

COMPANY NUMBER
04981279

Delivering secure gas, onshore

Island Gas Resources plc
Annual report and accounts 2007

THURSDAY



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We are a leading developer of Coal Bed Methane ("CBM") in the UK and prospective producer of North Sea quality gas from virgin coal seams. The Group has licences to extract oil and gas across the north of Wales and the north of England covering an area of approximately 1000 square kilometres. Independent analysis of the assets has estimated a mid case gas in place of 893 billion cubic feet of gas, equivalent to 140 million barrels of oil.

In conjunction with our joint venture partner Nexen Exploration U.K. Limited ("Nexen") (whose parent is a \$16 billion Canadian exploration and production company with considerable CBM experience) the Group is now producing and testing good quality gas at surface. We currently intend to market this gas by the end of 2008.

Delivering secure gas, onshore

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Our highlights

Financial

- Revenue – £811 thousand
 - Operating loss – £2,024 thousand*
 - Retained loss – £2,015 thousand*
- *After exceptional cost (impairment of goodwill on reverse) of £2,040 thousand
- Cash – £1.4 million at 31 December 2007
 - Carry agreements – in place with Nexen Exploration
 - Funding – £4 million available at 31 December 2007

Operational

- 893 bcf net to IGas in place, independently verified
- Equivalent to 140 million barrels net to IGas of oil
- Approximately 1000 square kilometres of licensed acreage
- Four wells drilled; with 3,200 feet in two lateral legs
- Production test at Doe Green; with electricity connection agreement in place
- Planning permission in place for a further five wells
- Acreage applied for in 13th onshore licensing round

Gas initially in place (net to IGas)

Growth year on year +47%

893^{bcf}

2007

Licensed acreage

Growth year on year +27%

976^{km²}

2007

Our strategy

Our strategy is to develop our UK asset base and our immediate objectives are to:

- **Commence initial gas sales from at least one property by the end of 2008**
- **Secure other routes to market**
- **Gather data and production experience to allow independent reserve auditors to classify a proportion of our gas as “recoverable resource”**
- **Fulfil licence obligations to secure licences into second terms**
- **Apply for further acreage in 13th onshore licensing round**

Our Company

What we do

CBM is a naturally occurring gas, similar to North Sea gas, trapped in virgin coal seams. Where significant volumes of this gas are held in the coal and the coal is suitably permeable (and therefore allows the gas to flow through it), it is possible to drill into the coal and extract the water within the strata thereby reducing the pressure in the reservoir, and allow the gas to flow through the bore hole to be produced and sold.

While CBM production is in its infancy in the UK, CBM already forms a significant part of the energy mix in North America and Australia.

Chairman's statement

The financial year ending 31 December 2007 has been a significant one for Island Gas Resources plc (IGas). It has been the period through which we have built foundations needed for the long-term success of our Company.

These foundations have three integral parts:

01 Deliverability of gas

- In 2007 we carried out a long-term production test on one lateral leg in a well at Doe Green, Cheshire,
- we commissioned an independent audit of Gas Initially In Place (GIIP), and
- we drilled two more assay wells, one at Mill Farm in Yorkshire and one at Mostyn Quay in North Wales

02 Asset growth

- On 13 June 2007 we were awarded blocks 110/18,19 and 22 in the 24th offshore licensing round on a 50/50 basis with our joint venture partner Nexen
- We also acquired PEDL 107 (onshore) to allow us access to the offshore acreage
- Together these blocks, known as Point of Ayr, have increased the net GIIP of the group by 286 billion cubic feet ("bcf") or 47%

03 Financial flexibility

- On 31 December 2007, shares of IGas were admitted to trading on the Alternative Investment Market (AIM) of the London Stock Exchange (LSE) pursuant to the reverse takeover of KP Renewables Plc. Whilst our Group's carry agreements have some time to run, our Company now has access to public markets in addition to more traditional industry trade funding mechanisms
- On 18 May 2007 we signed an additional carried interest agreement with our joint venture partner, Nexen. This carry is for £750,000 to specifically cover the initial work programmes at Point of Ayr

With significant progress on the deliverability of gas, asset growth and an appropriate financial base, I believe our Company has laid secure foundations for future growth

Since the end of the year we have made significant progress towards our immediate objectives

- An additional lateral leg has been drilled at Doe Green, Cheshire which after a planned workover is expected to be put on extended production test
- A connection agreement has now been obtained for electricity generation at the Doe Green site
- Drilling has now completed with encouraging results at Foxhill Farm, on PEDL 116 fulfilling the licence commitment.
- Planning permission has been obtained at sites in PEDL 78 and 115 and rig slots agreed which should ensure that licence commitments here are fulfilled within the extensions agreed with BERR*

In addition to the progress we have been making, the macro backdrop for our business is also improving. Rising oil prices are having an effect on the prices of natural gas with the price of gas delivered to the National Balancing Point in winter 2009 currently trading at 80p/therm having risen from 45p/therm in December 2006 and 60p/therm in December 2007 as published in Platts on the corresponding dates. Also, the importance of gas close to home and close to its markets is increasing, both for reasons of reduced emissions as a consequence of transport and for security of supply.

Finally, the achievements of 2007 required a very considerable effort on the part of our executive team and our joint venture partner Nexen. I would like to take this opportunity to thank them for all their hard work. The reverse takeover and the admission to AIM also added strength to our board and I would like to welcome John Bryant, Richard Armstrong and Peter Redmond as Non-Executive Directors and thank them for their help and support.

I would also like to thank all our shareholders, both those who were with us before and those who have become shareholders as a consequence of the reverse for their continued support and I look forward to working together in growing the value of our Company.

* BERR – The Department for Business, Enterprise and Regulatory Reform



Francis Gugen,
Executive Chairman

Business review

The business of the Group is the development of a series of coal bed methane assets in England and Wales. Development of these assets is taking place in conjunction with our joint venture partner Nexen. In all cases Nexen is operator of the assets and the Group is the non-operating partner. Since the beginning of the year progress has been made in developing all of the assets. These fall into four geographical areas:

Four Oaks See Map 01 >

This area is located both north and south of the Mersey, between Liverpool and Warrington. The area is made up of two licences, PEDL 145 and PEDL 116. Activity in the area has been concentrated at Doe Green, a drill site located between Warrington and Widnes between the A562 and the Liverpool to Manchester railway line. Two wells were drilled at this site in the last quarter of 2006, one was extensively cored and logged and a lateral leg was drilled from the other. In 2007 this well was successfully dewatered and put on long-term production test. This leg continuously produced good quality gas to surface. In January 2008 an additional, longer lateral leg was drilled into the same well and this well is again being dewatered and put on production test. A connection agreement has been obtained with the local electricity grid to allow the venture to export up to 1MW of electricity from the site.

In addition, this area has the benefit of planning permission for two more wells with laterals at another location within PEDL 145. This site would also allow export of the gas directly to a customer. Site access discussions are advanced at a further site within the licence block.

The Licence term on PEDL 116 was extended by BERR on 13 February 2008 and the first term now expires on 30 November 2008. On 15 April 2008 an assay well was spudded at Fox Hill Farm. The purpose of this well is to core and log the coal sequence after which it will be plugged and abandoned. The drilling of this well will satisfy the commitments under the first term of the licence and extend it into its second term.

Equipose Solutions Ltd, which prepared the competent persons report that features in the admission document, assessed PEDL 145 but did not include PEDL 116 in its findings. Within PEDL 145 they gave a risked mid-case gas in place north of the Mersey of 36bcf and 89bcf south of the Mersey, as follows:

(all figures in Bcf)	Gross			Net			Risk factor	Operator
	Low	Mid	High	Low	Mid	High		
PEDL 145 (N of Mersey)	116	181	299	23	36	60	–	Nexen
PEDL 145 (S of Mersey)	99	444	803	20	89	161	80%	Nexen

Source: Equipose Solutions Limited as per competent persons report published on 7 November 2007, a copy of which can be found in the admission document sent to shareholders on 27 November 2007.

Point of Ayr

See Map 02 >

The licences at Point of Ayr lie in the vicinity of the town of Prestatyn on the North Wales coast. They consist of onshore licence PEDL107 acquired on 23 January 2007 and the offshore licence SSPL 1481 granted on 17 June 2007 by the Secretary of State for BERR. SSPL 1481 consists of the offshore blocks 110/18 (part), 110/19 (part) and 110/23 (part). The coal measures here were worked from the pits at Point of Ayr and Mostyn and gas was found to be highly prolific during mining operations. The coal measures extend a considerable distance out to sea and this was the rationale behind IGas and Nexen applying for the offshore licences. PEDL 107 onshore was acquired to facilitate access to the offshore coals from onshore.

On 26 November 2007 a well was spudded at Mostyn Quay. This assay well was drilled to core and log the coal measures and corroborate existing cores in the area. The rig left site on 15 December 2007 and as planned the well was plugged and abandoned. The cores are now undergoing detailed analysis. The drilling of this well satisfied the commitments under the first term of the licence and extended it into its second term.

Equipose Solutions Ltd, in preparing the competent persons report that features in the admission document, assessed the GIIP for the Point of Ayr area. The large variation between mid and high case is significantly a function of how far offshore it is considered feasible to drill. Assessments were as follows:

(all figures in Bcf)	Gross			Net			Risk factor	Operator
	Low	Mid	High	Low	Mid	High		
Point of Ayr Offshore 110/19 Part	2	4	10	1	2	5	–	Nexen
Point of Ayr Offshore 110/18 Part	87	162	1,141	43	81	571	–	Nexen
Point of Ayr Offshore 110/23 Part	120	508	4,340	60	254	2,170	80%	Nexen

Source: Equipose Solutions Limited as per competent persons report published on 7 November 2007, a copy of which can be found in the admission document sent to shareholders on 27 November 2007.

Swallowcroft

See Map 03 >

The Swallowcroft area includes licences PEDL 40-1, 56-1, 78, 115-1 and 115-2. The area extends from Newcastle under Lyme in the West across to Lichfield in the East. Extensive work has now been undertaken to select appropriate sites from which to drill, using the Group's existing geological data. Planning permission has been obtained for a well site in PEDL 78 and a well site in PEDL 115-2. Rigs have been secured and wells will be drilled at both sites in 2008. In PEDL 56 land access has been agreed in principle with a large local employer who is also expected to be a customer for gas produced from that site. The drilling of these wells will satisfy the remaining commitments under the first term of the licences and extend them into their second terms.

Equipose Solutions Ltd, in preparing the competent persons report featured in the admission document, assessed the GIIP for licences 50-1, 56-1, 78 and 115-1 but did not assess PEDL 115-2, as follows:

(all figures in Bcf) Area	Gross			Net			Risk factor	Operator
	Low	Mid	High	Low	Mid	High		
PEDL 40-1 and 56-1	563	854	1,326	113	171	265	–	Nexen
PEDL 78-1	309	874	1,794	62	175	359	50%	Nexen
PEDL 115-1 B (west)	226	832	1,923	45	166	385	50%	Nexen
PEDL 115-1 A (east)	106	138	361	21	28	72	–	Nexen

Source: Equipose Solutions Limited as per competent persons report published on 7 November 2007, a copy of which can be found in the admission document sent to shareholders on 27 November 2007.

Drax
See Map 04 >

The Drax area is located in Yorkshire, around 15 miles south of York itself. The licence is PEDL 92-1. A well was spudded at Mill Farm on 27 August 2007 and drilled to a depth of 2,718 feet. This well was used to log and core the coal sequence. The rig left site on 14 September and as planned the well was plugged and abandoned. The drilling of this well fulfils the licence commitments in the first term and the licence is now in its second term.

Equipose Solutions Ltd, in preparing the competent persons report featured in the admission document, assessed the net risked GIP for licence PEDL 92-1 as 130 bcf, as follows:

(all figures in Bcf)		Gross			Net			Risk factor	Operator
Area		Low	Mid	High	Low	Mid	High		
PEDL 92-1		383	652	1,134	77	130	227	–	Nexen

Source: Equipose Solutions Limited as per competent persons report published on 7 November 2007, a copy of which can be found in the admission document sent to shareholders on 27 November 2007.

Key financial highlights

Income statement

£000	2007	2006
Revenue	811	597
Operating (loss)/profit	(2,024)*	66
Retained (loss)/profit	(2,015)*	62

* Includes Exceptional item – Impairment of Goodwill on Reverse of £(2 040) thousand

Total licence expenditure

	2007	2006
Cumulative to end (£000)		
Incurred by Group	109	14
Carried by Nexen	2,664	1,267

Cash position

- The Group manages its cash and other sources of finance, including its agreements with Nexen, so as to have access to adequate funds to meet the costs of future exploration and development programmes. At 31 December 2007, the Group's capital employed amounted to just under £1 million all provided by equity, as the Group had no borrowings.
- As at 31 December 2007 the Group had a consolidated cash position of £1.4 million. In addition the Group has committed income of £500,000 for 2008 and £500,000 for 2009, as a result of a management services agreement with Nexen. The Group also has access to carry agreements with Nexen under which, as at 31 December 2007, a further £3.1 million of the Group's share of the cost of future licence work programmes (which have to be approved by the Group) will be carried by Nexen.
- Accordingly, at 31 December 2007, in total, the Group has access to in excess of £4 million of funding.

Principal risks and uncertainties

- The Group is exposed, through its operations, to liquidity risk, which is managed by the Board who regularly review the Group's cash forecasts and the adequacy of available facilities to meet the Group's cash requirements. Cash instruments used to hold any surplus cash and their maturity depend on the Group's forecast cash requirements. At the Group's current stage of development, the Board does not consider foreign currency and credit risks to be material.
- The Group is exposed to market price risk through variations in the wholesale prices of gas and electricity in the context of its future production volumes. Currently the Group has not entered into any forward contracts to fix prices of these commodities. The Board will continue to monitor the benefit of entering into such contracts.
- The Group is exposed to risks associated with geological uncertainty. No guarantee can be given that gas can be produced from any or all of the Group's assets or that gas can be delivered economically.
- The Group is exposed to planning, environmental, licensing and other permitting risks associated with its operations and, in particular, with drilling and production operations. To date, authorities have appeared supportive but there can be no guarantee this will continue.
- The Group is also exposed to a variety of other risks including those related to
 - operational matters (including cost increases, availability of equipment and successful project execution),
 - Nexen operating agreements (including their pursuit of projects),
 - competition,
 - key personnel; and
 - litigation

Environment, Health and Safety

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

Directors

Francis Gugen

Executive Chairman

Francis is the founder, majority owner and Executive Chairman and has over thirty years oil and gas industry experience. Between 1982 and 2000 he helped grow Amerada Hess in North West Europe, ultimately becoming CEO. He is a member of the CBI's Energy Policy and Economic Affairs Committees. Francis is also a past President of the UK Offshore Operators Association, past chair of the industries representation on the UK Government Oil & Gas Task Force (now known as Pilot) and 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 & gas specialist. He is currently a Non-Executive Director, Vice Chairman of the Board and Chairman of the audit committee of Petroleum Geophysical Services ASA and a Non-Executive Director and member of the audit committee of the Britannia Building Society. Until 2006 he served as Non-Executive Director of North Sea gas fields and pipelines operator CH4 Energy Limited before it was acquired in 2006 by Venture Petroleum Plc for Euro 224 million. CH4, which was formed in late 2002, had previously been financed by private equity investors 3i and Trust Company of the West, majority owned by Societe Generale. Francis is also the non executive chair of Chrysaor Limited, a new company focused on developing North Sea oil and gas fields, with £100 million of backing from Barclays Capital and private equity investors Natural Gas Partners IX, LP and of Fraudscreen Limited, a new financial services business.

Francis devotes such time to the Group as is required to discharge his duties.

Andrew Austin

Chief Executive Officer

Andrew is the Chief Executive Officer and specialises in energy projects in the gas, electricity and renewables sector. He has been involved in ventures as principal and has also raised substantial funds of private and public equity for clients during the course of his career to date. Andrew spent 17 years working in investment banking in the City of London with Merrill Lynch, Nomura, Citibank and Barclays Capital. Latterly he was General Manager of Creditanstalt Investment Bank in London. He also has six years of management and consultancy experience with clean tech companies including Generics Group and Whitfield Solar.

Andrew has been an executive director of IGL since 2004 and now has full time responsibility for day to day operations and business development.

Brent Cheshire

Executive Technical Director

Brent is the Technical Director. After 14 years at Shell, he joined Amerada Hess in 1991, where he had a range of roles culminating in Senior VP E&P Worldwide Technology and CEO Scandinavia. Brent has significant experience in geology, drilling technology and project management and is managing director of DONG E&P (UK) Limited, under arrangements that allow him to devote appropriate time to IGL.

He was responsible for Amerada's entry into Denmark through identifying the potential of the un-drilled South Arne prospect, managing its acquisition and developing its production. Brent is a petroleum engineer having graduated as a geologist from Durham University. Since leaving Amerada, he has been a senior adviser to the Danish Oil and Natural Gas Company, assisting it with the design and implementation of its growth strategy.

Brent devotes such time to the Group as is required to discharge his duties.

John Bryant

Senior Independent Non-Executive Director

John was appointed to the Board in May 2004. He is Chairman of Gas Turbine Efficiency plc and is a Non-Executive Director of Weatherly plc. These are both quoted on AIM. He is also 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 Generation 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.

Richard Armstrong

Non-Executive Director

Richard is an associate with Fiske plc, the AIM quoted stockbrokers. He is a former equity analyst with extensive experience in reconstructing and raising capital for turnaround situations especially in the quoted microcap sector. He is currently a Director of AIM quoted Bella Media Plc.

Peter Redmond

Non-Executive Director

Peter has over 20 years' experience in corporate finance and venture capital. After leaving Durlacher Limited in 2003, he joined Merchant House Group plc and is now Chief Executive Officer of its corporate finance subsidiary, Merchant Capital Limited. He has been active in reconstructing a number of AIM companies as investing companies in recent years including Optimisa plc, Weatherly International plc and Artilium plc, and each of these have since successfully acquired or established operating businesses. Peter is a director of AIM quoted Weatherly International plc and Bella Media plc.

Corporate governance

The Board of Directors support high standards of corporate governance and the guidance set out in the Combined Code on Corporate Governance (the "Combined Code"). As a Company that is quoted on AIM, it is not required to comply with the Combined 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 three Non-Executive Directors, with the latter all being considered to be independent. The senior independent director is John Bryant and biographies of all the Directors are included on pages 12 and 13.

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 formulating, reviewing and approving the Group's strategy, budgets, major items of capital expenditure and senior personnel appointments.

The Chairman of the Board, who is executive, has a second casting vote in the event of deadlock at Board Meetings, so long as the three Executive Directors collectively hold shares representing more than 75% of the outstanding voting rights comprised in the issued Ordinary Share capital.

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

Audit Committee

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

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

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

Remuneration Committee

The Committee comprises only Non-Executive Directors, being chaired by John Bryant and having as other members Richard Armstrong and Peter Redmond. 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 is delegated to the committee to consider) and for determining, within agreed terms of reference, specific remuneration packages for each of them, including pension rights, any compensation payments and the implementation of executive incentive schemes. In accordance with the committee's terms of reference, no Director may participate in discussions relating to their own terms and conditions of service or remuneration.

Nomination Committee

The nomination committee is chaired by the Senior Independent Non-Executive Director, John Bryant, and its other members are the Non-Executive Director, Richard Armstrong, and the Chairman, Francis Gugen. The committee, which normally meets not less than twice a 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 will be 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 for the time being 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 and compliance matters and risk management are reviewed on an ongoing basis. The internal control system can only provide reasonable and not absolute assurance against material misstatement or loss. The Board has considered the need for a separate internal audit function but, bearing in mind the present size and composition of the Group, does not consider it necessary at the current time.

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 in relation to various proposals and for keeping investors informed about the Group's progress.

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

Directors' remuneration report

This report explains how decisions regarding directors' pay are taken

Remit of the Remuneration Committee

The Committee comprises only Non-Executive Directors, being chaired by John Bryant and having as other members Richard Armstrong and Peter Redmond. 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 is 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.

Nature of remuneration

The Remuneration Committee considers the following as potential elements of reward

- Annual Salary
- Annual Bonus
- Long-Term Incentive, and
- Other Benefits, including Pension

These elements are considered in aggregate when assessing competitiveness against the market

Current arrangements

As explained elsewhere in this Annual Report, the Company was the subject of a reverse take over on 31 December 2007 (the "Reverse"), whereby the Company became the legal parent of Island Gas Limited ("IGL") and IGL's three Directors became the Executive Directors of the Company and together the holders of 84% of the Company's issued share capital

As part of the Reverse the Company chose to take over the employment arrangements that had applied to the three Executive Directors, except that their contracts of employment were extended from one month to twelve months' notice, as deemed appropriate for an AIM listed company. Under these arrangements, the three Executive Directors have no Long-Term Incentive Plan and are not entitled to any other Benefits, including Pension, and received Annual Salary and Annual Bonuses, all earned as directors of IGL, as follows

Executive Director	Salary £	2007 Bonus £	Total £	Salary £	2006 Bonus £	Total £
F Gugen – Chairman	100,000	–	100,000	100,000	–	100,000
A Austin – Chief Executive Officer	200,000	40,000	240,000	100,000	–	100,000
B Cheshire – Technical Director	100,000	–	100,000	100,000	–	100,000
Total – Executive Directors	400,000	40,000	440,000	300,000	–	300,000

Each of the Executive Directors devotes such time as is required to discharge his duties, which in the case of Andrew Austin is full time

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

Non-Executive Directors are paid solely by fees (as disclosed in Note 6 to the Financial Statements) and do not receive any salary, pension, benefits or bonuses

Directors' report

The Directors present their report together with the Group and parent company financial statements for the year ended 31 December 2007

Reverse acquisition and admission to AIM

On 31 December 2007 the Company completed a reverse takeover whereby a private company, Island Gas Limited ("IGL"), became a wholly-owned subsidiary of the Company but with IGL's shareholders acquiring 94% of the Ordinary Share capital of the combined entity (the "Reverse"). As part of the arrangements related to the Reverse, which are all more fully described in an admission document dated 27 November 2007 (the "Admission Document") the following transactions and events took place

- immediately prior to the Reverse, sale by the then group of its project activities and transfer of all related assets and liabilities, including all amounts connected with the CVA (as described below) to a third party, thereby extinguishing the CVA from the Group's perspective,
- immediately prior to the Reverse, issue of warrants to the then directors of the Company,
- conversion of all existing Ordinary 1p Shares by consolidation on a 50 for 1 basis into new Ordinary 50p Shares and corresponding rebasing of all warrants and options in existence at the time;
- mandatory conversion into Ordinary 50p Shares of £900,000 of loan notes issued at par on 2 November 2007 (the "Loan Notes"), with each 55p of Loan Notes being converted into one Ordinary Share,
- acquisition of all IGL's share capital under a scheme of arrangement which became effective as of 28 December 2007 (the "Scheme") at an agreed price of £50 million payable in Ordinary 50p Shares,
- repurchase for 1p of all the Company's deferred share capital created at the time of the CVA,
- appointment of IGL's directors to the Board of the Company and as the Company's new Executive team,
- renaming the Company Island Gas Resources plc ("IGas"),
- adoption of new articles of association, and
- re-admission to AIM on 31 December 2007 (AIM Ticker IGAS)

As a result of the Reverse and in accordance with International Financial Reporting Standards (IFRSs) as adopted for use in the European Union and as applied in accordance with the provisions of the Companies Act 1985, the Group's results up to the date of the Reverse become those of IGL. Accordingly, and because all the Group's pre-Reverse projects were not material and have been sold to a third party, all descriptions of operations and activity for the year relate solely to the IGL business

Creditors Voluntary Arrangement ("CVA")

On 10 April 2007 the Company entered into a CVA, as explained in more detail in the Company's 2006 Annual Report and Accounts, in a Circular to shareholders dated 16 March 2007 and in the Admission Document.

As part of the Reverse, variations were made to the CVA which brought the CVA to an end from the Group's perspective, with the Company no longer being bound by the conditions set out in the CVA. The supervisors of the CVA issued their discharge notice on 31 January 2008.

Business review and future developments

A review of the business and the future developments of the Group is presented in the Chairman's Statement on page 4 and in the Group's Business Review on pages 6 to 11

Results and dividends

The Group loss for the year after taxation was £2,014,522 (2006 profit £62,264) including a charge for the impairment of goodwill arising on the Reverse of £2,039,764 (2006 £nil). The directors do not recommend the payment of a dividend for the year.

The directors are satisfied that the Group has adequate resources to continue in business for the foreseeable future and that it is, therefore, appropriate to adopt the going concern basis in preparing the financial statements.

Principal activity

The Group's principal activity is coal bed methane ("CBM"), intended to result in the production and marketing of methane gas for industrial and domestic use from virgin coal seams within its UK acreage. This requires acreage to be explored, appraised and developed and in connection with which the Group also provides technical and other related services.

Share and loan capital

The following transactions occurred in the share and loan capital of the Company during the year

- 10 April 2007 – Each issued Ordinary 1p Share was subdivided into one deferred 95p share and one new Ordinary 05p Share,
- 10 April 2007 – Each new Ordinary 05p Share was consolidated on a one to twenty basis into a new consolidated Ordinary 1p Share,
- 10 April 2007 – The authorised share capital of the Company was increased by £5 million to £6 million through the creation of 500 million Ordinary 1p Shares;
- 10 April 2007 – The Board allotted 75 million Ordinary 1p Shares pursuant to a fund raising;
- 10 April 2007 – The Board allotted 6.5 million Ordinary 1p Shares as consideration for services provided to the Company in the aggregate total amount of £65,000, payable for fees,
- 10 April 2007 – The Company granted warrants to acquire up to 4,191,474 Ordinary Shares at a price of 1p each. Following the Reverse these have been rebased as rights to acquire 83,830 at a price of 50p each,
- 2 November 2007 – The Company issued £900,000 of Loan Notes at par value,
- 7 November 2007 – The Company allotted 832,127 Ordinary 1p Shares to former creditors pursuant to the CVA,
- 27 December 2007 – Each existing Ordinary 1p Share was consolidated on a one for fifty basis into one share of 50p,

Directors' report continued

- 27 December 2007 – The authorised share capital of the Company was increased by £39 million to £45 million through the creation of 78 million new Ordinary 50p Shares,
- 27 December 2007 – The Company repurchased all the issued deferred shares for an aggregate amount of 1p,
- 27 December 2007 – The Company issued 440,000 warrants to three directors and one former director of the Company;
- 31 December 2007 – The Company issued 1,636,364 Ordinary 50p Shares at a price of 55p each to redeem the Loan Notes,
- 31 December 2007 – The Company issued 55,555,365 Ordinary 50p Shares at a price of 90p each to the shareholders of IGL in consideration for the acquisition of their shares, and
- 31 December 2007 – The Company issued 222,222 Ordinary 50p Shares as consideration for services provided to the Company for the aggregate total amount of £200,000 payable for fees

Directors and their interests

The directors who served during the year were as follows

F R Gugen	Executive Chairman	Appointed 27 December 2007
A P Austin	Chief Executive Officer	Appointed 27 December 2007
B Cheshire	Technical Director	Appointed 27 December 2007
J Bryant	Non-Executive/Chairman until 27 December 2007	Served throughout the year
R J Armstrong	Non-Executive	Appointed 10 April 2007
P Redmond	Non-Executive	Appointed 10 April 2007
S Drummond		Resigned 14 March 2007
P Goodrow		Resigned 14 March 2007
D Lindley, OBE		Resigned 27 November 2007
D Lloyd-Jacob		Resigned 14 March 2007

The interests of the directors in the shares of the Company at 31 December 2007 were as follows

	31 December 2007 Ordinary 50p Shares		31 December 2006 Ordinary 50p Shares		31 December 2007 Warrants*	31 December 2006 Warrants
	Number	%	Number	%		
F R Gugen	27,419,097	46.39	–	–	–	–
A P Austin	11,429,253	19.34	–	–	–	–
B Cheshire	11,429,253	19.34	–	–	–	–
J Bryant	50,370	0.09	370*	0.79	110,000	–
R J Armstrong	20,000	0.03	–	–	110,000	–
P Redmond	20,000	0.03	–	–	110,000	–

* The number of shares held by Mr Bryant has been rebased to take account of the share consolidations during 2007

Of the warrants issued to each Non-Executive Director 82,500 are exercisable into Ordinary 50p Shares at a price of 55p per Ordinary Share and 27,500 are exercisable at a price of 75p per Ordinary Share

Subject to the conditions set out in the Companies Act 1985, 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.

In accordance with the Articles of Association J Bryant and R J Armstrong retire by rotation and being eligible offer themselves for re-election

Directors' indemnity provisions

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 Acts 1985 and 2006. The nature and extent of the indemnities is as described in Section 60 of the Company's Articles of Association as adopted on 27 December 2007.

Substantial shareholders

Apart from the directors' holdings, the only other holding in excess of 3% of the share capital of the Company at the date of this report was R Smith who held 2,564,100 shares representing 4.3% of the Ordinary Shares in issue.

Financial instruments

The Group's principal financial instruments comprise cash balances and other debtors and creditors that arise through the normal course of business as set out in notes 12 to 15 to the consolidated financial statements. The Group's financial risk management objectives are set out in the Business Review on page 10.

Employment policy

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

Creditor payment policy and practice

It is the Group's normal practice to agree payment terms with its suppliers and abide by such terms. Payment becomes due when it can be confirmed that goods and/or services have been provided in accordance with the relevant contractual conditions. The amount owed by the Company to trade creditors at the end of the financial year represented four days of daily purchases for the Company (2006: Not applicable as the Company had no trade creditors).

Charitable and political contributions

During the year, the Group made no charitable or political donations.

Status

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

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

Board committees

Information on the Audit, Remuneration and Nomination committees is included in the Corporate Governance section of the annual report on pages 14 and 15.

Auditors

Ernst & Young LLP was appointed by the Board as auditors to the Company in 2008 to fill a casual vacancy arising as a result of the resignation of Moore Stephens. A resolution to appoint Ernst & Young LLP as auditor will be proposed at the Annual General Meeting at a fee to be agreed in due course by the Audit Committee and the Board.

Directors' statement as to disclosure of information to the auditors

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

Annual General Meeting

The Annual General Meeting will be held on 7 July 2008 as stated in the Notice of Meeting which accompanies this Annual Report.

By order of the Board

Mofa Secretaries Limited

Secretary
19 May 2008

Consolidated financial statements – directors' statement of responsibilities in respect thereof

The Directors are responsible for preparing the Annual Report and Group financial statements in accordance with applicable United Kingdom law and those International Financial Reporting Standards as adopted by the European Union

The directors are required to prepare Group financial statements for each financial year which present fairly the financial position of the Group and the financial performance and cash flows of the Group for that period. In preparing those Group 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 Group's financial position and financial performance,
- state that the Group has complied with IFRSs, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Group and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent auditor's report to the members of Island Gas Resources plc

We have audited the Group financial statements of Island Gas Resources plc (the Company) and its subsidiaries (the Group) for the year ended 31 December 2007 which comprise the Consolidated Income Statement, the Consolidated Balance Sheet, the Consolidated Statement of Changes in Equity, the Consolidated Cash Flow Statement, and the related Notes 1 to 21. These Group financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the parent company financial statements of Island Gas Resources plc for the year ended 31 December 2007.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. 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

The directors' responsibilities for preparing the Annual Report and the Group financial statements in accordance with applicable United Kingdom law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the Group financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the Group financial statements give a true and fair view and whether the Group financial statements have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the Group financial statements. The information given in the Directors' Report includes that specific information presented in the Chairman's Statement and the Business Review that is cross referred from the Business Review and Future Developments section of the Directors' Report.

In addition we report to you if, in our opinion, we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited Group financial statements. The other information comprises only the Chairman's Statement, the Business Review, the Corporate Governance Report, the Directors' Remuneration Report and the Directors' Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Group financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Group financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the Group financial statements, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Group financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the Group financial statements.

Opinion

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at 31 December 2007 and of its loss for the year then ended,
- the Group financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the Group financial statements.

Ernst & Young LLP
Registered Auditors
London
19 May 2008



Consolidated income statement

For the year ended 31 December 2007

	Notes 1(c)	2007 £	2006 £
Revenue	3	810,595	596,557
Cost of sales		(725,508)	(480,229)
Gross profit		85,087	116,328
Administrative expenses		(69,510)	(50,344)
Exceptional item – Impairment of goodwill on Reverse	7	(2,039,764)	–
Operating (loss)/profit	4	(2,024,187)	65,984
Finance income	8	16,603	15,866
(Loss)/profit on ordinary activities before tax		(2,007,584)	81,850
Tax on (loss)/profit on ordinary activities	9	(6,938)	(19,586)
Retained (loss)/profit for the year		(2,014,522)	62,264
Basic and diluted (loss)/earnings per share (£/share)	10	(0360)	0011

Consolidated balance sheet

As at 31 December 2007

	Notes 1(c)	2007 £	2006 £
Non-current assets			
Intangible exploration and evaluation assets	11	108,917	14,032
Property plant and equipment		—	—
		108,917	14,032
Current assets			
Trade and other receivables	12	282,771	33,162
Cash and cash equivalents	13	1,414,043	226,813
		1,696,814	259,975
Current liabilities			
Trade and other payables	14	(750,894)	(50,523)
Current taxation liabilities	14	(993)	(19,145)
		(751,887)	(69,668)
Net current assets		944,927	190,307
Total assets less current liabilities		1,053,844	204,339
Non-current liabilities			
Trade and other payables	15	(77,725)	—
Net assets		976,119	204,339
Capital and reserves			
Called up share capital	18	2,664,344	668
Preference shares		—	44,000
Share premium account		44,500	44,500
Share warrant reserve		166,626	—
(Accumulated deficit)/retained earnings		(1,899,351)	115,171
Shareholders' funds		976,119	204,339

These financial statements were approved and authorised for issue by the Board on 19 May 2008 and are signed on its behalf by



Francis Gugen
Chairman



Andrew Austin
Chief Executive Officer

Consolidated statement of changes in equity

For the year ended 31 December 2007

	Called up share capital (Note 18) £	Preference Shares £	Share premium account £	Share warrant reserve (Note 19) £	(Accumulated deficit)/ retained earnings £	Total £
Balance at 1 January 2006	668	44,000	44,500	–	52,907	142,075
Changes in equity for 2006						
Profit for year					62,264	62,264
Balance at 31 December 2006	668	44,000	44,500	–	115,171	204,339
Changes in equity for 2007						
Loss for the year					(2,014,522)	(2,014,522)
Reverse and scheme of arrangement	2,663,676					2,663,676
Redemption of preference shares, at par		(44,000)				(44,000)
Share based payments				166,626		166,626
Balance at 31 December 2007	2,664,344	–	44,500	166,626	(1,899,351)	976,119

Consolidated cash flow statement

For the year ended 31 December 2007

	Notes 1(c)	2007 £	2006 £
Operating activities			
Retained (loss)/profit for the year		(2,014,522)	62,264
Impairment of goodwill on Reverse	7	2,039,764	–
Finance income	8	(16,603)	(15,866)
Deferred tax	9	–	(66)
(Increase)/decrease in trade and other receivables		(170,006)	161,905
Increase/(decrease) in trade and other payables		106,107	(670,292)
(Decrease) in current taxation liabilities		(18,152)	(10,055)
Increase in non-current liabilities		77,725	–
Net cash from/(used in) operating activities		4,313	(472,110)
Investing activities			
Acquisition of exploration and evaluation assets	11	(94,885)	(14,032)
Interest received	8	16,603	15,866
Net cash (used in)/from investing activities		(78,282)	1,834
Financing activities			
Cash acquired on Reverse	2	1,305,199	–
Redemption of preference shares		(44,000)	–
Net cash from financing activities		1,261,199	–
Net increase/(decrease) in cash and cash equivalents in the year		1,187,230	(470,276)
Cash and cash equivalents at the beginning of the year		226,813	697,089
Cash and cash equivalents at the end of the year		1,414,043	226,813

Consolidated financial statements – notes

As at 31 December 2007

1 Accounting policies

(a) Basis of preparation of financial statements

These financial statements have been prepared under the historical cost convention in accordance with International Financial Reporting Standards, adopted for use by the European Union ("IFRS"), and with those parts of the Companies Act 1985 applicable to companies preparing their accounts under IFRS

The Group financial statements are presented in Sterling and all values are rounded to the nearest pound except when otherwise indicated

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

		Effective date
International Accounting Standards (IAS/IFRSs)		
IFRS 2	Amendment to IFRS 2 – Vesting Conditions and Cancellations	1 January 2009
IFRS 3	Business Combinations (revised January 2008)	1 July 2009
IFRS 8	Operating Segments	1 January 2009
IAS 1	Presentation of Financial Statements (revised September 2007)	1 January 2009
IAS 23	Borrowing Costs (revised March 2007)	1 January 2009
IAS 27	Consolidated and Separate Financial Statements (revised January 2008)	1 July 2009
International Financial Reporting Interpretations Committee (IFRIC)		
IFRIC 12	Service Concession Arrangements	1 January 2008

The Directors do not anticipate that the adoption of these standards and interpretations will have a material impact on the Group's financial statements in the period of initial application.

(b) Going concern

After making enquiries, and because in particular of the Nexen Carry Agreements (as described in Note 11), the Directors are satisfied that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, the Directors continue to adopt the going concern basis in preparing the financial statements.

(c) Basis of consolidation

The consolidated financial statements present the results of the Company and its subsidiaries (the "Group") as if they formed a single entity. Intercompany transactions and balances between Group companies are therefore eliminated in full.

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

(d) Reverse acquisitions

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

(e) Joint ventures

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

(f) Significant accounting judgements and estimates

Critical judgements in applying the Group's accounting policies

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

1 Accounting policies continued

Estimates and assumptions

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

- **Current taxes**
The Group makes provision for liabilities to income taxes. Significant judgement can be required in determining these liabilities. There are many transactions and calculations for which the ultimate tax determination is, in the ordinary course of business, uncertain. The Group recognises liabilities for taxation issues which are open at the year end on the basis of whether it is more likely than not that a liability will ultimately crystallise. Where the final tax outcome of such matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made. All of IGL and a number of the Company and other subsidiary tax computations have yet to be formally signed off by the UK tax authorities.
- **Carrying value of intangible exploration and evaluation assets**
The Group has capitalised intangible exploration and evaluation assets in accordance with IFRS 6, which are evaluated for impairment as described at (i) below. Any impairment reviews, where required, involve significant judgement related to matters such as recoverable reserves, production profiles, gas and electricity prices, development, operating and offtake costs, nature of land access agreements and planning permissions, application of local and central 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.

(g) Exceptional items

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

(h) Revenue

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

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

Intangible exploration and evaluation assets

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

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

Consolidated financial statements – notes continued

As at 31 December 2007

1 Accounting policies continued

Property plant and equipment, interests in oil and gas properties

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

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

Impairment

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

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

Decommissioning

Where appropriate costs relating to decommissioning of gas assets are recognised when the related facilities are installed, the amount recognised is discounted to its present value and is reflected in the Group's non-current liabilities. A corresponding asset is included in the Group's property plant and equipment, interest in oil and gas properties. The asset is depleted in accordance with the Group's policy on depletion.

Carried interests

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

Non oil and gas related property plant and equipment

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

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

(j) Financial instruments

Cash and cash equivalents

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

Trade and other receivables

Trade receivables are recognised when invoiced and are carried at the original invoiced amount less any allowances for doubtful debts. Other receivables are recognised and measured at nominal value.

Trade and other payables and current taxation liabilities

These liabilities are all non interest bearing and so are measured at cost.

Non-current liabilities – Trade payables

These liabilities are all non interest bearing and so are measured at cost.

1 Accounting policies continued

(k) Operating leases

Rentals under operating leases are charged to the consolidated Income Statement on a straight line basis over the period of the lease

(l) Taxation

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

The current tax is based on taxable (loss)/profit for the year. 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 timing differences that have originated but not reversed at the balance sheet date. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements. Deferred tax liabilities are not discounted. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered.

(m) Share based payments

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

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

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

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

(n) Equity

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

However, as required by IFRS 3, the effect on the Group's Equity of the Reverse is to extinguish all previously recorded amounts and to record instead amounts equal to the deemed 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. See Note 2 for further information on the Reverse. Also retained within Group Equity is the cost of outstanding warrants issued by the Company and surviving the Reverse.

2 Business combination

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

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

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

Immediately prior to the Reverse, the Company held £1,305,199 of cash and cash equivalents, which was acquired by the Group at the date of the Reverse and has been included as a financing item for the purposes of the Consolidated Cash Flow Statement.

Consolidated financial statements – notes continued

As at 31 December 2007

2 Business combination continued

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

	Book value £	Fair value to Group £
Trade and other receivables	79,603	79,603
Cash and cash equivalents	1,305,199	1,305,199
Trade and other payables	(594,264)	(594,264)
Net assets	790,538	790,538
Goodwill arising on Reverse, written off		2,039,764
		2,830,302
Discharged by		
Fair value of equity of Company issued on Reverse		2,663,676
Fair value of warrants of Company taken over		166,626
		2,830,302

From the date of the Reverse to 31 December 2007, the contribution of the Company (the entity which is deemed to have been acquired) to the loss of the Group was £2,039,764, representing the impairment of goodwill on Reverse, as explained in Note 7

If the combination had taken place at the beginning of 2007, the results of the Group would have been unchanged from those as reported, except for £32,900 being the effect of interest income earned on cash acquired net of the costs of the Reverse. Accordingly, the retained loss for the year would have been £1,981,622 and the revenue from continuing operations of £810,595

3 Revenue and segment information

All revenue which represented turnover arose within the United Kingdom and is attributable to activities in the Coal Bed Methane (CBM) sector

4 Operating profit

	2007 £	2006 £
Operating profit is stated after charging		
Auditors remuneration		
Charged to Consolidated Income Statement		
Audit of the financial statements*	–	–
Other fees paid to Ernst & Young LLP – Audits of subsidiaries	21,513	16,396
Not charged to Consolidated Income Statement		
Audit of the financial statements – Ernst & Young LLP	20,000	–
Audit of the financial statements – Moore Stephens LLP	–	20,000
Other fees paid to Moore Stephens LLP – Tax services	–	2,000
Depreciation of property, plant and equipment (owned by Group)	–	–
Operating lease rentals	–	–

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

5 Employee information

	2007 £	2006 £
Staff costs comprised		
Wages and salaries	494,314	336,521
Pension contributions	–	–
	494,314	336,521
Capitalised	–	(2,925)
	494,314	333,596
	No.	No.
Average number of employees in the period		
Services	2	2
Administrative	1	1
	3	3

6 Directors' emoluments

The remuneration of the directors for the year was as follows

	2007 £	2006 £
Charged to Consolidated Income Statement		
Directors' emoluments and benefits comprised		
Directors' emoluments	440,000	300,000
Pension contributions	–	–
	440,000	300,000
 The highest paid director received emoluments and benefits as follows		
Emoluments	240,000	100,000
Pension contributions	–	–
	240,000	100,000
 Not charged to Consolidated Income Statement:		
Directors' emoluments and benefits comprised		
Amounts payable in respect of qualifying services	56,063	259,736
Share based payments	131,208	–
Social security cost	–	6,453
Pension contributions	–	11,000
	187,271	277,189
 The highest paid director received emoluments and benefits as follows		
Emoluments	54,927	108,333
Pension contributions	–	–
	54,927	108,333

Directors' emoluments charged to the Consolidated Income Statement are those of the directors of IGL, who were also directors of the Company at 31 December 2007, for services rendered as directors of IGL during the year, which fall due to be charged to the Consolidated Income Statement under reverse acquisition accounting principles (see Note 1 above)

Directors' emoluments not charged to the Consolidated Income Statement are those paid to the directors of the Company prior to the Reverse P Redmond, a director prior to the Reverse, is also a director of Merchant Capital Limited, which received payments from the Company as set out in Note 20

Of the directors' emoluments not charged to the Consolidated Income Statement in 2006, £121,721 in total and £66,667 relating to the highest paid director remained unpaid at 31 December 2006 and were subsequently largely forfeited as part of the CVA

Directors' warrants

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

	2006 Number	Exercise price (p/share)	Exercisable at any time up to	2007 Number
R Armstrong	0	55	31 December 2010	82,500
	0	75	31 December 2010	27,500
J Bryant	0	55	31 December 2010	82,500
	0	75	31 December 2010	27,500
P Redmond	0	55	31 December 2010	82,500
	0	75	31 December 2010	27,500

The share price at 31 December 2007, the date of re-admission, was 72.5p

7 Exceptional item – impairment of goodwill on reverse

	2007 £	2006 £
Impairment of goodwill on Reverse	2,039,764	–

As a result of the Reverse (see Note 1 (c) above) the Group incurred goodwill on acquisition of £2,039,764 related to the Company, which had no cash generating units at acquisition, and which was considered not to relate to any of IGL's cash generating units, and so has been impaired in full

Consolidated financial statements – notes continued

As at 31 December 2007

8 Finance income

	2007 £	2006 £
Interest receivable comprised		
Bank interest	16,603	15,866

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

9 Tax on (loss)/profit on ordinary activities

	2007 £	2006 £
UK corporation tax:		
Current tax on income for the year	6,888	19,145
Adjustments in respect of prior year	50	507
Total UK taxation	6,938	19,652
Deferred tax	–	(66)
Tax on (loss)/profit on ordinary activities	6,938	19,586

Factors affecting the tax charge

The tax assessed for the year does not reflect a charge equivalent to the profit on ordinary activities multiplied by the standard rate of corporation tax in the United Kingdom of 19% (2006 19%), for small companies. The differences are explained below

	2007 £	2006 £
(Loss)/profit on ordinary activities before tax	(2,007,584)	81,850
(Loss)/profit on ordinary activities multiplied by the standard rate of corporation tax in the UK for small companies (19%)	(381,440)	15,551
Tax effect of Exceptional item – Goodwill on Reverse written off	387,555	–
Tax effect of expenses not allowable for tax purposes	336	644
Costs related to Petroliferous Trade not triggered	437	2,884
Prior year adjustment	50	507
Tax on (loss)/profit on ordinary activities	6,938	19,586

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

10 (Loss)/earnings per share (EPS)

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

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

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

	2007	2006
Basic EPS – Ordinary Shares of 50p each	(0360)	0011
Diluted EPS – Ordinary Shares of 50p each	(0360)	0011
(Loss)/Profit for the year attributable to equity holders of the parent	(2,014,522)	62,264
Weighted average number of Ordinary Shares in the year – basic EPS	55,594,289	55,555,365
Weighted average number of Ordinary Shares in the year – diluted EPS	55,594,289	55,555,365

There are 525,280 potentially dilutive warrants and options over the Ordinary Shares at 31 December 2007 (2006 nil), which are not included in the calculation of diluted earnings per share because they were anti-dilutive for the year as their conversion to Ordinary Shares would decrease the loss per share

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

11 Intangible exploration and evaluation assets

	£
Cost	
At 1 January 2007	14,032
Additions	94,885
Disposal	–
At 31 December 2007	108,917
Amortisation	
At 1 January 2007	–
Charge for the year, including impairment	–
Disposals	–
At 31 December 2007	–
Net book amount	
At 31 December 2007	108,917
At 1 January 2007	14,032

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

At 31 December 2007 £2,663,795 had been carried (2006 £1,267,477), which has not been recorded as either non-current assets or liabilities, since repayment is currently sufficiently uncertain.

12 Trade and other receivables

	2007 £	2006 £
VAT recoverable	78,321	5,005
Trade debtors	172,777	26,396
Prepayments	31,673	1,761
	282,771	33,162

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

All of the Group's financial assets as stated above are from debtors of good credit standing and have been reviewed for indicators of impairment and no impairment provision was found to be required (2006: £nil).

Of the Group's financial assets as stated above £207,263 (2006: £4,250) were past due at the reporting date, of which the ageing was

	2007 £	2006 £
Not more than three months	43,528	1,892
More than three months but not more than six months	160,600	2,358
More than six months but not more than one year	3,135	–
	207,263	4,250

13 Cash and cash equivalents

	2007 £	2006 £
Cash at bank and in hand	1,414,043	226,813
Short-term deposits	–	–
Total	1,414,043	226,813

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 published credit ratings.

Consolidated financial statements – notes continued

As at 31 December 2007

14 Current liabilities

	2007 £	2006 £
Trade and other payables		
Trade creditors	400,965	2,526
Taxation and social security	39,453	11,950
Accruals and other creditors	310,476	36,047
	750,894	50,523
Corporation tax	993	19,145

The carrying value of each of the Group's financial liabilities as stated above is considered to be a reasonable approximation of its fair value and all creditors are payable on demand

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

15 Non-current liabilities

	2007 £	2006 £
Trade and other payables, due 31 March 2009	77,725	–
Deferred tax	–	–
	77,725	–

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

	2007 £	2006 £
Company:		
Trading loss	–	–
Excess management expenses	2,618,446	3,232,625
IGL:		
Petroliferous – Trading loss	17,478	15,180
Petroliferous – Minerals extraction allowances	160,632	65,747

KP Renewables (Operations) Limited ("KPRO"):

Trading loss	1,193,689	1,193,689
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The Company's excess management expenses may only be offset against future profits, if any, of the Company generated in its capacity as a Group holding company

The availability of Petroliferous amounts to offset future profits, is dependent on IGL commencing a Petroliferous Trade (as defined for tax purposes), which itself is dependent on the commencement of CBM production

KPRO's losses may only be offset against future profits of KPRO, if any

16 Commitments

The Group had no lease or capital commitments at 31 December 2007 (2006: £nil)

As at 31 December 2007, no amounts have been included for exploration and appraisal as these are expected to be covered by the Nexen Carry Agreements as referred to in Note 11 above (2006: £nil)

17 Financial instruments

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

Financial assets and liabilities

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

Interest rate risk profile of financial assets

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

As the Group currently has no borrowings, there is no related interest rate risk

Credit risk

Cash and treasury credit risks are mitigated through the exclusive use of institutions that carry acceptable published credit ratings so as to minimise counterparty risk

17 Financial instruments continued

Capital management

Information regarding the Group's management of capital is provided in the Business Review on page 10

18 Share capital

	Ordinary Shares		Deferred shares	
	No	£ Nominal value*	No	£ Nominal value*
Authorised				
1 January 2006 and 2007, Ordinary Shares of 1p each	100,000,000	1,000,000		
10 April 2007 conversion of each issued Ordinary Share of 1p each into New Ordinary Shares of 05p	(46,589,662)	(465,897)		
New deferred shares of 95p each	46,589,662	23,295	46,589,662	442,602
10 April 2007 consolidation of each new Ordinary Share of 05p into Ordinary Shares of 1p each – 20 for 1	(46,589,662)			
10 April 2007 additional Ordinary Shares created	2,329,483			
27 December 2007 consolidation of each 1p Ordinary Share into New Ordinary Shares of 50p – 50 for 1	500,000,000	5,000,000		
27 December 2007 new Ordinary Shares created	(555,739,821)			
	11,114,796			
	78,000,000	39,000,000		
31 December 2007	89,114,796	44,557,398	46,589,662	442,602

	Ordinary Shares		Deferred shares	
	No	£ Nominal Value	No	£ Nominal Value
Issued and fully paid				
1 January 2006 and 2007, Ordinary Shares of 1p each	46,589,662	465,897		
10 April share conversion of each Ordinary Share of 1p each into New Ordinary Shares of 05p	(46,589,662)	(465,897)		
New deferred shares of 95p	46,589,662	23,295	46,589,662	442,602
10 April 2007 consolidation of each new Ordinary Share of 05p into Ordinary Shares of 1p each – 20 for 1	(46,589,662)			
10 April shares issued for cash	2,329,483			
10 April shares issued in lieu of fees	75,000,000	750,000		
7 November shares allotted to former creditors	6,500,000	65,000		
27 December consolidation of each 1p Ordinary Share into New Ordinary Shares of 50p – 50 for 1	832,127	8,321		
27 December 2007 deferred shares repurchased	(84,661,610)			
31 December shares issued to redeem loan notes	1,693,232		(46,589,662)	(442,602)
31 December shares issued for acquisition of IGL				
31 December shares issued in lieu of fees	1,636,363	818,182		
	55,555,365	27,777,683		
	222,222	111,111		
31 December 2007 Ordinary Shares of 50p each	59,107,182	29,553,592*	–	–

Share capital account*

At 1 January 2007	668
Market Capitalisation of the Company on the last day of trading prior to announcement of the Reverse	
Shares in issue	1,354,586
Loan Notes converting mandatorily on Reverse	1,309,090
Adjusted value	2,663,676
At 31 December 2007	2,664,344

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

The following share transactions took place since 1 December 2006, pursuant to the CVA and related arrangements made on 10 April 2007 (all as explained in more detail in the Company's 2006 Annual Report and Accounts, in a circular to shareholders dated 16 March 2007 and in an Admission Document issued to shareholders on 27 November 2007) and the Reverse take-over and related arrangements as of 27 December 2007 (all as explained in more detail in an Admission Document issued to shareholders on 27 November 2007)

- 10 April 2007 – Each issued Ordinary 1p Share was subdivided into one deferred 95p share and one new Ordinary 05p Share,
- 10 April 2007 – Each new Ordinary 05p Share was consolidated on a one to twenty basis into a new consolidated Ordinary 1p Share,

Consolidated financial statements – notes continued

As at 31 December 2007

18 Share capital continued

- 10 April 2007 – The authorised share capital of the Company was increased by £5 million to £6 million through the creation of 500 million Ordinary 1p Shares,
- 10 April 2007 – The Board allotted 75 million Ordinary 1p Shares pursuant to a fund raising,
- 10 April 2007 – The Board allotted 6.5 million Ordinary 1p Shares as consideration for services provided to the Company in the aggregate total amount of £65,000, payable for fees,
- 10 April 2007 – The Company granted warrants to acquire up to 4,191,474 Ordinary Shares at a price of 1p each. Following the Reverse these have been rebased as rights to acquire 83,830 at a price of 50p each,
- 2 November 2007 – The Company issued £900,000 of Loan Notes at par value,
- 7 November 2007 – The Company allotted 832,127 Ordinary 1p Shares to former creditors pursuant to the CVA,
- 27 December 2007 – Each existing Ordinary 1p Share was consolidated on a one for fifty basis into one share of 50p,
- 27 December 2007 – The authorised share capital of the Company was increased by £39 million to £45 million through the creation of 78 million new Ordinary 50p Shares,
- 27 December 2007 – The Company repurchased all the issued deferred shares for an aggregate amount of 1p,
- 27 December 2007 – The Company issued 440,000 warrants to three directors and one former director of the Company,
- 31 December 2007 – The Company issued 1,636,364 Ordinary 50p Shares at a price of 55p each to redeem the Loan Notes,
- 31 December 2007 – The Company issued 55,555,365 Ordinary 50p Shares at a price of 90p each to the shareholders of IGL in consideration for the acquisition of their shares, and
- 31 December 2007 – The Company issued 222,222 Ordinary 50p Shares as consideration for services provided to the Company in the aggregate total amount of £200,000, payable for fees

19 Share warrant reserve

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

	2007 £	2006 £
Directors		
Serving at year end, as per Note 5	109,758	–
Resigned during the year	21,450	–
	131,208	–
Professional advisers	35,418	–
	166,626	–

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

20 Related party transactions

2006

During the year the Company was charged £132,500 by Kwipower International plc, a company of which Dr J Watkins was a director as well as being a former director of the Company, prior to his death. Also prior to his death the Company had advanced funds of £35,000 to Kwipower International plc and incurred expenses on behalf of the Company of £34,131. These sums were never repaid and so have been fully provided for in the financial statements. During the year the Company was also charged £21,276 by Wellman Engineering limited, which is a subsidiary of Kwipower International plc, which has also not been repaid and so fully provided for.

2007

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

- The Company entered into any engagement letter with Merchant Capital plc ("MCP") on 1 February 2007, whereby MCP received £127,500 for corporate finance services in relation to the reconstruction and refinancing of the Company on 10 April 2007, of which a total of £50,000 was taken in Ordinary Shares at the then refinancing price and there was a grant of warrants, being to acquire up to 83,830 Ordinary Shares at an exercise price of 50p per share exercisable up to 10 April 2009.
- This agreement was amended on 30 April 2007 pursuant to which MCP was engaged to provide additional services for a monthly retainer of £2,000 for one full day per week. This retainer was terminated on 13 September 2007.
- The Company entered into an engagement letter with MCP on 3 November 2007 under which MCP agreed to act as adviser to the Company in respect of the Reverse in consideration for the issue of £100,000 in value of Ordinary Shares at 90p per share.

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

Key management personnel

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

21 Subsequent events

On 13 February 2008 the Group's PEDLs 115 and 116, were extended for a further 10 months to 30 November 2008 to give sufficient time for completion of certain drilling operations that will then result in the licences being extended for a minimum of a further four years and two months followed by another 20 or more years thereafter if the Group decides to pursue production from within the acreage.

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

The directors are required to prepare the parent company financial statements for each financial year which 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
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the parent company will continue in business

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 1985. 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.

Independent auditor's report to the members of Island Gas Resources plc

We have audited the parent company financial statements (the parent company financial statements) of Island Gas Resources Plc (the parent company) for the year ended 31 December 2007 which comprise the parent company Balance Sheet, the parent company Statement of Changes in Equity, the parent company Cash Flow Statement and Notes 1 to 11. These parent company financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the consolidated financial statements of Island Gas Resources Plc for the year ended 31 December 2007.

This report is made solely to the parent company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the parent 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 parent company and the parent 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

The directors' responsibilities for preparing the Annual Report and the parent company financial statements in accordance with UK law and for preparing the parent company financial statements in accordance with applicable United Kingdom Accounting Standards are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the parent company financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the parent company financial statements give a true and fair view and whether the parent company financial statements have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the parent company financial statements. The information given in the Directors' Report includes that specific information presented in the Chairman's Statement and the Business Review that is cross referred from the Business Review and Future Developments section of the Directors' Report.

In addition we report to you if, in our opinion, the parent company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited parent company financial statements. The other information comprises only the Chairman's Statement, the Business Review, the Corporate Governance Report, the Directors' Remuneration Report and the Directors' Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the parent company financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the company financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the Company financial statements, and of whether the accounting policies are appropriate to the parent company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the parent company financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the parent company financial statements.

Opinion

In our opinion:

- the parent company financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the parent company's affairs as at 31 December 2007,
- the parent company financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the parent company financial statements.

Ernst & Young LLP
Registered Auditors
London
19 May 2008



Parent company balance sheet

As at 31 December 2007

	Notes	2007 £	2006 £
Non-current assets			
Investments in subsidiaries	2	50,512,282	–
Property plant and equipment		–	–
		50,512,282	–
Current assets			
Trade and other receivables	3	79,603	38,380
Project development costs		–	13,505
Cash and cash equivalents	4	1,305,199	12,436
		1,384,802	64,321
Current liabilities			
Trade and other payables	5	(516,541)	(641,528)
Current taxation liabilities	5	–	–
		(516,541)	(641,528)
Net current assets/(liabilities)		868,261	(577,207)
Total assets less current liabilities		51,380,543	(577,207)
Non-current liabilities			
Trade and other payables	6	(77,725)	–
Net assets/(liabilities)		51,302,818	(577,207)
Capital and reserves			
Called up share capital	9	29,553,592	465,897
Merger reserve		22,222,146	–
Share premium account		3,935,632	3,734,348
Share capital redemption reserve		–	–
Share warrant/option reserve	10	166,626	244,000
(Accumulated deficit)		(4,575,178)	(5,021,452)
Shareholders' funds		51,302,818	(577,207)

These financial statements were approved and authorised for issue by the Board on 19 May 2008 and are signed on its behalf by

Francis Gugen
Chairman

Andrew Austin
Chief Executive Officer

Parent company statement of changes in equity

For the year ended 31 December 2007

	Called up share capital £	Merger reserve £	Share premium account	Share capital redemption reserve £	Share warrant/ option reserve £	(Accumulated deficit) £	Total £
Balance at 1 January 2006	465,897	-	3,734,348	-	244,000	(1,711,850)	2,732,395
Changes in equity for 2006							
Loss for the year						(3,309,602)	(3,309,602)
Balance at 31 December 2006	465,897	-	3,734,348	-	244,000	(5,021,452)	(577,207)
Changes in equity for 2007							
Profit for the year						446,274	446,274
Issue and conversion of shares							
At time of CVA	815,000						815,000
Pre Reverse	937,614		170,707				1,108,321
At Reverse	27,777,683	22,222,146					49,999,829
Repurchase of deferred shares	(442,602)			442,602			-
Cost of issue of shares							
At time of CVA			(192,422)				(192,422)
Pre Reverse				(89,700)			(89,700)
At Reverse			(21,001)	(352,902)			(373,903)
Issue of warrants							
At time of CVA					35,418		35,418
To Directors					131,208		131,208
Transfer from share option/warrant reserve			244,000		(244,000)		-
Balance at 31 December 2007	29,553,592	22,222,146	3,935,632	-	166,626	(4,575,178)	51,302,818

Parent company cash flow statement

For the year ended 31 December 2007

	Notes	2007 £	2006 £
Operating activities			
Retained profit/(loss) for the year		446,274	(3,309,602)
Impairment of investments in subsidiaries		–	345,000
Loss on disposal of subsidiary		40,742	–
Finance income		(26,440)	(10,023)
(Increase)/decrease in trade and other receivables		(41,223)	1,311,593
(Increase)/decrease in project development costs		13,505	(13,505)
Increase/(decrease) in trade and other payables		(124,987)	583,491
Increase in creditors due after one year		77,725	–
Net cash inflow/(outflow) from operating activities		385,596	(1,093,046)
Investing activities			
Loss on disposal of subsidiary		(40,742)	–
Interest received		26,440	10,023
Net cash (used in)/from investing activities		(14,302)	10,023
Financing activities			
Value of equities issued, net		51,433,751	–
Less subsidiary acquired for equities	2	(50,512,282)	–
Net cash proceeds from the issue of equities		921,469	–
Net cash from financing activities		921,469	–
Net increase/(decrease) in cash and cash equivalents in the year		1,292,763	(1,083,023)
Cash and cash equivalents at the beginning of the year		12,436	1,095,459
Cash and cash equivalents at the end of the year		1,305,199	12,436

Parent company financial statements – notes

As at 31 December 2007

1 Accounting policies

(a) Basis of preparation of financial statements

These financial statements have been prepared under the historical cost convention in accordance with International Financial Reporting Standards, adopted for use by the European Union ("IFRS"), and with those parts of the Companies Act 1985 applicable to companies preparing their accounts under IFRS

The Company's financial statements are presented in sterling and all values are rounded to the nearest pound 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 230(4) of the Companies Act 1985.

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

	Effective date
International Accounting Standards (IAS/IFRSs)	
IFRS 2	Amendment to IFRS 2 – Vesting Conditions and Cancellations
IFRS 3	Business Combinations (revised January 2008)
IFRS 8	Operating Segments
IAS 1	Presentation of Financial Statements (revised September 2007)
IAS 23	Borrowing Costs (revised March 2007)
IAS 27	Consolidated and Separate Financial Statements (revised January 2008)
	1 January 2009 1 July 2009 1 January 2009 1 January 2009 1 January 2009 1 July 2009
International Financial Reporting Interpretations Committee (IFRIC)	
IFRIC 12	Service Concession Arrangements
	1 January 2008

The Directors do not anticipate that the adoption of these standards and interpretations will have a material impact on the Company's financial statements in the period of initial application.

(b) Going concern

After making enquiries, the Directors are satisfied that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason, the Directors continue to adopt the going concern basis in preparing the financial statements.

(c) Acquisition during the year of the Company's principal subsidiary

On 31 December 2007 the Company was the subject of a reverse takeover whereby a private company, Island Gas Limited ("IGL"), became a wholly-owned subsidiary of the Company but with IGL's shareholders acquiring 94% of the Ordinary Share capital of the combined entity (the "Reverse"), these arrangements being more fully described in an admission document dated 27 November 2007 (the "Admission Document"). In accordance with IFRS the Company has accounted for the acquisition at cost, being the fair value of the shares issued, with the difference between their nominal value and fair value being accounted for as a Merger Reserve, as permitted under the Companies Act 1985.

(d) Significant accounting judgements and estimates

Critical judgements in applying the Company's accounting policies

The principal activity of the Company's major subsidiary, IGL, which has been accounted for at fair value, is Coal Bed Methane ("CBM"). The testing of the Company's investment in subsidiary for impairment involves the assessment of IGL's CBM business, including IGL's production rates which are a matter of judgement, as is the forecasting of the future economic benefit that may be derived from such production. Finally, the period of time over which the economic benefit associated with the investment in subsidiary might arise is also a matter of judgement. These judgements affect the carrying value of non-current assets and impairment calculations related to such assets.

Estimates and assumptions

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

- Current taxes

The Company makes provision for liabilities to income taxes. Significant judgement can be required in determining these liabilities. There are many transactions and calculations for which the ultimate tax determination is, in the ordinary course of business, uncertain. The Company recognises liabilities for taxation issues which are open at the year end on the basis of whether it is more likely than not that a liability will ultimately crystallise. Where the final tax outcome of such matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made. A number of the Company's tax computations have yet to be formally signed off by the UK tax authorities.

- Carrying value of investment in subsidiaries

The Company has accounted for subsidiaries that have been acquired at fair value, which investments are evaluated for impairment as described at (e) below. Any impairment reviews, where required, involve significant judgement related to matters such as recoverable reserves, production profiles, gas and electricity prices, development, operating and offtake costs, nature of land access agreements and planning permissions, application of local and central 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.

1 Accounting policies continued

(e) Non-current assets (investments in subsidiaries)

Investments in subsidiaries

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

The Company's investments held as non-current assets are assessed for indications of 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 in value is charged to the Income Statement as additional depreciation. Where any impairment relates to assets held at fair value, an equivalent amount of the merger reserve, to the extent available, will be crystallised resulting in a transfer from merger reserve to accumulated deficit through the statement of changes in equity, thereby maintaining distributable reserves.

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 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 or the carrying value that would have been determined (net of depletion) had no impairment loss been recognised in prior periods.

Non oil and gas related property plant and equipment

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

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

(f) Financial instruments

Cash and cash equivalents

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

Trade and other receivables

Trade receivables are recognised when invoiced and are carried at the original invoiced amount less any allowances for doubtful debts. Other receivables are recognised and measured at nominal value.

Trade and other payables and current taxation liabilities

These liabilities are all non interest bearing and so are measured at cost.

Non-current liabilities – Trade payables

These liabilities are all non interest bearing and so are measured at cost.

(g) Operating leases

Rentals under operating leases are charged to the Income Statement in the year in which they become due.

(h) Taxation

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

The current tax is based on taxable (loss)/profit for the year. 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.

Parent company financial statements – notes continued

As at 31 December 2007

1 Accounting policies continued

(h) Taxation continued

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

(i) Share based payments

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

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

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

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

(j) 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.

2 Non-current assets – investments in subsidiaries

Investments in subsidiaries comprises

	£
At 1 January 2007	–
Acquisition in the year, at fair value	50,512,282
Disposals in the year	–
At 31 December 2007	50,512,282

The subsidiary undertakings of the Company at 31 December 2007, which are all 100% owned directly by the Company and are all incorporated in England, were

Name	Principal activity
Island Gas Limited	Coal Bed Methane
KP Renewables (Operations) Limited	Electricity Generation

The subsidiary undertakings of the Company that were dissolved before 31 December 2007, which had all been incorporated in England and had all been dormant throughout the year, were

KP Bioenergy Holding Limited
 KP Wind Holdings Limited
 KP Snodland Power Limited
 KP Crayford Power Limited
 North Otter Windfarm Limited
 Lephinmore Windfarm Limited

On 28 December 2007, the Company disposed of KP Wind and Biomass Limited ("KPWB"), a company that had been formed specifically to receive all of the Company's project activities and all of the related assets and liabilities, including all amounts connected with the Creditors Voluntary Agreement that the Company had entered into on 10 April 2007 ("CVA"), which had the effect of extinguishing the CVA from the Company's perspective. This company, which had been owned 100% by the Company, was incorporated in England.

KPWB was sold for £1, which, after taking account of disposal costs, led to a loss on disposal of £40,742 (2006: £nil) being recorded in the Parent Company Income Statement.

3 Trade and other receivables

	2007 £	2006 £
VAT recoverable	55,761	30,100
Trade debtors	–	–
Prepayments	23,842	8,280
	79,603	38,380

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

All of the Company's financial assets as stated above are from debtors of good credit standing and have been reviewed for indicators of impairment and no impairment provision was found to be required (2006 £nil)

Of the Company's financial assets as stated above £27,457 (2006 £30,100) were past due at the reporting date, the ageing of which was

	2007 £	2006 £
Not more than three months	–	30,100
More than three months but not more than six months	27,457	–
	27,457	30,100

4 Cash and cash equivalents

	2007 £	2006 £
Cash at bank and in hand	1,305,199	12,436
Short-term deposits	–	–
	1,305,199	12,436

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

The Company only deposits cash surpluses with major banks that have acceptable published credit ratings

5 Current liabilities

	2007 £	2006 £
Trade and other payables		
Trade creditors	384,188	–
Taxation and social security	–	–
Accruals and other creditors	132,353	641,528
	516,541	641,528
Corporation tax	–	–

The carrying value of each of the Company's financial liabilities as stated above is considered to be a reasonable approximation of its fair value and all creditors are payable on demand

Information regarding the Company's tax losses is presented in Note 6

6 Non-current liabilities

	2007 £	2006 £
Trade creditors, due 31 March 2009	77,725	–
Deferred tax	–	–
	77,725	–

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

	2007 £	2006 £
Trading loss	–	–
Excess management expenses	2,618,446	3,232,625

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

Parent company financial statements – notes continued

As at 31 December 2007

7 Commitments

The Company had no lease or capital commitments at 31 December 2007 (2006 £nil)

8 Financial instruments

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

Financial assets and liabilities

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

Interest rate risk profile of financial assets

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

As the Company currently has no borrowings, there is no related interest rate risk.

Credit risk

Cash and treasury credit risks are mitigated through the exclusive use of institutions that carry acceptable published credit ratings so as to minimise counterparty risk.

Capital management

Information regarding the Company's management of capital is provided in the Business review on page 10.

9 Share capital

	Ordinary Shares		Deferred shares	
	No	£ Nominal Value	No	£ Nominal Value
Authorised				
1 January 2006 and 2007 Ordinary Shares of 1p each	100,000,000	1,000,000		
10 April 2007 conversion of each issued Ordinary Share of 1p each into New Ordinary Shares of 05p	(46,589,662)	(465,897)		
New deferred shares of 95p each	46,589,662	23,295		
10 April 2007 consolidation of each new Ordinary Share of 05p into Ordinary Shares of 1p each – 20 for 1			46,589,662	442,602
10 April 2007 additional Ordinary Shares created	(46,589,662)			
27 December 2007 consolidation of each 1p Ordinary Share into New Ordinary Shares of 50p – 50 for 1	2,329,483			
27 December 2007 new Ordinary Shares created	500,000,000	5,000,000		
	(555,739,821)			
	11,114,796			
	78,000,000	39,000,000		
31 December 2007	89,114,796	44,557,398	46,589,662	442,602
	Ordinary Shares		Deferred shares	
	No	£ Nominal Value	No	£ Nominal Value
Issued and fully paid				
1 January 2006 and 2007 Ordinary Shares of 1p each	46,589,662	465,897		
10 April share conversion of each Ordinary Share of 1p each into New Ordinary Shares of 05p	(46,589,662)	(465,897)		
New deferred shares of 95p	46,589,662	23,295		
10 April 2007 consolidation of each new Ordinary Share of 05p into Ordinary Shares of 1p each – 20 for 1			46,589,662	442,602
10 April shares issued for cash	(46,589,662)			
10 April shares issued in lieu of fees	2,329,483			
7 November shares allotted to former creditors	75,000,000	750,000		
27 December consolidation of each 1p Ordinary Share into New Ordinary Shares of 50p – 50 for 1	6,500,000	65,000		
27 December deferred shares repurchased	832,127	8,321		
31 December shares issued to redeem loan notes	(84,661,610)			
31 December shares issued for acquisition of IGL	1,693,232			
31 December shares issued in lieu of fees			(46,589,662)	(442,602)
	1,636,363	818,182		
	55,555,365	27,777,683		
	222,222	111,111		
31 December 2007 Ordinary Shares of 50p each	59,107,182	29,553,592	–	–

The following share transactions took place since 1 December 2006, pursuant to the CVA and related arrangements made on 10 April 2007 (all as explained in more detail in the Company's 2006 Annual Report and Accounts, in a Circular to shareholders dated 16 March 2007 and in an Admission Document issued to shareholders on 27 November 2007) and the Reverse take-over and related arrangements as of

9 Share capital continued

27 December 2007 (all as explained in more detail in an Admission Document issued to shareholders on 27 November 2007)

- 10 April 2007 – Each issued Ordinary 1p Share was subdivided into one deferred 95p share and one new Ordinary 05p Share,
- 10 April 2007 – Each new Ordinary 05p Share was consolidated on a one to twenty basis into a new consolidated Ordinary 1p Share,
- 10 April 2007 – The authorised share capital of the Company was increased by £5 million to £6 million through the creation of 500 million Ordinary 1p Shares,
- 10 April 2007 – The Board allotted 75 million Ordinary 1p Shares pursuant to a fund raising,
- 10 April 2007 – The Board allotted 6.5 million Ordinary 1p Shares as consideration for services provided to the Company in the aggregate total amount of £65,000, payable for fees,
- 10 April 2007 – The Company granted warrants to acquire up to 4,191,474 Ordinary Shares at a price of 1p each. Following the Reverse these have been rebased as rights to acquire 83,830 at a price of 50p each,
- 2 November 2007 – The Company issued £900,000 of Loan Notes at par value,
- 7 November 2007 – The Company allotted 832,127 Ordinary 1p Shares to former creditors pursuant to the CVA,
- 27 December 2007 – Each existing Ordinary 1p Share was consolidated on a one for fifty basis into one share of 50p,
- 27 December 2007 – The authorised share capital of the Company was increased by £39 million to £45 million through the creation of 78 million new Ordinary 50p Shares,
- 27 December 2007 – The Company repurchased all the issued deferred shares for an aggregate amount of 1p,
- 27 December 2007 – The Company issued 440,000 warrants to three directors and one former director of the Company,
- 31 December 2007 – The Company issued 1,636,364 Ordinary 50p Shares at a price of 55p each to redeem the Loan Notes,
- 31 December 2007 – The Company issued 55,555,365 Ordinary 50p Shares at a price of 90p each to the shareholders of IGL in consideration for the acquisition of their shares, and
- 31 December 2007 – The Company issued 222,222 Ordinary 50p Shares as consideration for services provided to the Company for the aggregate total amount of £200,000 payable for fees

The costs of all share issues have all been charged to either share premium account or share capital redemption reserve and are as disclosed in the parent company statement of changes in equity

10 Share warrant reserve

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

	2007 £	2006 £
Directors		
Serving at year end	109,758	–
Resigned during the year	21,450	–
	131,208	–
Professional advisers	35,418	–
	166,626	–

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

11 Related party transactions**2006**

During the year, the Company was charged £132,500 by Kwipower International plc, a company of which Dr J Watkins was a director as well as being a former director of the Company, prior to his death. Also prior to his death, the Company had advanced funds of £35,000 to Kwipower International plc and incurred expenses on behalf of the Company of £34,131. These sums were never repaid and so have been fully provided for in the financial statements. During the year, the Company was also charged £21,276 by Wellman Engineering Limited, which is a subsidiary of Kwipower International plc, which has also not been repaid and hence was fully provided for.

2007

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

- The Company entered into an engagement letter with Merchant Capital plc ("MCP") on 1 February 2007, whereby MCP received £127,500 for corporate finance services in relation to the reconstruction and refinancing of the Company on 10 April 2007, of which a total of £50,000 was taken in Ordinary Shares at the then refinancing price and there was a grant of warrants over 83,830 Ordinary Shares at an exercise price of 50p per share exercisable up to 10 April 2009.
- This agreement was amended on 30 April 2007 pursuant to which MCP was engaged to provide additional services for a monthly retainer of £2,000 for one full day per week. This retainer was terminated on 13 September 2007.
- The Company entered into an engagement letter with MCP on 3 November 2007 under which MCP agreed to act as adviser to the Company in respect of the Reverse in consideration for the issue of £100,000 in value of Ordinary Shares at 90p per share.

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

Notice of Annual General Meeting

Notice is hereby given that the 2008 Annual General Meeting of Island Gas Resources plc ("the Company") will be held on 7 July 2008 at 10 a.m. at the offices of Gavin Anderson, 85 Strand, London WC2R 0DW to consider the following business

Ordinary business

To consider and if thought fit, to pass the following resolutions which will be proposed as ordinary resolutions

- 1 To receive the Company's annual report and accounts for the year ended 31 December 2007 together with the reports of the directors and the auditors thereon
- 2 That Ernst & Young be re-appointed as auditors, to hold office until the conclusion of the next General Meeting at which accounts are laid before the Company, and that the Directors be authorised to determine the Auditors' remuneration
- 3 That J Bryant be re-elected as a director of the Company
- 4 That R J Armstrong be re-elected as a director of the Company

Dated 19 May 2008

By Order of the Board
Mofo Secretaries Limited
Company Secretary

Registered Office
1-6 Yarmouth Place
London
W1J 7BU

General information

Directors

F R Gugen – Chairman (appointed 27 December 2007)
A P Austin – Chief Executive Officer (appointed 27 December 2007)
B Cheshire – Executive Technical Director (appointed 27 December 2007)
R J Armstrong – Non-Executive (appointed 10 April 2007)
J Bryant – Non-Executive (Chairman to 27 December 2007)
P Redmond – Non-Executive (appointed 10 April 2007)
D Lindley OBE – Director (resigned 27 December 2007)

Company Secretary

Mofo Secretaries Limited
Citypoint
One Ropemaker Street
London EC2Y 9AW

Nominated Adviser and Broker

Libertas Capital Corporate Finance Limited/Libertas Capital Securities Limited
16 Berkley Street
London W1J 8DZ

Registrars

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

Auditors

Ernst & Young LLP
1 More London Place
London SE1 2AF

Bankers

HSBC
High Street
Southampton
Hampshire

Copies of Reports and Accounts

Further copies of this Annual Report and Accounts can be obtained from the Registered Office of Island Gas Resources plc (IGas)

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IGAS

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