

Functional currency

The determination of a company's functional currency often requires significant judgement where the primary economic environment in which it operates may not be clear. This can have a significant impact on the results of the Company based on the foreign currency translation methods used.

1 Accounting policies continued

(d) Non-current assets

Investments in subsidiaries

Investments held as non-current assets are held at cost less provision for impairment unless the investments were acquired in exchange for the issue or part issue of shares in the Company, when they are initially recorded in the Company's balance sheet at the fair value of the shares issued together with the fair value of any consideration paid, including costs of acquisition less any provision for impairment which may subsequently be required.

The Company's investments held as non-current assets are assessed for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable, when impairment is calculated on the basis as set out below. Any impairment is charged to the income statement.

Impairment

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

- By comparing any amounts carried as investments held as non-current assets with the recoverable amount.
- The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. The Company generally relies on fair value less cost to sell assessed either by reference to comparable market transactions between a willing buyer and a willing seller or on the same basis as used by willing buyers and sellers in the oil and gas industry. When assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash-generating unit.

Where there has been a charge for impairment in an earlier period that charge will be reversed in a later period where there has been a change in circumstances to the extent that the recoverable amount is higher than the net book value at the time. In reversing impairment losses, the carrying amount of the asset will be increased to the lower of its original carrying value and the carrying value that would have been determined had no impairment loss been recognised in prior periods.

Property, plant and equipment

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

Fixtures, fittings and equipment	– between three and five years on a straight line basis
Motor Vehicles	– over four years on a straight line basis

(e) Financial Instruments

Cash and cash equivalents

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

Trade and other receivables

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

Trade and other payables

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

Impairment of financial assets

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

(f) Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date including whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

Operating leases

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

Parent Company financial statements – notes continued

1 Accounting policies continued

(g) Taxation

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

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

Deferred tax is recognised in respect of all temporary differences that have originated but not reversed at the balance sheet date. Temporary differences arise from differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are not discounted. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered.

The carrying amount of deferred tax is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the assets is realised or the liability is settled, based on the tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity.

(h) Share-based payments

Where share options or warrants are awarded to employees (including Directors), the fair value of the options or warrants at the date of the grant is recorded in equity over the vesting period. Non-market vesting conditions, but only those related to service and performance, are taken into account by adjusting the number of equity instruments expected to vest at each balance sheet date so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of options that eventually vest. All other vesting conditions, including Market vesting conditions, are factored in to the fair value of the options or warrants granted. As long as all other vesting conditions are satisfied, the amount recorded is computed irrespective of whether the market vesting conditions are satisfied. The cumulative amount recognised is not adjusted for the failure to achieve a market vesting condition; although equity no longer required for options or warrants may be transferred to another equity reserve.

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

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

Charges corresponding to the amounts recognised in equity are accounted as a cost against the profit and loss which will usually be to the Parent Company Income Statement unless the services rendered qualify for capitalisation as a non-current asset. Costs may be capitalised within non-current assets in the event of services being rendered in connection with an acquisition or intangible exploration and evaluation assets or property, plant and equipment.

Where shares are issued to an Employee Benefit Trust, and the Company is the sponsoring entity, the value of such shares at issue will be recorded in share capital and share premium account in the ordinary way, but will not affect shareholders' funds since this same value will be shown as a deduction from shareholders' funds by way of a separate component of equity (Treasury shares).

(i) Equity

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

(j) Foreign Currency

Transactions denominated in currencies other than the functional currency UK pound sterling are translated at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rate of exchange ruling at the balance sheet date. All differences that arise are recorded in the income statement.

2 Non-current assets – investments in subsidiaries

Investments in subsidiaries comprises:

	£000
At 1 January 2010	**50,555**
At 1 January 2011	**50,555**
Acquisition in the year, at fair value	**139,528**
Employee share-based payment cost under IFRS 2	**71**
At 31 March 2012	**190,154**

The subsidiary undertakings of the Company at 31 March 2012 which are all 100% owned directly or indirectly by the Company and are all incorporated in England and Wales, were:

Name	Principal activity
Island Gas Limited	Production and marketing of oil and gas
Island Gas Operations Limited	Electricity Generation
Island Gas Exploration UK Limited	Production and marketing of gas
Star Energy Group Limited	Service Company
Star Energy Limited	Service Company
Star Energy Weald Basin Limited	Processing of oil and gas
Star Energy (East Midlands) Limited	Dormant
Star Energy Oil and Gas Limited	Dormant
Star Energy Oil UK Limited	Dormant

3 Property, plant and equipment

	Fixtures, fittings and equipment £000	Motor vehicles £000	Total £000
Cost			
At 1 January 2010	–	–	–
Additions	21	20	41
At 31 December 2010	21	20	41
Additions	66	–	66
Disposals	(2)	–	(2)
Acquisitions			
At 31 March 2012	**85**	**20**	**105**
Amortisation			
At 1 January 2010	–	–	–
Charge for the year, including impairment	4	5	9
At 31 December 2010	4	5	9
Charge for the period, including impairment	18	6	24
Disposals	–	–	–
Acquisitions	–	–	–
At 31 March 2012	**22**	**11**	**33**
Net book amount			
At 31 December 2010	17	15	32
At 31 March 2012	**63**	**9**	**72**

Parent Company financial statements – notes continued

4 Trade and other receivables

	31 March 2012 £000	31 December 2010 £000
Amounts falling due within one year:		
VAT recoverable	**233**	131
Other debtors	**2**	2
Amounts due from subsidiary undertakings	**22,359**	101
Prepayments	**201**	55
	22,795	289
Amounts falling due after more than one year:		
Amounts due from subsidiary undertakings	**–**	5,013
	–	5,013

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

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

5 Cash and cash equivalents

	31 March 2012 £000	31 December 2010 £000
Cash at bank and in hand	**3,452**	11,772
	3,452	11,772

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

The Company only deposits cash surpluses with major banks that have acceptable credit ratings of "A" or better, except that the Company will make deposits with banks where the UK government is the major shareholder.

6 Current liabilities

	31 March 2012 £000	31 December 2010 £000
Trade and other payables:		
Trade creditors	**719**	76
Taxation and social security	**75**	42
Amounts due to subsidiary undertakings	**27,834**	–
Accruals and other creditors	**577**	412
	29,205	530

The carrying value of each of the Company's financial liabilities being trade creditors is considered to be a reasonable approximation of its fair value. All creditors are payable within one month and no creditor has been outstanding for longer than three months (2010: all within one month).

7 Taxation

Tax losses, none of which is considered sufficiently certain of utilisation to set up deferred tax assets, amount to:

	15 months ended 31 March 2012 £000	Year ended 31 December 2010 £000
Excess management expenses	14,288	4,830
Related to share-based payment transactions	97	13

Excess management expenses may only be offset against future profits, if any, of the Company generated in its capacity as a Group holding company.

8 Borrowings

	31 March 2012			31 December 2010		
	Within 1 year £000	**Greater than 1 year £000**	**Total £000**	Within 1 year £000	Greater than 1 year £000	Total £000
Facility A*	**16,475**	**32,818**	**49,293**	–	–	–
Facility B*	**–**	**25,659**	**25,659**	–	–	–
	16,475	**58,477**	**74,952**	–	–	–

* Transaction costs of raising debt of £7.6 million have been netted off against the liability.

On 21 November 2011 the Company and Macquarie entered into a senior secured facility agreement (the "Credit Agreement"). The Credit Agreement consists of three separate facilities:
(i) a $90,000,000 5 year senior secured term loan, carrying interest at 5.5% over LIBOR and a 2% commitment fee;
(ii) a $45,000,000 5 year senior secured term loan, carrying interest at 12% above LIBOR and a commitment fee of 3.5%; and
(iii) an uncommitted working capital facility of up to $15,000,000 which may be made available at the discretion of Macquarie(remain undrawn at March 31, 2012).

The Credit Agreement contains certain representations, warranties and covenants customary for a credit facility of this nature. Such covenants include the provision of financial and reporting information, compliance with environmental law, maintenance of financial ratios and certain restrictions on mergers, acquisitions, joint ventures, granting of security, disposals, issuances of loans, incurrence of financial indebtedness and on payments of dividends by the Company and its operating subsidiaries. The Credit Agreement also contains customary events of default, the occurrence of which allow Macquarie (and any other lender that accedes to the Credit Agreement) to accelerate outstanding loans and terminate the commitments. The facilities are required to be repaid in full on the date that is 60 months following the completion of the Acquisition, on a change of control and the sale of the assets of the Group.

The Company's financing under the Credit Agreement is denominated in US Dollars.

9 Other liabilities

	£000
At 1 January 2010	–
Warrants issued during period	4,457
Revaluation	(1,651)
As at 31 March 2012	**2,806**

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

All warrants vested on grant and accordingly the key assumptions made in arriving at the Black–Scholes valuations were: share price on date of grant, adjusted for subsequent consolidations where appropriate and the length of time for which the warrants were expected to remain exercisable. A risk free interest rate of 1.09% and an implied volatility of 35% were used in valuing the warrants at the time of granting and risk free interest rate of 1.04% and an implied volatility of 35% were used in valuing the warrants as at 31 March 2012. It was also assumed that no dividends would be paid during the life of the warrants.

Movement during the period was as follows:

	No	Weighted average exercise price (pence)
At 1 January 2010	–	–
Granted in Period	21,286,646	55.8
Lapsed in Period	–	–
Outstanding at 31 March 2012	**21,286,646**	**55.8**
Exercisable at 31 March 2012	**21,286,646**	**55.8**

The weighted average remaining contractual life for the warrants outstanding as at 31 March 2012 is 5.75 years.

Parent Company financial statements – notes continued

10 Commitments

At the balance sheet date the Company had outstanding commitments for future minimum lease payments under non cancellable operating leases, all falling due in under one year of £45 thousand (2010: £45 thousand).

11 Financial instruments and risk management

Fair values

Set out below is a comparison by class of the carrying amounts and fair value of the financial instruments that are carried in the companys balance sheet.

	Carrying amount		Fair value	
	31 March 2012 £000	31 December 2010 £000	**31 March 2012 £000**	31 December 2010 £000
Financial assets				
Loans and receivables				
Cash and cash equivalents[1]	**3,452**	11,772	**3,452**	11,772
Trade and other receivables[1]	**–**	61	**–**	61
Financial liabilities				
Amortised cost				
Borrowings (floating rate)[2]	**74,952**	–	**82,296**	–
Trade and other payables[1]	**719**	76	**719**	76
Fair value through profit and loss				
Interest rate swaps[3]	**532**	–	**532**	–
Warrants[4]	**2,806**	–	**2,806**	–

1 The carrying values of cash and cash equivalents, short-term receivables and payables are assumed to approximate their fair values where discounting is not material.
2 The fair value of borrowings and other financial liabilities has been calculated by discounting the expected future cash flows at prevailing market interest rates for instruments with substantially the same terms and characteristics.
3 The fair value of commodity price swaps and interest rate swaps are determined using discounted cash flow analysis at quoted interest rates.
4 The fair value of warrants is estimated using a Black-Scholes valuation model.

Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of the financial instruments by valuation technique:
– Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;
– Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and
– Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The financial assets and liabilities measured at fair value are categorised into the fair value hierarchy as at the reporting dates are as follows:

	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
At 31 March 2012				
Interest rate swaps	–	532	–	532
Warrants	–	2,806	–	2,806
Total	**–**	**3,338**	**–**	**3,338**
At 31 December 2010				
Interest rate swaps	–	–	–	–
Warrants	–	–	–	–
Total	**–**	**–**	**–**	**–**

Derivative financial instruments

The Company enters into certain swap contracts in order to manage its exposure to foreign exchange risk associated with interest rate risk associated with debt service costs.

The outstanding contracts as at 31 March 2012 are as follows:

	Term	Contract amount	Contract price/rate	Average Fixed Price/ Rate	Fair value at 31 March 2012 £000
Interest rate swaps	2012-2016	$67.5m declining to $22.8m	0.91%–1.36%	1.15%	532

11 Financial instruments and risk management continued

The Company's interest rate swaps mature over the period from 14 December 2011 to 13 December 2016 with a profile linked to the expected repayment of principal on the Macquarie Facilities.

Financial risk management

The Company's principal financial liabilities, other than derivatives, comprise borrowings, warrants and trade and other payables. The main purpose of these financial liabilities is to finance the Company's subsidiary operations and to fund acquisitions. The Company has trade and other receivables and cash and cash equivalents that arrive directly from its operations. The Company also enters into derivative transactions.

The Company manages its exposure to key financial risks in accordance with its financial risk management policy. The objective of the policy is to support the Company's financial targets while protecting future financial security. The Company is exposed to the following risks:
- Market risk, including interest rate, and foreign currency risks
- Credit risk
- Liquidity risk

Management reviews and agrees policies for managing each of these risks which are summarised below. It is the Company's policy that all transactions involving derivatives must be directly related to the underlying business of the Company. The Company does not use derivative financial instruments for speculative exposures.

Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices, such as interest rate risk and foreign currency risk.

The sensitivity analyses below have been prepared on the basis that the amount of net debt, and the proportion of financial instruments in foreign currencies are all constant and that financial derivatives are held to maturity. The sensitivity analysis is intended to illustrate the sensitivity to changes in market variables on the Group's financial instruments and show the impact on profit or loss and shareholders' equity, where applicable.

The following assumptions have been made in calculating the sensitivity analysis:
- The balance sheet position sensitivity relates to derivatives and accounts receivables;
- The sensitivity of the relevant profit before tax item is the effect of the assumed changes in respective market risks. This is based on the financial assets and financial liabilities held at 31 March 2012 and 31 December 2010; and
- The impact on equity is the same as the impact on profit before tax.

Interest rate risk

The Company's exposure to the risk of changes in market interest rates relates primarily to the Company's borrowings with floating interest rates. The Company's policy is to manage its interest cost using derivative financial. The Company's policy is to keep between half of its borrowings at fixed rates of interest.

The following table summarises the impact on profit before tax for changes in interest rates on the fair value of derivative financial instruments interest rate swaps. The impact on equity is the same as the impact on profit before tax as these derivative financial instruments (interest rate swaps) have not been designated as hedges and are classified as held-for-trading.

The analysis is based on the assumption that US-dollar LIBOR moves 50 basis points, with all other variables held constant.

	Increase/(decrease) in profit before tax for the period ending and to equity as at	
	31 March 2012 £000	31 December 2010 £000
50 basis point increase in LIBOR	**800**	–
50 basis point decrease in LIBOR	**(800)**	–

Parent Company financial statements – notes continued

11 Financial instruments and risk management continued

Foreign currency risk

The Company has transactional currency exposures. Such exposure arises from purchases in currencies other than the UK pound sterling, the functional currency of the Company. 10% of the Company's costs are denominated in currencies other than the Company's functional currency, primarily US dollars.

The following table summarises the impact on profit before tax for changes in the US dollar/UK pound sterling exchange rate. The impact on equity is the same as the impact on profit before tax.

The analysis is based on the assumption that the pound moves 10%, with all other variables held constant.

	Increase/(decrease) in profit before tax for the period ending and to equity as at	
	31 March 2012 £000	31 December 2010 £000
10% strengthening of the pound against the US dollar	**7,835**	–
10% weakening of the pound against the US dollar	**(7,835)**	–

Credit risk

With respect to credit risk arising from the financial assets of the Company, which comprise cash and cash equivalents and amounts due from subsidiary undertakings, the Company's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments. The Company limits its counterparty credit risk on these cash and cash equivalents by dealing only with financial institutions with credit ratings of at least "A" or equivalent.

Liquidity risk

The Company manages liquidity risk by maintaining adequate reserves, banking facilities and borrowing facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities and future capital and operating commitments.

The table below summarises the maturity profile of the Company's financial liabilities at 31 March 2012 based on contractual undiscounted payments.

	On demand £000	<1 year £000	1–2 years £000	2–3 years £000	>3 years £000	Total £000
At 31 March 2012						
Borrowings	**–**	**16,475**	**15,584**	**15,021**	**34,313**	**81,393**
Trade and other payables	**–**	**719**	**–**	**–**	**–**	**719**
Warrants	**–**	**2,806**	**–**	**–**	**–**	**2,806**
Derivative financial instruments						
Interest rate swaps	**–**	**434**	**261**	**69**	**(241)**	**523**
	–	**20,434**	**15,845**	**15,090**	**34,072**	**85,441**
At 31 December 2010						
Trade and other payables	–	76	–	–	–	–
	–	76	–	–	–	–

Capital management

The Company manages its capital to ensure that it remains sufficiently funded to support its business strategy and maximise shareholder value. The Company's funding needs are met through a combination of debt and equity (2010: funding requirements through equity) and adjustments are made in light of changes in economic conditions. The Company's capital structure changed in the period to 31 March 2012 as a result of the acquisitions it made. The Company's strategy is to maintain ratios in line with covenants associated with the senior debt facility.

The Company monitors capital using a gearing ratio, which is net debt divided by equity plus net debt. The Company includes within net debt, interest bearing bank loans less cash and cash equivalents. Capital includes share capital, share premium, other reserves and accumulated losses.

12 Share capital

	Ordinary Shares No.	£000 Nominal value
Issued and fully paid		
1 January 2010, Ordinary Shares of 50p each	**91,012,975**	**45,507**
23 April 2010 shares issued at a price of 55p each	82,500	41
26 October 2010 shares issued at a price of 64.5p each	2,013,956	1,007
31 December 2010, Ordinary Shares of 50p each	**93,109,431**	**46,555**
09 March 2011 Shares issued at a price of 73.50p each.	39,714,290	19,857
10 March 2011 Shares issued at a price of 75p each	27,500,000	13,750
14 December 2011 Shares issued at a price of 50.5p each	1,881,188	941
31 March 2012, Ordinary Shares of 50p each	**162,204,909**	**81,103**

The costs of all share issues have all been charged to the share premium account and are as disclosed in the Parent Company statement of changes in equity.

Deferred shares have no voting rights and shall not be entitled to any dividends or any other right or participation in the profits of the Company.

13 Share Premium Account

Share Premium account – The share premium account of the Company arises from the capital that the Company raises upon issuing shares for consideration in excess of the nominal value of the shares net of the costs of issuing the new. During the period the Company issued 39,714,290 Ordinary 50p shares at a price of 73.50p each, 27,500,000 Ordinary 50p shares at a price of 75p each and 1,881,188 Ordinary 50p shares at a price of 50.5p each (2010: 82,500 and 2,013,956 Ordinary 50p Shares at a price of 55p and 64.5p each). The cost of the issue was nil (2010: £nil). Together these events resulted in a net movement in the Share Premium reserve of £15.5 million (2010: £297 thousand).

14 Merger Reserve

Merger reserve – The merger reserve arose as a result of a reverse acquisition on 31 December 2007 whereby IGL became a wholly owned subsidiary of the Company but with IGL's shareholders acquiring 94% of the Ordinary Share Capital of the Company. The reserve represents the difference in the fair value and the nominal value of the shares issued. The reserve is not distributable.

15(a) Other Reserves

Other reserves can be analysed as follows:

	Share Plan/ Warrant/LTIP Reserves £000	Treasury Shares £000	Capital Contributions £000	Total £000
Balance 1 January 2010	131	–	–	131
Transfer to retained earnings/(accumulated deficit) account re warrants	(131)	–	–	(131)
Employee share plans – cost under IFRS 2	63	–	–	63
Treasury shares issued during the year	–	(1,299)	–	(1,299)
Balance 31 December 2010	63	(1,299)	–	(1,236)
Employee share plans – cost under IFRS 2	49	–	–	49
Capital contribution	–	–	47	47
Balance 31 March 2012	112	(1,299)	47	(1,140)

Parent Company financial statements – notes continued

15(a) Other Reserves continued

Warrant Reserve

Movement in the warrants during the period was as follows:

	No	Weighted average exercise price (pence)
At 1 January 2010	440,000	60
Exercised in Period	(82,500)	55
Lapsed in Period	(357,500)	60
Outstanding at 31 December 2010	–	–
Exercisable at 31 December 2010	–	–
Exercised in Period	–	–
Lapsed in Period	–	–
Outstanding at 31 March 2012	–	–
Exercisable at 31 March 2012	–	–

Employee share plans – Equity settled

Details of the share options under employee share plans outstanding during the year are as follows:

	LTIP		2011 LTIP		Share Option Plan	
	Number of Options	Weighted average exercise price (pence)	Number of Options	Weighted average exercise price (pence)	Number of Options	Weighted average exercise price (pence)
Outstanding at 1 January 2010	–	–	–	–	–	–
Granted during the Period	1,125,000	nil	–	–	1,322,204	70
Forfeited during the Period	–	–	–	–	–	–
Exercised during the Period	–	–	–	–	–	–
Outstanding at 31 December 2010	1,125,000	nil	–	–	1,322,204	70
Exercisable at 31 December 2010	–	–	–	–	–	
Granted during the Period	–	–	2,107,485	nil	–	–
Cancelled during the Period	(1,075,000)	nil	–	–	(910,930)	70
Exercised during the Period	–	–	–	–	–	–
Outstanding at 31 March 2012	50,000	nil	2,107,485	nil	411,274	70
Exercisable at 31 March 2012	–	nil	–	–	–	–

Long Term Incentive Plan 2010 ("LTIP")

In October 2010 the Company adopted a Long Term Incentive Plan scheme for certain key employees of the Group. Under the LTIP, participants can each be granted nil cost options over up to 1.5% of the issued share capital of the Company (subject to an overall plan limit of 7.5% of the issued share capital of the Company for all participants). The LTIP has a three year performance period and awards vest subject to the achievement of stretching share price targets. On a change of control prior to the third anniversary of the grant date, a revised share price target reflecting the reduction in the performance period shall instead be used to determine the extent to which LTIP options vest. Other than on a change of control, 50% of vested awards can be exercised and sold on vesting, with the remaining 50% becoming exercisable on the first anniversary of vesting. There were no LTIPs in this scheme exercised during the year. The LTIPs outstanding at 31 March 2012 had both a weighted average remaining contractual life and maximum term remaining of 8.5 years.

The total charge for the year was £52 thousand. Of this amount, £18 thousand was charged to the subsidiary and £34 thousand was charged to the income statement in relation to the fair value of the awards granted under the LTIP scheme measured at grant date using a Monte Carlo Simulation Model.

15(a) Other Reserves continued

Long Term Incentive Plan 2011 ("2011 LTIP")

In November 2011 the Company adopted a Long Term Incentive Plan scheme for certain key employees of the Group. Under the LTIP, participants can each be granted nil cost options over up to 300% of remuneration for the Initial Award and up to 150% of remuneration for the Annual Award (subject to an overall plan limit of 10% of the issued share capital of the Company for all participants). The LTIP has a three year performance period and awards vest subject to share price performance exceeding the Company's weighted average cost of capital of 10%. On a change of control prior to the third anniversary of the grant date, a proportion of the options that vest will take into account items such as the time the Option has been held by the participant and the performance achieved in the period from the grant date. Other than on a change of control, 100% of vested awards can be exercised and sold on vesting.

There were no LTIPs exercised during the period. The LTIPs outstanding at 31 March 2012 had both a weighted average remaining contractual life and maximum term remaining of 9.5 years.

The total charge for the year was £58 thousand. Of this amount, £21 thousand was charged to the subsidiary and £37 thousand was charged to the income statement in relation to the fair value of the awards granted under the Share Option scheme measured at grant date using a Monte Carlo Simulation Model.

Share Option Plan

In October 2010 the Company adopted a Share Option Plan for certain key employees of the Group. Both executives and employees may participate in the Share Option Plan. Typically each individual participant can be granted options under the Share Option Plan with a market value at grant of up to 100% of his base salary, although this limit can be exceeded in exceptional circumstances. Share options vest in three equal tranches over a three year period from the date of grant and vested options are exercisable subject to the attainment of a Company share price target.

2010 grants under the Share Option Plan are subject to an exercise price of 70p per share.

There were no Options exercised during the year. The unvested Options outstanding at 31 March 2012 had both a weighted average remaining contractual life and maximum remaining term of 8.5 years.

The total charge for the year was £90 thousand. Of this amount, £32 thousand was charged to the subsidiary and £58 thousand was charged to the income statement in relation to the fair value of the awards granted under the Share Option scheme measured at grant date using a Monte Carlo Simulation Model.

The inputs into the Monte Carlo model were as follows:

	LTIP	2011 LTIP	Share Option Plan
Weighted average share price	64.5p	50.5p	64.5p
Weighted average exercise price	Nil	Nil	70p
Expected volatility	35%	35%	35%
Expected life	6.5 years	6.5 years	5–6.5 years
Risk-free rate	1.09%	0.701%	1.09%
Expected dividends	0%	0%	0%
Weighted average fair value of awards granted in 2011	n/a	23.12p	n/a
Weighted average fair value of awards granted in 2010	6p	n/a	12p

Treasury shares

The Treasury shares reserve of the Company has arisen in connection with the shares issued to the IGas Employee Benefit Trust, of which the Company is the sponsoring entity. The value of such shares is recorded in share capital and share premium account in the ordinary way and is also shown as a deduction from equity in this separate other reserve account; and so there is not net effect on shareholders' funds. During the 15 months to 31 March 2012 no shares were issued to the Employee Benefit Trust (2010: 2,013,956).

Capital contribution

The capital contribution of £47 thousand was received in cash following the acquisition of Nexen Exploration UK Ltd.

Parent Company financial statements – notes continued

15(b) Related party transactions

(a) With Group companies

A summary of the transactions in the period is as follows:

	15 months ended 31 March 2012 £000	Year ended 31 December 2010 £000
Subsidiaries:		
Amounts due from/(to) subsidiary:		
Island Gas Limited:		
Balance at beginning of period	5,013	436
Services performed by subsidiary	–	–
Net cash advances	16,397	4,046
Services performed for subsidiary	793	531
Balance at end of period	22,203	5,013
Island Gas Operations Limited:		
Balance at beginning of period	101	–
Net cash advances	55	101
Balance at end of period	156	101
Star Energy Limited:		
Balance at beginning of period	–	–
Net cash Advances	(10,135)	–
Services performed for subsidiary	–	
	(10,135)	–
Star Energy Group Limited:		
Balance at beginning of period	–	–
Net cash advances	(17,699)	–
Services performed for subsidiary	–	
	(17,699)	–

Payment terms are as mutually agreed between the Group's companies.

(b) With Directors

Key management as defined by IAS 24 – Related Party Disclosures. are those persons having authority and responsibility for planning, controlling and directing the activities of the Group. In the opinion of the Board, the Group's key management are the Directors of the Company. Information regarding their compensation is given in notes 5 and 27 to the consolidated accounts.

16 Subsequent events

There have been no events after the reporting period that require adjustment or disclosure in accordance with IAS10: "Events after the Reporting Period".

Oil and Gas Reserves
As at 31 March 2012

The Group's estimates of proven and probable reserve quantities are taken from the Group's Competent Person's evaluation reports for the Group's oil fields as of 1 July 2011 and 31 December 2011 together with production data thereafter. Proved reserves are estimated reserves that geological and engineering data demonstrate with reasonable certainty to be recoverable in future years under existing economic and operating conditions, while probable reserves are estimated reserves determined to be more likely than not to be recoverable in future years under existing economic and operating conditions.

All of the Group's oil and gas assets are located in the United Kingdom.

Group proved plus probable reserves

	Oil mmbbls	Gas Bcf	Total mmboe
At 1 January 2011	0.00	0.00	0.00
Acquired during the year	9.20[1]	8.70	10.70
Revisions of estimates after acquisition	0.99	(0.49)	0.91
Production	(0.04)	0.00	(0.04)
At 31 December 2011 per Senergy CPR	10.15	8.21	11.57
Production	(0.24)	0.00	(0.24)
At 31 March 2012	9.91	8.21	11.33

Note 1: Senergy CPR as at 1 July 2011: 9.63 mmbbl less production between 1 July 2011 and 14 December 2011 0.43 mmbbl.

Senergy was requested to provide an update to its 2011 independent evaluation of the recoverable hydrocarbons expected for each asset categorised in accordance with the 2007 Petroleum Resources Management System prepared by the Oil and Gas Reserves Committee of the Society of Petroleum Engineers ("SPE") and reviewed and jointly sponsored by the World Petroleum Council ("WPC"), the American Association of Petroleum Geologists ("AAPG") and the Society of Petroleum Evaluation Engineers ("SPEE").

Proposed business of the Annual General Meeting

Introduction

You will find set out at the end of this document the formal Notice of the Annual General Meeting of IGas Energy plc. This section provides some additional information on the Resolutions being proposed at the Annual General Meeting. The following definitions apply throughout this section of the document unless the context requires otherwise:

"2006 Act"	the Companies Act 2006
"Accounts"	the audited financial statements of the Company for the 15 month period ended 31 March 2012
"Annual General Meeting" or **"AGM"**	the annual general meeting of the Company convened for 16 August 2012 pursuant to the Notice of Annual General Meeting which appears at the end of this document
"Articles"	the articles of association of the Company in force at the date of this document
"Board" or **"Directors"**	the board of directors of the Company
"Company"	IGas Energy plc
"Form of Proxy"	the form of proxy accompanying this document for use at the Annual General Meeting
"New Deferred Shares"	the 162,204,909 deferred shares of 40p each in the capital of the Company
"New Ordinary Shares"	ordinary shares of 10p each in the capital of the Company
"Ordinary Shares"	ordinary shares of 50p each in the capital of the Company
"Resolutions"	the resolutions set out in the Notice of Annual General Meeting which appears at the end of this document
"Shareholders"	holders of Ordinary Shares

Annual General Meeting

The Annual General Meeting of the Company will be held at the offices of Morrison & Foerster (UK) LLP, CityPoint, One Ropemaker Street, London EC2Y 9AW at 10:30 am on Thursday 16 August 2012, at which the following Resolutions will be proposed:

1. to receive and adopt the Company's Annual Report and Accounts for the 15 month period ended 31 March 2012, and the Directors' Report and the Independent Auditors' Report on those accounts;
2. to receive and approve the Remuneration Report of the Directors for the 15 month period ended 31 March 2012 and the Independent Auditors' Report on the auditable part of the Remuneration Report;
3. to reappoint as a Director John Hamilton who, in accordance with the Articles, is required to retire by rotation at the Annual General Meeting and, being eligible, offers himself for reappointment;
4. to reappoint as a Director Francis Gugen who, in accordance with the Articles, is required to retire by rotation at the Annual General Meeting and, being eligible, offers himself for reappointment;
5. to reappoint as a Director Stephen Bowler who, in accordance with the Articles, having been appointed since the last annual general meeting is required to retire at the Annual General Meeting and, being eligible, offers himself for reappointment;
6. to reappoint as a Director Robin Pinchbeck who, in accordance with the Articles, having been appointed since the last annual general meeting is required to retire at the Annual General Meeting and, being eligible, offers himself for reappointment;
7. to reappoint Ernst & Young LLP as the auditors of the Company until the next annual general meeting;
8. to authorise the Directors to determine the level of the remuneration of the auditors;
9. to subdivide the issued share capital of the Company;
10. conditional upon Resolution 9 being passed, to grant the Directors authority to allot shares in the capital of the Company;
11. conditional upon Resolution 10 being passed, to grant the Directors the power to disapply the statutory pre-emption rights for certain shares in the capital of the Company; and
12. conditional upon Resolution 9 being passed, that the Company be generally and unconditionally authorised to make off-market purchases of all issued New Deferred Shares pursuant to the Contract (as defined in the Notice of the Annual General Meeting).

Resolutions 1 and 2 and 7 and 8 are self-explanatory. Information on the other Resolutions is provided below. Resolutions 1 to 10 are ordinary resolutions which require to be passed the approval of a simple majority of Shareholders present and voting in person or by proxy or authorised representative. On a show of hands each Shareholder so present has one vote, but should a poll be demanded, each such Shareholder has one vote for each share held by him or her. Resolutions 11 and 12 are special resolutions that require to be passed with the approval of 75% of such Shareholders, determined in the same way as for the ordinary resolutions.

Resolution 3 – reappointment of John Hamilton as a Director
Mr Hamilton is liable to retire by rotation at the Annual General Meeting under the Articles, and offers himself for re-election. Having considered his re-election, the Nomination Committee considers that his performance remains effective, particularly having regard to his responsibilities as Non-Executive Director.

John is the Managing Director of Levine Capital management Advisors Limited, a UK incorporated company and interim chairman at President Petroleum Corporation Plc. John was previously the Group Finance Director of Imperial Energy Corporation Plc. Prior to joining Imperial Energy, John held senior positions at ABN AMRO.

Resolution 4 – reappointment of Francis Gugen as a Director
Mr Gugen is liable to retire by rotation at the Annual General Meeting under the Articles, and offers himself for re-election. Having considered his re-election, the Nomination Committee considers that his performance remains effective, particularly having regard to his responsibilities as Non-Executive Director.

Francis is a founder and Non Executive Chairman and has over thirty years' oil and gas industry experience. Between 1982 and 2000 he helped grow Amerada Hess in North West Europe, ultimately becoming CEO. Currently he is also non-executive chairman of Petroleum Geophysical Services ASA and of Chrysaor Limited and a board member of SBM Offshore NV, all involved in conventional oil & gas. Until 2006 he served as non-executive chairman of the start-up North Sea gas fields and pipelines operator CH4 Energy Limited, which was then disposed of for Euro 224m. He is past president of the UK Offshore Operators Association, past chair of the industries representation on the UK Government Oil & Gas Task Force (Pilot) and past chair of the CBI's Environmental Affairs Committee. Francis is a chartered accountant having worked for Arthur Andersen for eight years until 1982, principally as an oil and gas specialist.

Resolution 5 – reappointment of Stephen Bowler as a Director
Mr Bowler was appointed as Chief Financial Officer in November 2011, which was subsequent to the last annual general meeting and, in accordance with the Articles, he must retire at this Annual General Meeting, but he offers himself for reappointment. Upon appointment, the Board considered that his experience made him a suitable candidate to complement the board. The Nomination Committee has considered his reappointment and considers that his performance remains effective, particularly having regard to his responsibilities as Chief Financial Officer.

Steve started his career at Touche Ross, now Deloitte, where he qualified as a chartered accountant having spent time in both their audit and corporate finance divisions. In 1999, Steve joined ABN Amro Hoare Govett, now Jefferies Hoare Govett, where he acted as adviser and broker to a wide range of companies with a particular focus on E&P. Steve joined the Company on 1 November 2011.

Resolution 6 – reappointment of Robin Pinchbeck as a Director
Mr Pinchbeck was appointed as Non-Executive Director in July, which was subsequent to the last annual general meeting and, in accordance with the Articles, he must retire at this Annual General Meeting, but he offers himself for reappointment. Upon appointment, the Board considered that his experience made him a suitable candidate to complement the board. The Nomination Committee has considered his reappointment and considers that his performance remains effective, particularly having regard to his responsibilities as Non-Executive Director.

Rob has 38 years of international experience in the oil and gas sector, having held leadership positions in both oil and oil-services sectors with BP, Atlantic Power, PGS and most recently, with Petrofac Limited where he founded and led the Operations Services division and subsequently served as Group Director of Strategy. Since 2003 he has held a range of Non-Executive positions, including Sondex plc, SLR Consulting Ltd and Enquest plc. He is currently a Non-Executive Director at AIM-listed Enteq Upstream plc and Non-Executive Chairman at the international oil services company Sparrows Offshore Ltd.

Resolution 9 – subdivision of share capital of the capital of the Company
The existing ordinary share capital comprises 162,204,909 Ordinary Shares of 50p each. Resolution 9 proposes that each of the Ordinary Shares of the Company be split into one New Ordinary Share and one New Deferred Share.

The New Ordinary Shares will continue to carry the same rights as attached to the existing Ordinary Shares (save for the reduction in nominal value).

The New Deferred Shares will not entitle the holder thereof to receive notice of or attend and vote at any general meeting of the Company or to receive a dividend or other distribution or to participate in any return on capital on a winding up other than the nominal amount paid on such shares following the distribution to holders of New Ordinary Shares in the Company of £1,000,000 per New Ordinary Share. Subject to the passing of the Resolutions, the Company will have the right to purchase all the issued New Deferred Shares from all Shareholders for an aggregate consideration of one penny. As such, the New Deferred Shares effectively have no value. Share certificates will not be issued in respect of the New Deferred Shares and it is the Company's intention to immediately acquire all of the New Deferred Shares subject to the passing of Resolution 12.

The Company is taking this action pursuant to an obligation to Macquarie Bank Limited (**"Macquarie"**) contained in a warrant instrument dated 14 December 2011 (the **"Warrant Instrument"**). Pursuant to the Warrant Instrument, Macquarie was granted warrants entitling it to subscribe for 21,286,646 Ordinary Shares at a price of 55.8 pence per Ordinary Share. The Warrant Instrument also provided for cashless and nominal exercise mechanics. The efficiency of the nominal exercise mechanic is currently rendered of little economic use given the high nominal value of the Ordinary Shares; equally the Company was keen to avoid any use of the cashless exercise mechanic. Accordingly, it was agreed that if the Company reduced the nominal value of its Ordinary Shares to 10 pence or less, Macquarie would waive the right to a cashless exercise of the warrants. The passing of this Resolution will fulfil the Company's obligations to Macquarie and have no economic effect on Shareholders.

Proposed business of the Annual General Meeting continued

Resolution 10 – authority to issue shares
At the Annual General Meeting held on 20 June 2011, the Directors were authorised, in accordance with section 551 of the 2006 Act, to allot Ordinary Shares, grant rights to subscribe or to convert any security into Ordinary Shares up to an aggregate nominal amount of £26,720,620. This authority expires at the conclusion of this Annual General Meeting.

Subject to and conditionally upon the passing of Resolution 9, it is therefore proposed to revoke the existing authority and replace it with a new authority, granted under section 551 of the 2006 Act, which will allow the Directors to allot New Ordinary Shares and to grant rights to subscribe for or to convert any securities into New Ordinary Shares up to an aggregate nominal amount of £5,406,830 representing approximately one third of the issued ordinary share capital of the Company immediately after the passing of Resolution 9 and a further aggregate nominal amount of £5,406,830 representing approximately a further third of such issued share capital, which will be available only for rights issues and other pre-emptive issues of equity shares.

The proposal that the authority to allot new New Ordinary Shares shall extend to a further third of the issued share capital immediately after the passing of Resolution 9 is in accordance with the guidelines issued by the Association of British Insurers (**"ABI"**) which confine the use of this amount to rights issues only. The Directors have no present intention of exercising this authority. However, if they do exercise the authority, the Directors intend to follow the emerging best practice as regards its use (including as regards Directors standing for re-election) as recommended by the ABI and the National Association of Pension Funds.

Assuming the passing of the Resolution, the new authority will expire 15 months from the date of the passing of the Resolution or until the conclusion of the next annual general meeting, if earlier, and will revoke all previous authorities to the extent that they have not already been utilised apart from other specific authorities taken in respect of outstanding warrants and options which will continue unaffected. The Directors have no present intention of issuing any share capital of the Company, but the passing of this Resolution will enable the Directors to take advantage of any opportunities which may arise.

Resolution 11 – disapplication of pre-emption rights
Section 561 of the 2006 Act contains pre-emption rights that require all equity shares which it is proposed to allot for cash to be offered to existing shareholders in proportion to existing shareholdings, unless a special resolution is passed to disapply such rights. Such rights do not apply to an issue otherwise than for cash, such as an issue in consideration of an acquisition. The Directors believe that these requirements are too restrictive and, it is proposed that, subject to the passing of Resolution 9, the Directors should be able to allot shares amounting to no more than an aggregate nominal amount of £2,433,073 representing approximately 15 per cent. of the equity share capital of the Company (including treasury shares) immediately after the passing of Resolution otherwise than on a pre-emptive basis.

In addition, it is customary to disapply the statutory pre-emption rights altogether, and substitute similar non-statutory provisions because, for technical reasons, the statutory rights are difficult to apply in certain circumstances. The proposed Resolution therefore provides that all allotments for cash in excess of the 15 per cent. limit, must be in the form of rights issues, open offers or other pre-emptive issues except for the one third of the existing issued share capital reserved only for rights issues in accordance with the previous Resolution, and free of the statutory constraints. The broadening of the proposed Resolution to include pre-emptive issues other than rights issues is a departure from the strict wording of the ABI guidelines which is limited to rights issues, which the Directors regard as too restrictive, especially as AIM companies normally make open offers and not rights issues. The above departures in Resolutions 10 and 11 from the strict wording of the ABI guidelines should not be taken to indicate that they are being disregarded, but rather that the proposed Resolutions are designed to provide greater flexibility for the Directors to determine the form of any future pre-emptive issues in the light of market conditions and practice, at the time such an issue may be proposed.

Resolution 12 – off-market purchase of New Deferred Shares
As outlined above in relation to Resolution 9, and subject to the passing of that Resolution, the Company will have the right to purchase all the issued New Deferred Shares from all Shareholders for an aggregate consideration of one penny. As such, the New Deferred Shares effectively have no value. Resolution 12 proposes that the Company be authorised to make off-market purchases of the New Deferred Shares pursuant to the terms of the Contract (as defined in the Notice of Annual General Meeting).

Action to be Taken
A Form of Proxy for use at the Annual General Meeting is enclosed. If you are a Shareholder you are advised to complete and return the form in accordance with the instructions printed on it so as to arrive at the Company's registrars, Computershare Investor Services plc, The Pavilions, Bridgwater Road, Bristol BS99 6ZY, as soon as possible, but in any event no later than 10:30 am on 14 August 2012. Alternatively, you may e-mail or fax your completed proxy form by following the instructions in Note (3) to the Notice of Annual General Meeting.

Such an electronic appointment must also be made no later than 10:30 am on 14 August 2012.

The return of a Form of Proxy or the electronic appointment of a proxy does not preclude you from attending and voting at the Annual General Meeting if you so wish.

Recommendation
The Directors consider the Resolutions to be proposed at the Annual General Meeting to be in the best interests of the Company and its Shareholders. Accordingly, the Directors unanimously recommend Shareholders to vote in favour of all the Resolutions, as they intend to do in respect of their own beneficial holdings comprising 38,684,847 Ordinary Shares, representing approximately 23.85% of the issued share capital of the Company. In addition, Nexen Petroleum UK Limited, which holds 39,714,290 Ordinary Shares, representing approximately 24.8% of the issued share capital, has agreed to vote in favour of all of the Resolutions.

Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting of IGas Energy plc will be held at the offices of Morrison & Foerster (UK) LLP, CityPoint, One Ropemaker Street, London EC2Y 9AW at 10:30 am on Thursday 16 August 2012 to consider, and if thought fit, pass the following Resolutions of which Resolutions 1 to 10 will be proposed as ordinary resolutions and Resolutions 11 and 12 will be proposed as special resolutions.

Ordinary business

1. To receive and adopt the Company's Annual Report and Accounts for the 15 month period ended 31 March 2012 and the Directors' Report, and the Independent Auditors' Report on those accounts.

2. To receive and approve the Remuneration Report of the Directors for the 15 month period ended 31 March 2012 and the Independent Auditors' Report on the auditable part of the Remuneration Report.

3. To reappoint as a Director, John Hamilton, who is retiring by rotation in accordance with Article 38 of the Company's Articles of Association and who being eligible is offering himself for reappointment.

4. To reappoint as a Director, Francis Gugen, who is retiring by rotation in accordance with Article 38 of the Company's Articles of Association and who being eligible is offering himself for reappointment.

5. To reappoint as a Director, Stephen Bowler, who is retiring by rotation in accordance with Article 33.2 of the Company's Articles of Association and who being eligible is offering himself for reappointment.

6. To reappoint as a Director, Robin Pinchbeck, who is retiring by rotation in accordance with Article 33.2 of the Company's Articles of Association and who being eligible is offering himself for reappointment.

7. To reappoint Ernst & Young LLP as auditors of the Company from the conclusion of this Meeting until the conclusion of the next annual general meeting of the Company at which accounts are laid.

8. To authorise the Directors to determine the remuneration of the auditors.

9. That each of the existing Ordinary Shares of 50p each be subdivided into one ordinary share of 10p each in nominal value having the same rights as the existing Ordinary Shares and one deferred share of 40p each in nominal value having the rights and restrictions of deferred shares as set out in the Articles.

10. That, subject to and conditionally upon the passing of Resolution 9, in substitution for all existing authorities for the allotment of shares by the Directors, which are hereby revoked but without prejudice to any allotment, offer or agreement already made pursuant thereto, the Directors of the Company be and are hereby generally and unconditionally authorised, pursuant to section 551 of the Companies Act 2006 (the **"2006 Act"**) to exercise all the powers of the Company to:

    (A) allot shares in the Company and to grant rights to subscribe for or to convert any security into such shares (all of which transactions are hereafter referred as an allotment of "relevant securities") up to an aggregate nominal amount of £5,406,830; and

    (B) allot equity securities (within the meaning of section 560(1) of the 2006 Act) up to an aggregate nominal amount of £5,406,830 in connection with a rights issue or other pre-emptive offer which satisfies the conditions and may be subject to all or any of the exclusions specified in paragraph (B)(1) of the next following Resolution,

    in each case for a period expiring (unless previously renewed, varied or revoked by the Company in general meeting) 15 months after the date of the passing of this Resolution or at the conclusion of the next annual general meeting of the Company following the passing of this Resolution, whichever occurs first, provided that the Company may before such expiry, variation or revocation make an offer or agreement which would or might require such relevant or equity securities to be allotted after such expiry, variation or revocation and the Directors may allot relevant or equity securities pursuant to such an offer or agreement as if the authority conferred hereby had not expired or been varied or revoked.

Special business

11. That, subject to and conditionally upon the passing of Resolution 10, the Directors are hereby empowered pursuant to section 570 of the 2006 Act to allot equity securities (as defined by section 560 of the 2006 Act) for cash pursuant to the authority conferred by Resolution 10 as if section 561 of the 2006 Act did not apply to any such allotment provided that such power:

    (A) shall, subject to the continuance of the authority conferred by Resolution 10, expire 15 months after the passing of this Resolution or at the conclusion of the next annual general meeting of the Company following the passing of this Resolution, whichever occurs first, but may be previously revoked or varied from time to time by special resolution but so that the Company may before such expiry, revocation or variation make an offer or agreement which would or might require equity securities to be allotted after such expiry, revocation or variation and the Directors may allot equity securities in pursuance of such offer or agreement as if such power had not expired or been revoked or varied; and

Notice of Annual General Meeting continued

(B) shall be limited to:

(1) the allotment of equity securities of up to an aggregate nominal amount of £5,406,830 pursuant to a rights issue, open offer, scrip dividend scheme or other pre-emptive offer or scheme which is in each case in favour of holders of Ordinary Shares and any other persons who are entitled to participate in such issue, offer or scheme where the equity securities offered to each such holder and other person are proportionate (as nearly as may be) to the respective numbers of Ordinary Shares held or deemed to be held by them for the purposes of their inclusion in such issue, offer or scheme on the record date applicable thereto, but subject to such exclusions or other arrangements as the Directors may deem fit or expedient to deal with fractional entitlements, legal or practical problems under the laws of any overseas territory, the requirements of any regulatory body or stock exchange in any territory, shares being represented by depositary receipts, directions from any holders of shares or other persons to deal in some other manner with their respective entitlements or any other matter whatever which the Directors consider to require such exclusions or other arrangements with the ability for the Directors to allot equity securities and sell relevant shares not taken up to any person as they may think fit; and

(2) the allotment of equity securities for cash otherwise than pursuant to sub-paragraph (B)(1) up to an aggregate maximum nominal amount of £2,433,073.

12. That, subject to and conditionally upon the passing of Resolution 9, the Company be generally and unconditionally authorised to make off-market purchases (within the meaning of section 163(1) of the 2006 Act) of all issued New Deferred Shares (being 162,204,909 New Deferred Shares) pursuant to the terms of a draft contract produced to the meeting and initialled by the Chairman for the purposes of identification (the **"Contract"**) the terms of which Contract are hereby approved for the purposes of section 163 of the 2006 Act generally. The authority hereby conferred shall expire on the earlier of fifteen months after the passing of this Resolution or the close of the next annual general meeting of the Company.

20 July 2012

By Order of the Board

MoFo Secretaries Limited
Company Secretary

Registered Office:
7 Down Street
London
W1J 7AT

NOTES

(1) A member entitled to attend and vote at the meeting may appoint one or more proxies to attend and, on a poll, vote instead of him. A proxy need not also be a member. A Form of Proxy is enclosed.

(2) The Form of Proxy, if used, and the power of attorney or other authority (if any) under which it is signed or a certified copy of such power or authority most be lodged at Computershare Investor Services PLC at The Pavilions, Bridgwater Road, Bristol BS99 6ZY, or, (during normal business hours) by hand, to Computershare Investor Services PLC at The Pavilions, Bridgwater Road, Bristol BS99 6ZY not less than 48 hours before the time fixed for holding the meeting.

(3) Completing and returning a Form of Proxy will not preclude a member from attending in person at the meeting and voting should he or she wish to do so.

(4) The Form of the Proxy must be signed and dated by the shareholder or his/her attorney duly authorised in writing, if the shareholder is a company, it may execute under its common seal, by the signature of a director and its secretary or two directors or other authorised signatories in the name of the company or by the signature of a duly authorised officer or attorney. In the case of joint holders, the vote of the senior who tenders a vote, whether in person or in proxy, will be accepted to the exclusion of the votes of the other joint holders and for this purpose seniority will be determined by the order in which the names stand in the register of members in respect to the joint holding. Names of all joint holders should be stated.

(5) Members who hold Ordinary Shares in the Company in uncertificated form must have been entered on the Company's register of members by 6.00 p.m. on 14 August 2012 in order to be entitled to attend and vote at the meeting. Such members may only vote at the meeting in respect of Ordinary Shares in the Company held at the time, if the meeting is adjourned, the time by which a person must be entered on the register of members in order to have the right to attend or vote at the adjourned meeting is 48 hours before the date fixed for the adjourned meeting. Changes to entries on the register of members after such times shall be disregarded in determining the rights of any person to attend or vote at the meeting.

(6) In the absence of instructions, the person appointed proxy may vote or abstain from voting as he or she thinks fit on the Resolutions and, unless instructed otherwise, the person appointed proxy may also vote or abstain from voting as he or she thinks fit on any other business (including amendments to any Resolution) which may properly come before the meeting.

(7) If you wish to appoint as your proxy someone other than the Chairman of the meeting, cross out the words "the Chairman of the meeting' in the Form of Proxy and write on the dotted line the full name and address of your proxy. The change should be initialed.

(8) If two or more valid Forms of Proxy are delivered in respect of the same Ordinary Share, the one which was delivered last (regardless of its date or the date of its execution) will be valid, to the exclusion of any ones previously delivered.

Glossary

£	The lawful currency of the United Kingdom
1C	Low estimate or low case of Contingent Recoverable Resource quantity
2C	Best estimate or mid case of Contingent Recoverable Resource quantity
3C	High estimate or high case of Contingent Recoverable Resource quantity
AIM	AIM market of the London Stock Exchange
Bcf	Billions of standard cubic feet
CBM	Coal bed methane
Contingent Recoverable Resource	Contingent Recoverable Resource estimates are prepared in accordance with the Petroleum Resources Management System (PRMS), an industry recognised standard. A Contingent Recoverable Resource is defined as discovered potentially recoverable quantities of hydrocarbons where there is no current certainty that it will be commercially viable to produce any portion of the contingent resources evaluated. Contingent Recoverable Resources are further divided into three status groups: marginal, sub-marginal, and undetermined. IGas' Contingent Recoverable Resources all fall into the undetermined group. Undetermined is the status group where it is considered premature to clearly define the ultimate chance of commerciality.
	All amounts shown in this annual report have been compiled by statistical aggregation
DECC	Department of Energy and Climate Change
GIIP	Gas initially in place
IGL	The Company's subsidiary holding all its licences
MMboe	Millions of barrels of oil equivalent
MMscfd	Millions of standard cubic feet per day
PEDL	United Kingdom petroleum exploration and development licence
Scf	Standard cubic feet
Tcf	Trillions of standard cubic feet of gas
UK	United Kingdom

Notes

General information

Directors

F R Gugen	– Non-Executive Chairman
A P Austin	– Chief Executive Officer
J Blaymires	– Chief Operating Officer
S Bowler	– Chief Financial Officer
R J Armstrong	– Non-Executive
J Bryant	– Non-Executive
J A Hamilton	– Non-Executive
R Pinchbeck	– Non-Executive

Company Secretary

Mofo Secretaries Limited
Citypoint
One Ropemaker Street
London EC2Y 9AW

Nominated Adviser and Broker

NOMAD and Joint Broker
Jeffries Hoare Govett
Vintners Place
68 Upper Thames Street
London EC4V 3BJ

Joint Broker
Canaccord Genuity
88 Wood Street
London EC2V 7QR

Registrars

Computershare Investor Services PLC
The Pavilions
Bridgwater Road
Bristol BS13 8AE

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London SE1 2AF

Public Relations

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Copies of Reports and Accounts

Further copies of this Annual report and accounts can be obtained from the Registered Office of IGas Energy plc (IGas Energy).

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