

Independent
Resources plc 

Annual Report 2009

Company information

Board of directors

G G Nash (executive chairman)
R Bencini (technical director)
T B James (financial director)
A R H Thomas (non-executive director)

Company secretary

T B James

Registered office

Tower Bridge House
St. Katharine's Way
London E1W 1DD

Registered number

5483127 (England and Wales)

Auditors

Mazars LLP
Tower Bridge House
St. Katharine's Way
London E1W 1DD

Solicitors

Ashurst LLP
Broadwalk House
5 Appold Street
London EC2A 2HA

Nominated adviser

Seymour Pierce
20 Old Bailey
London EC4M 7EN

Broker

Seymour Pierce
20 Old Bailey
London EC4M 7EN

Registrars

Share Registrars Limited
Suite E
First Floor
9 Lion and Lamb Yard
Farnham
Surrey GU9 7LL

Financial PR

Tavistock Communications Limited
131 Finsbury Pavement
London EC2A 1NT

Website

www.ir-plc.com

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Chairman's statement

I am pleased to report steady progress and some significant business successes over the past 12 months. The value of our main projects is improving as we approach the significant milestones that will enable the company to demonstrate what its business is really worth. We have also added new projects that will ensure the company continues to grow beyond our short and medium-term milestones.

In reporting on another 12 months of achievements, I remain grateful to our shareholders for the confidence they have shown in Independent Resources as we continue to develop our projects in Italy and Tunisia. During the period, we significantly stepped up our efforts to secure the remaining permits to allow the company to commence development of our keystone underground gas storage ("UGS") facility at Rivara in the Po Valley. Operations on our coal bed methane ("CBM") prospect near Grosseto have now provided the insights we needed to fine-tune the programme and allow the company the opportunity to flow gas from the underlying seam of coal. Our carried position in joint venture operations at Ksar Hadada in Tunisia, having secured its regulatory approvals, is allowing the company to pursue a significant work programme over the next six months with minor cash exposure ahead of anticipated oil flows.

Rivara

Earlier in the year we highlighted Ministerial and regulatory authority statements that left little doubt that – once all the necessary stakeholder issues have properly been taken into account – the Rivara UGS facility should be positioned to become a crucial element in Italy's future gas planning. These included statements from the gas regulator AEEG, from the anti-trust authority and from the national government itself, including the prime minister's office, the environmental ministry and the ministry of industry.

Notwithstanding these positive endorsements, the Italian environmental permitting process continues to be a source of frustration. All stakeholders would agree that the drive to decentralise and bring decision-making closer to the affected territory – a praiseworthy goal in itself – has in practice created numerous administrative overlaps and inefficiencies. The process is long and costly and slows down useful, environmentally-benign, and urgent infrastructure investments with long lead-times. Nobody is arguing for the dilution of environmental reviews, which must remain at the highest standard. What stakeholders would like however, our company included, is a fair, efficient, and predictable process that allows all

Highlights

- Net cash at 30 September 2009: £5.3 million (2008: £8.4 million)
- Committed third-party funding at subsidiaries as at 30 September 2009: £6.1 million (2008: £5.6 million)
- Rivara – sustained efforts yielding political consensus
- Fiume Bruna – seismic interpretation, appraisal drilling and testing campaign ongoing
- Ksar Hadada – farm-out: JV secured statutory approval and agreed work programme

Chairman's statement

parties to submit their point of view to an impartial and competent authority which then decides on the basis of the facts and the law.

It is in this context that we understand the Italian government is seriously considering highlighting the strategic value of the Rivara UGS facility. The site's potential in terms of size, capital efficiency, low unit costs and scalability, coupled with performance characteristics that directly address the Italian gas system's weaknesses and a physical location not only at the weakest point on the system, but also at a point of transnational pipeline convergence, make Rivara stand out as something that cannot be left neglected to a seemingly open-ended permitting process.

And yet, at times the company continues to receive conflicting signals as regards the process of permitting Rivara. To illustrate just one of the paradoxes, the sharp industrial contraction that the country is experiencing, though insignificant over the expected life of the project, has eased the immediate pressure on existing gas delivery infrastructure and thus reduced the political urgency for a rapid resolution of the early stage permitting. Yet the benefit to local employment and industrial activity from the site's construction would be even more valuable during the recession, to say nothing of substantial local fiscal receipts and industrial competitiveness from its operation. Thanks to the company's efforts over many months, we believe a number of factors have finally matured to an extent that will enable all parties interested in the Rivara permitting process to move forward.

Fiume Bruna

Once again we can report that we continue to make steady progress on our other ongoing project in Italy – the planned coal bed methane development near Grosseto, named Fiume Bruna – which is 100%-owned by Independent Resources. During the past year we managed to work around many obstacles to complete the acquisition of over 40 km of 2D seismic data, clearing the way for appraisal drilling and production testing. An additional 20 km is ongoing. Our wholly-owned subsidiary Independent Energy Solutions ("IES") began drilling operations this past summer which were then suspended pending the review of new findings obtained

from the FB1 well, as we described in our late August shareholder update. Seismic acquisition and interpretation continued as planned.

The primary practical consequence of the FB1 findings was that the seismic lines we are reviewing now are much more useful and are being used to make future decisions about drilling operations. The drilling results led us to modify the litho-stratigraphical assumptions used at the outset, leading to a re-interpretation of the existing library of seismic data using new parameters. We are now waiting for the seismic review to run its course before resuming drilling operations.

With the seismic campaign ongoing, and to minimise delays to the appraisal operations, we more recently decided to focus our attention on testing a well we had drilled as a stratigraphic test prior to acquiring the exploration licence. Although a shallower well and therefore expected to be modestly productive, testing it was not dependent on any new lithographical information. We felt it would be intelligent to accelerate any returns on investment where we could do so quickly. Well-specific permits are being secured and operations should resume there first, expected to commence in December.

Contemporaneously, we are also evaluating the relative merits, on a risk-adjusted basis, of deviating FB1 towards the coal it did not intersect at that location, or moving to another well-site next. We expect to be in the position to prove the concept and the resource next calendar year, as we resume drilling at selected sites so as to gain as representative a view as possible of gas and any water flow rates from the coal. Following initial drilling and testing we would plan to mobilise a well-stimulation crew to optimise the production potential of each well, basing the techniques on the variety of data we will have acquired during the drilling and logging campaign. CBM appraisal is a process that tends to start slowly and then ramp up as one is able to find the way to demonstrate commercially-viable gas flows from each and every well drilled into the resource.

We have reported to shareholders that Fiume Bruna has an estimated 4.8 billion cubic metres (167 billion cubic feet) of in-place resource, and results from initial testing,

Chairman's statement

announced in July 2007, indicated an estimated recoverable resource of 2.6 billion cubic metres (91.4 billion cubic feet). Longer-term, it also has potential for carbon sequestration, permanently disposing of carbon dioxide (CO₂) from nearby sources. At the same time, an estimated additional 1.8 billion cubic metres (63.6 billion cubic feet) of methane would be produced as a result of this injection of CO₂. The board estimates that the net present value of the project would be increased significantly as a result. Independent Resources intends to apply for a full development concession when commercial production rates have been proven, and may seek a development partner to bring the project on stream following a declaration and subsequent permitting of commercial operations.

Ksar Hadada

At our third active project, the Tunisian authorities have approved the farm-out deal we previously announced on the Ksar Hadada oil and gas exploration permit covering 5,600 square km onshore Tunisia. This follows last year's renewal of the permit for three years from 20 April 2008. As we announced, this farm-out will finance all of the company's work commitments for the duration of this phase of the permit and allows us to retain exposure to potentially significant shareholder value upside, whilst minimising downside risks.

As part of a joint farm-out with Petroceltic Ksar Hadada Limited, Independent Resources (Ksar Hadada) Limited ("IRKH") has farmed out a 21.03% interest in the permit to PetroAsian Energy (Tunisia) Limited ("PetroAsian"), a subsidiary of PetroAsian Energy Holdings, a Hong Kong Stock Exchange listed company. IRKH will retain an 18.97% interest in the block. In return, PetroAsian will pay all costs of drilling and testing two new exploration wells and acquiring and processing 100 km of new 2D seismic data.

A 2009 joint venture ("JV") work programme has been agreed and will include the acquisition of 103.5 km of new 2D seismic data. The JV has since secured the necessary paperwork from the Tunisian authorities and contracted an experienced seismic acquisition crew. We expect the JV to execute the programme before the end of this year and complete the work in early 2010.

Generic drilling targets on the block have been identified and it is the JV's intention to drill and test two new wells by mid next year into the two largest oil-prone prospects on the block. These are Cambro-Ordovician quartzite reservoirs sourced by the Silurian Tanezzuft Shale, which is the main source rock for North Africa. Recent light oil discoveries with sustained flow-rates from the Cambro-Ordovician just to the south of the block have now validated the potential of these Ksar Hadada targets.

Outlook

Our cash and callable funding position remains strong, and our project portfolio continues to look attractive. This means we are well positioned to maintain and hopefully accelerate our plans.

In what remains a very difficult environment for quoted companies, we continue to focus on our long-term objectives and I believe that our efforts will be rewarded in the future. We remain committed, as we have been for many years, to the success of Independent Resources. I would like to thank our shareholders for their continued commitment, and look forward to what I believe will turn out to be a significant 2010 for the company.



Grayson Nash

Executive Chairman

24 November 2009

The directors' report

Year ended 30 September 2009

The directors submit their report and accounts for the year from 1 October 2008 to 30 September 2009. The comparative year is from 1 October 2007 to 30 September 2008.

Principal activities

Independent Resources plc is the holding company for a group of companies engaged in the appraisal and development of a number of integrated oil and gas related projects. The objective of the board is to build an integrated energy group with assets initially in the Mediterranean, with the possibility of integrating additional projects from further afield.

Results and dividends

Turnover for the year was £33,073 (2008: £16,737), and the loss before tax was £600,672 (2008: profit £2,665,438). The directors have not declared any dividend in respect of the year ended 30 September 2009 (2008: £nil).

Business review

A review of the current and future development of the group's business is given in the chairman's statement starting on page 1.

The directors consider operating loss currently to be the key financial performance indicator of the group. The nature of the group's current activities is such that with no operational revenue streams, detailed analysis of key financial performance indicators is not considered necessary. The key non-financial performance indicators are:

- approval of full planning application for the Rivara project;
- drilling results at Fiume Bruna.

The main business risks are whether:

- the group's projects remain technically feasible;
- the necessary approvals from regulators will be obtained;
- they will be commercially viable;
- the group will be able to obtain the necessary finance to complete them.

Directors and directors' interests

The directors who served during the year were as follows:

G G Nash

G H S Staley (resigned 31 July 2009)

R Bencini

T B James

A R H Thomas

The Articles of Association of the company state that at each Annual General Meeting one-third of the directors who are subject to retirement by rotation or, if their number is not three nor a multiple of three, the number nearest to but not exceeding one-third, shall retire from office.

Therefore R Bencini will retire by rotation at the fourth Annual General Meeting and, being eligible, offers himself for re-election.

The chairman G G Nash devotes the majority of his time to the affairs of the group.

The directors' report

| | | 1 October 2008 Ordinary shares of 1p each | 30 September 2009 Ordinary shares of 1p each | Percentage of issued share capital |
|--------------|--------|--|---|---|
| G G Nash | Note 1 | 6,095,350 | 6,526,538 | 15.70% |
| R Bencini | Note 2 | 5,625,000 | 6,056,188 | 14.57% |
| T B James | Note 3 | 146,491 | 146,491 | 0.35% |
| A R H Thomas | Note 4 | 31,667 | 31,667 | 0.08% |

Note 1: 6,056,188 shares held by Grayson Nash LLC, a company controlled by G G Nash and 470,350 shares held by A H Nash, wife of G G Nash.

Note 2: 6,056,188 shares held by GAIA srl, a company controlled by R Bencini.

Note 3: 96,000 shares held by Pershing Nominees Limited as a nominee company for the benefit of T B James as well as 43,550 for J James, wife of T B James, with a further 6,941 through the personal pension fund of T B James.

Note 4: 31,667 shares held by Giltspur Nominees Limited as a nominee company for the benefit of A R H Thomas.

Financial risk management

The group's operations expose it to financial risks that include liquidity risk, interest rate and foreign exchange risk. The group does not have any debt and is not therefore required to use derivative financial instruments to manage interest rate costs nor is hedge accounting applied.

Given the size of the group, the directors have not delegated the responsibility of monitoring financial risk management to a sub-committee of the board. The group's finance department implements the policies set by the board of directors.

Price risk

The directors do not consider there is a price risk to the business. The group has no exposure to equity securities price risk as it holds no listed or other equity investment.

Credit risk

At this early stage of the group's development, in the absence of significant customers, it does not have a material credit risk.

Liquidity risk

The group actively manages its working finance to ensure the group has sufficient funds for operations and planned expansion.

Interest rate cash flow risk

The group does not have interest-bearing liabilities. Interest-bearing assets are only cash balances that earn interest at a floating rate.

The directors do not consider there to be a material cash flow risk given its current funding levels and anticipated expenditures.

Foreign exchange risk

The group principally operates in the euro area, with some exposure to the US dollar. It does not currently consider the risk of exposure to these currencies to be material. As such the directors do not currently consider it necessary to enter into forward exchange contracts. This situation is monitored on a regular basis.

The directors' report

Directors' insurance

The company has taken out an insurance policy to indemnify the directors and officers of the company against liability when acting for the company.

Directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the company and the group and of the profit or loss for that period. In doing so the directors are required to:

- select suitable accounting policies and apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company and group will continue in business.

The directors are responsible for maintaining proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and the group and to enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Statement of disclosure to auditors

Each of the persons who are directors at the time when this directors' report is approved has confirmed that:

- there is no relevant audit information of which the company's auditors are unaware; and
- each director has taken all steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the auditors are aware of that information.

Substantial shareholdings

The following interests of 3% or more in the company's share capital have been reported at 11 November 2009:

| Name | | Ordinary shares of 1p each | Percentage held |
|---|--------|-------------------------------|--------------------|
| Credit Suisse Client Nominees (UK) Limited | | 5,442,522 | 13.09% |
| Credit Suisse Securities (Europe) Limited | | 1,810,000 | 4.35% |
| Goldman Sachs Securities (Nominees) Limited | | 1,457,145 | 3.50% |
| Pershing Nominees Limited | Note 1 | 8,633,598 | 20.77% |
| G G Nash | | 6,526,538 | 15.70% |
| R Bencini | | 6,056,188 | 14.57% |
| G H S Staley | | 5,625,000 | 13.53% |

Note 1: From Pershing Nominees Limited holdings there has been deducted 470,350 shares held by A H Nash, wife of G G Nash, included with G G Nash's holding, and 139,550 shares held by T B James.

Supplier payment policy

It is the group's policy to pay suppliers in accordance with the terms of business agreed with them. The number of days' purchases outstanding for the group at the end of September 2009 was 34 days (2008: 42 days).

The directors' report

Employees

The group places considerable value on the involvement of its employees and keeps them informed on matters affecting them as employees and on the various factors affecting the performance of the group. Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned. In the event of members of staff becoming disabled, every effort is made to ensure that their employment with the group continues and that appropriate training is arranged.

Share option scheme

The share option scheme was adopted by the company on 25 November 2005. It was established to reward and incentivise the executive management team for delivering share price growth. The share option scheme will be administered by the Remuneration Committee.

Directors' share options

| Name of director | Number of options | | | Market price at date of exercise | End of period | Exercise price | Earliest date for exercise | Latest date for exercise |
|---|-------------------|-----------------------|-------------------------|----------------------------------|---------------|----------------|----------------------------|--------------------------|
| | Start of period | Granted in the period | Exercised in the period | | | | | |
| G G Nash Discretionary | 501,500 | – | – | – | 501,500 | 60p | 25/11/2008 | 25/11/2015 |
| G H S Staley Discretionary Note 1 | 501,500 | – | – | – | 501,500 | 60p | 25/11/2008 | 31/01/2010 |
| R Bencini Discretionary | 501,500 | – | – | – | 501,500 | 60p | 25/11/2008 | 25/11/2015 |
| T B James Discretionary | 334,333 | – | – | – | 334,333 | 60p | 25/11/2008 | 25/11/2015 |
| A R H Thomas Discretionary | 16,667 | – | – | – | 16,667 | 60p | 25/11/2008 | 25/11/2015 |

There have been no variations to the terms and conditions of performance criteria for the share options during the financial year.

Note 1: The share options of G H S Staley remain exercisable, subject to applicable performance criteria and the plan rules, for a period of six months after his resignation as a director on 31 July 2009.

The directors' report

Corporate governance

Compliance with the Combined Code

The directors recognise the value of the Combined Code on Corporate Governance, and whilst under AIM rules full compliance is not required, the directors believe that the company applies the recommendations insofar as is practicable and appropriate for a public company of its size.

Board of directors

The board of directors comprises three executive directors and one non-executive director who qualifies as an independent non-executive director as defined in the Combined Code. The directors are of the opinion that the board comprises a suitable balance and that the recommendations of the Combined Code have been implemented to an appropriate level. The board, through the chairman and executive directors in particular, maintains regular contact with its advisers and public relations consultants in order to ensure that the board develops an understanding of the views of major shareholders about the company.

The board meets regularly throughout the year and met 10 times during the year to 30 September 2009. The board is responsible for formulating, reviewing and approving the company's strategy, financial activities and operating performance. Day-to-day management is devolved to the executive directors who are charged with consulting the board on all significant financial and operational matters. Consequently, decisions are made promptly and following consultation among the directors concerned where necessary and appropriate.

All necessary information is supplied to the directors on a timely basis to enable them to discharge their duties effectively, and all directors have access to independent professional advice, at the company's expense, as and when required.

The participation of both private and institutional investors at the Annual General Meeting is welcomed by the board.

Internal controls

The directors acknowledge their responsibility for the company's and the group's systems of internal control, which are designed to safeguard the assets of the group and ensure the reliability of financial information for both internal use and external publication. Overall control is ensured by a regular detailed reporting system covering both technical progress of a project and the state of the group's financial affairs. The board has put in place procedures for identifying, evaluating and managing any significant risks that face the group.

Any system of internal control can provide only reasonable, and not absolute, assurance that material financial irregularities will be detected or that the risk of failure to achieve business objectives is eliminated. The directors, having reviewed the effectiveness of the system of internal financial, operational and compliance controls and risk management, consider that the system of internal control operated effectively throughout the financial year and up to the date the financial statements were signed.

Committees

Each of the following committees has its own terms of reference.

Audit Committee

The Audit Committee comprises A R H Thomas and G G Nash, the non-executive director and the executive chairman respectively. Its terms of reference indicate at least two regular meetings per year and its formal meeting, to review the 2009 audit, took place on 18 November 2009. All directors received a copy of the audit report prior to the meeting and had an opportunity to comment. The meeting was attended by the auditors.

The directors' report

The finance director and a representative of the external auditors are normally invited to attend meetings. Other directors or staff may be invited to attend, as considered beneficial by the committee.

The Audit Committee's primary responsibilities are to review the effectiveness of the company's systems of internal control, to review with the external auditors the nature and scope of their audit and the results of the audit, and to evaluate and select external auditors.

Remuneration Committee

The Remuneration Committee plans to meet at least twice in each year. It met twice during the year. Its members are A R H Thomas (chairman) and T B James. T B James was not present at the second meeting, as he was conflicted, and therefore G G Nash acted as an alternative committee member.

The company's policy is to remunerate senior executives fairly in such a manner as to facilitate the recruitment, retention and motivation of staff. The Remuneration Committee agrees with the board a framework for the remuneration of the chairman, the executive directors and the senior management of the company. The principal objective of the committee is to ensure that members of the executive management of the company are provided incentives to encourage enhanced performance and are, in a fair and responsible manner, rewarded for their individual contributions to the success of the company. Non-executive fees are considered and agreed by the board as a whole.

Going concern

After making enquiries, the directors have formed a judgment at the time of approving the financial statements that there is a reasonable expectation that the company and group as a whole have adequate resources to continue in operational existence for the foreseeable future. For this reason the directors have adopted the going concern basis in preparing the financial statements.

Auditors

Mazars LLP were appointed as auditors. In accordance with Section 489 of the Companies Act 2006, a resolution for their reappointment will be proposed at the next Annual General Meeting.

Annual General Meeting

The fourth Annual General Meeting of the company is to be held at 11 am on 22 December 2009 at the offices of Ashurst LLP, Broadwalk House, 5 Appold Street, London EC2A 2HA.

Signed by order of the directors



T B James

Secretary

24 November 2009

Independent auditors' report

Year ended 30 September 2009

To the members of Independent Resources plc

We have audited the financial statements of Independent Resources plc for the year ended 30 September 2009 which comprise the Group Income Statement, the Group and Parent Balance Sheets, the Group and Parent Statement of Changes in Equity, the Group and Parent Cash Flow Statements and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 6, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors. This report, including our opinion, has been prepared for and only for the company's members as a body in accordance with Sections 495, 496 and 497 of the Companies Act 2006.

Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body for our audit work, for this report, or for the opinions we have formed.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's web-site at www.frc.org.uk/apb/scope/UKP.

Opinion on the financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 30 September 2009 and of the group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Independent auditors' report

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

Fiona Hotston Moore (Senior statutory auditor)

for and on behalf of Mazars LLP, Chartered Accountants (Statutory auditor)

Tower Bridge House

St Katharine's Way

London E1W 1DD

24 November 2009

Note: The maintenance and integrity of the Independent Resources plc website is the responsibility of the directors. The work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Consolidated income statement

Year ended 30 September 2009

| | Notes | 2009 £ | 2008 £ |
|---|-------|-------------|-------------|
| Continuing operations | | | |
| Revenue | 2 | 33,073 | 16,737 |
| Cost of sales | | – | – |
| | | <hr/> | <hr/> |
| Gross profit | | 33,073 | 16,737 |
| Administrative expenses | | (1,316,406) | (1,147,259) |
| | | <hr/> | <hr/> |
| Operating loss | 3 | (1,283,333) | (1,130,522) |
| Exceptional item | 25 | – | 3,684,229 |
| | | <hr/> | <hr/> |
| | | (1,283,333) | 2,553,707 |
| Financial income | 6 | 682,661 | 111,731 |
| | | <hr/> | <hr/> |
| (Loss)/profit on ordinary activities before taxation | | (600,672) | 2,665,438 |
| Taxation | 7 | (72,148) | (30,000) |
| | | <hr/> | <hr/> |
| (Loss)/profit for the year | | (672,820) | 2,635,438 |
| Attributable to: | | | |
| Minority interests | 22 | (19,650) | (23,230) |
| Shareholders' equity | | (653,170) | 2,658,668 |
| | | <hr/> | <hr/> |
| (Loss)/earnings per share (pence) | 8 | | |
| From continuing operations | | | |
| Basic | | (1.6) | 7.8 |
| | | <hr/> | <hr/> |
| Diluted | | (1.6) | 7.3 |
| | | <hr/> | <hr/> |

The notes on pages 19 to 44 form an integral part of these financial statements.

Consolidated balance sheet

As at 30 September 2009

| | Notes | 2009 £ | 2008 £ |
|--|-------|--------------------|-------------------|
| Non-current assets | | | |
| Property, plant and equipment | 10 | 92,168 | 62,516 |
| Goodwill | 12 | 5,253,670 | 4,604,965 |
| Other intangible assets | 13 | 7,010,660 | 3,715,788 |
| | | <u>12,356,498</u> | <u>8,383,269</u> |
| Current assets | | | |
| Other receivables | 15 | 5,752,935 | 4,869,125 |
| Cash and cash equivalents | 16 | 5,337,403 | 8,455,204 |
| | | <u>11,090,338</u> | <u>13,324,329</u> |
| Current liabilities | | | |
| Trade and other payables | 18 | (1,023,614) | (711,741) |
| Current taxation liabilities | | (153,896) | (65,386) |
| | | <u>(1,177,510)</u> | <u>(777,127)</u> |
| Net current assets | | <u>9,912,828</u> | <u>12,547,202</u> |
| Net assets | | <u>22,269,326</u> | <u>20,930,471</u> |
| Equity attributable to equity holders of the parent | | | |
| Share capital | 19 | 415,739 | 407,115 |
| Share premium | 20 | 12,881,702 | 12,444,974 |
| Shares to be issued | | 4,802,904 | 4,602,634 |
| Share option reserve | | 389,844 | 368,185 |
| Foreign currency translation reserve | | 1,437,408 | 290,596 |
| Retained earnings | | 894,448 | 1,547,618 |
| Total equity | | <u>20,822,045</u> | <u>19,661,122</u> |
| Minority interests | 22 | 1,447,281 | 1,269,349 |
| | | <u>22,269,326</u> | <u>20,930,471</u> |

These financial statements were authorised for issue and approved by the board of directors on 24 November 2009



T B James



G G Nash

The notes on pages 19 to 44 form an integral part of these financial statements.

Company balance sheet

As at 30 September 2009

| | Notes | 2009 £ | 2008 £ |
|--|-------|--------------------------|--------------------------|
| Non-current assets | | | |
| Property, plant and equipment | 11 | 1,726 | 8,233 |
| Interest in subsidiary undertakings | 14 | 6,044,623 | 5,107,207 |
| Amounts receivable from group undertakings | 15 | 6,636,048 | 4,145,646 |
| | | <u>12,682,397</u> | <u>9,261,086</u> |
| Current assets | | | |
| Other receivables | 15 | 49,199 | 84,346 |
| Cash and cash equivalents | 16 | 4,497,554 | 7,437,971 |
| | | <u>4,546,753</u> | <u>7,522,317</u> |
| Current liabilities | | | |
| Trade and other payables | 18 | (95,900) | (524,280) |
| Current taxation liabilities | | (78,553) | (39,425) |
| | | <u>(174,453)</u> | <u>(563,705)</u> |
| Net current assets | | <u>4,372,300</u> | <u>6,958,612</u> |
| Net assets | | <u><u>17,054,697</u></u> | <u><u>16,219,698</u></u> |
| Equity | | | |
| Share capital | 19 | 415,739 | 407,115 |
| Share premium | 20 | 12,881,702 | 12,444,974 |
| Shares to be issued | | 4,802,904 | 4,602,634 |
| Share option reserve | | 389,844 | 368,185 |
| Retained earnings | | (1,435,492) | (1,603,210) |
| Equity shareholders' funds | | <u><u>17,054,697</u></u> | <u><u>16,219,698</u></u> |

These financial statements were authorised for issue and approved by the board of directors on 24 November 2009



T B James



G G Nash

Company registration number 5483127

The notes on pages 19 to 44 form an integral part of these financial statements.

Statement of changes in equity

Year ended 30 September 2009

| | Retained earnings £ | Share capital £ | Share premium £ | Shares to be issued £ | Share option reserve £ | Foreign currency translation reserve £ | Total due to equity shareholders of parent £ | Minority interest £ |
|---|------------------------|--------------------|--------------------|--------------------------|---------------------------|---|---|------------------------|
| Group | | | | | | | | |
| 1 October 2007 | (1,111,050) | 334,333 | 5,843,828 | 2,041,815 | 238,237 | (6,109) | 7,341,054 | – |
| Profit for the year | 2,658,668 | – | – | – | – | – | 2,658,668 | (23,230) |
| Revision of estimate of cost of acquisition | – | – | – | 2,560,819 | – | – | 2,560,819 | – |
| New shares issued | – | 72,782 | 6,841,468 | – | – | – | 6,914,250 | 1,292,579 |
| Transaction costs | – | – | (240,322) | – | – | – | (240,322) | – |
| Share-based payments | – | – | – | – | 129,948 | – | 129,948 | – |
| Exchange difference on investment | – | – | – | – | – | 296,705 | 296,705 | – |
| 30 September 2008 | 1,547,618 | 407,115 | 12,444,974 | 4,602,634 | 368,185 | 290,596 | 19,661,122 | 1,269,349 |
| 1 October 2008 | 1,547,618 | 407,115 | 12,444,974 | 4,602,634 | 368,185 | 290,596 | 19,661,122 | 1,269,349 |
| Loss for the year | (653,170) | – | – | – | – | – | (653,170) | (19,650) |
| Fair value adjustments | – | – | – | 648,705 | – | – | 648,705 | – |
| New shares issued | – | 8,624 | 439,811 | (448,435) | – | – | – | – |
| Transaction costs | – | – | (3,083) | – | – | – | (3,083) | – |
| Share-based payments | – | – | – | – | 21,659 | – | 21,659 | – |
| Exchange difference on investment | – | – | – | – | – | 1,146,812 | 1,146,812 | 197,582 |
| 30 September 2009 | 894,448 | 415,739 | 12,881,702 | 4,802,904 | 389,844 | 1,437,408 | 20,822,045 | 1,447,281 |

The notes on pages 19 to 44 form an integral part of these financial statements.

Statement of changes in equity

Year ended 30 September 2009

| | Retained earnings £ | Share capital £ | Share premium £ | Shares to be issued £ | Share option reserve £ | Foreign currency translation reserve £ | Total due to equity shareholders of parent £ |
|---|------------------------|--------------------|--------------------|--------------------------|---------------------------|---|---|
| Company | | | | | | | |
| 1 October 2007 | (663,749) | 334,333 | 5,843,828 | 2,041,815 | 238,237 | – | 7,794,464 |
| Loss for the year | (939,461) | – | – | – | – | – | (939,461) |
| Revision of estimate of cost of acquisition | – | – | – | 2,560,819 | – | – | 2,560,819 |
| New shares issued | – | 72,782 | 6,841,468 | – | – | – | 6,914,250 |
| Transaction costs | – | – | (240,322) | – | – | – | (240,322) |
| Share-based payments | – | – | – | – | 129,948 | – | 129,948 |
| 30 September 2008 | (1,603,210) | 407,115 | 12,444,974 | 4,602,634 | 368,185 | – | 16,219,698 |
| 1 October 2008 | (1,603,210) | 407,115 | 12,444,974 | 4,602,634 | 368,185 | – | 16,219,698 |
| Profit for the year | 167,718 | – | – | – | – | – | 167,718 |
| Fair value adjustments | – | – | – | 648,705 | – | – | 648,705 |
| New shares issued | – | 8,624 | 439,811 | (448,435) | – | – | – |
| Transaction costs | – | – | (3,083) | – | – | – | (3,083) |
| Share-based payments | – | – | – | – | 21,659 | – | 21,659 |
| 30 September 2009 | (1,435,492) | 415,739 | 12,881,702 | 4,802,904 | 389,844 | – | 17,054,697 |

Share premium reserve represents the amounts subscribed for share capital in excess of the nominal value of the shares issued, net of cost of issue.

Share options reserve represents the cumulative fair value of share options granted.

Foreign currency translation reserve represents gains and losses arising on the retranslation of net assets of overseas operations.

Retained earnings represents the cumulative net gains and losses recognised in the consolidated income statement.

Shares to be issued: On 19 July 2005, the group acquired 100% of the issued share capital of Independent Gas Management srl. The company agreed that the consideration would be paid by way of shares as follows:

- a) 862,376 shares to be issued to the sellers three years after acquisition date (issued 12 December 2008);
- b) up to 2,587,124 shares to be issued only if certain market conditions are achieved.

The directors have reviewed their estimate of the cost of the acquisition of Independent Gas Management srl based upon the market conditions at the year end and the probability of issuing shares, contingent upon market conditions, at a later date and at a higher value than previously estimated, is minimal.

The notes on pages 19 to 44 form an integral part of these financial statements.

Consolidated cash flow statement

Year ended 30 September 2009

| | 2009 £ | 2008 £ |
|---|-------------------------|-------------------------|
| Cash flows from operating activities | | |
| (Loss)/profit before taxation | (600,672) | 2,665,438 |
| Adjustments for: | | |
| Depreciation of property, plant and equipment | 23,488 | 24,385 |
| Loss on disposal of property, plant and equipment | – | 30,604 |
| Financial income | (682,661) | (111,731) |
| | <u>(1,259,845)</u> | <u>2,608,696</u> |
| Increase in other receivables | (384,810) | (4,530,535) |
| Increase in trade and other payables | 356,883 | 581,416 |
| Share-based payments | 21,659 | 129,948 |
| Exchange rate difference on investments | 880,591 | 52,765 |
| | <u>(385,522)</u> | <u>(1,157,710)</u> |
| Cash used in operations | (385,522) | (1,157,710) |
| Income taxes paid | (28,648) | – |
| | <u>(414,170)</u> | <u>(1,157,710)</u> |
| Net cash used in operating activities | (414,170) | (1,157,710) |
| Cash flows from investing activities | | |
| Interest received | 183,661 | 111,731 |
| Proceeds on disposal of property, plant and equipment | – | 15,421 |
| Purchase of intangible assets | (2,839,562) | (1,035,278) |
| Purchases of property, plant and equipment | (44,647) | (2,679) |
| | <u>(2,700,548)</u> | <u>(910,805)</u> |
| Net cash used in investing activities | (2,700,548) | (910,805) |
| Cash flows from financing activities | | |
| Issue of share capital to minority | – | 1,292,579 |
| Issue of share capital | – | 6,914,250 |
| Share issue costs | (3,083) | (240,322) |
| | <u>(3,083)</u> | <u>7,966,507</u> |
| Net cash (used in)/from financing activities | (3,083) | 7,966,507 |
| Net (decrease)/increase in cash and cash equivalents | (3,117,801) | 5,897,992 |
| Cash and cash equivalents at 1 October 2008 | <u>8,455,204</u> | <u>2,557,212</u> |
| Cash and cash equivalents at 30 September 2009 | <u><u>5,337,403</u></u> | <u><u>8,455,204</u></u> |

The notes on pages 19 to 44 form an integral part of these financial statements.

Company cash flow statement

Year ended 30 September 2009

| | 2009 £ | 2008 £ |
|---|-------------------------|-------------------------|
| Cash flows from operating activities | | |
| Profit/(loss) before taxation | 238,776 | (909,461) |
| Adjustments for: | | |
| Depreciation of property, plant and equipment | 6,507 | 10,614 |
| Financial income | (309,330) | (199,655) |
| | <u>(64,047)</u> | <u>(1,098,502)</u> |
| Decrease/(increase) in other receivables | 35,147 | (31,138) |
| (Decrease)/increase in trade and other payables | (432,752) | 429,833 |
| Share-based payments | 21,659 | 129,948 |
| | <u>(439,993)</u> | <u>(569,859)</u> |
| Cash used in operations | (439,993) | (569,859) |
| Income taxes paid | (27,558) | – |
| | <u>(467,551)</u> | <u>(569,859)</u> |
| Net cash used in operating activities | (467,551) | (569,859) |
| Cash flows from investing activities | | |
| Interest received | 309,330 | 199,655 |
| Increase in amounts owing by subsidiary undertakings | (2,779,113) | (1,388,010) |
| | <u>(2,469,783)</u> | <u>(1,188,355)</u> |
| Net cash used in investing activities | (2,469,783) | (1,188,355) |
| Cash flows from financing activities | | |
| Issue of share capital | – | 6,914,250 |
| Share issue costs | (3,083) | (240,322) |
| | <u>(3,083)</u> | <u>6,673,928</u> |
| Net cash (used in)/from financing activities | (3,083) | 6,673,928 |
| Net (decrease)/increase in cash and cash equivalents | (2,940,417) | 4,915,714 |
| Cash and cash equivalents at 1 October 2008 | <u>7,437,971</u> | <u>2,522,257</u> |
| Cash and cash equivalents at 30 September 2009 | <u><u>4,497,554</u></u> | <u><u>7,437,971</u></u> |

The notes on pages 19 to 44 form an integral part of these financial statements.

Notes to the financial statements

Year ended 30 September 2009

1. Accounting policies

General information

These financial statements are for Independent Resources plc ("the company") and subsidiary undertakings. The company is registered, and domiciled, in England and Wales and incorporated under the Companies Act 2006. The nature of the company's operations and its principal activities are set out in the Directors' Report on page 4.

The principal accounting policies are summarised below:

(a) Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union. These financial statements are for the year 1 October 2008 to 30 September 2009.

New standards and interpretations not applied

At the date of authorisation of these financial statements, the following Standards and Interpretations were in issue but not yet effective:

New/revised

| International Financial Reporting Standards | Issued/revised | Effective date |
|--|------------------------|---|
| IFRS 2 Share-based payment – amendment relating to vesting conditions and cancellations | Revised 2008 | Annual periods beginning on or after 1 January 2009 |
| IFRS 2 Share-based payment – amendments relating to group cash-settled share-based payment transactions | June 2009 | Annual periods beginning on or after 1 January 2010 |
| IFRS 3 Business combinations – comprehensive revision on applying the acquisition method | Revised 2008 | Annual periods beginning on or after 1 July 2009 |
| IFRS 7 Financial instruments: disclosures – amendments enhancing disclosures about fair value and liquidity risk | Revised March 2009 | Annual periods beginning on or after 1 January 2010 |
| IFRS 8 Operating segments | Original issuance 2006 | Annual periods beginning on or after 1 January 2009 |
| IFRS 9 Financial instruments – classification and measurement | November 2009 | Annual periods beginning on or after 1 January 2013 |
| IAS 1 Presentation of financial statements – amendments relating to disclosure of puttable instruments and obligations arising on liquidation | 2008 | Annual periods beginning on or after 1 January 2009 |
| IAS 1 Presentation of financial statements – comprehensive revision including requiring a statement of comprehensive income | 2009 | Annual periods beginning on or after 1 January 2009 |

Notes to the financial statements

1. Accounting policies

| Revised International Financial Reporting Standards | | Revised | Effective date |
|--|--|----------------|--|
| IAS 23 | Borrowing costs – comprehensive revision to prohibit immediate expensing | 2007 | Borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009 |
| IAS 24 | Related party disclosures – revised definition of related parties | November 2009 | Annual periods beginning on or after 1 January 2011 |
| IAS 27 | Consolidated and separate financial statements – consequential amendments arising from amendments to IFRS 3 | 2008 | Annual periods beginning on or after 1 July 2009 |
| IAS 27 | Consolidated and separate financial statements – amendment relating to cost of an investment on first-time adoption | Revised 2008 | Annual periods beginning on or after 1 January 2009 |
| IAS 28 | Investments in associates – consequential amendments arising from amendments to IFRS 3 | 2008 | Annual periods beginning on or after 1 July 2009 |
| IAS 31 | Interests in joint ventures – consequential amendments arising from amendments to IFRS 3 | 2008 | Annual periods beginning on or after 1 July 2009 |
| IAS 32 | Financial instruments: presentation – amendments relating to puttable instruments and obligations arising on liquidation | 2008 | Annual periods beginning on or after 1 January 2009 |
| IAS 32 | Financial instruments: presentation – amendments relating to classification of rights issues | 2009 | Annual periods beginning on or after 1 February 2010 |
| IAS 39 | Financial instruments: recognition and measurement – amendments for eligible hedged items | July 2008 | Annual periods beginning on or after 1 July 2009 |
| Interpretations | | | Effective date |
| IFRIC 15 | Agreements for the construction of real estate | | Annual periods beginning on or after 1 January 2009 |
| IFRIC 17 | Distribution of non-cash assets to owners | | Annual periods beginning on or after 1 July 2009 |
| IFRIC 18 | Transfers of assets from customers | | Transfers received on or after 1 July 2009 |

The directors do not anticipate that the adoption of these standards and interpretations will have a material impact on the financial statements in the year of initial application. The directors do not consider application of any of the amendments made to existing standards as a result of the 2008 and 2009 annual improvements project will have a material effect on the financial statements of the group.

Notes to the financial statements

1. Accounting policies

(b) Basis of consolidation

The group financial statements consolidate the financial statements of the company and its subsidiaries under the acquisition method. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date control ceases. Control is achieved where the company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities. Acquisitions are accounted for under the acquisition method.

(c) Going concern

The financial information has been prepared assuming the group will continue as a going concern. Under the going concern assumption, an entity is ordinarily viewed as continuing in business for the foreseeable future with neither the intention nor the necessity of liquidation, ceasing trading or seeking protection from creditors pursuant to laws or regulations. In assessing whether the going concern assumption is appropriate, management takes into account all available information for the foreseeable future, in particular for the 12 months from the date of approval of the financial statements.

(d) Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the group's interest in the fair value of the identifiable assets and liabilities of its subsidiaries and jointly controlled entities at the dates of acquisition. The cost of acquisition will include any contingent liabilities in relation to the purchase cost. Any such contingent liability will have been measured at fair value.

Goodwill is recognised as an asset and reviewed for impairment at least annually.

The increase in the estimate in the cost of the business combination is treated as an addition to goodwill and an addition to the deferred shares to be issued (shares to be issued – see Statement of changes in equity).

(e) Property, plant and equipment

Property, plant and equipment is stated at cost, or deemed cost less accumulated depreciation, and any recognised impairment loss. Land is stated at cost and is not depreciated.

Depreciation is charged so as to write off the cost or valuation of assets less any residual value over their estimated useful lives, using the straight line method, on the following bases:

| | |
|---------------------|---------------------|
| Fixtures & fittings | 33.3% straight line |
|---------------------|---------------------|

(f) Other intangible assets – exploration licence costs

Exploration and evaluation expenditure comprises costs which are directly attributable to researching and analysing exploration data. It also includes the costs incurred in acquiring mineral rights, the entry premiums paid to gain access to areas of interest, and amounts payable to third parties to acquire interests in existing projects. When it has been established that a mineral deposit has development potential, all costs (direct and applicable overhead) incurred in connection with the exploration and development of the mineral deposits are capitalised until either production commences or the project is not considered economically viable. In the event of production commencing, the capitalised costs are amortised, through administrative expenses, over the expected life of the mineral reserves on a unit of production basis. Other pre-trading expenses are written off as incurred. Where a project is abandoned or is considered to be of no further interest, the related costs are written off.

Notes to the financial statements

1. Accounting policies

(g) Impairment of tangible and intangible assets excluding goodwill

At each balance sheet date, the group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss.

If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

(h) Taxation

Current taxation

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the tax authorities. The tax rates and the tax laws used to compute the amount are those that are enacted, or substantively enacted, by the balance sheet date.

Deferred taxation

Deferred tax is provided in full using the balance sheet liability method for all taxable temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Deferred tax is measured using currently enacted or substantially enacted tax rates.

Deferred tax assets are recognised to the extent the temporary difference will reverse in the foreseeable future and that it is probable that future taxable profit will be available against which the asset can be utilised.

Deferred tax is recognised for all deductible temporary differences arising from investments in subsidiaries, branches and associates, and interests in joint ventures, to the extent it is probable that the temporary difference will reverse.

(i) Conversion of foreign currency

Foreign currency transactions are translated at the average exchange rates over the period. Liabilities are translated at the rates prevailing at the balance sheet date or, where applicable, under related forward exchange contracts. Assets are translated at the rates ruling at the balance sheet date.

The group has significant transactions and balances denominated in euros. The year end exchange rate to sterling was 1.093 (2008:1.264) representing a significant strengthening in the euro. The average exchange rate during the year was 1.149 (2008: 1.307).

Notes to the financial statements

1. Accounting policies

(j) Share-based payments

The fair value of equity instruments granted to employees is charged to the income statement, with a corresponding increase in equity. The fair value of share options is measured at grant date, using the Black-Scholes model, and spread over the period during which the employee becomes unconditionally entitled to the award. The charge is adjusted to reflect the number of shares or options that vest, except where forfeiture is due to market-based criteria.

(k) Shares to be issued

Shares to be issued represents the fair value of the fixed number of shares to be issued dependent on certain milestones to be reached.

(l) Turnover

Turnover represents the invoiced value for the sale of consultancy services and is stated net of VAT.

(m) Financial instruments

Financial assets and financial liabilities are recognised on the group's balance sheet when the group becomes a party to the contractual provisions of the instrument.

Trade and other receivables

Trade and other receivables are initially measured at fair value and are subsequently reassessed at the end of each accounting period.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Financial liabilities and equity

Financial liabilities and equity instruments issued by the group are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

Trade payables

Trade payables are initially measured at fair value and are subsequently measured at amortised cost, using the effective interest rate method.

Equity instruments

Equity instruments issued by the company are recorded at the proceeds received, net of direct issue costs. Shares issued are held at their fair value.

(n) Accounting estimates and judgments

The preparation of financial statements in conforming with adopted IFRSs requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and assumptions are based on historical experience and other factors considered reasonable at the time, but actual results may differ from those estimates. Revisions to these estimates are made in the period in which they are recognised.

Notes to the financial statements

1. Accounting policies

(o) Use of estimates

The assumptions concerning the future, and other key sources of estimation 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:

Impairment of intangibles and goodwill

Determining whether the group's projects remain technically feasible, the necessary approvals from regulators will be obtained, that they will be commercially viable and that the group will be able to obtain the necessary finance to complete them.

Shares to be issued

The value of shares to be issued is determined by the group's share price reaching certain levels at certain dates in the future. If these conditions are not met then a corresponding adjustment will be required to be made.

Management monitors the ability of the company to settle the deferred consideration through monitoring the current economic trend and its financial performance and position. Where expectation is different from the original estimate, such differences will impact the carrying value of the deferred consideration. Any indication of recoverability and change in fair value is adjusted for accordingly.

Deferred consideration

The recoverability and fair value of the deferred consideration is determined by the group. Management monitors the circumstances relating to the draw down of deferred subscription payments due from the minority interest, together with the recoverability of the amounts due and their fair value. Any indication of non-recoverability and change in fair value is adjusted for accordingly.

Income tax

There are certain transactions and computations for which the ultimate tax determination may be different from the initial estimate. The group recognises tax liabilities based on its understanding of the prevailing tax laws and estimates of whether such taxes will be due in the ordinary course of business. Where the final outcome of these measures is different from the amounts that were initially recognised, such difference will impact the income tax and deferred tax provisions in the period in which such determination is made.

(p) Provisions

Provisions are recognised when the group has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the group expects some or all of a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a borrowing cost.

(q) Commitments and contingencies

Commitments and contingent liabilities are disclosed in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is not recognised in the financial statements but disclosed when an inflow of economic benefits is probable.

Notes to the financial statements

1. Accounting policies

(r) Events after the balance sheet date

Post year-end events that provide additional information about a company's position at the balance sheet date and are adjusting events are reflected in the financial statements. Post year-end events that are not adjusting events are disclosed in the notes when material.

2. Revenue and segmental information

The group's operations are located in the United Kingdom, Italy and Tunisia.

The group generated revenue during the year of £nil (2008: £2,200) in its Tunisian operations, £nil (2008: £nil) in its UK operations and £33,073 (2008: £14,537) in its Italian operations.

The following is an analysis of the carrying amount of segment assets, and additions to property, plant and equipment, analysed by the geographical area in which the assets are located.

| | United Kingdom £ | Italy £ | Tunisia £ | Total £ |
|--|------------------------|------------|--------------|------------|
| 2009 | | | | |
| Carrying amount of segment tangible assets | 1,726 | 90,442 | – | 92,168 |
| Additions to property, plant and equipment in the year | – | 44,647 | – | 44,647 |
| Depreciation charges | 6,507 | 16,981 | – | 23,488 |
| Carrying amount of segment intangible assets | – | 5,984,743 | 1,025,917 | 7,010,660 |
| Additions to intangible assets | – | 2,619,171 | 220,391 | 2,839,562 |
| Carrying amount of liabilities | 174,453 | 997,347 | 5,710 | 1,177,510 |
| Results for the year | (413,811) | (257,531) | (1,478) | (672,820) |
| 2008 | | | | |
| Carrying amount of segment tangible assets | 8,233 | 54,283 | – | 62,516 |
| Additions to property, plant and equipment in the year | – | 2,679 | – | 2,679 |
| Depreciation charges | 10,614 | 13,771 | – | 24,385 |
| Carrying amount of segment intangible assets | – | 2,910,262 | 805,526 | 3,715,788 |
| Additions to intangible assets | – | 917,936 | 117,342 | 1,035,278 |
| Carrying amount of liabilities | 563,705 | 100,720 | 112,702 | 777,127 |
| Results for the year | (371,548) | 3,008,623 | (1,637) | 2,635,438 |

The group considers that there is only one business segment and as such segmental analysis on this basis has not been prepared.

Notes to the financial statements

3. Expenses and auditors' remuneration

The operating loss is stated after charging the following amounts:

| | 2009 £ | 2008 £ |
|---|-----------------------------|-----------------------------|
| Depreciation of property, plant and equipment | | |
| – owned | 23,488 | 24,385 |
| Parent company's auditors' remuneration | | |
| – audit of parent company and group accounts | 35,691 | 32,000 |
| Non-associated auditors' remuneration of subsidiaries | | |
| – audit of subsidiaries | 50,751 | 9,181 |
| Rent of land and buildings | 100,500 | 75,089 |
| Share options | 21,659 | 129,948 |
| Net foreign exchange gains | (43,143) | (9,890) |
| | <u> </u> | <u> </u> |

4. Aggregated directors' remuneration

The total amounts for directors' remuneration were as follows:

| | 2009 £ | 2008 £ |
|---|-----------------------------|-----------------------------|
| Emoluments detailed below paid under service agreements | 337,070 | 275,800 |
| Payments made to third parties in respect of services provided by directors | 336,816 | 275,440 |
| Compensation for loss of office | 94,800 | – |
| Share-based payments | 21,659 | 129,948 |
| | <u> </u> | <u> </u> |
| Total | <u>790,345</u> | <u>681,188</u> |

Directors' emoluments

Directors' remuneration for the year was:

| | Salary/fees £ | Pension £ | Benefits £ | Total £ |
|----------------------|------------------|---------------|---------------|----------------|
| 2009 | | | | |
| Aggregate emoluments | <u>283,622</u> | <u>53,448</u> | <u>–</u> | <u>337,070</u> |
| 2008 | | | | |
| Aggregate emoluments | <u>245,800</u> | <u>30,000</u> | <u>–</u> | <u>275,800</u> |

| | 2009 £ | 2008 £ |
|--|-----------------------------|-----------------------------|
| The directors' emoluments detailed above include amounts paid in respect of the highest paid director: | | |
| Emoluments | 222,970 | 165,220 |
| Contributions to money purchase pension scheme | – | – |
| | <u> </u> | <u> </u> |

Notes to the financial statements

4. Aggregated directors' remuneration

The group reimburses the directors for expenses incurred by them or their service companies in the performance of their duties for the group.

Two executive directors are based in Italy and their consultancy agreements were paid in euros and converted to sterling at the average exchange rate of 1.149 (2008: 1.307). The strengthening of the euro resulted in a comparatively higher cost in sterling terms.

Compensation for loss of office

G H S Staley resigned as a director on 31 July 2009 and entered a compromise agreement with the company. The total amount payable, including a £10,000 contribution to his personal pension policy, was £94,800.

Share options

The share option scheme, which was adopted by the company on 25 November 2005, has been established to reward and incentivise the executive management team for delivering share price growth. The share option scheme will be administered by the Remuneration Committee.

Options were granted over 1,838,833 ordinary shares on 25 November 2005 to executive directors and options over 16,667 ordinary shares were granted to A R H Thomas on the same date.

The options granted to G H S Staley over 501,500 ordinary shares remain exercisable, subject to applicable performance criteria and the plan rules, for a period of six months after his resignation as a director on 31 July 2009.

Pension arrangements

The company has made contributions of £48,073 (2008: £25,000) to the personal pension scheme of T B James. The company also made contributions to the personal pension scheme of G H S Staley during the year totalling £5,375 in addition to the amount referred to above.

Consultancy agreements

In addition to the service agreements the following consultancy agreements have been entered into:

| Individual providing service | Parties to consultancy agreement |
|------------------------------|--|
| G G Nash | Independent Gas Management srl and Independent Energy Solutions srl (jointly) and Seaspray 2 srl – ongoing from 1 October 2008 at €16,125 per month (previously €15,000 per month). |
| R Bencini | Independent Gas Management srl, Independent Energy Solutions srl and Independent Resources (Ksar Hadada) Ltd (jointly) and GAIA srl – ongoing from 1 October 2008 at €16,125 per month (previously €15,000 per month). |
| G H S Staley | Independent Resources plc and Derwent Resources Ltd – 1 September 2009 to 30 June 2010 at £55,200 in total. This agreement was entered into following the resignation of G H S Staley as a director of the company. |

Notes to the financial statements

5. Staff costs and numbers

The average number of persons employed by the group during the year including executive directors is analysed below:

| | 2009 | 2008 |
|----------------|-------------|-------------|
| Administration | 9 | 8 |

Group employment costs – all employees including executive directors

| | 2009 | 2008 |
|---------------------------------------|----------------|----------------|
| | £ | £ |
| Wages and salaries | 589,856 | 356,455 |
| Compensation for loss of office | 94,800 | – |
| Social security costs | 124,520 | 49,070 |
| Pension contributions | 53,448 | 30,000 |
| Share-based payments – equity-settled | 21,659 | 129,948 |
| | <u>884,283</u> | <u>565,473</u> |

6. Net financial income

| | 2009 | 2008 |
|---|----------------|----------------|
| | £ | £ |
| Financial income on unwinding of ERG Rivara Storage srl shareholder consideration | 499,000 | – |
| Interest receivable and similar income | 183,661 | 111,731 |
| | <u>682,661</u> | <u>111,731</u> |

Notes to the financial statements

7. Taxation

| | 2009 £ | 2008 £ |
|--|---------------|---------------|
| Tax on profit on ordinary activities | | |
| Taxation charged based on profits for the year | | |
| UK corporation tax based on the results for the year | 73,500 | 30,000 |
| Over-provided in prior year | (2,442) | – |
| Overseas taxation | 1,090 | – |
| Total tax expense in income statement | <u>72,148</u> | <u>30,000</u> |

Reconciliation of the tax expense

The tax assessed for the year is different from the standard rate of corporation tax in the UK (21%). The differences are explained below:

| | 2009 £ | 2008 £ |
|--|------------------|------------------|
| (Loss)/profit on ordinary activities before taxation | <u>(600,672)</u> | <u>2,665,438</u> |
| (Loss)/profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 21% (2008 –19%) | (126,141) | 506,432 |
| Effects of: | | |
| Untaxed income on deemed disposal of interest in subsidiary | (100,457) | (701,189) |
| Deferred tax not provided | 159,804 | 165,243 |
| Exchange gain on net investment taken to reserves but taxable | 122,121 | 59,514 |
| Marginal tax relief | 18,173 | – |
| Adjustments to tax charge in respect of previous years | (2,442) | – |
| Overseas taxation | 1,090 | – |
| Total current tax | <u>72,148</u> | <u>30,000</u> |

The group has tax losses available to be carried forward in certain subsidiaries. With the anticipated substantial lead times for the group's projects, and the possibility that these may therefore expire before their use, it is not considered appropriate to anticipate an asset value for them.

Notes to the financial statements

8. (Loss)/earnings per share

The calculation of basic and diluted (loss)/earnings per share at 30 September 2009 was based on the (loss)/profit attributable to ordinary shareholders of £653,170. The weighted average number of ordinary shares outstanding during the year ending 30 September 2009 and the effect of the potentially dilutive ordinary shares to be issued are shown below.

Contingently issuable shares such as those included within the share option scheme or in connection with the acquisition of Independent Gas Management srl have not been treated as dilutive as the market conditions have not been met at 30 September 2009.

| | 2009 | 2008 |
|---|-------------|-------------|
| | £ | £ |
| Net (loss)/profit for the year | (653,170) | 2,658,668 |
| Basic weighted average ordinary shares in issue during the year | 41,403,754 | 34,149,217 |
| Diluted weighted average ordinary shares in issue during the year | 41,403,754 | 36,401,828 |

9. Profit of the parent company

A profit of £167,718 has been dealt with in the financial statements of the parent company. The parent company is not required to produce its own profit and loss account because of the exemption provision in Section 408 of the Companies Act 2006.

Notes to the financial statements

10. Property, plant and equipment (group)

| | Fixtures & fittings £ | Land £ | Total £ |
|------------------------|-----------------------------|-----------|----------------|
| 2009 | | | |
| Cost | | | |
| 1 October 2008 | 117,088 | – | 117,088 |
| Exchange differences | 13,289 | – | 13,289 |
| Additions | 44,647 | – | 44,647 |
| 30 September 2009 | <u>175,024</u> | <u>–</u> | <u>175,024</u> |
| Depreciation | | | |
| 1 October 2008 | 54,572 | – | 54,572 |
| Exchange differences | 4,796 | – | 4,796 |
| Charge for the year | 23,488 | – | 23,488 |
| 30 September 2009 | <u>82,856</u> | <u>–</u> | <u>82,856</u> |
| Carrying amount | | | |
| 30 September 2009 | <u>92,168</u> | <u>–</u> | <u>92,168</u> |
| 30 September 2008 | <u>62,516</u> | <u>–</u> | <u>62,516</u> |
| 2008 | | | |
| Cost | | | |
| 1 October 2007 | 104,625 | 46,025 | 150,650 |
| Exchange differences | 9,784 | – | 9,784 |
| Additions | 2,679 | – | 2,679 |
| Disposals | – | (46,025) | (46,025) |
| 30 September 2008 | <u>117,088</u> | <u>–</u> | <u>117,088</u> |
| Depreciation | | | |
| 1 October 2007 | 28,153 | – | 28,153 |
| Exchange differences | 2,034 | – | 2,034 |
| Charge for the year | 24,385 | – | 24,385 |
| 30 September 2008 | <u>54,572</u> | <u>–</u> | <u>54,572</u> |
| Carrying amount | | | |
| 30 September 2008 | <u>62,516</u> | <u>–</u> | <u>62,516</u> |

Notes to the financial statements

11. Property, plant and equipment (parent company)

| | Fixtures & fittings £ |
|--------------------------------------|-----------------------------|
| 2009 | |
| Cost | |
| 1 October 2008 and 30 September 2009 | 31,842 |
| Depreciation | |
| 1 October 2008 | 23,609 |
| Charge for the year | 6,507 |
| 30 September 2009 | 30,116 |
| Carrying amount | |
| 30 September 2009 | 1,726 |
| 30 September 2008 | 8,233 |
| 2008 | |
| Cost | |
| 1 October 2007 and 30 September 2008 | 31,842 |
| Depreciation | |
| 1 October 2007 | 12,995 |
| Charge for the year | 10,614 |
| 30 September 2008 | 23,609 |
| Carrying amount | |
| 30 September 2008 | 8,233 |

Notes to the financial statements

12. Goodwill (group)

| | Goodwill £ |
|------------------------|-----------------------|
| 2009 | |
| Cost | |
| 1 October 2008 | 4,604,965 |
| Fair value adjustment | 648,705 |
| | <hr/> |
| 30 September 2009 | 5,253,670 |
| | <hr/> <hr/> |
| Carrying amount | |
| 30 September 2009 | 5,253,670 |
| | <hr/> <hr/> |
| 30 September 2008 | 4,604,965 |
| | <hr/> <hr/> |
| 2008 | |
| Cost | |
| 1 October 2007 | 2,044,146 |
| Fair value adjustment | 2,560,819 |
| | <hr/> |
| 30 September 2008 | 4,604,965 |
| | <hr/> <hr/> |
| Carrying amount | |
| 30 September 2008 | 4,604,965 |
| | <hr/> <hr/> |
| 30 September 2007 | 2,044,146 |
| | <hr/> <hr/> |

Goodwill included within the financial statements relates to the Rivara project previously in Independent Gas Management srl and transferred to ERG Rivara Storage srl during 2008. A review of the latest management information and projections shows a net present value significantly in excess of assets and liabilities relating to this project. The main assumptions indicate that no significant change has arisen on these calculations which would materially impact on the group.

The continuing analysis and testing of technical data continues to indicate that the project is feasible.

The group continues to work towards, and is confident of, obtaining all the necessary approvals from regulatory authorities.

The group anticipates being able to raise the necessary finance to continue to develop the project.

For the purpose of goodwill impairment testing, recoverable amounts have been determined based upon the value in use of the Rivara project.

Notes to the financial statements

12. Goodwill (group)

Value in use

Cash flows are projected for the periods up to the date that the project is expected to become commercially operational and from then until operations are expected to cease, based upon management's expectations. These dates depend on a number of variables, including the project's technical feasibility, regulatory approval, forecast revenue prices and the associated development and operational costs.

The project is expected to generate revenue after five to nine years and to continue doing so for a further 35 years. The directors consider that projections calculated for a period greater than five years are justified as the project is still in a development stage. The directors have used a constant rate of growth of 2.5% (2008: 2.5%) to extrapolate the cash flow projections beyond the period in which the project will commence to generate revenue. This growth rate is considered to cover increases resulting from inflation and regulatory changes. The discount rate used is 10% (2008: 10%).

Key assumptions used in value in use calculations

The key assumptions used in the value in use calculations for the goodwill asset are the expected storage and useable capacity, costs of plant and infrastructure, expected revenue prices, expected operational costs, appropriate discount rates and foreign exchange rates.

Management's assessment of the technical viability of the project is supported by the evaluation work undertaken by appropriately qualified persons.

Management have assessed the project's net present value and thereby impairment on a variety of bases and assumptions using, where appropriate, a number of discount rates. The impairment tests are particularly sensitive to changes in the key assumptions and changes to these assumptions could result in impairment; however, all of the varying bases indicate a net present value significantly in excess of the value of goodwill.

Foreign exchange rates have been based on external market forecasts, after considering long-term market expectations and the countries in which the group operates.

Notes to the financial statements

13. Other intangible assets (group)

| | Development and exploration £ |
|--|--|
| 2009 | |
| Cost | |
| 1 October 2008 | 3,715,788 |
| Exchange differences | 455,310 |
| Additions | 2,839,562 |
| | <hr/> |
| 30 September 2009 | 7,010,660 |
| | <hr/> |
| Amortisation | |
| 1 October 2008 and 30 September 2009 | – |
| | <hr/> |
| Carrying amount | |
| 30 September 2009 | 7,010,660 |
| | <hr/> |
| 30 September 2008 | 3,715,788 |
| | <hr/> <hr/> |
| The primary intangible assets, all internally generated, are as follows: | |
| Rivara gas storage facility | 3,311,726 |
| Fiume Bruna coal bed methane project | 2,673,017 |
| Ksar Hadada exploration acreage | 1,025,917 |
| | <hr/> |
| | 7,010,660 |
| | <hr/> <hr/> |
| 2008 | |
| Cost | |
| 1 October 2007 | 2,444,320 |
| Exchange differences | 236,190 |
| Additions | 1,035,278 |
| | <hr/> |
| 30 September 2008 | 3,715,788 |
| | <hr/> |
| Amortisation | |
| 1 October 2007 and 30 September 2008 | – |
| | <hr/> |
| Carrying amount | |
| 30 September 2008 | 3,715,788 |
| | <hr/> |
| 30 September 2007 | 2,444,320 |
| | <hr/> <hr/> |
| The primary intangible assets, all internally generated, are as follows: | |
| Rivara gas storage facility | 1,772,203 |
| Fiume Bruna coal bed methane project | 1,138,059 |
| Ksar Hadada exploration acreage | 805,526 |
| | <hr/> |
| | 3,715,788 |
| | <hr/> <hr/> |

Notes to the financial statements

13. Other intangible assets (group)

A review of the latest management information and projections shows a net present value significantly in excess of assets and liabilities relating to the projects. The main assumptions indicate that no significant change has arisen on these calculations which would materially impact on the group.

The continuing analysis and testing of technical data continues to indicate that the projects are feasible.

The group continues to work towards, and is confident of, obtaining all the necessary approvals from regulatory authorities.

The group anticipates being able to raise the necessary finance to continue to develop the projects.

For the purpose of impairment testing of intangible assets, recoverable amounts have been determined based upon the value in use of the group's three projects.

Value in use

Value in use has been calculated separately for the group's three projects listed above. Cash flows are projected for the periods up to the date that the projects are expected to become commercially operational and from then until operations are expected to cease, based upon management's expectations. These dates depend on a number of variables, including the project's technical feasibility, regulatory approval, forecast revenue prices and the associated development and operational costs.

The projects are expected to generate revenue after five to nine years and to continue doing so for a further 35 years. The directors consider that projections calculated for a period greater than five years are justified as the projects are still in a development stage. The directors have used a constant rate of growth of 2.5% (2008: 2.5%) to extrapolate the cash flow projections beyond the period in which the projects will commence to generate revenue. This growth rate is considered to cover increases resulting from inflation and regulatory changes. The discount rate used is 10% (2008: 10%).

Key assumptions used in value in use calculations

The key assumptions used in the value in use calculations for the intangible assets are the expected storage and useable capacity of the Rivara project, the anticipated quantity of resource available for extraction for the Fiume Bruna and Ksar Hadada projects, costs of plant and infrastructure, expected revenue prices, expected operational costs, appropriate discount rates and foreign exchange rates.

Management's assessment of the technical viability of the projects is supported by the evaluation work undertaken by appropriately qualified persons.

Management have assessed the projects' individual net present values and thereby impairment on a variety of bases and assumptions using, where appropriate, a number of discount rates. The impairment tests are particularly sensitive to changes in the key assumptions and changes to these assumptions could result in impairment; however, all of the varying bases indicate a net present value significantly in excess of the value of goodwill.

Foreign exchange rates have been based on external market forecasts, after considering long-term market expectations and the countries in which the group operates.

Notes to the financial statements

14. Shares in subsidiary undertakings

| | 2009 £ |
|-----------------------|------------------|
| Cost | |
| 1 October 2008 | 5,107,207 |
| Additions in year | 288,711 |
| Fair value adjustment | 648,705 |
| 30 September 2009 | <u>6,044,623</u> |

At 31 March 2009 the parent company capitalised, as required by Italian law, £288,711 of its intercompany loans to its subsidiaries.

The directors have reviewed their estimate of the cost of the acquisition of Independent Gas Management srl based upon the market conditions at the year end and the probability of issuing shares, contingent upon market conditions, at a later date and at a higher value than previously estimated. A revision to the previously recorded values has been made to reflect a difference between the original estimate of the value of shares to be issued and the price at which they were actually issued during the year of £151,779 together with a revision of the estimate of contingently issuable shares of £800,484.

Details of the subsidiaries, all of which have a 30 September year end, are as follows:

| Subsidiary | Class of share | % owned | Country of registration | Nature of business |
|---|-----------------------|----------------|--------------------------------|---|
| Independent Energy Solutions srl | Ordinary | 100% | Italy | Appraisal of coal bed methane opportunities |
| Independent Gas Management srl | Ordinary | 100% | Italy | Management of appraisal of underground gas storage facilities |
| Independent Resources (Ksar Hadada) Limited | Ordinary | 100% | England & Wales | Appraisal of oil and gas exploration permit |
| ERG Rivara Storage srl (see below) | Ordinary | 85% | Italy | Appraisal of underground gas storage facilities |

The group's interest in ERG Rivara Storage srl is entirely through the shareholding of Independent Gas Management srl.

Notes to the financial statements

15. Other receivables

| | 2009 | | 2008 | |
|---|------------------|------------------|------------------|------------------|
| | Group £ | Company £ | Group £ | Company £ |
| Non-current | | | | |
| Amounts owing by subsidiary undertakings | – | 6,636,048 | – | 4,145,646 |
| Current | | | | |
| Deferred subscription payments due from minority interest | 4,892,492 | – | 4,168,868 | – |
| Other receivables | 745,674 | 31,378 | 604,956 | 15,362 |
| Prepayments | 114,769 | 17,821 | 95,301 | 68,984 |
| | <u>5,752,935</u> | <u>6,685,247</u> | <u>4,869,125</u> | <u>4,229,992</u> |

Other receivables in the group and the company principally comprise recoverable Value Added Tax and expenditure recharged to project partners.

The directors consider that the carrying amount of trade and other receivables approximated their fair value.

16. Cash and cash equivalents

| | 2009 | | 2008 | |
|---------------------------|------------------|------------------|------------------|------------------|
| | Group £ | Company £ | Group £ | Company £ |
| Bank balances | 1,052,660 | 212,811 | 408,802 | 24,480 |
| Call deposits | 4,284,743 | 4,284,743 | 8,046,402 | 7,413,491 |
| Cash and cash equivalents | <u>5,337,403</u> | <u>4,497,554</u> | <u>8,455,204</u> | <u>7,437,971</u> |

A charge over bank balances has been registered, for securing all monies due or becoming due from the company to its bankers.

Notes to the financial statements

17. Financial instruments and treasury risk management

Treasury risk management

The group manages a variety of market risks, including the effects of changes in foreign exchange rates, liquidity and counterparty risks.

Credit risk

The group's principal financial assets are bank balances and cash and other receivables.

The credit risk on liquid funds is limited because the counterparties are UK and Italian banks with high credit ratings assigned by international credit rating agencies.

The group currently operates with positive cash and cash equivalents as a result of issuing share capital in anticipation of future funding requirements. The group's policy is therefore one of achieving high returns with minimal risks. In order to provide a degree of certainty, the group primarily invests in short-term fixed-interest treasury deposits. As part of this policy a proportion of the funds has fixed interest rates though these are over short periods of no more than three months. For the purpose of sensitivity analysis, these are treated as floating rates. The consolidated income statement would be affected by approximately £43,000 (2008: £80,000) by a reasonably possible 1 percentage point change in floating interest rates on a full year basis. The income statement of the parent company would be similarly affected by approximately £43,000 (2008: £74,000) by a reasonably possible 1 percentage point change in floating interest rates on a full year basis.

The maximum exposure due to credit risk on the deferred subscription payments due from the minority interest during the year was €7,125,000 (2008: €7,125,000).

Currency risks

The group's operations are primarily located in the United Kingdom, Italy and Tunisia, with the main exchange risk being between sterling and the euro. Each group company operates primarily within its local currency with little exposure to currency fluctuations other than on inter group financing, with gains or losses thereon being eliminated through reserves on consolidation which do not affect earnings.

Due to the limited risks to the group, forward exchange contracts are not considered necessary and are not used.

The translation risk on the group's foreign exchange payables and receivables is considered to be immaterial due to their short-term nature. As the group does not use foreign exchange hedges, the consolidated income statement would be affected by approximately £57,000 (2008: £60,000) by a reasonably possible 10 percentage point fluctuation in the exchange rate between sterling and the euro on the translation of foreign subsidiary results. The income statement of the parent company would be similarly affected by approximately £810,000 (2008: £460,000) by a reasonably possible 10 percentage point fluctuation in the exchange rate between sterling and the euro on the conversion of loans to foreign subsidiaries and foreign currency bank balances.

Notes to the financial statements

17. Financial instruments and treasury risk management

Liquidity risk

The group currently has no operational revenue streams. Operational cash flow represents the ongoing appraisal and testing of the group's projects and administration costs. The group manages its liquidity requirements by the use of both short-term and long-term cash flow forecasts. The group's policy to ensure facilities are available as required is to issue equity share capital and form strategic alliances in accordance with long-term cash flow forecasts.

The group currently has no undrawn committed facilities as at 30 September 2009.

The financial market turbulence and associated illiquidity in credit markets during the year has had no impact on the group's ability to meet its financing requirements.

The group actively manages its working finance to ensure the group has sufficient funds for operations and planned expansion.

The group's financial liabilities are primarily trade payables and operational costs. All amounts are due for payment in accordance with agreed settlement terms with suppliers or statutory deadlines and all within one year.

Derivative financial instruments

The group does not currently use derivative financial instruments as hedging is not considered necessary. Should the group identify a requirement for the future use of such financial instruments, a comprehensive set of policies and systems as approved by the directors will be implemented.

In accordance with IAS 39, "Financial instruments: recognition and measurement", the group has reviewed all contracts for embedded derivatives that are required to be separately accounted for if they do not meet specific requirements set out in the standard. No material embedded derivatives have been identified.

Commodity contracts

The group does not use commodity forward contracts and futures to hedge against price risk in commodities as these are not considered necessary.

Capital management

The group's activities are of a type and stage of development where the most suitable capital structure is that of one entirely financed by equities. The directors will reassess the future capital structure when projects under development are sufficiently advanced.

The group's financial strategy is to utilise its resources to further appraise and test the group's projects, forming strategic alliances for specific projects where appropriate. The group keeps investors and the market informed of its progress with its projects through regular announcements and raises additional equity finance at appropriate times.

Deferred subscription payments due from minority interest

The weighted average effective interest rate used in the discounting calculations of the fair value of the recoverable amount was 12% (2008: 12%).

Categories of financial instruments

All of the group's financial assets are classified as loans and receivables and all of the group's financial liabilities are classified as other financial liabilities.

Notes to the financial statements

18. Trade and other payables

| | 2009 | | 2008 | |
|----------------|------------------|---------------|----------------|----------------|
| | Group £ | Company £ | Group £ | Company £ |
| Trade payables | 297,159 | 32,143 | 482,855 | 451,697 |
| Accruals | 726,455 | 63,757 | 228,886 | 72,583 |
| | <u>1,023,614</u> | <u>95,900</u> | <u>711,741</u> | <u>524,280</u> |

Trade payables and accruals principally comprise amounts outstanding for ongoing costs.

The directors consider that the carrying amount of trade and other payables approximated their fair value.

19. Share capital

| | 2009 | | 2008 | |
|--|----------------|----------------|----------------|----------------|
| | Group £ | Company £ | Group £ | Company £ |
| Authorised | | | | |
| 80,000,000 ordinary shares of 1p | <u>800,000</u> | <u>800,000</u> | <u>800,000</u> | <u>800,000</u> |
| Issued, called up and fully paid | | | | |
| 41,573,867 (2008: 40,711,491) ordinary shares of 1p | <u>415,739</u> | <u>415,739</u> | <u>407,115</u> | <u>407,115</u> |

The holders of ordinary shares are entitled to receive dividends from time to time and are entitled to one vote per share at meetings of the company.

On 12 December 2008, a further 862,376 ordinary shares of 1p were issued in accordance with the terms of the purchase of Independent Gas Management srl in 2005. The market value of the company's shares at that date was 52p per share and therefore a share premium of £439,811 has been recognised upon their issue.

20. Share premium account

| | 2009 | | 2008 | |
|---|-------------------|-------------------|-------------------|-------------------|
| | Group £ | Company £ | Group £ | Company £ |
| 1 October | 12,444,974 | 12,444,974 | 5,843,828 | 5,843,828 |
| Premium arising on issue of equity shares | 439,811 | 439,811 | 6,841,468 | 6,841,468 |
| Transaction costs | (3,083) | (3,083) | (240,322) | (240,322) |
| 30 September | <u>12,881,702</u> | <u>12,881,702</u> | <u>12,444,974</u> | <u>12,444,974</u> |

Notes to the financial statements

21. Share-based payments

The share option scheme, which was adopted by the company on 25 November 2005, has been established to reward and incentivise the executive management team for delivering share price growth. The share option scheme will be administered by the Remuneration Committee.

It is intended that the options to be granted to any executive director of the company will be made subject to testing performance criteria. For the initial tranche of options granted to the executive directors, the performance criteria required the company's share price to increase by at least 30 per cent compound per annum over a three-year performance period to become exercisable in full (with the initial performance period being measured from the date of Admission). For the initial tranche of options, share price performance will be measured taking the Placing Price as the starting point.

The performance criteria permit retesting for an additional two years as the 30 per cent hurdle was not achieved after three years and no share options were exercisable at the year end or the prior year end.

The terms of the share option scheme were modified during the year so as to allow the share options of G H S Staley to remain exercisable, subject to applicable performance criteria and the plan rules, for a period of six months after his resignation as a director on 31 July 2009.

Details of the share options outstanding during the year are as follows:

| Date of grant | 01/10/2007 & 01/10/2008 Number of options | Issued in the year | 30/09/2008 & 30/09/2009 Number of options | Date from which options may be first exercised | Lapse date | Exercise price per option |
|----------------------|--|-------------------------------|--|---|-----------------------|--------------------------------------|
| 25/11/2005 | 1,855,500 | – | 1,855,500 | 25/11/2008 | 25/11/2015 | 60p |

There has been no change in the number of share options that have been granted in either the current or prior year.

The options outstanding at the end of the year have a weighted average remaining contractual life of 6.3 years.

These fair values were calculated using the Black-Scholes option pricing model. The inputs into the model were as follows:

| | |
|---------------------------------|---------|
| Weighted average share price | 65p |
| Weighted average exercise price | 60p |
| Expected volatility | 30% |
| Expected life | 5 years |
| Risk-free rate | 4.53% |
| Expected dividend yield | nil |

The expected volatility was determined with reference to the industry volatility. This is because the company did not have historical volatility as it was admitted for trading on AIM in December 2005. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

The group recognised total expenses of £21,659 (2008: £129,948) related to equity-settled, share-based payment transactions during the year.

Notes to the financial statements

22. Minority interests

| | 2009 £ | 2008 £ |
|----------------------|------------------|------------------|
| 1 October | 1,269,349 | – |
| Loss for the year | (19,650) | (23,230) |
| New shares issued | – | 1,292,579 |
| Exchange differences | 197,582 | – |
| 30 September | <u>1,447,281</u> | <u>1,269,349</u> |

23. Financial commitments

The group leases all of its properties. The terms of property leases vary from country to country, although they all tend to be tenant-repairing with rent reviews annually and many have break clauses.

The total future minimum lease payments are due as follows:

| | 2009 £ | 2008 £ |
|---|----------------|----------------|
| Not later than one year | 96,771 | 41,321 |
| Later than one year and not later than five years | 310,704 | 82,228 |
| | <u>407,475</u> | <u>123,549</u> |

The minimum lease payment recognised as an expense in the year was £100,500 (2008: £75,089).

24. Related party transactions

Inter-group balances

In order for individual subsidiary companies to carry out the objectives of the group, amounts are loaned to them on an unsecured basis. At the year end the following amounts were outstanding:

| | 2009 £ | 2008 £ |
|---|------------------|------------------|
| Amounts owed to Independent Resources plc from: | | |
| Independent Energy Solutions srl | 3,142,537 | 1,520,985 |
| Independent Gas Management srl | 2,467,546 | 1,701,846 |
| Independent Resources (Ksar Hadada) Limited | 1,023,220 | 918,612 |
| ERG Rivara Storage srl | 2,745 | 4,203 |
| | <u>6,636,048</u> | <u>4,145,646</u> |

Independent Resources plc charges interest on the inter group borrowings at 3.5%, which totalled £141,346 (2008: £101,106) for the year and has been included in the company's own income statement but eliminated upon consolidation.

For details of key management personnel remuneration please see note 4.

Notes to the financial statements

25. Non-cash transactions

Exceptional item – 2008

On 24 June 2008, the group reorganised its interests in the Rivara gas management project as follows:

- ERG Rivara Storage srl was formed as a 100% subsidiary of Independent Gas Management srl with €1 share capital;
- Independent Gas Management srl transferred its interest in the Rivara gas management project to ERG Rivara Storage srl at an independently valued amount of €53,833,339 in exchange for shares in ERG Rivara Storage srl;
- ERG Rivara Storage srl issued further ordinary shares of €9,500,000 to a third party such as to reduce the group's interest to 85%.

The third party paid up 25% (€2,375,000) upon the issue of the shares. The balance outstanding is legally payable and is therefore included within amounts receivable in note 15. The balance is to be payable when called upon by the board of ERG Rivara Storage srl. The amount to be received was discounted by £1,468,000 upon initial recognition to reflect the directors' estimates of the timing and amounts of those calls. During the year, £499,000 of the original discount adjustment was reversed and is included as financial income.

As a result of the above, the group recognised an exceptional profit in 2008 on the deemed disposal of a 15% interest in ERG Rivara Storage srl of £3,684,229 after deducting related costs of brokerage and commission of £1,071,015 paid by the group.

26. Contingencies

As a condition of the subscription for shares by the third party in ERG Rivara Storage srl, it has been agreed that should the Rivara gas storage project be cancelled and that company be liquidated, the third party would receive a return of capital in preference to Independent Gas Management srl. Consequently, it is a possibility that a substantial amount of the profit arising to the group as detailed in note 25 would need to be reversed. The directors consider that this possibility is remote and therefore have made no provision for this and the profit arising on this transaction has been recognised in full.

Upon acquiring certain participating interests in the Ksar Hadada permit by Independent Resources (Ksar Hadada) Limited from Derwent Resources (Ksar Hadada) Limited and G.A.I.A. srl, companies owned or controlled by G H S Staley and R Bencini, it was agreed that payments that could amount to \$1 million to each company were to be dependent upon drilling and development milestones. As the project continues to move forward, with positive technical data being analysed, it is becoming more likely that some milestones will be reached and payments may therefore fall due to be paid.

The milestones and consideration, for each company, are as follows:

- Drilling consideration due upon spudding the first well of \$50,000;
- Discovery consideration due upon first flowing hydrocarbons to the surface of \$100,000; and
- Commerciality consideration due upon granting of an operating concession of \$850,000.