

Annual report and accounts
Nine months to 31 December 2015

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WHO WE ARE

IGas is a British company with operations that have been producing oil and gas onshore, safely and environmentally responsibly, for decades.

We aim to provide a secure supply of energy for Britain – with gas being a vital part of the future energy mix – whilst caring for our environment and working responsibly with and for the communities in which we operate

>150%

Replacement of 2P reserves
(based on production of 0.71 mmboe)

880k.net acres

Area under licence net to IGas
(c. 1,280k acres gross)

>100

Sites around the country

OUR STRATEGY

Developing shale portfolio

Reserves and production growth

Local and national engagement

WHAT MAKES US DIFFERENT

Our ability to create long-term value requires an ongoing focus on these competitive differentiators:

- Operational excellence,
- Local and national support and engagement,
- Disciplined asset portfolio management;
- Development of potential resources,
- Prudent financial management, and
- Optimisation of assets.

Turn to pages 4 – 9 to read more on what makes us different >

To read our business model and strategy in depth see [page 17 >](#)

HIGHLIGHTS

FINANCIAL HIGHLIGHTS

Revenues		Net debt⁴	
£25.1m		£73.3m	
2015 ¹	£25.1m	2015 ¹	£73.3m
2014/15 ²	£58.2m	2014/15 ²	£86.4m
EBITDA³		Cash and cash equivalents	
£18.3m		£28.6m	
2015 ¹	£18.3m	2015 ¹	£28.6m
2014/15 ²	£21.6m	2014/15 ²	£19.0m
Underlying operating profit⁵		Net assets	
£11.0m		£98.8m	
2015 ¹	£11.0m	2015 ¹	£98.8m
2014/15 ²	£8.6m	2014/15 ²	£146.6m
(Loss)/profit after tax		Net cash from operating activities	
£(44.8m)		£1.0m	
£(44.8m)	2015 ¹	2015 ¹	£1.0m
	2014/15 ²	2014/15 ²	£26.5m

Nine months ended
31 December 2015
²Year ended 31 March 2015
³EBITDA is earnings before
net finance costs tax credit
depletion depreciation
and amortisation and
impairments
⁴Net debt is borrowings less
cash and restricted cash
Underlying operating profit
excludes gains on oil price
derivatives charges under
share based payments
and impairments

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Sustainable and
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WHAT NATURAL GAS MEANS TO YOU

USES OF NATURAL GAS

From the moment we wake up in the morning until the moment we turn off the lights at night we are constantly using natural gas in one way or another. Gas is used for cooking, powering the boiler in our central heating and hot water and to generate the electricity to light our homes.

Gas is not just a fuel that we burn for energy though. It is also a raw material used in the manufacture of chemicals that are used in a wide range of products we use every day, including medicines, clothing, buildings, vehicles, computers, and green technologies, such as wind turbines and energy efficient materials. So even when we have transitioned to renewable, low-carbon energy sources, we will still need gas to make these essential items¹.

¹ Source: UKOOG Annual Report January 2014 www.ukoog.org.uk/images/ukoog/pdfs/UKOOG_Annual_Report_2014.pdf

² Source: Energy Follow Up Survey 2011 Report 9 Domestic appliances cooking and cooling equipment. Prepared by BRE on behalf of the Department of Energy and Climate Change December 2013 www.gov.uk/government/uploads/system/uploads/attachment_data/file/274778/9_Domestic_appliances_cooking_and_cooling_equipment.pdf

³ Source: www.gov.uk/government/uploads/system/uploads/attachment_data/file/482767/OGA_production_projections_-_November_2015.pdf

61%

Cooking hobs fuelled by gas²

Heat

84% of homes in the UK rely on natural gas for central heating. That means that not only are your radiators more than likely keeping you warm thanks to gas, but the hot water you need for showers, baths and even doing the washing up is all heated by the little blue gas flame in your boiler.

Electricity

In 2015, a third of the UK's electricity was generated from gas³. Gas-fired power stations are able to run continuously, or as flexible back-up for intermittent wind and solar – right now, we cannot rely solely on renewables for our electricity supply.

1/3rd

Of our electricity is generated by gas of which 46% was imported in 2015⁴

Transport

Compared with diesel, natural gas-powered vehicles emit less CO₂ and fewer harmful air pollutants. The town of Reading now has a fleet of natural gas-powered buses. Tyres for cars and bikes made of synthetic rubber are made from petrochemicals.

Manufacturing feedstock

The UK's chemical industries support 500,000 jobs. Natural gas liquids such as ethane are used as the building blocks for everyday goods such as food packaging, textiles, adhesives and tyres.

41%

Of our gas requirements could be met by British shale gas – enough to heat every home in Britain⁵

£11 million

Approximate cost of imported gas per day⁶

Food production

Nitrogen fertiliser was applied to 75% of all farmland in Great Britain in 2013. Natural gas is one of the main components of ammonia, which is widely used in nitrogen based fertilisers that are needed for food production.

⁴ Figure estimated using DECC, UK Oil and Gas Production and Demand Projections www.gov.uk/government/uploads/system/uploads/attachment_data/file/482767/OGA_production_projections_-_November_2015.pdf

⁵ Source: 2014 UK Future Energy Scenarios by the National Grid www2.nationalgrid.com/uk/industry-information/future-of-energy/fes/Documents/

⁶ Source: Estimated using DECC, UK Oil and Gas Production and Demand Projections November 2015 www.gov.uk/government/uploads/system/uploads/attachment_data/file/482767/OGA_production_projections_-_November_2015.pdf and DECC Fossil Fuel Price Projections November 2015 www.gov.uk/government/uploads/system/uploads/attachment_data/file/477958/2015_DECC_fossil_fuel_price_assumptions.pdf

WHAT MAKES US DIFFERENT OPERATIONAL EXCELLENCE

We place the highest priority on the health and safety of our workforce, protection of our assets and the environment, and we have been doing so onshore in the UK for over 30 years. Operational excellence is a critical driver for business success and we must deliver an outstanding performance. We strive to be recognised by all our stakeholders for reliability and efficiency across our operations.

LOCAL AND NATIONAL SUPPORT AND ENGAGEMENT

As an onshore operator, we put communities, the environment and the local economy at the heart of our strategic thinking and early stage planning

We aim to help communities better understand the value of gas and how it supports a growing economy, that gas is complementary to renewable technology and can contribute to future energy security as part of the overall UK energy mix

We are transparent and straightforward and explain our plans in detail with communities where we operate. We keep stakeholders informed and involved in our activities at every stage of the process

WHAT MAKES US DIFFERENT CONTINUED DISCIPLINED ASSET PORTFOLIO MANAGEMENT

We have operational sites at onshore locations across Britain including the Weald Basin in Southern England, the Gainsborough Trough in the East Midlands, the Bowland Basin in the North West and in the Inner Moray Firth, north of Inverness in Scotland. We currently produce from 95 wells.

14TH ONSHORE LICENSING ROUND

IGas was offered a total of 17 blocks across three basins representing a total additional gross area of c. 270,000 acres. IGas' net interest will be c. 162,000 acres. Licences are expected to be issued by the Oil and Gas Authority in April 2016.

For more information see [page 18 >](#)

INTERNATIONAL ASSETS

Further progress has been made in the divestment of the former Dart Energy international assets.

A number of offices were closed, we exited Germany and the majority of Indonesian assets were acquired by NuEnergy. Dart Energy retains a working interest in the non-operated Sangatta West PSC, Indonesia.

In India, Dart remains as Operator of the Assam Block AS-CBM-2008/IV and retains a 10% working interest. It is likely that the licence will be relinquished once the minimum work programme has been completed as required by the Regulator.

For more information, see [page 24 >](#)

DEVELOPMENT OF POTENTIAL RESOURCES

IGas is seeking to develop extensive shale resources across Britain and is currently focused on two areas, the Bowland Basin in the North West and the Gainsborough Trough in the East Midlands and Yorkshire

We operate a combined carried gross work programme of up to \$255 million, as at 31 December 2015, from our farm-in partners – Total E&P UK Limited (“Total”), ENGIE E&P UK Limited (“ENGIE E&P”) and INEOS Upstream Limited (“INEOS”)

IGas is also focused on maximising economic recovery from its existing fields primarily in the East Midlands and in the Weald Basin in the South East

NORTH WEST ROUND 14 NEW BLOCKS OFFERED

In the North West, blocks SJ64, SJ65, SJ75 and SJ76 have been offered to a joint venture comprising IGas and ENGIE E&P. IGas will be operator of the two licences with a 65% interest and ENGIE E&P will have a 35% interest. A work programme consisting of 2D seismic and two drill or drop wells will help to establish the hydrocarbon potential of the shale in this area.

EAST MIDLANDS AND YORKSHIRE ROUND 14 NEW BLOCKS OFFERED

In the East Midlands and Yorkshire, a total of 3 licences across 7 blocks – SE41e, SK49, SK89e, SK88b, SK87c, SE31c and SK59b – have been offered to a joint venture comprising IGas, Total and Egdon Resources plc (“Egdon”). IGas will be operator of all the licences with a 35% interest, Total will have a 50% interest and Egdon a 15% interest. These licences are located in the Gainsborough Trough close to where IGas currently operates 80 sites, the majority of which have been in production for many years. IGas will conduct a shale related work programme including 3D seismic surveys and three firm wells on these new licences.

The East Midlands work programme also contains a further two drill or drop wells targeting conventional prospects on two separate licences. IGas will be operator with a 100% interest.

THE WEALD ROUND 14 NEW BLOCKS OFFERED

In the South East, IGas has been offered blocks SU81c, SU81d, SU90a and TQ34d and will be the operator with a 100% interest. These blocks have conventional oil and gas potential and are located adjacent to the IGas Singleton and Bletchingley fields in the Weald Basin. A work programme consisting of 2D seismic acquisition will drive the decision on the three drill or drop wells.

WHAT MAKES US DIFFERENT CONTINUED PRUDENT FINANCIAL MANAGEMENT

Sound financial management and maintenance of
Balance Sheet strength for a sustainable business

Financial Strategy

Our financial strategy is to maintain flexibility and a strong balance sheet. During the period the farm-out to INEOS improved the Group's cash position and the amendment to the bond terms in August 2015 has provided the Group with more financial flexibility. During the period the Group implemented a series of cost saving initiatives that have materially reduced operating costs and G&A spend.

Hedging Strategy

IGas has an ongoing hedging programme to mitigate the commodity price risk associated with our oil revenues. The hedging strategy is to use a mix of puts, swaps and zero cost collars to protect against the downside risk whilst also minimising the cost of the hedges. We aim to hedge 60% of our production on a rolling 12 month basis. As at 31 December 2015 the Group's derivative instruments had a net positive fair value of £6.6 million (31 March 2015: £1.4 million).

Read our KPIs on [page 25 >](#)

OPTIMISATION OF ASSETS

To maintain and grow existing production IGas continuously looks to additional initiatives to extend asset uptime, and optimise the extraction, processing and delivery of hydrocarbons downstream, whilst retaining a focus on managing operational costs. IGas is using and developing technologies in its existing assets that will also assist shale development.

PRODUCING ASSETS

Improving the performance of wells that are already producing is a cost effective way to offset natural decline, extend field life and improve recovery.

DEVELOPMENT RESOURCES

In conjunction with specialists, we are developing technologies and applications to assist future shale development.

Water injection and recycling

The aim of our pilot projects is to assess the potential of increasing oil recovery from our existing fields using produced water to increase the pressure and enhance production. As the oilfields mature they produce increasing volumes of water. From a sustainability perspective, it is prudent to recycle this water to maintain reservoir energy. The technology involves removal of solids and salts. The efficient recycling of water has several advantages including reduced water use, fewer vehicle movements and an overall operating cost reduction. This technology will be vital for recycling flowback water from shale wells and help to protect the environment.

Monetising Gas and Green Completions

Mini Compressed Natural Gas ("CNG") offers a solution for the early monetisation of gas, particularly during the pilot development phase of shale gas, and prior to the installation of the permanent facilities. The mini CNG plants will be modular and therefore could be re-deployed to new sites when the permanent facilities are commissioned. This will help reduce the need for flaring as well as providing a carbon benefit, for example, CNG can be used for fuelling HGVs.

Technology development – "digital oilfield"

The IGas "digital oilfield" initiative is about integrating technology and information to increase asset integrity and production, whilst reducing operating costs. Wherever appropriate, we will use IT capability to instrument and control the oil fields and gain both cost savings and efficiencies through the deployment of this technology. As well as enhancing performance in the existing mature fields, our experience of applying technology can be utilised in deploying similar systems to manage the shale developments when they are implemented.

To read more about optimising assets see [page 21 >](#)

CHAIRMAN'S STATEMENT CONTINUING OUR PLAN

As a Board we remain focused on maintaining flexibility for the business in the current oil price environment and on continuing to deliver against our strategy

During the nine months to December 2015, we made significant progress with our high potential shale gas acreage, despite the very weak oil price environment affecting our near term conventional production

Critically, in May 2015, we increased our carried shale work programme and strengthened the balance sheet by farming out part of our acreage to INEOS. Also, early in the period we were proactive in reviewing our cost base and, as a result, operating costs have reduced by over 25%

After the farm-out to INEOS, we still operate one of the largest net acreage positions in the UK, with a very significant total gross carried shale work programme amounting to up to \$255 million at the period end, which we operate on behalf of ourselves and our partners, Total, ENGIE E&P and INEOS. In the summer, we announced our five year development plan to evaluate and develop our shale gas resources to take them forward to commercial production. We have delivered against 2015's planned goals, with the completion of a significant 3D seismic programme in the North West, on time and on budget, and the submission of a planning application to drill two wells in North Nottinghamshire

As regards our producing assets, we continue to devote the effort needed to maximise economic recovery. The progress we have made with the production assets has resulted in a 2P reserves replacement of over 150% in the period. This is largely due to a combination of reduced operating costs, better than anticipated field performance and our work on maximising economic recovery from existing assets

We were very pleased with the results of the 14th Onshore Licensing Round, which has further increased our net acreage position by 25%, with the addition of 17 blocks. We are the largest UK shale player by gross acreage. We now have sufficient acreage across all of the UK's shale basins to be well placed to make a significant contribution to home grown gas production from shale, assuming successful commercialisation, and potentially to make a significant contribution to Britain's energy needs for the future.

During the period, the Government announced that the need to explore and test for shale gas is a "national priority" and set out to all Local Authorities a number of measures that have been implemented to ensure the planning system works effectively.

The Government also committed to close all British coal fired power plants by 2025, making the UK the first country to set an end date for use of this fuel for electricity generation. Coal currently makes up approximately 30% of UK electricity generation. As recognised by the Intergovernmental Panel on Climate Change, gas has around half the emissions of coal, and so transitioning to gas is necessary in the medium-term to meet the UK's energy needs in the most environmentally responsible way. In the UK, gas and renewables can work together to replace coal and provide lower emissions. We currently rely on gas to meet a third of our energy needs and we will continue to depend on gas in the medium-term, especially given that eight out of ten homes use gas for heating.

I firmly believe that shale gas does not present a threat to renewables, it is in fact complementary. In the US, we have seen wind and solar generation and shale gas production grow most quickly in those states that have fully embraced shale, so that together they have contributed to reducing emissions and reducing reliance on imports.

The North Sea is now ever more challenged by reduced commodity prices, the UK has become a net gas importer, with the National Grid estimating that import dependency will reach 69% by 2018/2019.

The UK is increasingly dependent on imported gas to meet its needs. This means that we are ever more reliant on other countries to supply our energy needs, with imported energy also being at a greater cost to the environment – it takes a lot of energy to freeze gas, transport it on a ship and then re-gasify it at a British terminal. Imported gas is costing around £11 million a day – money that is not generating jobs or tax revenues in Britain.

As regards the leadership of the Company, in September 2015, we appointed Julian Tedder as Chief Financial Officer. His wealth of experience in the sector, most recently at Tullow Oil where he was part of the team that grew the business from being an explorer to a significant international oil and gas company operating with multiple partners, complements IGas' existing leadership very well. I would like to thank the executive team, my board colleagues and all our employees for everything that

they have done and continue to do for the success of the Company. Finally, my thanks go to our shareholders and bondholders, for the support you have shown us during this turbulent period.

In this protracted period of low oil prices, our focus remains on balance sheet strength and preserving cash, whilst continuing to deliver value adding activity.

Francis Gugen
Non-executive Chairman

OUR MARKETPLACE INDUSTRY OVERVIEW

The oil price has fallen significantly over the last 18 months with Brent crude below \$28 a barrel in January 2016, for the first time since 2003. As a reaction to this downturn the industry has enforced unprecedented cutbacks in both activity and spending. However, the industry has experienced and weathered these cycles before and it can have positive impacts too in efficiency gains – be it standardisation of equipment, or sharing technology and knowledge about challenging basins.

Whilst UK gas prices have fallen they have not suffered the same fate as the oil price and the long-term fundamentals for developing a domestic gas supply are still there, due to Britain's significant reliance on gas – heat for 84% of our homes and generating approximately one third of electricity consumed. Gas is not just a fuel that we burn for energy. It is also a raw material used in the manufacture of chemicals that have application in a wide range of day to day products including medicine, clothing, buildings, vehicles and computers and we will still need gas to make these essential items once we have made the transition to low carbon energy. It is vital, therefore, that the UK has a secure and competitive long-term supply of gas to underpin the future of the manufacturing sector.

The onshore exploration of home-grown sources of oil and gas in the UK can be traced back to 1850. The techniques used by the onshore oil and gas industry, are not new. Some 2,230 wells have now been drilled onshore in the UK with more than 10% of them having been hydraulically fractured.

The UK Government has publicly stated its commitment to the development of shale gas in Britain giving it "national priority" status and has written to Local Authorities to set out a number of measures that have been implemented to ensure the planning system is working effectively.

To that end, in November 2015, the Secretary of State for Communities and Local Government announced that he would determine Cuadrilla's appeals after the Planning Inspector has concluded and written a report and recommendation following the Public Inquiry that commenced in February 2016. These appeals relate to the proposed exploratory shale gas sites and monitoring arrays at Preston New Road and Roseacre Wood, Lancashire.

A decision is also awaited on the planning application submitted by Third Energy seeking permission to frack an existing well at Kirby Misperton in North Yorkshire.

The 14th Onshore Licensing Round awards made in August 2015 and December 2015 have opened up approximately 4,500 square miles of new shale exploration licences. Across those blocks, companies, including IGas, have set out plans to drill up to 68 wells over the next five years and to hydraulically fracture at least 14 of those wells.

There is a significant resource in the ground, according to the British Geological Survey over 1,300 trillion cubic feet¹ of shale gas can be found in the North of England, and 80 trillion cubic feet² in Scotland. In the UK, we use less than 3 trillion cubic feet a year, so if we could only get a tenth of the shale gas out of the ground, it would be enough for more than 40 years supply.

Indigenous production on this scale could not only create upwards of 60,000 jobs³ but protect some of the two million jobs that support manufacturing and heavy industry that is reliant on gas.

¹ Source: www.gov.uk/government/uploads/system/uploads/attachment_data/file/226874/BGS_DECC_BowlandShaleGasReport_MAIN_REPORT.pdf

² Source: www.gov.uk/government/uploads/system/uploads/attachment_data/file/360471/BGS_DECC_MVS_2014_MAIN_REPORT.pdf

³ Source: EY

POLITICAL AND REGULATORY REVIEW

There were several significant policy developments during the period, with many policies being restated and clarification being added to areas of existing legislation

We are backing the safe development of shale gas because it's good for jobs giving hardworking people and their families more financial security, good for our energy security and part of our plan to decarbonise the economy

Amber Rudd
Secretary of State for Energy and Climate Change

Following the Conservative Party's victory in the General Election in May 2015, and her appointment as Secretary of State for Energy and Climate Change, Amber Rudd has made several supportive statements in respect of the development of the UK's shale gas reserves. She has acknowledged the role of shale in "adding new sources of home-grown supply to our real diversity of imports¹" and meeting the UK's security of supply challenge. She also announced her Government's intention to replace all UK coal-fired power plants by 2025, replacing them with new gas and nuclear plants².

In August 2015, a joint statement from the Departments of Energy and Climate Change ("DECC") and Communities and Local Government ("DCLG"), which outlined steps to facilitate the "national need to explore and develop our shale gas and oil resources in a safe, sustainable and timely way"³. The measures announced include:

- Appeals against refusals of planning permissions or non-determination will be treated as a priority for urgent resolution by DCLG,
- The Secretary of State for Communities and Local Government will revise the recovery criteria and will also actively consider calling in shale applications, and
- The Government is to identify "underperforming local planning authorities that repeatedly fail to determine oil and gas applications within statutory timeframes"

Proposals to bring planning permissions required by the onshore oil and gas industry for monitoring boreholes into line with a range of other industries, such as farming, are expected later in the year. This follows a commitment from Ministers to change the "permitted development rights" for groundwater monitoring boreholes and boreholes for seismic investigation and monitoring, allowing the industry to drill them without the need to seek planning permission⁴. These proposals will speed up the delivery of essential monitoring information for safety and environmental protection.

Further definitions were added to the Infrastructure Act in mid-December, 2015, with MPs voting in favour of the Government's Draft Onshore Hydraulic Fracturing (Protected Areas) Regulations 2015⁵. These regulations clarify that UK onshore oil and gas companies are allowed to drill wells under National Parks, Areas of Outstanding Natural Beauty, the Broads and World Heritage Sites at depths of at least 1,200m, subject always to compliance with the extensive regulations ensuring safe operations.

The Task Force on Shale Gas published its final report⁶ in December 2015, concluding "shale gas can be produced safely and usefully in the UK", as well as finding that there is "no more risk to the public from fracking than other comparable industries"

¹ Source: www.gov.uk/government/speeches/priorities-for-uk-energy-and-climate-change-policy

² Source: Ibid

³ Source: www.gov.uk/government/publications/shale-gas-and-oil-policy-statement-by-decc-and-dclg/shale-gas-and-oil-policy-statement-by-decc-and-dclg

⁴ Source: www.gov.uk/government/speeches/planning-update

⁵ Source: www.legislation.gov.uk/ukdsi/2015/9780111137932/introduction

⁶ Source: darkroom.taskforceonshalegas.uk/original/d65f5f84dbfecbe9c22bddbc7f93d31bc-cb2ee01d6a9d7a95cd7d10262971d586/task-force-on-shale-gas-final-conclusions-and-recommendations.pdf

OUR MARKETPLACE CONTINUED CHAMPIONING SAFE PRODUCTION

The UK is recognised globally as a leading example for oil and gas regulation

REGULATORY & OPERATIONAL ROADMAP

Pre-planning

OGA issues us a Petroleum and Exploratory Development Licence ("PEDL")

A PEDL allows a company to pursue a range of oil and gas exploration activities subject to necessary drilling/development consents and planning permission

To receive a PEDL applicants must prove

- Technical competence,
- Environmental competence, and
- Financial capability

We secure landowner consent for exploration and/or production activity

British Geological Survey ("BGS") informed and Coal Authority permission sought (if required)

3D seismic acquired if intention is to hydraulically fracture for shale under permitted development

Community engagement starts

Scoping document sent to MPA

We undertake an Environmental Risk Assessment ("ERA") (for shale gas only)

It is a comprehensive review of all potential safety and environmental (including health) risks relevant to the proposed shale gas activities, and to show how these will be mitigated and managed

The ERA considers various factors such as

- Waste,
- Drainage,
- Air quality, and
- Foliage

We undertake an Environmental Impact Assessment ("EIA") subject to screening

The EIA considers various factors including

- Traffic generation,
- Waste management
- Lighting & safety,
- Water environment,
- Ecology,
- Noise
- Air quality, and
- Seismic testing

Stakeholder engagement process

We engage in pre-application discussion with local communities, minerals planning authorities (determining council), local MPs, businesses and a number of other stakeholders

We initiate Community Liaison Groups ("CLGs") where new developments are proposed

A SAFE SOLUTION

If safely and economically extracted, shale gas can develop a new onshore gas industry, which provides local employment and ensures security of supply for the UK¹

We are one of the most heavily regulated industries in Britain and, in terms of onshore oil and gas, the world. In terms of best practice, the UK leads the way. Our industry body, UKOOG, has in the last few years published best practice on well integrity and baseline monitoring and addressing public health in EIAs. Baseline monitoring before any activity takes place is particularly important, as the public will be able to measure the specific impacts of oil and gas operations.

The onshore oil and gas industry has an excellent track record in relation to health and safety and environment protection. Onshore oil and gas regulation in the UK has been recognised as an exemplar by the rest of the world. The industry is regulated by a number of statutory bodies including the Environment Agency ("EA"), Health and Safety Executive

("HSE"), the Oil and Gas Authority ("OGA") and the local minerals planning authority. In addition, the industry is governed by 14 separate pieces of European legislation.

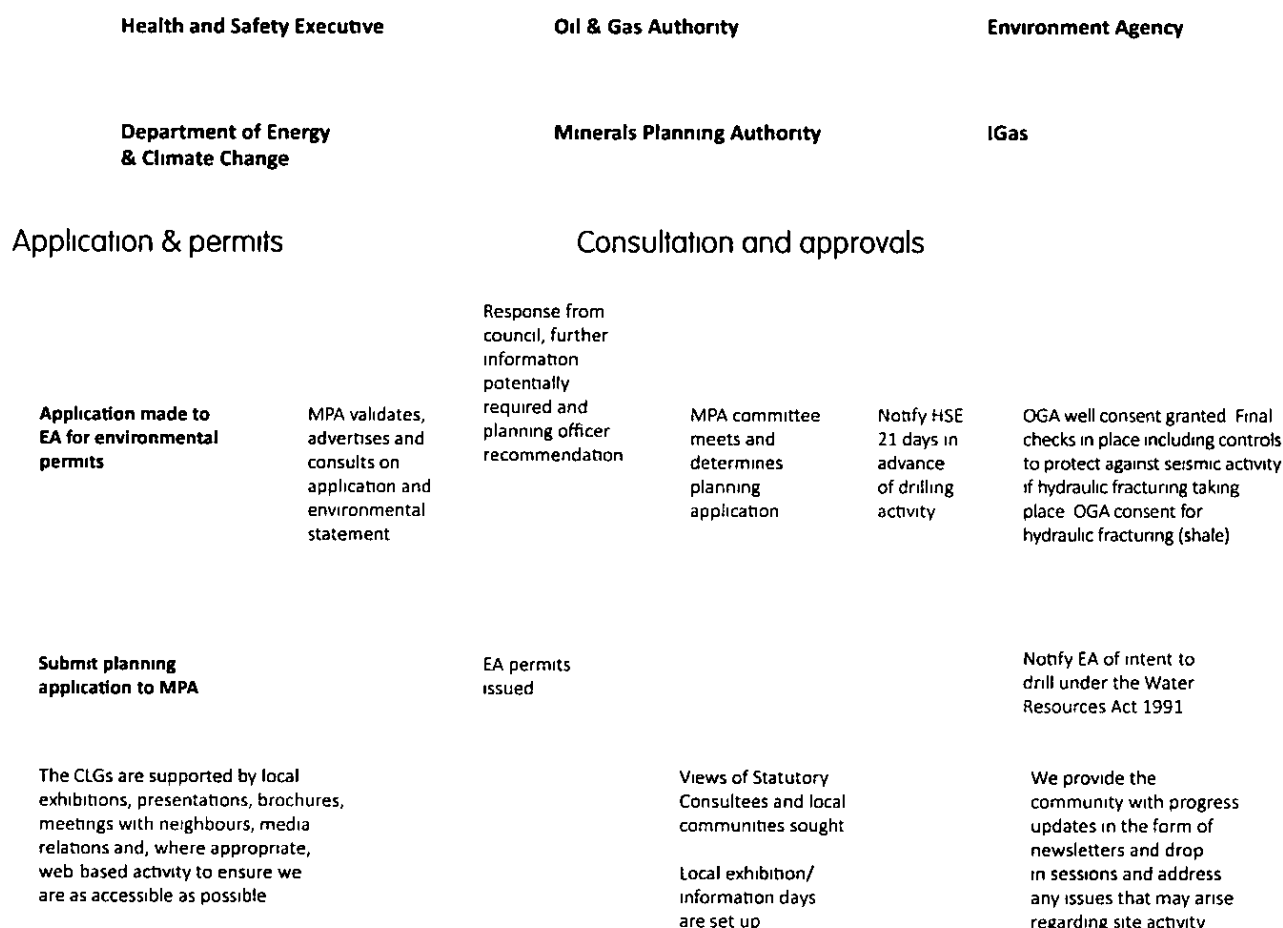
The following prominent European organisations have conducted extensive recent research into shale and found that the risks of fracking are low, and manageable, and do not pose a significant hazard to public health.

- The Royal Society and The Royal Academy of Engineering,
- The Chartered Institute of Water and Environmental Management,
- Public Health England,
- European Academies Science Advisory Council,
- Scottish Government's Independent Expert Scientific Panel on Unconventional Gas,
- ReFINE, and
- National Grid's Future Energy Scenarios

Source: EY "Getting ready for UK shale gas Report" commissioned by UKOOG April 2014
www.ukoog.org.uk/images/ukoog/pdfs/Getting_ready_for_UK_shale2_gas_FINAL2022_04_14.pdf

How else do we engage with communities?

Go to **page 32** in the Sustainable and Responsible Business section to read more



WHO REGULATES THE ONSHORE OIL AND GAS INDUSTRY?

Health and Safety Executive ("HSE")

The HSE is the national independent body responsible for monitoring work-related health, safety and illness. The HSE monitors shale gas operations from a well integrity and site safety perspective.

HSE regulations require an independent and competent person to examine the well's design and construction.

Minerals Planning Authority ("MPA")

The MPA is part of the local council responsible for determining planning applications for onshore oil and gas exploration and production.

Department of Energy & Climate Change ("DECC") and the Oil & Gas Authority ("OGA")

DECC works to make sure the UK has secure, clean, affordable energy supplies and to promote international action to mitigate climate change. The OGA, which is part of DECC, is responsible for regulating offshore and onshore oil and gas operations in the UK. This includes:

- Oil and gas licensing,
- Oil and gas exploration and production,
- Oil and gas fields and wells, and
- Oil and gas infrastructure

Further information can be found at www.ukoog.org.uk/environment/regulation

Environment Agency ("EA")

The EA is an environmental regulator responsible for the environmental aspects of onshore operations such as air, water and ecology. It issues permits for onshore activities.

The EA and the HSE have developed a joint approach to inspecting new exploratory shale gas operations, to make sure that they are effectively regulated to protect people and the environment.

Watch the EA video on shale gas industry regulation
www.youtube.com/watch?v=usebz4nqAtI

CHIEF EXECUTIVE'S STATEMENT

INCREASED FLEXIBILITY IN CHALLENGING MARKETS

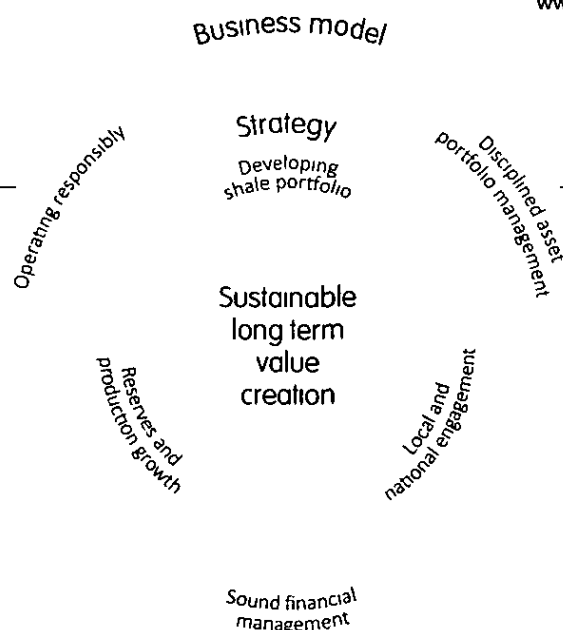
Our strategy is to build a material onshore energy company in Britain in collaboration with the communities in which we operate and deliver value for all our stakeholders

We have made good progress across the business in the nine months to 31 December 2015 against a difficult oil price environment for our production business. Gas prices have also been impacted during the period, although less so than oil, with UK gas prices still more than double US prices.

As previously announced, we implemented a cost saving programme early in the period, and the effects are demonstrated in these results, with operating costs of approximately \$24.6/boe (12 months ended 31 March 2015: \$34.6/boe), excluding reorganisation costs of £2.1 million which were incurred in the period to 31 December 2015. We remain focused on our operating cost per barrel in this oil price environment, being on both absolute costs and maintaining our production volumes. Given the actions we have already taken, further significant reductions in operating costs per barrel will be more challenging.

As at 31 December 2015, the Company had cash of £28.6 million and net debt of £73.3 million. IGas continues to employ a rolling hedging programme in order to plan and protect its cash flows. At the period end, the Company had 390,000 barrels hedged in the 12 month period to December 2016 – at an average floor price of approximately \$62 per barrel. The mark to market value of hedges at 31 December 2015 was £6.6 million. The Company will continue to add to its hedge position as market conditions allow.

The impact of the prolonged oil price decline, with an average realised price of \$58.9/boe (12 months ended 31 March 2015: \$94/boe), and the considerably lower forward oil price curve has resulted in impairment charges of £48.1 million (net of tax) in the nine months ended 31 December 2015, of which £8.9 million (net of tax) relates to producing assets.



Following receipt of all the necessary consents and approvals from the DECC the INEOS farm-out deal completed on 7 May 2015 with a consideration of £30 million cash and a gross carried work programme of up to £138 million

Production assets

Average net production in the nine months to 31 December 2015 was 2,570 boepd (12 months ended 31 March 2015 2,737 boepd)

In terms of maintaining and growing production we have been focused on activities such as sidetracks, workovers, water injection and gas monetisation projects as well as further progress on our digital oilfield initiative. We continue to monitor and evaluate our water injection pilots and to consider methods to increase injection rates and improve reservoir management to enhance production and recovery. These initiatives have contributed to reserves replacement of over 150% based on production of 0.71mmboe in the period. In the current oil price environment expenditure will be focused on maintaining and increasing production from existing sites, thereby reducing operating cost per barrel and improving pay back periods and returns on capital employed.

We will continue to move forward other projects to final investment decision, so that when the commodity prices and the corporate economic hurdles are met, we can advance these projects.

Appraisal assets

The industry is working towards a goal of establishing commercial production of shale gas by the end of the decade. The Company continues to make progress against its five year shale development plan and further details are outlined in the operational review. In the period we completed the acquisition of 110km² of 3D seismic in the North West, without incident, on time and on budget. This data is currently being processed and interpreted and is likely to be completed in the third quarter of 2016.

OUR BUSINESS MODEL & STRATEGY

Our strategy is to build a material onshore energy company in Britain in collaboration with the communities in which we operate and deliver value for all our stakeholders.

Operating responsibly – highest standards of health, safety and environmental protection see page 04 >

Disciplined asset portfolio management see page 06 >

Sound financial management and maintenance of Balance Sheet strength for a sustainable business see page 08 >

Developing the wider potential in our shale portfolio through a programme to appraise and develop prospective areas see page 07 >

Locally – integral part of economic development and community. Nationally – contributing to future energy security as part of the mix see page 05 >

Reserves and production growth through optimisation of conventional assets and development of shale resources see page 09 >

CHIEF EXECUTIVE'S STATEMENT CONTINUED

The planning application for two exploration wells at the Springs Road site was validated by the local council on 30 October 2015. There followed a period of consultation both with the public and a number of statutory consultees and since the period end the council has written to IGas to seek further information on a range of matters. Once we have submitted that information, a further consultation period will take place before determination of the application, which we expect in the third quarter 2016, subject to any further request for additional information. Also, since the period end we have been granted permission to drill Groundwater Monitoring Boreholes at Springs Road and these have now been installed.

We are in the process of identifying a number of sites for further shale appraisal drilling and hydraulic fracturing of wells to determine flow rates and assess commerciality.

14th Onshore Licensing Round

IGas has been offered a total of 17 blocks across three basins representing a total additional gross area of c. 270,000 acres, IGas' net interest is c. 163,000 acres. These new licences will be formally awarded in April 2016 and further increase our oil and gas operations onshore in Britain whilst extending our acreage position in the strategically important shale basins. We are also particularly pleased to be strengthening the relationships with our existing partners Total, ENGIE E&P and Egdon.

Following the formal award of these blocks, IGas will have a total of c. 876,000 net acres under licence. The work programmes associated with the blocks will be phased and are subject to finalisation with the OGA. Under these work programmes, IGas has a minimum committed spend in the first two years of approximately £3 million net to IGas, focused on geological studies and seismic assessments. This will be followed by exploration drilling, targeting the prospective hydrocarbon bearing formations.

Political and regulatory update

In August 2015, IGas welcomed the announcement by Government that gives greater clarity on the timetable for determining planning decisions for onshore oil and gas exploration and underlines Government's commitment to get shale gas exploration underway in the UK.

Following this, in November 2015, the Secretary of State for Communities and Local Government announced that he would decide the Cuadrilla Lancashire appeals after the Planning Inspector has conducted the Public Inquiry and produced a report and recommendations. The Public Inquiry is nearing conclusion.

In the Autumn Statement, the Chancellor announced that 10% of tax revenues from shale gas developments, up to a maximum of £10 million per site, will be put into a Shale Wealth Fund which could deliver up to £1 billion of investment in local communities hosting shale gas developments over the next 25 years. This provides a considerable opportunity in addition to the 1% of production revenues that shale gas companies have already committed to put back into local communities if shale gas exploration proves successful.

In December 2015, MPs voted to allow fracking for shale gas 1,200m below national parks and other protected sites. The new regulations permit drilling from outside the protected areas. The amending Order to allow groundwater monitoring boreholes to be granted under Permitted Development Rights bringing the onshore oil and gas industry in line with water companies and other industries which drill dozens of boreholes each year is likely to come into force later this year.

The fourth and final report of Lord Smith's Task Force on Shale Gas was published in December 2015 and recommended fracking should get underway to establish how much shale gas there is in the UK. The report calls on the government and local communities to allow initial exploratory wells and concluded that it had found that, with the right regulations in place, fracking could take place safely.

International assets disposal programme

Further progress has been made on the rationalisation of non-core international assets with the disposal and relinquishment of licences in Australia and the majority of the Indonesian interests, which both completed in the fourth quarter of 2015.

Health and safety

Health and safety is of vital importance throughout the business in providing the highest level of protection to our employees, contractors, visitors, neighbours and the environment. Whilst we are keeping a tight control on costs there has been no compromise on the integrity and safety of our operations as demonstrated by zero Lost Time Incidents in the period.

2015 was our ninth consecutive year of receiving a Gold ROSPA Award, validating our commitment to the prevention of accidents in the work place by having robust policies and procedures, risk assessments, accident incident investigation and lessons learned.

IGas in the community

We continue to embrace the need to communicate effectively with local communities. Two years ago the industry launched its own community engagement charter which specifies that developers need to engage as early as possible, well before any planning applications are submitted. Over the course of the last nine months we have been working hard in the communities where we operate, engaging in a host of community events and initiatives.

We have distributed over 37,000 leaflets and letters across our acreage, held 4 community exhibitions, presented at parish council meetings, engaged with local MPs, spoken at roundtable events and visited a number of projects that have benefited from our community fund.

In October 2015 we announced the launch of the 2016 round of our IGas Energy Community Fund. Further information about the fund and its recipients can be found in the sustainable and responsible business section of this Report.

I would like to thank each and every one of our employees for their hard work and commitment in what has been an extremely challenging environment.

People

I would like to thank each and every one of our employees for their hard work and commitment in what has been an extremely challenging environment

In a difficult operating environment it is even more important to recognise and reward our employee's contribution. Although the Company did not make cash bonuses in respect of 2015, the Board approved a new Management Retention Plan in November 2015, resulting in the award of options over IGas Energy plc ordinary shares to all permanent employees. Subject to remaining in employment, these awards vest in December 2016 with a further 12 month retention period before they may be sold.

Outlook

In the production business, we will continue to seek to mitigate the underlying decline and for the year ended 31 December 2016 we expect production to be in the range of 2,500 – 2,700 boepd. We have reduced our capital expenditure in light of the current oil price environment and 2016 capital expenditure is expected to be less than \$10 million.

The Round 14 Licences are expected to be issued by the OGA in April 2016, increasing our acreage by more than 25% to over 1m acres (gross) and the next step will be to undertake desktop analysis to refine our proposed work programmes. There is significant opportunity across our shale asset portfolio and we are making progress against our five year plan including the submission of planning applications in North Nottinghamshire and the interpretation and processing of the 3D seismic acquisition in the North West. At the same time we are pursuing sites across the acreage and starting preparation work on scoping reports.

2016 is likely to be another challenging year for the industry. With commodity prices still remaining at low levels, our focus remains on retaining balance sheet strength and preserving cash. Whilst the steps we have taken to manage costs and improve the strength of the balance sheet have helped the business in this environment, we must remain focused on cost effective, value adding activity both on the production and appraisal assets.

Stephen Bowler

Chief Executive Officer

OPERATIONAL REVIEW

A PROMISING FUTURE

The adoption of cost effective technology to unlock value in our assets remains a key part of our overall strategy.

OPERATIONAL HIGHLIGHTS

- Operating costs reduced from \$34.6/boe to \$24.6/boe (includes "one-off" \$5.5/boe rebate) in the period,
- Average net production in the period was 2,570 boepd,
- 2P reserves replacement of over 150% 2P net reserves at period end were 13.33 mmbbl,
- 3 sidetrack programme completed at Stockbridge,
- Total of 17 blocks awarded to IGas in 14th Onshore Licensing Round,
- Acquisition of 110km² of 3D seismic in North West completed in early November 2015. Processing and interpretation underway, due for completion in Q3 2016,
- Planning application for the Springs Road site (PEDL 140) in North Nottinghamshire validated by Nottinghamshire County Council ("NCC") on 30 October 2015,
- Following the normal planning consultation period, NCC has requested further information from IGas for the Springs Road planning application. Further public consultation will follow. Determination is expected in Q3 2016, subject to further requests for information,
- NCC granted planning permission for Groundwater Monitoring Boreholes at Springs Road in January 2016,
- Boreholes drilled and monitoring installed in February 2016,
- Pre-application scoping Report for Tinker Lane (PEDL 200) also in North Nottinghamshire submitted in October 2015. Planning application to be submitted to NCC Q2 2016, and
- Shale given national priority status by government, clarity on the planning and appeal process timetable announced

Production performance

Average net production in the nine months to 31 December 2015 was 2,570 boepd (12 months ended 31 March 2015 2,737 boepd). Production delivery was initially very strong, benefiting from the determined focus on production optimisation and the reduction of unplanned deferred production.

However, production in the latter part of the period was impacted by a deferral in workover activity to allow an extended maintenance programme on a key workover rig to be conducted. This unit has now been returned to service and the level of workover activity has now resumed with the aim of restoring production back to projected levels.

Maximising economic recovery from existing assets

We continue to offset the underlying natural decline in our fields through focused technical and operational expertise. Opportunities for incremental production are technically and commercially evaluated to meet the relevant screening criteria aimed at maximising the economic recovery from the existing assets.

Detailed subsurface studies are utilised in conjunction with field operating experience to select appropriate production enhancement candidates taking into account relevant constraints.

One area where we have seen significant progress has been artificial lift optimisation, resulting in incremental production and reduced operating costs. This positive outcome has been heavily influenced by the installation of Rod Pump-Off Controllers ("RPOC's"), part of the Group investment in the "Digital Oilfield" technology. This initiative is beginning to bear fruit and is being adopted more widely across the assets.

The adoption of cost effective technology to unlock value in our assets remains a key part of our overall strategy.

Another initiative, under the "digital oilfield" project has been the implementation of "real time" field monitoring and reporting. We have been able to build "in house" much of the necessary architecture and the results not only allow more effective field management

NORTH WEST 3D SEISMIC ACQUISITION

Between September and November 2015 we acquired 3D seismic data over a total area of 110km² across our acreage in the North West covering PEDLs 189 and 190, to the north of Chester. This data will enhance our regional understanding of the basin, structure and target depths of the shale. The data is currently undergoing processing and interpretation, the results of which will determine future exploration and appraisal work across this acreage.

but deliver significant cost savings. This capability is also being developed with a view to planning future field instrumentation and remote management, something that will be particularly beneficial for shale development.

The potential to enhance production and reserves through the application of secondary recovery methods, e.g. water injection, is another initiative that is being pursued. Two "pilot schemes" have been implemented in our East Midland fields. Preliminary results are encouraging and whilst we continue to monitor and evaluate our water injection pilots, based on these early results, we are looking at measures to increase injection rates aiming to further enhance production and recovery. Depending on the success of these trials we will look to further expand the initial pilot schemes as well as looking at adopting a similar approach in other candidate fields.

To maximise the benefits of secondary recovery by water injection it is advantageous to ensure the produced water is treated before it is re-injected into the producing reservoir. We instigated a number of trials on a water treatment plant at our Welton facility to "field prove" the technology. The results from these trials look very encouraging for a wider field application.

110km²

Area covered from 3D seismic acquisition

>£1 million

Spent in the local economy

A detailed and extensive study of the Stockbridge Field in the Weald Basin has been completed resulting in an updated Field Development Plan ("FDP"). This is one of several such studies that are being conducted on the major fields in the portfolio. The Stockbridge FDP has identified some infill drilling opportunities that offer the possibility of incremental production and reserves.

Three sidetracks, from existing, low productivity wells, were successfully drilled by the period end, on time, on budget and without incident. All three wells, each drilled horizontally through the main carbonate reservoirs, encountered the formations and hydrocarbons as prognosed. At the period end the wells were being completed and preliminary production testing was being initiated. Current production across the three wells is c. 100 boepd, which is below expectations, but an extended production period will be necessary to ascertain long-term, stable rates.

Gas monetisation of the Albury, Bletchingley and Lybster fields continues to be progressed. Project plans have been developed and market quotes for the activities obtained for both Albury and Bletchingley.

OPERATIONAL REVIEW CONTINUED

Albury, which has been granted planning consent for a mini Liquefied Natural Gas ("LNG") development, has been revisited and a new application submitted to develop the field for a mini Compressed Natural Gas ("CNG") development. CNG represents a simpler and cheaper solution. The Bletchingley Field gas offtake assumes the gas will be exported via the local grid network. Both planning applications have been submitted, validated and we await determination. However, final project sanction will depend on being able to negotiate suitable commercial terms with the offtakers, in today's more difficult market.

At Lybster, in Scotland, we are redeveloping the existing facilities whilst we continue discussions with a number of entities to evaluate the offtake options for the associated gas. In the interim, the well remains shut-in while the various site upgrades are completed. Consideration will be given to recommencing oil production during 2016 but the duration of the flow period will be determined by the gas offtake discussions.

During the course of the period an extensive cost saving programme was undertaken. This has resulted in a significant reduction in operating expenditure from \$34 6/boe (12 months ended 31 March 2015) to \$24 6/boe (including a one-off rates rebate equivalent to \$5 5/boe). The focus continues on maintaining production at broadly historical levels whilst managing absolute costs but ensuring safety is not compromised.

As part of the cost saving programme, a new production division organisational structure was implemented as of 1 October 2015 which introduced a rationalised, but standardised approach to the delivery of safe, compliant and efficient production operations. The new structure emphasises accountability and responsibility for delivery whilst encouraging optimisation and knowledge exchange across the business. Underpinning these changes is a clear focus on the business priorities, which is essential in the current climate.

Reserves update

Despite reduced commodity price assumptions, potentially affecting the commercial lives of the fields, we have seen 2P reserves replacement of over 150% based on a cumulative production of 0.71 mmbbl in the period. This is largely due to a combination of reduced operating costs, better than anticipated field performance combined with the various initiatives outlined above.

IGas net reserves (mmbbl)¹

	1P	2P
As at 31 March 2015	6.29	12.63
As at 31 Dec 2015	8.31	13.33

¹ IGas estimates cumulative production 0.71 mmbbl

Shale gas – delivery against the five year development plan

Recent activity, outlined below, commences our work on the five year development plan to advance the evaluation and development of our shale gas resources through to commercial production.

North West

We have successfully completed a significant 3D seismic acquisition programme in the North West covering an area of 110km². We are now in receipt of some of the preliminary results and the processing and interpretation phase has commenced. This is likely to complete in the third quarter of 2016.

As we move into the appraisal stage, we are in the process of identifying a number of sites for further appraisal drilling and hydraulic fracturing of the wells to determine flow rates and assess commerciality. The results from the 3D survey will determine our future exploration and appraisal work programme in the area.

East Midlands and Yorkshire

In October 2015, we submitted a planning application at our Springs Road site, in North Nottinghamshire. The proposal is to drill two exploratory wells in order to evaluate the geology in the local area and begin assessing its potential for shale gas recovery. The site is located in PEDL 140, where we operate on behalf of Total, Egdon and eCorp Oil & Gas UK Ltd.

The planning application supported by an Environmental Statement, for two exploration wells at the Springs Road site was validated by Nottinghamshire County Council ("NCC") on 30 October 2015. There followed a period of consultation both with the public and a number of statutory consultees. Planning law prescribes circumstances where consultation must take place between a local planning authority and certain organisations referred to as statutory consultees, prior to a decision being made on an application. The organisations in question are under a duty to respond to the local planning authority within a set deadline and must provide a substantive response to the application in question.

More than 2,000 responses were received during public consultation on the application, and the Council has recently written to IGas to seek further information on a range of matters including site selection and sequential testing, surface water run-off, ecology, traffic and transportation, and landscape and visual impact. This is a usual part of the planning process for major developments, particularly those subject to an environmental impact assessment. Once we have submitted the additional information, a further period of public consultation will take place before NCC determines the application. IGas has agreed with NCC that such a decision would be made before the end of July 2016, subject to further requests for information.

As part of the Springs Road site programme, IGas lodged a planning application to seek consent to drill a series of groundwater monitoring boreholes adjacent to the Springs Road site. These boreholes allow groundwater to be monitored before, during and after any IGas operations on the Springs Road site. This application was granted in January 2016 and the boreholes were successfully drilled and completed in February 2016. Data gathered from these boreholes will provide further information relating to the current local surface and groundwater quality and will allow for a full understanding of conditions before, during and after our operations.

The drilling of the two exploration wells at Springs Road will be an important step in helping us to understand the shale gas potential in North Nottinghamshire and more widely in the East Midlands and Yorkshire. A successful exploration well would, in all likelihood, lead to a subsequent planning application to flow test a well which would involve hydraulic fracturing.

IGas embarked on a community engagement process that began in early 2014, including the formation of a Community Liaison Group ("CLG"), providing community representatives with a forum to meet with members of the IGas project team, discuss the proposals and make recommendations. There have also been three public information events to give residents the opportunity to find out more about activity at the proposed site.

Further information can be found at
www.igas-engage.co.uk and
www.springsroad.co.uk

DELIVERING ON OUR FIVE YEAR PLAN

EXPLORATION

We acquire and interpret seismic and geophysical data to assess the geological structure of rock formations. We drill exploration wells to determine the size, quality and extent of the geological play.

Our progress

- Acquisition of 110km² of 3D seismic in North West completed on time, within budget and without incident,
- Planning application submitted for 2 exploration wells in Gainsborough Basin – PEDL 140,
- Groundwater monitoring boreholes installed at Springs Road, and
- Scoping report submitted for a single exploration well – PEDL 200

OPERATIONAL REVIEW CONTINUED

In the adjoining licence block, PEDL 200, we have identified a new site, Tinker Lane, and have submitted an initial scoping request to NCC to drill a single vertical exploration well to obtain key geological data, including logs and cores

We continue to work with local businesses and energy intensive industries to build a supply chain capable of supporting the shale industry. We are also actively identifying opportunities across our acreage where we can utilise infrastructure and resources to ensure, where possible, we minimise our surface footprint and local impacts. These are fundamental considerations for any site selection.

International assets

Following the acquisition of Dart Energy in 2014, the Group has been through a process of disposing of non-core assets acquired as part of this transaction.

The Group divested by way of relinquishment, asset sale or corporate disposal all of its operational interests in Australia.

Following the closure of the Singapore office in March 2015, one employee remains to assist with the ongoing operations and divestment of non-core assets.

An office presence is maintained in China where the formal process of deregistering the legal entities registered there continues.

In India, IGas remains as Operator of the Assam Block AS-CBM-2008/IV and retains a 10% working interest. The outstanding work programme is scheduled to complete on time in early 2016. The exploration phase has been completed with two test production wells to drill and flow-test. It is likely that the licence will be relinquished once the minimum work programme has been completed as required by the Regulator.

A Share Purchase Agreement for Dart Energy (Indonesia) Holdings Pte Ltd was executed in May 2015 and completed in November 2015. Bank guarantees totalling US\$2.6 million have been received to date. IGas retains a working interest in the non-operated Sangatta West PSC.

Health, safety and environmental protection

IGas is committed to conducting its operations in a safe, secure and environmentally responsible manner. Maintaining the highest standards of safety and environmental protection is something we take seriously, and is the top priority at each and every one of our operational sites.

Throughout the business there is a strong and visible commitment to HSE management and promoting a positive culture within the Company and that focus resulted in achieving zero Lost Time Incidents for the period.

We have again maintained our ISO 9001 and 14001 accreditation with no major non-conformances identified. We remain committed to maintaining these international standards in 2016.

Minimising our impact on the environment

At IGas, we work to minimise our impact on the environment and during the period we volunteered as entrant to the Energy Saving Opportunity Scheme ("ESOS") to reduce energy usage across our operations. The ESOS has been established by DECC in response to the requirement to implement Article 8 of the Energy Efficiency Directive.

We are in the process of replacing approximately half of our combustion engine vehicle fleet with electric vehicles in the East Midlands. This will reduce vehicle exhaust emissions and noise in the local communities in which we operate. The electricity will be supplied from our own generating capacity.

The business continues to review its environmental performance in reducing its emissions to the environment and has been awarded funds from Innovate UK to trial methods to capture low volumes of methane for beneficial use.

Waste heat will also be recovered and used to aid oil water separation in the onsite oil tanks which will reduce transport costs and movements.

Regulation

IGas continues to cooperate and collaborate with industry and regulators to further progress the development, updating and implementation of best available techniques for both conventional and unconventional operations, transferring best practice and lessons learned where applicable. There have been many developments during 2015 which have given much needed clarity to IGas and industry including issues relating to technical underground trespass and the issuing of regulatory position statements around such matters as flaring, hydraulic fracture programmes and site safety assessments.

John Blaymires

Chief Operating Officer

KEY PERFORMANCE INDICATORS MEASURING OUR PROGRESS

IGas tracks both financial and non-financial metrics to help the Group manage its long-term performance and measure progress against its strategy

FINANCIAL

Production (boe/d)		Operating costs (\$/boe)		Operating cash flow (£'000)	
2,570 boe/d		24.6 \$/boe		£1.0m	
2015 ¹	2,570 boe/d	2015 ¹	24.6 \$/boe	2015 ¹	£1.0m
2014/15 ²	2,737 boe/d	2014/15 ²	36.4 \$/boe	2014/15 ²	£26.5m
2013/14 ²	2,783 boe/d	2013/14 ²	37.1 \$/boe	2013/14 ²	£25.2m
2012/13 ²	2,470 boe/d	2012/13 ²	34.1 \$/boe	2012/13 ²	£28.9m
2011/12 ³	2,615 boe/d	2011/12 ³	31.8 \$/boe	(£2.6m)	2011/12 ³

The Group aims to maintain production at 1 million boe per annum (equivalent to 2,740 boe/d) to provide operating cashflow for funding of the Group. To ensure this target is met an appropriate level of capital investment is planned to mitigate against the underlying decline in our mature fields. In the nine months ended 31 December 2015 production amounted to 2,570 boe/d which was below the expected level. The principal reason for the shortfall was a deferral in workover activity to allow an extended maintenance programme on a key workover rig to be conducted.

Operating costs per boe is a key focus for the Group, particularly in the current low oil price environment. During the period a cost reduction programme was completed and a one-off refund of rates of £2.5 million (\$5.5/boe) was agreed with the Land Valuation Agency, which resulted in operating costs of \$24.6/boe for the period being achieved, excluding reorganisation costs, a reduction of over 25%. Operating costs will continue to be reviewed on an ongoing basis.

Operating cashflow is key to providing funding for investing in the business as we pursue our growth strategy. The Group generated £1.0 million in the period which was significantly impacted by the reduction in the oil price in the period and the reduction in production due to the availability of a workover rig.

NON-FINANCIAL

Lost Time Incidents (number)

0	
2015 ¹	0
2014/15 ²	1
2013/14 ²	0
2012/13 ²	2
2011/12 ³	0

Health and safety is of paramount importance to us in providing the highest level of protection to all our stakeholders. The target was to have zero LTI's and this was achieved in the period. We have again maintained our ISO 9001 and 14001 accreditation with no major non-conformances identified.

Progress on five year shale development plan

2015 ¹	Acquired 3-D seismic in the NW, submitted planning application for drilling in PEDL 139/140, 14 th Round licence applications, and secured INEOS farm-out
2014/15 ²	Drilled Ellesmere Port-1, and issued five year shale development plan
2013/14 ²	Drilled Irlam-1, and secured Total farm-out
2012/13 ²	Site prep & conductor installation Irlam, evaluated Ince, and prepared Irlam
2011/12 ³	Drilled Ince Marshes-1

The Five Year Shale Development plan is key to delivering shareholder value and delivering against our strategy. In the nine months ended 31 December 2015 we made good progress against the plan. In 2016 we will seek to obtain planning consent for drilling two wells in the East Midlands, evaluate the results of the 3D seismic data we obtained in the North West in 2015 and, subject to the results, acquire sites and submit applications for drilling in the North West.

¹ Nine months ended 31 December 2015

² Years ended 31 March 2013/4/5

³ 15 months ended 31 March 2012

FINANCIAL REVIEW

MAINTAINING FINANCIAL FLEXIBILITY

We remain focused on maintaining flexibility for the business in the current oil price environment

Good progress was made in the nine months ended 31 December 2015 in strengthening the Group's balance sheet. The farm-out to INEOS in May 2015 for £30 million in cash and up to a £138 million carried gross work programme has improved the Group's cash position and the amendment of the bond terms in August 2015 provided the Group with more financial flexibility. As at the period end, the Group has a carried gross work programme of up to \$255 million on its shale assets which will enhance the Group's ability to deliver on its strategy.

However, the last nine months has seen a further decline in the oil price and this has materially impacted the financial results. In the nine months ended 31 December 2015 adjusted EBITDA¹ was £18.3 million (12 months ended 31 March 2015: £21.6 million) whilst a loss was recognised from continuing activities after tax of £44.8 million (12 months ended 31 March 2015: profit £5.2 million). The main factors explaining the movements between the nine months ended 31 December 2015 and the 12 months ended 31 March 2015 were as follows:

- Reduced revenues of £25.1 million (12 months ended 31 March 2015: £58.2 million) principally due to reduced oil prices,
- Restructuring costs of £2.1 million (12 months ended 31 March 2015: £nil) following completion of a cost reduction programme,
- Impairment charges of £48.1 million (net of tax) (12 months ended 31 March 2015: £1.6 million), comprising producing assets (£8.9 million net of tax) and goodwill (£39.2 million net of tax) due to the reduced oil price,
- An exploration write off of £10.0 million (net of tax) (12 months ended 31 March 2015: £6.4 million),

Notes

¹ Adjusted EBITDA relates to earnings before gains/(losses) on oil price derivatives, net finance costs, tax, depletion, depreciation and amortisation, impairments, acquisition costs, restructuring costs and IFRS 2 charges.

² Net back per boe on an Income Statement basis is realised oil price, less operating costs and G&A.

\$58.9Realised price
per barrel

- A profit on disposal of £4.0 million (12 months ended 31 March 2015: £nil) on the INEOS farm out, and
- A tax credit of £17.3 million (12 months ended 31 March 2015: £23.8 million credit) due mainly to timing difference reversals caused by the impairments

We remain focused on maintaining flexibility for the business in the current oil price environment

Income statement

The Group recognised revenues of £25.1 million in the nine months (12 months ended 31 March 2015: £58.2 million). Group production in the nine months was an average of 2,570 boepd (12 months ended 31 March 2015: 2,737 boepd). Revenues for the nine months included £2.4 million (12 months ended 31 December 2015: £7.7 million) relating to the sale of third party oil, the bulk of which is processed through our gathering centre at Holybourne in the Weald Basin.

The average realised price for the nine months per barrel pre hedge was \$51.3 (12 months ended 31 March 2015: \$84.1) and post hedge \$58.9 (12 months ended 31 March 2015: \$94.0). The average exchange rate for the nine months was £1/\$1.53 (12 months ended 31 March 2015: £1/\$1.63) which positively impacted revenues.

Cost of sales for the nine months were £21.5 million (12 months ended 31 March 2015: £42.7 million) including depreciation, depletion and amortisation ("D,D&A") of £7.1 million (12 months ended 31 March 2015: £12.8 million), and operating costs of £14.4 million (12 months ended 31 March 2015: £29.9 million). Operating costs include a £2.2 million charge (12 months ended 31 March 2015: £7.2 million) in relation to processing third party oil, a decrease of £5.0 million from the comparative period due to the decreased number of barrels purchased from third parties and processed by us and the significant fall in the oil price. The contribution received from processing this third party oil was £0.2 million (12 months ended 31 March 2015: £0.5 million).

Notes

¹ Adjusted EBITDA relates to earnings before gains/(losses) on oil price derivatives, net finance costs, tax, depletion, depreciation and amortisation, impairments, acquisition costs, restructuring costs and IFRS 2 charges.

² Net back per boe on an Income Statement basis is realised oil price, less operating costs and G&A.

\$21.4	NET BACK TO IGAS PER BOE ²
\$12.9	S,G&A PER BOE
\$16.0	OTHER OPERATING COST
\$4.4	WELL SERVICES
\$4.2	TRANSPORTATION & STORAGE

\$0

	Nine months to 31 December 2015	Year to 31 March 2015
Revenues	£25.1m	£58.2m
EBITDA ^{1,4}	£18.3m	£21.6m
Underlying operating profit ^{2,4}	£11.1m	£7.7m
(Loss)/profit after tax	£(44.8)m	£5.2m
Net cash from operating activities	£1.0m	£26.5m
Net debt ³	£73.3m	£86.4m
Cash and cash equivalents	£28.6m	£19.0m
Net assets	£98.8m	£146.6m

Notes

¹ EBITDA relates to earnings before finance costs (£7.8 million) (2014/15: £12.5 million), tax credit (£17.3 million) (2014/15: £23.8 million), depletion, depreciation and amortisation (£7.2 million) (2014/15: £13.0 million), impairment of goodwill (£39.2 million) (2014: £nil), impairment of oil and gas assets (£17.7 million) (2014/15: £3.9 million) and exploration and evaluation assets written off (£12.9 million) (2014/15: £15.4 million).

² Underlying operating profit excludes gains on oil price derivatives (£8.6 million) (2014/15: £7.0 million), charges under share based payments (£0.5 million) (2014/15: £1.5 million), impairment of goodwill (£39.2 million) (2014: £nil), impairment of oil and gas assets (£17.7 million) (2014/15: £3.9 million) and exploration and evaluation assets written off (£12.9 million) (2014/15: £15.4 million).

³ Net debt is borrowings less cash and restricted cash.

⁴ EBITDA and underlying operating profit are considered by the Company to be useful additional measures to help understand underlying performance.

⁵ Net back per boe on an Income Statement basis is realised oil price, less operating costs and G&A.

Operating costs per barrel of oil equivalent were £16.1 (\$24.6), excluding the third party costs (12 months ended 31 March 2015: £21.5 (\$34.6) per barrel). The reduction in the operating cost is due to the completion of the cost reduction exercise and includes a £2.5 million (\$5.5/boe) refund for land rates following discussions with the Valuation Office Agency.

Adjusted EBITDA¹ in the nine months was £18.3 million (12 months ended 31 March 2015: £21.6 million). Gross profit of £3.6 million was recognised in the nine months (12 months ended 31 March 2015: £15.4 million). Administrative costs decreased by £3.4 million to £6.0 million (12 months ended 31 March 2015: £9.4 million) principally due to the cost reduction exercise.

Net back per boe (on an Income Statement² basis) was \$21.4 (£14.0), (12 months ended 31 March 2015: \$45.5 (£28.0)) and on a pre G&A basis was \$34.3 (£22.4) (12 months ended 31 March 2015: \$59.0 (£36.3)).

The Group recognised an impairment charge of £48.1 million (net of tax) (12 months ended 31 March 2015: £1.6 million) relating to producing assets (£8.9 million net of tax) and goodwill (£39.2 million), principally as a result of the reduction in commodity forward curves at the year end. Exploration costs written off were £10.0 million (net of tax) (12 months ended 31 March 2015: £6.4 million).

FINANCIAL REVIEW CONTINUED

\$255 million

Approximate carried gross work programme

£28.6 million

Cash and cash equivalents at period end

390,000

Barrels hedged in 2016 at c \$62/bbl

Other income of £5.0 million (12 months ended 31 March 2015: £0.3 million) has been recognised in the period relating to a fair value adjustment on the contingent deferred consideration in relation to amounts payable to a joint venture partner.

Net finance costs were £7.8 million in the nine months (12 months ended 31 March 2015: £12.5 million), which primarily relate to interest on borrowings of £8.7 million (12 months ended 31 March 2015: £12.6 million), a gain on fair value of warrants of £0.2 million (12 months ended 31 March 2015: gain of £5.4 million), a net foreign exchange gain of £0.1 million (12 months ended 31 March 2015: loss of £6.3 million) and a realised gain on the bonds repurchased of £0.9 million (12 months ended 31 March 2015: £1.4 million).

The Group made a gain in the nine months on oil price derivatives of £8.6 million (12 months ended 31 March 2015: £7.0 million).

Portfolio management

During the nine months, the Group completed the farm-out to INEOS, who acquired an interest in certain licences in the North West and East Midlands and the Group's participating interest in the acreage held under PEDL 133 in Scotland. The consideration for IGas' participating interests comprised £30 million cash which was received on completion and a funded forward work programme of up to £138 million gross, of which IGas' share to be funded fully by INEOS is expected to amount to approximately £65 million. The Group recognised a profit of £4.0 million on this transaction.

Cash flow

Net cash generated from operating activities in the nine months amounted to £1.0 million (12 months ended 31 March 2015: £26.5 million). The Group invested £9.4 million across its asset base in the nine months (12 months ended 31 March 2015: £16.8 million), of which £6.4 million was invested in the conventional assets, principally related to the three Stockbridge sidetracks completed in the period, where we continue to invest to maintain our production at current levels.

IGas repaid £6.1 million (\$8.2 million) of principal on borrowings to bondholders in the period in accordance with the terms of the bonds (12 months ended 31 March 2015: £5.2 million (\$8.3 million)), which represents a repayment of 2.5% of the

original principal amount of the secured bonds. In the nine months ended 31 December 2015, the Company repurchased bonds with a face value of \$7.0 million for \$5.3 million (12 months ended 31 March 2015: face value of \$15.7 million for \$13.2 million).

IGas paid £5.9 million (\$9.0 million) in interest (12 months ended 31 March 2015: £11.5 million (\$18.5 million)). Cash and cash equivalents were £28.6 million at the period end (31 March 2015: £19.0 million).

Balance sheet

Net assets at 31 December 2015 amounted to £98.8 million (31 March 2015: £146.6 million) with the decrease in net assets principally resulting from the loss during the nine months ended 31 December 2015 from continuing activities which was due to impairments to assets and goodwill caused by the reduction in commodity prices.

The Group hedges its oil production through the use of a mixture of puts, swaps and zero cost collars, therefore minimising the cost of the hedge instruments. At 31 December 2015, the Group's derivative instruments had a net positive fair value of £6.6 million (31 March 2015: £1.4 million).

Net debt, being borrowings less cash, at the period end amounted to £73.3 million (31 March 2015: £86.4 million).

Principal risks and uncertainties

The Group constantly monitors the Group's risk exposures and reports to the Audit Committee and the Board on a regular basis. The Audit Committee receives and reviews these reports and focuses on ensuring that the effective systems of internal financial and non financial controls including the management of risk are maintained. The results of this work are reported to the Board which in turn performs its own review and assessment.

The principal risks for the Group can be summarised as:

- Strategy fails to meet shareholder expectations,
- Planning, environmental, licensing and other permitting risks associated with its operations and, in particular, with drilling and production operations,
- No guarantee can be given that oil or gas can be produced in the anticipated quantities from any or all of the Group's assets or that oil or gas can be delivered economically,

- Successful development of shale gas resources,
- Loss of key staff,
- Market price risk through variations in the wholesale price of oil in the context of the production from oil fields it owns and operates,
- Market price risk through variations in the wholesale price of gas and electricity in the context of its future unconventional production volumes,
- Exchange rate risk through both its major source of revenue and its major borrowings being priced in \$ while most of the Group's operating and G&A costs are denominated in UK pounds sterling,
- Liquidity risk through its operations,
- Capital risk resulting from its capital structure, including operating within the covenants of its existing bond agreements, and
- Political risk such as change in Government or the effect of local or national referendum.

Going concern

The Group closely monitors and manages its liquidity risks. Cash forecasts for the Group are regularly produced based on, inter alia, the Group's production and expenditure forecasts, management's best estimate of future oil prices (based on current forward curves, adjusted for the Group's hedging programme) and the Group's borrowing facilities. Sensitivities are run to reflect different scenarios including, but not limited to, possible further reductions in commodity prices below the current forward curve and reductions in forecast oil and gas production rates.

The ability of the Group to operate as a going concern is dependent upon the continued availability of future cash flows and the availability of the monies drawn under its Bonds, which in turn is dependent on the Group not breaching its bond covenants. In response to the significant reduction in oil prices, the Board implemented a series of cost saving initiatives during the period that have materially reduced both operating costs and G&A spend. In addition, following positive discussions with the bondholders, the net leverage covenant, inter alia, was amended to take account of the Group's improved cash position following the INEOS farm-out, which was completed during the period.

Whilst the Group has delivered on the above initiatives and has significant cash balances, the continuing low commodity price environment means that the Group's current forecasts, utilising the current oil price forward curve, project non-compliance with certain of its covenants in the second half of 2016. The Board is pursuing actions to alleviate a covenant breach including, but not limited to, further cost reductions, monetising existing hedged oil positions, bond buy-backs, and asset portfolio management. Concurrently, the Board will continue to evaluate all other options, including transactions that would increase the Group's cash and/or earnings, which could reduce the need for the mitigating actions set out above. Nevertheless, based on the current oil price and forward curve, the directors cannot be certain that these will fully mitigate any potential covenant shortfall in respect of the testing period ending 31 December 2016. Whilst pursuing the options listed above, the Board will continue its proactive dialogue with bondholders and, if appropriate, seek to modify or temporarily waive the existing covenants ahead of the time at which the Group submits its compliance certificate in respect of that testing period, which would be by 30 April 2017.

The risk that the Group will be unable to either enact appropriate mitigating actions to a sufficient extent before the 31 December 2016 measurement date or secure an appropriate relaxation or amendment of its financial covenants prior to 30 April 2017 represents a material uncertainty that may cast doubt upon the Group's ability to continue as a going concern.

The Board believes, after making appropriate enquiries, and on the information currently available, that the Group is likely to be able to either implement sufficient mitigating actions to ensure that the Group is compliant with its covenants and/or secure a relaxation to the covenants as described above and it is therefore considered appropriate to adopt the going concern basis in preparing the financial statements.

Julian Tedder
Chief Financial Officer

RISKS AND UNCERTAINTIES

MANAGING OUR RISKS

The Board is committed to effective risk management and is ultimately responsible for risk management as part of its role in providing strategic oversight and stewardship of the Group

The Group constantly monitors the Group's risk exposures and reports to the Audit Committee and the Board on a regular basis. The Audit Committee receives and reviews these reports and focuses on ensuring that the effective systems of internal financial and non-financial controls including the management of risk are maintained. The results of this work are reported to the Board, which in turn performs its own review and assessment.

We have identified a number of risks to our longer-term performance and the most material ones are detailed below. They are not an exhaustive list of the risks we face and they are reviewed on a regular basis to ensure they remain representative of the risks that the Group faces in delivery against its strategy.

Strategic

Exposure to political risk. This can include changes in Government or the effect of local or national referendum. These political risks can result in changes in the regulatory or fiscal environment (including taxation) which could affect the Group's ability to deliver its strategy.

Through UKOOG and other industry associations the Group engages with government and other appropriate organisations to ensure the Group is kept abreast of expected potential changes and takes an active role in making appropriate representations.

Medium

Low

Strategy fails to meet shareholder expectations

Provide clear, transparent and consistent communication to all stakeholders. Ensure delivery against the five year plan.

Medium

Medium

Operational

Planning, environmental, licensing and other permitting risks associated with operations and, in particular, with drilling and production operations.

The Group considers that such risks are partially mitigated through compliance with regulations, proactive engagement with regulators, communities and the expertise and experience of its team.

High

Medium

Oil or gas is not produced in the anticipated quantities from any or all of the Group's assets or that oil or gas can be delivered economically.

The Group considers that such risks are mitigated given that its producing assets are located in established oil and gas producing areas, there is a portfolio of producing assets and its operating staff have extensive expertise and experience.

Medium

Low

Successful development of shale gas resources is not achieved.

Investment in further data acquisition, drill wells to get core and log data and deliver successful flow tests. Work with our Joint Venture partners to identify prospective drilling opportunities.

High

Medium

Loss of key staff

Provide and maintain a competitive remuneration package to attract the correct calibre of staff. Build a strong and unified team and ensure we have a clearly defined people strategy based on culture and talent. Development plans in place for all staff.

Medium

Low

A reminder of our strategy

Developing shale portfolio

Reserves and production growth

Local and national engagement

Financial

Exposure to market price risk through variations in the wholesale price of oil in the context of the production from oil fields it owns and operates

The Group has hedged a total of 390,000 barrels over the year to 31 December 2016, through a mixture of put and zero cost collars and capped swaps

High

High

The Board seeks to underpin the Group's future cash flows by entering into a combination of put and call options structured at zero cost for baseline production to cover 12 months forward. The Board will continue to monitor the benefits of such hedging

Exposure to market price risk through variations in the wholesale price of gas and electricity in the context of its future unconventional production volumes

The Board monitors the benefit of entering into contracts at the appropriate time to protect against gas and electricity price volatility

Medium

Low

Exposure to exchange rate risk through both its major source of revenue and its major borrowings being priced in \$

The Board monitors the cashflows of the Group to ensure currency exposure is understood. Exchange rate hedges are considered to ensure that cash inflows in dollars are matched with sterling cash outflows

Medium

Medium

Exposure, through its operations, to liquidity risk

The Board regularly reviews the Group's cash forecasts and the adequacy of available facilities to meet the Group's cash requirements

High

Medium

The Group is exposed to capital risk resulting from its capital structure, including operating within the covenants of its existing bond agreements

The capital structure is continually monitored to ensure it is in line with the business needs and ongoing asset development. Further details of the Group's capital management policy are disclosed in note 25 to the consolidated financial statements

High

High

SUSTAINABLE AND RESPONSIBLE BUSINESS

CARING FOR OUR PEOPLE AND ENVIRONMENT

IGas is committed to acting openly and honestly with the local communities in which we operate by establishing engagement programmes at the early stages of any development and keeping people informed throughout the lifecycle of the project. Through our Community Fund, the Company has a strong track record of supporting local community-led organisations and projects, helping to support and in some cases, transform communities.

LISTENING AND RESPONDING

As a signatory to the UKOOG Community Engagement Charter, we are committed to open and transparent communications with the communities in which we operate and our wider stakeholders. Many of our 158 employees, live and work locally to our operations, therefore the strength of our relationships with our neighbours is vital to our ongoing success.

For all of our projects, we have a dedicated engagement programme which begins in advance of any operational activity such as 3D seismic acquisition or any applications for planning permission. This gives the community an opportunity to understand the proposed plans and ask questions. We listen to concerns and help to allay some of those concerns by outlining the steps we take to mitigate any impacts and ensure protection for the environment.

It also provides the opportunity for local communities to give us feedback on our plans and suggest amendments. This approach has been successful in a number of areas, such as seeing us change our proposed traffic routes in the Springs Road planning application and improve our engagement with local residents during our seismic acquisition in the North West.

An important part of local engagement involves setting up a community liaison group within the local area of any proposed site or planning application. We invite local parish councillors and representatives from the community to attend regular meetings where we can ensure that our neighbours have access to the most up to date and relevant information and expert guidance. This keeps them well informed of our progress and of the facts about our operations. It also provides an opportunity for the community to share their concerns with us so that we can answer questions and offer independent guidance and expertise.

We set up our Springs Road liaison group in the East Midlands in June 2014, before we had even identified a site, and it has been meeting at least monthly since then.

It has proved a very successful way of engaging with the local community.

The Group's agenda is agreed by the membership, with IGas providing support by bringing along experts to give presentations on topics such as seismic acquisition, drilling, planning and regulation.

We have also provided a continued point of contact for the local community, with a dedicated Local Communications Manager based in the area, ensuring that there is a continuous two way conversation between the local community and IGas.

For our shale gas developments in the East Midlands we have held several community exhibitions, with IGas employees present from all disciplines and representatives from the EA and DECC available to answer questions. Four of these exhibitions have now been held and they were all very well attended.

We have distributed a follow up newsletter for the East Midlands and the North West regions which were sent by Royal Mail to over 18,000 local residents.

To provide the most up to date information on our live planning application at Springs Road, a dedicated website has been set up www.springsroad.co.uk

In relation to the people who live closest to our sites, we send out letters regularly updating them on our progress and inviting them to meet and discuss developments. Team members are happy to visit local residents in their homes and spend time answering their questions.

The purpose of this engagement is to ensure that the local communities understand our proposed developments and that we can understand residents' concerns, from their own unique environment, and are able to address them. It forms an integral part of our commitment to be good neighbours and become part of the communities in which we work.

SUPPORTING OUR COMMUNITIES

IGas businesses have been operating in the UK for over three decades and we pride ourselves on being a good neighbour, placing the community and local relationships at the heart of everything we do. Established in 2008, the IGas Community Fund supports community-led organisations that can make a real difference, helping to improve amenities locally.

To be eligible for an award, projects must be able to demonstrate real community impetus and benefits, for example, organisations that involve a broad span of the community, education and skills development, or projects that celebrate and protect local heritage. Additionally, during the 2015 round, the panel focused on supporting projects that promote sustainable development and initiatives of local significance.

During the period, we visited many of the projects, offering our help and support when needed. This allowed IGas employees the opportunity to see first-hand, the positive impact we have made to projects, which often bring wellbeing and social cohesion into deprived and disadvantaged areas.

Having visited numerous groups across the UK, and learning best practice within community-based organisations, the team is well placed to share experiences and encourage continual development of these projects.

>£175,000

Amount awarded in 2015

Read more on [page 34](#) >

IGas Energy plc commits to the development of our female workers through initiatives such as internships, apprenticeships, mentoring, continued professional development and leadership masterclasses and aspires to women representing 40% of Senior Management by 2025.

SHOWCASING WOMEN'S POTENTIAL

IGas is committed to tackling gender diversity within the energy sector by making a pledge to support the aims of POWERful Women ("PFW").

Launched by Baroness Verma in summer 2014, PFW seeks to showcase female leadership potential in the UK's energy sector. Of the top 100 energy companies headquartered in the UK, only 5% of executive board seats in total are held by women. PFW aims to change this and targets to have 40% of energy company middle management and 30% of executive energy board members to be female by 2030¹.

PfW initiatives include, "POWERful Connections", which matches females aspiring to move into senior leadership positions within the next 5 years, with some of the most influential leaders and entrepreneurs from the energy sector, who mentor the women on career progression and personal development. Various individuals at IGas have been attending PfW events and are also participating in the mentoring scheme.

¹ Source: www.gov.uk/government/news/fuelling-the-pipeline-of-female-talent-in-the-uk's-energy-sector

SUSTAINABLE AND RESPONSIBLE BUSINESS CONTINUED

NORTH WEST

Now the pond has been cleared, I am excited that we're able to use it

Brookside Primary School Student

Wheels for all, Salford

Through a £5,000 grant, specially adapted cycles and tricycles were purchased for a disabled cycling group

Brookside Primary School, Ellesmere Port

A £2,000 grant helped the pupil Eco Committee re-establish a neglected school pond and create a bigger and more exciting wildlife habitat. Thanks to training sessions led by the local countryside ranger, teachers are now equipped to lead pond dipping activities with the school children

Warrington Youth Club

Awarded £1,000 to a project which supports young men facing challenges such as teenage fatherhood, alcohol or substance abuse, and not completing education

£47,822

Amount of funding that went to projects in the North West

SOUTH

Wey & Arun Canal Trust

Awarded £500 to set up a display to raise awareness and assist fundraising for the restoration of the canal. The display will be kept at a local heritage centre visited by 40,000 people a year

Singleton & East Dean WI

Through a £2,000 award, the group marked the movement's national centenary by developing a permanent museum exhibition, recording the history of the organisation. Also 100 years old and helped by the IGas grant, the local group staged a celebration event looking back on the group's history and paying tribute to local inspiring women

To read more on our latest funded projects visit
www.igascommunityfund.co.uk

Storrington First School

Awarded £4,330 to purchase computers and tablets for their catch-up cafe, where pupils teach older members of the community and care home residents how to use ICT

£48,348

Amount of grants that went towards projects in the South

EAST MIDLANDS

Welton and District Patients and Doctors Association

Awarded £1,500 to purchase lightweight, easy-folding wheelchairs and walking frames to provide better mobility assistance for those who use the group's transport service for surgery and hospital appointments

Slumgothic Teenage Arts Project, Gainsborough

Using a £7,720 grant, accessible toilets have been provided for a community café, which is largely staffed by people recovering from mental illnesses or disabilities

East Leake Playgroup, Rempstone

Awarded a grant of £600 towards new gardening and wildlife equipment, helping to provide a stimulating environment in which children can learn

£56,200

Amount of grants that
went towards projects
in the East Midlands

We've awarded over £175,000
worth of sustainable donations
through our 2015 Community Fund,
helping to improve lives in our
local communities

SCOTLAND

Latheron Lybster and Clyth Community Development Company (LLCCDC)

Awarded £4,000 to purchase tools for a project that provides an inter-generational workforce with joinery, masonry and plumbing skills, which are then used to support community groups and organisations

£23,467

Amount of grants that
went towards projects
in Scotland

Holybourne Youth Theatre

Awarded £7,000 towards a new sound system and lighting gantry to provide young people with hands on experience of the technical side of theatre productions

SUSTAINABLE AND RESPONSIBLE BUSINESS CONTINUED

EDUCATING A FUTURE WORKFORCE IN SHALE

The aim of the National College for Onshore Oil and Gas ("NCOOG") is to educate and inspire the next generation of onshore engineers and other specialists, ensuring that the industry can employ highly-skilled British workers to uphold the highest standards of safe, environmentally sensitive and transparent operations

In July 2015, NCOOG submitted a Business Plan and capital funding application to the Department for Business, Innovation and Skills. In November's Autumn Statement, it was announced that NCOOG was one of five industry specific National Colleges that would be taken forward, subject to final due diligence

The NCOOG Board has been established, with the first two Board meetings held in October 2015 and November 2015. The Board is composed of academic and industry specialists, including John Blaymires from IGas, with the Department for Business, Innovation and Skills having observer status. An Advisory Council has also been set up, and the industry has made a number of secondments to NCOOG, to support its development over the coming months

NCOOG and the industry are working with OPITO, the skills body for the offshore oil and gas industry, to agree industry training standards. These standards will then be used by NCOOG to develop courses at the levels the industry needs. The first standard, which is nearing completion, will cover Health, Safety, Security and Environment ("HSSE"), and will ensure that workers on drilling sites have a core level of competence in these vital areas

Over the next few months, NCOOG will begin to develop both short and longer courses, and will begin outreach work. The aim is to start training the first students in late 2016

ISO 9001

Quality Management System Certified

ISO 14001

Environmental System Certified

HEALTH, SAFETY AND ENVIRONMENT

IGas is committed to conducting its operations in a safe, secure and environmentally responsible manner, to providing healthy and injury free workplaces for its employees and contractors and to being a good neighbour in the local communities within which it operates

Throughout the business there is a strong and visible commitment to HSE management and promoting a positive culture within the Company. We encourage personnel to report all incidents, near misses and concerns to embed a culture of continual learning and improvement of HSE performance

Over the period, we achieved zero Lost Time Incidents. Our performance was primarily due to an even greater focus on our safety culture and practices by our leadership team and operations personnel, who continue to promote a safety culture that is embedded in the workforce to ensure zero Lost Time Incidents

We have again maintained our ISO 9001 and 14001 accreditation with no major non-conformances identified. We remain committed to maintaining these international standards in 2016

Minimising our impact on the environment

At IGas we work to minimise our impact on the environment and during the period we volunteered as an entrant to Energy Saving Opportunity Scheme ("ESOS") to reduce energy usage across our operations

The ESOS has been established by the DECC in response to the requirement to implement Article 8 of the Energy Efficiency Directive. This regulation came into force on 17 July 2014. Alongside the EU obligation, ESOS is also being introduced as a route to stimulate economic savings to be achieved by businesses, estimated to be in the region of £1.6 billion by 2020. In general, the result of the audit supported that IGas' energy performance is good and there are presently no energy consuming factors that would mandate a near term repeat energy audit. The Company is evolving and the need for enhanced energy controls will be kept under review. As the organisation develops then the position regarding ESOS audit will be reviewed to ensure that we remain focused on our key priorities

We are in the process of replacing 50% of our combustion engine vehicle fleet with electric vehicles. This will reduce vehicle exhaust emissions as well as noise in the local communities in which we operate. The electricity will be supplied from our own generated electricity.

The business continues to review its environmental performance in reducing its emissions and has been awarded funds from Innovate UK to trial methods to capture low volumes of methane for beneficial use. The trial will take place at the Scampton North Oilfield where low volumes of methane are vented, under permit, to atmosphere from the oil storage tanks. The methane currently vented will be captured and used as fuel in a Stirling Heat Engine to produce electricity for the site reducing imports from the local electricity network.

In addition to the benefits of producing electricity, the scheme will also enhance oil production by reducing back pressure on the wells. Waste heat will also be recovered and used to aid oil water separation in the onsite oil tanks which will reduce overhaul transport costs and vehicle movements. Oil water from the site would normally be transported offsite to a central gathering system for processing and then dry oil would be transported onto the refinery. The new scheme will allow dry oil to be transported directly to the refinery from the site.

Regulator monitoring

The HSE make regular visits to IGas sites on an announced and unannounced basis.

During the HSE's unannounced visits, a number of checks are made including our use of personal protective equipment, general inspection of the security and safety awareness on site, and full compliance with our site safety plan. Each week we are required to send a report to the HSE detailing all the operations conducted in the previous seven day period.

Alongside the testing and approval of all water and chemicals on IGas sites, the EA carries out spot checks on the general site condition.

OUR PEOPLE

IGas endeavours to be a first class employer and believes that the key to the success of its business is based on the strength and calibre of the people we employ. We ensure that we foster good relationships with all personnel, including contractors.

We value diversity and we encourage open communication and dialogue across the business.

One of the key challenges for the Human Resources function lay in managing costs as efficiently as possible within increasingly difficult economic conditions during the year. In addition to a company-wide review of the use of contractors, during the period the total number of employees in the UK reduced from 195 to 158.

We promote training and education of all employees, in order to benefit both themselves and the Company. During the period the Company has augmented the annual appraisal and competency assessment procedures by automating the traditionally "paper-based" process. Going forward, this will allow employees access to their own performance records and assist in the identification of training needs.

We continue to support three apprentices who joined towards the end of 2014.

An apprentice Mechanical Engineer (Well Services) who completed "classroom" based training at end of April and is now working in the field full-time, and two apprentice E&I Technicians (Maintenance) who continue to combine both work and study as part of their apprenticeships.

Jack Parker has completed his apprenticeship and has been working in a permanent role as E&I Technician since 1 October 2015. Danny Coe, a former apprentice who became an Operator in January 2014, successfully applied for an internally advertised role of Production Technician in December 2015.

SUSTAINABLE AND RESPONSIBLE BUSINESS CONTINUED

SHALE IN CONTEXT

Shale resources are usually 1,600m or more below the surface, twice the depth of the UK's deepest coal mine

WELL INTEGRITY

Key to the protection of the environment is the well design. Regulations enforced by the HSE require an independent well examiner to assess the design, construction and maintenance of the well.

PROTECTING THE ENVIRONMENT

The UK onshore oil and gas industry is committed to working with regulators and within local areas to ensure that any activity is done safely and with as little impact to the environment as possible. Throughout our operations and the lifecycle of our wells robust safety measures are in place to protect the environment.

Protection of aquifers and ground water is essential. IGas wells are all designed with the minimum of three layers of steel casing – the surface casing, the intermediate casing and the production casing. The intermediate casing ensures that there can be no leakage path from the shale reservoir up to the aquifer.

The main UK legal regulations covering well design, construction and decommissioning are:

- Offshore Installations and Wells (Design and Construction etc.) Regulations 1996 ("DCR"),
- Borehole Sites & Operations Regulations 1995 ("BSOR"),
- Dangerous Substances and Explosive Atmospheres Regulations 2002 ("DSEAR"), and
- Provision and Use of Work Equipment Regulations 1998 ("PUWER").

For further information visit www.ukoog.org.uk/images/ukoog/pdfs/ShaleGasWellGuidelinesIssue3.pdf

Prior to any drilling activity, we must send our proposed well design to an independent well examiner. Once the design has been satisfactorily assessed by the examiner, we must then notify the HSE of the well design and operation plans. The HSE carries out its own review of these plans, taking into account any comments or recommendations made by the independent well examiner.

Watch the EA video on shale gas industry regulation www.youtube.com/watch?v=usebz4nqAtI

Watch the HSE videos on developing shale oil and gas in the UK www.gov.uk/government/publications/about-shale-gas-and-hydraulic-fracturing-fracking/developing-shale-oil-and-gas-in-the-uk

The design and construction of the well is key to subsurface environmental protection. Through the use of multiple physical barriers of casing and cement, as well as utilising natural impermeable geology layers as protection, the well will protect any migration of hydrocarbons or well fluids into the surrounding rock formation.

During site construction, a thick impermeable membrane is placed across the entire site which prevents any potential spills leaking into the groundwater. The membrane holds all site surface water which is also tested prior to disposal.

The EA, which regulates shale extraction, has investigated the likelihood of groundwater contamination in detail and judged that the environmental risks at each individual stage of exploratory shale gas operation, after proper management and regulation, are "low"¹. The EA will not permit activities if they are close to drinking water sources, such as groundwater from aquifers.

According to a joint Royal Society and the Royal Academy of Engineering report the risk of water contamination is very low provided that shale gas extraction takes place at depths of many hundreds of metres or several kilometres – which would be the case in the UK².

The Chartered Institution of Water and Environmental Management ("CIWEM") also agree that risks to groundwater quality are generally considered to be low in the UK where the shale rock in question often exists at considerable depths below aquifers and gas would be required to migrate many hundreds of metres between source rock and sensitive groundwater³.

Watch the IGas video on the lifecycle of a shale gas well www.igasplc.com/media-centre/igas-films

Remediation and restoration

As a responsible operator, we ensure our old sites are remediated to the highest standard. An example of this is the restoration carried out this year at our Egmont site. Once the site of the Egmont oilfield Central Gathering Station, we have removed all the plant equipment and machinery, including pipelines. In agreement with the landowner and Planning Officers, the land was restored to a mixture of woodland, grassland and wetland. The work is now complete and wildlife has already started to colonise the new habitats that have been created.

¹ www.gov.uk/government/uploads/system/uploads/attachment_data/file/296949/LIT_8474_fbb1d4.pdf

² www.royalsociety.org/~/media/policy/projects/shale_gas_extraction/2012_06-28_shale_gas.pdf

³ www.ciwem.org/media/1023221/Shale%20Gas%20and%20Water%20WEB.pdf

The Strategic Report, as set out on pages 1 to 39, has been approved by order of the Board.

Cooley (UK) LLP
Secretary
IGas Energy plc
Registered Office
7 Down Street
London
W1J 7AJ

BOARD OF DIRECTORS

CONFIDENT LEADERSHIP

The Board is a highly experienced team of experts, committed to delivering shareholder value and to working in partnership with the communities in which IGas operates

N

Name Francis Gugen

Role Non-executive Chairman

Skills and experience

Francis is a founder and Non-executive Chairman and has over 40 years' oil and gas industry experience

Between 1982 and 2000 he helped grow Amerada Hess in North West Europe, ultimately becoming regional CEO

Currently, as regards companies involved in conventional oil & gas, he is also Non-executive Chairman of Petroleum Geophysical Services ASA and Chrysaor Limited and a board member of SBM Offshore NV. Until 2006 he served as Non-executive Chairman of the start-up North Sea gas fields and pipelines operator, CH4 Energy Limited, which was subsequently disposed of for €224 million

Name Stephen Bowler

Role Chief Executive Officer

Skills and experience

Steve became Chief Executive Officer in May 2015 having joined IGas as Chief Financial Officer in 2011

He qualified as a chartered accountant with Touche Ross, now Deloitte. In 1999, Steve joined ABN Amro Hoare Govett, now part of Jefferies, where he acted as adviser and broker to a wide range of UK listed companies in the oil and gas sector

Steve advised Star Energy on its IPO in 2004. The Star Energy producing assets were acquired by IGas in 2011, transforming IGas at that time to become one of the leading UK onshore oil and gas companies

Over the past four years, Steve has been a key member of the executive team that has successfully completed four acquisitions, two bond raisings and an equity issue, in addition to the farm-outs to Total and more recently INEOS

Name John Blaymires

Role Chief Operating Officer

Skills and experience

John has over 30 years of international experience in the oil and gas industry gained with Hess Corporation and Shell International

Before joining IGas he was Director of Technology Development for Hess based in Houston, where he helped develop a global engineering and geoscience technology group responsible for providing support across the E&P business, from deepwater to unconventional resources

Prior to that John was Technical Director for Hess' operations in West Africa, and subsequently South East Asia with responsibility for several major oil and gas developments. John has a BSc and PhD in Mining Engineering from Leeds University

Name Julian Tedder

Role Chief Financial Officer

Skills and experience

Julian became Chief Financial Officer in September 2015

A chartered accountant, Julian has 15 years' senior management experience both at operational and group level within the international oil and gas sector, including Centrica plc and Tullow Oil plc. Most recently, Julian was General Manager, Finance for Tullow Oil, having worked at the company for over 10 years, where he was ultimately responsible for over 190 staff across the finance function

Committees Member Key

- A Audit Committee
- R Remuneration Committee
- N Nomination Committee
- Chair of Committee
- Member of Committee

A R N

Name John Bryant**Role** Senior Independent
Non-executive Director**Skills and experience**

John is Chairman of Weatherly International Plc, a board member of China Africa Resources Plc and Victoria Oil and Gas Plc. All these companies are AIM-listed.

He was, until recently, a Board member of the Attiki Gas Company, which supplies natural gas to Athens and the surrounding districts. John previously served as President of Cnergy Global Resources Corp, responsible for all international business and global renewable power operations of this US-based electricity and gas utility provider.

A R

Name Robin Pinchbeck**Role** Non-executive Director**Skills and experience**

Rob has 40 years of international experience in the oil and gas sector, having held leadership positions in both oil and oil-services sectors with BP, Atlantic Power, PGS and most recently, with Petrofac Limited where he founded and led the Operations Services division, and served as Group Director of Strategy.

Rob's past Non-executive positions include Sondex plc, SLR Consulting Ltd, Enquest plc, Seven Energy International Limited and Sparrows Offshore Ltd (where he was Chairman). He is currently a Non-executive Director at Enteq Upstream plc and Starn Energy Services Limited and is Chairman at PTS Consulting Limited.

A R

Name Cuth McDowell**Role** Non-executive Director**Skills and experience**

Cuth has 33 years of international experience in the oil and gas sector, having held a range of leadership positions in Exploration and Production.

He began his career with BP, where he held various commercial and management roles over eight years. Cuth then joined Clyde Petroleum plc, initially as Senior Economist, subsequently becoming Group Commercial Manager before Clyde was bought by Gulf Canada.

In 1997, Cuth joined Paladin Resources plc, where he served primarily as Finance Director before it was sold to Talisman Energy Inc. for approximately £1.2 billion in 2006. He was appointed as an independent Non-executive Director to the Board of Gulf Keystone Plc in December 2015. Cuth is currently Chairman at Quotall Ltd, an unlisted software development company.

CORPORATE GOVERNANCE

The Board of Directors support high standards of corporate governance and the guidance set out in the UK Corporate Governance Code. As an AIM listed company, IGas Energy plc is not obliged to comply with The UK Corporate Governance Code published in September 2014 (the "Code") but instead uses its provisions as a guide only as considered appropriate to the circumstances of the Company.

The Board and its committees

The Board of the Company consists of three Executive Directors and four Non-executive Directors, with Mr Bryant, Mr Pinchbeck and Mr McDowell being considered to be independent. The Senior Independent Non-executive Director is John Bryant and biographies of all the Directors are included within the Annual Report on pages 40 to 41.

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

Board membership

Committee member	Meetings attended (out of a total possible)
Francis Gugen (Chairman)	12/12
Stephen Bowler	12/12
John Blaymires	12/12
Julian Tedder (appointed 28 September 2015)	3/3
John Bryant	12/12
Cuth McDowell	11/12
Robin Pinchbeck	11/12

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

Audit Committee

The Committee comprises only Non-executive Directors, being chaired by Cuth McDowell and having as other members John Bryant and Robin Pinchbeck. Meetings are aligned with the Group's financial reporting calendar and in the nine months ended 31 December 2015 the Committee met on five occasions. The Chief Executive Officer and the Chief Financial Officer are invited to attend each meeting of the Committee and participated in all of the meetings during the period. The external auditors are also invited to attend meetings of the Committee as appropriate and also meet the Committee without the presence of management at least annually.

Audit Committee membership

Committee member	Meetings attended (out of a total possible)
Cuth McDowell (Chairman)	5/5
John Bryant	5/5
Robin Pinchbeck	5/5

Summary of the Committee's responsibilities

The Committee's responsibilities include the following:

- The Committee reviews reports from management and the Group's auditors relating to the Group's Annual Report and Accounts and the interim results announcements. The Committee advises the Board on whether the annual report and interim announcement are fair, balanced and understandable and provide the information necessary for IGas' stakeholders to assess performance against the Group's strategy,
- The Committee reviews compliance with legal requirements, accounting standards and the AIM Rules and ensures 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, and
- The Committee keeps under review the external auditors' independence and considers the nature, scope, and results of the auditor's work and develops a policy on and reviews (reserving the right to approve) any non-audit services that are provided by the external auditors. The Committee is responsible for making recommendations to the Board of Directors on their appointment and remuneration.

Key areas of focus in the nine months ended 31 December 2015

The Committee's particular areas of focus during the period were as follows

- Review of the 2014/15 Annual Report and of the significant risks identified which included the going concern assessment, including covenant compliance, accounting for the Dart acquisition, impairment of oil and gas properties, and reserves and resources disclosures,
- Review of the six months ended 30 September 2015 interim results announcements and the 2015 Annual Report and review of the significant risks which included the going concern assessment, including covenant compliance and concluding on the material uncertainty, finalisation of accounting for the Dart acquisition, impairment of oil and gas properties, accounting for the INEOS farm out and purchase agreement, and recoverability of goodwill, and
- Review of the external auditor's reappointment and proposing to the Board that the audit contract would be re-tendered following completion of the audit of the nine months ended 31 December 2015

Remuneration Committee

The Committee comprises only Non-executive Directors, being chaired by John Bryant and having as other members Robin Pinchbeck and Cuth McDowell. The Committee met on five occasions in the nine months ended 31 December 2015. The Chief Executive Officer is invited to attend meetings. 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.

Remuneration Committee membership

Committee member	Meetings attended (out of a total possible)
John Bryant (Chairman)	5/5
Cuth McDowell	5/5
Robin Pinchbeck	5/5

Summary of the Committee's responsibilities

The Committee's responsibilities include the following

- Making recommendations to the Board of Directors on the Company's policy on the remuneration of the Chairman, Executive Directors and other senior executives (as are delegated to the Committee to consider),
- Determining, within agreed terms of reference, the remainder of the remuneration packages for each of them, including pension rights, any compensation payments and the implementation of executive incentive schemes
- Monitoring the level and structure of remuneration for Senior Management
- Reviewing the design of share incentive plans for approval by the Board and determining the policy on annual awards to Executive Directors and Senior Executives, and
- Reviewing progress made against performance targets and agreeing incentive awards

Key areas of focus in the nine months ended 31 December 2015

The Committee's particular areas of focus during the period were as follows

- Review of long-term incentive plans, engaging with an advisor and ultimately approving a newly created Executive Director Retention Plan and the issue of awards to the Chief Executive Officer and Chief Operating Officer,
- Approving the creation of a Management Retention Plan and the issue of awards to senior management in line with the adopted plan, and
- Review of performance in the nine months ended 31 December 2015 and recommending to the Board the level of bonus payments to be made for the period and that they should be satisfied by issuing shares rather than cash payments

Nomination Committee

The Committee is chaired by the Chairman of the Board, Francis Gugen, and its other member is the Senior Independent Non-executive Director, John Bryant. The Chief Executive Officer of the Company is invited to attend meetings of the Committee when the Committee is discussing matters related to executive management and such other matters as the Committee chairman deems appropriate. The Committee meets as required during the year.

Nomination Committee membership

Committee member	Meetings attended (out of a total possible)
Francis Gugen (Chairman)	5/5
John Bryant	5/5

CORPORATE GOVERNANCE CONTINUED

Summary of the Committee's responsibilities

The Committee's responsibilities include the following

- 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,
- Making recommendations to the Board regarding membership of the audit and remuneration committees, and
- 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

Key areas of focus in the nine months ended 31 December 2015

The principal activities of the Committee during the period were as follows

- The appointment of Stephen Bowler as new Chief Executive Officer in May 2015, following the resignation of Andrew Austin,
- The search for a new Chief Financial Officer following the appointment of Stephen Bowler as Chief Executive Officer. This resulted in the appointment of Julian Tedder as Chief Financial Officer in September 2015 and his appointment to the Board,
- Following the recent appointments to the Board described above the Committee undertook a review of skills of the Board and concluded that the mix was appropriate at the current time, and
- Succession planning was reviewed in the year and work in this area will continue in 2016

Internal control

The Board acknowledges that it is responsible for establishing and maintaining the Group's system of internal controls and reviewing its effectiveness. The procedures that include, inter alia, financial, operational, health & safety, compliance matters and risk management (as detailed in the Strategic Report) are reviewed on an on going basis

The Group's internal control procedures include the following

- Board approval for all significant projects, including corporate transactions and major capital projects,
- The Board receives and reviews regular reports covering both the technical progress of projects and the Group's financial affairs to facilitate its control,
- There is a comprehensive budgeting and planning system for all items of expenditure with an annual budget approved by the Board. Risk assessment and evaluation is an integral part of the annual planning cycle,
- The Group has in place internal control and risk management systems in relation to the Group's financial reporting process and the Group's process for preparing consolidated accounts. These systems include policies and procedures to ensure that adequate accounting records are maintained and transactions are recorded accurately and fairly to permit the preparation of consolidated financial statements in accordance with IFRS, and
- The Audit Committee reviews draft annual and interim reports before recommending their publication to the Board. The Audit Committee discusses with the Chief Executive Officer, Chief Financial Officer and external auditors the significant accounting policies, estimates and judgments applied in preparing these reports

The internal control system can only provide reasonable and not absolute assurance against material misstatement or loss. The Board has considered the need for a separate internal audit function but, bearing in mind the present size and composition of the Group, does not consider it necessary at the current time

UK Bribery Act

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

Relations with shareholders

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

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

DIRECTORS' REMUNERATION REPORT

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

Annual statement

There has been significant change in the leadership team at IGas and their remuneration packages

At the beginning of the year following the restructuring of the management team, the Remuneration Committee recognised an immediate need to have a strong retention mechanism in place for the Executive Directors who are critical to executing the business strategy over the next phase of the Company's development. The existing Executive Directors agreed to waive their outstanding entitlements under the Company's 2011 Long Term Incentive Plan and the Value Creation Plan and were subsequently made awards under the Executive Director Retention Plan, a one off plan introduced for this purpose

Recognising a period which saw the impact of low oil prices result in restructuring and a range of cost cutting measures, including redundancies, the Company considered it appropriate to impose a company-wide restriction on pay awards and subsequently declared there would be no cash payments under the annual short term incentive bonus programme

The Remuneration Committee have recently adopted a new long term incentive plan, the Executive Incentive Plan ("EIP") which balances the need to retain and motivate management in this highly challenging operating environment and the alignment of their interests with those of shareholders over the long term. It is intended that the first grant of share awards under the EIP will be made around the time of writing of this report and is in the form of a restricted stock style award (i.e. vesting of shares is principally related to continuity of employment) but which features

- an upwards multiplier on the number of shares awarded if significant value has been created for shareholders through the successful execution of the business strategy, and
- a clawback mechanism to the number of shares awarded if the Remuneration Committee are not satisfied with the overall corporate performance of the Company over the vesting period

To reflect the guaranteed element of the shares awarded under the EIP, individual award levels have been set at a significant discount to the market level for Executive Directors in the sector (75% of salary). However, the multiplier effect ensures that total remuneration levels will be competitive in the market if significant value is created for shareholders over the longer term

Directors' remuneration policy

Remuneration policy

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

The Committee will continue to review the Company's remuneration policy and make amendments, as and when necessary, to ensure it remains fit for purpose and continues to drive high levels of executive performance and remains both affordable and competitive in the market

Base salary The purpose of the base salary is to <ul style="list-style-type: none"> • help recruit and retain key individuals, • reflect the individual's experience, role and contribution within the Company, and ensure fair reward for "doing the job" 	The Committee reviews base salaries annually to ensure that Executive Directors pay remains competitively aligned with external market practices In determining whether to increase levels the Committee will take the following into consideration <ul style="list-style-type: none"> • the performance of the individual Director, • the individual Director's experience and responsibilities, • impact on fixed costs of any increase, and • pay and conditions throughout the Company 	The Committee will retain the discretion to increase an individual's salary where there is a significant difference between current levels and a market competitive rate for similar positions in similar organisations (based on size, complexity and sector)
Other benefits including pension	The Company provides Executive Directors with benefits in kind with a pension contribution up to 15% of base salary, as well as other benefits in kind including medical and disability insurances and death-in-service life assurance	

DIRECTORS' REMUNERATION REPORT

CONTINUED

Annual Cash Bonus	<p>Executive Directors and staff are eligible to participate in a discretionary bonus plan</p> <p>The Committee will determine on an annual basis the level of deferral, if any, of the bonus payment into Company shares. Maximum bonus levels and the proportion payable for on target performance are considered in the light of market bonus levels for similar roles among the industry sector.</p> <p>Bonuses paid in cash are not pensionable.</p> <p>In terms of bonus targets a balanced scorecard approach is operated which focuses on a mixture of strategic, operational, financial and non-financial metrics. The Committee have determined that it is inappropriate to disclose the actual targets due to commercial sensitivity.</p>	<p>The percentage of maximum bonus entitlement received is based on the achievement of individually challenging targets supporting corporate objectives. The maximum potential bonus entitlement for Executive Directors under the plan is to up to 100% of base salary.</p>
Long Term Incentive Plan ("LTIP")	<p>Under the Long Term Incentive Plan, adopted by the Board in 2011 participants can each be granted two types of award: an Initial Award and an Annual Award. Both types of award are in the form of a nil cost option. If the relevant conditions attaching to the awards are met at the end of a three year vesting period, then the participant has a further seven years in which to exercise the award.</p> <p>The primary purpose of the Initial Awards is to aid the recruitment of key executives. These awards vest at the end of a three year performance period provided the Company's share price performance exceeds the Company's weighted average cost of capital of 10%.</p> <p>The LTIP also provides for Annual Awards to be granted which will vest at the end of a three year period provided certain challenging corporate performance conditions have been met. The purpose of the Annual Award is to provide a competitive annual total remuneration package which retains and motivates the Executive Directors and other selected executives.</p>	<p>The maximum individual limit for an Initial Award is 300% of salary.</p> <p>The maximum individual limit for an Annual Award in any financial year is 200% of salary (this limit was increased from 150% during the 2014/15 financial year).</p>
IGas 2014 Value Creation Plan ("VCP")	<p>During 2015 the Executive Directors each gave up their entitlements under the VCP.</p> <p>No further awards will be made under this plan which will not be operated on an ongoing basis.</p>	

Executive Incentive Plan	<p>Under the EIP adopted by the Board in March 2016, participants will be granted a share award in the form of a nil-cost option. This option will be released at the end of a three year holding period provided that the Executive remain in employment and that the Remuneration Committee are satisfied that corporate performance has been satisfactory (with reference to share price). A multiplier will also apply to this share award to ensure that management are focussed on the execution of the business strategy and the creation of long-term value for shareholders. For the first share award the multiplier will be set as follows</p> <table><tr><td>Share price target</td><td>Multiplier</td></tr><tr><td>50p</td><td>1.5 times the shares awarded</td></tr><tr><td>75p</td><td>2 times the number of shares awarded</td></tr></table> <p>Given the current share price and economic outlook, the Committee believe that these targets are highly demanding and will not be attained through external market volatility</p> <p>Executives will be required to build a shareholding over the next five years of at least 150% of salary to further support the alignment of their interests with those of shareholders</p>	Share price target	Multiplier	50p	1.5 times the shares awarded	75p	2 times the number of shares awarded	<p>Annual award to the current Executive Directors of no more than 75% of salary (100% in exceptional circumstances) subject to two times multiplier (i.e. the maximum number of shares which could vest is equal to 150% of salary)</p>
Share price target	Multiplier							
50p	1.5 times the shares awarded							
75p	2 times the number of shares awarded							
Executive Director Retention Plan	<p>Under the EDRP, participants are granted nil cost options which vest and become exercisable on the first anniversary of grant subject to the Directors' continued employment and to a one year holding period following the date of vesting</p>	<p>The EDRP was adopted as an exceptional share arrangement and S Bowler was made an award of options over 3,500,000 ordinary shares and J Blaymires was made an award of options over 3,000,000 ordinary shares in July 2015</p>						
Share Investment Plan ("SIP")	<p>In 2013, the Company adopted an HMRC approved Share Investment Plan for all employees of the Group. The scheme is a tax efficient incentive plan pursuant to which all employees are eligible subscribe for up to £150 (or 10% of salary, if less) worth of IGas ordinary shares per month</p> <p>Shares are acquired on a quarterly basis. The Company automatically matches the employee contribution and acquires matching 'Partnership' shares on a 1-to-1 basis. Subject to the Company achieving pre-defined quarterly production targets, the Company increases the matching element for that quarter such that it will contribute Partnership shares on a 2-to-1 basis. To receive their allocation of Company Partnership shares, employees must ordinarily remain employed by the Company for a period of 3 years from the date of grant of the matching award</p>	<p>Employees are eligible to acquire up to £150 (or 10% of salary, if less) worth of IGas ordinary shares per month from gross salary</p> <p>The Company will match the shares purchased on a 1-to-1 basis and, subject to the Company having met pre-defined quarterly production targets, will increase the matching element for that quarter to 2-to-1</p>						

Annual report on remuneration

Remit of the remuneration committee

The remit of the Remuneration Committee (the "Committee") is provided in the Corporate Governance section

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

Share price movements during the year

The Group's share price as at 31 December 2015 was 17p per share. The highest price during the period was 42p per share and the lowest share price during the period was 13.5p per share.

DIRECTORS' REMUNERATION REPORT CONTINUED

Current arrangements in financial year (Audited)

Executive Directors

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

Directors' emoluments for the period were as follows

	Nine months ended 31 December 2015						Year ended 31 March 2015					
	Taxable						Taxable					
	Salary £000	Payment for loss of office ¹ £000	Bonus £000	Benefits £000	Pensions £000	Total £000	Salary £000	Bonus £000	Benefits £000	Pensions £000	Total £000	
Executive Directors												
S Bowler – CEO ²	250	–	–	–	38	288	280	–	1	42	323	
J Blaymires – COO	210	–	–	–	–	210	280	–	1	–	281	
A Austin – (resigned 31 May 2015)	66	933	–	–	10	1,009	400	–	–	60	460	
J Tedder – CFO (appointed 28 September 2015)	66	–	–	–	10	76	–	–	–	–	–	
Total – Executive Directors	592	933	–	–	58	1,583	960	–	2	102	1,064	

¹ The payment for loss of office includes contractual payments relating to salary pension bonus and an additional payment by way of settlement in connection with the cessation of A Austin's employment

² S Bowler was appointed as Chief Executive Officer on 8 May 2015. Prior to this he was Chief Financial Officer. A Austin resigned as Chief Executive Officer on 7 May 2015

Recognising the ongoing challenging oil price environment, and following a zero pay-out for the bonus scheme in 2014/15, the Board determined a further zero cash bonus pay-out for the April – December 2015 period

Following his appointment, J Tedder was made an Initial Award in the form of an option over 1,315,789 ordinary shares in the Company under the 2011 LTIP on 25 November 2015

In July 2015 S Bowler and J Blaymires waived their entitlements to all outstanding LTIP awards and VCP award made in July 2014

As noted in the Annual Statement the Remuneration Committee recognising the need to have a strong retention mechanism in place for the Executive Directors adopted the IGas Energy PLC 2015 Executive Director Retention Plan in July as an exceptional share arrangement. On 13 July 2015 the Executive Directors received awards under the plan in the form of nil cost options (S Bowler was made an award in the form of an option over 3,500,000 ordinary shares in the Company, and J Blaymires over 3,000,000 ordinary shares in the Company). The options issued under the Plan will vest and become exercisable on the first anniversary of the date of grant of the retention award subject to the Executive Directors continued employment with the Group and will be subject to a one year holding period following the date of vesting. Options will normally remain exercisable for seven years following the date of vesting. It is not intended that the Plan will be used to grant any further awards over the next stage of the Company's development.

Each of the Executive Directors devotes such time as is required to discharge his duties, which in all cases is full time

Current arrangements in financial year (Audited) continued**Executive Directors continued**

As at 31 December 2015, the outstanding long term incentives held by the Directors who served during the period are set out in the table below

Existing long term incentive arrangements

Executive Director Retention Plan	Date of Grant	At 1 April 2015	Number of Options			As at 31 December 2015	Earliest vesting date	Lapse date
			Granted	Exercised	Lapsed/ Waived			
S Bowler	13/07/2015	–	3,500,000	–	–	3,500,000	13/07/2016	13/07/2023
J Blaymires	13/07/2015	–	3,000,000	–	–	3,000,000	13/07/2016	13/07/2023

Long Term Incentive Plan	Date of Grant	At 1 April 2015	Number of Options			As at 31 December 2015	Earliest vesting date	Lapse date
			Granted	Exercised	Lapsed/ Waived			
S Bowler	30/09/2013	285,703	–	–	(285,703)	–	30/09/2016	30/09/2023
	24/07/2014	481,721	–	–	(481,721)	–	31/03/2017	31/03/2024
J Blaymires	24/07/2014	481,721	–	–	(481,721)	–	31/03/2017	31/03/2024
A Austin (Resigned 31 May 2015)	24/07/2014	688,172	–	–	(688,172)	–	31/03/2017	31/03/2024
J Tedder (appointed 28 September 2015)	25/11/2015	–	1,315,789	–	–	1,315,789	25/11/2018	25/11/2025

Value Creation Plan	Date of Grant	At 1 April 2015	Number of Units			As at 31 December 2015	Earliest vesting date	Lapse date
			Granted	Exercised	Lapsed/ Waived			
S Bowler	24/07/2014	21	–	–	(21)	–	50%-31/07/2017 25%-31/03/2018 25%-31/03/2019	31/03/2022
J Blaymires	24/07/2014	21	–	–	(21)	–	50%-31/07/2017 25%-31/03/2018 25%-31/03/2019	31/03/2022
A Austin (Resigned 31 May 2015)	24/07/2014	38	–	–	(38)	–	50%-31/07/2017 25%-31/03/2018 25%-31/03/2019	31/03/2022

Non-executive Directors

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

	Nine months ended 31 December 2015				Year ended 31 March 2015			
	Taxable				Taxable			
	Emoluments £000	Benefits £000	Pensions £000	Total £000	Emoluments £000	Benefits £000	Pensions £000	Total £000
Non-executive Directors								
F Gugen – Non-executive Chairman	79	–	–	79	105	–	–	105
J Bryant – Senior Independent	59	–	–	59	75	–	–	75
R Pinchbeck	37	–	–	37	50	–	–	50
C McDowell	45	–	–	45	60	–	–	60
Total – Non-executive Directors	220	–	–	220	290	–	–	290

Implementation of policy in future financial year

For 2016, it is the aim of the Committee to set clear objectives for each individual Director relating to Group KPIs plus individual and strategic targets taking into account where an individual has particular influence and responsibility. The Committee also takes into account overall corporate performance in determining an actual annual bonus payment.

John Bryant

Chairman Remuneration Committee

15 March 2016

DIRECTORS' REPORT

The Directors present their report together with the Group and Parent Company financial statements for the nine months ended 31 December 2015

Business review and future developments

A review of the business and the future developments of the Group are presented in the Chairman's statement, the Chief Executive's statement, the Chief Operating Officer's operating review and the Chief Financial Officer's financial review which are all sections within the Strategic Report

Dividends

The Directors do not recommend the payment of any dividend for the period (Year ended 31 March 2015 £nil)

Principal activity

The Group's principal area of activity is exploring for, appraising, developing and producing oil and gas

Share capital

Details of changes to share capital in the period are set out in note 26 to the consolidated financial statements

Directors and their interests

The Directors who served during the period were as follows

F Gugen	Non-executive Chairman
S Bowler	Chief Executive Officer
J Blaymires	Chief Operating Officer
J Tedder	Chief Financial Officer (appointed 28 September 2015)
J Bryant	Non-executive
R Pinchbeck	Non-executive
C McDowell	Non-executive
A Austin	Director (resigned 31 May 2015)

The Directors' interests for disclosure purposes in the voting rights attaching to the Company's shares at 31 December 2015 were as follows

	31 December 2015 Ordinary 10p Shares		31 March 2014 Ordinary 10p Shares	
	Number	%	Number	%
F Gugen	27,615,764	9.24	27,615,764	9.30
S Bowler	100,808	0.03	86,292	0.03
J Blaymires	50,891	0.02	36,375	0.01
J Tedder (appointed 28 September 2015)	140,000	0.05	—	—
J Bryant	59,045	0.02	59,045	0.02
R Pinchbeck	141,000	0.05	141,000	0.05
C McDowell	—	—	—	—
A Austin (resigned 31 May 2015)	*	*	10,975,628	3.70

* A Austin's interests are not reported as he was no longer a Director at this date

In addition to the table above, on 22 January 2016, S Bowler and J Blaymires subscribed to their full entitlement under the Group's share scheme and accordingly were each allotted 9,474 shares under the Share Investment Plan ("SIP"). Further details of the SIP can be found in the Remuneration Report

Rotation and re-election of Directors

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

Directors' insurance and indemnity provisions

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

The Company indemnifies the Directors against actions they undertake or fail to undertake as Directors or officers of any Group company, to the extent permissible for such indemnities to meet the test of a qualifying third party indemnity provision as provided for by the Companies Act 2006. The nature and extent of the indemnities is as described in Section 60 of the Company's Articles of Association as adopted on 20 June 2010. These provisions remained in force throughout the period and remain in place at the date of this report.

Substantial shareholders

At 11 March 2016, in addition to the Directors' interests as set out above, the Company had received notification from the following institutions of interests in excess of 3 per cent of the Company's issued Ordinary Shares with voting rights:

	Number of Shares	%
Nexen Petroleum UK Limited	39,714,290	13.26
J O Hambro Capital Management	15,040,000	5.02
Krestlake Pty Limited	14,709,385	4.91

Financial instruments

The Group's principal financial instruments comprise cash balances, borrowings, derivative instruments and other debtors and creditors that arise through the normal course of business as set out in note 25 to the consolidated financial statements. The Group's financial risk management objectives are also set out in note 25 to the consolidated financial statements.

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.

Political contributions

The Group made no political donations during the period (year ended 31 March 2015: £nil).

Status

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

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

Board committees

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

DIRECTORS' REPORT CONTINUED

Auditor

The Audit Committee has recommended to the Board of Directors the review of the Group's external audit services. Notwithstanding that review, the current auditor, Ernst & Young LLP, has indicated its willingness to continue in office. Subject to the outcome of the review of external audit services, a resolution to reappoint Ernst & Young LLP as auditor will be proposed at the Annual General Meeting at a fee to be agreed in due course by The Audit Committee and the Board in accordance with section 487 of the Companies Act 2006.

Directors' statement as to disclosure of information to the auditor

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

By order of the Board,



Cooley Services Limited

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

Registered in the United Kingdom number 04981279

15 March 2016

DIRECTORS' STATEMENT OF RESPONSIBILITIES IN RELATION TO THE GROUP FINANCIAL STATEMENTS AND ANNUAL REPORT

STRATEGIC REPORT

CORPORATE GOVERNANCE

FINANCIAL STATEMENTS

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

- Present fairly the financial position, financial performance and cash flows of the Group,
- Select suitable accounting policies in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors and then apply them consistently,
- Present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information,
- Make judgements that are reasonable,
- Provide additional disclosures when compliance with the specific requirements in IFRSs as adopted by the European Union is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's financial position and financial performance,
- State whether the Group financial statements have been prepared in accordance with IFRSs as adopted by the European Union, subject to any material departures disclosed and explained in the financial statements, and
- Prepare the accounts on a going concern basis unless, having assessed the ability of the Group to continue as a going concern, management either intends to liquidate the entity or to cease trading, or has no realistic alternative but to do so.

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

Directors' responsibility statement

The Directors confirm that, to the best of their knowledge

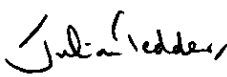
- The financial statements, prepared in accordance with International Financial Reporting Standards as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit and loss of the Group and the undertakings included in the consolidation taken as a whole, and
- The Strategic Report and the Directors' Report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties faced.

By order of the Board,



Stephen Bowler
Chief Executive Officer

15 March 2016



Julian Tedder
Chief Financial Officer

15 March 2016

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF IGAS ENERGY PLC

We have audited the financial statements of IGas Energy plc for the nine months ended 31 December 2015 which comprise the Consolidated Income Statement, the Consolidated and Parent Company Statements of Comprehensive Income, the Consolidated and Parent Company Balance Sheets, the Consolidated and Parent Company Statements of Changes in Equity, the Consolidated and Parent Company Cash Flow Statements and the related notes 1 to 30 of the consolidated financial statements and notes 1 to 17 of the parent company financial statements. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Statement of Responsibilities in Relation to the Group Financial Statements and Annual Report and Parent Company Financial Statements – Directors' Statement of Responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report and Accounts for the nine months to 31 December 2015 to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion:

- The financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2015 and of the group's loss for the nine months then ended,
- The group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union,
- The parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006, and
- The financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Emphasis of matter

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosure made in note 1 to the financial statements concerning the Group's ability to continue as a going concern. The conditions as explained in note 1 to the financial statements indicate the existence of a material uncertainty which may cast significant doubt upon the Group's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the Group was unable to continue as a going concern.

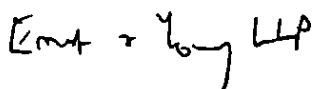
Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and the Directors' Report for the financial period for which the financial statements are prepared is consistent with the financial statements

Matters on which we are required to report by exception

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

- Adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us, or
- The parent company financial statements are not in agreement with the accounting records and returns, or
- Certain disclosures of directors' remuneration specified by law are not made, or
- We have not received all the information and explanations we require for our audit

**Andrew Smyth**

(Senior Statutory Auditor)

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

15 March 2016

CONSOLIDATED INCOME STATEMENT FOR THE NINE MONTHS ENDED 31 DECEMBER 2015

	Notes	Nine months ended 31 December 2015 £000	Year ended 31 March 2015 £000
Revenue	2	25,123	58,160
Cost of sales			
Depletion, depreciation and amortisation		(7,105)	(12,805)
Other costs of sales		(14,416)	(29,927)
		(21,521)	(42,732)
Gross profit		3,602	15,428
Administrative expenses		(5,973)	(9,412)
Restructuring costs	4	(2,117)	–
Impairment of goodwill	10	(39,227)	–
Exploration and evaluation assets written off	11	(12,900)	(15,406)
Impairment of property, plant and equipment	12	(17,720)	(3,946)
Profit on disposal of oil and gas assets	3	3,998	–
Gain on oil price derivatives	3	8,618	7,018
Other income	5	5,070	254
Operating loss	3	(56,649)	(6,064)
Finance income	6	1,302	6,902
Finance costs	6	(9,127)	(19,362)
Loss from continuing activities before tax		(64,474)	(18,524)
Income tax credit	7	17,257	23,769
(Loss)/profit after tax from continuing operations attributable to equity shareholders of the Group		(47,217)	5,245
Gains/(loss) after tax from discontinued operations	17	2,395	(80)
Net (loss)/profit attributable to equity shareholders of the Group		(44,822)	5,165
(Loss)/profit attributable to equity shareholders			
Basic (loss)/earnings per share (pence/share)	8	(15 15p)	2 09p
Diluted (loss)/earnings per share (pence/share)	8	(15 15p)	2 05p

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE NINE MONTHS ENDED 31 DECEMBER 2015

		Nine months ended 31 December 2015 £000	Year ended 31 March 2015 £000
(Loss)/profit for the period/year		(44,822)	5,165
Other comprehensive loss for the period/year			
Currency translation adjustments recycled to the income statement		1,229	–
Currency translation adjustments		(5,058)	(3,035)
Total comprehensive (loss)/income for the period/year		(48,651)	2,130

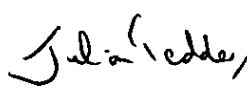
CONSOLIDATED BALANCE SHEET

AS AT 31 DECEMBER 2015

	Notes	31 December 2015 £000	31 March 2015 £000
ASSETS			
Non-current assets			
Intangible exploration and evaluation assets	11	113,394	151,615
Property, plant and equipment	12	82,911	104,314
Goodwill	10	4,801	44,028
		201,106	299,957
Current assets			
Inventories	14	1,208	960
Trade and other receivables	15	14,809	8,151
Cash and cash equivalents	16	28,614	19,025
Other financial assets – restricted cash	16	1,007	2,097
Derivative financial instruments	25	6,654	1,574
Assets classified as held for sale	17	1,837	5,013
		54,129	36,820
Total assets		255,235	336,777
LIABILITIES			
Current liabilities			
Trade and other payables	18	(9,218)	(7,981)
Current tax liabilities	7	(2,004)	(1,085)
Borrowings	19	(4,819)	(5,310)
Other liabilities	20	(147)	(349)
Derivative financial instruments	25	–	(201)
Liabilities associated with assets classified as held for sale	17	(1,837)	(5,998)
		(18,025)	(20,924)
Non-current liabilities			
Borrowings	19	(98,060)	(102,229)
Deferred tax liabilities	7	(14,636)	(32,811)
Provisions	21	(25,323)	(28,826)
Contingent deferred consideration	22	(420)	(5,367)
		(138,439)	(169,233)
Total liabilities		(156,464)	(190,157)
Net assets		98,771	146,620
EQUITY			
Capital and reserves			
Called up share capital	26	26,636	26,446
Share premium account	27	117,731	117,463
Capital redemption reserve	27	41,239	41,239
Foreign currency translation reserve		(6,864)	(3,035)
Other reserves	28	1,322	1,264
Accumulated deficit		(81,293)	(36,757)
Shareholders' funds		98,771	146,620

These financial statements were approved and authorised for issue by the Board on 15 March 2016 and are signed on its behalf by


Stephen Bowler
 Chief Executive Officer


Julian Tedder
 Chief Financial Officer

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE NINE MONTHS ENDED 31 DECEMBER 2015

	Called up share capital (note 26) £000	Share premium account (note 27) £000	Capital redemption reserve (note 27) £000	Foreign currency translation reserve £000	Other reserves (note 28) £000	Accumulated deficit £000	Total £000
At 1 April 2014	17,226	58,933	41,239	–	(667)	(42,409)	74,322
Profit for the year	–	–	–	–	–	5,165	5,165
Employee share plans (note 28)	–	–	–	–	2,418	–	2,418
Lapse of LTIPs under the employee share plan	–	–	–	–	(487)	487	–
Warrants exercised (note 20)	–	1,117	–	–	–	–	1,117
Issue of shares (note 26)	9,220	57,413	–	–	–	–	66,633
Currency translation adjustments	–	–	–	(3,035)	–	–	(3,035)
At 31 March 2015	26,446	117,463	41,239	(3,035)	1,264	(36,757)	146,620
Loss for the period	–	–	–	–	–	(44,822)	(44,822)
Employee share plans (note 28)	–	–	–	–	1,344	–	1,344
Forfeiture of LTIPs under the employee share plan (note 28)	–	–	–	–	(1,000)	–	(1,000)
Lapse of LTIPs under the employee share plan (note 28)	–	–	–	–	(286)	286	–
Issue of shares (note 26)	190	268	–	–	–	–	458
Currency translation adjustments	–	–	–	(3,829)	–	–	(3,829)
At 31 December 2015	26,636	117,731	41,239	(6,864)	1,322	(81,293)	98,771

* The foreign currency translation reserve represents exchange gains and losses arising on translation of foreign currency subsidiaries net assets and results for the nine months ended 31 December 2015 and on translation of those subsidiaries intercompany balances which form part of the net investment of the Group

** Other reserves include 1) LTIP/VCP/EDRP reserves which represent the cost of share options issued under the long term incentive plans 2) share investment plan reserve which represents the cost of the partnership and matching shares 3) treasury shares reserve which represents the cost of shares in IGas Energy plc purchased in the market and held by the IGas Employee Benefit Trust to satisfy awards held under the Group incentive plans and 4) capital contribution reserve which arose following the acquisition of IGas Exploration UK Limited

CONSOLIDATED CASH FLOW STATEMENT FOR THE NINE MONTHS ENDED 31 DECEMBER 2015

		Nine months ended 31 December 2015 £000	Year ended 31 March 2015 £000
	Notes		
Cash flows from operating activities			
Loss before tax for the period/year		(64,474)	(18,524)
Adjustment for non-operating gain relating to farm-out		(3,998)	-
Adjustment for gain relating to deferred consideration	5	(4,947)	-
Depreciation, depletion and amortisation	12	7,233	13,031
Abandonment costs incurred	21	(6)	(95)
Share based payment charge	28	600	1,487
Impairment of goodwill	10	39,227	-
Exploration and evaluation assets written off	11	12,900	15,407
Impairment of property, plant and equipment	12	17,720	3,946
Unrealised gain on oil price derivatives	3	(5,281)	(1,422)
Finance income	6	(1,302)	(6,902)
Finance costs	6	9,127	19,362
Other non-cash adjustments		(326)	(24)
Operating cash flow before working capital movements		6,473	26,266
(Increase)/decrease in trade and other receivables and other financial assets		(5,568)	5,755
Increase/(decrease) in trade and other payables, net of accruals related to investing activities		130	(5,920)
(Increase)/decrease in inventories		(248)	383
Cash generated from continuing operating activities		787	26,484
Cash generated from discontinued operating activities		175	-
Taxation paid		-	(15)
Net cash generated from operating activities		962	26,469
Cash flows from investing activities			
Purchase of intangible exploration and evaluation assets		(2,963)	(11,033)
Purchase of property, plant and equipment		(6,396)	(5,775)
Acquisitions, net of cash acquired	9	-	2,524
Disposal of investment		-	1,500
Disposal of exploration and evaluation assets		30,000	375
Disposal of oil and gas assets		181	-
Interest received		107	70
Cash generated from/(used in) continuing investing activities		20,929	(12,339)
Cash used in discontinued investing activities		(52)	-
Net cash generated from/(used in) investing activities		20,877	(12,339)
Cash flows from financing activities			
Cash proceeds from issue of ordinary share capital	26	125	997
Share issue costs	26	-	(1,882)
Interest paid		(5,925)	(11,548)
Bond renegotiation costs		(940)	-
Repayment of borrowings		(6,147)	(13,688)
Cash used in continuing financing activities		(12,887)	(26,121)
Net cash used in financing activities		(12,887)	(26,121)
Net increase/(decrease) in cash and cash equivalents in the period/year		8,952	(11,991)
Net foreign exchange difference		637	2,715
Cash and cash equivalents at the beginning of the period/year		19,025	28,301
Cash and cash equivalents at the end of the period/year	16	28,614	19,025

STRATEGIC REPORT

CORPORATE GOVERNANCE

FINANCIAL STATEMENTS

CONSOLIDATED FINANCIAL STATEMENTS – NOTES

AS AT 31 DECEMBER 2015

1 Accounting policies

(a) Basis of preparation of financial statements

The consolidated financial statements of IGas Energy plc (the "Company") and subsidiaries (the "Group") have been prepared in accordance with International Financial Reporting Standards, adopted for use by the European Union ("IFRSs") as they apply to the Group for the nine months ended 31 December 2015 and with the Companies Act 2006. The accounting periods are not comparable as this 9 month period represents a short period of account to align the year end with the year end of major operating partners. The accounts were approved by the Board and authorised for issue on 15 March 2016. IGas Energy plc is a public limited company incorporated, registered in England and Wales and is listed on the Alternative Investment Market ("AIM").

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

The comparative amounts have been amended to reflect the finalisation of the acquisition accounting for Dart (note 9).

Changes in presentation and disclosures

In previous years, certain exceptional items, as defined in the Group's accounting policies, were disclosed separately under the heading "exceptional items" in the income statement after operating profit. During the current period, all exceptional items are reported within operating profit, thereby increasing administrative expenses and reducing operating profit by £867k in the year ended 31 March 2015 which represent costs relating to acquisitions. Administrative expenses for the nine months ended 31 December 2015 include £107k of costs relating to acquisitions. The Directors consider this change to provide more reliable and relevant information as the nature of separately disclosed exceptional items was not sufficiently distinct from other separately disclosed material items in the income statement.

In addition, the Group no longer presents adjusted earnings per share (EPS), the comparative period disclosures have therefore also not been presented. Management considers the removal of adjusted EPS to result in clearer disclosure and more reliable and relevant information, recognising that the adjusted earnings measure is not defined by IFRS and required judgement in determining the relevant adjustments.

Furthermore, the Group no longer presents intangible exploration and evaluation ("E&E") asset impairments and E&E write offs separately. During the nine months to 31 December 2015, impairment of £5.9 million (year ended 31 March 2015: £15.2 million) and write offs of £7.0 million (year ended 31 March 2015: £0.2 million) have been aggregated in "Exploration and evaluation assets written off" in the income statement. The Directors consider this change to provide more reliable and relevant information as the nature of the two concepts was not sufficiently distinct from each other to merit separate disclosure.

There are no new standards, interpretations and amendments to adopt which are effective as of 1 April 2015.

New and amended standards and Interpretations

Certain new standards, interpretations and amendments to existing standards have been published and are mandatory only for the Group's accounting periods beginning on or after 1 January 2016 or later periods and which the Group has not adopted early. Those that may be applicable to the Group in future are as follows:

IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28	1 January 2016*
IFRS 11	Accounting for Acquisitions of Interests in Joint Operations – Amendments to IFRS 11	1 January 2016*
IAS 1	Disclosure initiative – Amendments to IAS 1	1 January 2016*
IAS 16 and IAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation – Amendments to IAS 16 and IAS 38	1 January 2016*
IAS 7	Disclosure initiative – Amendments to IAS 7	1 January 2017*
IFRS 15	Revenue from Contracts with Customers	1 January 2018*
IFRS 9	Financial Instruments	1 January 2018*
IFRS 16	Leases	1 January 2019*

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

The Group is currently assessing the impact that these amendments will have on its financial position. The Group does not anticipate adopting these standards and interpretations ahead of their effective dates.

1 Accounting policies continued

(b) Going concern

The Group closely monitors and manages its liquidity risks. Cash forecasts for the Group are regularly produced based on, inter alia, the Group's production and expenditure forecasts, management's best estimate of future oil prices (based on current forward curves, adjusted for the Group's hedging programme) and the Group's borrowing facilities. Sensitivities are run to reflect different scenarios including, but not limited to, possible further reductions in commodity prices below the current forward curve and reductions in forecast oil and gas production rates.

The ability of the Group to operate as a going concern is dependent upon the continued availability of future cash flows and the availability of the monies drawn under its Bonds, which in turn is dependent on the Group not breaching its bond covenants. In response to the significant reduction in oil prices, the Board implemented a series of cost saving initiatives during the period that have materially reduced both operating costs and G&A spend. In addition, following positive discussions with the bondholders, the net leverage covenant, inter alia, was amended to take account of the Group's improved cash position following the INEQS farm-out, which was completed during the period.

Whilst the Group has delivered on the above initiatives and has significant cash balances, the continuing low commodity price environment means that the Group's current forecasts, utilising the current oil price forward curve, project non-compliance with certain of its covenants in the second half of 2016. The Board is pursuing actions to alleviate a covenant breach including, but not limited to, further cost reductions, monetising existing hedged oil positions, bond buy-backs, and asset portfolio management. Concurrently, the Board will continue to evaluate other cash and earnings accretive transaction options which could reduce the need for the mitigating actions set out above. Nevertheless, based on the current oil price and forward curve, the Directors cannot be certain that these will fully mitigate any potential covenant shortfall in respect of the testing period ending 31 December 2016. Whilst pursuing the options listed above, the Board will continue its proactive dialogue with bondholders and, if appropriate, seek to modify or temporarily waive the existing covenants ahead of the time at which the Group submits its compliance certificate in respect of that testing period, which would be by 30 April 2017.

The risk that the Group will be unable to either enact appropriate mitigating actions to a sufficient extent before the 31 December 2016 measurement date or secure an appropriate relaxation or amendment of its financial covenants prior to 30 April 2017 represents a material uncertainty that may cast doubt upon the Group's ability to continue as a going concern.

The Board believes, after making appropriate enquiries, and on the information currently available, that the Group is likely to be able to either implement sufficient mitigating actions to ensure that the Group is compliant with its covenants or secure a relaxation to the covenants as described above and it is therefore considered appropriate to adopt the going concern basis in preparing the financial statements.

(c) Basis of consolidation

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

At 31 December 2015, the Group comprised the Company and entities controlled by IGas Energy plc (its subsidiaries). There have been no new subsidiaries acquired during the period.

(d) Business combinations

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

CONSOLIDATED FINANCIAL STATEMENTS – NOTES

AS AT 31 DECEMBER 2015 CONTINUED

1 Accounting policies continued

(e) Assets held for sale

Non-current assets (or disposal groups) are classified as held-for-sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable within a year from the classification date. They are measured at the lower of their carrying amount and fair value less costs of disposal, except for assets such as deferred tax assets and financial assets, which are specifically exempt from this requirement.

An impairment loss is recognised for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs of disposal. A gain is recognised for any subsequent increases in fair value less costs of disposal of an asset (or disposal group), but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the non-current asset (or disposal group) is recognised at the date of derecognition.

(f) Joint arrangements

Certain of the Group's licence interests are held jointly with others under arrangements whereby unincorporated and jointly controlled ventures are used to explore, evaluate and ultimately develop and produce from its oil and gas interests. Accordingly, the Group accounts for its share of assets, liabilities, income and expenditure of these joint operations, classified in the appropriate balance sheet and income statement headings, except where its share of such amounts remain the responsibility of another party in accordance with the terms of carried interests as described at (j).

Where the Group enters into a farm-in agreement involving a licence in the exploration and evaluation phase, the Group records all costs that it incurs under the terms of the joint operating agreement as amended by the farm-in agreement as they are incurred.

Where the Group enters into a farm-out agreement involving a license in the exploration and evaluation phase, the Group does not record any expenditure made by the farmee on its account. It also does not immediately recognise any gain or loss on its exploration and evaluation farm-out arrangements, but redesignates any costs previously capitalised in relation to the whole interest as relating to the partial interest retained. Any cash consideration received directly from the farmee is credited against costs previously capitalised in relation to the whole interest with any excess accounted for by the farmor as a gain on disposal.

When the Group, acting as an operator or manager of a joint arrangement, receives reimbursement of direct costs recharged to the joint arrangement, such recharges represent reimbursements of costs that the operator incurred as an agent for the joint arrangement and therefore have no effect on profit or loss.

(g) Significant accounting judgements and estimates

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

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

Recoverable value of intangible exploration and evaluation assets

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

Recoverable value of property, plant and equipment

Management reviews the Group's property, plant and equipment periodically for impairment indicators. The determination of recoverable amounts in any resulting impairment test requires judgement around key assumptions. Key assumptions in the impairment models include those related to prices that are based on forward curves and long-term corporate assumptions thereafter, discount rates that are risked to reflect conditions specific to individual assets, future costs, both capital and operating that are based on management's estimates having regard to past experience and the known characteristics of the individual assets, reserves and future production, discussed further below. Details of the Group's property, plant, and equipment are disclosed in note 12.

1 Accounting policies continued**(g) Significant accounting judgements and estimates continued****Recoverable value of goodwill**

The Group assess goodwill each reporting period to determine whether there is any impairment. The assessment requires the use of estimates and assumptions such as long-term oil prices, discount rates, reserves, production profiles and capital expenditure. These estimates and assumptions are subject to risk and uncertainty. Therefore, there is a possibility that changes in circumstances will impact these projections, which may impact the recoverable value of goodwill. Details of the Group's goodwill are disclosed in note 10.

Proved and probable reserves and contingent resources

The volume of proved and probable oil and gas reserves is an estimate that affects the unit of production depreciation of producing oil and gas property, plant and equipment as well as being a significant estimate affecting decommissioning provisions, impairment calculations and the valuation of oil and gas properties in business combinations. Contingent resources affect the valuation of exploration and exploration assets acquired in business combinations and the estimation of the recoverable value of those assets in impairment tests. Proved and probable reserves and contingent resources are estimated using standard recognised evaluation techniques. Estimates are reviewed at least annually and are regularly estimated by independent consultants. Future development costs are estimated taking into account the level of development required to produce the reserves by reference to operators, where applicable, and internal engineers.

Deferred tax asset recognition

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits together with future tax planning strategies. Estimates of future taxable profits are based on cash flows expected to be generated from internal estimates of projected production and costs. Details of the Group's deferred tax assets, including those not recognised due to uncertainty regarding the future utilisation, are disclosed in note 7.

Decommissioning costs

The estimated cost of decommissioning at the end of the producing lives of fields is reviewed periodically and is based on forecast price levels and technology at the balance sheet date. Provision is made for the estimated cost at the balance sheet date, using a discounted cash flow methodology and a risk free rate of return. Details of the Group's decommissioning provisions are disclosed in note 21.

Business combinations

When the Group acquires a business, it assesses the fair value of the assets acquired and liabilities assumed by reference to the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. Petroleum reserves and resources used in the assessment of fair values on acquisition refer to independent reports. Where resources are significant they are risked on the basis of their inherent uncertainty. Discounted cash flow models are used to reflect the revenues and expenditures related to the extraction of those reserves. Comparable resource multiples achieved in recent market activity are used for resources. Other assets and liabilities are valued by reference to market-based observations or independent valuations where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. Details of business combinations occurring in the current period and prior year are disclosed in note 9.

Functional currency

The determination of functional currency often requires significant judgement where the primary economic environment in which a company operates may not be clear. The parent entity reconsiders the functional currency of its entities if there is a change in the underlying transactions, events and conditions which determines the primary economic environment.

(h) Exceptional items

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

(i) Revenue

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

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

CONSOLIDATED FINANCIAL STATEMENTS – NOTES

AS AT 31 DECEMBER 2015 CONTINUED

1 Accounting policies continued

(j) Non-current assets

Goodwill

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

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

Goodwill is tested for impairment at least annually and when circumstances indicate that the carrying value may be impaired

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

Intangible exploration and evaluation assets

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

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

Impairment testing of exploration and evaluation assets

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

Property plant and equipment – interests in oil and gas properties

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

- Oil and gas properties and other property, plant and equipment are stated at cost, less accumulated depreciation and accumulated impairment losses,
- The initial cost of an asset comprises its purchase price or construction cost, any costs directly attributable to bringing the asset into operation, the initial estimate of the decommissioning obligation and, for qualifying assets (where relevant), borrowing costs. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset. The capitalised value of a finance lease is also included within property, plant and equipment,
- When a development project moves into the production stage, the capitalisation of certain construction/development costs ceases, and costs are either regarded as part of the cost of inventory or expensed, except for costs which qualify for capitalisation,
- Expenditure relating to interests in oil and gas properties includes both expenditure which is depleted on a unit of production basis, commencing at the start of commercial production and expenditure which is depreciated on a straight line basis over the relevant asset's estimated useful life. Where expenditure is depreciated on a unit of production basis, the depletion charge is calculated according to the proportion that production bears to the recoverable reserves for each property,
- The Group's interests in oil and gas properties are assessed for indications of impairment including events or changes in circumstances which 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, and
- 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

1 Accounting policies continued**(j) Non-current assets continued****Impairment**

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

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

Decommissioning

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

Carried interests

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

Other property plant and equipment

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

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

The Group does not capitalise amounts considered to be immaterial.

(k) Financial instruments**Cash and cash equivalents**

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

Other financial assets – Restricted cash

Restricted cash relates to bond guarantees issued to governments for the performance under the terms of work programs. Funds are only classified as cash and cash equivalents when monies are transferred to and under the control of the Group.

Trade and other receivables

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

Trade and other payables

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

CONSOLIDATED FINANCIAL STATEMENTS – NOTES

AS AT 31 DECEMBER 2015 CONTINUED

1 Accounting policies continued

(k) Financial instruments continued

Derivative financial instruments and hedge accounting

The Group enters into derivatives to manage its exposure to variability in the price realised on a proportion of its crude oil production. All derivative financial instruments are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value at each period end. Apart from those derivatives designated as qualifying cash flow hedging instruments, all changes in fair value are recorded as financial income or expense in the year in which they arise, otherwise they are recognised in other comprehensive income.

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

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

Warrants

When warrants do not qualify as equity instruments under IAS 39 due to the variable number of shares that would be issued in each case they are accounted for as financial liabilities. The warrants are initially recognised at fair value on the date they are issued and are subsequently re-measured to fair value at each period end. All changes in fair value are recognised in the income statement.

Impairment of financial assets

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

(l) Borrowings

Borrowings are measured initially at fair value. After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the Effective Interest Rate ("EIR") method. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the EIR amortisation process. When management estimates of the amounts or timings of cash flows are revised, borrowings are re-measured using the revised cash flow estimates under the original effective interest rate with any consequent adjustment being recognised in the income statement.

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

Borrowing costs

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

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

All other borrowing costs are recognised in the income statement in the periods in which they are incurred.

(m) Leases

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

Operating leases

Rentals are charged to the income statement on a straight line basis over the period of the lease.

1 Accounting policies continued**(m) Leases continued****Finance leases**

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

(n) Inventories

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

(o) Taxation

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

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

Deferred tax is recognised in respect of all temporary differences that have originated but not reversed at the balance sheet date except when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss. Temporary differences arise from differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are not discounted. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered.

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

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

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

(p) Share based payments

Where share options or warrants are awarded to employees including Directors, the fair value of the options or warrants at the date of the grant is recorded in equity over the vesting period. Non-market vesting conditions, but only those related to service and performance, are taken into account by adjusting the number of equity instruments expected to vest at each balance sheet date so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of options that eventually vest. All other vesting conditions, including market vesting conditions, are factored into 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 by the change from immediately before to after the modification, is also recorded in equity over the remaining vesting period.

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

Where an equity settled award is identified as a replacement it will be treated as a modification to the original plan where the incremental fair value of the replacement award is expensed over the vesting period of the replacement award. The fair value of the original award on its grant date continues to be recognised over its original 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.

CONSOLIDATED FINANCIAL STATEMENTS – NOTES

AS AT 31 DECEMBER 2015 CONTINUED

1 Accounting policies continued

(p) Share based payments continued

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

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

(q) Post-retirement benefits

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

(r) Equity

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

(s) Foreign currency

The consolidated financial statements are presented in UK pound sterling, the primary economic environment of the Company.

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

For the purposes of consolidation, the income statement items of those entities for which the UK pound sterling is not the functional currency are translated into UK pound sterling at the average rates of exchange during the period. The related balance sheets are translated at the rates ruling at the balance sheet date. Exchange differences arising on translation of the opening net assets and results of such operations, are reported in other comprehensive income and accumulated in equity.

The exchange differences arising on intercompany balances that form part of an entity's net investment in a foreign operation, are recognised in other comprehensive income and accumulated in foreign currency translation reserve until the disposal of the foreign operation.

On disposal of entities with a different functional currency to the Company's functional currency, the deferred cumulative exchange differences recognised in equity relating to that particular operation would be recognised in the income statement.

(t) Discontinued operations

The Group classifies non-current assets and disposal groups as held for sale if their carrying amounts will be recovered principally through a sale rather than through continuing use. Such non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Costs to dispose are the incremental costs directly attributable to the sale, excluding the finance costs and income tax expense.

The criteria for held for sale classification is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate distribution in its present condition. Actions required to complete the sale should indicate that it is unlikely that significant changes to the sale will be made or that the sale will be withdrawn. Management must be committed to the sale being expected within one year from the date of the classification.

Property, plant and equipment and intangible assets are not depreciated or amortised once classified as held for sale.

Assets and liabilities classified as held for sale are presented separately as current items in the statement of financial position.

A disposal group qualifies as a discontinued operation if it is a component of an entity that either has been disposed of, or is classified as held for sale, and

- Represents a separate major line of business or geographical area of operations,
- Is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations, or
- Is a subsidiary acquired exclusively with a view to resale.

Discontinued operations are excluded from the results of continuing operations and are presented as a single amount as profit or loss after tax from discontinued operations in the income statement. All other notes to the financial statements include amounts for continuing operations unless otherwise mentioned.

2 Revenue and segment information

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

All revenue, which represents turnover, arises solely within the United Kingdom and relates to external parties. Revenues of approximately £11.8 million and £10.1 million were derived from the Group's two largest customers (Year ended 31 March 2015: £25.1 million and £26.9 million).

The majority of the Group's non-current assets are in the United Kingdom.

	UK/ Europe £000	Rest of the World £000	Nine months ended 31 December 2015 Group £000
Oil sales to external customers	24,753	–	24,753
Electricity sales to external customers	370	–	370
	25,123	–	25,123
Segment operating loss	(56,408)	(241)	(56,649)
Interest expense (note 6)	(8,731)	–	(8,731)
Interest income (note 6)	105	–	105
Other finance income – net (note 6)	801	–	801
Loss before tax and discontinued operations	(64,223)	(241)	(64,474)
Other segment information			
Capital expenditure – exploration and evaluation (note 11)	2,931	–	2,931
Capital expenditure – property, plant and equipment (note 12)	7,573	–	7,573
Depletion, depreciation and amortisation (note 12)	7,249	–	7,249

	UK/ Europe £000	Rest of the World £000	Year ended 31 March 2015 Group £000
Oil sales to external customers	57,297	–	57,297
Electricity sales to external customers	863	–	863
Loss before tax and discontinued operations	58,160	–	58,160
Segment operating loss	(5,589)	(475)	(6,064)
Interest expense (note 6)	(12,582)	–	(12,582)
Interest income (note 6)	119	–	119
Other finance income – net (note 6)	3	–	3
Loss before tax and discontinued operations	(18,049)	(475)	(18,524)
Other segment information			
Capital expenditure – exploration and evaluation (note 11)	77,784	–	77,784
Capital expenditure – property, plant and equipment (note 12)	5,811	6	5,817
Depletion, depreciation and amortisation (note 12)	13,031	1	13,032

CONSOLIDATED FINANCIAL STATEMENTS – NOTES AS AT 31 DECEMBER 2015 CONTINUED

3 Operating loss

	Nine months ended 31 December 2015 £000	Year ended 31 March 2015 £000
Operating loss is stated after charging/(crediting)		
Staff costs	5,794	10,345
Depletion, depreciation and amortisation	7,234	13,012
Acquisition costs	107	867
Auditor's remuneration		
Audit of the financial statements	425	416
Audit of accounts of any associate of the Company	60	68
Audit-related assurance services	112	147
All taxation advisory services other than tax compliance	–	57
Corporate finance services	–	237
Profit on disposal of oil & gas assets	(3,998)	–
Operating lease charges		
Land and buildings	1,544	1,969
Other	170	211

Profit on disposal of oil and gas assets

Profit on disposal of oil and gas assets has arisen as a result of the farm-out agreement entered into between the Group and INEOS Upstream Limited ("INEOS") which completed on 7 May 2015

INEOS acquired a 50% interest in IGas' UK Onshore PEDLs 147, 184, 189 and 190 and a 60% interest in IGas' UK Onshore PEDLs 145, 193 and EXL 273, (the "Bowland Licences") in the North West of England. In addition, INEOS acquired IGas' entire working interest in the acreage held under PEDL 133 in Scotland. In the East Midlands, INEOS also acquired a 20% interest in PEDLs 012 and 200. INEOS will assume operatorship of PEDLs 145 and 193 and EXL 273. IGas will retain operatorship of all other Bowland Licences.

INEOS made a cash payment to IGas of £30.0 million on completion of the deal (resulting in a gain of £4.0 million) and will provide a fully funded future work programme of up to £138.0 million gross, of which IGas' share is expected to amount to approximately £65.0 million.

Gain on oil price derivatives

	Nine months ended 31 December 2015 £000	Year ended 31 March 2015 £000
Realised gain on matured derivatives	3,337	5,596
Unrealised gain on derivatives	5,281	1,422
	8,618	7,018

4 Employee information

	Nine months ended 31 December 2015 £000	Year ended 31 March 2015 £000
Staff costs comprised		
Wages and salaries	5,948	10,181
Social security costs	834	1,174
Company contributions to pension scheme	756	933
Employee share based payment cost	1,343	2,657
	8,881	14,945
	No.	No.
Average number of employees including Directors in the period/year		
Operations, including services	107	158
Administrative	37	51
	144	209

In the period ended 31 December 2015 £3.1 million (Year ended 31 March 2015 £4.6 million) of the Group's staff costs including Executive Directors have been capitalised in accordance with the Group's accounting policy

Details of Directors' remuneration, Directors' transactions and Directors' interests are set out in the part of the Directors' Remuneration Report described as having been audited which forms part of these financial statements

In addition to the costs above, the Group recognised £2.1 million in connection with its employees as a result of the Group restructuring

5 Other income

Included within other income is £4.9 million relating to the release of contingent deferred consideration as described in note 22

6 Finance income and costs

	Nine months ended 31 December 2015 £000	Year ended 31 March 2015 £000
Finance income		
Interest on short-term deposits	105	119
Foreign exchange gains	51	-
Other interest	1	6
Gain on Bond buyback (note 19)	943	1,439
Gain on fair value of warrants (note 20)	202	5,338
Finance income recognised in income statement	1,302	6,902
Finance expense		
Finance lease charges	-	7
Other interest	-	12
Interest on borrowings	8,731	12,563
Interest expense	8,731	12,582
Foreign exchange loss	-	6,249
Unwinding of discount on provisions (note 21)	396	531
Finance expense recognised in income statement	9,127	19,362

CONSOLIDATED FINANCIAL STATEMENTS – NOTES

AS AT 31 DECEMBER 2015 CONTINUED

7 Taxation

i) Tax charge on (loss)/profit from continuing ordinary activities

	Nine months ended 31 December 2015 £000	Year ended 31 March 2015 £000
UK corporation tax		
Current tax on income for the year	1,253	1,085
Credit in relation to prior year	(335)	–
Total current tax charge	918	1,085
Deferred tax		
Current year credit relating to the origination or reversal of temporary differences	(16,418)	(8,151)
Current year credit relating to the movement due to the tax rate changes	–	(14,200)
Credit in relation to prior year	(1,757)	(2,503)
Total deferred tax credit	(18,175)	(24,854)
Tax credit on profit on ordinary activities	(17,257)	(23,769)

ii) Factors affecting the tax charge

The majority of the Group's profits are generated by "ring-fence" businesses which attract UK corporation tax and supplementary charge at a combined average rate of 50% previous year 59.04%

A reconciliation of the UK statutory corporation tax rate applied to the Group's loss before tax to the Group's total tax credit is as follows

	Nine months ended 31 December 2015 £000	Year ended 31 March 2015 £000
Loss from continuing ordinary activities before tax	(64,474)	(18,524)
Expected tax credit based on profit or loss from continuing ordinary activities multiplied by an average combined rate of corporation tax and supplementary charge in the UK of 50% (2015 59.04%)	(32,237)	(10,937)
Deferred tax credit in respect of the prior year	(1,757)	(2,503)
Prior year current tax credit	(335)	–
Tax effect of expenses not allowable for tax purposes/(income not taxable)	14,560	(1,488)
Tax effect of expenses not allowable for supplementary charge purposes	1,750	4,746
Impact of profits or losses taxed or relieved at different rates	(135)	3,811
Net increase/(decrease) in unrecognised losses carried forward	897	(3,474)
Tax rate change	–	(13,924)
Tax credit on loss on ordinary activities	(17,257)	(23,769)

With effect from 1 January 2015, the rate of supplementary charge has been reduced from 32% to 20%. This change has been reflected in the current period credit included in the deferred tax credit for the period relating to the group's ring-fence activities

During the year legislation was enacted to reduce the main rate of corporation tax from 21% to 20% with effect from 1 April 2015. These rates are reflected in the calculation of deferred tax balances in respect of the group's non ring-fence activities

Finance (No. 2) Act 2015 for which Royal Assent was received on 18 November 2015 further reduced the main rate of corporation tax to 19% effective for the periods starting from 1 April 2017 and to 18% for the periods from 1 April 2020. It is anticipated that the majority of the non-ring fence losses would be utilised prior to 2020 and it is considered that the impact of the change in the tax rate is immaterial to the Group's results

7 Taxation continued**iii) Deferred tax**

The movement on the deferred tax liability in the year is shown below

	Nine months ended 31 December 2015 £000	Year ended 31 March 2015 £000
Opening liability at beginning of year	32,811	57,665
Tax credit relating to prior year	(1,757)	(2,503)
Tax credit during the year recognised in income statement	(16,418)	(8,151)
Tax credit arising due to the changes in tax rates – at closing	–	(14,200)
Closing liability at end of year	14,636	32,811

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

	31 December 2015 £000	31 March 2015 £000
Accelerated capital allowances	41,328	63,189
Tax losses carried forward	(22,699)	(21,937)
Decommissioning provision	(7,075)	(8,559)
Unrealised gains or losses on derivative contracts	3,973	686
Share based payments	(891)	(568)
Deferred tax liabilities	14,636	32,811

iv) Tax losses

Deferred tax assets have been recognised in respect of tax losses and other temporary differences where the Directors believe it is probable that these assets will be recovered. Such tax losses include £58.7 million (31 March 2015: £43.0 million) of ring-fence corporation tax losses.

The Group has further tax losses and other similar attributes carried forward of approximately £187 million (31 March 2015: £177.4 million) for which no deferred tax asset is recognised due to insufficient certainty regarding the availability of appropriate future taxable profits. Such losses carried forward include losses arising in Dart UK companies acquired in the prior year.

The unrecognised losses may affect future tax charges should certain subsidiaries in the Group produce taxable trading profits in future periods where there is currently uncertainty of the timing of future taxable profits.

8 Earnings per share (EPS)

Basic EPS amounts are based on the loss for the period after taxation attributable to ordinary equity holders of the parent of £44.8 million (31 March 2015: £5.2 million) and the weighted average number of ordinary shares outstanding during the period of 295.9 million (31 March 2015: 247.6 million).

Diluted EPS amounts are based on the loss after taxation attributable to the ordinary equity holders of the parent and the weighted average number of shares outstanding during the period plus the weighted average number of ordinary shares that would be issued on the conversion of all the potentially dilutive ordinary shares into ordinary shares, except where these are anti-dilutive.

CONSOLIDATED FINANCIAL STATEMENTS – NOTES

AS AT 31 DECEMBER 2015 CONTINUED

8 Earnings per share (EPS) continued

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

	Nine months ended 31 December 2015	Year ended 31 March 2015
Basic EPS – ordinary shares of 10p each (Pence)	(15 15)	2 09p
Diluted EPS – ordinary shares of 10p each (Pence)	(15 15)	2 05p
(Loss)/profit for the period/year attributable to equity holders of the parent – £000	(44,822)	5,245
Weighted average number of ordinary shares in the period/year – basic EPS	295,947,728	247,605,481
Weighted average number of ordinary shares in the period/year – diluted EPS	295,947,728	251,739,366

There are 23,305,230 potentially dilutive warrants and options over the ordinary shares at 31 December 2015 (31 March 2015 11,757,913), which are not included in the calculation of diluted earnings per share because they were anti-dilutive as their conversion to ordinary shares would decrease the loss per share

9 Acquisitions

Acquisition of Dart Energy Limited

On 16 October 2014, the Company acquired the entire issued share capital of Dart Energy Limited ("Dart") on a share for share exchange basis for a consideration of 89,997,626 Ordinary Shares of 10p each (the "Acquisition"). The fair value of that consideration was £67.4 million. The combination created a market leading onshore UK oil and gas company with the largest area in the UK under licence of over 1 million net acres including major UK shale basins.

The non-core assets (those Dart assets located outside of the UK), have been classified on acquisition as assets held-for-sale (note 17).

The accounting for the acquisition of Dart Energy Limited as of 16 October 2014 (acquisition date) was provisionally determined in respect of the fair values of certain assets acquired and liabilities assumed in the financial statements for the year ended 31 March 2015. During the period to 31 December 2015, the necessary valuations and assessments have been undertaken so that the accounting for this acquisition has been finalised.

The details of the adjustments to the provisionally determined fair values of assets acquired and liabilities assumed are shown below.

	Provisional fair values £000	Adjustments £000	Final fair values £000
Assets			
Investments	1,566	–	1,566
Exploration and evaluation (note 11) ¹	60,559	616	61,175
Other intangible assets	2,374	–	2,374
Property, plant and equipment (note 12)	338	–	338
Cash and cash equivalents	2,525	–	2,525
Restricted cash	2,513	–	2,513
Other receivables	2,710	–	2,710
Assets classified as held for sale (note 17)	2,343	–	2,343
	74,928	616	75,544
Liabilities			
Trade and other payables	(1,822)	–	(1,822)
Provisions	(4,076)	–	(4,076)
Contingent deferred consideration	(5,367)	–	(5,367)
Liabilities associated with assets classified as held for sale (note 17)	(1,718)	–	(1,718)
	(12,983)	–	(12,983)
Total identifiable net assets at fair value	61,945	616	62,561
Purchase consideration	67,362	–	67,362
Goodwill	5,417	(616)	4,801

¹ Adjustments to the fair value of E&E following re-measurement of E&E assets relate to conventional assets and related tax effects.

10 Goodwill

	31 December 2015 £000	31 March 2015 £000
Opening balance	44,028	39,227
Acquisitions	–	4,801
Impairments	(39,227)	–
	4,801	44,028

Impairment testing of goodwill

Due to the change in the portfolio of assets resulting from the Dart acquisition, management has now assigned goodwill to the conventional and unconventional CGUs, the level at which goodwill is monitored for internal management purposes. The goodwill related to the conventional assets was impaired in full, the carrying value of goodwill as at 31 December 2015 relates entirely to the unconventional assets.

The Group tests goodwill for impairment annually or more frequently if there are indications that goodwill might be impaired. During the period ended 31 December 2015, the Group has undertaken an impairment test of goodwill due to the decline in the oil price. The Group assessed whether goodwill was impaired by calculating fair value less cost of disposal ("FVLCD") using discounted future cash flows of the cash generating unit and comparing this to the total carrying value of the cash generating unit including goodwill.

FVLCD calculations are based on cash flows expected to be generated by projected oil production profiles (including incremental production projects) up to the expected cessation of production dates. Future operating and capital expenditure were based on management's assessment, and production and reserve profiles were based on proved and probable reserves as determined by internal estimates.

The calculation of FVLCD includes the following key assumptions:

- Future production volumes,
- Crude oil prices, and
- Discount rate

Estimated future production volumes are based on detailed data for each of the Group's fields and take into account development plans for the fields which would be expected to be undertaken by a market participant.

The crude oil prices used are based on the forward oil price curve for three years followed by management's view of long term price (\$75/bbl).

The post-tax discount rate in 2015 is 9.0 per cent. The period over which the Group has projected cash flows is in excess of five years and is considered to be appropriate by the Group as it is underpinned by estimates of reserves and resources.

It was determined that the carrying amount of goodwill is impaired by £39.2 million (31 March 2015: £nil). The fair value is a level 3 fair value measurement, as defined in note 25. There is no tax effect in respect of the impairment of goodwill.

During the interim period ended 30 September 2015, the Group recognised impairment in goodwill of £14.5 million. The increase in the recorded impairment loss during the three months to period ended 31 December 2015 is triggered by reduced short-term oil prices.

CONSOLIDATED FINANCIAL STATEMENTS – NOTES

AS AT 31 DECEMBER 2015 CONTINUED

11 Intangible exploration and evaluation assets

	Nine months Period ended 31 December 2015 £000	Year ended 31 March 2015 £000
At 1 April	151,615	90,997
Additions	2,931	14,235
Farm-out	(28,252)	–
Acquisitions (note 9)	–	61,175
Transfer from intangible assets	–	2,374
Transfers to assets held for sale	–	(1,903)
Changes in decommissioning	–	143
Amounts written off*	(12,900)	(15,406)
At 31 December/31 March	113,394	151,615

* Amounts written off relate to impairment of UK conventional E&E assets of £5.9 million (31 March 2015: £15.2 million) and £7.0 million of unconventional E&E assets written off (31 March 2015: £0.2 million)

Under the terms of the Secured Bond agreement, the Bondholders have a fixed and floating charge over these assets

Impairment of exploration and evaluation assets

Due to the continued decline in the oil price, assets with conventional oil resources were tested for impairment. As a result of these tests, there was impairment of £5.9 million pre-tax (£2.9 million post-tax) in the UK-conventional E&E assets (31 March 2015: £15.2 million pre-tax (£6.2 million post-tax))

In calculating this impairment, management used risked contingent resource estimates, internal cost estimates and a range of assumptions with regard to future oil prices. The recoverable amount was based on management's estimate of the FVLCD. The fair value is a level 3 fair value measurement, as defined in note 25.

	Trigger for impairment	Nine months ended 31 December 2015 impairment £000	Year ended 31 March 2015 impairment £000	Post tax discount rate assumption	Oil price short term price assumption	Oil price long term price assumption
UK Conventional	a	5,884	15,182	b	c	d
Total impairment before tax		5,884	15,182			
Associated deferred tax credit		(2,942)	(8,963)			
Total impairment after tax		2,942	6,219			

a Reduction in crude oil commodity forward curve and long term price

b 31 December 2015 (9%) 31 March 2015 (10%)

c 31 December 2015 (3 year forward curve) 31 March 2015 (5 year forward curve)

d 31 December 2015 (\$75/bbl) 31 March 2015 (\$85/bbl)

Sensitivity of changes in assumptions

As discussed above the principal assumptions are recoverable future production and resources and the estimated price per boe of risked resource. A 10% boepd reduction in production would result in a full impairment of the UK-conventional E&E assets. An average \$10.0/boe reduction in the estimated price per boe of production would result in a full impairment of the UK conventional E&E assets.

12 Property, plant and equipment

	Nine months ended 31 December 2015			Year ended 31 March 2015		
	Oil and gas assets £000	Other fixed assets £000	Total £000	Oil and gas assets £000	Other fixed assets £000	Total £000
Cost						
At 1 April	144,230	4,318	148,548	139,163	3,699	142,862
Additions	7,480	93	7,573	5,069	686	5,755
Disposals	(383)	(555)	(938)	—	(128)	(128)
Acquisitions (note 9)	—	—	—	—	338	338
Transfers to assets held for sale	—	—	—	—	(277)	(277)
Changes in decommissioning	(3,893)	—	(3,893)	(2)	—	(2)
Write off	—	(118)	(118)	—	—	—
Foreign exchange	—	(7)	(7)	—	—	—
At 31 December/31 March	147,434	3,731	151,165	144,230	4,318	148,548
Depreciation and Impairment						
At 1 April	42,524	1,710	44,234	25,829	1,555	27,384
Charge for the period/year	6,956	293	7,249*	12,749	283	13,032
Disposals	(383)	(440)	(823)	—	(128)	(128)
Impairment	17,720	—	17,720	3,946	—	3,946
Write off	—	(118)	(118)	—	—	—
Foreign exchange	(2)	(6)	(8)	—	—	—
At 31 December/31 March	66,815	1,439	68,254	42,524	1,710	44,234
NBV at 31 December/31 March	80,619	2,292	82,911	101,706	2,608	104,314

* Charge for the period includes £15 thousand relating to capitalised equipment used for E&E not in the income statement

Under the terms of the Secured Bond agreement, the Bondholders have a fixed and floating charge over these assets

Impairment of oil and gas properties

Due to the continued decline in the oil price, oil and gas properties were tested for impairment. As a result, an impairment charge of £17.7 million pre-tax (£8.8 million post-tax) was recognised in the period to 31 December 2015 (Year to 31 March 2015: £3.9 million pre-tax (£1.6 million post-tax)). The impairment charge and recoverable amount of the CGUs where impairment was charged are set out on the table on page 78.

Previously, IGas has identified its CGUs based on the individual fields, or pools of fields where there is shared infrastructure such as a common processing facility. During the period, management has reassessed its CGUs for impairment testing due to the restructuring of the operations of the Group which include changes in the way the Group operates, manages and monitors its oil and gas properties. Management concluded that the CGUs for impairment purposes are the group of fields whereby technical, economic and/or contractual features create underlying interdependence in cash flows. The Group has identified the three main producing CGUs as North, South, and Scotland.

The recoverable values of CGUs were calculated based on management's estimate of the FVLCD. The fair value is a level 3 fair value measurement, as defined in note 25.

During the interim period ended 30 September 2015, the Group recognised impairment in oil and gas properties of £10.1 million. The increase in the recorded impairment loss during the three months to period ended 31 December 2015 is triggered by reduced short-term prices.

CONSOLIDATED FINANCIAL STATEMENTS – NOTES

AS AT 31 DECEMBER 2015 CONTINUED

12 Property, plant and equipment continued

Impairment of oil and gas properties continued

	Trigger for impairment	Nine months ended 31 December 2015 impairment £000	Year ended 31 March 2015 impairment £000	Post tax discount rate assumption	Oil price short term price assumption	Oil price long term price assumption
North	a	2,540	1,381	b	c	d
South	a	13,303	2,565	b	c	d
Scotland	a	1,877	–	b	c	d
Total impairment before tax		17,720	3,946			
Associated deferred tax credit		(8,860)	(2,330)			
Total impairment after tax		8,860	1,616			

- a Reduction in crude oil commodity forward curve and long term price
b 31 December 2015 (9%) 31 March 2015 (10%)
c 31 December 2015 (3 year forward curve) 31 March 2015 (5 year forward curve)
d 31 December 2015 (\$75/bbl) 31 March 2015 (\$85/bbl)

Sensitivity of changes in assumptions

As discussed above the principal assumptions are recoverable future production and resources and the estimated dollar per boe of risked resource. A 10% boepd reduction in production would result in a further impairment of £15.7 million. An average \$10.0/boe reduction in the estimated dollar per boe of production would result in a further impairment of £29.9 million.

13 Interest in joint arrangements

The Group has a combined carried gross work programme of up to \$255 million from its farm-in partners – INEOS Upstream Limited (“INEOS”), ENGIE E&P UK Limited (“ENGIE”) and Total E&P UK Limited (“Total”).

The Group's material joint operations as at 31 December 2015 are set out below.

Licenses	Partner	IGas interest	Operator
East Midlands			
PEDL169	Egdon	80%	IGas
PEDL146	ENGIE	75%	IGas
PEDL207	ENGIE	75%	IGas
PEDL210	ENGIE	75%	IGas
EXL 288	ENGIE	75%	IGas
PEDL012	ENGIE, INEOS	55%	IGas
PEDL200	ENGIE, INEOS	55%	IGas
PEDL139	TOTAL, Egdon, ECorp	32%	IGas
PEDL140	TOTAL, Egdon, ECorp	32%	IGas
North West			
PEDL185	ENGIE	75%	IGas
PEDL186	ENGIE	75%	IGas
PEDL187	ENGIE	75%	IGas
PEDL188	ENGIE	75%	IGas
PEDL184	INEOS	50%	IGas
PEDL190	INEOS	50%	IGas
PEDL145	INEOS	40%	IGas
PEDL193	INEOS	40%	IGas
PEDL147	ENGIE, INEOS	25%	IGas
PEDL189	ENGIE, INEOS	25%	IGas
EXL 273	ENGIE, INEOS	15%	INEOS
Weald			
PL211	UKOG	90%	IGas
PEDL233	UKOG	50%	IGas
PEDL070	Egdon, Aurora, Brigantes, Corfe, UKOG	50%	IGas

14 Inventories

	31 December 2015 £000	31 March 2015 £000
Oil stock	398	400
Drilling materials	143	143
Maintenance materials	667	417
	1,208	960

15 Trade and other receivables

	31 December 2015 £000	31 March 2015 £000
VAT recoverable	191	631
Trade debtors	2,331	3,641
Other debtors	7,392	2,401
Prepayments	4,895	1,478
	14,809	8,151

Trade receivables are non-interest bearing and are generally on 30 day terms. The carrying value of the Group's trade and other receivables as stated above is considered to be a reasonable approximation of their fair value.

The ageing of the financial assets (trade debtors and certain other debtors) is as follows

	31 December 2015 £000	31 March 2015 £000
Not yet due	5,802	4,785
Amounts overdue but not impaired		
Overdue by not more than three months	2,096	—
More than three months but not more than six months	264	—
More than six months but not more than one year	103	—
	8,265	4,785

16 Cash and cash equivalents and other financial assets

	31 December 2015 £000	31 March 2015 £000
Cash at bank and in hand	28,614	19,025

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.

Included within cash and cash equivalents is £10.3 million (31 March 2015: £nil) held in the Debt Service Retention ("DSRA") account which at the Company's discretion is designated for the buy-back of bonds or for repayment of bonds.

Other financial assets – restricted cash

	31 December 2015 £000	31 March 2015 £000
Restricted cash	1,007	2,097

Restricted cash relates to bank guarantees.

CONSOLIDATED FINANCIAL STATEMENTS – NOTES

AS AT 31 DECEMBER 2015 CONTINUED

17 Assets classified as held for sale and discontinued operations

Certain assets acquired as part of the Dart Acquisition, namely the Rest of the World segment principally consisting of Australian and Indonesian assets, were acquired with the intention to divest all business and activities in all these countries. The sale of these assets completed in October and November 2015, which resulted in a gain of £1.4 million. There was £0.07 million tax charged on this amount.

The gain for the period before tax in respect of discontinued operations was £2.4 million (31 March 2015: a loss of £0.08 million). Other than the tax on disposal described above, there is no tax charged on this amount.

18 Trade and other payables

	31 December 2015 £000	31 March 2015 £000
Trade creditors	3,751	3,692
Employment related taxation	469	105
Accruals and other creditors	4,998	4,184
	9,218	7,981

The carrying values of each of the Group's financial liabilities included within trade and other payables are considered to be a reasonable approximation of their fair value. All creditors are payable within one month and no creditors have been outstanding for longer than three months (31 March 2015: not longer than three months).

19 Borrowings

	31 December 2015			31 March 2015		
	Within 1 year £000	Greater than 1 year £000	Total £000	Within 1 year £000	Greater than 1 year £000	Total £000
Bonds – secured*	4,819	80,125	84,944	5,310	83,294	88,604
Bonds – unsecured*	–	17,935	17,935	–	18,935	18,935
Total	4,819	98,060	102,879	5,310	102,229	107,539

* Additional transaction costs relating to the debt of £1.0 million were incurred during the period (31 March 2015: £nil) and have been netted off against the liability.

In 2013, the Company and Norsk Tiltitsmann ("Bond Trustee") entered into a Bond Agreement for the Company to issue up to \$165.0 million secured bonds and up to \$30.0 million unsecured bonds (issued at 96% of par). These bonds were subsequently listed on Oslo Bors and the Alternative bond market in Oslo. During the period to 31 December 2015 the Company amended the terms of the Bond agreement. The primary changes were in relation to the covenants and the maintenance of financial ratios including the establishment of the DSRA.

Both secured and unsecured bonds carry a coupon of 10% per annum (where interest is payable semi-annually in arrears). Secured bonds are amortised semi-annually at 2.5% of the initial loan amount. Final maturity on the secured notes is on 22 March 2018 and on the unsecured notes is 11 December 2018.

During the period to 31 December 2015, the Company repurchased a total of 5,414,747 secured bonds resulting in an aggregate gain of £0.5 million (Year ended 31 March 2015: 14,667,530 secured bonds resulting in a gain of £1.3 million).

During the period to 31 December 2015, the Company repurchased a total of 1,600,000 unsecured bonds resulting in an aggregate gain of £0.4 million (Year ended 31 March 2015: 1,000,000 unsecured bonds resulting in a gain of £0.1 million).

20 Other liabilities

	31 December 2015 £000	31 March 2015 £000
At 1 April	349	6,804
Warrants exercised during period	–	(1,117)
Revaluation gain	(202)	(5,338)
As at 31 December/31 March	147	349

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

All warrants vested on grant and accordingly the key assumptions made in arriving at the Black-Scholes valuations were: share price on date of valuation adjusted for subsequent consolidations where appropriate and the length of time for which the warrants were expected to remain exercisable. A risk free interest rate of 1.09% and an implied volatility of 35% were used in valuing the warrants at the time of grant, and an interest rate of 0.82% and an implied volatility of 75.15% at 31 December 2015. It was also assumed that no dividends would be paid during the life of the warrants.

The movement in warrants during the period was as follows:

	No	Weighted average exercise price (pence)
At 1 April 2014	9,000,000	55.8
Exercised in the year	1,500,000	55.8
Outstanding and exercisable at 31 March 2015	7,500,000	55.8
Outstanding and exercisable at 31 December 2015	7,500,000	55.8

During the period, no warrants were exercised, therefore no ordinary shares have been issued (31 March 2015: 1,500,000 shares issued with a nominal value of 10p).

The weighted average remaining contractual life for the warrants outstanding as at 31 December 2015 is 2.0 years (31 March 2015: 2.75 years).

21 Provisions for liabilities and charges

	31 December 2015			31 March 2015		
	Decommissioning £000	Other £000	Total £000	Decommissioning £000	Other £000	Total £000
At the beginning of the period/year	28,787	39	28,826	28,188	60	28,248
Acquisitions (note 9)	–	–	–	4,076	–	4,076
Utilisation of provision	(6)	–	(6)	(74)	(21)	(95)
Unwinding of discount (note 6)	396	–	396	604	–	604
Reassessment of decommissioning provision/liabilities	(3,893)	–	(3,893)	141	–	141
Transfers to liabilities classified as held for sale	–	–	–	(4,148)	–	(4,148)
At the end of the period/year	25,284	39	25,323	28,787	39	28,826

Decommissioning provision

Provision has been made for the discounted future cost of restoring fields to a condition acceptable to the relevant authorities. The abandonment of the fields is expected to happen at various times between 2 and 32 years from the period end (31 March 2015: 5 to 29 years). These provisions are based on the Groups' internal estimates as at 31 December 2015. Assumptions based on the current economic environment have been made, which management believes are a reasonable basis upon which to estimate the future liability. These estimates are reviewed regularly to take into account any material changes to the assumptions. However, actual decommissioning costs will ultimately depend upon future market prices for the necessary decommissioning works required that will reflect market conditions at the relevant time. Furthermore, the timing of decommissioning is likely to depend on when the fields cease to produce at economically viable rates. This, in turn, will depend upon future oil and gas prices, which are inherently uncertain.

The risk free rate range of 0.68% to 3.58% is used in the calculation of the provision as at 31 December 2015 (31 March 2015: Risk free rate range of 0.26% to 2.54%).

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AS AT 31 DECEMBER 2015 CONTINUED

22 Contingent deferred consideration

	31 December 2015 £000	31 March 2015 £000
At 1 April	5,367	5,367
Fair value adjustment	(4,947)	–
As at 31 December/31 March	420	5,367

The deferred consideration amount relates to the amount payable by a wholly owned subsidiary of the Group (acquired as part of the Dart acquisition), GP Energy Ltd, to its earlier joint venture partner in certain licences contingent upon various exploration and development success outcomes, which has been risked at 10% due to the Group's reassessment of the assets during the period. Should the relevant contingent outcomes materialise, the amounts are expected to fall due in two equal tranches on each of 31 July 2022 and 30 June 2024.

23 Pension scheme

The Group operates a defined contribution pension scheme. The pension charge for the period ended 31 December 2015 represents contributions payable by the Group to pension funds and amounted to £0.76 million (Year ended 31 March 2015: £0.93 million).

Contributions amounting to £184,510 were accrued at 31 December 2015 (31 March 2015: £3,000) and are included in trade and other payables.

24 Commitments

The Group's capital commitments comprised

Capital commitments

	Nine months ended 31 December 2015 £000	Year ended 31 March 2015 £000
Conventional capex	1,277	2,659
Obligation under 13th licensing round	253	–
Less amounts covered by carry agreements	(253)	–
Total capital commitments	1,277	2,659

Operating lease commitments

	Nine months ended 31 December 2015 £000	Year ended 31 March 2015 £000
Minimum lease payments under operating leases recognised in (loss)/profit for the period/year	1,714	2,180
The Group had future minimum lease payments under non-cancellable operating leases as follows		
– within 1 year	777	812
– after 1 year but not more than 5 years	902	1,133
Total	1,679	1,945

25 Financial instruments and risk management

Fair values

The fair value of financial assets and liabilities, together with the carrying amounts shown in the balance sheet, other than those with carrying amounts that are a reasonable approximation of their fair values, are as follows

	Carrying amount		Fair value	
	31 December 2015 £000	31 March 2015 £000	31 December 2015 £000	31 March 2015 £000
<i>Amortised cost</i>				
Borrowings ¹	102,879	107,539	60,683	96,829

¹ The fair value of borrowings (hierarchy level 1) has been calculated by reference to quoted market prices for these specific liabilities

Fair value hierarchy

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole

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

For financial instruments there are no non-recurring fair value measurements nor have there been any transfers between levels of the fair value hierarchy

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

Financial assets and liabilities measured at fair value

	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
At 31 December 2015				
<i>Financial assets</i>				
Derivative financial instruments	–	6,654	–	6,654
Total	–	6,654	–	6,654
<i>Financial liabilities</i>				
Warrants	–	147	–	147
Contingent deferred consideration	–	–	420	420
Total	–	147	420	567
At 31 March 2015				
<i>Financial assets</i>				
Derivative financial instruments	–	1,574	–	1,574
Total	–	1,574	–	1,574
<i>Financial liabilities</i>				
Derivative financial instruments	–	201	–	201
Warrants	–	349	–	349
Contingent deferred consideration	–	–	5,367	5,367
Total	–	550	5,367	5,917

CONSOLIDATED FINANCIAL STATEMENTS – NOTES

AS AT 31 DECEMBER 2015 CONTINUED

25 Financial instruments and risk management continued

Fair value of derivative financial instruments

The fair values of the commodity price options were provided by counterparties with whom the trades have been entered into. These consist of Asian style put and call options to sell/buy oil. The options are valued using a Black-Scholes methodology, however, certain adjustments are made to the spot-price volatility of oil prices due to the nature of the options. These adjustments are made either through Monte Carlo simulations or through statistical formulae. The inputs to these valuations include the price of oil, its volatility, and risk free interest rates.

Fair value of warrants

The warrants are valued using Black-Scholes method, which incorporates the inputs as detailed in note 20.

Fair value of contingent deferred consideration

Inputs that may have a significant effect on the recorded fair value have been identified as the (i) technical and commercial risk factors, (ii) change in the discount rate used to discount future cash flows, and (iii) other unobservable factors such as the time periods over which this monies are expected to be paid, which is based on internal estimates.

Management regularly assesses possible alternatives for those significant unobservable inputs described above and determines their impact on the total fair value. The fair value of the deferred consideration is sensitive to a reasonable change in the time assumption and the discount rate used to discount future cash flows.

Derivative financial instruments

In the current period the Group has entered into certain put/call options and swaps in order to manage its exposure to commodity price risk associated with sales of oil in US dollars.

The outstanding contracts as at 31 December 2015 were as follows:

					Fair value at 31 December 2015 £000
	Term	Contract amount	Contract price/rate	Contract price/rate	Contract price/rate
			Self Swap	Buy call	
US dollar collar	Jan-Mar 2016	90k bbls oil	\$64 25/bbl	\$84 25/bbl	1,735
US dollar collar	Jan-Mar 2016	45k bbls oil	\$65 15/bbl	\$85 15/bbl	876
US dollar collar	Jan-Mar 2016	30k bbls oil	\$64 90/bbl	\$84 90/bbl	579
US dollar collar	Apr-Jun 2016	45k bbls oil	\$68 60/bbl	\$88 60/bbl	904
US dollar collar	Apr-Jun 2016	30k bbls oil	\$65 10/bbl	\$85 10/bbl	532
US dollar collar	Apr-Jun 2016	22.5k bbls oil	\$60 75/bbl	\$80 75/bbl	333
US dollar collar	Jul-Sep 2016	45k bbls oil	\$66 75/bbl	\$86 75/bbl	781
US dollar collar	Jul-Sep 2016	30k bbls oil	\$65 45/bbl	\$85 45/bbl	494
US dollar collar	Jul-Sep 2016	22.5k bbls oil	\$61 25/bbl	\$81 25/bbl	308

					Fair value at 31 December 2015 £000
	Term	Contract amount	Contract price/rate	Contract price/rate	Contract price/rate
			Buy Put	Sell Call	Buy Call
US dollar collar	Oct-Dec 2016	30k bbls oil	\$45 00/bbl	\$58 05/bbl	\$78 05/bbl
					112

The above derivatives mature over the period from 1 January 2016 to 31 December 2016. During the period to 31 December 2015 oil hedges for 305 thousand barrels matured generating a net gain of £3.3 million (note 3).

25 Financial instruments and risk management continued

Derivative financial instruments continued

The outstanding contracts as at 31 March 2015 were as follows

							Fair value at 31 March 2015 £000
Term	Contract amount	Contract price/rate	Contract price/rate	Contract price/rate	Contract price/rate	Contract price/rate	
			Sell Put	Buy Put	Sell Call	Buy Call	
US dollar collar	Apr – Jun 2015	75k bbls oil	\$70/bbl	\$84/bbl	\$90/bbl	\$100/bbl	695
US dollar puts	Apr – Jun 2015	45k bbls oil	–	\$55/bbl	–	–	93
US dollar collar	Jul – Sept 2015	75k bbls oil	\$70/bbl	\$84/bbl	\$88 25/bbl	\$103 25/bbl	443
US dollar puts	Jul – Sept 2015	45k bbls oil	–	\$55/bbl	–	–	129
US dollar collar	Oct – Dec 2015	90k bbls oil	–	\$55/bbl	\$56/bbl	\$80/bbl	(201)

							Fair value at 31 March 2015 £000
Term	Contract amount	Contract price/rate	Contract price/rate	Contract price/rate	Contract price/rate	Contract price/rate	
			Sell Swap		Buy Call		
US dollar collar	Jan – Mar 2016	90k bbls oil		\$64 25/bbl		\$84 24/bbl	214

The derivatives outstanding at 31 March 2015 mature over the period from 1 April 2015 to 31 March 2016. During the year to 31 March 2015 oil hedges for 757 thousand barrels matured generating a net gain of £6.2 million.

Fair value of financial assets and financial liabilities

The carrying values of the financial assets and financial liabilities (except bonds) are considered to be materially equivalent to their fair values.

Financial risk management

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

The Group manages its exposure to key financial risks in accordance with its financial risk management policy. The objective of the policy is to support the Group's financial targets while protecting future financial security. The Group is exposed to the following risks:

- Market risk, including commodity price and foreign currency risks,
- Credit risk, and
- Liquidity risk

The Group is not exposed to interest rate risk as at 31 December 2015 as all the Group's borrowings are at a fixed rate.

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

Market risk

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

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

The following assumptions have been made in calculating the sensitivity analysis:

- The sensitivity of the relevant profit before tax item is the effect of the assumed changes in respective market risks. This is based on the financial assets and financial liabilities held at 31 December 2015 and 31 March 2015, and
- The impact on equity is the same as the impact on profit before tax and ignores the effects of deferred tax, if any.

CONSOLIDATED FINANCIAL STATEMENTS – NOTES

AS AT 31 DECEMBER 2015 CONTINUED

25 Financial instruments and risk management continued

Commodity price risk

The Group is exposed to the risk of fluctuations in prevailing market commodity prices (primarily crude oil) on the mix of oil and gas products it produces. The Group's policy is to manage these risks through the use of derivative financial instruments.

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

The analysis is based on derivative contracts existing at the balance sheet date, the assumption that crude oil price moves 15% over all future periods, with all other variables held constant.

	Increase/(decrease) in profit before tax for the period/year ended and to equity as at	
	31 December 2015 £000	31 March 2015 £000
15% (31 March 2015 10%) increase in the price of oil	1,544	76
15% (31 March 2015 10%) decrease in the price of oil	1,544	(76)

Foreign currency risk

The Group has transactional currency exposures. Such exposure arises from sales or purchases in currencies other than the UK pound sterling, the functional currency of all Group companies. The Group's sales are denominated in US dollars, and around 5% of costs are denominated in currencies other than the functional currencies of the entities within the Group, primarily US dollars.

The following table summarises the impact on profit before tax for changes in the US dollar/pound sterling exchange rate on the financial assets and liabilities in the balance sheet at period end, principally relating to the Group's borrowings which are denominated in US dollars. The impact on equity is the same as the impact on profit before tax.

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

	Increase/(decrease) in profit before tax for the period/year ended and to equity as at	
	31 December 2015 £000	31 March 2015 £000
10% (31 March 2015 10%) strengthening of the pound against the US dollar	6,750	8,987
10% (31 March 2015 10%) weakening of the pound against the US dollar	(6,750)	(8,987)

Credit risk

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

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

At 31 December 2015, the Group had 2 customers (31 March 2015: 2) that owed the Group more than £1.0 million each and accounted for approximately 87% (31 March 2015: 89%) of all receivables owing. The need for impairment is analysed at each reporting date on an individual basis for major clients.

With respect to credit risk arising from the other financial assets of the Group, which comprise cash and cash equivalents and restricted cash, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments. The Group limits its counterparty credit risk on these assets by dealing only with financial institutions with credit ratings of at least A or equivalent other than if the UK government is a majority shareholder. £20.5 million (31 March 2015: £10.1 million) of cash and cash equivalents were held with two institutions.

Refer to note 15 for analysis of trade receivables ageing.

25 Financial instruments and risk management continued

Liquidity risk

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

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

	On demand £000	< 1 year £000	1–2 years £000	2–3 years £000	>3 years £000	Total £000
At 31 December 2015						
Borrowings	–	15,591	14,784	99,664	–	130,039
Trade and other payables	–	3,751	–	–	–	3,751
Warrants	–	147	–	–	–	147
Deferred contingent consideration	–	–	–	–	950	950
	–	19,489	14,784	99,664	950	134,887
At 31 March 2015						
Borrowings	–	16,442	15,891	92,317	22,426	147,076
Trade and other payables	–	3,292	–	–	–	3,292
Warrants	–	349	–	–	–	349
Deferred contingent consideration	–	–	–	–	9,500	9,500
Derivative financial instruments						
Commodity price derivatives	–	201	–	–	–	201
	–	20,284	15,891	92,317	31,926	160,418

Management considers that the Group has adequate current assets and forecast cash from operations to manage liquidity risks arising from current liabilities and non-current liabilities

Capital management

The Group manages its capital to ensure that it remains sufficiently funded to support its business strategy and maximise shareholder value. The Group's funding needs are met through a combination of debt and equity and adjustments are made in light of changes in economic conditions. The Group's strategy is to maintain ratios in line with covenants associated with the issued bonds.

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

CONSOLIDATED FINANCIAL STATEMENTS – NOTES

AS AT 31 DECEMBER 2015 CONTINUED

26 Share capital

On 31 December 2007 the Company completed a reverse takeover whereby 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")

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

	Ordinary Shares	
	Nominal value	
	No	£000
Nominal value		
Issued and fully paid		
31 March 2014, Ordinary Shares of 10p each	204,724,762	20,472
15 April 2014 shares issued at a price of 55.8p each	1,500,000	150
22 April 2014 shares issued at a price of 108p each	91,239	9
23 July 2014 shares issued at a price of 117p each	69,404	7
16 October 2014 shares issued at a price of 74.75p each	89,997,626	9,000
22 October 2014 shares issued at a price of 77p each	99,100	10
22 January 2015 shares issued at a price of 30.25p each	442,431	44
31 March 2015, ordinary shares of 10p each	296,924,562	29,692
22 April 2015 shares issued at a price of 28.25p each	479,160	48
23 July 2015 shares issued at a price of 25p each	333,436	33
22 October 2015 shares issued at a price of 22p each	512,930	51
22 October 2015 shares issued at a price of 22p each (note 28)	573,576	58
31 December 2015, ordinary shares of 10p each	298,823,664	29,882

Accordingly, the Group share capital account comprised

	£000
Share capital account	
At 1 April 2014	17,226
Shares issued during the year	9,220
At 31 March 2015	26,446
Shares issued during the period	190
At 31 December 2015	26,636

27 Share premium and capital redemption reserve account

Share premium account

The share premium account of the Group arises from the capital that the Company raises upon issuing shares for consideration in excess of the nominal value of the shares, net of the costs of issuing the new shares. During the period the Company issued 1,899,102 ordinary shares at a nominal value of 10p each (Year ended 31 March 2015: 92,199,800 shares issued). The prices of each of these issuances are disclosed in note 26. The cost of these issues was £nil (31 March 2015: £1.9 million). Together these events resulted in a net movement in the share premium reserve of £0.3 million (31 March 2015: £58.5 million).

Capital redemption reserve

During the year ended 31 March 2013 the Company repurchased 100% of its outstanding deferred shares which had been issued with a nominal value of 40p each. These deferred shares were subsequently cancelled by the Company. This resulted in a reduction in share capital and a corresponding recognition of a capital redemption reserve of £41.2 million.

28 Other reserves

Other reserves are as follows

	Warrant/Share plan reserves £000	Treasury shares £000	Capital contributions £000	Total £000
Balance 1 April 2014	1,032	(1,746)	47	(667)
Employee share plans – cost under IFRS 2	2,657	–	–	2,657
Employee share plans – shares issued under the SIP	–	(239)	–	(239)
Lapse of LTIPs under the employee share plan	(487)	–	–	(487)
Balance 31 March 2015	3,202	(1,985)	47	1,264
Employee share plans – cost under IFRS 2	1,344	–	–	1,344
Forfeiture of LTIPs under the employee share plan	(1,000)	–	–	(1,000)
Lapse of LTIPs under the employee share plan	(286)	–	–	(286)
Balance 31 December 2015	3,260	(1,985)	47	1,322

Employee share plans – Equity settled

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

	MRP		EDRP		LTIP		VCP	
	Number of units	Weighted average exercise price (pence)	Number of units	Weighted average exercise price (pence)	Number of units	Weighted average exercise price (pence)	Number of units	Weighted average exercise price (pence)
Outstanding at 1 April 2014	–	–	–	–	3,596,500	–	–	–
Exercisable at 1 April 2014	–	–	–	–	–	–	–	–
Granted during the year	–	–	–	–	2,401,238	–	80	–
Lapsed during the year	–	–	–	–	(2,147,485)	–	–	–
Outstanding at 31 March 2015	–	–	–	–	3,850,253	–	80	–
Exercisable at 31 March 2015	–	–	–	–	–	–	–	–
Granted during the period	7,143,610	–	6,500,000	–	1,809,296	–	–	–
Cancelled during the period	–	–	–	–	(2,085,941)	–	(42)	–
Forfeited during the period	–	–	–	–	(1,730,308)	–	(38)	–
Outstanding at 31 December 2015	7,143,610	–	6,500,000	–	1,843,300	–	–	–
Exercisable at 31 December 2015	–	–	–	–	–	–	–	–

Management Retention Plan (“MRP”)

In December 2015, the Group adopted a new share-based payment scheme – the Management Retention Plan (“MRP”). Under the MRP, participants are granted nil cost options which vest and become exercisable on the first anniversary of grant subject to the Directors’ continued employment and to a one year holding period following the date of vesting.

Employees were granted 7,143,610 options in the MRP in lieu of waived options granted under the 2011 Long Term Incentive Plan (LTIP) and 2015 cash bonuses. The options designated by the Group as replacement awards at grant date and were accounted for as a modification of the original scheme and were valued at grant date and the options awarded in lieu of cash bonuses were measured with reference to the fair value of the services received.

The fair value of the cancelled awards was re-measured at the replacement date based on the Monte Carlo valuation model. The key inputs into the model were: replacement date share price of £0.14, threshold price of between £1.351 and £1.664, a risk free interest rate of between 0.37% and 0.42% and an implied share price volatility of between 73% and 86%. It was also assumed that no dividends would be paid during the life of the options. This resulted in an incremental fair value of £0.17 million.

The MRPs outstanding at 31 December 2015 had both a weighted average remaining contractual life and maximum term remaining of 7.9 years. The fair value of the replacement awards granted under the MRP was the grant date share price.

The total charge for the year was £0.14 million. Of this amount, £0.05 million was capitalised and £0.09 million was charged to the Income Statement.

CONSOLIDATED FINANCIAL STATEMENTS – NOTES

AS AT 31 DECEMBER 2015 CONTINUED

28 Other reserves continued

Executive Director Retention Plan ("EDRP")

In July 2015, the Group adopted a new share-based payment scheme – the Executive Director Retention Plan ("EDRP"). Under the EDRP, participants are granted nil cost options which vest and become exercisable on the first anniversary of grant subject to the Directors' continued employment and to a one year holding period following the date of vesting.

Executives were granted 6,500,000 options in the EDRP in lieu of waived options granted under the 2011 Long Term Incentive Plan (LTIP) and the Value Creation Plan (VCP). The options have been designated by the Group as replacement awards at grant date and were accounted for as a modification of the original scheme.

The fair value of the cancelled awards was re-measured at the replacement date based on the Monte Carlo valuation model. The fair value of waived options was based on the share price at grant date of £0.2475. The fair value of replacement awards was based on the Monte Carlo valuation model. The key inputs into the model were: replacement date share price of £0.2475, threshold price of between £0.945 and £1.664, a risk free interest rate of between 0.49% and 0.60% and an implied share price volatility of between 70% and 78%. It was also assumed that no dividends would be paid during the life of the options. This resulted in an incremental fair value of £1.5 million.

The EDRPs outstanding at 31 December 2015 had both a weighted average remaining contractual life and maximum term remaining of 7.5 years. The fair value of the replacement awards granted under the EDRP was the grant date share price.

The total charge for the year was £0.7 million. Of this amount, £0.3 million was capitalised and £0.4 million was charged to the Income Statement.

Long Term Incentive Plan 2011 ("2011 LTIP")

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

There were no LTIPs exercised during the year. The LTIPs outstanding at 31 December 2015 had both a weighted average remaining contractual life and maximum term remaining of 9.9 years (31 March 2015: 8.6 years). The fair value of the awards granted under the plan are measured at grant date using a Monte Carlo Simulation Model.

The total charge for the period was £0.19 million (Year ended 31 March 2015: £0.73 million). Of this amount, £0.06 million was capitalised (31 March 2015: £0.32 million) and £0.13 million was charged to the Income Statement (31 March 2015: £0.41 million).

During the period to 31 December 2015, the Company undertook a restructuring programme. The share options and units previously granted to employees under 2011 LTIP have been forfeited, none of which having vested or become exercisable prior to this date due to the termination of employment. This resulted in a release of prior charges under IFRS 2 – credit to the income statement of £0.089 million, credit against exploration and evaluation assets of £0.069 million and a charge to other reserves of £0.158 million.

Value Creation Plan ("2014 VCP")

In July 2014, the Company adopted the IGas 2014 Value Creation Plan ("VCP"). Under the VCP, performance units will be granted which convert into a certain number of shares at the end of a three year performance period. The VCP requires creation of shareholder value in excess of a threshold hurdle of 10% annualised share price growth from 1 April 2014. If this hurdle is met at the end of the performance period, participants will receive in aggregate 12.5% of the shareholder value created above the hurdle. 50% of this value will vest in shares of equivalent value at end of the performance period and 25% at the end of each of the following two years. The awards granted under the VCP scheme are measured at grant date using a Monte Carlo Simulation Model.

For the VCP, when significant additional capital is raised (more than 10% of the Company's issued share capital) following the grant date, a separate tranche of the VCP award is created with its own threshold price and share capital. Therefore any additional shares issued will have to be considered separately in determining the VCP accounting expense for periods following this capital event.

28 Other reserves continued**Value Creation Plan ("2014 VCP") continued**

The total charge for the period was £0.70 million (Year ended 31 March 2015: £1.72 million). Of this amount, £0.39 million was capitalised (31 March 2015: £0.82 million) and £0.31 million was charged to the Income Statement (31 March 2015: £0.90 million).

During the period to 31 December 2015, the Company undertook a restructuring programme. The share options and units previously granted to employees under 2011 VCP have been forfeited, none of which having vested or become exercisable prior to this date due to the termination of employment. This resulted in a release of prior charges under IFRS 2 – credit to the income statement of £0.39 million, credit against exploration and evaluation assets of £0.45 million and a charge to other reserves of £0.84 million.

The VCP was replaced by the EDRP in its entirety.

The inputs into the Monte Carlo models were as follows:

	2011 LTIP				VCP	
	Granted Nov 11	Granted Jun 12	Granted Sep 13	Granted Jul 14	Granted Jul 14 (pre capital issue)	Granted Jul 14 (capital issue relating to Dart acquisition – Oct 14)
Share price on grant	50.5p	66.5p	102.0p	112.0p	112.0p	75.0p
Exercise price	Nil	Nil	Nil	Nil	Nil	Nil
Expected volatility	35%	31%	43%	47%	47%	47%
Expected life	6.5 years	6.5 years	6.5 years	2.7 years	2.7 years	2.5 years
Risk-free rate	0.70%	0.35%	0.85%	1.28%	1.28%	0.80%
Expected dividends	0%	0%	0%	0%	0%	0%
Weighted average fair value of awards/units granted	23.12p	26.72p	50.90p	51.55p	£64,989	£22,447

Other share based payments

In 2013, the Group adopted an HMRC approved Share Investment Plan ("SIP") for all employees of the Group. The scheme is a tax efficient incentive plan pursuant to which all employees are eligible to acquire up to £150 (or 10% of salary, if less) worth of IGas ordinary shares per month or £1,800 per annum. Under the SIP employees are invited to make contributions to buy partnership shares. If an employee agrees to buy partnership shares the Company currently matches the number of partnership shares bought with an award of shares (matching shares), on a one-for-one or two-for-one basis.

The total charge for the period was £0.2 million (Year ended 31 March 2015: £0.2 million). Of this amount, £0.04 million was capitalised (31 March 2015: £0.02 million) and £0.16 million was charged to the income statement (31 March 2015: £0.18 million).

There were no options exercised during the period. The options outstanding at 31 December 2015 had both a weighted average remaining contractual life and a maximum term of 6.9 years (31 March 2015: 7.6 years).

In October 2015, the Group issued 573,576 ordinary shares with a fair value of £0.1 million to Jefferies International Limited's in connection with advisory services relating to the Group's farm-out and purchase agreement with INEOS which completed on 7 May 2015.

Treasury shares

The Treasury shares of the Group have arisen in connection with the shares issued to the IGas Employee Benefit Trust, of which the Company is the sponsoring entity. The value of such shares is recorded in the share capital and share premium accounts in the ordinary way and is also shown as a deduction from equity in this separate reserve account. There is therefore no net effect on shareholders' funds. During the period ended to 31 December 2015 there were no shares issued to the Employee Benefit Trust (Year ended 31 March 2015: nil).

Capital contribution

The capital contribution relates to cash received following the acquisition of IGas Exploration UK Limited.

CONSOLIDATED FINANCIAL STATEMENTS – NOTES

AS AT 31 DECEMBER 2015 CONTINUED

29 Related party transactions

The information below sets out transactions and balances between the Group and related parties in the normal course of business for the period ended 31 December 2015

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

	Nine months ended 2015 £000	Year ended 2015 £000
Short-term employee benefits (including related social security costs)	975	1,485
Share plan	163	2,217
	1,138	3,702

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

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

Further details regarding the remuneration of the Directors of the Group are disclosed in the Directors' Remuneration report.

C McDowell currently holds \$0.26 million (31 March 2015: \$0.27 million) of bonds issued by the Group. These bonds earn interest at 10% per annum. In the period ended 31 December 2015, the interest paid was \$0.03 million (Year ended 31 March 2015: \$0.03 million). Accrued interest at 31 December 2015 amounted to \$7.3 thousand (31 March 2015: \$0.8 thousand).

F Gugen currently holds no bonds at 31 December 2015 (31 March 2015: none) issued by the Group. Bonds earn interest at 10% per annum. In the period ended 31 December 2015 no interest was paid (Year ended 31 March 2015: \$0.2 million).

30 Subsequent events

Issued shares

On 22 January 2016, the Company issued 757,096 Ordinary 10p shares in relation to the Group's SIP scheme.

PARENT COMPANY FINANCIAL STATEMENTS – DIRECTORS' STATEMENT OF RESPONSIBILITIES

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

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

- Present fairly the financial position, financial performance and cash flows of the Parent Company,
- Select suitable accounting policies in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors and then apply them consistently,
- Present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information,
- Make judgments and estimates that are reasonable and prudent,
- 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 accounts on a going concern basis unless, having assessed the ability of the Parent Company to continue as a going concern, management either intends to liquidate the entity or to cease trading, or has no realistic alternative but to do so

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

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

PARENT COMPANY STATEMENT OF COMPREHENSIVE INCOME FOR THE NINE MONTHS ENDED 31 DECEMBER 2015

	Nine months ended 31 December 2015 £000	Year ended 31 March 2015 £000
Loss for the period/year	(2,310)	(12,022)
Other comprehensive income for the period/year	–	–
Total comprehensive loss for the period/year	(2,310)	(12,022)

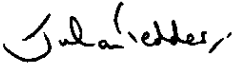
PARENT COMPANY BALANCE SHEET

AS AT 31 DECEMBER 2015

	Notes	31 December 2015 £000	31 March 2015 £000
ASSETS			
Non-current assets			
Investments in subsidiaries	2	383,005	373,833
Property, plant and equipment	3	194	269
		383,199	374,102
Current assets			
Trade and other receivables	4	45,980	46,480
Cash and cash equivalents	5	21,105	10,772
		67,085	57,252
Total assets		450,284	431,354
LIABILITIES			
Current liabilities			
Trade and other payables	6	(144,220)	(118,920)
Borrowings	8	(4,819)	(5,310)
Other liabilities	9	(147)	(349)
		(149,186)	(124,579)
Non-current liabilities			
Borrowings	8	(98,060)	(102,229)
		(98,060)	(102,229)
Total liabilities		(247,246)	(226,808)
Net assets		203,038	204,546
EQUITY			
Capital and reserves			
Called up share capital	12	29,882	29,692
Share premium account	13	121,623	121,355
Capital redemption reserve	13	64,882	64,882
Merger reserve	14	22,222	22,222
Other reserves	15	1,322	1,264
Accumulated deficit		(36,893)	(34,869)
Shareholders' funds		203,038	204,546

These financial statements were approved and authorised for issue by the Board on 15 March 2016 and are signed on its behalf by


Stephen Bowler
 Chief Executive Officer


Julian Tedder
 Chief Financial Officer

STRATEGIC REPORT

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PARENT COMPANY STATEMENT OF CHANGES IN EQUITY FOR THE NINE MONTHS ENDED 31 DECEMBER 2015

	Called up share capital (note 12) £000	Share premium account (note 13) £000	Capital redemption reserve (note 13) £000	Merger reserve (note 14) £000	Other reserves (note 15) £000	Accumulated deficit £000	Total £000
Balance at 1 April 2014	20,472	62,825	64,882	22,222	(667)	(23,334)	146,400
Total comprehensive loss for the year	–	–	–	–	–	(12,022)	(12,022)
Employee share plans (note 15)	–	–	–	–	2,418	–	2,418
Lapse of LTIPs under the employee share plan	–	–	–	–	(487)	487	–
Warrants exercised (note 9)	–	1,117	–	–	–	–	1,117
Issue of shares (note 12)	9,220	57,413	–	–	–	–	66,633
Balance at 31 March 2015	29,692	121,355	64,882	22,222	1,264	(34,869)	204,546
Total comprehensive loss for the period	–	–	–	–	–	(2,310)	(2,310)
Employee share plans (note 15)	–	–	–	–	1,344	–	1,344
Forfeiture of LTIPs under the employee share plan (note 15)	–	–	–	–	(1,000)	–	(1,000)
Lapse of LTIPs under the employee share plan (note 15)	–	–	–	–	(286)	286	–
Issue of shares (note 12)	190	268	–	–	–	–	458
Balance at 31 December 2015	29,882	121,623	64,882	22,222	1,322	(36,893)	203,038

PARENT COMPANY CASH FLOW STATEMENT FOR THE NINE MONTHS ENDED 31 DECEMBER 2015

	Notes	Nine months ended 31 December 2015 £000	Year ended 31 March 2015 £000
Cash flows from operating activities			
Loss for the period/year		(2,310)	(12,022)
Depreciation, depletion and amortisation		75	100
Share based payment charge		(45)	556
Other non-cash adjustments		177	–
Finance income		(10,121)	(20,386)
Finance costs		10,078	29,853
Operating cash flow before working capital movements		(2,146)	(1,899)
(Increase)/decrease in trade and other receivables		(27)	639
Increase in trade and other payables		25,042	19,857
Net cash generated from operating activities		22,869	18,597
Cash flows from investing activities			
Acquisitions, net of cash acquired		–	(90)
Interest received		19	31
Net cash generated from/(used in) investing activities		19	(59)
Cash flows from financing activities			
Cash proceeds from issue of ordinary share capital	13	125	997
Share issue costs	13	–	(1,882)
Interest paid		(5,925)	(11,540)
Bond renegotiation costs		(940)	–
Repayment of loans and borrowings		(6,139)	(13,688)
Net cash used in financing activities		(12,879)	(26,113)
Net increase/(decrease) in cash and cash equivalents in the period/year		10,009	(7,575)
Net foreign exchange difference		324	1,692
Cash and cash equivalents at the beginning of the period/year		10,772	16,655
Cash and cash equivalents at the end of the period/year	5	21,105	10,772

STRATEGIC REPORT

CORPORATE GOVERNANCE

FINANCIAL STATEMENTS

PARENT COMPANY FINANCIAL STATEMENTS – NOTES

AS AT 31 DECEMBER 2015

1 Accounting policies

(a) Basis of preparation of financial statements

The Parent Company financial statements of IGas Energy plc (the "Company") have been prepared in accordance with International Financial Reporting Standards, adopted for use by the European Union ("IFRSs") as they apply to the Company for the nine months ended 31 December 2015, and with the Companies Act 2006. The accounting periods are not comparable as this 9 month period represents a short period of account to align the year end with the year end of major operating partners. The accounts were approved by the Board and authorised for issue on 15 March 2016. IGas Energy plc is a public limited company incorporated, registered in England and Wales and is listed on the Alternative Investment Market ("AIM").

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

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

There are no new standards, interpretations and amendments to adopt which are effective as of 1 April 2015.

New and amended standards and interpretations

Certain new standards, interpretations and amendments to existing standards have been published and are mandatory only for the Company's accounting periods beginning on or after 1 January 2016 or later periods and which the Company has not adopted early. Those that may be applicable to the Company in future are as follows:

IAS 1	Disclosure initiative – Amendments to IAS 1	1 January 2016*
IAS 16 and IAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation – Amendments to IAS 16 and IAS 38	1 January 2016*
IAS 7	Disclosure initiative – Amendments to IAS 7	1 January 2017*
IFRS 9	Financial Instruments	1 January 2018*
IFRS 16	Leases	1 January 2019*

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

The Company is currently assessing the impact that these amendments will have on its financial position. The Company does not anticipate adopting these standards and interpretations ahead of their effective dates.

(b) Going concern

The Company closely monitors and manages its liquidity risks. Cash forecasts for the Company are regularly produced based on, inter alia, the Company's production and expenditure forecasts, management's best estimate of future oil prices (based on current forward curves, adjusted for the Company's hedging programme) and the Company's borrowing facilities. Sensitivities are run to reflect different scenarios including, but not limited to, possible further reductions in commodity prices below the current forward curve and reductions in forecast oil and gas production rates.

The ability of the Company to operate as a going concern is dependent upon the continued availability of future cash flows and the availability of the monies drawn under its Bonds, which in turn is dependent on the Company not breaching its bond covenants. In response to the significant reduction in oil prices, the Board implemented a series of cost saving initiatives during the period that have materially reduced both operating costs and G&A spend. In addition, following positive discussions with the bondholders, the net leverage covenant, inter alia, was amended to take account of the Company's improved cash position following the INEOS farm-out, which was completed during the period.

Whilst the Company has delivered on the above initiatives and has significant cash balances, the continuing low commodity price environment means that the Company's current forecasts, utilising the current oil price forward curve, project non-compliance with certain of its covenants in the second half of 2016. The Board is pursuing actions to alleviate a covenant breach including, but not limited to, further cost reductions, monetising existing hedged oil positions, bond buy-backs, and asset portfolio management. Concurrently, the Board will continue to evaluate other cash and earnings accretive transaction options which could reduce the need for the mitigating actions set out above. Nevertheless, based on the current oil price and forward curve, the Directors cannot be certain that these will fully mitigate any potential covenant shortfall in respect of the testing period ending 31 December 2016. Whilst pursuing the options listed above, the Board will continue its proactive dialogue with bondholders and, if appropriate, seek to modify or temporarily waive the existing covenants ahead of the time at which the Company submits its compliance certificate in respect of that testing period, which would be by 30 April 2017.

1 Accounting policies continued**(b) Going concern continued**

The risk that the Company will be unable to either enact appropriate mitigating actions to a sufficient extent before the 31 December 2016 measurement date or secure an appropriate relaxation or amendment of its financial covenants prior to 30 April 2017 represents a material uncertainty that may cast doubt upon the Company's ability to continue as a going concern

The Board believes, after making appropriate enquiries, and on the information currently available, that the Company is likely to be able to either implement sufficient mitigating actions to ensure that the Company is compliant with its covenants or secure a relaxation to the covenants as described above and it is therefore considered appropriate to adopt the going concern basis in preparing the financial statements

(c) Significant accounting judgements and estimates

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 are discussed below

Recoverable value of investment in subsidiaries

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

Functional currency

The determination of a company's functional currency often requires significant judgement where the primary economic environment in which it operates may not be clear. The Company's financial statements are presented in UK pound sterling, the primary economic environment of the Company.

(d) Non-current assets**Investments in subsidiaries**

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

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

Loans to group companies are stated at amortised cost.

Impairment

Impairment tests, when required, are carried out on the following basis:

- By comparing any amounts carried as investments held as non-current assets with the recoverable amount, and
- The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. The Company generally assesses value in use using 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 investment will be increased to the lower of its original carrying value and the carrying value that would have been determined had no impairment loss been recognised in prior periods.

Property, plant and equipment

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

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

PARENT COMPANY FINANCIAL STATEMENTS – NOTES

AS AT 31 DECEMBER 2015 CONTINUED

1 Accounting policies continued

(e) Financial Instruments

Cash and cash equivalents

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

Trade and other receivables

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

Trade and other payables

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

Impairment of financial assets

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

Warrants

When warrants do not qualify as equity instruments under IAS 39 due to the variable number of shares that would be issued in each case they are accounted for as financial liabilities. The warrants are initially recognised at fair value on the date they are issued and are subsequently remeasured to fair value at each period end. All changes in fair value are recognised in the income statement.

Borrowings

Borrowings are measured initially at fair value. After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the Effective Interest Rate ("EIR") method. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the EIR amortisation process. When management's estimates of the amounts or timings of cashflows are revised, borrowings are re-measured using the revised cash flow estimates under the original effective interest with any consequent adjustment being recognised in the income statement.

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

Borrowing costs

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

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

All other borrowing costs are recognised in the income statement in the period in which they are incurred.

(f) Leases

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

Operating leases

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

(g) Taxation

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

Current income tax assets and liabilities are measured at the amount expected to be recovered or paid to the tax authorities. Taxable profit/(loss) differs from the profit/(loss) 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.

1 Accounting policies continued**(g) Taxation continued**

Deferred tax is recognised in respect of all temporary differences that have originated but not reversed at the balance sheet date except when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss. Temporary differences arise from differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are not discounted. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered.

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

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

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

(h) Share based payments

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

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

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

Where an equity settled award is identified as a replacement it will be treated as a modification to the original plan where the incremental fair value of the replacement award is expensed over the vesting period of the replacement award. The fair value of the original award on its grant date is continued to be recognised over its original vesting period.

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

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

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

(i) Equity

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

(j) Foreign currency

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

PARENT COMPANY FINANCIAL STATEMENTS – NOTES

AS AT 31 DECEMBER 2015 CONTINUED

2 Non-current assets – investments in subsidiaries

Investments in subsidiaries comprises

	31 December 2015			31 March 2015		
	Investment in Group Companies	Loans to Group companies	Total	Investment in Group Companies	Loans to Group companies	Total
	£000	£000	£000	£000	£000	£000
Parent Company						
At beginning of period/year	182,798	191,035	373,833	113,329	142,072	255,401
Additions	719	8,453	9,172	69,469	48,963	118,432
At end of period/year	183,517	199,488	383,005	182,798	191,035	373,833

Loans to Group companies have repayment terms of 5 years. Of the £199.5 million loans to Group companies, £86.8 million bear interest at 1.2% above LIBOR, the remainder bears interest at 12%.

The subsidiaries of the Company at 31 December 2015 and the Company's equity holding in the same is set out below

Name of companies	Principal activities	Country of incorporation	Equity holding	
			31 December 2015 %	31 March 2015 %
Subsidiaries held by Company				
Dart Energy Pty Ltd	Gas exploration	Australia	100	100
Island Gas Limited	Oil exploration, evaluation, production and marketing	England	100	100
Island Gas Operations Limited	Electricity generation	England	100	100
IGas Energy (Caithness) Limited	Oil and gas production and marketing	England	100	100
IGas Exploration UK Limited	Gas production and marketing	England	100	100
Star Energy Group Limited	Service company	England	100	100
Star Energy Limited	Service company	England	100	100
Star Energy Weald Basin Limited	Oil and gas processing	England	100	100
Star Energy Oil and Gas Limited	Service company	England	100	100
Subsidiaries held through subsidiaries				
Island Gas (Singleton) Limited	Oil and gas production and marketing	England	100	100
Star Energy (East Midlands) Limited	Dormant	England	100	100
Dart Energy (East England) Limited	Shale gas exploration	England	100	100
Dart Energy (West England) Limited	Shale gas exploration	England	100	100
GP Energy Limited	Investment holding	England	100	100
Dart Energy (Europe) Limited	Investment holding	Scotland	100	100
Dart Energy (Forth Valley) Limited	Gas exploration	Scotland	100	100
Dart Energy (Carbon Storage) Limited	Storage facility	Scotland	100	100
Dart Energy (Lothian) Limited	Investment holding	Scotland	100	100
Star Energy Oil UK Limited	Dormant	Scotland	100	100
Apollo Gas Pty Ltd	Investment holding	Australia	100	100
Dart Energy (Bruxner) Pty Limited	Investment holding	Australia	100	100
Dart Energy (India) Pty Limited	Investment holding	Australia	100	100
Dart Energy SPV No 1 Pty Limited	Dormant	Australia	100	100
Dart Energy SPV No 2 Pty Limited	Dormant	Australia	100	100
Dart Energy (China) Pty Limited	Dormant	Australia	100	100
Dart Energy (Overseas) Pty Limited	Dormant	Australia	100	100
Dart Energy Global CBM Pty Limited	Dormant	Australia	100	100
Dart Energy India Services Pvt Limited	Service company	India	100	100
Dart Energy (Europe) Pte Limited	Investment holding	Singapore	100	100
Dart Energy (China) Holdings Pte Limited	Investment holding	Singapore	100	100
Dart Energy (India) Pte Limited	Investment holding	Singapore	100	100
Dart Energy (ST) Pte Limited	Investment holding	Singapore	100	100
Dart Energy (AS) Pte Limited	Investment holding	Singapore	100	100
Dart Energy (Sangatta West) Pte Limited	Investment holding	Singapore	100	100
Dart Energy (Dajing) Pte Limited	Investment holding	Singapore	100	100
Dart Energy (Vietnam) Holdings Pte Limited	Investment holding	Singapore	100	100
Dart Energy (India) Holdings Pte Limited	Dormant	Singapore	100	100

2 Non-current assets – investments in subsidiaries continued

Name of companies	Principal activities	Country of incorporation	Equity holding	
			31 December 2015 %	31 March 2015 %
Dart Energy Asia Holdings Pte Limited	Dormant	Singapore	100	100
Dart Energy (Hanoi Basin CBM) Pte Limited	CBM exploration	Singapore	100	100
Dart Energy (CMM) Pte Limited	Dormant	Singapore	100	100
Dart Energy (CIL) Pte Limited	Dormant	Singapore	100	100
Dart Energy (MG) Pte Limited	Dormant	Singapore	100	100
Dart Energy Technology (Beijing) Company Limited	Dormant	China	100	100
Chelm LLP	Dormant	England	100	100
Milejow LLP	Dormant	England	100	100
Werbkowice LLP	Dormant	England	100	100
Sangatta West CBM Inc	Investment holding BVI	British Virgin Islands	49.99	49.99

During the current period the Company disposed of its interests in Dart Energy (Apollo) Pty Ltd, Dart Energy (Indonesia) Holdings Pte Limited, Dart Energy (Tanjung Enim) Pte Limited, Dart Energy (Muralim) Pte Limited, Dart Energy (Bontang Bengalon) Pte Limited, PT Dart Energy Indonesia, PT Coal Bed Methane Power Indonesia, Dart Energy (CBM Power Indonesia) Pte Limited and Dart Energy Poland Sp z o o

3 Property, plant and equipment

	Nine months ended 31 December 2015				Year ended 31 March 2015			
	Buildings £000	Fixtures, fittings and equipment £000	Motor vehicles £000	Total £000	Buildings £000	Fixtures fittings and equipment £000	Motor vehicles £000	Total £000
Cost								
At 1 April	358	136	20	514	3	92	20	115
Additions	–	–	–	–	355	44	–	399
At 31 December/31 March	358	136	20	514	358	136	20	514
Depreciation and impairment								
At 1 April	128	97	20	245	56	69	20	145
Charge for the year	54	21	–	75	72	28	–	100
At 31 December/31 March	182	118	20	320	128	97	20	245
NBV at 31 December/31 March	176	18	–	194	230	39	–	269

4 Trade and other receivables

	31 December 2015 £000	31 March 2015 £000
Amounts falling due within one year		
VAT recoverable	153	253
Other debtors	29	33
Amounts due from subsidiary undertakings	45,667	46,067
Prepayments	131	127
	45,980	46,480

Payment terms for balances due from subsidiary undertakings are as mutually agreed between the Group's companies

The carrying value of each of the Company's financial assets as stated above being other debtors and amounts due from subsidiary undertakings is considered to be a reasonable approximation of its fair value

PARENT COMPANY FINANCIAL STATEMENTS – NOTES

AS AT 31 DECEMBER 2015 CONTINUED

5 Cash and cash equivalents

	31 December 2015 £000	31 March 2015 £000
Cash at bank and in hand	21,105	10,772

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

Included within cash and cash equivalents is £10.3 million (31 March 2015: £nil) held in the Debt Service Retention (DSRA) account which at the Company's discretion is designated for the buy-back of bonds or for repayment of bonds

6 Trade and other payables

	31 December 2015 £000	31 March 2015 £000
Trade creditors	350	204
Taxation and social security	55	60
Amounts due to subsidiary undertakings	143,112	117,944
Accruals and other creditors	703	712
	144,220	118,920

Payment terms for balances due to subsidiary undertakings are as mutually agreed between the Group's companies

The carrying value of each of the Company's financial liabilities being trade creditors is considered to be a reasonable approximation of its fair value. All trade creditors are payable within one month and no creditor has been outstanding for longer than three months (2015: no longer than three)

7 Taxation

Tax losses, none of which are considered sufficiently certain of utilisation to recognise deferred tax assets, amount to

	Nine months ended 31 December 2015 £000	Year ended 31 March 2015 £000
Excess management expenses	15,083	13,376
Excess non-trade loan relationship debits	19,928	21,109

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

Non-trade loan relationship debits may be offset against future income from similar sources

8 Borrowings

Borrowings are measured at amortised cost in accordance with IAS 39

	31 December 2015			31 March 2015		
	Within 1 year £000	Greater than 1 year £000	Total £000	Within 1 year £000	Greater than 1 year £000	Total £000
Bonds – secured*	4,819	80,125	84,944	5,310	83,294	88,604
Bonds – unsecured*	–	17,935	17,935	–	18,935	18,935
Total	4,819	98,060	102,879	5,310	102,229	107,539

* Additional transaction costs relating to the debt of £1.0 million (2015: £nil) have been netted off against the liability

In 2013, the Company and Norsk Tillitsmann ("Bond Trustee") entered into a Bond Agreement for the Company to issue up to \$165.0 million secured bonds and up to \$30.0 million unsecured bonds (issued at 96% of par). These bonds were subsequently listed on Oslo Bors and the Alternative bond market in Oslo. During the period to 31 December 2015 the Company amended the terms of the Bond agreement. The primary changes were in relation to the covenants and the maintenance of financial ratios including the establishment of a DSRA.

Both secured and unsecured bonds carry a coupon of 10% per annum (where interest is payable semi-annually in arrears). Secured bonds are amortised semi-annually at 2.5% of the initial loan amount. Final maturity on the secured notes is on 22 March 2018 and on the unsecured notes is 11 December 2018.

During the period to 31 December 2015, the Company repurchased a total of 5,414,747 secured bonds resulting in a combined gain of £0.5 million (31 March 2015: 14,667,530 secured bonds resulting in a gain of £1.3 million).

During the period to 31 December 2015, the Company repurchased a total of 1,600,000 unsecured bonds resulting in a gain of £0.4 million (31 March 2015: 1,000,000 unsecured bonds resulting in a gain of £0.1 million).

9 Other liabilities

	31 December 2015 £000	31 March 2015 £000
At 1 April	349	6,804
Warrants exercised during period/year	–	(1,117)
Revaluation gain	(202)	(5,338)
As at 31 December/31 March	147	349

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

PARENT COMPANY FINANCIAL STATEMENTS – NOTES

AS AT 31 DECEMBER 2015 CONTINUED

9 Other liabilities continued

All warrants vested on grant and accordingly the key assumptions made in arriving at the Black-Scholes valuations were share price on date of valuation, adjusted for subsequent consolidations where appropriate and the length of time for which the warrants were expected to remain exercisable. A risk free interest rate of 1.09% and an implied volatility of 35% were used in valuing the warrants at the time of grant, and an interest rate of 0.82% and an implied volatility of 75.15% at 31 December 2015. It was also assumed that no dividends would be paid during the life of the warrants.

The movement in warrants during the period was as follows:

	No	Weighted average exercise price (pence)
At 1 April 2014	9,000,000	55.8
Exercised in the year	(1,500,000)	55.8
Outstanding and exercisable at 31 March 2015	7,500,000	55.8
Outstanding and exercisable at 31 December 2015	7,500,000	55.8

During the year, no warrants were exercised, therefore no ordinary shares have been issued (31 March 2015: 1,500,000 shares issued with a nominal value of 10p).

The weighted average remaining contractual life for the warrants outstanding as at 31 December 2015 is 2.0 years (31 March 2015: 2.75 years).

10 Commitments

At the balance sheet date the Company had outstanding commitments for future minimum lease payments under non-cancellable operating leases as follows:

Operating lease commitments

	Nine months ended 31 December 2015 £000	Year ended 31 March 2015 £000
– expiring within 1 year	521	378
– expiring within 2 to 5 years	651	756
Total	1,172	1,134

11 Financial instruments and risk management

Fair values

The fair value of financial assets and liabilities, together with the carrying amounts shown in the balance sheet, other than those with carrying amounts that are a reasonable approximation of their fair values, are as follows

	Carrying amount		Fair value	
	31 December 2015 £000	31 March 2015 £000	31 December 2015 £000	31 March 2015 £000
Financial liabilities				
Amortised cost				
Borrowings ¹	102,879	107,539	60,683	96,829

¹ The fair value of borrowings (hierarchy level 1) have been calculated by reference to quoted market prices for these specific liabilities

Fair value hierarchy

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole

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

For financial instruments there are no non-recurring fair value measurements nor have they been any transfers between levels of the fair value hierarchy

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

	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
At 31 December 2015				
Warrants	–	147	–	147
Total	–	147	–	147
At 31 March 2015				
Warrants	–	349	–	349
Total	–	349	–	349

The warrants are valued using Black- Scholes method, which incorporates the inputs as detailed in note 9

Financial risk management

The Company's principal financial liabilities comprise borrowings, warrants and trade and other payables, including amounts due to subsidiary undertakings. The main purpose of these financial liabilities is to finance the Company's subsidiary operations and to fund acquisitions. The Company has trade and other receivables, and cash and cash equivalents that are derived directly from its operations and restricted cash

The Company manages its exposure to key financial risks in accordance with its financial risk management policy. The objective of the policy is to support the Company's financial targets while protecting future financial security. The Company is exposed to the following risks

- Market risk including interest rate and foreign currency risks,
- Credit risk, and
- Liquidity risk

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

PARENT COMPANY FINANCIAL STATEMENTS – NOTES

AS AT 31 DECEMBER 2015 CONTINUED

11 Financial instruments and risk management continued

Market risk

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

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

Interest rate risk

The Company's exposure to the risk of changes in market interest rates relates primarily to the Company's loans with related parties

The Company currently has all of its external borrowings at fixed rates of interest

The following table summarises the impact on profit before tax for changes in interest rates on the fair value of the loans to related parties. The analysis is based on the assumption that LIBOR moves 50 basis points, with all other variables held constant

	Increase/(decrease) in profit before tax for the period/year ended and to equity as at	
	31 December 2015 £000	31 March 2015 £000
50 basis point increase in LIBOR	388	388
50 basis point decrease in LIBOR	(388)	(388)

Foreign currency risk

The Company has transactional currency exposures. Such exposure arises from purchases in currencies other than the UK pounds sterling, the functional currency of the Company

The following table summarises the impact on profit before tax for changes in the US dollar/UK pound sterling exchange rate on financial assets and liabilities as at the year end, principally relating to the Groups borrowings which are denominated in US dollars. The impact on equity is the same as the impact on profit before tax

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

	Increase/(decrease) in profit before tax for the period/year ended and to equity as at	
	31 December 2015 £000	31 March 2015 £000
10% strengthening of the pound against the US dollar	8,243	9,867
10% weakening of the pound against the US dollar	(8,243)	(9,867)

Credit risk

With respect to credit risk arising from the financial assets of the Company, which comprise cash and cash equivalents and amounts due from subsidiary undertakings, the Company's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments. The credit risk on amounts due from subsidiary undertakings are limited as these are assessed for impairment whenever events or changes in circumstances indicate that they may not be recoverable. The Company limits its counterparty credit risk on cash and cash equivalents by dealing only with financial institutions with credit ratings of at least A or equivalent other than if the UK government is a majority shareholder. £20.5 million (2015: £10.1 million) of cash and cash equivalents were held with two institutions.

11 Financial instruments and risk management continued

Liquidity risk

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

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

	On demand £000	<1 year £000	1-2 years £000	2-3 years £000	>3 years £000	Total £000
At 31 December 2015						
Borrowings	–	15,591	14,784	99,664	–	130,039
Trade and other payables	–	350	–	–	–	350
Warrants	–	147	–	–	–	147
	–	16,088	14,784	99,664	–	130,536
At 31 March 2015						
Borrowings	–	16,442	15,891	92,317	22,426	147,076
Trade and other payables	–	14	–	–	–	–
Warrants	–	349	–	–	–	–
	–	16,805	15,891	92,317	22,426	147,076

Management considers that the Company has adequate current assets and forecast cash from operations to manage liquidity risks arising from current liabilities and non-current liabilities

Capital management

The Company manages its capital to ensure that it remains sufficiently funded to support its business strategy and maximise shareholder value. The Company's funding needs are met through a combination of debt and equity (2014 funding requirements through a combination of debt and equity) and adjustments are made in light of changes in economic conditions. The Company's strategy is to maintain ratios in line with covenants associated with the senior debt facility.

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

PARENT COMPANY FINANCIAL STATEMENTS – NOTES

AS AT 31 DECEMBER 2015 CONTINUED

12 Share capital

	Ordinary Shares	
	Nominal value	
	No	£000
Issued and fully paid		
31 March 2014, Ordinary Shares of 10p each	204,724,762	20,472
15 April 2014 shares issued at a price of 55.8p each	1,500,000	150
22 April 2014 shares issued at a price of 108p each	91,239	9
23 July 2014 shares issued at a price of 117p each	69,404	7
16 October 2014 shares issued at a price of 74.75p each	89,997,626	9,000
22 October 2014 shares issued at a price of 77p each	99,100	10
22 January 2015 shares issued at a price of 30.25p each	442,431	44
31 March 2015, ordinary shares of 10p each	296,924,562	29,692
22 April 2015 shares issued at a price of 28.25p each	479,160	48
23 July 2015 shares issued at a price of 25p each	333,436	33
22 October 2015 shares issued at a price of 22p each	512,930	51
22 October 2015 shares issued at a price of 22p each*	573,576	58
31 December 2015, ordinary shares of 10p each	298,823,664	29,882

* Issued in connection with the INEOS farm-out

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

13 Share premium and capital redemption reserve account

Share premium account

The share premium account of the Company arises from the capital that the Company raises upon issuing shares for consideration in excess of the nominal value of the shares net of the costs of issuing the new shares. During the period the Company issued 1,899,102 ordinary shares at a price of 10p each (2015: 92,199,800 shares issued). The cost of the issue was £nil million (2015: £1.9 million). Together these events resulted in a net movement in the share premium reserve of £0.3 million (2015: £58.5 million).

Capital redemption reserve

During the period ended 31 March 2014 IGL repurchased 100% of its outstanding deferred shares which had been issued with a nominal value of 40p each. These deferred shares were subsequently cancelled by the Company. This resulted in a reduction in share capital and a corresponding recognition of a capital redemption reserve of £64.9 million.

14 Merger reserve

The merger reserve arose as a result of a reverse acquisition on 31 December 2007 whereby 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 Company. The reserve represents the difference in the fair value and the nominal value of the shares issued. The reserve is not distributable.

15 Other reserves

Other reserves are as follows

	Warrant/Share plan reserves £000	Treasury shares £000	Capital contributions £000	Total £000
Balance 1 April 2014	1,032	(1,746)	47	(667)
Employee share plans – cost under IFRS 2	2,657	–	–	2,657
Employee share plans – shares issued under the SIP	–	(239)	–	(239)
Lapse of LTIPs under the employee share plan	(487)	–	–	(487)
Balance 31 March 2015	3,202	(1,985)	47	1,264
Employee share plans – cost under IFRS 2	1,344	–	–	1,344
Forfeiture of LTIPs under the employee share plan	(1,000)	–	–	(1,000)
Lapse of LTIPs under the employee share plan	(286)	–	–	(286)
Balance 31 December 2015	3,260	(1,985)	47	1,322

Employee share plans – Equity settled

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

	MRP		EDRP		LTIP		VCP	
	Number of units	Weighted average exercise price (pence)	Number of units	Weighted average exercise price (pence)	Number of units	Weighted average exercise price (pence)	Number of units	Weighted average exercise price (pence)
Outstanding at 1 April 2014	–	–	–	–	3,596,500	–	–	–
Exercisable at 1 April 2014	–	–	–	–	–	–	–	–
Granted during the year	–	–	–	–	2,401,238	–	80	–
Forfeited during the year	–	–	–	–	–	–	–	–
Lapsed during the year	–	–	–	–	(2,147,485)	–	–	–
Exercised during the year	–	–	–	–	–	–	–	–
Outstanding at 31 March 2015	–	–	–	–	3,850,253	–	80	–
Exercisable at 31 March 2015	–	–	–	–	–	–	–	–
Granted during the period	7,143,610	–	6,500,000	–	1,809,296	–	–	–
Cancelled during the period	–	–	–	–	(2,085,941)	–	(42)	–
Forfeited during the period	–	–	–	–	(1,730,308)	–	(38)	–
Outstanding at 31 December 2015	7,143,610	–	6,500,000	–	1,843,300	–	–	–
Exercisable at 31 December 2015	–	–	–	–	–	–	–	–

Management Retention Plan ("MRP")

In December 2015, the Group adopted a new share-based payment scheme, the Management Retention Plan ("MRP"). Under the MRP, participants are granted nil cost options which vest and become exercisable on the first anniversary of grant subject to the Directors' continued employment and to a one year holding period following the date of vesting.

Employees of the Group were granted 7,143,610 options in the MRP in lieu of waived options granted under the 2011 Long Term Incentive Plan (LTIP) and 2015 cash bonuses. The options designated by the Group as replacement awards were accounted for as a modification of the original scheme and were valued at grant date and the options awarded in lieu of cash bonuses were measured with reference to the fair value of the services received.

The fair value of the cancelled awards was re-measured at the replacement date based on the Monte Carlo valuation model. The key inputs into the model were: replacement date share price of £0.14, threshold price of between £1.351 and £1.664, a risk free interest rate of between 0.37% and 0.42% and an implied share price volatility of between 73% and 86%. It was also assumed that no dividends would be paid during the life of the options. This resulted in an incremental fair value of £0.17 million.

The MRPs outstanding at 31 December 2015 had both a weighted average remaining contractual life and maximum term remaining of 7.9 years. The fair value of the replacement awards granted under the MRP was the grant date share price.

The total charge for the period was £0.14 million. Of this amount, £0.0138 million was capitalised and £0.002 million was charged to the income statement.

PARENT COMPANY FINANCIAL STATEMENTS – NOTES

AS AT 31 DECEMBER 2015 CONTINUED

15 Other reserves continued

Executive Director Retention Plan ("EDRP")

In July 2015, the Group adopted a new share-based payment scheme, the Executive Director Retention Plan ("EDRP"). Under the EDRP, participants are granted nil cost options which vest and become exercisable on the first anniversary of grant subject to the Directors' continued employment and to a one year holding period following the date of vesting.

Executives were granted 6,500,000 options in the EDRP in lieu of waived options granted under the 2011 Long Term Incentive Plan (LTIP) and the Value Creation Plan (VCP). The options have been designated by the Group as replacement awards at grant date and were accounted for as a modification of the original scheme.

The fair value of the cancelled awards was re-measured at the replacement date based on the Monte Carlo valuation model. The key inputs into the model were: replacement date share price of £0.2475, threshold price of between £0.945 and £1.664, a risk free interest rate of between 0.49% and 0.60% and an implied share price volatility of between 70% and 78%. It was also assumed that no dividends would be paid during the life of the options. This resulted in an incremental fair value of £1.5 million.

The EDRPs outstanding at 31 December 2015 had both a weighted average remaining of 7.5 years. The fair value of the replacement awards granted under the EDRP was measured at grant date share price.

The total charge for the period was £0.7 million. Of this amount, £0.6 million was capitalised and £0.1 million was charged to the Income Statement.

Long Term Incentive Plan 2011 ("2011 LTIP")

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

In June 2015, the awards granted in June 2012 under 2011 LTIP lapsed due to performance criteria not being met. The number of awards that lapsed is 1,071,542 and the amount previously recognised in other reserves of £0.3 million is transferred to retained earnings.

There were no LTIPs exercised during the year. The LTIPs outstanding at 31 December 2015 had both a weighted average remaining contractual life and maximum term remaining of 9.9 years (31 March 2015: 8.6 years). The fair value of the awards granted under the plan are measured at grant date using a Monte Carlo Simulation Model.

The total charge for the period was £0.19 million (Year ended 31 March 2015: £0.73 million). Of this amount, £0.21 million was capitalised (31 March 2015: £0.60 million) and £0.02 million was credited to the Income Statement (31 March 2015: £0.13 million).

During the period to 31 December 2015, the Company undertook a restructuring programme. The share options and units previously granted to employees under 2011 LTIP and the VCP have been forfeited, none of which having vested or become exercisable prior to this date due to the termination of employment. This resulted in a release of prior charges under IFRS 2 – credit to the income statement of £0.35 million, credit against investment of £0.65 million and a charge to other reserves of £1.0 million.

Value Creation Plan ("2014 VCP")

In July 2014, the Company adopted the iGas 2014 Value Creation Plan ("VCP"). Under the VCP, performance units will be granted which convert into a certain number of shares at the end of a three year performance period. The VCP requires creation of shareholder value in excess of a threshold hurdle of 10% annualised share price growth from 1 April 2014. If this hurdle is met at the end of the performance period, participants will receive in aggregate 12.5% of the shareholder value created above the hurdle. 50% of this value will vest in shares of equivalent value at end of the performance period and 25% at the end of each of the following two years. The awards granted under the VCP scheme are measured at grant date using a Monte Carlo Simulation Model.

For the VCP, when significant additional capital is raised (more than 10% of the Company's issued share capital) following the grant date, a separate tranche of the VCP award is created with its own threshold price and share capital. Therefore any additional shares issued will have to be considered separately in determining the VCP accounting expense for periods following this capital event.

The total charge for the period was £0.70 million (Year ended 31 March 2015: £1.72 million). Of this amount, £0.44 million was capitalised (31 March 2015: £1.31 million) and £0.26 million was charged to the Income Statement (31 March 2015: £0.41 million).

The VCP was replaced by EDRP in its entirety.

15 Other reserves continued**Value Creation Plan ("2014 VCP") continued**

The inputs into the Monte Carlo models were as follows

	2011 LTIP				VCP	
	Granted Nov 11	Granted Jun 12	Granted Sep 13	Granted Jul 14	Granted Jul 14 (pre capital issue)	Granted Jul 14 (capital issue relating to Dart acquisition – Oct 14)
Share price on grant	50.5p	66.5p	102.0p	112.0p	112.0p	75.0p
Exercise price	Nil	Nil	Nil	Nil	Nil	Nil
Expected volatility	35%	31%	43%	47%	47%	47%
Expected life	6.5 years	6.5 years	6.5 years	2.7 years	2.7 years	2.5 years
Risk-free rate	0.70%	0.35%	0.85%	1.28%	1.28%	0.80%
Expected dividends	0%	0%	0%	0%	0%	0%
Weighted average fair value of awards/units granted	23.12p	26.72p	50.90p	51.55p	£64,989	£22,447

Other share based payments

In 2013, the Company adopted an HMRC approved Share Investment Plan ("SIP") for all employees of the Company. The scheme is a tax efficient incentive plan pursuant to which all employees are eligible to acquire up to £150 (or 10% of salary, if less) worth of IGas ordinary shares per month or £1,800 per annum. Under the SIP employees are invited to make contributions to buy partnership shares. If an employee agrees to buy partnership shares the Company currently matches the number of partnership shares bought with an award of shares (matching shares), on a one-for-one or two-for-one basis.

The total charge for the period was £0.2 million (Year ended 31 March 2015: £0.2 million). Of this amount, £0.2 million was capitalised (31 March 2015: £0.03 million) and £nil was charged to the income statement (31 March 2015: £0.17 million).

There were no options exercised during the period. The options outstanding at 31 December 2015 had both a weighted average remaining contractual life and a maximum term of 6.9 years (31 March 2015: 7.6 years).

In October 2015, the Group issued 573,576 ordinary shares with a fair value of £0.1 million to Jefferies International Limited's in connection with advisory services relating to the Group's farm-out and purchase agreement with INEOS which completed on 7 May 2015.

Treasury shares

The Treasury shares of the Company have arisen in connection with the shares issued to the IGas Employee Benefit Trust, of which the Company is the sponsoring entity. The value of such shares is recorded in the share capital and share premium accounts in the ordinary way and is also shown as a deduction from equity in this separate reserve account. There is therefore no net effect on shareholders' funds. During the period ended to 31 December 2015 there were no shares issued to the Employee Benefit Trust (Year ended 31 March 2015: nil).

Capital contribution

The capital contribution relates to cash received following the acquisition of IGas Exploration UK Limited.

PARENT COMPANY FINANCIAL STATEMENTS – NOTES

AS AT 31 DECEMBER 2015 CONTINUED

16 Related party transactions

(a) with group companies

A summary of the transactions in the year is as follows

	Nine months ended 31 December 2015 £000	Year ended 31 March 2015 £000
Amounts due from/(to) subsidiaries		
Balance at beginning of year	119,158	131,998
Services performed by subsidiary	1,548	578
Net cash advances	(27,619)	(25,809)
Group loan interest	8,956	12,391
Balance at end of year	102,043	119,158

Payment terms for balances due to or from subsidiaries are as mutually agreed between the Group's companies. The payment terms in respect of loans are detailed in note 2.

(b) with Directors

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

C McDowell currently holds \$0.26 million (31 March 2015: \$0.27 million) bonds issued in the Group. These bonds earn interest at 10% per annum. In the period ended 31 December 2015, the interest paid was \$0.03 million (Year ended 31 March 2015: \$0.03 million). Accrued interest at 31 December 2015 amounted to \$7.3 thousand (31 March 2015: \$0.8 thousand).

F Gugen currently holds no bonds at 31 December 2015 (31 March 2015: none) issued by the Group. Bonds earn interest at 10% per annum. In the period ended 31 December 2015 no interest was paid (Year ended 31 March 2015: \$0.2 million).

17 Subsequent events

Issued shares

On 22 January 2016, the Company issued 757,096 Ordinary 10p shares in relation to the Group's SIP scheme.

OIL AND GAS RESERVES AS AT 31 DECEMBER 2015

The Group's estimates of proved plus probable reserves are taken from the Group's internal estimates for the Group's oil fields as of 31 December 2015 together with adjustments for production data thereafter. Proved reserves are estimated reserves that geological and engineering data demonstrate with reasonable certainty to be recoverable in future years under existing economic and operating conditions, while probable reserves are estimated reserves determined to be more likely than not to be recoverable in future years under existing economic and operating conditions.

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

Group proved plus probable reserves

	Oil mmbbls	Gas Bcf	Total mmboe
At 1 April 2015	12 03	3 49	12 63
Additions during the period	0 15	–	0 15
Revision of previous estimates	1 12	0 80	1 26
Production	(0 68)	(0 19)	(0 71)
Total change during the period	0 59	0 61	0 70
At 31 December 2015	12 62	4 10	13 33

The Group's estimates of proved plus probable reserves are made in accordance with the 2007 Petroleum Resources Management System prepared by the Oil and Gas Reserves Committee of the Society of Petroleum Engineers ("SPE") and reviewed and jointly sponsored by the World Petroleum Council ("WPC"), the American Association of Petroleum Geologists ("AAPG") and the Society of Petroleum Evaluation Engineers ("SPEE").

GLOSSARY

£	The lawful currency of the United Kingdom
\$	The lawful currency of the United States of America
1P	Low estimate of commercially recoverable reserves
2P	Best estimate of commercially recoverable reserves
3P	High estimate of commercially recoverable reserves
1C	Low estimate or low case of Contingent Recoverable Resource quantity
2C	Best estimate or mid case of Contingent Recoverable Resource quantity
3C	High estimate or high case of Contingent Recoverable Resource quantity
AIM	AIM market of the London Stock Exchange
Bcf	Billions of standard cubic feet
boepd	Barrels of oil equivalent per day
bopd	Barrels of oil per day
CBM	Coal bed methane
Recoverable reserves	As defined in the Oil and Gas Reserves table on page 115
Contingent Recoverable Resources	<p>Contingent Recoverable Resource estimates are prepared in accordance with the Petroleum Resources Management System (PRMS), an industry recognised standard. A Contingent Recoverable Resource is defined as discovered potentially recoverable quantities of hydrocarbons where there is no current certainty that it will be commercially viable to produce any portion of the contingent resources evaluated. Contingent Recoverable Resources are further divided into three status groups: marginal, sub marginal, and undetermined. IGas' Contingent Recoverable Resources all fall into the undetermined group. Undetermined is the status group where it is considered premature to clearly define the ultimate chance of commerciality.</p> <p>All amounts shown in this annual report have been compiled by statistical aggregation.</p>
DECC	Department of Energy and Climate Change
Drill or drop	A drill or drop well carries no commitment to drill. The decision whether or not to drill the well rests entirely with the Licensee being driven by the results of geotechnical analysis. The Licence will, however, still expire at the end of the Initial Term if the well has not been drilled.
Environmental Statement	The document that compiles the results of an EIA
Firm well	A firm well is classified as a firm commitment to drill a well. It is not contingent on any further geotechnical evaluation (i.e. it is a fully evaluated Prospect).
Flowback water	After the fracking procedure is complete and pressure is released, the water and excess proppant flow up through the wellbore to the surface. Both the process and the returned water is referred to as "flowback".
GIIP	Gas initially in place
MMboe	Millions of barrels of oil equivalent
MMscfd	Millions of standard cubic feet per day
PEDL	United Kingdom petroleum exploration and development licence
PL	Production licence
Scf	Standard cubic feet
Scoping	A planning procedure in which MPA advises on the information it considers necessary to be included in an ES
Screening	A planning procedure used to determine whether a proposed project is likely to have significant effects on the environment
Tcf	Trillions of standard cubic feet of gas
UK	United Kingdom

GENERAL INFORMATION

Directors

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

Company Secretary

Cooley Services Limited
Dashwood
69 Old Broad Street
London EC2M 1QS

Nominated Adviser and Broker

NOMAD and Joint Broker

Jefferies Hoare Govett
Vintners Place
68 Upper Thames Street
London EC4V 3BJ

Joint Broker

Canaccord Genuity

88 Wood Street
London EC2V 7QR

Registrar

Computershare Investor Services plc

The Pavilions
Bridgwater Road
Bristol BS13 8AE

Auditor

Ernst & Young LLP

1 More London Place
London SE1 2AF

Banker

Barclays Bank Plc

1 Churchill Place
London E14 5HP

Registered Office

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Copies of Reports and Accounts

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

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