

Unlocking Britain's Energy Potential

Annual report
and accounts
2012/13





IGas Energy is a leading British oil and gas explorer and developer, producing ca. 3,000 boepd from over 100 sites across the country, with significant potential still to be delivered from our assets.

IGas is extremely well positioned for the future as we move closer to unlocking Britain's untapped unconventional oil and gas resources.

Our own technical studies support the view, recently substantiated by the British Geological Survey estimates, that our North West licences have a very significant shale gas in-place volume. This in turn, has the potential to transform the company, create value for our shareholders and materially benefit the communities in which we operate.

For more information visit:
www.igasplc.com



Highlights

Revenue – 12 months to 31 March 2013

£68.3 million

Production – year to 31 March 2013

901,540 boe*

* Includes one month's production from P.R. Singleton

Number of staff

162



Operational highlights

- » Acquisition of P.R. Singleton from Providence Resources for US\$66m
- » Progress on “Chase the Barrels” initiative
- » Proven reserves growth of 30% from 6.1 to 7.9 MMboe over the period 1 January 2012 to 30 June 2012¹
- » Gas Initially In-Place (“GIIP”) for NW shale acreage up to 170 Tcf²
- » Drilling programme to commence in Q4 2013 to refine estimates
- » Government initiatives to support development of shale gas

Financial highlights^{3,4}

- » Revenue of £68.3m (2012: £22.1m)
- » Total Production c902mboe (2012: c280mboe)
- » EBITDA⁵ of £31.9m (2012: £13.0m)
- » Underlying operating profit⁶ of £22.1m (2012: £5.4m)
- » Net cash from operating activities £28.9m (2012: used in operating activity £2.6m)
- » Net debt⁷ of £77.4m (2012: £67.1m)
- » Refinancing of Macquarie debt through \$165m 5yr bond issue
- » Successful placing of £23.1m gross in January

- 1 Adjusted for production (production in the six month period to 30 June 2012 of 0.46mmstb)
- 2 For further detail on the range of estimates see table in ‘Appraisal of wider resources’ in the CEO Review
- 3 On 28 February 2013, the Company completed the acquisition of PR Singleton from Providence Resources plc and therefore the 2013 results reflect one month's contribution from PR Singleton
- 4 The figures for 2012 reflect the 15 month period to 31 March 2012. The Star Energy acquisition completed on 14 December 2011 and therefore the March 2012 results reflect only 3.5 months of results from Star Energy
- 5 EBITDA relates to earnings before net finance costs, tax, depletion, depreciation and amortisation
- 6 Underlying operating profit excludes the profits/(losses) on oil price swaps, acquisition costs and impairment of exploration and evaluation assets
- 7 Net debt is borrowings less cash and restricted cash

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Overview

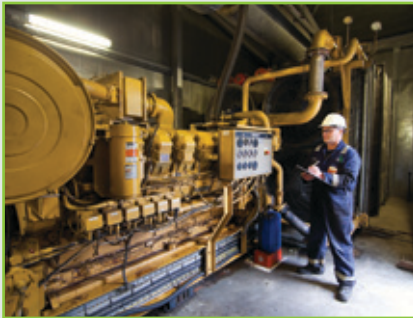
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IGas Group at a Glance

Our areas of operation



East Midlands

In the East Midlands we have two primary production areas: Welton and Gainsborough.

Oil and gas has been produced in the East Midlands since 1959 and current production from this area accounts for approximately 50% of the Group's total current production.

The Welton area is made up of six fields and a gathering centre where 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 11 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.



Weald Basin

Based in southern England, the Weald Basin is the source of approximately 50% of our current production.

There are 11 fields ranging from Stockbridge, near Winchester, in the west to Palmers Wood near Gatwick in the east and now includes the Singleton field. The area has produced more than 29 million barrels of oil to date. 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 an additional revenue stream.



North West/Staffs

In the North West we have nine onshore licences and one offshore, located in the counties of Cheshire, Flintshire and Staffordshire, that contain the Carboniferous Coal Measures and Bowland-Hodder shales.

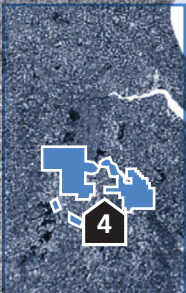
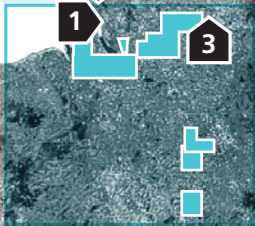
The total area under licence in this region is 1,259km² (approximately 311,000 acres), with the Company owning 100% working interest in all licences. Our recent review of 300 square miles of this acreage gives an estimate of Gas Initially In-Place of up to ca.170 Tcf¹, with an average mid case in place volume of ca. 340 Bcf/square mile ranging from 93 Bcf/square mile to 677 Bcf/square mile.

¹ For further detail on the range of estimates see table in 'Appraisal of wider resources' in the CEO Review

North West/Staffs



East Midlands



Weald Basin



- 1. Ellesmere Port
- 2. Liverpool
- 3. Manchester
- 4. Lincoln
- 5. Southampton
- 6. Portsmouth
- 7. Brighton

A Year in Review

Key milestones

During the year our “Chase the Barrels” initiative has identified numerous opportunities to enhance production and recovery, for example, field optimisation models have been developed which help highlight production efficiencies and identify lost production opportunities.

April 2012

Encouraging results from interpretation of logs from Ince Marshes-1

July 2012

Robin Pinchbeck appointed to the Board as a Non-Executive Director

September 2012

Signed Heads of Terms Agreement with Providence Resources to acquire P.R. Singleton Limited for US\$66m

December 2012

Establishment of the government’s new Office of Unconventional Gas and Oil

Department of Energy & Climate Change (“DECC”) lifts the restrictions on hydraulic fracturing

Cuth McDowell appointed to the Board as Non-Executive Director and Chairman of the Audit Committee

January 2013

Successful fundraising of ca. £23m at 95p per share

February 2013

Completion of the acquisition of P.R. Singleton Limited from Providence Resources

March 2013

Arrangement of a five year US\$165m senior secured bond

April 2013

Confirmed plans to spud two exploration wells in the North West subject to results and permitting

May 2013

Institute of Directors (“IoD”) issues ‘Getting Shale Gas Working’ report

June 2013

Announced our shale Gas Initially In-Place (“GIIP”) estimates for North West acreage

British Geological Survey ‘The Carboniferous Bowland Shale gas study: geology and resource estimation’ released

UKOOG Community Engagement Charter signed

Government announces package of community incentives, guidelines on permitting and planning and launches consultation on tax incentives in support of the industry



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Gas from Shale

The unlocked opportunity for Britain

“Shale gas could represent a multi-billion pound investment, create tens of thousands of jobs, reduce imports, generate significant tax revenue and support British manufacturing. It could potentially meet a third of the UK’s gas demand with a very small surface footprint, benefitting the environment at the same time.”

Source IoD Report: ‘Getting Shale Gas Working’

IGas – helping to unlock Britain’s shale gas potential

Britain has a heritage of onshore and offshore oil and gas production that dates back to 1851, and one that has had a profound effect on the economy of the country. From the wartime exploration of onshore oil, through to the development of the largest onshore oil and gas field in Europe at Wytch Farm in Dorset, the UK has had a gold standard of safe operation of oil and gas fields across the country.

IGas is currently the operator of the largest number of onshore oil and gas wells in Britain. Oil and gas has been safely explored, developed and produced at our sites for over 40 years.

Now IGas is set to be a key player in the development of previously untapped British resources in the form of natural gas contained within shale formations underneath Britain. Our management and technical teams are well placed to take this next step in onshore energy production, which has the potential to deliver economic and social benefits across the country.

Delivering for the British economy

Natural gas from shale is potentially a major asset for Britain. The most recent study by the British Geological Survey (“BGS”) confirmed that there are estimated to be 1,300 trillion cubic feet (“Tcf”) of shale gas resources lying under the North of England, a significant upwards revision of previous estimates. Our own studies show that within 300 square miles of our licence areas, between Manchester and Liverpool, there is gas in-place of up to ca. 170 Tcf¹. With Britain’s total gas use of ca. 3 Tcf a year and imports running at 1.5 Tcf per year and rising, it is clear this is a material national resource and has the potential to make a significant impact for the nation. The size of the recoverable resources is limited by factors such as technology and economics. Using the Institute of Directors (“IoD”) report estimates, of a recovery rate of 10%, this resource could have the potential to make a meaningful contribution to the UK economy, improving our balance of payments, delivering tax revenues, economic growth, and a significant number of jobs.

Shale gas – an important part of our energy mix

Gas from shale deposits could significantly decarbonise the economy by moving the energy generation mix away from coal towards gas. This has the potential to aid our ability to meet our greenhouse gas emission commitments. The impact of shale gas in decarbonising an economy has already been experienced in the United States.

At IGas we want to play our part in diversifying the UK’s energy mix and reducing our reliance on imported resources. An energy diverse Britain is a secure Britain and gas from shale can play its part in helping to bring stability to the UK energy market and pricing environment. Transporting gas results in a higher carbon footprint than domestically produced gas.

“Gas import dependency could be reduced from 76% to 37% by 2030.”

Source IoD Report: ‘Getting Shale Gas Working’

Developing Britain’s shale gas resources will complement, not replace, investment in renewable energy.

Clean and safe production

Whilst shale gas has the potential to offer enormous benefits, it is understandable that many people have questions over both its extraction and its production.

Britain has one of the world’s most stringent regulatory regimes for onshore and offshore oil and gas extraction. IGas always works within this framework and will continue to adhere to the strict environmental and safety codes in the next phase of the Company’s development.

The advent of the combination of horizontal drilling and hydraulic fracturing has enabled the successful development of shale gas resources elsewhere in the world. Both these technologies have been used in Britain for many years without incident and are well understood by operators and regulators.

Seismic activity

There are naturally occurring seismic movements documented on a daily basis across Britain. In March 2013 alone there were 16 tremors across the British Isles of greater intensity than that picked up near Blackpool and Fylde in 2011, attributed to shale gas-drilling.

“Tremors of this level are not felt and that incident was the equivalent of someone ‘jumping off a ladder’.”

Source: Professor Richard Davies from Durham University’s Energy Institute

Some one million wells have used hydraulic fracturing worldwide since 1949 (American Petroleum Institute), when the technique was introduced. There have been only a few cases of minor seismic activity linked to this process and in no cases has it resulted in any surface impact.

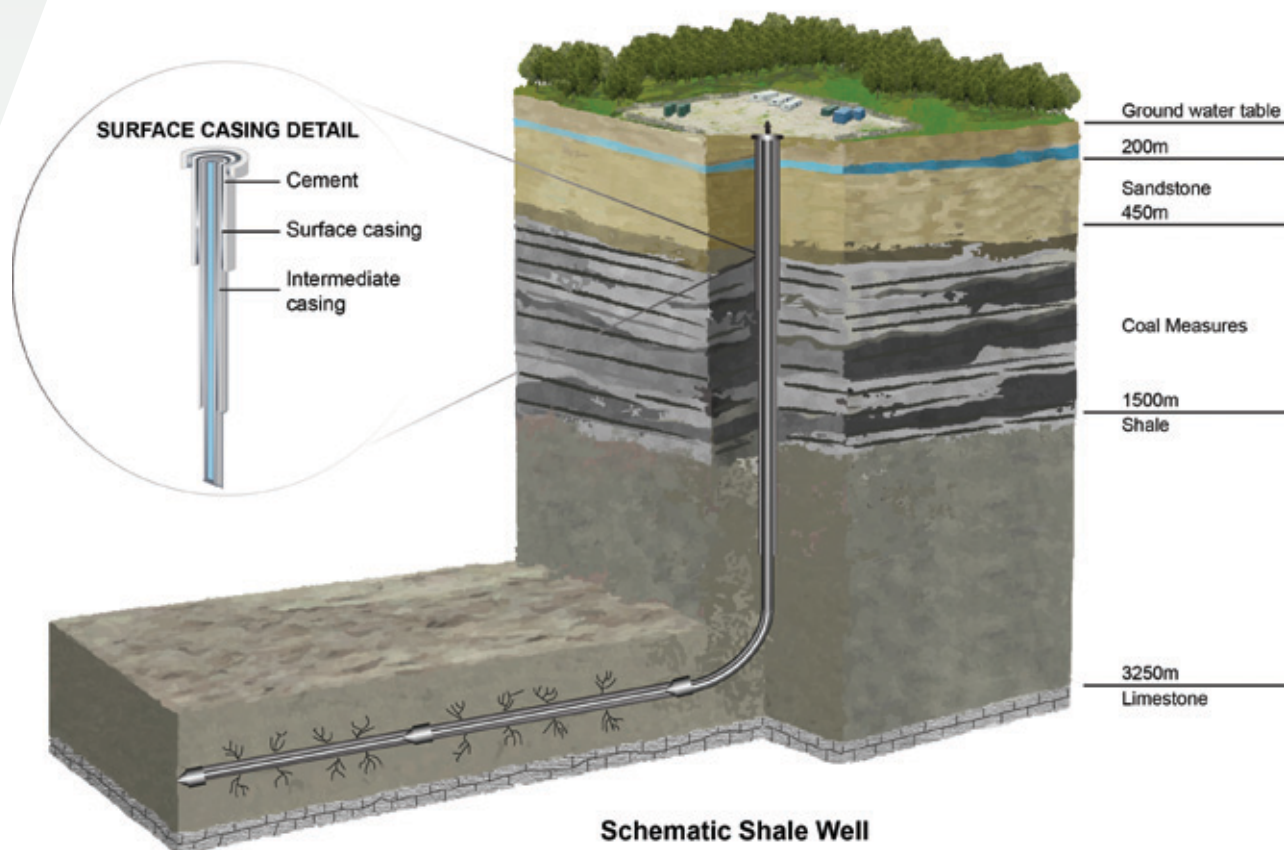
“The health, safety and environmental risks associated with hydraulic fracturing (often termed ‘fracking’) as a means to extract shale gas can be managed effectively in the UK as long as operational best practices are implemented and enforced through regulation. Hydraulic fracturing is an established technology that has been used in the oil and gas industries for many decades. The UK has 60 years’ experience of regulating onshore and offshore oil and gas industries.”

Source: The Royal Society

Water quality

IGas considers the security of our water supply to be paramount. In Britain, we operate under some of the world’s strictest regulations, as well as our own very high safety and environmental standards. Unlike some parts of the US, in the UK there is typically more than a mile of rock between the shale beds and the overlying fresh water

¹ For further detail on the range of estimates see table in ‘Appraisal of wider resources’ in the CEO Review.



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aquifer. Hydraulic fracturing has been carried out on over a million wells and studies by the U.S. Environment Protection Agency ("EPA") and the Ground Water Protection Council have confirmed no direct link between hydraulic fracturing operations and groundwater impacts (American Petroleum Institute). In February, we signed up to the UKOOG industry guidelines covering best practice for shale well operations in the UK.

The guidelines, which include hydraulic fracturing and the public disclosure of fracture fluid chemical composition, were written by a high level workgroup which included operating and service companies with input from The Department of Energy and Climate Change ("DECC"), The Health and Safety Executive ("HSE"), The Environment Agency ("EA") and the Scottish Environment Protection Agency ("SEPA").

Environmental impact

As discussed, the introduction of shale gas into the UK's energy mix could have a positive effect on the UK's current emissions levels, as has been the case in the United States. Not only will domestically produced gas have lower emissions than imported gas but electricity generated from gas results in half the level of CO₂ emissions than that generated by burning coal, which currently accounts for 31% of Britain's generating capacity. Developing our shale gas resources will help us move away from coal fired generation, complement not replace investment in renewable energy and help to make a meaningful impact in decarbonising our economy.

Between 2005 and 2010, US CO₂ emissions fell by 403 million tonnes, greater than the 318 million tonne fall in the EU over the same period. Between 2005 and 2012, US electricity generation from coal fell by 25%, while electricity generation from natural gas rose by 62% and from renewables by 38%. *Source IoD Report: 'Getting Shale Gas Working'*

"If production is well regulated, shale gas can have lower emissions than imported LNG."

Source IoD Report: 'Getting Shale Gas Working'

One of Britain's advantages is the density of our shale resources. In certain areas, the shale section in the UK is up to 10 times the average thickness of that in America meaning that from a single site above ground it should be possible to extract far more gas. The IoD has quoted that '100 pads would need 200 hectares' across Britain. This would equate to an area of only ca. 500 acres, equivalent to the size of the Trafford Centre in Greater Manchester.

"A two-hectare site could potentially support a 10-well pad and a production phase of 100 such pads would require just 200 hectares, or two square kilometres."

Source IoD Report: 'Getting Shale Gas Working'

Industry working with local communities

A binding industry charter for UKOOG members has been developed, covering the minimum standards of engagement required with local communities alongside a community benefits scheme. The Charter sets out the minimum standards that communities can expect from shale gas operators that display the UKOOG logo. The Charter covers how operators will communicate and engage and also makes commitments with respect to local logistics, adherence to health and safety regulations, compliance with environmental regulations, local needs and jobs. The benefits mechanism is based on a 1% share of revenue from producing wells, before all costs of production are taken into account.

IGas is committed to its social licence to operate, which means honest engagement with, and commitment to, our neighbouring communities.

Chairman's Statement

Building our Company



"If we get this right, in future I believe the world could look to the UK as the gold standard for a well regulated and safe shale gas industry that benefits local communities and the nation."

Dan Byles Member of Parliament for North Warwickshire and Bedworth
Chair, All-Party Parliamentary Group for Unconventional Gas and Oil

£68.3 million
(Revenue)

Since I reported to you this time last year, IGas' conventional production has remained strong and the Company is at the heart of the UK's shale revolution, which has now been recognised by both government and industry as having a potentially major impact on the country.

During the year, the strong performance of our conventional assets continued, augmented by the acquisition of PR Singleton in February. This acquisition further consolidated our position as a leading onshore oil and gas company across Britain and has given us a material increase in both reserves and production.

IGas has enjoyed solid growth as demonstrated by its financial results with revenues of £68.3m in the year compared with £22.1m in the previous period.

Our unconventional resources have also had an important fillip from the active support the Government is now giving to shale gas in particular. Since the lifting of the restrictions on hydraulic fracturing in December, we have seen a step change in the political backdrop and geological understanding of shale gas in this country. The Department of Energy and Climate Change ("DECC") has established the Office of Unconventional Gas and Oil, which aims to promote the safe, responsible, and environmentally sound recovery of the UK's unconventional oil and gas. DECC published its own report in April, which acknowledged the substantial benefits that shale gas can offer to the UK. Natural gas from shale has the potential to transform the UK's energy market, boost the economy, create thousands of jobs, generate significant tax revenues, reduce our reliance on imported gas and reduce CO₂ emissions by allowing a move from coal to gas fired electricity generation.

The recent news that Centrica, Britain's biggest energy provider with the largest retail supply business in this country, has acquired a 25% interest in the Bowland exploration licence (PEDL165), in Lancashire from Cuadrilla Resources Ltd and AJ Lucas for £100m in cash and future commitments, is a significant step forward for onshore oil and gas development in Great Britain.

With the political environment surrounding shale gas in the UK developing positively, the results of our recent studies of potential shale gas in-place at our licences in the North West, referred to further below, was very timely, and highlights the significant potential opportunity for IGas in this area. In addition to the main Bowland basin, we have also identified prospective shale horizons across our licence areas in both the East Midlands and the Weald Basin.

Financing

In January this year, we completed a successful placing, with new and existing institutional investors, raising a total of £23.1m (gross). Given the significant developments around shale, we believed the time was appropriate to ensure that we were in a position to be able to further demonstrate the potential of our resource base ahead of any farm-out. The proceeds of the placing, along with cash flow from the Company's conventional asset portfolio and the Company's existing cash, will enable us to conduct a work programme towards achieving this objective.

We also completed the arrangement of a five year, US\$165m senior secured bond which enabled us to refinance the Company's existing debt.

Board changes

During the year, we strengthened the independence of the Board with the appointments of Robin Pinchbeck and Cuth McDowell as Non-Executive Directors. Robin has 39 years of international experience in the industry, having held a range of leadership positions in both the oil and oil-services sectors. Cuth McDowell is a highly experienced international Exploration and Production executive.

Richard Armstrong and John Hamilton, both Non-Executive Directors, stepped down during the period and on behalf of the Board I would like to thank them both for their valued contributions over the last few years.

People

A company is dependent upon its management and employees for the execution of its strategy, and on its culture for the way in which its results are achieved. We now employ over 160 people across the business working in different environments all of whom work to exacting standards. I would like to take this opportunity to thank them all for the sterling work they do, and the care with which they do it.

Outlook

Since the year end, we have announced the results of our studies of the shale under our licences in the North West, and have shown a potential for gas in-place volumes of up to ca. 170 Tcf¹. We must now undertake further drilling to refine these estimates and advance our understanding of this significant potential shale basin. We will commence drilling in the fourth quarter of this year.

It is important to understand that we have been safely exploring, developing and producing energy onshore at our conventional sites for four decades, working sensitively and in collaboration with local communities throughout that time. We continue to inform and engage with these communities and are now working within the new UKOOG Charter to establish how those communities can receive and share in the benefits that shale gas may bring.

We believe we have both the experience and the expertise to unlock the potential of Britain's untapped natural resources and help to secure Britain's energy future while creating value for our shareholders and positively contributing to the economy.

Francis Gugen
Non-Executive Chairman

¹ For further detail on the range of estimates see table in 'Appraisal of wider resources' in the CEO Review



Chief Executive Officer's Review

Harnessing our experience



"We move closer to unlocking Britain's untapped unconventional resources, whilst continuing to deliver on our conventional assets."

Over the past 12 months we have had a busy and productive year as evidenced by our solid financial results. We have also made considerable progress in delivering our strategic objectives. As a result, we believe we are extremely well positioned for the future as we move closer to unlocking Britain's untapped unconventional resources, whilst continuing to deliver on our conventional assets, which is the foundation of our business.

There have been significant recent developments in the UK with the lifting of restrictions on exploration for shale gas announced by the UK government on 13 December 2012 and the establishment of the government's Office of Unconventional Gas and Oil. In the Chancellor's Budget statement, he outlined how the government was looking to assist the industry to take the next steps in assessing this resource by bringing forward proposals in respect to community benefits, planning guidelines and appropriate taxation. At the time of writing the government has already announced its intention to introduce a more streamlined planning process and tax allowances and we continue to work closely with all the relevant government departments. IGas has confirmed its commitment to the recently launched industry Charter which sets out the minimum standards communities can expect from operators. We understand further detail will be given by the government later this month as part of its consultation process.

The government's Energy and Climate Change Select Committee published a Report: 'The Impact of Shale Gas on Energy Markets' in April which acknowledged the substantial benefits to the UK that shale gas could offer. It concluded that natural gas from shale has the potential to transform the UK's energy

market, boost the economy, create thousands of jobs, generate significant tax revenues and reduce our reliance on imported gas. The Committee itself is keen to see exploration proceed quickly in order to validate current estimates and establish the potential of shale gas in the UK.

"The Government welcomes the recent investment in the industry by Centrica, which demonstrates the attractiveness of the Bowland Shale as an investment proposition".

HM Treasury, 'Investing in Britain's future'

In February, the United Kingdom Onshore Operators Group ("UKOOG"), the representative body for UK onshore oil and gas companies, was re-launched to expand its scope to reflect the increased importance of onshore oil and gas exploration to the UK economy. For the first time, UKOOG published industry guidelines covering best practice for shale well operations in the UK. The guidelines, which include hydraulic fracturing and the public disclosure of fracture fluid composition, were formed by a collaboration of operating and service companies with input from The Department of Energy and Climate Change ("DECC"), The Health and Safety Executive ("HSE"), The Environment Agency ("EA") and the Scottish Environment Protection Agency ("SEPA").

I am particularly pleased with the progress we have made in developing our position in the exploration and evaluation of unconventional resources in the UK. After the year end we announced the results of our studies of the Lower Carboniferous shale, including the Bowland Shale, under our 100% owned licences in the North West of England. We have estimated the volume of Gas Initially In-Place ("GIIP") associated with the shales in the North West, including the Bowland Shale, could be up to as much as ca. 170 Tcf¹.

¹ For further detail on the range of estimates see table in 'Appraisal of wider resources' in the CEO Review

As we expand further onshore all our operations will continue to be run to the highest standards of safety, reliability and environmental management working in partnership with the communities in which we operate. We will continue to build our capability by recruiting and retaining the best people in the industry; and we will continue to focus on performance and delivering on our strategy.

Growing IGas Energy

Since the acquisition of Star Energy in 2011, the integration of which is now fully complete, we have continued to grow the business, acquiring PR Singleton Limited from Providence Resources for US\$66m earlier in the year. The assets included the ownership of 100% of PL240, including the Singleton field which is close to existing IGas sites in the south of England, and 50% of PEDL 233 including the Baxter's Copse and Burton Down fields. We were already selling all the oil produced at the Singleton field on behalf of Providence and therefore had a very good understanding of the field and its potential. We see considerable upside from Singleton alongside the additional resources in Baxter's Copse and Burton Down fields. Current production from the Singleton field is 520 bopd. The acquisition of Singleton plays an important part in our ability to exploit our significant potential resources by giving IGas a material increase in reserves and production with the associated cash flow to be used to develop all of our assets across Britain.

Importantly, in parallel with our reserves and resources growth, we have also grown our professional team in both oil and gas operations and in our corporate group. It is particularly rewarding to see the number of talented people IGas is attracting. This adds significant capability to our business and provides us with the professional skills and experience to execute our operations and initiatives efficiently and to the best industry standards. To this end, we have now centralised all our subsurface, drilling and land and planning staff in London which will enable yet greater collaboration between technical and operational teams.


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Chief Executive Officer's Review continued



In order to secure our ability to fund our future, and ensure that we are able to further demonstrate the significant potential of our resource base, we undertook refinancing projects in both equity and debt in the course of the year. In January we raised £23.1m by way of a placing of a total of 24,330,730 new ordinary shares at a price of 95 pence. The proceeds of the placing, along with cash flow from the Company's conventional asset portfolio, including Singleton, will enable IGas to conduct a work programme to further appraise our shale assets and further demonstrate the significant potential of our wider asset base across the country.

In March, we announced the arrangement of a five year, US\$165m senior secured bond to refinance our existing debt and give us additional flexibility. Subscribers included institutions and banks in London, Scandinavia and in the US.

Production

Production through the period (which includes only one month's contribution from Singleton) has continued to be robust, with an average for the period of 2,396 bopd and 2,470 boepd total production including electricity generation. This has been achieved with limited capital expenditure, with rates having been sustained through active well services management utilising IGas' own personnel and equipment.

Our "Chase the Barrels" initiative has identified numerous opportunities to enhance production and recovery, for example, field optimisation models have been developed which help highlight production efficiencies and identify lost production opportunities. A number of specific well opportunities have been highlighted and these are being verified and prioritised to form a series of workover/remediation programmes to unlock this additional potential (to date ca. 400 bopd has been identified).

Technical studies have also identified additional opportunities to add new production and reserves, for example, at Bletchingley-2 a recent extended well test which flowed for 15 days at up to 4.4 MMscf/d (750 boepd) has identified this accumulation as a future gas monetisation project which will be progressed in 2013/14.

A review of the portfolio illustrates the potential in the asset base. 25 of our conventional fields are estimated to have an in-place volume ("STOIP") of approximately 475 MMstb and the average recovery factor for the portfolio is approximately 18% (individual fields vary between ca. 5–55%). This suggests that there still remains a significant volume of oil to be recovered through detailed analysis and the application of current technology. For example, we have recently initiated a comprehensive field study of our Stockbridge assets which is aimed to identify further upside in this significant asset.

Reserves growth

Following in-house technical studies and continuing field performance in 2012, a subsequent independent Competent Persons Report issued in December 2012, resulted in proven reserves growth of 30% from 6.1 to 7.9 MMboe over the period 1 January 2012 to 30 June 2012, adjusted for production (production in the 6 month period to 30 June 2012 of 0.46 MMstb). In addition, the acquisition of P.R. Singleton Limited further added 4.3 mboe of 1P reserves.

Appraisal of wider resources

Significant progress continues to be made on the unconventional resources of the group both in terms of the subsurface understanding and the clarification by government in respect to the regulatory and planning process related to shale development.

Following completion of the Ince Marshes-1 well, we conducted an extensive evaluation programme of the shale potential in our North West licences. This work has involved detailed seismic analysis, including reprocessing many kilometres of existing 2-D seismic, biostrat and chemostrat studies, basin modelling as well as extensive petrophysical and geomechanical studies using data from existing wells across the North West. Using the geological model constructed by our technical team, this data has been analysed to give estimates of the reservoir characteristics of the shale formations, including the thickness of the shale.

Based on this model, we have estimated the volume of Gas Initially In-Place ("GIIP") associated with the shales in the North West, including the Bowland Shale.

GIIP	Low	Most likely	High
Tcf	15.1	102.0	172.3

These estimates cover an area of 300 square miles giving an average mid case in place volume of ca. 340 Bcf/square mile with a range of 93 Bcf/square mile to 677 Bcf/square mile across the IGas North West acreage.

We will commence a drilling programme later in the year, in the North West, which will help to further refine these estimates and advance our understanding of this shale basin. Long lead items such as wellheads and casings have now been ordered and negotiations with drilling and related service companies are nearing completion. Background monitoring and base line surveys in advance of drilling have already commenced.

We will also, in due course, carry out further analysis and reinterpretation of existing seismic and subsurface data to evaluate the potentially prospective shale resources in the East Midlands and Weald Basin licence areas.



The Doe Green pilot Coal Bed Methane ("CBM") site continues to produce gas and generate electricity. All three production wells, each of which is testing a separate seam, demonstrate that gas is flowing from the seams. The development of our CBM resources will be linked to and dependent on the progress made in demonstrating our shale resources.

Working with local communities

IGas has a long track record of engaging with neighbouring communities. Our workforce lives and works in the areas in which we operate, so the strength of our relationships with local residents is vital to us. In all areas, we work with local people through our Community Liaison Groups to ensure that our activities are understood and lead to real benefits for all. We operate these groups before and during the planning process and throughout our operations we are committed to in-depth and meaningful consultation and engagement.

We have committed to distribute several hundred thousand pounds a year in community projects in parishes adjacent to our sites, through an independently managed community fund. Details of our fund and some examples of the projects we have funded can be found in the Corporate Social Responsibility section of this Annual Report.

Since the year end, we were pleased to formalise our existing work in communities by signing up to the UKOOG Community Engagement Charter. This binding industry charter is a commitment to the communities that we work with ensuring that they understand what we are doing, how we are doing it and the steps we will take to mitigate concerns they may have around safety and the environmental impact of our operations.

Health and Safety

We continue to work extremely hard to ensure that our presence makes a meaningful and positive contribution to the areas in which we operate and is sustainable over the long term, core to which is our commitment to operate safely and reliably. There has been a low number of Lost Time Injuries ("LTIs") in the year and we are committed to minimising these incidents.

Outlook

The conventional fields remain a vital part of our business strategy and we have an active programme of investment to identify incremental opportunities to enhance production and grow our reserve base. The "Chase the Barrels" initiative has started to bear fruit and we will continue this initiative in the forthcoming year.

The recent publication of new figures from the British Geological Survey ("BGS") have indicated that the amount of shale resources in an area stretching from Lancashire to Yorkshire and down to Lincolnshire could hold at least 1,300 trillion cubic feet of gas. The results of our own technical study, in the North West, supports our view that these licences have a very significant shale gas resource with the potential to transform the Company and materially benefit the communities in which we operate.

We are very excited about the future of the onshore oil and gas industry in this country and look forward to developing this potentially strategically important resource in conjunction with the communities in which it is found, in the coming months and years.

Andrew Austin
Chief Executive Officer

"The Government is committed to ensuring that a world-leading framework for investment is in place so that if the conditions are right the industry can prosper."

HM Treasury, 'Investing in Britain's future'

Chief Financial Officer's Review



The year ended 31 March 2013 has been another extremely active year for the IGas Group, through the equity financing in January 2013, the completion of the acquisition of P.R. Singleton Limited ("PR Singleton") in February 2013, and the arrangement of a 5 year senior secured US\$165m Bond alongside a significant amount of progress across our asset base.

In January 2013, the Company raised gross proceeds of £23.1m by issuing 24.3m shares at 95p, representing approximately 15% of the enlarged issued ordinary share capital of the Company. The placing followed the developments in the UK with the lifting of restrictions on exploitation of shale gas announced by the UK government on 13 December 2012 and the establishment of the government's Office of Unconventional Gas and Oil. The Board believed it appropriate to ensure that the Company was able to further demonstrate the significant potential of its unconventional resource base prior to any farm-out. The equity fundraising also brought in a number of new institutional investors to the Company's shareholder register.

On 28 February 2013, the Company completed the acquisition of PR Singleton from Providence Resources plc following fulfilment of the conditions precedent and approval from the Department of Energy and Climate Change ("DECC"). The acquisition of PR Singleton further consolidated the Company's position as a leading onshore oil and gas company across Britain.

The acquisition of PR Singleton gave the Company a material increase in reserves and production and was an important element in the overall refinancing of the Company and the issue of a five year, US\$165m senior secured bond, which was announced on 14 March 2013. The bonds have a fixed interest rate of 10% per annum and semi-annual amortisation of 2.5% of the initial loan amount. During April 2013, following satisfaction of all conditions precedent, IGas drew down US\$165m from escrow and repaid the outstanding loan balances and closed out all remaining hedges with Macquarie (Completion of the Refinancing). IGas will apply for the bonds to be listed on the main Board of the Oslo Stock Exchange and this is expected to take place during September.

Income Statement¹

The Group recorded revenues of £68.3m in the year (2012: £22.1m). The Group completed the acquisition of PR Singleton on 28 February 2013 and therefore the income statement includes only one month's contribution from Singleton in these results.

Group production in the year was 901,540 boe, representing an average of 2,470 boepd (2012: 2,615 boepd). If the Group had owned PR Singleton since 1 April 2012, Group production would have averaged 2,910 boepd for the year ended 31 March 2013.

The average realised price per barrel pre-hedge was £69.4 (US\$109.6) (2012: £73.4 (US\$117.0)) with narrow discounts to Brent continuing to be achieved. After taking into account the cash effect of hedging, which amounted to an average of £6.9 (US\$10.9) per barrel, the average realised oil price was £62.5 (US\$98.7) (2012: £65.1 (US\$103.2)) per barrel.

Cost of sales of £38.0m (2012: £12.0m), includes depreciation, depletion and amortisation ("D,D&A") of £10.0m (2012: £3.2m) and operating costs of £28.1m (2012: £8.8m) including £7.0m in relation

	Year to 31 March 2013 ¹	15 months to 31 March 2012 ²
Revenues	£68.3m	£22.1m
EBITDA ³	£31.9m	£13.0m
Underlying operating profit ⁴	£22.1m	£5.4m
Net loss	(£18.4m)	(£12.1m)
Net cash from/ (used in) operating activities	£28.9m	(£2.6m)
Net debt ⁵	(£77.4m)	(£67.1m)
Net assets	£59.1m	£55.0m

Notes

- 1 On 28 February 2013, the Company completed the acquisition of PR Singleton from Providence Resources plc and therefore the 2013 results reflect one month's contribution from PR Singleton
- 2 The figures for 2012 reflect the 15 month period to 31 March 2012. The Star Energy acquisition completed on 14 December 2011 and therefore the March 2012 results reflect only 3.5 months of results from Star Energy
- 3 EBITDA relates to earnings before net finance costs, tax, depletion, depreciation and amortisation
- 4 Underlying operating profit excludes the profits/(losses) on oil price swaps, acquisition costs and impairment of exploration and evaluation assets
- 5 Net debt is borrowings less cash and restricted cash

to third party oil (2012: £1.8m). Operating costs per barrel of oil equivalent ("boe") were £21.6 (2012: £19.9), excluding the third party costs. These costs include transportation costs of £3.15/boe (2012: £3.30/boe) and the costs of our well service team of £2.89/boe (2012: £2.64/boe).

Administrative expenses were £8.4m (2012: £5.0m). A charge for the impairment of exploration and evaluation assets of £1.1m (2012: £nil) was incurred during the year following the relinquishment of PEDL115, an exploration licence in Staffordshire. Profit on oil price swaps was £0.9m (2012: loss £18.5m).

Other income amounted to £0.2m (2012: £0.2m). Net finance costs amounted to £27.9m (2012: £1.7m) including £9.2m of interest (2012: £3.2m), net foreign exchange losses of £3.3m (2012: gain £0.3m), loss on revaluation of warrants £5.4m (2012: gain £1.7m), early settlement fees in relation to the loan assumed in the Singleton acquisition of £1.4m (2012: £nil) and unamortised Macquarie debt costs written off of £7.6m (2012: £nil). Net finance costs excluding 'one-off' costs² amounted to £12.9m (2012: £2.7m).

Gross profit of £30.3m was recognised in the year (2012: £10.1m) with underlying profit³ of £22.1m (2012: £5.4m).

Cash Flow

Cash generated from operating activities in the period amounted to £28.9m (2012: cash used £2.6m).

On 15 January 2013, the Company raised gross proceeds of £23.1m by issuing 24.3m new ordinary shares, as detailed above.

On 28 February 2013, the Company completed the acquisition of PR Singleton from Providence Resources plc for £42.2m (including assumed borrowings) which was financed through additional borrowing of £21.4m from Macquarie with the balance from the Group's existing cash balances.

During the year, the Group repaid £16.7m (US\$26.3m) of debt principal in addition to interest of £6.7m (US\$10.6m).

The Group incurred capital expenditure of £3.6m in the year ended 31 March 2013 (2012: £18.5m).

Balance Sheet

The Group's non-current assets increased by £50.1m during the period to £231.4m, principally due to the acquisition of PR Singleton. The PR Singleton acquisition has been accounted for as a business combination by the acquisition method of accounting with an effective date of 28 February 2013, being the date the Group gained control of PR Singleton. Goodwill of £10.8m was added to the balance sheet due to the acquisition of PR Singleton.

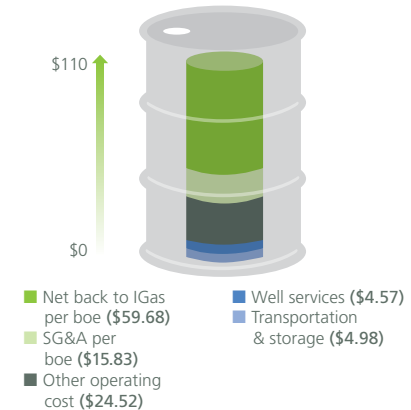
The timing of the Completion of the Refinancing, being completed post year-end, resulted in significant temporary effects on the balance sheet as at 31 March 2013 which unwound in April 2013 following the completion of the bond. A pro forma consolidated balance sheet is set out in Note 28 – 'Subsequent Events' of the Consolidated financial statements to show the balance sheet as if the bond issue had completed as at 31 March 2013.

In accordance with IFRS, the monies received from the bond on 22 March 2013, and which were held in escrow at the balance sheet date principally to repay the outstanding loan balance with Macquarie, have been recognised within current assets as 'Other Financial Assets – Restricted Cash'. The outstanding loan balance with Macquarie as at 31 March 2013, has been recognised within current liabilities as 'Borrowings-Macquarie', and the bond was recognised principally within long term liabilities – 'Borrowings-Bond'. On 10 April 2013, the Bond monies were released from escrow and the outstanding loan balance with Macquarie was repaid in full. At the same time all outstanding oil and interest rate swap hedges with Macquarie were cancelled at a cost of £10.7m (US\$16.2m). Shortly thereafter, IGas entered into new hedging arrangements by acquiring puts for ca.450,000 barrels at US\$90.0/barrel and ca.450,000 barrels at £58.8/barrel with maturities over the period to 31 March 2014. Going forward, the Board will seek to underpin the Group's future cash flows by buying puts for baseline production for at least the following 12 months.

As reflected in Note 28 – Subsequent Events of the Consolidated financial statements, had the full Bond issue been completed as at 31 March 2013, the current assets would have reduced by £96.6m and the current liabilities by £102.0m, a net current asset impact of £5.4m.

Net back per barrel

1 April 2012 to 31 March 2013



Net debt, being borrowings less cash and restricted cash, at the year-end amounted to £77.4m. Transaction costs of £2.8m 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.

A deferred tax charge of £12.5m has been incurred for the year which has been created by the recognition of certain tax losses and other temporary timing differences within the Group. This has increased the deferred tax liability to £40.2m as at the balance sheet date. As at 31 March 2013, the Group has corporation tax losses of £49m and supplementary charge losses of £25m carried forward.

Stephen Bowler Chief Financial Officer

- On 28 February 2013, the Company completed the acquisition of PR Singleton from Providence Resources plc and therefore the 2013 results reflect one month's contribution from PR Singleton. The figures for 2012 reflect the 15 month period to 31 March 2012. The Star Energy acquisition completed on 14 December 2011 and therefore the March 2012 results reflect only 3.5 months of results from Star Energy
- Net finance costs excluding one-off costs excludes loss on interest rate swaps, loss/(gain) on warrants, early settlement fees in relation to the loan assumed in the Singleton acquisition and unamortised Macquarie debt costs written off under amortised cost
- Underlying operating profit excludes the profits/(losses) on oil price swaps, acquisition costs and charges for exploration and evaluation assets

Corporate Social Responsibility Report

Committed to the environment

“We want to build on our community heritage continuing to provide jobs and grow local economies.”



Summary

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

During the year we have worked in collaboration with Community Liaison Groups, Planning officials, the Health and Safety Executive, (“HSE”) the Environment Agency (“EA”), the government Department of Energy & Climate Change (“DECC”) and the United Kingdom Onshore Operators Group (“UKOOG”), to ensure all our stakeholders have a thorough understanding of our activities. We are committed to being aligned in our work with these organisations to ensure the development of, and further investment in, the onshore oil and gas industry.

Working collaboratively with the wider industry and associated partners means that together we can continue to support the regional and local economies and ensure Britain’s future energy security.

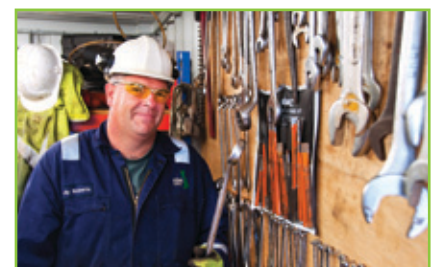
Since the lifting of the restrictions on exploration for shale gas in December 2012 and the establishment of the Office of Unconventional Gas and Oil, UKOOG has established a Community Engagement Charter, setting out guiding principles to ensure open and transparent communications between industry, stakeholder groups and the communities in which we operate.

Openness and transparency is at the heart of everything we do as a company and as a wider industry. The UKOOG Charter will ensure we, as an operator, continue to be aligned to the needs of the community.

Our people

Our workforce is an integral and critical part of every aspect of our business and a key focus is developing the skills of our team. We are conscious of the role we can play in helping to support local employment and the local economy. We currently have five employees at different stages of their apprenticeships with IGas. Including managers and supervisors, we have over 90 employees engaged in production, maintenance and well servicing operations across our sites. Of these, more than 30 have in excess of 15 years’ service with the company and collectively, including trainees and apprentices, average service is over 10 years. Our drivers and vehicle maintenance team average over 12 years’ service. This provides us with a solid base of knowledge to progress our operations into the future with a significant understanding of the geology and with a deep understanding of the communities and the environment in which we operate.

We are committed not only to developing our people and continuing to improve our internal skills but also to provide a positive and safe working environment for all staff and contractors.





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Corporate Social Responsibility Report continued



SCHOOL ALLOTMENT BOOSTED

Penketh South Primary School in Cheshire has received £4,000 from the community fund towards a greenhouse and raised planting beds for its allotments. Residents from a neighbouring care home join pupils in growing vegetables which are used in the school kitchen and sold to further fund the project.



POOL MADE SAFE

A £15,000 grant from the company's community fund has resulted in much needed repairs to the local swimming pool at Shere in Surrey. The pool is a popular facility amongst people from villages close to the IGas wellsite at Albury. There had been growing concern about the dangers of the previously uneven pool surround.

Over recent years, the fund has helped projects ranging from nature reserves to playgrounds. We provided funds to lay on water to a church in Hampshire to enable it to be used for wider community gatherings.

At Albury in Surrey, grants have helped the parish council to bring about a series of improvements to enhance the overall village environment.

Currently, we are supporting three separate projects where people in rural communities want to buy potentially life-saving emergency equipment in places where 999 crews will take time to respond.

Further projects are described in the case studies above.

Employee volunteering and engagement

The social investment we make through our Community Fund is complemented by employee engagement. Many of our team at IGas have independently raised their own funds for charities. We admire their commitment and initiative towards looking after each other and our communities and encourage their efforts with matched funding. Charities which the team at IGas have supported include a number of cancer foundations including the Everyman Foundation.

Our health, safety and security

The security, health and safety of our workforce is of paramount importance and an integral part of everything we do. A positive, safe and productive work environment for all of our team comes from ensuring the contribution of each team member towards building and sustaining a strong safety culture. We conduct routine assessments of our operating standards and review on an on-going basis our facility HSE and ER Plans. These include risk assessments and mitigation that extend from site facilities to considering issues within the local geographical area.

Our community

IGas has a long track record of engaging with the communities in which it operates. We are a British business and our workforce largely lives and works in the areas in which we operate which helps build the strength and the quality of our relationship with local residents.

Local engagement

We are committed to ensuring we work with the neighbouring communities at each of our operating locations through our local liaison groups, ensuring transparency and an opportunity for open and effective dialogue. We recognise that we are a part of the community and we are committed to in-depth and meaningful consultations, working together with the aim to bring real benefits to the area and address any concerns. This local engagement occurs both before and during the planning process and continues throughout the life of the development.

UKOOG Charter

In June the industry body, UKOOG, announced a charter for community engagement. The Charter exists to ensure open and transparent communications between industry, stakeholder groups and the communities in which they operate.

Its objectives, to which we fully subscribe, are threefold:

- to identify and proactively address local issues and concerns;
- to facilitate the sustainable development of extractive resources; and
- to achieve an appropriate balance between the safe production of energy and the community's needs.

All operators displaying the UKOOG logo will have to adopt these as minimum standards and will be measured against them on a regular basis. Each operator will report annually to UKOOG on their performance and UKOOG will produce and publish an annual industry report on its website.

Full details of the UKOOG Charter can be found at www.ukoog.org.uk.

IGas is a signatory to this charter.

IGas Energy Community Fund

The IGas Energy Community Fund is a further commitment we make towards the vitality of the communities in which we operate. Our Community Fund has committed to distribute several hundred thousand pounds a year to projects that are charitable, educational or benevolent in purpose. It is an independently managed fund with projects being chosen by members from community groups and parish councils from areas in, and adjacent to, our operations.

These projects aim to benefit groups of people within the local communities as well as wildlife and the surrounding environment. Projects have supported children and young people, vulnerable members of our communities, regeneration projects, self-help groups delivering basic services, wildlife projects and projects providing education and skills development opportunities.

In terms of site safety, we have Emergency Preparedness and Response arrangements and Incident Response and Reporting processes in place. We place great importance in ensuring the effectiveness of our response, and the ultimate safety and security of our site personnel and others who may be affected by our activities.

Our Management System is aligned to the requirements of the occupational health and safety standard OHSAS 18001, and we remain committed to pursuing certification to this standard.

Our Lost Time Injuries ("LTIs") for 2012 continue to decline, which is a result of our continued commitment to safe operations.

Our environment

We have successfully extended our certification to the Quality Management standard ISO 9001, and the Environmental Management standard, ISO 14001 through our on-going commitment to maintaining the requirements of these standards.

Our mandatory environmental operating standards are applied to all operating facilities. Initial risk assessments are conducted, along with baseline surveys, applying impact mitigation throughout all phases up to site restoration.

Our desire to sustain and enhance the environments in which we operate means that we work in collaboration with organisations involved in protecting local flora and fauna including, for example, The Royal Society for Protection of Birds.

"We have been embedded with our local communities for decades and we seek to work collaboratively, which is why we consult at every stage of our projects."



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Board of Directors



Francis Gugen
Non-Executive Chairman

Francis is a founder and Non-Executive Chairman and has over 30 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.



Andrew Austin
Chief Executive Officer

Andrew is a founder of IGas, has been an Executive Director since 2004 and the Chief Executive Officer for the last five years with full time responsibility for the day to day operations and business development. Prior to joining IGas, Andrew has been involved in a number of ventures as principal, specialising in energy projects in the gas, electricity and renewable sectors with a track record of raising substantial funding from both private and public equity. Andrew is responsible for the transformation of IGas from a non-operating partner to delivering material hydrocarbon production to Britain's energy market.



John Blaymires
Chief Operating Officer

John has 30 years of international experience in the oil and gas industry gained with 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.



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 IGas on 1 November 2011.



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.



Robin Pinchbeck
Non-Executive Director

Rob has 39 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. Past non-executive roles include Sondex plc, SLR Consulting Ltd, Enquest plc and international oil services company Sparrows Offshore Ltd, where he served as Chairman from 2008 until 2012. He is currently a Non-Executive Director at AIM-listed Enteq Upstream plc and unlisted Seven Energy International Limited.



Cuth McDowell
Non-Executive Director

Cuth has 33 years of international experience in the oil and gas sector, having held a range of leadership positions in Exploration and Production. He began his career with BP where he held various commercial and management roles over eight years. Cuth then joined Clyde Petroleum plc, initially as Senior Economist, subsequently becoming Group Commercial Manager before Clyde was bought by Gulf Canada. In 1997, Cuth joined Paladin Resources plc, where he served primarily as Finance Director. The company raised £120m in four separate primary offerings before it was sold to Talisman Energy Inc. for approximately £1.2bn in 2006. Cuth is currently a Non-Executive Director at Pitman Petroleum, a privately owned international upstream oil and gas company.

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 Bryant, Mr Pinchbeck and Mr McDowell 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 Cuth McDowell and having as other members John Bryant and Robin Pinchbeck. The Chairman and the Executive Directors 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 Robin Pinchbeck and Cuth McDowell. 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 Chairman, Francis Gugen, and its other member is the Senior Independent non-executive director, John Bryant. 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 on-going 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 (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 (the "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

The purpose of the base salary is to:

- help recruit and retain key individuals;
- reflect the individual's experience, role and contribution within the Company; and
- ensure fair reward for "doing the job".

The Committee reviews base salaries annually to ensure that Executive Directors pay remains competitively aligned with external market practices.

The Committee will retain the discretion to increase an individual's salary where there is a significant difference between current levels and a market competitive rate for similar positions in similar organisations (based on size, complexity and sector). However in determining whether to increase levels the Committee will take the following into consideration:

- the performance of the individual Director;
- the individual Director's experience and responsibilities;
- impact on fixed costs of any increase; and
- pay and conditions throughout the Company.

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 Directors under the plan is to up to 100% of base salary. The Committee can exceed this limit in exceptional circumstances. The Committee will determine on an annual basis the level of deferral, if any, of the bonus payment into Company shares. Maximum bonus levels and the proportion payable for on-target performance are considered in the light of market bonus levels for similar roles among the industry sector.

For the period ended 31 March 2013, the Committee set clear objectives for each individual Director relating to Group KPIs plus individual and strategic targets taking into account where an individual has particular influence and responsibility. The Committee also takes into account overall corporate performance in determining the actual annual bonus payment.

The following criteria sets out the performance metrics which the Remuneration Committee determined the bonus against the relevant KPIs and individual and strategic targets and the relative weighting for each Executive Director (the Committee have determined that it is inappropriate to disclose the actual targets due to commercial sensitivity):

A list of the Performance metrics are as follows:-

- HSE targets;
- production targets;
- reserves and resources targets (conventional and unconventional);
- Opex and G&A costs;
- cashflow;
- annual share price performance relative to an appropriate comparator group; and
- personal and strategic development goals.

Directors' Remuneration Report continued

The table below sets out the percentage achieved for each Executive Director:-

	Andrew Austin	John Blaymires	Stephen Bowler
Percentage of Performance Metric achieved	87.5%	68.5%	86.75%

It should be noted that the actual bonus payment relates to performance over a 15 month period and as such the bonus payments have been pro-rated to reflect this longer performance period.

Given the transformational acquisition of the Star business, the Remuneration Committee determined to make an exceptional bonus payment to the CEO of £175,000 to reflect the importance of this transaction to long-term shareholder value creation.

Bonuses were paid in cash and are not pensionable. The Committee intend to operate the bonus for 2014 on similar principles.

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

LTIP

In November 2011, the Company adopted a Long Term Incentive Plan ("LTIP") 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 in the form of a nil-cost option. If the relevant conditions attaching to the awards are met then the Director has seven years in which to exercise the award.

The maximum individual limit for an Initial Award is 300% of salary and 150% of salary for an Annual Award. The primary purpose of the Initial Award is to aid recruitment and retention of key executives with the Annual Award focused on the achievement of challenging growth targets.

Initial Awards were granted in 2011. These awards vest at the end of a three year performance period provided the Company's share price performance exceeds the Company's weighted average cost of capital of 10%. No further Initial Awards will be granted to the current Executive Directors.

Annual Awards will vest at the end of a three year period provided certain challenging corporate performance conditions have been met. In addition, awards will only vest provided that up to 50% of an Executive Director's post tax bonus paid in the year of grant has been invested into Company shares and retained over that period. No Annual Awards have been granted this year.

Share Investment Plan ("SIP")

In January 2013, the Company adopted the Share Investment Plan for all employees of the Group. The scheme was approved by HM Revenue & Customs on 5 February 2013 and is a tax efficient incentive plan pursuant to which all employees are eligible to acquire up to £125 (or 10% of salary, if less) worth of IGas ordinary shares per month or £1,500 per annum. An initial lump sum purchase was offered in March 2013 to allow participants to acquire up to £1,500 of IGas ordinary shares in respect of the 2012/13 tax year, which the Company matched on a 2-to-1 basis.

On an ongoing basis shares will be acquired on a quarterly basis. The Company will match the shares purchased on a 1-to-1 basis and subject to the Company having met pre-defined quarterly production targets, will increase the matching element of that quarter to 2-to-1. To receive their allocation of matching shares, employees must ordinarily remain employed by the Company for a period of 3 years from the date of grant of the matching award.

Share price movements during the year

The Group's share price as at 31 March 2013 was 83p per share. The highest price during the period was 151p per share and the lowest share price during the period was 47.25p per share.

Current arrangements**Executive Directors**

The Executive Directors are employed under rolling contracts with notice periods of 12 months or less from the Company or executive.

Directors' emoluments for the period were as follows:

Executive Directors	Year ended 31 March 2013					15 Months ended
	Salary/Fees £000	Bonus £000	Taxable Benefits £000	Pensions £000	Total £000	31 March 2012 Total £000
A Austin – Chief Executive Officer	260	459*	2	39	760	464
S Bowler – CFO (Appointed 01 November 2011)	200	152	1	30	383	111
J Blaymires – COO	200	120	2	30	352	324
B Cheshire – Executive Technical Director (Resigned 20 June 2011)	–	–	–	–	–	50
Total – Executive Directors	660	731	5	99	1,495	949

Non-Executive Directors	Year ended 31 March 2013					15 Months ended
	Emoluments £000	Other Consultancy Services £000	Taxable Benefits £000	Pensions £000	Total £000	31 March 2012 Total £000
F Gugen – Non-Executive Chairman	80**	–	–	–	80	100
J Bryant – Senior Independent	45**	–	–	–	45	91
R Pinchbeck (Appointed 11 July 2012)	25	–	–	–	25	nil
C McDowell (Appointed 20 December 2012)	10	–	–	–	10	nil
R Armstrong (Resigned 20 December 2012)	34	–	–	–	34	79
J Hamilton (Resigned 20 December 2012)	47**	–	–	–	47	64
Total – Non-Executive Directors	241	–	–	–	241	334

* £175,000 of this bonus amount was in relation to the Star acquisition

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

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.

As at 31 March 2013, the outstanding long term incentives held by the Directors who served during the year are as set out in the table below:

Long term incentive arrangements:

	Date of Grant	At 1 April 2012	Granted	Exercised	Waived	As at 31 March 2013	Earliest vesting date	Lapse date
A Austin	21.11.11	1,029,702	–	–	–	1,029,702	21/11/2014	21/11/2021
J Blaymires	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 rolling contracts with notice periods of three months, under which they are not entitled to any pension, benefits or bonuses.

John Bryant**Chairman Remuneration Committee**

10 July 2013

Directors' Report

The Directors present their report together with the Group and Parent Company financial statements for the year ended 31 March 2013.

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 before taxation before costs of marking to market oil price, interest rate derivatives and warrants and before costs of acquisitions, exploration impairment and written off debt costs was £9.2 million (2012: profit £2.6 million). After adjusting for these items amounting to £15.2 million the total loss for the period before taxation was £6.0 million (2012: loss £17.9 million). The Directors do not recommend the payment of any dividend (2012: £nil).

Going Concern

The Directors consider that, having taken into consideration the factors set out in Note 1(b) in the financial statements, the expected operating cash flows of the Group combined with the Bond monies 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 Gugen	Non-Executive Chairman
A Austin	Chief Executive Officer
J Blaymires	Chief Operating Officer
S Bowler	Chief Financial Officer
J Bryant	Non-Executive
R Pinchbeck	Non-Executive – Appointed 11 July 2012
C McDowell	Non-Executive – Appointed 20 December 2012
R Armstrong	Non-Executive – Resigned 20 December 2012
J Hamilton	Non-Executive – Resigned 20 December 2012

The interests of the Directors in the shares of the Company at 31 March 2013 were as follows:

	31 March 2013 Ordinary 10p Shares		31 March 2012 Ordinary 50p Shares	
	Number	%	Number	%
F Gugen	27,615,764	14.80	27,615,764	17.03
A Austin	10,659,253	5.71	10,659,253	6.57
J Blaymires	20,000	0.01	20,000	0.01
S Bowler	70,000	0.04	40,000	0.02
J Bryant	59,045	0.03	57,870	0.04
R Pinchbeck	141,000	0.08	–	–
C McDowell	–	–	–	–
R Armstrong	*	–	65,960	0.04
J Hamilton	*	–	85,000	0.05

* J Hamilton and R Armstrong still held the same shares as at 31 March 2013 but these are not reported as they are no longer Directors at this date.

On 22 April 2013, A Austin, J Blaymires and S Bowler subscribed to their full entitlement under the initial subscription of the Group's share scheme and accordingly were each allotted 5,805 shares under the Share Investment Plan ("SIP").

The interests of the Directors in the 10% Bonds issued by the Company at 31 March 2013 were as follows:

	31 March 2013 US\$	31 March 2012 US\$
F Gugen	5,000,000	–

On 13 April 2013, C McDowell subscribed to US\$300,000 10% IGas Bonds.

Rotation and re-election of Directors

In accordance with the Articles of Association A Austin and J Bryant retire by rotation and being eligible offer themselves for re-election. C McDowell was appointed by the Board during the period and, in accordance with the Articles of Association, offers himself for re-election.

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 20 June 2010. These provisions remained in force throughout the year and remain in place at the date of this report.

Substantial shareholders

At 31 March 2013, 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 per cent of the Company's issued Ordinary Shares with voting rights:

	Number of Shares	%
Nexen Petroleum UK Limited	39,714,290	21.29
Brent Cheshire	11,429,253	6.13
Peter Levine and Levine Capital Management Ltd	8,871,005	4.76
Henderson Global Investors	8,830,315	4.73
Baillie Gifford & Co	8,088,217	4.34
Hedger Management SA	6,450,000	3.46

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 owns and operates. The Group has entered into a series of oil price puts until 31 March 2014 for c.450,000 barrels at US\$90.0/barrel and c.450,000 barrels at £58.8/barrel. Going forward, the Board will seek to underpin the Group's future cash flows by buying puts for baseline production for at least the following 12 months. 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\$. The sterling denominated oil price puts have been taken out in order to mitigate this risk as it affects the need to fund operating and administration costs which are normally paid in pounds sterling.
- 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 partially mitigated through compliance with regulations and the expertise and experience of its team operating on the Group's conventional assets.
- 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.

Directors' Report continued

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 17 days of daily purchases for the Company (2012: 44 days).

Charitable and political contributions

During the period, the Group made charitable donations of £7,752 to local causes (2012: £600). There were no political donations during the period (2012: nil).

Status

The Company is a closed 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.

Auditor

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 auditor

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

Mofa 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 International Financial Reporting Standards 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 year ended 31 March 2013 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 2013 and of its loss for the year 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 year ended 31 March 2013.

Daniel Trotman (Senior Statutory Auditor)

for and on behalf of Ernst & Young LLP, Statutory Auditor
London
10 July 2013

Consolidated Income Statement

For the year ended 31 March 2013

	Notes	Year ended 31 March 2013 £000	15 months 31 March 2012 £000
Revenue	2	68,304	22,120
Cost of sales:			
Depletion, depreciation and amortisation		(9,975)	(3,203)
Other costs of sales		(28,067)	(8,838)
Total cost of sales		(38,042)	(12,041)
Gross profit		30,262	10,079
Administrative costs		(8,351)	(4,956)
Costs relating to acquisitions		(59)	(2,986)
Impairment of exploration and evaluation assets		(1,093)	(42)
Other income		225	235
Profit/(loss) on oil price swaps		938	(18,512)
Operating profit/(loss)	3	21,922	(16,182)
Finance income	6	447	2,374
Finance costs	6	(28,368)	(4,089)
Net finance costs		(27,921)	(1,715)
Loss on ordinary activities before tax		(5,999)	(17,897)
Income tax (charge)/credit	7	(12,356)	5,773
Loss from continuing operations attributable to equity shareholders of the Group		(18,355)	(12,124)
Basic and diluted loss per share (pence/share)	8	(11.11p)	(8.14p)
Adjusted basic (loss)/profit per share (pence/share)	8	(1.91p)	5.64p
Adjusted diluted (loss)/profit per share (pence/share)	8	(1.91p)	5.43p

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Consolidated Statement of Comprehensive Income

For the year ended 31 March 2013

	Year ended 31 March 2013 £000	15 months 31 March 2012 £000
Loss for the period	(18,355)	(12,124)
Other comprehensive income for the period	–	–
Total comprehensive loss for the period	(18,355)	(12,124)

Consolidated Balance Sheet

As at 31 March 2013

	Notes	31 March 2013 £000	31 March 2012 £000
Non-current assets			
Intangible exploration and evaluation assets	11	58,668	57,237
Property, plant and equipment	12	138,378	100,545
Goodwill	10	34,339	23,515
		231,385	181,297
Current assets			
Inventories	14	1,056	716
Trade and other receivables	15	8,569	12,113
Cash and cash equivalents	16	9,831	7,915
Other Financial Assets – Restricted cash	16	102,865	–
		122,321	20,744
Current liabilities			
Trade and other payables	17	(14,056)	(10,480)
Current tax liabilities		(3,006)	(3,167)
Finance lease liability	22	–	(51)
Borrowings – Macquarie	18	(89,710)	(16,475)
Borrowings – Bond	18	(5,466)	–
Other liabilities	19	(8,208)	(2,806)
Derivative financial instruments	23	(10,001)	(8,713)
		(130,447)	(41,692)
Net current liabilities		(8,126)	(20,948)
Total assets less current liabilities		223,259	160,349
Non-current liabilities			
Borrowings – Macquarie	18	–	(58,477)
Borrowings – Bond	18	(94,942)	–
Derivative financial instruments	23	–	(7,979)
Deferred tax liabilities	7	(40,194)	(20,552)
Provisions	20	(29,005)	(18,383)
		(164,141)	(105,391)
Net assets		59,118	54,958
Capital and reserves			
Called up share capital	24	56,646	54,213
Share premium account	25	37,747	18,036
Other reserves	26	(797)	(1,140)
Accumulated deficit		(34,478)	(16,151)
Shareholders' funds		59,118	54,958

These financial statements were approved and authorised for issue by the Board on 10 July 2013 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 year ended 31 March 2013

	Called up share capital (Note 24) £000	Share premium account (Note 25) £000	Other reserves (Note 26) £000	Accumulated deficit £000	Total £000
Balance at 1 January 2011	19,665	2,500	(1,236)	(4,201)	16,728
Changes in equity for 15 months ended 31 March 2012					
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
Changes in equity for year ended 31 March 2013					
Total comprehensive loss for the period	–	–	–	(18,355)	(18,355)
Employee share plans cost under IFRS 2 (note 26)	–	–	343	28	371
Issue of shares during the period	2,433	19,711	–	–	22,144
Balance at 31 March 2013	56,646	37,747	(797)	(34,478)	59,118

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Consolidated Cash Flow Statement

For the year ended 31 March 2013

	Notes	Year ended 31 March 2013 £000	15 Months ended 31 March 2012 £000
Operating activities:			
Loss before tax for the year/period		(5,999)	(17,897)
Depreciation, depletion and amortisation	3	10,152	3,354
Share based payment charge		347	1,117
(Gain)/loss on derivative financial instruments		(6,939)	16,160
Finance income	6	(447)	(2,374)
Finance costs, including unwinding of discount of decommissioning	6	28,368	4,286
Decrease/(increase) in trade and other receivables		4,473	(3,866)
Increase in trade and other payables, net of accruals related to investing activities		(2,287)	(1,025)
Decrease/(increase) in inventories		17	(34)
Impairment		1,093	42
Abandonment costs incurred		(29)	(18)
Other non-cash adjustments		(122)	3
Bad debt provision		252	–
Taxation paid		(1)	(2,340)
Net cash from/(used in) operating activities		28,878	(2,592)
Investing activities			
Acquisition of exploration and evaluation assets		(2,453)	(17,880)
Acquisition of property, plant and equipment		(1,123)	(653)
Acquisitions	9	(13,877)	(79,630)
Interest received		25	336
Net cash used in investing activities		(17,428)	(97,827)
Financing activities			
Cash proceeds from issue of Ordinary Share Capital	24	23,114	20,625
Share issue costs	24	(970)	(681)
Capital contribution	24	–	47
Interest paid	6	(6,727)	(2,143)
Cash proceeds from loans and borrowings		21,410	84,569
Loan issue costs		(1,887)	(3,141)
Repayment of loans and borrowings		(16,735)	(3,100)
Repayment of assumed borrowings and associated fees relating to acquisitions		(28,286)	–
Repayment of finance lease/hire purchase agreement		(51)	(21)
Net cash (used in)/from financing activities		(10,132)	96,155
Net increase/(decrease) in cash and cash equivalents in the year/period		1,320	(4,264)
Net foreign exchange difference		596	92
Cash and cash equivalents at the beginning of the year/period		7,915	12,087
Cash and cash equivalents at the end of the year/period	16	9,831	7,915

Consolidated Financial Statements – Notes

As at 31 March 2013

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 year ended 31 March 2013 and with the Companies Act 2006. The accounting period is not comparable with the 15 month prior period as this period was extended to align to the year end of the then newly acquired entity Star Energy Group Limited. The accounts were approved by the board and authorised for issue on 10 July 2013. IGas Energy plc is a public limited Company incorporated, registered in England and Wales and is listed on the Alternative Investment Market ("AIM").

The Group financial statements are presented in UK pounds 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 April 2012.

International Accounting Standards (IFRS/IAS):

IAS 12	Income Taxes (Amendment) – Deferred Taxes – Recovery of Underlying Assets – The amendment clarified the determination deferred tax on investment property measured at fair value and introduces a rebuttable presumption that deferred tax on investment property measured using the fair value model in IAS 40 should be determined on the basis that its carrying amount will be recovered through sale. It includes the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model in IAS 16 should always be measured on a sale basis. The Group has considered the effect of this amendment and has concluded that there is no impact on the financial statements.	1 January 2012
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New and amended standards and interpretations

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:

For financial period commencing on or after*

International Accounting Standards (IFRS/IAS)

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 2015. 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 its financial position.	1 January 2013 1 January 2014
IFRS 10	IFRS 10 – 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 the principles 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 future cash flows and the availability of the monies drawn under its Bond, which in turn is dependent on the Group not breaching covenants. Under the Bond, the Group drew down from escrow US\$165m of funds in April 2013. 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 US\$90 and £58 per barrel until 31 March 2014. 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 Bonds 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 2013, 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 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 Group's 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. Details of the Group's decommissioning costs are disclosed in note 20.

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. Details of business combinations occurring in the current year and prior period are disclosed in note 9.

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**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.

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.

Consolidated Financial Statements – Notes continued

1 Accounting policies continued

Other financial assets – Restricted cash

Where cash is held in Escrow, funds are only classified as cash and cash equivalents when monies are transferred to and under the control of the Group.

Trade and other receivables

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

Trade and other payables

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

Derivative financial instruments and hedge accounting

The Group enters into derivatives to manage its exposure to variability in the price and foreign exchange rate of a proportion of its crude oil production. 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. When management estimates of the amounts or timings of cashflows are revised, borrowings are remeasured using the revised cash flow estimates under the original effective interest rate.

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 through 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.

1 Accounting policies continued**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.

(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.

Consolidated Financial Statements – Notes continued

1 Accounting policies continued

(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.

(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. £61.7 million of the Group's revenue was derived from two customers (2012: £21.9 million).

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

3 Operating profit/loss

	Year ended 31 March 2013 £000	15 Months ended 31 March 2012 £000
Operating profit/(loss) is stated after charging:		
Staff Costs (see note 4)	10,507	4,659
Depletion, depreciation and amortisation	10,152	3,354
Impairment	1,093	42
Auditor's remuneration:		
Audit fee	207	173
Audit of accounts of any associate of the Company	140	80
Audit-related assurance of services	117	18
All taxation advisory services other than tax compliance	–	96
Non-assurance services	41	–
Services relating to corporate finance transactions	–	400
Operating lease charges:		
Land and buildings	1,464	522
Other	197	51

4 Employee information

	Year ended 31 March 2013 £000	15 Months ended 31 March 2012 £000
Staff costs comprised:		
Wages and salaries	8,872	3,676
Social Security Costs	790	556
Company contribution to pension scheme	571	260
Employee share based payment cost under IFRS 2	274	167
	10,507	4,659
	No.	No.
Average number of employees in the period:		
Operations, including services	112	34
Administrative	41	14
	153	48

At 31 March 2013 the Group had 162 employees (2012:152 employees). In the year ended 31 March 2013 £635 thousand (2012 – £703 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 year/period was as follows:

	Year ended 31 March 2013					15 Months ended 31 March 2012
	Salary/Fees £000	Bonus £000	Taxable Benefits £000	Pensions £000	Total £000	Total £000
Executive Directors						
A Austin – Chief Executive Officer	260	459*	2	39	760	464
S Bowler – CFO (Appointed 01 November 2011)	200	152	1	30	383	111
J Blaymires – COO	200	120	2	30	352	324
B Cheshire – Executive Technical Director (Resigned 20 June 2011)	–	–	–	–	–	50
Total – Executive Directors	660	731	5	99	1,495	949
Non-Executive Directors						
	Emoluments £000	Other Consultancy Services £000	Taxable Benefits £000	Pensions £000	Total £000	Total £000
F Gugen – Non-Executive Chairman	80**	–	–	–	80	100
J Bryant – Senior Independent	45**	–	–	–	45	91
R Pinchbeck (Appointed 11 July 2012)	25	–	–	–	25	nil
C McDowell (Appointed 20 December 2012)	10	–	–	–	10	nil
R Armstrong (Resigned 20 December 2012)	34	–	–	–	34	79
J Hamilton (Resigned 20 December 2012)	47**	–	–	–	47	64
Total – Non-Executive Directors	241	–	–	–	241	334

* £175 thousand of this bonus amount was in relation to the Star acquisition.

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

Directors' share schemes/warrants

At 31 March 2013 the Executive Directors held the following awards under the Long Term Incentive Plans and the Share Option scheme as follows:

Long Term Incentive Plans

	Year ended 31 March 2013 Number	Exercise price (p/share)	15 months ended 31 March 2012 Number	Exercise price (p/share)
A Austin	1,029,702	–	1,029,702	–
J Blaymires	681,743	–	681,743	–
S Bowler	396,040	–	396,040	–

6 Finance income and costs

	Year ended 31 March 2013 £000	15 months ended 31 March 2012 £000
Finance income:		
Interest on short-term deposits	26	373
Gain on fair value of warrants (note 19)	–	1,651
Foreign exchange gains	421	350
Finance income recognised in income statement	447	2,374
Finance expense:		
Finance lease charges	25	1
Interest on borrowings – Macquarie	8,882	3,165
Interest on borrowings – Macquarie debt costs written off under amortised cost*	7,647	–
Interest on borrowings – Bond	322	–
Interest expense	16,876	3,166
Loss on interest rate swaps	573	632
Foreign exchange loss	3,696	94
Unwinding of discount on provisions	457	197
Loss on fair value of warrants (note 19)	5,402	–
Finance charges – early settlement fees for assumed Singleton loan	1,364	–
Finance expense recognised in income statement	28,368	4,089

* Costs are in relation to the Group refinancing, further details can be found in note 18.

Consolidated Financial Statements – Notes continued

7 Tax charge/(credit) on loss on ordinary activities

	Year ended 31 March 2013 £000	15 months ended 31 March 2012 £000
UK corporation tax:		
Current tax on income for the period	–	–
Adjustments in respect of prior periods	(161)	–
Total current tax charge/(credit)	(161)	–
Deferred tax:		
Current year/period charge/(credit) relating to the origination or reversal of temporary differences	13,274	(5,773)
Credit in relation to prior periods	(757)	–
Total deferred tax charge/(credit)	12,517	(5,773)
Tax charge/(credit) on profit or loss on ordinary activities	12,356	(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. A reconciliation of the UK statutory corporation tax rate applicable to the Group's loss before tax to the Group's total tax charge is as follows:

	Year ended 31 March 2013 £000	15 months ended 31 March 2012 £000
(Loss) on ordinary activities before tax	(5,999)	(17,897)
Expected tax charge/(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% (2012: 62%)	(3,719)	(11,096)
Prior year deferred tax credit	(757)	–
Prior year current tax credit	(161)	–
Tax effect of expenses not allowable for tax purposes	720	565
Tax effect of expenses not allowable for supplementary charge purposes	4,883	135
Impact of profits or losses taxed or relieved at different rates	7,389	2,364
Net increase in unrecognised losses carried forward	3,981	2,259
Other	20	–
Tax charge/(credit) on loss on ordinary activities	12,356	(5,773)

Following the acquisition of Star in December 2011 and P.R. Singleton in February 2013, the majority of the Group's profits are now generated by "ring fence" businesses which attract UK corporation tax and supplementary charge at a combined rate of 62%, rather than the small companies rate of 20% borne by the Group prior to the acquisition.

Tax losses

Deferred tax assets have been recognised in respect of tax losses and other temporary differences where the directors believe it is probable that these assets will be recovered. Such tax losses include £49 million of ring-fence corporation tax losses and £25 million of supplementary charge losses.

The Group has further tax losses and other similar attributes carried forward of approximately £65 million (2012: £53 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:

	Year ended 31 March 2013 £000	15 months ended 31 March 2012 £000
Opening liability at beginning of year/period	20,552	–
Tax credit relating to prior year/period	(757)	–
Tax charge/(credit) during the year/period recognised in income statement	13,274	(5,773)
Deferred tax liability arising from business combinations	7,125	26,325
Closing liability at end of year/period	40,194	20,552

7 Tax charge/(credit) on loss on ordinary activities continued

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

	31 March 2013 £000	31 March 2012 £000
Accelerated capital allowances	83,242	58,458
Tax losses carried forward	(23,910)	(16,601)
Decommissioning provision	(13,222)	(11,244)
Unrealised gains or losses on derivative contracts	(5,718)	(10,147)
Share based payments	(198)	(40)
Other	–	126
Deferred Tax Liabilities	40,194	20,552

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.

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

	Year ended 31 March 2013 £000	15 months ended 31 March 2012 £000
Basic EPS – Ordinary Shares of 10p each (Pence)	(11.11p)	(8.14p)
Diluted EPS – Ordinary Shares of 10p each (Pence)	(11.11p)	(8.14p)
Adjusted EPS – Ordinary Shares of 10p each (Pence)	(1.91p)	5.64p
Adjusted Diluted EPS – Ordinary Shares of 10p each (Pence)	(1.91p)	5.43p
Loss for the year attributable to equity holders of the parent – £000	(18,355)	(12,124)
Add back: (Gain)/loss on oil price swaps	(938)	18,512
Loss on interest rate swaps	573	632
Acquisition costs	59	2,986
Impairment of exploration and evaluation assets	1,093	42
Loss/(gain) on revaluation of warrants	5,402	(1,651)
Early settlement fees for assumed Singleton loan	1,364	–
Debt costs written off	7,647	–
Adjusted (loss)/profit for the year	(3,155)	8,397
Weighted average number of Ordinary Shares in the year – basic EPS, diluted EPS and adjusted basic EPS	165,257,078	148,947,106
Weighted average number of Ordinary Shares in the year – adjusted diluted EPS	165,257,078	154,760,053

There are 24,682,523 potentially dilutive warrants and options over the Ordinary Shares at 31 March 2013 (2012: 23,855,505), which are not included in the calculation of diluted earnings per share and adjusted earnings per share in 2013 because they were anti-dilutive for the period as their conversion to Ordinary Shares would decrease the loss per share.

Consolidated Financial Statements – Notes continued

9 Acquisitions

Acquisition of P.R. Singleton Limited (Renamed Island Gas (Singleton) Limited)

On 28 February 2013, the Company acquired the entire issued share capital of P.R. Singleton Limited (“Singleton”), an unlisted oil and gas exploration and production Company for a cash consideration of £13.9 million and assumed borrowings of £28.3 million. The acquisition of Singleton added 100% of PEDL 240, 50% of PEDL 233, bringing a number of development opportunities and an experienced execution team.

The Singleton acquisition has been accounted for as a business combination by the acquisition method of accounting with an effective date of 28 February 2013, being the date the Group gained control of Singleton. The fair value allocation to Singleton’s assets and liabilities is provisional subject to further analysis of the oil and gas properties acquired including the Baxter’s Copse and Burton Down fields.

Assets acquired and liabilities assumed

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

	Provisional fair value £'000
Assets	
Property, plant and equipment (Note 12)	41,568
Cash and cash equivalents	–
Trade and other receivables	1,178
Inventories	362
	43,108
Liabilities	
Borrowings	(26,939)
Deferred tax liabilities	(7,125)
Provisions (Note 20)	(4,776)
	(38,840)
Total identifiable net assets at fair value	4,268
Purchase consideration transferred plus provisional working capital adjustments*	15,092
Goodwill	10,824

* Upon acquisition the Group settled the assumed borrowings. The settlement of the borrowings and consideration were financed by a £21.4 million facility with Macquarie Bank Limited and £20.8 million of existing IGas cash resources. £13.9 million was paid for the acquisition at completion date and a further £1.2 million is payable for working capital.

The fair value of contractual receivables amounts to £0.9 million. The gross value of the contractual receivables amounts to £0.9 million, with £nil not expected to be received.

Accrued transaction costs in respect of the Singleton acquisition of £59 thousand have been recognised in the Income Statement.

From the date of acquisition, Singleton has contributed £1 million of revenue and £1.3 million loss towards the net loss before tax of the Group. If the combination had taken place at 1 April 2012, the Group’s revenue from continuing operations for the year would have been £78.0 million and the Group’s operating loss before tax and acquisition costs for the Group would have been £2.6 million.

The goodwill of £10.8 million is discussed further in note 10.

Analysis of cash flows on acquisition

	£'000
Consideration paid for Singleton (included in cash flows relating to investing activities)	13,877
Net cash flow on acquisition of Singleton	13,877

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 US\$135 million debt facility from Macquarie Bank Limited; cash generated by Star and held in escrow prior to closing and IGas’ existing cash resources.

9 Acquisitions continued

The accounting for the acquisition of Star as of 14 December 2011 (acquisition date) was only provisionally determined in respect of the fair values of certain assets acquired and liabilities assumed. During the year ended 31 March 2013, the necessary valuations and assessments have been undertaken so that the accounting for this acquisition has been finalised. The details of the adjustments of the provisionally determined fair values of assets acquired and liabilities assumed are shown below:

	Provisional fair value £'000	Adjustments £'000	Comments	Acquired final fair values £'000
Assets				
Intangible exploration and evaluation assets	3,775	–		3,775
Property, plant and equipment	108,739	(5,698)	1, 5	103,041
Investment in associate	–	–		–
Cash and cash equivalents	30,707	–		30,707
Trade and other receivables	6,809	–		6,809
Inventories	1,368	–		1,368
	151,398	(5,698)		145,700
Liabilities				
Trade and other payables	(9,685)	–		(9,685)
Current tax liabilities	(5,934)	394	2	(5,540)
Deferred tax liabilities	(29,004)	2,679	3,5	(26,325)
Provisions	(12,324)	(5,291)	4	(17,615)
	(56,947)	(2,218)		(59,165)
Total identifiable net assets at fair value	94,451	(7,916)	5	86,535
Purchase consideration transferred	110,050	–		110,050
Goodwill	15,599	7,916		23,515

1. Write down based on final external valuation for land acquired
2. Final tax computations based on the final acquisition balance sheet
3. Revision based on adjustments made to property, plant and equipment and provisions
4. Revision based on re-assessment of future decommissioning liability
5. The adjustments to finalise the accounting for the acquisition have been amended as compared to those reported in the Interim Report for the six months ended 30 September 2012 in order to correct the valuation of property, plant and equipment which had been overstated by £4.4 million. In addition to reducing the assets by £4.4 million, this adjustment decreased related deferred tax liabilities by £2.8 million and goodwill has increased by £1.6 million. In addition deferred tax at acquisition date has been increased by £4.2m following further analysis of assets acquired and related tax attributes. This adjustment has increased goodwill by a corresponding amount.

10 Goodwill

	31 March 2013 £000	31 March 2012 £000
Opening balance	23,515	–
Acquisitions	10,824	23,515
Accumulated impairment losses	–	–
	34,339	23,515

Goodwill of £10.8 million was generated in the period, as described in note 9 above.

Goodwill all relates to the acquisitions of Star and PR Singleton 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 business 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 and PR Singleton's licence areas.

Impairment testing of Goodwill

Goodwill has been assigned to the UK business segment, the level at which goodwill is monitored for internal management purposes. The UK business segment is considered the cash generating unit for the purpose of any impairment testing of this goodwill.

The Group tests goodwill annually for impairment or more frequently if there are indications that goodwill might be impaired. The Company has undertaken an impairment review of goodwill as at 31 March 2013. The Group assessed whether goodwill was impaired by calculating the value-in-use using discounted future cash flows of the cash generating unit and comparing this to the total carrying value of the cash generating unit including goodwill.

Consolidated Financial Statements – Notes continued

10 Goodwill continued

The calculation of value in use includes the following key assumptions:

- Production volumes
- Crude oil prices
- Discount rate

Estimated production volumes are based on detailed data for each of the Group's fields and take into account development plans for the fields agreed by management as part of the long-term planning process.

Value in use calculations are based on cash flows expected to be generated by projected oil production profiles up to the expected cessation of production dates. Future operating and capital expenditure were based on management's assessment, and production and reserve profiles were based on proved and probable reserves as determined by an independent reserve evaluator.

The crude oil prices used are based on the forward oil price curve and on management's view of long term price.

The pre-tax discount rate in 2013 is 19 per cent. The period over which the Group has projected cash flows is in excess of five years and is believed to be appropriate as it is underpinned by estimates of commercial reserves.

It was determined that the carrying amount of goodwill is not impaired.

The directors have considered the sensitivity of the key assumptions and have concluded that any possible changes that may be reasonably contemplated in these key assumptions would not result in the value in use falling below the carrying value of goodwill.

11 Intangible exploration and evaluation assets

Exploration and
evaluation
£000

Cost	
At 1 January 2011	4,644
Additions	19,132
Acquisitions*	33,485
Changes in decommissioning	18
Impairment	(42)
At 31 March 2012	57,237
Additions	2,501
Changes in decommissioning	23
Impairment	(1,093)
At 31 March 2013	58,668
Amortisation and Impairment	
At 1 January 2011	–
Charge for the period	–
At 31 March 2012	–
Charge for the year	–
At 31 March 2013	–
Net book amount	
At 31 March 2012	57,237
At 31 March 2013	58,668

* Included in the prior year acquisition is £29.7 million relating to the acquisition of IGas Exploration UK Limited

£1.1 million of costs were impaired during the year (2012: £42 thousand) relating to expenditure on a site (PEDL 115) where no future exploration activity was planned and the license was therefore relinquished.

12 Property, plant and equipment

	Equipment Used for Exploration and Evaluation £000	Freehold land £000	Buildings/lease hold property improvements £000	Oil and gas properties £000	Fixtures, fittings and equipment £000	Motor vehicles £000	Total £000
Cost							
At 1 January 2011	179	–	–	–	21	20	220
Additions	–	–	–	592	72	8	672
Disposals	–	–	–	–	(19)	(8)	(27)
Acquisitions	–	866	539	99,837	593	1,206	103,041
At 31 March 2012	179	866	539	100,429	667	1,226	103,906
Additions	–	–	–	1,055	28	–	1,083
Disposals	–	–	–	(29)	(14)	(173)	(216)
Acquisitions	–	–	–	41,566	2	–	41,568
Changes in decommissioning	–	–	–	5,396	–	–	5,396
At 31 March 2013	179	866	539	148,417	683	1,053	151,737
Depreciation and Impairment							
At 1 January 2011	6	–	–	–	4	5	15
Charge for the period	25	–	336	2,756	139	98	3,354
Disposals	–	–	–	–	–	(8)	(8)
At 31 March 2012	31	–	336	2,756	143	95	3,361
Charge for the year	20	–	164	9,523	203	260	10,170
Disposals	–	–	–	–	(10)	(162)	(172)
At 31 March 2013	51	–	500	12,279	336	193	13,359
Net book amount							
At 31 March 2012	148	866	203	97,673	524	1,131	100,545
At 31 March 2013	128	866	39	136,138	347	860	138,378

Included in the total net book value of fixed assets is nil (2012: £210 thousand) in respect of assets held under finance leases and similar hire purchase contracts. Depreciation for the period on these assets was nil (2012: £12 thousand).

Under the terms of the facility agreement, Macquarie Bank Limited has a fixed and floating charge over all these assets. This charge was released on the 10 April 2013 when the Macquarie loan was settled and was replaced with the Bond.

13 Investment in associate**Associate**

Details of the Groups associate as at 31 March 2013 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 at 31 March 2013 (2012: £nil). Receivables due from Larchford are included in note 15.

Consolidated Financial Statements – Notes continued

14 Inventories

	31 March 2013 £000	31 March 2012 £000
Oil Stock	836	429
Drilling materials	43	42
Maintenance materials	177	245
	1,056	716

15 Trade and other receivables

	31 March 2013 £000	31 March 2012 £000
VAT recoverable	305	1,454
Trade debtors	6,529	8,656
Other debtors	404	220
Amount due from Larchford	–	252
Prepayments	1,331	1,531
	8,569	12,113

Trade receivables are non-interest bearing and are generally on 30 day terms.

Of the Group's financial assets as stated above £nil thousand (2012: £878 thousand) were past due at the reporting date. An impairment of £252 thousand has been provided against the amounts due from Larchford (2012: £626 thousand). The ageing of the financial assets (trade debtors, other debtors and amounts due from associate) is as follows:

	31 March 2013 £000	31 March 2012 £000
Not yet due	6,783	8,876
Overdue by not more than three months	–	–
More than three months but not more than six months	–	–
More than six months but not more than one year	–	252
	6,783	9,128

16 Cash and cash equivalents

	31 March 2013 £000	31 March 2012 £000
Cash at bank and in hand	9,831	7,915
	9,831	7,915

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.

Other financial assets – Restricted cash

	31 March 2013 £000	31 March 2012 £000
Restricted cash	102,865	–
	102,865	–

On 22 March 2013 the Company raised bonds to a value of US\$156.2 million. The cash relating to these bonds were received into, and held in Escrow, remaining restricted until all of the conditions precedent were satisfied in relation to the Bond issued.

On 10 April 2013, all conditions precedent were met by the Group and the funds in Escrow were reclassified as cash and cash equivalents. Part of these funds were used to repay the bank facility agreement with Macquarie Bank Ltd, plus outstanding interest and all associated break fees, termination fees and costs of closing out the hedges. The remainder is being used for general corporate purposes of the Group. See note 28 for further details of refinancing.

17 Current liabilities

	31 March 2013 £000	31 March 2012 £000
Trade and other payables:		
Trade creditors	2,102	3,509
Employment related taxation	209	717
Accruals and other creditors	11,745	6,254
	14,056	10,480

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 (2012: all within one month).

18 Borrowings

Borrowings are measured at amortised cost in accordance with IAS 39.

	31 March 2013			31 March 2012		
	Within 1 year £000	Greater than 1 year £000	Total £000	Within 1 year £000	Greater than 1 year £000	Total £000
Macquarie – Facility A**	38,673	–	38,673	16,475	32,818	49,293
Macquarie – Facility B**	29,634	–	29,634	–	25,659	25,659
Macquarie – Facility C	21,403	–	21,403	–	–	–
Sub total	89,710	–	89,710	16,475	58,477	74,952
Issued Bonds*	5,466	94,942	100,408	–	–	–
Sub total	5,466	94,942	100,408	–	–	–
Total	95,176	94,942	190,118	16,475	58,477	74,952

* Transaction costs of raising debt of £2.8 million (**2012: £7.6 million) have been netted off against the liability

Macquarie financing

On 21 November 2011 the Company and Macquarie entered into a senior secured facility agreement (the "Credit Agreement") which were repaid on 10 April 2013. On 11 February 2013 the Company signed an expansion of the existing loan facility with Macquarie to increase the amount available to draw down from facility C, which was repaid on 10 April 2013.

The Credit Agreement consisted of three separate facilities:

- (i) Facility A: US\$ 90,000,000 5 year senior secured term loan, carrying interest at 5.5% over LIBOR and a 2% commitment fee;
- (ii) Facility B: US\$ 45,000,000 5 year senior secured term loan, carrying interest at 12% above LIBOR and a commitment fee of 3.5%; and
- (iii) Facility C: US\$ 90,000,000 3 year senior secured term loan of which US\$32.5 million was drawn down, carrying interest at 12% above LIBOR and a commitment fee of US\$2 million on initial drawdown, with a 2% fee thereafter.

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 or the sale of the assets of the Group.

In accordance with IAS 1 the Macquarie facilities were re-classified as current liabilities as at 31 March 2013 as the Group had intended to repay these facilities upon completion of the Bonds. The facilities were re-measured at 31 March to take into account the change in the estimated future cashflows. The re-estimation resulted in a difference of £7.6 million which is recognised in finance costs in the income statement for the year.

On 10 April 2013, the loan with Macquarie (Facility A, B and C) was repaid in full. This was funded by the cash raised from the issuance of the Bonds. The table below summarises the Macquarie loan balance upon repayment.

	£000
Macquarie debt at amortised cost (per above)	(89,710)
Accrued interest to 10 April 2013	(305)
Repayment of borrowings and accrued interest	90,015
	–

Consolidated Financial Statements – Notes continued

18 Borrowings continued

Bond issuance

On 21 March 2013, the Company and Norsk Tillitsmann (“Bond Trustee”) entered into a Bond Agreement for the Company to issue up to 165 million US\$1 Bonds (the “Bond”). At 31 March 2013 US\$156.2 million of bonds had been sold with the funds paid into escrow.

By 10 April 2013, the conditions precedent under the Bond Agreement were met, with the related cash then released from escrow to the Company. Part of the net proceeds of the Bond were used to repay the outstanding loan balance with Macquarie Bank Ltd, plus outstanding interest and all associated break fees, termination fees and to pay costs associated with closing out hedges. The remainder is being used for general corporate purposes by the Group.

The Bond carries a coupon of 10% per annum (where interest is payable semi-annually in arrears) and semi-annual amortisation of 2.5% of initial loan amount. Final maturity on the notes will be 22 March 2018.

The Bond Agreement contains certain representations, warranties and covenants customary for an instrument 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 Bond Agreement also contains customary events of default, the occurrence of which allows The Bond Trustee (on behalf of the bond holders) to accelerate outstanding bonds and terminate the commitments.

Further details regarding the Group’s refinancing can be found in note 28.

19 Other liabilities

£000

At 1 January 2011	–
Warrants issued during period	4,457
Revaluation gain	(1,651)
As at 31 March 2012	2,806
Warrants issued during year	–
Revaluation loss	5,402
As at 31 March 2013	8,208

Warrants issued to Macquarie Bank under the Facilities Agreement can be exercised in three 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 0.62% and an implied volatility of 37.04% at 31 March 2013. 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
Granted in year	–	–
Lapsed in year	–	–
Outstanding at 31 March 2013	21,286,646	55.8
Exercisable at 31 March 2013	21,286,646	55.8

The weighted average remaining contractual life for the warrants outstanding as at 31 March 2013 is 4.75 years.

20 Provisions for liabilities and charges

	31 March 2013			31 March 2012		
	Decommissioning £000	Other £000	Total £000	Decommissioning £000	Other £000	Total £000
At the beginning of the year/period	18,283	100	18,383	–	–	–
New provisions	–	–	–	445	–	445
Acquisition of a subsidiary	4,776	–	4,776	17,598	160	17,758
Unwinding of discount	457	–	457	197	–	197
Reassessment of decommissioning provision/ liabilities	5,419	–	5,419	–	–	–
Utilisation/write back of provision	(5)	(25)	(30)	43	(60)	(17)
At the end of the period	28,930	75	29,005	18,283	100	18,383

Included in the prior year acquisition of subsidiary is £143 thousand relating to the acquisition of IGas Exploration UK Limited.

Provision has been made for the discounted future cost of restoring 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. These provisions have been created based on the Groups' internal estimates. Assumptions based on the current economic environment have been made, which management believes are a reasonable basis upon which to estimate the future liability. These estimates are reviewed regularly to take into account any material changes to the assumptions. However, actual decommissioning costs will ultimately depend upon future market prices for the necessary decommissioning works required that will reflect market conditions at the relevant time. Furthermore, the timing of decommissioning is likely to depend on when the fields cease to produce at economically viable rates. This, in turn, will depend upon future oil and gas prices, which are inherently uncertain.

The risk free rate range of 0.25% to 3.02% is used in the calculation of the provision as at 31 March 2013 (2012: Risk free rate range of 0.35% to 3.16%).

21 Pension Scheme

The Group operates a defined contribution pension scheme. The pension charge for the year ended 31 March 2013 represents contributions payable by the Group to pension funds and amounted to £571,000 (2012: £260,000).

Contributions amounting to £97,500 (2012: £84,000) were accrued at 31 March 2013 and are included in creditors.

22 Commitments

The Group's capital and lease commitments comprised:

	31 March 2013 £000	31 March 2012 £000
Capital Commitment:		
Obligation under 13th licensing round	2,000	2,000
Total capital commitments	2,000	2,000

Finance lease commitments

The Group used finance leases to acquire property, plant and equipment with a net book value of nil (2012: £210,000). These leases had 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 2013 £000	31 March 2012 £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:

	Year ended 31 March 2013 £000	15 months ended 31 March 2012 £000
Minimum lease payments under operating leases recognised in profit for the year/period	1,661	573
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	496	307
– expiring within 2 to 5 years	1,634	520
– over 5 years	378	–
Total	2,508	827

23 Financial instruments and risk management

In accordance with IFRS 7, the Group has detailed the financial instruments and risk management as at the balance sheet date.

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 2013 £000	31 March 2012 £000	31 March 2013 £000	31 March 2012 £000
Financial assets				
<i>Loans and receivables</i>				
Cash and cash equivalents ¹	9,831	7,915	9,831	7,915
Other financial assets – restricted cash ¹	102,865	–	102,865	–
Trade and other receivables ¹	6,783	9,128	6,783	9,128
Financial liabilities				
<i>Amortised cost</i>				
Finance lease ²	–	51	–	51
Borrowings (floating rate) ²	89,710	74,952	89,710	82,296
Borrowings (fixed rate) ²	100,408	–	103,150	–
Trade and other payables ¹	2,102	3,509	2,102	3,509
Fair value through profit and loss				
Commodity price swaps ^{3,4}	9,222	16,161	9,222	16,161
Interest rate swaps ³	779	532	779	532
Warrants ⁵	8,208	2,806	8,208	2,806

1 The carrying values of cash and cash equivalents, other financial assets, 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 commodity prices and 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.

23 Financial instruments and risk management continued

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

	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
At 31 March 2013				
Commodity price swaps	–	9,222	–	9,222
Interest rate swaps	–	779	–	779
Warrants	–	8,208	–	8,208
Total	–	18,209	–	18,209
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

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 2013 were as follows:

	Term	Contract amount	Contract price/rate	Average Fixed Price/Rate	Fair value at 31 March 2013 £000
US dollar commodity price swaps	2013–2017	1,251 Mbbls oil	\$90–\$105.65/bbl	\$97.97/bbl	2,060
Pound sterling commodity price swaps	2013–2017	1,610 Mbbls oil	£56.70–£63.60/bbl	£60.74/bbl	7,162
Interest rate swaps	2012–2016	\$51.9m declining to \$22.8m	0.91%–1.36%	1.20%	779

The Group's commodity price swaps matured over the period from 1 April 2013 to 31 December 2017 on contracted volumes that decline in line with the Group's 2P production profile. During the year to 31 March 2013 oil hedges for 573 thousand barrels (2012: 146 thousand barrels) matured generating a net cost of £5.9 million (2012: £2.3 million).

The Group's interest rate swaps matured over the period from 1 April 2013 to 13 December 2016 with a profile linked to the expected repayment of principal on the Macquarie Facilities prior to the refinancing in April 2013 (see note 28). As no derivative instrument has been designated for hedge accounting, all gains and losses are recognised immediately in the income statement within finance costs.

Derivative financial instrument liabilities were classified as current liabilities at 31 March 2013 as the Group had intended to settle the derivatives upon completion of the bonds. Further details can be found in note 28.

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 and restricted cash. 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.

Consolidated Financial Statements – Notes continued

23 Financial instruments and risk management continued

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 2013 and 31 March 2012; 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.

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.

The analysis is based on hedges existing at balance sheet date, the assumption that 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 2013 £000	31 March 2012 £000
10% increase in the price of oil	(15,681)	(12,300)
10% decrease in the price of oil	15,681	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 interest rate swaps. 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.

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 2013 £000	31 March 2012 £000
50 basis point increase in LIBOR	362	800
50 basis point decrease in LIBOR	(362)	(800)

Foreign currency risk

The Group has transactional currency exposures. Such exposure arises from sales or purchases in currencies other than the UK pounds 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 2013 £000	31 March 2012 £000
10% strengthening of the pound against the US dollar	8,694	14,666
10% weakening of the pound against the US dollar	(8,694)	(14,666)

23 Financial instruments and risk management continued**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 2013, the Group had 2 customers (2012: 2) that owed the Group more than £2.5 million each and accounted for approximately 90% (2012: 95%) of all receivables owing. The need for impairment is analysed at each reporting date on an individual basis for major clients.

With respect to credit risk arising from the other financial assets of the Group, which comprise cash and cash equivalents and restricted cash, 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 other than if the UK government is a majority shareholder.

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 based on contractual undiscounted payments (see note 28 for an updated profile for the borrowings):

	On demand £000	< 1 year £000	1–2 years £000	2–3 years £000	>3 years £000	Total £000
At 31 March 2013						
Borrowings (floating rate)	–	89,710	–	–	–	89,710
Borrowings (fixed rate)	–	11,071	10,769	10,491	100,669	133,000
Trade and other payables	–	2,102	–	–	–	2,102
Warrants	–	8,208	–	–	–	8,208
Derivative financial instruments						
Commodity price swaps	–	9,222	–	–	–	9,222
Interest rate swaps	–	779	–	–	–	779
	–	115,164	5,143	5,143	87,435	212,885
At 31 March 2012						
Borrowings (floating rate)	–	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

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 (2012: funding requirements met through a combination of debt and 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 and restricted cash. Capital includes share capital, share premium, other reserves and accumulated losses.

Consolidated Financial Statements – Notes continued

24 Share capital

On 31 December 2007 the Company completed a reverse takeover whereby Island Gas Limited 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		Deferred shares	
	No.	£000 Nominal value	No.	£000 Nominal value
Issued and fully paid				
1 January 2011, Ordinary Shares of 50p each	93,109,431	46,555	–	–
09 March 2011 shares issued at a price of 73.5p 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	940	–	–
31 March 2012, Ordinary Shares of 50p each	162,204,909	81,102	–	–
16 August 2012 share conversion of each issued Ordinary Shares of 50p each into:				
New Ordinary Shares of 10p each*	(162,204,909)	(81,102)	–	–
New Deferred Shares of 40p each*	–	–	162,204,909	64,882
15 January 2013 shares issued at a price of 95p each	24,330,730	2,433	–	–
31 March 2013, Ordinary Shares of 10p each	186,535,639	18,653	–	–
31 March 2013, Deferred Shares of 40p each	–	–	162,204,909	64,882

* On 16 August 2012 the Company converted each Ordinary Share of 50p each into a New Ordinary Share of 10p each and a New Deferred Share of 40p each pursuant to an obligation to Macquarie Bank Limited under the terms of the warrants issued during the period ended 31 March 2012. The New Ordinary Shares carry the same rights as attached to Ordinary Shares. 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. The Company had the right to purchase all the issued New Deferred Shares from all Shareholders for an aggregate consideration of one penny. On 16 August 2012, the Company repurchased the New Deferred Shares from all Shareholders for an aggregate consideration of one penny. For further information see note 26.

Accordingly, the Group share capital account comprised:

	£000
Share capital account	
At 1 January 2011	19,665
Shares issued during the period	34,548
At 31 March 2012	54,213
Shares issued during the year	2,433
At 31 March 2013	56,646

25 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 year the Company issued 24,330,730 10p ordinary shares at a price of 95p each (2012: 69,095,478 shares issued). The cost of these issues was £0.9 million (2012: £0.7 million). Together these events resulted in a net movement in the Share Premium reserve of £19.7 million (2012: £15.5 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 2011	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)
Employee share plans – cost under IFRS 2	343	–	–	343
Balance 31 March 2013	455	(1,299)	47	(797)

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:

	2010 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 2011	1,125,000	–	–	–	1,322,204	70
Granted during the period	–	–	2,107,485	–	–	–
Forfeited 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	–	–	–	–	–	–
Granted during the year	–	–	1,071,542	–	–	–
Forfeited during the year	(50,000)	–	–	–	(237,773)	(70)
Lapsed during the year	–	–	–	–	(173,501)	(70)
Exercised during the year	–	–	–	–	–	–
Outstanding at 31 March 2013	–	–	3,179,027	–	–	–
Exercisable at 31 March 2013	–	–	–	–	–	–

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. There were no LTIPs outstanding at 31 March 2013.

The total charge for the year was £2 thousand. Of this amount, £nil thousand was capitalised and £2 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 year. The LTIPs outstanding at 31 March 2013 had both a weighted average remaining contractual life and maximum term remaining of 8.5 years.

The total charge for the year was £218 thousand. Of this amount, £26 thousand was capitalised and £192 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. There were no unvested options outstanding at 31 March 2013.

Consolidated Financial Statements – Notes continued

26 Other reserves continued

The total charge for the year was £2 thousand. Of this amount, £nil thousand was capitalised and £2 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:

	2010 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 2012	n/a	n/a	n/a
Weighted average fair value of awards granted in 2011	n/a	23.12p	n/a

Other share based payments

During the year, certain employees agreed to settle bonuses earned in the period ended 31 March 2012 in share options. The number of share options issued was 216,850 with a fair value of £149 thousand, measured indirectly with reference to the value of the option. Due to the fact that the options vested immediately with £nil strike price and no conditions, the fair value of the option equals the market price of the share at the grant date. There were no options exercised during the year. The options outstanding at 31 March 2013 had both a weighted average remaining contractual life and a maximum term of 8.75 years.

Treasury shares

The Treasury shares of the Group have 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 no net effect on shareholders' funds. During the year ended to 31 March 2013 no shares were issued to the Employee Benefit Trust (2012: nil).

As detailed in Note 24, the Company repurchased all 162,204,909 Deferred Shares for an aggregate consideration of one penny. Following this repurchase, these Deferred Shares are held as treasury shares.

Capital contribution

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

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 year ended 31 March 2013.

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 as at 31 March 2013 a 21.29% share in the Group as a result of the Company's acquisition of IGas 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 year ended 31 March 2013, the services provided during the year to the Group amounted to £146 thousand of which nil thousand remained outstanding (2012: £264 thousand of which £nil thousand remained outstanding).

Larchford is related by virtue of the Group's 33% interest in the Company. There were no transactions with Larchford during the period. A loan of £252 thousand between Larchford and Star Energy Limited was deemed unrecoverable as Larchford went into liquidation on 6 March 2012. This amount has been fully provided for the period to 31 March 2013.

F Gugen subscribed to US\$5 million bonds issued by the Company. These bonds will earn interest at 10% per annum. As at 31 March 2013 accrued interest amounted to US\$13.9 thousand.

27 Related party transactions continued

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:

	Year ended 31 March 2013 £000	15 Months ended 31 March 2012 £000
Short-term employee benefits	1,946	1,425
Share plan	162	199
	2,108	1,624

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

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**Refinancing**

On 14 March 2013, the Group announced its intention to issue 165 million US\$1 bonds (the "Bond"). Part of the proceeds from the Bond were intended to repay the Macquarie Bank Ltd loan facilities and the settlement of hedges also taken out with Macquarie Bank Ltd.

On 21 March 2013, a Bond Agreement was signed between the Company and Norsk Tillitsmann ("Bond Trustee"). As at 31 March 2013, US\$156.2 million Bonds had been sold.

On the 10 April 2013, the Company successfully completed all conditions precedent to the satisfaction of the Bond Trustee, whereby the funds raised by the Bonds were released to the Company. By 30 April 2013, all the Bonds had been sold, raising a total of US\$165.0 million before expenses.

Part of the net proceeds of the Bond were used to repay the outstanding loans with Macquarie Bank Ltd, plus outstanding interest and all associated break fees, termination fees and costs of closing out hedges. The remainder is being used for general corporate purposes of the Group. The total amount used to repay the debt, hedges and early settlement fees was US\$156.0 million, detailed as follows:

	US\$000
Principal	136,225
Interest to 10 April 2013	462
Total loan repayment	136,687
Oil hedge settlement (including payment in relation to amount accrued in March 2013)	15,061
Interest rate swaps settlement (including payment in relation to amount accrued in March 2013)	1,182
Total derivatives settlement	16,243
Fees and expenses	3,097
Total repaid	156,027

The bonds carry a coupon of 10% per annum (where interest is payable semi-annually in arrears) and semi-annual amortisation of 2.5% of initial loan amount. Final maturity on the notes will be 22 March 2018. The bonds are secured by a pledge over shares of certain of the Group's subsidiary companies.

The Bond Agreement contains certain representations, warranties and covenants customary for a 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 Bond Agreement also contains customary events of default, the occurrence of which allows The Bond Trustee (on behalf of the bond holders) to accelerate outstanding bonds and terminate the commitments.

Consolidated Financial Statements – Notes continued

28 Subsequent events continued

As per the Group's accounting policy, the bonds were measured initially at fair value. After initial recognition, the Bond will subsequently be measured at amortised cost using the Effective Interest Rate ("EIR") method. Gains and losses will be recognised in the income statement (as part of finance costs) when the liabilities are derecognised as well as through the EIR amortisation process.

The 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 net proceeds received from the issue of the Bonds will be reflected in the balance sheet net of issue costs, representing the fair value of the liability to the Company, as follows:

	US\$000	£000
Nominal value of bonds issued	165,000	108,660
Issue costs	(4,457)	(2,935)
Liability net of issue costs	160,543	105,725
Interest and amortisation of issue costs	1,927	1,269
Liability at 30 April 2013	162,470	106,994

The interest charged for the year is calculated by applying an effective interest rate of 10.80% to the net liability. The liability is measured at amortised cost. The difference between the carrying amount of the liability component at inception and the amount reported in the balance sheet at 30 April 2013 represents the effective interest rate less interest paid to that date.

Part of the Bond proceeds were used to settle the Macquarie debt. Details of the balance with Macquarie at repayment are as follows:

	£000
Macquarie debt at amortised cost (Note 18)	(89,710)
Accrued interest to 10 April 2013	(305)
Repayment of borrowings and accrued interest	90,015
Macquarie loan balance	–

28 Subsequent events continued

Had the full Bond issue of US\$165.0 million completed at 31 March 2013, the impact on the consolidated balance sheet would have been as follows:

**Pro forma Consolidated Balance Sheet
As at 31 March 2013**

	Notes	Audited 31 March 2013 £000	Adjustments ^A £000	Adjustments ^B £000	Pro forma 31 March 2013 £000
Non-current assets		231,385	–	–	231,385
Current assets					
Other current assets	1	9,625	–	–	9,625
Cash and cash equivalents		9,831	–	6,240	16,071
Other financial assets – restricted cash		102,865	5,795	(108,660)	–
Current assets		122,321	5,795	(102,420)	25,696
Current liabilities					
Other current liabilities	2	(25,270)	(145)	2,709	(22,706)
Borrowings – Macquarie		(89,710)	–	89,710	–
Borrowings – Bond		(5,466)	(290)	–	(5,756)
Derivative financial instruments		(10,001)	–	10,001	–
		(130,447)	(435)	102,420	(28,462)
Net current liabilities		(8,126)	5,360	–	(2,766)
Total assets less current liabilities		223,259	5,360	–	228,619
Non-current liabilities					
Borrowings – Bond		(94,942)	(5,360)	–	(100,302)
Other non-current liabilities	3	(69,199)	–	–	(69,199)
		(164,141)	(5,360)	–	(169,501)
Net assets		59,118	–	–	59,118
Shareholders' funds		59,118	–	–	59,118

Notes:

1. Other current assets include inventories and trade and other receivables.
2. Other current liabilities includes trade and other payables, current tax liabilities and other liabilities.
3. Other non-current liabilities include deferred tax liabilities and provisions

Adjustments:

- A Includes funds received for remaining US\$8.8 million bonds net of associated fees which were sold in April 2013.
B Repayment of Macquarie loan, hedges and early cancellation fees, upon completion of conditions precedent. Excludes interest paid to 10 April 2013.

Bonds

C McDowell subscribed to US\$0.3 million bonds issued by the Company. These bonds will earn interest at 10% per annum.

Hedging

On 16 April 2013, the Group entered into new hedging arrangements by acquiring puts for c.450,000 barrels at US\$90.0/barrel and c.450,000 barrels at £58.8/barrel over the period at 31 March 2014.

Issued Shares

In January 2013, the Company adopted the Share Investment Plan for all employees of the Group. The scheme was approved by HM Revenue & Customs on 5 February 2013. On 22 April 2013, the Company issued 475,002 Ordinary 10p shares in relation to the Groups SIP scheme. Further details regarding this scheme can be found in the Remuneration Report.

On 26 June 2013, Macquarie exercised warrants over 3,000,000 ordinary 10p shares. The warrants were exercised at 55.8p per share.

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 Company 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 Company 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 year ended 31 March 2013 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 17. 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 2013;
- 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 year ended 31 March 2013.

Daniel Trotman

(Senior Statutory Auditor)

for and on behalf of Ernst & Young LLP, Statutory Auditor
London
10 July 2013

Parent Company Statement of Comprehensive Income

For the year ended 31 March 2013

	Year ended 31 March 2013 £000	15 months 31 March 2012 £000
Loss for the year	(26,117)	(8,506)
Other comprehensive income for the year	–	–
Total comprehensive loss for the year	(26,117)	(8,506)

Parent Company Balance Sheet

As at 31 March 2013

	Notes	31 March 2013 £000	31 March 2012 £000
Non-current assets			
Investments in subsidiaries	2	217,912	190,154
Property, plant and equipment	3	57	72
		217,969	190,226
Current assets			
Trade and other receivables	4	55,745	22,795
Cash and cash equivalents	5	3,596	3,452
Other financial assets – Restricted cash	5	102,865	–
		162,206	26,247
Current liabilities			
Trade and other payables	6	(75,694)	(29,205)
Borrowings – Macquarie		(89,710)	(16,475)
Borrowings – Bond	8	(5,466)	–
Other liabilities	9	(8,208)	(2,806)
Derivative financial instruments	11	(779)	(413)
		(179,857)	(48,899)
Net current liabilities		(17,651)	(22,652)
Total assets less current liabilities		200,318	167,574
Non-current liabilities			
Borrowings – Macquarie	8	–	(58,477)
Borrowings – Bond	8	(94,942)	–
Derivative financial instruments	11	–	(119)
		(94,942)	(58,596)
Net assets		105,376	108,978
Capital and reserves			
Called up share capital	12	83,535	81,102
Share premium account	13	41,639	21,928
Merger Reserve	14	22,222	22,222
Other reserves	15	(797)	(1,140)
Accumulated deficit		(41,223)	(15,134)
Shareholders' funds		105,376	108,978

These financial statements were approved and authorised for issue by the Board on 10 July 2013 and are signed on its behalf by:



Andrew Austin
Chief Executive Officer



Stephen Bowler
Chief Financial Officer

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Parent Company Statement of Changes in Equity

For the year ended 31 March 2013

	Called up share capital (Note 12) £000	Merger reserve (Note 14) £000	Share premium account (Note 13) £000	Other reserves (Note 15) £000	Accumulated deficit £000	Total £000
Balance at 1 January 2011	46,555	22,222	6,392	(1,236)	(6,802)	67,131
Changes in equity for 15 months ended 31 March 2012						
Total comprehensive loss for the period	–	–	–	–	(8,506)	(8,506)
Lapse of warrants	–	–	–	47	–	47
Employee share plans cost under IFRS (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
Changes in equity for the year ended 31 March 2013						
Total comprehensive loss for the year	–	–	–	–	(26,117)	(26,117)
Employee share plans cost under IFRS2 (note 15)	–	–	–	343	28	371
Issue of shares	2,433	–	19,711	–	–	22,144
Balance at 31 March 2013	83,535	22,222	41,639	(797)	(41,223)	105,376

Parent Company Cash Flow Statement

For the year ended 31 March 2013

	Notes	Year ended 31 March 2013 £000	15 months ended 31 March 2012 £000
Operating activities:			
(Loss) for the year/period		(26,117)	(8,506)
Depreciation, depletion and amortisation		25	24
Share based payment charge		54	1,103
Finance income		(5,678)	(1,897)
Finance costs		28,028	3,796
Decrease/(increase) in trade and other receivables		122	(248)
(Decrease)/increase in trade and other payables		(1,009)	841
Revaluation effects as a result of foreign exchange movements		-	101
Net cash used in operating activities		(4,575)	(4,786)
Investing activities			
Acquisition of property, plant and equipment		(10)	(63)
Acquisition of subsidiaries		-	(110,338)
Loans granted to subsidiaries		(13,951)	(17,246)
Interest received		20	246
Net cash used investing activities		(13,941)	(127,401)
Financing activities			
Cash proceeds from issue of Ordinary Share Capital net of issue costs	12	23,144	20,625
Share issue costs	12	(970)	(681)
Capital contribution	12	-	47
Interest paid		(6,692)	(2,095)
Cash proceeds from loans and borrowings		21,410	84,569
Loan issue costs		(1,887)	(3,141)
Repayment of loans and borrowings		(16,735)	(3,100)
Loans from subsidiary		-	27,834
Net cash from financing activities		18,240	124,058
Net (decrease) in cash and cash equivalents in the year/period		(275)	(8,129)
Net foreign exchange difference		419	(191)
Cash and cash equivalents at the beginning of the year/period		3,452	11,772
Cash and cash equivalents at the end of the year/period	5	3,596	3,452

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Parent Company Financial Statements – Notes

As at 31 March 2013

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 year ended 31 March 2013 and with the Companies Act 2006. The accounting period is not comparable with the 15 month prior period as this period was extended to align to the year end of the then newly acquired entity Star Energy Group limited. The financial statements were approved and authorised for issue by the Board of Directors on 10 July 2013. IGas Energy plc is a public limited Company incorporated and registered in England and Wales and listed on the Alternative Investment Market (“AIM”).

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 parent adopted the following new and amended IFRS which were applicable to the Company’s activities as of 1 April 2012.

IAS 12	Income Taxes (Amendment) – Deferred Taxes: Recovery of Underlying Assets – The amendment clarified the determination of deferred tax on investment property measured at fair value and introduces a rebuttable presumption that deferred tax on Investment property measured using the fair value model in IAS 40 should be determined on the basis that it’s a carrying amount will be recovered through sale. It includes the requirement that deferred tax on non-depreciable assets that are measured using the revaluation Model in IAS 16 should always be measured on a sale basis. The Company has considered the effect of this amendment and has concluded that there is no impact on the financial statements.	1 January 2012
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New and amended standards and interpretations

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 Company has not adopted early. Those that may be applicable to the Company in future are as follows:

For financial period
commencing on or after*

International Accounting Standards (IFRS/IAS)

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	IFRS 11 – Joint Arrangements – IFRS 11 establishes principle of the financial reporting by parties to a joint arrangement. IFRS 11 supersedes IAS 31. It removes the option to jointly controlled entities (JCE) using proportionate consolidation.	1 January 2013
IFRS 12	IFRS 12 – Disclosures of involvement with other entities- IFRS 12 combines, enhances and replaces the disclosure requirement for subsidiaries, joint arrangements, associates and in consolidated structured entities.	1 January 2013
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 Company is currently assessing the impact that these amendments will have on its financial position.	1 January 2014

1 Accounting policies continued

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
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 future cash flows and the availability of the monies drawn under its Bond, which in turn is dependent on the Company not breaching covenants. Under the Bond, the Company drew down from escrow US\$165m of funds in April 2013. 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 US\$90 and £58 per barrel until 31 March 2014. 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 Company combined with the current Bonds 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, Island Gas Limited, which has been accounted for at fair value of consideration paid 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 of consideration paid 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.

Parent Company Financial Statements – Notes continued

1 Accounting policies continued

(d) Non-current assets

Investments in subsidiaries

Investments in group companies 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 in group companies 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.

Loans to group companies are stated at amortised cost.

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:

Buildings	– over five years on a straight line basis
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.

Other financial assets – Restricted cash

Where cash is held in Escrow, funds are only classified as cash and cash equivalents when monies are transferred to and under the control of the Company.

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.

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. When management's estimates of the amounts or timings of cashflows are revised, borrowings are remeasured using the revised cash flow estimates under the original effective interest.

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.

1 Accounting policies continued

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 through 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.

(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.

(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.

Parent Company Financial Statements – Notes continued

1 Accounting policies continued

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:

Parent Company	Investment in Group Companies £000	2013 Loans to Group companies £000	Total £000	Investment in Group Companies £000	2012 Loans to Group companies £000	Total £000
At beginning of year/period	90,154	100,000	190,154	50,555	–	50,555
Additions	318	27,440	27,758	39,599	100,000	139,599
At end of year/period	90,472	127,440	217,912	90,154	100,000	190,154

The subsidiary undertakings of the Company at 31 March 2013 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 (Singleton) Limited	Production and marketing of oil and gas
Island Gas Operations Limited	Electricity Generation
IGas 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

	Buildings	Fixtures, fittings and equipment £000	Motor vehicles £000	Total £000
Cost				
At 1 January 2011	–	21	20	41
Additions	–	66	–	66
Disposals	–	(2)	–	(2)
At 31 March 2012	–	85	20	105
Additions	3	7	–	10
At 31 March 2013	3	92	20	115
Amortisation and impairment				
At 1 January 2011	–	4	5	9
Charge for the year, including impairment	–	18	6	24
At 31 March 2012	–	22	11	33
Charge for the period	–	20	5	25
At 31 March 2013	–	42	16	58
Net book amount				
At 31 March 2012	–	63	9	72
At 31 March 2013	3	50	4	57

4 Trade and other receivables

	31 March 2013 £000	31 March 2012 £000
Amounts falling due within one year:		
VAT recoverable	63	233
Other debtors	35	2
Amounts due from subsidiary undertakings	55,436	22,359
Prepayments	211	201
	55,745	22,795

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 2013 £000	31 March 2012 £000
Cash at bank and in hand	3,596	3,452
	3,596	3,452

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.

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Parent Company Financial Statements – Notes continued

5 Cash and cash equivalents continued

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.

Other financial assets – Restricted cash

	31 March 2013 £000	31 March 2012 £000
Restricted cash	102,865	–
	102,865	–

On 22 March 2013 the Company raised bonds to a value of US\$156.2 million. The cash relating to these bonds were received into, and held in Escrow, remaining restricted until all of the conditions precedent were satisfied in relation to the Bond issued.

On 10 April 2013, all conditions precedent were met by the Company and the funds in Escrow were reclassified as cash and cash equivalents. Part of these funds were used to repay the bank facility agreement with Macquarie Bank Ltd, plus outstanding interest and all associated break fees, termination fees and costs of closing out the hedges. The remainder is being used for general corporate purposes of the Company. See note 17 for further details of the refinancing.

6 Current liabilities

	31 March 2013 £000	31 March 2012 £000
Trade and other payables:		
Trade creditors	71	719
Taxation and social security	96	75
Amounts due to subsidiary undertakings	69,161	27,834
Accruals and other creditors	6,366	577
	75,694	29,205

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 (2012: 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:

	Year ended 31 March 2013 £000	15 Months ended 31 March 2012 £000
Excess management expenses	26,376	14,288
Related to share based payment transactions	301	97

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

Borrowings are measured at amortised cost in accordance with IAS 39.

	31 March 2013			31 March 2012		
	Within 1 year £000	Greater than 1 year £000	Total £000	Within 1 year £000	Greater than 1 year £000	Total £000
Facility A**	38,673	–	38,673	16,475	32,818	49,293
Facility B**	29,634	–	29,634	–	25,659	25,659
Facility C**	21,403	–	21,403	–	–	–
Sub total	89,710	–	89,710	16,475	58,477	74,952
Issued Bonds*	5,466	94,942	100,408	–	–	–
Sub total	5,466	94,942	100,408	–	–	–
Total	95,176	94,942	190,118	16,475	58,477	74,952

* Transaction costs of raising debt of £2.8 million (**2012: £7.6 million) have been netted off against the liability

8 Borrowings continued**Macquarie financing**

On 21 November 2011 the Company and Macquarie entered into a senior secured facility agreement (the "Credit Agreement") which were repaid on 10 April 2013. On 11 February 2013 the Company signed an expansion of the existing loan facility with Macquarie to increase the amount available to draw down from facility C, which was repaid on 10 April 2013.

The Credit Agreement consists of three separate facilities:

- (i) Facility A: US\$ 90,000,000 5 year senior secured term loan, carrying interest at 5.5% over LIBOR and a 2% commitment fee;
- (ii) Facility B: US\$ 45,000,000 5 year senior secured term loan, carrying interest at 12% above LIBOR and a commitment fee of 3.5%; and
- (iii) Facility C: US\$ 90,000,000 3 year senior secured term loan of which US\$32.5 million was drawn down, carrying interest at 12% above LIBOR and a commitment fee of US\$2 million on initial drawdown, with a 2% fee thereafter;

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 or the sale of the assets of the Group.

In accordance with IAS 1, the Macquarie facilities were re-classified as current liabilities as at 31 March 2013 as the Company had intended to repay these facilities upon completion of the Bonds. The facilities were re-measured at 31 March to take into account the change in the estimated future cashflows. The re-estimation resulted in a difference of £5.6 million which is recognised in the income statement for the year.

On 10 April 2013, the loan with Macquarie (Facility A, B and C) was repaid in full. This was funded by the cash raised from the issuance of the Bonds. The table below summarises the Macquarie loan balance upon repayment.

	£000
Macquarie debt at amortised cost (per above)	(89,710)
Accrued interest to 10 April 2013	(305)
Repayment of borrowings and accrued interest	90,015
	-

Bond Issuance

On 21 March 2013, the Company and Norsk Tillitsmann ("Bond Trustee") entered into a Bond Agreement for the Company to issue up to 165 million US\$1 Bond (the "Bond"). At 31 March 2013 US\$156.2 million bonds had been sold and with the funds paid into escrow.

By 10 April 2013, the conditions precedent under the bond agreement were met, with the related cash then released from escrow to the Company. Part of the net proceeds of the Bonds were used to repay the outstanding loan balance with Macquarie Bank Ltd, plus outstanding interest and all associated break fees, termination fees and to pay costs associated with closing out hedges. The remainder is being used for general corporate purposes of the Company.

The Bond carries a coupon of 10% per annum (where interest is payable semi-annually in arrears) and semi-annual amortisation of 2.5% of initial loan amount. Final maturity on the notes will be 22 March 2018.

The Bond Agreement contains certain representations, warranties and covenants customary for an instrument 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 Bond Agreement also contains customary events of default, the occurrence of which allows The Bond Trustee (on behalf of the bond holders) to accelerate outstanding bonds and terminate the commitments.

Further details regarding the Company's refinancing can be found in note 17.

9 Other liabilities

	£000
At 1 January 2011	-
Warrants issued during period	4,457
Revaluation	(1,651)
As at 31 March 2012	2,806
Warrants issued during year	-
Revaluation	5,402
As at 31 March 2013	8,208

Parent Company Financial Statements – Notes continued

9 Other liabilities continued

Warrants issued to Macquarie Bank under the Facilities Agreement can be exercised in three 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 0.62% and an implied volatility of 37.04% at 31 March 2013. 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	21,686,646	55.8
Exercisable at 31 March 2012	21,686,646	55.8
Granted in year	–	–
Lapsed in year	–	–
Outstanding at 31 March 2013	21,286,646	55.8
Exercisable at 31 March 2013	21,286,646	55.8

The weighted average remaining contractual life for the warrants outstanding as at 31 March 2013 is 4.75 years.

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 £496 thousand (2012: £45 thousand).

11 Financial instruments and risk management

In accordance with IFRS 7, the Company has detailed the financial instruments and risk management as at the balance sheet date.

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 Company's balance sheet.

	Carrying amount		Fair value	
	31 March 2013 £000	31 March 2012 £000	31 March 2013 £000	31 March 2012 £000
Financial assets				
<i>Loans and receivables</i>				
Cash and cash equivalents ¹	3,596	3,452	3,596	3,452
Other financial assets – restricted cash ¹	102,865	–	102,865	–
Trade and other receivables ¹	–	–	–	–
Loans to subsidiaries	102,578	100,000	102,578	100,000
<i>Amortised cost</i>				
Loans to subsidiaries	24,862	–	24,862	–
Financial liabilities				
<i>Amortised cost</i>				
Borrowings (floating rate) ²	89,710	74,952	89,710	82,296
Borrowings (fixed rate) ²	100,408	–	103,150	–
Trade and other payables ¹	71	719	71	719
<i>Fair value through profit and loss</i>				
Interest rate swaps ³	779	532	779	532
Warrants ⁴	8,208	2,806	8,208	2,806

1 The carrying values of cash and cash equivalents, other financial assets, 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 warrants is estimated using a Black-Scholes valuation model.

11 Financial instruments and risk management continued**Fair value hierarchy**

The Company 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 as follows:

	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
At 31 March 2013				
Interest rate swaps	–	779	–	779
Warrants	–	8,208	–	8,208
Total	–	8,987	–	8,987
At 31 December 2012				
Interest rate swaps	–	532	–	532
Warrants	–	2,806	–	2,806
Total	–	3,338	–	3,338

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 2013 were as follows:

	Term	Contract amount	Contract price/rate	Average Fixed Price/Rate	Fair value at 31 March 2013 £000
Interest rate swaps	2013–2016	US\$51.9m declining to US\$22.8m	0.91%–1.36%	1.20%	779

The Company's interest rate swaps matured over the period from 1 April 2013 to 13 December 2016 with a profile linked to the expected repayment of principal on the Macquarie Facilities, prior to refinancing in April 2013 (see note 17).

The interest rate swap liability was classified as a current liability at 31 March 2013 as the Company had intended to settle it upon completion of the bonds. Further details can be found in note 28.

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 are derived directly from its operations and restricted cash. 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 Company financial instruments and show the impact on profit or loss and shareholders' equity, where applicable.

Parent Company Financial Statements – Notes continued

11 Financial instruments and risk management continued

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 2013 and 31 March 2012; 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 instruments (interest rate swaps). 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 interest rate swaps. 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.

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 2013 £000	31 March 2012 £000
50 basis point increase in LIBOR	362	800
50 basis point decrease in LIBOR	(362)	(800)

Foreign currency risk

The Company has transactional currency exposures. Such exposure arises from purchases in currencies other than UK pounds 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 2013 £000	31 March 2012 £000
10% strengthening of the pound against the US dollar	8,719	7,835
10% weakening of the pound against the US dollar	(8,719)	(7,835)

Credit risk

With respect to credit risk arising from the financial assets of the Company, which comprise cash and cash equivalents, restricted cash 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 cash and cash equivalents and restricted cash by dealing only with financial institutions with credit ratings of at least A or equivalent of at least A or equivalent other than if the UK government is a majority shareholder.

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.

11 Financial instruments and risk management continued

The table below summarises the maturity profile of the Company's financial liabilities at 31 March based on contractual undiscounted payments (see note 17 for an updated profile for the borrowings):

	On demand £000	<1 year £000	1–2 years £000	2–3 years £000	>3 years £000	Total £000
At 31 March 2013						
Borrowings (floating rate)	–	89,710	–	–	–	89,710
Borrowings (fixed rate)	–	11,071	10,769	10,491	100,669	133,000
Trade and other payables	–	71	–	–	–	71
Warrants	–	8,208	–	–	–	8,208
Derivative financial instruments interest rate swaps	–	779	–	–	–	779
	–	103,911	5,143	5,143	87,435	201,632
At 31 March 2012						
Borrowings (floating rate)	–	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

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 (2012: funding requirements through a combination of equity and debt) 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 and restricted cash. Capital includes share capital, share premium, other reserves and accumulated losses.

12 Share capital

	Ordinary Shares		Deferred shares	
	No.	£000 Nominal value	No.	£000 Nominal value
Issued and fully paid				
1 January 2011, Ordinary Shares of 50p each	93,109,431	46,555	–	–
09 March 2011 shares issued at a price of 73.5p 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	940	–	–
31 March 2012, Ordinary Shares of 50p each	162,204,909	81,102	–	–
16 August 2012 share conversion of each issued Ordinary Shares of 50p each into:	(162,204,909)	(81,102)	–	–
New Ordinary Shares of 10p each*	162,204,909	16,220	–	–
New Deferred Shares of 40p each*	–	–	162,204,909	64,882
15 January 2013 shares issued at a price of 95p each	24,330,730	2,433	–	–
31 March 2013, Ordinary Shares of 10p each	186,535,639	18,653	–	–
31 March 2013, Deferred Shares of 40p each	–	–	162,204,909	64,882

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.

* On 16 August 2012 the Company converted each Ordinary Share of 50p each into a New Ordinary Share of 10p each and a New Deferred Share of 40p each pursuant to an obligation to Macquarie Bank Limited under the terms of the warrants issued during the period ended 31 March 2012. The New Ordinary Shares carry the same rights as attached to Ordinary Shares. 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. The Company had the right to purchase all the issued New Deferred Shares from all Shareholders for an aggregate consideration of one penny and exercised this right immediately upon conversion. On 16 August 2012, the Company repurchased the New Deferred Shares from all Shareholders for an aggregate consideration of one penny. For further information see note 15.

13 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 shares. During the year the Company issued 24,330,730 10p Ordinary shares at a price of 95p each (2012: 69,095,478 shares issued) The cost of the issue was £0.9 million (2012: nil). Together these events resulted in a net movement in the Share premium reserve of £19.7 million (2012: £15.5 million).

Parent Company Financial Statements – Notes continued

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 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 2011	63	(1,299)	–	(1,236)
Transfer to retained earnings/(accumulated deficit) account re warrants	–	–	–	–
Employee share plans – cost under IFRS 2	49	–	–	49
Capital contribution	–	–	47	47
Balance 31 March 2012	112	(1,299)	47	(1,140)
Employee share plans – cost under IFRS 2	343	–	–	343
Balance 31 March 2013	455	(1,299)	47	(797)

Employee share plans – Equity settled

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

	2010 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 2011	1,125,000	nil	–	–	1,322,204	–
Granted during the Period	–	–	2,107,485	–	–	–
Forfeited 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	–	411,274	70
Exercisable at 31 March 2012	–	–	–	–	–	–
Granted during the Period	–	–	1,071,542	–	–	–
Forfeited during the Period	(50,000)	–	–	–	(237,773)	(70)
Lapsed during the Period	–	–	–	–	(173,501)	(70)
Exercised during the Period	–	–	–	–	–	–
Outstanding at 31 March 2013	–	–	3,179,027	–	–	–
Exercisable at 31 March 2013	–	–	–	–	–	–

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. There were no LTIPs outstanding at 31 March 2013.

The total charge for the year was £2 thousand. Of this amount, £2 thousand was charged to the subsidiary and £nil 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.

15 Other reserves continued

There were no LTIPs exercised during the year. There were no LTIPs outstanding at 31 March 2013 had both a weighted average remaining contractual life and maximum term remaining of 8.5 years.

The total charge for the year was £218 thousand. Of this amount, £161 thousand was charged to the subsidiary and £57 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. There no Options outstanding at 31 March 2013.

The total charge for the year was £2 thousand, of this amount, £2 thousand was charged to the subsidiary and £nil 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:

	2010 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

Other share based payments

During the year, certain employees agreed to settle bonuses earned in the period ended 31 March 2012 in share options. The number of share options issued was 216,850 with a fair value of £149 thousand, measured indirectly with reference to the value of the option. This amount was charged to the subsidiary. Due to the fact that the options vested immediately with £nil strike price and no conditions, the fair value of the option equals the market price of the share at the grant date. There were no options exercised during the year. The options outstanding at 31 March 2013 had both a weighted average remaining contractual life and a maximum term of 8.75 years.

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 Year ended to 31 March 2013 no shares were issued to the Employee Benefit Trust (2012: nil).

As detailed in Note 24, the Company repurchased all 162,204,909 Deferred Shares for an aggregate consideration of one penny. Following this repurchase, these Deferred Shares are held as treasury shares.

Capital contribution

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

Parent Company Financial Statements – Notes continued

16 Related party transactions

(a) With Group companies

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

	Year ended 31 March 2013 £000	Year ended 31 March 2012 £000
Subsidiaries:		
Amounts due from/(to) subsidiary:		
Island Gas Limited:		
Balance at beginning of year/period	22,203	5,013
Services performed for subsidiary	2,543	793
Net cash advances	52,765	16,397
Group loan interest	2,659	–
Balance at end of year/period	80,170*	22,203
Island Gas Operations Limited:		
Balance at beginning of year/period	156	101
Net cash advances	(64)	55
Balance at end of year/period	92	156
Star Energy Limited:		
Balance at beginning of year/period	(10,135)	(10,135)
Net cash Advances	(3,153)	–
Services performed by subsidiary	(300)	–
Balance at end of year/period	(13,588)	(10,135)
Star Energy Group Limited:		
Balance at beginning of year/period	82,301	–
Net cash advances	5,408	82,301
Group loan interest	2,578	–
Balance at end of year/period	90,287**	82,301
Star Energy Weald Basin Limited:		
Balance at beginning of year/period	–	–
Net cash advances	(43,290)	(17,699)
Services performed for subsidiary	8	–
Balance at end of year/period	(43,282)	(17,699)
Island Gas (Singleton) Limited:		
Balance at beginning of year/period	–	–
Net cash advances	–	–
Services performed for subsidiary	35	–
Balance at end of year/period	35	–

* Includes group loan of £22,203.

** Includes group loan net of creditor balance £12,291 (2012: £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 Company. In the opinion of the Board, the company's key management are the Directors of the Company. Information regarding their compensation is given in Notes 5 and 27 to the consolidated accounts.

F Gugen subscribed to US\$5 million bonds issued by the Company. These bonds will earn interest at 10% per annum. As at 31 March 2013 accrued interest amounted to US\$13.9 thousand.

17 Subsequent events

Refinancing

On 14 March 2013, the Group announced its intention to issue 165 million US\$1 bonds (the "Bond"). Part of the proceeds from the Bond were intended to repay the Macquarie Bank Ltd loan facilities and the settlement of hedges also taken out with Macquarie Bank Ltd. On 21 March 2013, a Bond Agreement was signed between the Company and Norsk Tillitsmann ("Bond Trustee"). As at 31 March 2013, US\$156.2 million of the Bonds had been sold.

17 Subsequent events continued

On the 10 April 2013, the Company successfully completed all conditions precedent to the satisfaction of the Bond Trustee, whereby the funds raised by the Bonds were released to the Company. By 30 April 2013, all the Bonds had been sold, raising a total of US\$165.0 million before expenses.

Part of the net proceeds of the Bond were used to repay the outstanding loans with Macquarie Bank Ltd, plus outstanding interest and all associated break fees, termination fees and costs of closing out hedges. The remainder is being used for general corporate purposes of the Group. The total amount used to repay the debt, hedges and early settlement fees was US\$156.0 million, detailed as follows:

	US\$000
Principal	136,225
Interest to 10 April 2013	462
Total loan repayment	136,687
Oil hedge settlement (including payment in relation to amount accrued in march 2013)	15,061
Interest rate swaps settlement(including payment in relation to amount accrued in march 2013)	1,182
Total derivatives settlement	16,243
Fees and expenses	3,097
Total repaid	156,027

The Bonds carry a coupon of 10% per annum (where interest is payable semi-annually in arrears) and semi-annual amortisation of 2.5% of initial loan amount. Final maturity on the notes will be 22 March 2018. The Bonds are secured by a pledge over shares of certain of the Group's subsidiary companies.

The Bond Agreement contains certain representations, warranties and covenants customary for a 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 Bond Agreement also contains customary events of default, the occurrence of which allows The Bond Trustee (on behalf of the Bond holders) to accelerate outstanding Bonds and terminate the commitments.

As per the Company's accounting policy, the bonds were measured initially at fair value. After initial recognition, the Bonds will subsequently be measured at amortised cost using the Effective Interest Rate ("EIR") method. Gains and losses will be recognised in the income statement (as part of finance costs) when the liabilities are derecognised as well as through the EIR amortisation process.

The 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 net proceeds received from the issue of the Bond will be reflected in the balance sheet net of issue costs, representing the fair value of the liability to the Company, as follows:

	US\$000	£000
Nominal value of Bonds issued	165,000	108,660
Issue costs	(4,457)	(2,935)
Liability net of issue costs	160,543	105,725
Interest and amortisation of issue costs	1,927	1,269
Liability at 30 April 2013	162,470	106,994

The interest charged for the year is calculated by applying an effective interest rate of 10.80% to the net liability. The liability is measured at amortised cost. The difference between the carrying amount of the liability at inception and the amount reported in the balance sheet at 30 April 2013 represents the effective interest rate less interest paid to that date.

Part of the Bond proceeds were used to settle the Macquarie debt. Details of the loan balance with Macquarie at repayment are as follows:

	£000
Fair value of the Macquarie debt (Note 8)	(89,710)
Accrued interest to 10 April 2013	(305)
Repayment of borrowings and accrued interest	90,015
Macquarie loan balance	-

Parent Company Financial Statements – Notes continued

17 Subsequent events continued

Had the full Bond issue of US\$165.0 million completed at 31 March 2013, the impact on the balance sheet would have been as follows:

Pro forma Balance Sheet As at 31 March 2013

	Notes	Audited 31 March 2013 £000	Adjustments ^A £000	Adjustments ^B £000	Pro forma 31 March 2013 £000
Non-current assets		217,969	–	–	217,969
Current assets					
Other current assets	1	55,745	–	9,222	64,967
Cash and cash equivalents		3,596	–	6,240	9,836
Other financial assets – restricted cash		102,865	5,795	(108,660)	–
Current assets		162,206	5,795	(93,198)	74,803
Current liabilities					
Other current liabilities	2	(83,902)	(145)	2,709	(81,338)
Borrowings – Macquarie		(89,710)	–	89,710	–
Borrowings – Bond		(5,466)	(290)	–	(5,756)
Derivative financial instruments		(779)	–	779	–
		(179,857)	(435)	93,198	(87,094)
Net current liabilities		(17,651)	5,360	–	(12,991)
Total assets less current liabilities		200,318	5,360	–	205,678
Non-current liabilities					
Borrowings – Bond		(94,942)	(5,360)	–	(100,302)
		(94,942)	(5,360)	–	(100,302)
Net assets		105,376	–	–	105,376
Shareholders' funds		105,376	–	–	105,376

Notes:

- 1 Other current assets includes: Trade and other receivables from related parties and inventory
- 2 Other current liabilities includes: Trade and other payables and other liabilities

Adjustments:

- A Includes funds received for remaining 8.8 million bonds
B Repayment of Macquarie loan, hedges and early cancellation fees, upon completion of conditions precedent on. Excludes interest paid to 10 April 2013

Bonds

C McDowell subscribed to US\$0.3 million bonds issued by the Company. These bonds will earn interest at 10% per annum.

Issued Shares

In January 2013, the Company adopted the Share Investment plan for all employees of the Group. The scheme was approved by HM Revenue & Customs on 5 February 2013. On 22 April, the Company issued 475,002 Ordinary 10p shares in relation to the Groups SIP scheme. Further details regarding this scheme can be found in the Group's Remuneration Report.

On 26 June, Macquarie exercised warrants over 3,000,000 ordinary 10p shares. The warrants were exercised at 55.8p per share.

Oil and Gas Reserves

As at 31 March 2013

The Group's estimates of proven and probable reserve quantities for assets held prior to the Singleton acquisition are taken from the Group's Competent Person's evaluation (Senergy) reports for the Group's oil fields as of 1 July 2012 together with adjusted for production data thereafter. The report for the acquired reserves was provided by Netherland, Sewell Associates and the existing Group report was provided by Senergy. The Group's estimates of proven and probable reserves acquired through the Singleton acquisition is based on reserves estimates commissioned by the former owner adjusted for 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 April 2012	9.91	8.21	11.33
Acquired during the year*	5.37	–	5.37
Revisions of estimates after acquisition	0.56	(0.10)	0.56
Production	(0.87)	(0.16)	(0.90)
Total change during the year	5.06	(0.26)	5.03
At 31 March 2013	14.97	7.95	16.36

The Group's estimates of proven and probable reserves are made 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").

* Excludes Baxters Copse, as CPR not commissioned by IGas

Glossary

£	The lawful currency of the United Kingdom
1P	Low estimate of commercially recoverable reserves
2P	Best estimate of commercially recoverable reserves
3P	High estimate of commercially recoverable reserves
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
boepd	Barrels of oil equivalent per day
bopd	Barrels of oil per day
CBM	Coal bed methane
Recoverable reserves	As defined in the Oil and Gas Reserves table above
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
PL	Production licence
Scf	Standard cubic feet
Tcf	Trillions of standard cubic feet of gas
UK	United Kingdom

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 12 month period ended 31 March 2013
"Annual General Meeting" or "AGM"	the annual general meeting of the Company convened for 8 August 2013 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 Articles"	the new Articles of Association proposed to be adopted at the AGM
"Ordinary Shares"	ordinary shares of 10p 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 8 August 2013, at which the following Resolutions will be proposed:

1. to receive and adopt the Company's Annual Report and Accounts for the 12 month period ended 31 March 2013, 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 12 month period ended 31 March 2013 and the Independent Auditors' Report on the auditable part of the Remuneration Report;
3. to reappoint as a Director John Bryant 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 Andrew Austin 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 Cuthbert McDowell 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 Ernst & Young LLP as the auditors of the Company until the next annual general meeting;
7. to authorise the Directors to determine the level of the remuneration of the auditors;
8. to grant the Directors authority to allot shares in the capital of the Company;
9. conditional upon Resolution 8 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
10. to adopt the New Articles.

Resolutions 1 and 2 and 6 and 7 are self-explanatory. Information on the other Resolutions is provided below. Resolutions 1 to 8 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 9 and 10 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 Bryant as a Director

Mr Bryant 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 Senior Independent Non-executive Director.

Mr Bryant is the Chairman of AIM listed Weatherly 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. Mr Bryant 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, Mr Bryant 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. Mr Bryant is a Fellow of the Institute of Directors and a Fellow of the Royal Society of Arts.

Resolution 4 – reappointment of Andrew Austin as a Director

Mr Austin 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 Chief Executive Officer.

Mr Austin is a founder of the Company, has been an Executive Director since 2004 and the Chief Executive Officer for the last 5 years with full time responsibility for the day to day operations and business development. Prior to joining the Company, Mr Austin has been involved in a number of ventures as principal, specialising in energy projects in the gas, electricity and renewable sectors with a track record of raising substantial funding from both private and public equity. Mr Austin is responsible for the transformation of the Company from a non-operating partner to delivering material hydrocarbon production to Britain's energy market.

Resolution 5 – reappointment of Cuthbert McDowell as a Director

Mr McDowell was appointed as a Non-executive Director in December 2012, 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 a Non-executive Director.

Mr McDowell has 33 years of international experience in the oil and gas sector, having held a range of leadership positions in Exploration and Production. He began his career with BP where he held various commercial and management roles over 8 years. Mr McDowell then joined Clyde Petroleum plc, initially as Senior Economist, subsequently becoming Group Commercial Manager before Clyde was bought by Gulf Canada. In 1997, Mr McDowell joined Paladin Resources plc, where he served primarily as Finance Director. Paladin Resources plc raised £120 million in 4 separate primary offerings before the company was sold to Talisman Energy Inc. for approximately £1.2 billion in 2006. Mr McDowell is currently a Non-Executive Director at Pitkin Petroleum, a privately owned international upstream oil and gas company.

Resolution 8 – authority to issue shares

At the Annual General Meeting held on 16 August 2012, 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 £5,406,830. This authority expires at the conclusion of this Annual General Meeting.

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 Ordinary Shares and to grant rights to subscribe for or to convert any securities into Ordinary Shares up to an aggregate nominal amount of £6,333,688 representing approximately one third of the issued ordinary share capital of the Company and a further aggregate nominal amount of £6,333,688 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 Ordinary Shares shall extend to a further third of the issued share capital 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.

Proposed Business of the Annual General Meeting continued

Resolution 9 – 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 8, the Directors should be able to allot shares amounting to no more than an aggregate nominal amount of £2,850,159 representing approximately 15 per cent. of the equity share capital of the Company (including treasury shares) immediately after the passing of Resolution 8 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 8 and 9 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 10 – adoption of New Articles

The Articles have been amended to reflect changes in legislation since the adoption of the Articles. The New Articles reflect current legislation and practice.

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, Bridgewater Road, Bristol BS99 6ZY, as soon as possible, but in any event no later than 10:30am on 6 August 2013. Alternatively, you may cast your proxy online by following the instructions printed on the form; such electronic appointment must also be made no later than 10:30am on 6 August 2013.

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 holdings (where they control the voting rights) comprising 38,565,062 Ordinary Shares, representing approximately 20.29% of the issued share capital of the Company.

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 8 August 2013 to consider, and if thought fit, pass the following Resolutions of which Resolutions 1 to 8 will be proposed as ordinary resolutions and Resolutions 9 and 10 will be proposed as special resolutions.

Ordinary Business

1. To receive and adopt the Company's Annual Report and Accounts for the 12 month period ended 31 March 2013 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 12 month period ended 31 March 2013 and the Independent Auditors' Report on the auditable part of the Remuneration Report.
3. To reappoint as a Director, John Bryant, 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, Andrew Austin, 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, Cuthbert McDowell, 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 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.
7. To authorise the Directors to determine the remuneration of the auditors.
8. That 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 £6,333,688; and
 - (B) allot equity securities (within the meaning of section 560(1) of the 2006 Act) up to an aggregate nominal amount of £6,333,688 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

9. That, subject to and conditionally upon the passing of Resolution 8, 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 8, 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 £6,333,688 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 £2,850,159.

10. That the New Articles (initialled by the Chairman and on display at the AGM) be adopted in substitution of the Company's existing articles of association with immediate effect.

15 July 2013

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 must 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 6 August 2013 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, write the full name of your proxy in the space provided on the proxy form.
- (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.

General Information

Directors

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

Registrar

Computershare Investor Services PLC

The Pavilions
Bridgwater Road
Bristol BS13 8AE

Auditor

Ernst & Young LLP

1 More London Place
London SE1 2AF

Financial and Public Relations

M: Communications

Citypoint 11th Floor
One Ropemaker Street
London EC2Y 9AW

Banker

Barclays Bank Plc

1 Churchill Place
London E14 5HP

Registered Office

7 Down Street
London W1J 7AJ

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).



Registered Office
7 Down Street
London
W1J 7AJ

+44 (0)20 7993 9899
www.igasplc.com