

Island Gas Resources - Final Results
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Island Gas Resources PLC
20 May 2008

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ISLAND GAS RESOURCES PLC ('IGas' or 'the Company')

Preliminary Results for the year ended 31 December 2007

IGas, a leading developer of Coal Bed Methane ('CBM') in the UK and prospective producer of North Sea quality gas from virgin coal seams, today announced its maiden preliminary results for the year ending 31 December 2007, following the reverse takeover of KP Renewables Plc on 31 December 2007.

Financial Highlights

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

Operational Highlights

- 893 bcf net to IGas in place, independently verified
- Equivalent to 140 million barrels net to IGas of oil
- Approximately 1000km² of licensed acreage
- Four wells drilled; with 3,200 ft in two lateral legs
- Production test at Doe Green; with electricity connection agreement in place
- Planning permission for a further five wells
- Acreage applied for in 13th UK onshore licensing round

Francis Gugen, Chairman said:

'This has been a significant year for IGas, during which foundations have been built; needed for the long-term success of the Company. These foundations have three integral parts: deliverability of gas, asset growth and financial flexibility, with

considerable progress having been made in all three in 2007. 2007 has shown our ability to grow our assets and to deliver good quality gas to surface, and we are actively planning to start marketing this gas by the end of 2008. Since year end we have also now drilled an assay well at Foxhills Farm near Halewood with encouraging results. Our admission to AIM increases our financial flexibility.'

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Chief Executive Officer

Notes to editors

Island Gas Resources plc

Founded in 2003, IGas' subsidiary, Island Gas Limited, was set up to produce and market the methane gas which is found in seams of coal. The coal seam both generates and traps the gas, which can be extracted by drilling horizontally into the seam and collected for use as fuel. Coal Bed Methane ('CBM') is exactly the same as other forms of natural gas, and is used to provide both industrial and domestic power and has the potential to be an important new source of energy for the UK. The CBM industry in the UK is in its infancy, but with the continuing decline in natural gas from the North Sea, it is likely to become an increasingly attractive alternative potential source of gas.

CBM has become a significant source of gas both in North America and Australia over a relatively short period of time during which both have seen an almost exponential growth in CBM production. IGas currently has ownership interests of between 20 and 50 per cent in eight Petroleum and Exploration Development Licences (PEDLs) in the UK, wholly owns two methane drainage licences (MDLs) and has a 50 per cent interest in three offshore blocks under one seaward petroleum production licence (SPPL). These licences cover a gross area of approximately 1,000 sq km. IGas' share of Gas Initially In Place (GIIP) is estimated

to be in the order of 893 billion cubic feet (bcf) at a mid-case estimate, and could range between 395 bcf and 3,436 bcf.

CHAIRMAN'S STATEMENT

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

Deliverability of gas

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

Asset Growth

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

Financial flexibility

On 31 December 2007, shares of IGas were admitted to trading on the Alternative Investment Market (AIM) of the London Stock Exchange (LSE) pursuant to the reverse takeover of KP Renewables Plc. Whilst our Group's carry agreements have some time to run, our Company now has access to public markets in addition to more traditional industry trade funding mechanisms.

On 18 May 2007 we signed an additional carried interest agreement with our joint venture partner, Nexen. This carry is for £750,000 to specifically cover the initial work programmes at Point of Ayr.

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

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

An additional lateral leg has been drilled at Doe Green, Cheshire, which after a planned workover is expected to be put on extended production test.

A connection agreement has now been obtained for electricity generation at the Doe Green site.

Drilling has now completed with encouraging results at Foxhill Farm, on PEDL 116 fulfilling the licence commitment.

Planning permission has been obtained at sites in PEDL 78 and 115 and rig slots agreed which should ensure that licence commitments here are fulfilled within the extensions agreed with BERR*.

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

In addition to the progress we have been making, the macro backdrop for our business is also improving. Rising oil prices are having an effect on the prices of natural gas with the price of gas delivered to the National Balancing Point in winter 2009 currently trading at 0.80 p/therm having risen from 0.45 p/therm in December 2006 and 0.60 p/therm in December 2007 as published in Platts on the corresponding dates. Also, the importance of gas close to home and close to its markets is increasing, both for reasons of reduced emissions as a consequence of transport and for security of supply.

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

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

Francis Gugen, Executive Chairman

Key Financial Highlights

Income statement

£000	2007	2006
Revenue	811	597
Operating (loss) / profit	(2,025)*	66
Retained (loss) / profit	(2,015)*	62

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

Total licence expenditure

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

Cash position

The Group manages its cash and other sources of finance, including its agreements with Nexen, so as to have access to adequate funds to meet the costs of future exploration and development programmes. At 31 December 2007, the Group's capital employed amounted to just under £1 million all provided by equity, as the Group had no borrowings.

As at 31 December 2007 the Group had a consolidated cash position of £1.4 million. In addition the Group has committed income of £500,000 for 2008 and £500,000 for 2009, as a result of a management services agreement with Nexen. The Group also has access to carry agreements with Nexen under which, as at 31 December 2007, a further £3.1 million of the Group's share of the cost of future licence work programmes (which have to be approved by the Group) will be carried by Nexen.

Accordingly, at 31 December 2007, in total, the Group has access to in excess of £4 million of funding.

CONSOLIDATED INCOME STATEMENT **For the year ended 31 December 2007**

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

CONSOLIDATED BALANCE SHEET **As at 31 December 2007**

Notes	2007	2006
1(c)	£	£

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

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

Francis Gugen
Chairman

Andrew Austin
Chief Executive Officer

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2007

	Called up share capital (Note 18) £	Preference Shares £	Share premium account £	Share warrant reserve (Note 19) £	(Accumulated deficit) / retained earnings £	Total £
Balance at 1 January	668	44,000	44,500	0	52,907	142,075

2006

Changes in equity for 2006

Profit for year 62,264 62,264

Balance at 31 December 2006

668 44,000 44,500 0 115,171 204,339

Changes in equity for 2007

Loss for the year (2,014,522) (2,014,522)

Reverse and Scheme of Arrangement Redemption of Preference Shares, at par Share-based payments 2,663,676 2,663,676

(44,000) (44,000)

166,626 166,626

Balance at 31 December 2007

2,664,344 0 44,500 166,626 (1,899,351) 976,119

**CONSOLIDATED CASH FLOW STATEMENT
For the year ended 31 December 2007**

	Notes 1(c)	2007 £	2006 £
Operating activities:			
Retained (loss) / profit for the year		(2,014,522)	62,264

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

CONSOLIDATED FINANCIAL STATEMENTS - NOTES
As at 31 December 2007

1 ACCOUNTING POLICIES

(a) BASIS OF PREPARATION OF FINANCIAL STATEMENTS

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

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

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

International Accounting Standards (IAS / IFRSs)	Effective Date
IFRS 2 Amendment to IFRS 2 – Vesting Conditions and	1 January

	Cancellations	2009
IFRS 3	Business Combinations (revised January 2008)	1 July 2009
IFRS 8	Operating Segments	1 January 2009
IAS 1	Presentation of Financial Statements (revised September 2007)	1 January 2009
IAS 23	Borrowing Costs (revised March 2007)	1 January 2009
IAS 27	Consolidated and Separate Financial Statements (revised January 2008)	1 July 2009

International Financial Reporting Interpretations Committee (IFRIC)

IFRIC 12	Service Concession Arrangements	1 January 2008
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The Directors do not anticipate that the adoption of these standards and interpretations will have a material impact on the Group's financial statements in the period of initial application.

(b) GOING CONCERN

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

(c) BASIS OF CONSOLIDATION

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

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

(d) REVERSE ACQUISITIONS

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

(e) JOINT VENTURES

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

(f) SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

Critical judgements in applying the Group's accounting policies

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

Estimates and assumptions:

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

Current taxes:

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

Carrying value of intangible exploration and evaluation assets:

The Group has capitalised intangible exploration and evaluation assets in accordance with IFRS 6, which are evaluated for impairment as described at (i) below. Any impairment reviews, where required, involve significant judgement related to matters such as recoverable reserves; production profiles; gas and electricity prices; development, operating and offtake costs; nature of land access agreements and planning permissions; application of local and central taxes; and other matters. Where the final outcome or revised estimates related to such matters differ from the estimates used in any earlier impairment reviews, the results of such differences, to the extent that they actually affect any impairment provisions, are accounted for when such revisions are made.

(g) EXCEPTIONAL ITEMS

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

(h) REVENUE

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

(i) NON-CURRENT ASSETS (intangible exploration and evaluation assets and property plant and equipment)

Intangible exploration and evaluation assets

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

Exploration and evaluation assets are carried at cost less any impairment and are not depreciated or amortised.

Expenditures recognised as exploration and evaluation assets comprise those related to acquisition of rights to explore; topographical, geological, geochemical and geophysical studies; exploratory drilling (including coring and sampling); activities in relation to evaluating the technical feasibility and commercial viability of extracting gas (including appraisal drilling and production tests); any land rights acquired for the sole purpose of effecting these activities.

Expenditures not recognised as exploration and evaluation assets include those related to development and production costs and any costs incurred prior to

obtaining the legal rights to explore an area; these latter costs are expensed immediately to the Income Statement.

Tangible assets acquired for use in exploration and evaluation activities are classified as property, plant and equipment, interests in oil & gas properties. However, to the extent that such tangible assets are consumed in developing an intangible exploration and evaluation asset, the amount reflecting that consumption is recorded as part of exploration and evaluation asset costs.

Expenditures recognised as exploration and evaluation assets are initially accumulated and capitalised by reference to appropriate geographic areas, which may not be larger than a business segment, currently the entirety of the Company's UK gas business.

Expenditures recognised as exploration and evaluation assets are transferred to property plant and equipment, interests in oil & gas properties when technical feasibility and commercial viability of extracting gas is demonstrable. Exploration and evaluation assets are assessed for impairment (on the basis described below), and any impairment loss recognised, before reclassification.

Expenditures recognised as exploration and evaluation assets are tested for impairment (on the basis described below) whenever facts and circumstances suggest that they may be impaired, which includes when a licence is approaching the end of its term and is not expected to be renewed; there are no substantive plans for continued exploration or evaluation of an area; the Group decides to abandon an area; whilst development is likely to proceed in an area there are indications that the exploration and evaluation asset costs are unlikely to be recovered in full either by development or through sale. In the event of goodwill arising on an acquisition being allocated to exploration and evaluation assets, impairment is tested for at least annually, as described in the goodwill note below.

Net proceeds from any disposal of exploration and evaluation assets are initially credited against previously capitalised costs, with any surplus proceeds being credited to the consolidated Income Statement.

Property plant and equipment, interests in oil and gas properties

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

Expenditure relating to evaluated properties is depleted on a unit-of-production basis, commencing at the start of commercial production. The depletion charge is calculated according to the proportion that production bears to the recoverable reserves for each property.

The Group's property plant and equipment, interests in oil and gas properties are assessed for indications of impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable,

when impairment is computed on the basis as set out below. Any impairment in value is charged to the Income Statement as additional depreciation.

Net proceeds from any disposal of development/producing assets are compared to the previously capitalised costs for the relevant asset or group of assets. A gain or loss on disposal of a development/producing asset is recognised in the Income Statement to the extent that the net proceeds exceed or are less than the appropriate portion of the net capitalised costs of the asset or group of assets.

Impairment

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

By comparing the sum of any amounts carried as exploration and evaluation assets and as property plant and equipment, interests in oil & gas properties as compared to the recoverable amount.

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

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

Decommissioning

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

Carried Interests

Where the Group has entered into carried interest agreements, no amounts are recorded in the accounts where expenditure incurred under such agreements is not refundable. Where expenditure is refundable, out of what would but for the carry agreements have been the Company's share of production, the Company records amounts as non-current assets, with a corresponding offset in current liabilities or non-current liabilities, as appropriate, but only once it is apparent that it is more likely

than not that future production will be adequate to result in a refund under the terms of any carry agreement; when the Group records refunds only to the extent that they are expected to be repayable.

Non oil and gas related property plant and equipment

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

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

(j) FINANCIAL INSTRUMENTS

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and cash held on current account or on short-term deposits at variable interest rates with maturity periods of up to 3 months. Any interest earned is accrued monthly and classified as interest income within finance income.

Trade and other receivables

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

Trade and other payables and current taxation liabilities

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

Non-current liabilities - Trade payables

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

(k) OPERATING LEASES

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

(l) TAXATION

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

The current tax is based on taxable (loss) / profit for the year. Taxable (loss) / profit differs from the (loss) / profit before taxation as reported in the Income Statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

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

(m) SHARE BASED PAYMENTS

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

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

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

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

(n) EQUITY

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

However, as required by IFRS 3, the effect on the Group's Equity of the Reverse is to extinguish all previously recorded amounts and to record instead amounts equal to the deemed cost of the Reverse, being the adjusted market value of the Company as last quoted immediately prior to the announcement of the Reverse, plus the Equity of IGL; the effective acquiring company. See note 2 for further information on the Reverse. Also retained within Group Equity is the cost of outstanding warrants issued by the Company and surviving the Reverse.

2. BUSINESS COMBINATION

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

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

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

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

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

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

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

If the combination had taken place at the beginning of 2007, the results of the Group would have been unchanged from those as reported, except for £32,900 being the effect of interest income earned on cash acquired net of the costs of the Reverse. Accordingly, the retained loss for the year would have been £1,981,621 and the revenue from continuing operations of £810,595.

3. REVENUE AND SEGMENT INFORMATION

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

4. OPERATING PROFIT

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

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

5. EMPLOYEE INFORMATION

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

6. DIRECTORS' EMOLUMENTS

The remuneration of the directors for the year was as follows:

	2007 £	2006 £
Charged to Consolidated Income Statement:		
Directors' emoluments and benefits comprised:		
Directors' emoluments	440,000	300,000
Pension contributions	-	-
	440,000	300,000
The highest paid director received emoluments and benefits as follows:		
Emoluments	240,000	100,000
Pension contributions	-	-
	240,000	100,000

Not charged to Consolidated Income Statement:

Directors' emoluments and benefits comprised:		
Amounts payable in respect of qualifying services	56,063	259,736

Share based payments	131,208	-
Social security cost	-	6,453
Pension contributions	-	11,000
	<u>187,271</u>	<u>277,189</u>
The highest paid director received emoluments and benefits as follows:		
Emoluments	54,927	108,333
Pension contributions	-	-
	<u>54,927</u>	<u>108,333</u>

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

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

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

Directors' warrants

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

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

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

7. EXCEPTIONAL ITEM - IMPAIRMENT OF GOODWILL ON REVERSE

	2007	2006
	£	£
Impairment of goodwill on Reverse	<u>2,039,764</u>	-

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

8. FINANCE INCOME

	2007 £	2006 £
Interest receivable comprised:		
Bank interest	<u>16,603</u>	<u>15,866</u>

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

9. TAX ON (LOSS) / PROFIT ON ORDINARY ACTIVITIES

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

Factors affecting the tax charge

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

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

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

10. (LOSS) / EARNINGS PER SHARE (EPS)

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

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

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

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

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

There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of completion of these financial statements.

11. INTANGIBLE EXPLORATION AND EVALUATION ASSETS

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

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

At 31 December 2007 £2,160,925 had been carried (2006 - £1,267,477), which has not been recorded as either non-current assets or liabilities, since repayment is currently sufficiently uncertain.

12. TRADE AND OTHER RECEIVABLES

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

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

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

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

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

13. CASH AND CASH EQUIVALENTS

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

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

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

14. CURRENT LIABILITIES

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

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

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

15. NON-CURRENT LIABILITIES

	2007	2006
	£	£
Trade and other payables, due 31 March 2009	77,725	-
Deferred tax	-	-
	<u>77,725</u>	<u>-</u>

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

	2007	2006
	£	£
Company:		
Trading loss	-	-
Excess management expenses	2,618,446	3,232,625
IGL:		
Petroliferous - Trading loss	17,478	15,180
Petroliferous - Minerals extraction allowances	160,632	65,747
KP Renewables (Operations) Limited ('KPRO'):		
Trading loss	1,193,689	1,193,689

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

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

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

16. COMMITMENTS

The Group had no lease or capital commitments at 31 December 2007 (2006 - £Nil).

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

17. FINANCIAL INSTRUMENTS

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

Financial assets and liabilities

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

Interest rate risk profile of financial assets

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

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

Credit risk

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

Capital management

Information regarding the Group's management of capital is provided in the Business Review on page 5.

Authorised	Ordinary Shares		Deferred Shares	
	No.	£ Nominal Value*	No.	£ Nominal Value*
1 January 2006 and 2007, Ordinary shares of 1p each	100,000,000	1,000,000		
10 April 2007 conversion of each issued Ordinary share of 1p each into:	(46,589,662)	(465,897)		
New Ordinary shares of .05p	46,589,662	23,295		
New Deferred shares of .95p each			46,589,662	442,602
10 April 2007 consolidation of each New Ordinary share of .05p into:	(46,589,662)			
Ordinary shares of 1p each - 20 for 1	2,329,483			
10 April 2007 additional Ordinary shares created	500,000,000	5,000,000		
27 December 2007 consolidation of each 1p Ordinary share into:	(555,739,821)			
New Ordinary Shares of 50p - 50 for 1	11,114,796			
27 December 2007 New Ordinary shares created	78,000,000	39,000,000		
	<u>89,114,796</u>	<u>44,557,398</u>	<u>46,589,662</u>	<u>442,602</u>
31 December 2007 Issued and fully paid	Ordinary Shares		Deferred Shares	
	No.	£ Nominal Value	No.	£ Nominal Value
1 January 2006 and 2007, Ordinary shares of 1p each	46,589,662	465,897		
10 April share conversion of each Ordinary share of 1p each into:	(46,589,662)	(465,897)		
New Ordinary shares of .05p	46,589,662	23,295		
New Deferred shares of .95p			46,589,662	442,602
10 April 2007 consolidation of each New Ordinary share of .05p into:	(46,589,662)			
Ordinary shares of 1p each - 20 for 1	2,329,483			
10 April shares issued for cash	75,000,000	750,000		
10 April shares issued in lieu of fees	6,500,000	65,000		
7 November shares allotted to	832,127	8,321		

former creditors				
27 December consolidation of each 1p Ordinary share into New Ordinary shares of 50p - 50 for 1	(84,661,610)			
	1,693,232			
27 December shares issued to redeem loan notes	1,636,363	818,182		
27 December shares issued for acquisition of IGL	55,555,365	27,777,683		
27 December shares issued in lieu of fees	222,222	111,111		
27 December deferred shares repurchased			(46,589,662)	(442,602)
31 December 2007 Ordinary shares of 50p each	59,107,182	29,553,592 *	-	-
Share capital account*		£		
At 1 January 2007		668		
Market Capitalisation of the Company on the last day of trading prior to announcement of the Reverse:				
Shares in issue		1,354,586		
Loan Notes converting mandatorily on Reverse		1,309,090		
Adjusted value		<u>2,663,676</u>		
At 31 December 2007		<u>2,664,344</u>		

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

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

- 10 April 2007 – Each issued Ordinary 1p share was subdivided into one deferred .95p share and one new ordinary .05p share;
- 10 April 2007 – Each new ordinary .05p share was consolidated on a one to twenty basis into a new consolidated ordinary 1p share;
- 10 April 2007 – The authorised share capital of the Company was increased by £5 million to £6 million through the creation of 500 million ordinary 1p shares;

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

19. SHARE WARRANT RESERVE

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

	2007 £	2006 £
Directors:		
Serving at year end, as per Note 5	109,758	-
Resigned during the year	21,450	-
	131,208	-

Professional advisors	<u>35,418</u>	-
	<u>166,626</u>	-

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

20. RELATED PARTY TRANSACTIONS

2006

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

2007

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

The Company entered into any engagement letter with Merchant Capital plc ('MCP') on 1 February 2007, whereby MCP received £127,500 for corporate finance services in relation to the reconstruction and refinancing of the Company on 10 April 2007, of which a total of £50,000 was taken in Ordinary shares at the then refinancing price and there was a grant of warrants; being to acquire up to 83,830 Ordinary shares at an exercise price of 50p per share exercisable up to 10 April 2009.

This agreement was amended on 30 April 2007 pursuant to which MCP was engaged to provide additional services for a monthly retainer of £2,000 for one full day per week. This retainer was terminated on 13 September 2007.

The Company entered into an engagement letter with MCP on 3 November 2007 under which MCP agreed to act as adviser to the Company in respect of the Reverse in consideration for the issue of £100,000 in value of Ordinary Shares at 90p per share.

As a result of the above arrangements at 31 December 2007, MCL held 211,000 ordinary shares and the warrants to acquire 83,830 ordinary shares as described above.

Key management personnel

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

21. SUBSEQUENT EVENTS

On 13 February 2008 the Group's PEDLs 115 and 116, were extended for a further 10 months to 30 November 2008 to give sufficient time for completion of certain drilling operations that will then result in the licences being extended for a minimum of a further 4 years and two months, followed by another 20 or more years thereafter if the Group decides to pursue production from within the acreage.

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