

25 November 2009

## **Island Gas Resources plc (to be renamed “IGas Energy plc”)**

**Island Gas Resources (“IGas” or “the Company”) announces a £13.75 million fully underwritten placing to reinforce its position as the leading company dedicated to UK onshore gas production:**

### **Highlights:**

- Strengthened financial position and funding in place for accelerated development programme
  - £13.75 million underwritten Placing at 60p
  - Peter Levine / Levine Capital Management increasing their stake from 3.7% to 12.5% and to fully underwrite the Placing
- Accretive acquisition of licence interests from Nexen boosting resources by 38% and giving operatorship of Point of Ayr
  - increased stake by 25% to 75% in Point of Ayr
  - increased stakes by 15% to 35% in Four Oaks, North Dees and Parkside licences
- Asset base in place to supply electricity to approximately 7% of all UK households for 15 years
  - first full production site targeted for 2011
  - further 20 to 50 sites targeted for production between 2011 and 2014
- Board strengthened with appointment of John Hamilton as non executive Director

### **Andrew Austin, Chief Executive Officer, said:**

“The proposed fund-raising will help us accelerate the development of IGas by increasing our assets and bringing forward our production plans. Significantly this positions IGas to play an important role in ensuring the security of UK energy supply.

I am delighted that Peter Levine has significantly increased his investment and I would like to welcome John Hamilton onto the Board. I look forward to working closely with John as Levine Capital Management’s representative and developing IGas into the leading player in the sector.”

IGas has convened a General Meeting to seek approval from Shareholders for Resolutions to approve the Placing, which is being convened at 3.30 p.m. on 10 December 2009 at the offices of Morrison & Foerster (UK) LLP, CityPoint, One Ropemaker Street, London EC2Y 9AW. A circular, giving details of all of the proposals set out in this announcement, will shortly be available on the Company’s web site at [www.igasplc.com](http://www.igasplc.com). A letter and Form of Proxy are also expected to be sent to Shareholders later today (as permitted by the Company’s articles of association) informing them of the availability of the circular which will also be available on the Company’s web site.

For further information please contact:

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**Background to, and reasons for, the Placing**

Since admission to the AIM market in December 2007, IGas' business has been developed in line with the strategic direction set by the Board, as explained in previous communications to Shareholders. The Company, which is now producing gas, has the opportunity to take another significant step forward by farming-up in certain of the licences held jointly with Nexen and by becoming operator of more than 50 per cent. of its Contingent Recoverable Resources, which will see development drilling being accelerated. In order to take advantage of these new opportunities, the Board has resolved to raise £13.75 million (gross of expenses) by way of a Placing. The proceeds of the Placing will be used, *inter alia*, to finance a work programme for the farm up with Nexen, to fund operatorship and related increased costs of greater working interests in existing licences and to advance production drilling. The Placing has been fully underwritten by LCM, further details of which are set out below.

The Company has concluded an agreement with Nexen, which is conditional upon Admission, pursuant to which the Company will be able to increase its interest in the Point of Ayr Licences and the Four Oaks, North Dees and Parkside Licences. Currently the Company and Nexen have equal 50 per cent. interests in the Point of Ayr Licences. In respect of the Four Oaks, North Dees and Parkside Licences, Nexen have an 80 per cent. interest and the Company has a 20 per cent. interest. The Company will now acquire an additional 25 per cent. interest in each Point of Ayr Licence (increasing its interest to 75% in each Point of Ayr Licence) and an additional 15 per cent. interest in each Four Oaks, North Dees and Parkside Licence (increasing its interest to 35 per cent. in each of these licences). The consideration for the licence interest acquisition is the sum of £5 million which will be used to fund a carried work programme. The effect of the acquisition is to increase the Company's GIIP by 970 bcf, an increase of 38 per cent. on current GIIP. As part of the arrangements with Nexen the Company will also (subject to the usual Secretary of State for Energy and Climate Change consent) become the operator of the Point of Ayr Licences. The increase in the Company's percentage interests in the Point of Ayr Licences increases its exposure not only to the gas in coal but also to possible conventional and shale opportunities.

These arrangements, taken together, are accretive for existing Shareholders since Contingent Recoverable Resources per Ordinary Share will be greater after the Placing than they were before, because of the size of the Contingent Recoverable Resources being acquired through the farm-up with Nexen. They will also see the Company accelerating the pace of its development programme.

After canvassing a small number of institutional Shareholders and after discussions with the Company's nominated adviser and broker, Cenkos, the Company has decided to proceed with a Placing rather than conducting a rights issue or an open offer, with a view also to diversifying the Company's Shareholder base and saving the not insignificant costs associated with conducting a rights issue or open offer.

The Placing has been fully underwritten by Levine Capital Management, which is the private BVI registered fund of Peter Levine.

### **Current trading and prospects**

The Board believes that IGas is now the largest E&P company dedicated to UK onshore gas production currently selling gas. The Company estimates that it has net 2C Contingent Recoverable Resources of some 0.8 tcf of gas (140 million boe), or sufficient to supply electricity to approximately 7 per cent. of all UK households for 15 years. Pilot production is ongoing and the Company expects full scale commercial production to commence in 2011. The Company's onshore assets base contributes to UK energy security and the Company's land access rights and access to the market and customers are proven.

The Company has extensive pre-existing data sets both from bore hole and seismic studies covering its acreage. The data sets have been corroborated by 7 wells drilled by IGas, in conjunction with its partner Nexen, and overall 320 bore holes have been used to substantiate estimates of Contingent Recoverable Resources. The Company is currently re-evaluating over 890 km of pre-existing 2D seismic data covering its Point of Ayr acreage, so as to evaluate conventional and shale potential in these areas.

The Company is now producing at Doe Green where the Company has 3 lateral and 1 vertical wells. One of these laterals (Doe Green well 2) has been producing for more than 1 year at an average production rate of 45,000 scf per day of high quality methane with the other laterals and vertical currently dewatering. Gas produced at Doe Green is currently being used to generate electricity and is being sold via the electricity grid. Two additional pilot sites are expected to be on stream by the end of 2010, one at the Company's Keele site (where onsite activity is expected to commence prior to the end of 2009) and a further site at Point of Ayr where site selection is currently underway.

First full site production is targeted for 2011 and the Company is targeting 20-50 sites for production between 2011 and 2014. Sites are planned to consist of 4-6 wells with 24,000-40,000 ft of lateral in each well. Each site is expected to produce between 7 and 20 bcf over 15 years (gross). The production from each site is expected to peak at between 4 and 10 mmscfd (650-1,700 boepd) (gross). The Company is using production technology which is known and has been demonstrated to be effective in other countries. Planning has been obtained for 8 pilot/production sites to date from a variety of land owners and planning authorities.

The Company currently operates in a highly realisable gas price environment. The Company also has direct access to many large customers with no material pipeline infrastructure required and has the legal right to access both low and high pressure gas networks. Sales can therefore be direct or through gas or electricity grids.

### **Use of proceeds**

The Placing will enable the Company to complete the acquisition of interests described above from Nexen. Approximately £5 million of the proceeds will be used to finance a work programme in the licence areas being acquired. A further £2.5 million will be used to fund operatorship and the related increased costs of greater working interests and existing licences; in this regard the Company will become the operator, subject to Secretary of State approval, of the Point of Ayr Licences. The balance of the Placing proceeds will be used to advance production drilling in accordance with the Company's strategic plans.

### **Details of the Placing**

IGas is proposing to raise approximately £12.7 million (net of expenses), through the issue of 22,916,667 Placing Shares pursuant to the Placing at 60 pence per Placing Share. As announced today, Cenkos has, as agent for the Company, conditionally placed 14,041,667 Placing Shares at the Placing Price with various institutional and other investors.

In addition, as part of the Placing, LCM has agreed to subscribe for 8,875,000 of the Placing Shares at the Placing Price. LCM is the private investment fund of Peter Levine. LCM invests in a range of both public and private securities and assets, with an emphasis on oil and gas. Peter Levine already holds 2,500,000 Existing Ordinary Shares in the Company representing 3.7 per cent. of the Existing Ordinary Shares. The 8,875,000 Placing Shares agreed to be subscribed by LCM will result in LCM holding 9.75 per cent. of the enlarged issued share capital of the Company after the Placing and when combined with the holding of Peter Levine of 3.7 per cent. of the Existing Ordinary Shares will result in a combined holding of 12.5 per cent. of the issued share capital following the Placing.

LCM has also conditionally agreed that, to the extent that Cenkos is unable to procure subscribers for the remaining 14,041,667 Placing Shares, it will subscribe as principal for those Placing Shares at the Placing Price. Were LCM required to subscribe for all of the Placing Shares in the Placing, LCM would following the Placing hold 25.18 per cent. of the enlarged issued share capital of the Company and when aggregated with the Existing Ordinary Shares held by Peter Levine, 27.93 per cent. of the enlarged issued share capital of the Company.

The Placing Price represents a discount of approximately 5.8 per cent. to the mid-market closing price of 63.5 pence per Ordinary Share on 24 November 2009, being the last practicable dealing day prior to the publication of the circular. The Placing Shares represent approximately 25.18 per cent. of the enlarged issued share capital of the Company following the Placing.

Application will be made to the London Stock Exchange for the Placing Shares to be admitted to trading on AIM and it is anticipated that dealings in the Placing Shares will commence on AIM at 8.00 a.m. on 11 December 2009.

### **Change of Name**

It is also proposed that the Company's name be changed to "IGas Energy plc" which more closely matches the stage of development the Company has reached and is in greater accord with its Stock Exchange designation symbol.

### **Board Changes**

IGas is delighted to welcome John Hamilton to the Board. John will take up the role of non-executive director of the Company conditional upon Admission taking place. John is Managing Director of Levine Capital Management Limited, a UK incorporated company and was previously Group Finance Director of Imperial Energy Corporation PLC, the Russia-focused oil exploration and production company which was acquired by the Indian state-owned energy firm, Oil and Natural Gas Corporation Limited, for US\$2 billion in January 2009. Prior to joining Imperial Energy, John held senior positions at ABN AMRO. It is proposed that he will also be appointed a Non-executive Director of Meridian Petroleum plc (to become known as President Petroleum plc) upon completion of a proposed placing and open offer by that company in early December 2009.

Information in relation to the appointment of John Hamilton which is required to be disclosed pursuant to Schedule 2 paragraph (g) of the AIM Rules, together with biographical details, is set out below.

Following completion of the Placing, Peter Redmond will step down from the Board. Peter has been a non-executive director of the Company since before IGL reversed into the Company in 2007. Peter's assistance over the years has been invaluable, particularly in restructuring and refinancing the Company prior to IGL being reversed in, and in thereby bringing IGL to the Market. He is leaving to pursue his other business interests. The whole Board joins me in thanking Peter for his contribution.

## **Recommendation**

The Directors consider the terms of the Placing to be in the best interests of the Company and the Shareholders as a whole. Accordingly, the Directors unanimously recommend Shareholders to vote in favour of the Resolutions at the General Meeting, as they have undertaken to do in respect of their own beneficial holdings of Ordinary Shares amounting, in aggregate, to approximately 74.35 per cent. of the Existing Ordinary Shares

*Ends*

## **Notes to Editors:**

### **Island Gas Resources plc ("IGas")**

IGas was set up to produce and market the methane gas which is found in seams of coal. IGas is now producing gas from its pilot production site at Doe Green in Warrington and selling electricity through its on-site generation, a UK first. Initial production rates indicate that the Company should exceed its threshold for commerciality.

IGas has ownership interests of between 20 and 100 per cent in eleven PEDLs in the UK, wholly owns two methane drainage licences after the acquisition of licence interests from Nexen now being announced, will have a 75 per cent interest in three offshore blocks under one Seaward Petroleum Production Licence. These licences cover a gross area of approximately 1,756 km<sup>2</sup>. The mid case GIIP is up 290 per cent. from 893 at year end 2007 to 3,480 bcf (*source: Equipoise Solutions Ltd*).

Independent analysis by world leading reservoir engineers, DeGolyer and McNaughton, prior to this announcement confirmed Contingent Recoverable Resource of up to 821 bcf of gas (3C), equivalent to around 140 million barrels of oil. The Contingent Recoverable Resource is derived from a statistical aggregation of contingent resource ranges calculated on an individual coal seam basis.

In May 2009, the Group announced it had been granted a further Field Development Programme approval by DECC for its plans for the commercial production of CBM gas from the Swallowcroft area.

The coal seam both generates and traps the gas, which can be extracted by drilling into the seam and collected for use as fuel. 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 early stages, but with the continuing decline in natural gas reserves from the North Sea, it is likely to become an increasingly attractive alternative potential source of energy. 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.

For further information please visit: [www.igasplc.com](http://www.igasplc.com).

### **Equipoise Solutions**

Equipoise is a privately owned independent consulting company established in 1998 with offices in South London. The company specialises in petroleum geology and geophysics. The work has been supervised by Dr Adam Law, Director of Equipoise, a post graduate in Geology and a Fellow of the Geological Society of London. He has 15 years experience in the evaluation of oil and gas fields and acreage. Mr Donald Alastair Scott has reviewed and approved these estimates. Mr Scott is a Director of Equipoise, and has over 40 years experience in the evaluation of oil and gas acreage.

For further information on Equipoise Solutions, please visit: [www.equipoisesolutions.ltd.uk](http://www.equipoisesolutions.ltd.uk).

### **DeGolyer and MacNaughton**

DeGolyer and MacNaughton performs a variety of services related to the upstream sector of the petroleum industry, including evaluation of the hydrocarbon potential of exploration areas, estimation and classification of reserves to be recovered from new discoveries, verification of hydrocarbon reserves, production forecasting, and appraisal of properties for prospective acquisition, divestiture, issuance of securities, or financing purposes. During seven decades, the firm has successfully performed studies on hundreds of thousands of petroleum properties in more than 100 countries and provides independent reserve auditing services to some of the world's largest oil & and gas companies.

For further information on DeGolyer and MacNaughton please visit [www.demac.com](http://www.demac.com).

The statistical aggregated net Contingent Recoverable Resource quantities, prior to this announcement, are summarised below in terms of billions of standard cubic feet.

<b>Net Contingent Recoverable Resources*</b>	<b>1C</b>	<b>2C</b>	<b>3C</b>
<b>Statistical Aggregate</b>	398bcf	571bcf	821bcf

In addition, DeGolyer and MacNaughton has arithmetically summed the total net Contingent Recoverable Resources. The arithmetically summed net Contingent Recoverable Resource quantities prior to this announcement are summarised below in terms of bcf:

<b>Net Contingent Recoverable Resources*</b>	<b>1C</b>	<b>2C</b>	<b>3C</b>
<b>Arithmetically Summed</b>	240bcf	492bcf	1,049bcf

*\*A Contingent Resource is classified as quantities of petroleum estimated, as of a given date, to be potentially recoverable from known accumulations by application of development projects, but which are not currently considered to be commercially recoverable due to one or more contingencies. Further, there is, as of a given*

*date, no 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 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.*

## **Nexen Inc.**

Nexen Inc. is an independent, Canadian-based global energy company, listed on the Toronto and New York stock exchanges under the symbol NXY. It is uniquely positioned for growth in the North Sea, Western Canada (including the Athabasca oil sands of Alberta and unconventional gas resource plays such as shale gas and coalbed methane), deep-water Gulf of Mexico, offshore West Africa and the Middle East.

For further information on Nexen please visit [www.nexeninc.com](http://www.nexeninc.com).

## **Qualified Person**

Brent Cheshire, executive technical director of IGas, and a qualified person as defined in the Guidance Note for Mining, Oil and Gas Companies, March 2006, of the London Stock Exchange, has reviewed and approved the technical information contained in this announcement. Mr Cheshire has more than 30 years experience.

## **Information in relation to the appointment of John Hamilton which is required to be disclosed pursuant to Schedule 2 paragraph (g) of the AIM Rules and biographical details**

There is no information in relation to the appointment of John Hamilton, aged 43, which is required to be disclosed pursuant to Schedule 2 paragraph (g) of the AIM Rules other than as follows:

- (a) Current directorships
  - Levine Capital Management Limited
- (b) Past directorships within the previous 5 years
  - Imperial Energy Corporation PLC
  - Imperial Energy Limited
  - Imperial Energy Kostanai Limited
  - Rus Imperial Corporation PLC
  - Rus Imperial Limited

## **Definitions and Glossary**

The following definitions and glossary terms apply throughout this announcement, unless the context requires otherwise:

“£”	the lawful currency of the United Kingdom
“2C”	best estimate of resource quantity
“Admission”	admission of the Placing Shares to trading on AIM and such admission becoming effective in accordance with Rule 6 of the AIM Rules for Companies
“AIM”	AIM, a market of the London Stock Exchange

“bcf”	billions of standard cubic feet (of gas)
“boe”	barrels of oil equivalent
“boepd”	barrels of oil equivalent per day
“CBM”	coal bed methane
“Cenkos”	Cenkos Securities plc, 6.7.8. Tokenhouse Yard, London EC2R 7AS
“Contingent Recoverable Resources”	a Contingent Resource is classified as quantities of petroleum estimated, as of a given date, to be potentially recoverable from known accumulations by application of development projects, but which are not currently considered to be commercially recoverable due to one or more contingencies. Further, there is, as of a given date, no 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 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.
“DECC”	Department of Energy and Climate Change
“Directors” or “Board”	the directors of the Company, being Francis Gugen, Andrew Austin, Brent Cheshire, John Bryant, Peter Redmond and Richard Armstrong
“E&P”	exploration and production
“Existing Ordinary Shares”	the 68,096,308 Ordinary Shares in issue at today’s date, all of which are admitted to trading on AIM
“Form of Proxy”	the form of proxy for use at the GM
“Four Oaks, North Dees and Parkside Licences”	together PEDLs 116, 145, 184, 190 and 193
“General Meeting” or “GM”	the general meeting of the Company to be held at the offices of Morrison & Foerster (UK) LLP, CityPoint, One Ropemaker Street, London EC2Y 9AW at 3.30 p.m. on 10 December 2009.
“GIIP”	gas initially in place
“IGL”	Island Gas Limited, IGas’ subsidiary holding all its licences
“LCM”	Levine Capital Management Limited, a company registered in the British Virgin Islands
“London Stock Exchange”	London Stock Exchange plc

“mmscfd”	millions of standard cubic feet per day (of gas)
“Nexen”	Nexen Exploration U.K. Limited
“Ordinary Shares”	ordinary shares of £0.50 each in the capital of the Company
“PEDL”	United Kingdom Petroleum Exploration and Development Licence
“Placing”	the proposed placing of the Placing Shares pursuant to the Placing Agreement
“Placing Agreement”	the conditional agreement dated 25 November 2009 between the Company, LCM and Cenkos relating to the Placing
“Placing Price”	60 pence per Placing Share
“Placing Shares”	the 22,916,667 new Ordinary Shares to be issued by the Company at the Placing Price pursuant to the Placing Agreement
“Point of Ayr Licences”	together PEDL 107 and SPPL 1481 (comprising blocks 110/18, 110/19 and 110/23)
“Proposed Director”	John Hamilton
“Resolutions”	the resolutions to, <i>inter alia</i> , approve the Placing, change the name of the Company and appoint John Hamilton as a director conditional upon Admission
“scf”	standard cubic feet (of gas)
“tcf”	trillion cubic feet (of gas)
“Shareholders”	holders of Ordinary Shares
“UK”	the United Kingdom of Great Britain and Northern Ireland