

## Our highlights

### Operational

- Gas Sales – First electricity sales from CBM production in the UK

---

- Our initial production rates indicate that we should exceed our threshold for commerciality

---

- Gas in Place – Mid case up 142% to 2,169 bcf; independently verified based on latest data

---

- Contingent Recoverable Resource – World renowned DeGolyer and McNaughton confirms 733 bcf

---

- Licensed acreage – 69% increase to 1,656 square kilometres

---

- Drilling – three additional wells and several lateral legs

---

- Licence commitments – Satisfied until 2011

---

- Production sites – Two Field Development Plans approved, an initial 20 sites identified

### Financial

- Revenue – £992 thousand

---

- Operating loss – £458 thousand

---

- Loss for the year – £386 thousand

---

- Cash – £2.3 million at 31 December 2008

---

- Carry agreements – sufficient for 2009 and 2010 budgeted work programmes

---

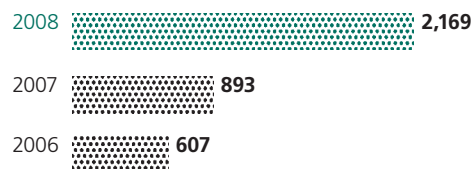
- Funding – £4.5 million available at 31 December 2008

Gas initially in place (net to IGas)

**2,169** bcf

2008

Growth year on year +142%

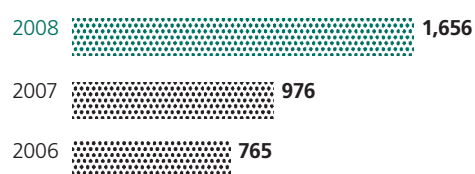


Licensed acreage

**1,656** km<sup>2</sup>

2008

Growth year on year +69%



## Our strategy

### 2008 – Now delivered

At the beginning of 2008 our immediate objectives were:

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

### 2009

Our Strategy remains to develop our UK asset base and our immediate objectives for 2009 are:

- Doe Green – Carry out long-term production test and continue commercial gas sales
- Swallowcroft – Establish a fully permitted production site
- Point of Ayr – Assess potential for a conventional gas play to supplement Contingent Recoverable Resource
- Land bank – Establish a bank of permitted drill sites
- Reserves – Establish a long-term plan for the conversion of Contingent Recoverable Resource to commercially recoverable reserves

# About Us



< Drilling operations in Staffordshire



Additional lateral > drilling at Doe Green

## What we do

IGas produces gas in the UK from CBM.

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

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



< Drilling at Willoughbridge in Pedl 78

## Chairman's statement

The financial year ending 31 December 2008 was certainly a year of challenges for many businesses! The changing environment from the start of the year through the very high prices for commodities reached in the summer followed by the collapse in both financial markets and hydrocarbon prices has formed the backdrop for our year. However, I am pleased to report that we have now delivered all our stated near-term objectives and have continued to build on the foundations we laid in 2007 as set out in my statement to you last year.

**These foundations have three integral parts:**

### 01 Deliverability of gas

- At Doe Green, since year end, we have been granted a Field Development Plan ("FDP") and started to produce gas; now being used to generate electricity for sale to the grid.
- At Doe Green we decided to carry out additional drilling before commencing further production tests and during dewatering our initial production rates indicate that we should exceed our threshold for commerciality.
- In Swallowcroft, we drilled two more assay wells, obtained planning permission to drill at Keele University and have been granted a Field Development Plan over acreage in the Potteries.
- World renowned DeGolyer and MacNaughton's report on our Contingent Recoverable Resources provides independent confirmation of a potential 733 bcf, with a "most likely" of 503 bcf; all net to IGas

### 02 Asset growth

- Successful 13th licensing round applications have resulted in us being awarded interests in three more licences over an additional 680 square kilometres.
- These new awards build on our core position and knowledge base in the north west.
- In September we announced a framework agreement with Peel Environmental Ltd to allow access to sites within their land holding for the production of CBM. We have now identified a further 20 potential production sites in the north west to be evaluated.



Well head at DG1

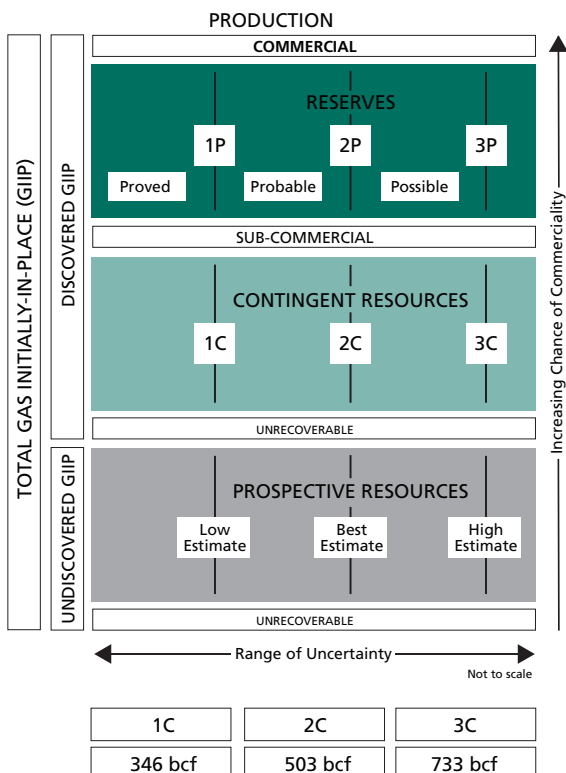


- Independent verification of mid case gas initially in place has been revised upwards by 142% to 2,169 bcf, based on latest data; source Equipoise Solutions Ltd.
- We are now also evaluating the potential for conventional hydrocarbon plays within our acreage position. This activity is particularly focused at Point of Ayr.

### 03 Financial flexibility

- On 30 June 2008 we closed a fund raising of £2.1 million before expenses at 65p per share.
- This additional funding combined with our carry agreements with Nexen leaves us very well placed to continue to add value to our assets through 2009, 2010 and into 2011.

I would like to draw particular attention to the report prepared independently by world renowned DeGolyer and McNaughton on our Contingent Recoverable Resources. In this they opined that we have undetermined contingent recoverable resources as shown in the table below:



(Source: IGas Resource audit conducted by D&M. "Society of Petroleum Engineers. PRMS Guide for Non-Technical Users")

In categorising the resource as "undetermined contingent" D&M are supporting the deliverability of the gas from the acreage but not commenting on the commerciality of the proposition. As we are now producing and selling gas from our assets, our objectives for 2009 are clearly to further demonstrate not only the deliverability but also the commercial viability of what we own.

Whilst there is some uncertainty in the macro backdrop to our business, several key themes continue to develop positively and these will support our growth. Firstly CBM as a sector within the oil and gas markets continues to develop strongly. Very significant merger and acquisition ("M&A") activity in 2008, particularly for CBM players in Australia, made CBM M&A activity the fastest growing sector in what was otherwise a contracting market. Also pipeline interruptions in Russia and the Ukraine again focused minds on the importance of energy security in the UK. Meanwhile an article in the Wall Street Journal in February 2009 pointed out that "Coal seam gas is also seen as a greener alternative to other fossil fuels. It contains relatively little carbon dioxide and sulphur, so it's more clean-burning than coal, oil or conventional gas." Coal seam gas is another name for CBM.

I would like to welcome Cenkos to the team having taken over as nominated adviser and broker since May this year. Finally I would like to thank our executive and non-executive teams for successfully steering the Company through 2008 and into 2009 and delivering on our strategy. While the backdrop for 2009 is still uncertain, I am confident that we are well placed to continue to add value to our assets and demonstrate the ability of our asset base to deliver secure gas, onshore.

**Francis Gugen**  
Executive Chairman

## Business review Operations

The business of the Group is the development of a series of coal bed methane assets in England and Wales with the objective of becoming a significant onshore producer of gas.

Development of these assets is taking place in conjunction with our joint venture partner Nexen. In all cases Nexen is operator of the assets and the Group is the non-operating partner.

During the year and in early 2009, activity has concentrated on achieving commercial production from Four Oaks, on the Swallowcroft acreage and on gaining three further licences covering two new geographical areas adjacent to our existing properties; North Dee and Parkside.

### Gas production

The Group now has a pilot production site at Doe Green in Cheshire, between Warrington and Widnes. We have drilled two wells at this location and have drilled several lateral legs from one well. We have now lined a total of c. 2,500 feet of lateral within this well and this is now producing gas to surface.

In December 2008 an electricity generating set was installed at the site, which is now powered by our CBM and has capacity to export enough electricity to power 1,200 homes.

This pilot site represents, we believe, the first commercially produced gas from CBM in the UK.

In 2009 we intend to fully permit a second production site in our Swallowcroft acreage. The final location for such a site has yet to be determined, but this could be at Brancote, where many of the necessary permits have recently been granted.

### Four Oaks

Much progress has been made in this area with activity in both PEDL 116 and PEDL 145. At Doe Green in PEDL 145 we now have our first production site in operation. Generators installed at the site can export electricity to the grid generated from the methane produced. To date we have only accessed one seam of a potential thirteen seams available at this location.

In April 2008 we spudded a well at Fox Hill Farm within PEDL 116. This well was plugged and abandoned as planned and the results from this well helped to further corroborate previous samples and coring results. This well also fulfilled the licence obligations for PEDL 116 and ensures the extension of the licence into its second term.



Electricity substation for export  
at Doe Green



**Swallowcroft** The Swallowcroft area includes licences PEDL 40–1, 56–1, 78–1, 115–1 and 115–2. The area extends from, Newcastle-under-Lyme in the west across to Lichfield in the east, within the county of Staffordshire.

Central Swallowcroft (PEDLs 40–1 and 56–1); Geologically, the area is formed by a series of open, westward-plunging anticlines and synclines, outcropping rocks of Triassic to Carboniferous Age at surface, with Carboniferous Westphalian coal measures sequence outcropping to the north of the licences, where they were worked as part of the Staffordshire coalfields. A large fault, the Wem Fault, downthrows Carboniferous strata to the very westerly edge of the licences and although quantification of this throw is uncertain, it is likely that the Carboniferous strata to the west of this fault are too deep for CBM exploration at present.

Greater Swallowcroft (PEDLs 78–1, 115–1 and 115–2); Geologically, the area under licence is formed by strata of Carboniferous and Permo-Triassic Age. Solid geological maps show the area to be generally dipping from south to north, with a complex of north-south trending normal faults, commonly down throwing to the east in the case of PEDL 78–1 and to the west in the case of PEDLs 115–1 and 2.

Extensive work has now been undertaken to select appropriate sites from which to drill, using the Group’s existing geological data whilst being ever mindful of the Group’s objective to limit environmental impacts.

On 31 July 2008, a well was spudded at Willoughbridge in PEDL 78-1. This assay well was drilled to core and log the coal measures and extend our knowledge of the coal seam development in the area. The well successfully achieved its objectives; proving better coal seam development than had been expected and, as planned, was plugged and abandoned in early September. The drilling of this well satisfies the commitments under the first term of the licence and extends it into its second term.

A well was spudded at Fradley in October 2008 and this fulfilled the licence obligations for PEDL 115–2 and ensures the extension of the licence into its second term.

In PEDL 56–1, an agreement has been struck with Keele University to drill within the curtilage of their new science park and to supply the University with gas produced from the site. Planning has recently been obtained for initial drilling.

On 30 April 2009 we were granted a Field Development Programme (“FDP”) by the government Department of Energy and Climate Change (“DECC”) for the commercial production of CBM gas from our sites in the Swallowcroft area in Staffordshire.



◀ Pedl 40–1 and 56–1. A portion of the Swallowcroft acreage in Staffordshire

Drilling at Fradley Junction



## North Dee

PEDL 184 and PEDL 190 are located in North Dee, incorporating the areas around Ellesmere Port and Runcorn. The area extends between the tidal estuary of the Dee and the Mersey, with the peninsula of the Wirral (Cheshire) lying between them. The area was awarded to a partnership of Nexen and IGas as part of the 13th round of onshore licences announced by the Secretary of State on 28 May 2008.

These licences target the CBM potential of the eastern extension of the North Wales coalfields and the south western extension of the Lancashire coalfields. These coals are proven to extend eastwards for at least 20 kilometres in the North Dee area from Buckley to Chester, and southwards from the Wirral to Wrexham.

The licence area lies on the south eastern margin of the East Irish Sea basin and on the north western margin of the Permo-Triassic Cheshire basin, forming part of the larger Pennine coal measures basin. The Westphalian Pennine coal measures group of the Pennine basin extends as outcrop or at subcrop across northern England to the west and east of the Pennines, central England and north Wales. The licence area forms part of the south westerly edge of the basin.

The south western area of PEDL 190 includes the Collinge Borehole drilled by the National Coal Board ("NCB") as part of an old coalfield exploration programme. The Collinge borehole demonstrates the presence of multiple thick (>1m) coal seams within the Upper Carboniferous, Westphalian. A NCB depth structure map confirms the regional structure of the Coal Measures as dipping gently to the south east toward the Cheshire basin.

It is the intention of the partnership to confirm the CBM production potential of each licence by drilling a well into each PEDL from an onshore surface location, contingent upon achieving the required planning permission. Identification of potential well sites is ongoing, including in conjunction with the arrangements with Peel Environmental Ltd.



Runl Pedl 190





**Parkside** This area is located in South Lancashire to the south east of the old Parkside Colliery area of the South Lancashire coalfields and north west of Warrington. The area was awarded to a partnership of Nexen and IGas as part of the 13th round of onshore licences announced by the Secretary of State on 28 May 2008.

Geographically, the licence is on the southern margin of the Rossendale anticline and on the western margin of the Pennine Axis, and targets the CBM potential of the southern extension of the South Lancashire coalfield which is proven, by prior NCB boreholes, to extend for at least 5 kilometres to the south east.

The oldest rocks present in the area belong to the upper part of the Millstone Grit Series of Upper Carboniferous age and are followed conformably by the Lower and Middle Coal Measures. These geologic strata consist of alternating shales, sandstones and coal seams. The northern and western area of the licence includes part of the underground workings of the abandoned South Lancashire coalfield. The workings demonstrate the presence of multiple thick (>1m) coal seams within the Upper Carboniferous, Westphalian, Pennine coal measures. Exploration work carried out by the former NCB confirms the regional structure of the coal measures as gently dipping to the south (at depths up to and exceeding 1,200 metres) and being broken up by a series of normal faults.

It is the intention of the partnership to confirm the CBM production potential of the licence by drilling a well into the application area from an onshore surface location, contingent upon achieving the required planning permission. Identification of potential well sites is ongoing.



< Pedl 193



## Key financial highlights **Income statement**

£000	2008	2007
Revenue	992	811
Operating loss	(458)	(2,024)*
Loss for the year	(386)	(2,015)*

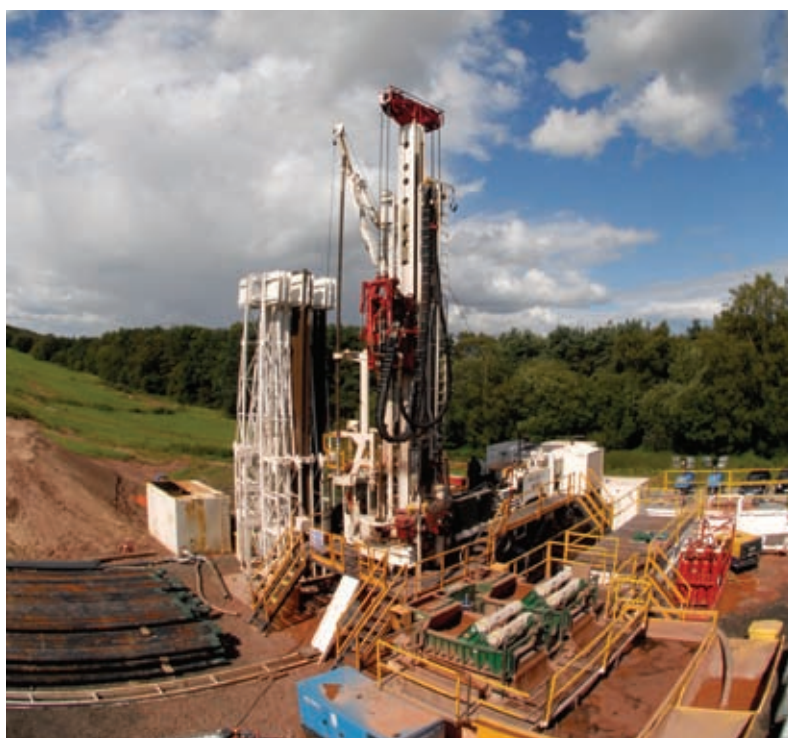
\* Includes Exceptional item – Impairment of Goodwill on Reverse of (£2,040) thousand. Refer to note 7 in the consolidated financial statements.

## **Total licence expenditure**

Cumulative to end (£000)	2008	2007
Incurred by Group	476	109
Carried by Nexen	4,072	2,664

## **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 2008, the Group's capital employed amounted to £2.6 million (2007: £1 million) all provided by equity, as the Group has no borrowings.
- As at 31 December 2008 the Group had a consolidated cash position of £2.3 million (2007: £1.4 million). In addition the Group has committed income of £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 2008, a further £1.7 million (2007: £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 2008, in total, the Group had access to in excess of £4.5 million (2007: £4.0 million) of funding.



< Operations in Staffordshire

### Principal risks and uncertainties

- The Group is exposed, through its operations, to liquidity risk, which is managed by the Board who regularly review the Group's cash forecasts and the adequacy of available facilities to meet the Group's cash requirements. At the Group's current stage of development, the Board does not consider foreign currency and credit risks to be material.
- The Group is exposed to market price risk through variations in the wholesale prices of gas and electricity in the context of its future production volumes. Currently the Group has not entered into any forward contracts to fix the prices of these commodities. The Board will continue to monitor the benefit of entering into such contracts.
- The Group is exposed to risks associated with geological uncertainty. No guarantee can be given that gas can be produced from any or all of the Group's assets or that gas can be delivered economically.
- The Group is exposed to planning, environmental, licensing and other permitting risks associated with its operations and, in particular, with drilling and production operations. To date, authorities have appeared supportive but there can be no guarantee this will continue.
- The Group is exposed to capital risk resulting from its capital structure. Currently the Group has no borrowings and is solely equity funded. However, the capital structure is continually monitored to ensure it is in line with the business needs and ongoing asset development. Further details of the Group's capital management policy are disclosed in note 17 to the consolidated financial statements.
- The Group is also exposed to a variety of other risks including those related to:
  - operational matters (including cost increases, availability of equipment and successful project execution);
  - Nexen operating agreements (including their pursuit of projects);
  - competition;
  - key personnel; and
  - litigation.

### Environment, Health and Safety

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



Generator at Doe Green >

## Directors

### Francis Gugen

#### Executive Chairman

Francis is a founder, largest shareholder and Executive Chairman and has over thirty year's oil and gas industry experience. Between 1982 and 2000 he helped grow Amerada Hess in north west Europe, ultimately becoming CEO. He is a member of the CBI's Economic Affairs Committee. Francis is also a past president of the UK Offshore Operators Association, past chair of the industries representation on the UK Government Oil & Gas Task Force (Pilot) and the chair of the CBI's Environmental Affairs Committee.

Francis is a chartered accountant having worked for Arthur Andersen for eight years until 1982, principally as an oil and gas specialist. Currently he is Chairman of the board of Petroleum Geophysical Services ASA and is a non-executive director and member of the audit committee of the Britannia Building Society. Until 2006 he served as non-executive director of North Sea gas fields and pipelines operator CH4 Energy Limited before it was acquired in 2006 by Venture Petroleum Plc for Euro 224 million. Francis is also the non-executive chair of Chrysaor Limited, focused on developing North Sea oil and gas fields and of Fraudscreens Limited, a financial services business.

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

### Andrew Austin

#### Chief Executive Officer

Andrew is one of the founders and the Chief Executive Officer and previously he specialised in energy projects in the gas, electricity and renewables sector. Andrew has been an Executive Director since 2004 and now has full time responsibility for day to day operations and business development.

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

### Brent Cheshire

#### Executive Technical Director

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

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



**Francis Gugen**  
Executive Chairman



**Andrew Austin**  
Chief Executive Officer



**Brent Cheshire**  
Executive Technical  
Director

### **John Bryant**

#### **Senior Independent Non-Executive Director**

John is chairman of Gas Turbine Efficiency plc and is a non-executive director of Weatherly plc. These are both quoted on AIM. He is also a board member of the Attiki Gas Company, which supplies natural gas to Athens and the surrounding districts.

John previously served as president of Cinergy Global Resources Corp, responsible for all international business and global renewable power operations of this US-based electricity and gas utility provider. Before joining Cinergy, John was executive director with Midlands Electricity plc. He has been involved in developing a number of large gas fired power stations both in the UK and overseas, together with both electricity and gas distribution in Europe and Africa, renewable power in Europe and North America and gas and electricity trading. His prior experience was at British Sugar plc, Drexel Limited, the British Oxygen Company and Unilever plc. Drexel, where he was president, was a global oil and gas equipment manufacturing and servicing company.

John is a Fellow of the Institute of Directors and a Fellow of the Royal Society of Arts.

### **Richard Armstrong**

#### **Non-Executive Director**

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

### **Peter Redmond**

#### **Non-Executive Director**

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



**John Bryant**  
Senior Independent  
Non-Executive Director



**Richard Armstrong**  
Non-Executive Director



**Peter Redmond**  
Non-Executive Director