



**EGDON RESOURCES plc**  
ANNUAL REPORT AND ACCOUNTS  
FOR THE YEAR ENDED 31 JULY 2011

# Oil and Gas Exploration and Production in Onshore UK and Mainland Europe.

Welcome to

# Egdon Resources plc

## Egdon Resources plc an independent onshore focused oil and gas exploration and production business

- An established oil and gas exploration and production company focused on onshore UK and mainland Europe
- A growing business with licences in proven oil and gas producing basins in the UK and France
- A balanced portfolio of production, development, appraisal and exploration projects positioning the Company for future growth
- A proven operator with an experienced and respected management team
- A strong focus on safety, environmental and social responsibility in all aspects of operations

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### Egdon's Strategy

The aim of the Group is to create shareholder value by building a profitable and material full cycle exploration, production and energy business with a focus on onshore operations

The Company will look to increase shareholder value by:

- Growing near-term revenues through investment in production, development and appraisal projects
- A focus on fewer, higher impact exploration opportunities
- Broadening and strengthening the asset and opportunity base of the Group through licence applications, targeted acquisitions and innovative deal making
- Proactively managing the portfolio to maximise returns and manage risk
- Looking to extract shareholder value from emerging non-conventional hydrocarbon plays

## Operational Highlights

- Production up 73% to 46,919 barrels of oil equivalent (2010: 27,056 barrels of oil equivalent).
- Kirkleatham gas field brought on production in April 2011
- Oil discovery made at Markwells Wood-1 to be tested during November 2011
- Drilled successful sidetrack at Keddington oil field
- Portfolio of 29 licences in UK and France as at 31 July 2011 (2010: 34)

## Financial Highlights

- Profit for the year £4.08 million (31 July 2010: £0.24 million).
- Revenues during the period up 90% to £2.38 million (31 July 2010: £1.25 million)
- Exceptional profit on disposal of subsidiary company and assets of £4.3 million (31 July 2010: £0.4 million)
- Basic earnings per share of 3.12p (31 July 2010: 0.29p)
- Equity as at 31 July 2011 of £20.17 million (31 July 2010: £16.03 million)
- Net current assets as at 31 July 2011 of £3.28 million (31 July 2010: £1.49 million)

## Corporate Highlights

- Completed the acquisition of EnCore (E&P) Limited
- Farmed-out shale gas test well in PEDL139 and PEDL140
- Completed the sale of Egdon Resources (New Ventures) Ltd for cash consideration of £4.5 million
- Acquired PEDL180 and PEDL181 from Valhalla Oil and Gas Limited
- Sold a 10% interest in Avington oil field for cash consideration of £400,000

Oil and Gas revenues  
for period up 90%

**£2.38m**

(31 July 2010: £1.25m)

Profit for period  
up 1600%

**£4.08m**

(2010: £0.24m)

Total Licence holdings  
(31 July 2011)

**29**

(31 July 2010: 34)

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# Chairman's Review

Philip Stephens

## Developing a full cycle exploration and production business.



I am pleased to be able to report good progress during the year ended 31 July 2011.

Despite frustrations caused by delays in the start of production at the Kirkleatham and Ceres gas fields, year on year production has grown by 73%. Net production at the end of the period (July 2011) was 420 barrels of oil equivalent per day ("boepd") with Keddington, Avington and Kirkleatham on production. Subsequent to the year end, production has resumed at Ceres. However, with the expected reduced production at Keddington and Kirkleatham as detailed below we now expect average production of around 400 boepd during the current financial year.

### Financial

The Company recorded a profit after tax of £4.08 million for the period (2010: £0.24 million). This includes a profit on disposal of £4.3 million related to the sale of Egdon Resources (New Ventures) Ltd which held some of our French assets and exploration write-downs of £0.89 million. Revenue from oil and gas production during the year was up 90% to £2.38 million (2010: £1.25 million) on production of 46,919 barrels of oil equivalent ("boe") (2010: 27,056 boe). In line with last year the Directors do not currently recommend the payment of a dividend.

Further details of the financial results are given in the Financial Review on page 12 and Financial Statements and notes pages 23 to 54.

### Board Changes

Co-founder of Egdon, Andrew Hindle, stepped down from the Board during the year and I would like to record our gratitude for his significant contribution since 1997. I can also advise that John Rix has informed the Board that he intends to retire as a non-executive Director with effect from the forthcoming AGM and I would again like to record my appreciation for his contribution to the Company.

### Corporate Activity and Portfolio Management

In October 2010 we completed the sale of some of our French interests for £4.5 million in cash to eCORP Oil and Gas UK Limited ("eCORP") and in the same month we completed the acquisition of EnCore (E&P) Limited (now renamed Egdon (E&P) Limited) which holds two permits

in France for a cash consideration of £100,000. In July 2011 we agreed the sale of a combined 10% interest in PEDL070 which contains the Avington oil field, for a cash consideration of £400,000.

We have continued to rationalise and develop our licence holdings as part of our wider strategy. During the year we relinquished seven UK licences as they did not meet our technical and commercial thresholds or had come to the end of their current terms. During June 2011 we completed the acquisition and normalisation of interests in two East Midlands licences from Valhalla Oil and Gas UK Limited, assuming operatorship of one of them. We have also farmed-out interests in the Gainsborough Trough to eCORP and we expect a shale-gas exploration well to be drilled there during 2012.

As at 31 July 2011 Egdon holds interests in 29 licences in the UK and France and is awaiting the award of two further licences in the UK and one in France, including one containing a potentially significant near-shore gas discovery.

### Production

In spite of disruptions caused by the severe winter in December, production shutdowns due to drilling at Keddington and the delays in production at Kirkleatham and Ceres, we achieved a 73% increase in production volumes peaking in July 2011 at 420 boepd.

Keddington, which we originally purchased for just £250,000 continues to perform well. The field produces oil and significant quantities of associated gas from two wells, Keddington-3Z and Keddington-4, which was successfully drilled during April 2011. A decision has been made to constrain overall field production in the short-term to around 125-135 barrels of oil per day ("bopd") (Net Egdon c. 100 bopd) to conserve the significant volumes of associated gas which is currently being flared until a longer term commercial solution can be found to enable electricity generation or gas export.

Following a number of operational delays, the Kirkleatham gas field achieved first production on 19 April 2011. The well has produced gas at rates of up to 5 million cubic feet of gas per day ("mmcf/d") but this has been gradually reduced to manage reservoir pressure, match power output from the Sembcorp owned gas turbine and maximise recovery. In recent months the well has started to produce some associated formation water. The well is currently shut-in awaiting intervention to remove accumulated water from the tubing. On resumption of production it is planned that the well will produce between 1.5 and 2.0 mmcf/d (Net Egdon 0.6 to 0.8 mmcf/d or 100 to 133 boepd) to manage reservoir pressure and maximise recovery.

The Ceres gas field (in which Egdon holds a 10% interest) was shut-in for all but seven days of production during the year due to the maintenance of the BP Cleeton platform through which gas is delivered to shore. Following a further maintenance shut-down during July and August 2011 gas production finally resumed on 17 September 2011. We have experienced some additional issues and production downtime during October which now appear to be resolved. Long-term net Egdon production is expected to be around 1.2 mmcf/d (200 boepd).

Avington, where Egdon now holds a 26.67% interest, has continued to produce in line with expectations during the year (Net Egdon c. 20 bopd).

Planning consent has been received for production at Dukes Wood-1 and we anticipate production from the combined Dukes Wood/Eakring/Kirklington production unit early in 2012 (Net Egdon 25 bopd).

With the expected reduced production from Kirkleatham and short-term scaling back of flows at Keddington we now expect production to be around 400 bopd for the coming year from existing fields.

### Exploration and Appraisal

The Best Estimate of our Prospective Resources as at 31 July 2011 in the UK and France is 248 million barrels of oil equivalent ("mmboe") which highlights significant potential for growth through exploration for Egdon. We plan an active exploration and appraisal drilling programme in the coming years to evaluate the best of these prospects. Further details of our UK and French drilling plans are set out in the Operational Review which follows this statement.

During the period Egdon participated in the Markwells Wood-1 oil discovery drilled in West Sussex which is currently being prepared for testing.

Seismic data has been acquired over the Burton on the Wolds prospect and further seismic acquisition is planned for later in 2011 over the prospective Broughton-Wressle trend.

Following award of planning consent we anticipate a re-entry of the Nooks Farm-1 gas discovery during the coming

period. We were disappointed by the refusal of planning for the Holmwood prospect and expect to appeal this decision. We are currently identifying suitable drilling sites and developing a number of planning applications for the 2012 drilling programme.

An extended well test ("EWT") is underway at the Waddock Cross oil accumulation and we expect to be able to report the results and a decision on future development early in 2012.

France remains a focus for Egdon although a new law in France banning hydraulic fracturing has effectively curtailed near-term oil-shale and shale-gas development in the country. The planned well in the Mairy Permit is not now expected until 2012. Elsewhere in France we continue to progress exploration and expect to acquire seismic during early 2012 in Pontenx and St Laurent with drilling possible in Pontenx late in 2012.

We also expect to be an active participant in the UK's long awaited 14th Landward Licensing Round and are awaiting a potential award in the 26th Offshore Round.

### Outlook

Our strategy remains the same. We aim to develop a full cycle onshore exploration and production business, with the growing revenue stream from oil and gas production being reinvested to facilitate growth in the underlying asset value of the business.

Whilst we have achieved good progress in the last year, the reduced production levels from Kirkleatham will result in a reduction in our expected production target from 500 boepd to around 400 boepd during the coming year from existing fields.

We have managed our cash position carefully and forecast positive cash flow during the coming year. This will enable us to embark on a more active exploration programme during 2012.

Whilst our primary focus will be a multi-well programme in the East Midlands where we are testing net Egdon resource potential of 15 mmbo in five prospects, in total we are planning to participate in up to 12 wells over the next 18 months targeting 33 mmboe (Net Egdon Prospective Resources).

We will continue to look to build shareholder value by strengthening the quality of our asset portfolio, the active drilling programme highlighted above and looking to realise value from assets at the appropriate time.

We have a small team of dedicated staff and on behalf of the Board I would like to thank them for their continuing efforts during the year.


### Philip Stephens

Non-Executive Chairman  
4 November 2011

# Managing Director's Operational Review

Mark Abbott

## The next 18 months could see Egdon participating in up to 12 wells.

 For a summary of the Group's licences please go to [page 7](#) →



During the period the Group has maintained a clear geographical focus on onshore operations in the UK and France and made further progress in increasing production and revenues and developing our near-term exploration opportunities to drive future growth.

A key objective for the past year has been getting the Kirkleatham and Ceres gas fields into production. First gas at Kirkleatham was achieved in April 2011 and Ceres returned to production in September 2011. Both projects were subject to delays in start-up which has had a significant impact on Egdon's production for the period. However, we were still able to report a 73% year on year production increase and during July 2011 we produced 420 boepd.

The last year has seen significant changes to our asset portfolio including the sale of one of our French subsidiaries, acquisitions in the UK and France and UK relinquishments with Egdon now holding interests in a total of 29 licences and awaiting the award of three further licences, including one in the UK 26th Offshore licensing round containing a potentially significant near-shore gas discovery.

### UK

In the UK, as part of a strategy of rationalising and improving our portfolio we have relinquished seven licences during the year (PEDLs 069, 071, 098, 138, 142, 144 and 154), whilst acquiring two new licence interests via the acquisition of PEDLs 180 and 181 from Valhalla. This has resulted in an overall reduction in Best Estimate Prospective Resources from 288 million barrels of oil equivalent (mmboe) in 2010 to 248 mmboe in 2011.

In the last year we participated in the drilling of an oil discovery at Markwells Wood-1 a successful sidetrack at Keddington and two coal bed methane ("CBM") investigation wells which maintained our Gainsborough Trough shale gas licences (PEDLs 139 and 140) where a deep well is planned for late 2012 with Egdon's costs carried. The non-operated Nooks Farm re-entry and Havant exploration wells which had been anticipated during the period are delayed and are now expected during 2012.

We anticipate participating in the drilling of up to 12 wells in the UK in the next 18 months targeting net Egdon Best Estimate Prospective Resources of 33 mmboe, as our activity levels ramp-up on the back of the anticipated increased revenues.

There have been continuing delays to the announcement of the UK 14th Landward Licensing Round where Egdon expects to be a participant.

Whilst we will continue to be active across our portfolio and the key activity and prospectivity of each licence is summarised on pages 7 to 9, the Group will have two main focuses of activity in the UK during the next 18 months; oil in the East Midlands and gas in North East England.

### Developing oil prospects and growing production in the East Midlands

The Keddington-4 well, drilled in April 2011, encountered 120 metres of the main Unit 1 reservoir and had stabilised production of around 75 bopd. The **Keddington Oil Field** produces dry oil and associated gas from two wells (Keddington-4 and Keddington-3Z). We have recently taken a decision to limit near-term production at Keddington to 125 to 135 bopd (Net Egdon c. 100 bopd) to reduce the associated flared gas volumes until we have electricity generating capacity in place. The key issue being addressed is the cost and location of the connection to the local electricity grid. We hope to finalise these plans to add a new income stream and enable a return to higher oil production. The results of the Keddington-4 well are being integrated into a field model to determine the ultimate field reserves and forward development plan with additional drilling being considered. We currently carry 0.3 million barrels of oil ("mmbo") of Proven and Probable Reserves along with around 0.7 billion cubic feet ("bcf") of gas. Elsewhere in this licence the **North Somercotes Prospect** to the north of the Saltfleetby Gas Field is mapped from 3D seismic data as containing Net Egdon Best Estimate Prospective Resources of 7.26 bcf of gas.

We expect to put the **Dukes Wood** and **Kirklington** wells back in production in 2012 and are evaluating additional drilling locations in areas of the field not previously produced including the **Eakring North Lead**. We anticipate initial combined production of around 40 bopd (Net Egdon 25 bopd).

In addition to these East Midland oil fields, Egdon has developed a significant exploration position in the region over recent years and has plans for drilling at a number of locations in the next 18 months.

The **Louth Prospect**, which is defined by 3D seismic data and located immediately adjacent to Keddington, is mapped as containing 1.25 mmbo Net Egdon Best Estimate Prospective Resources and is a priority well for the Company.

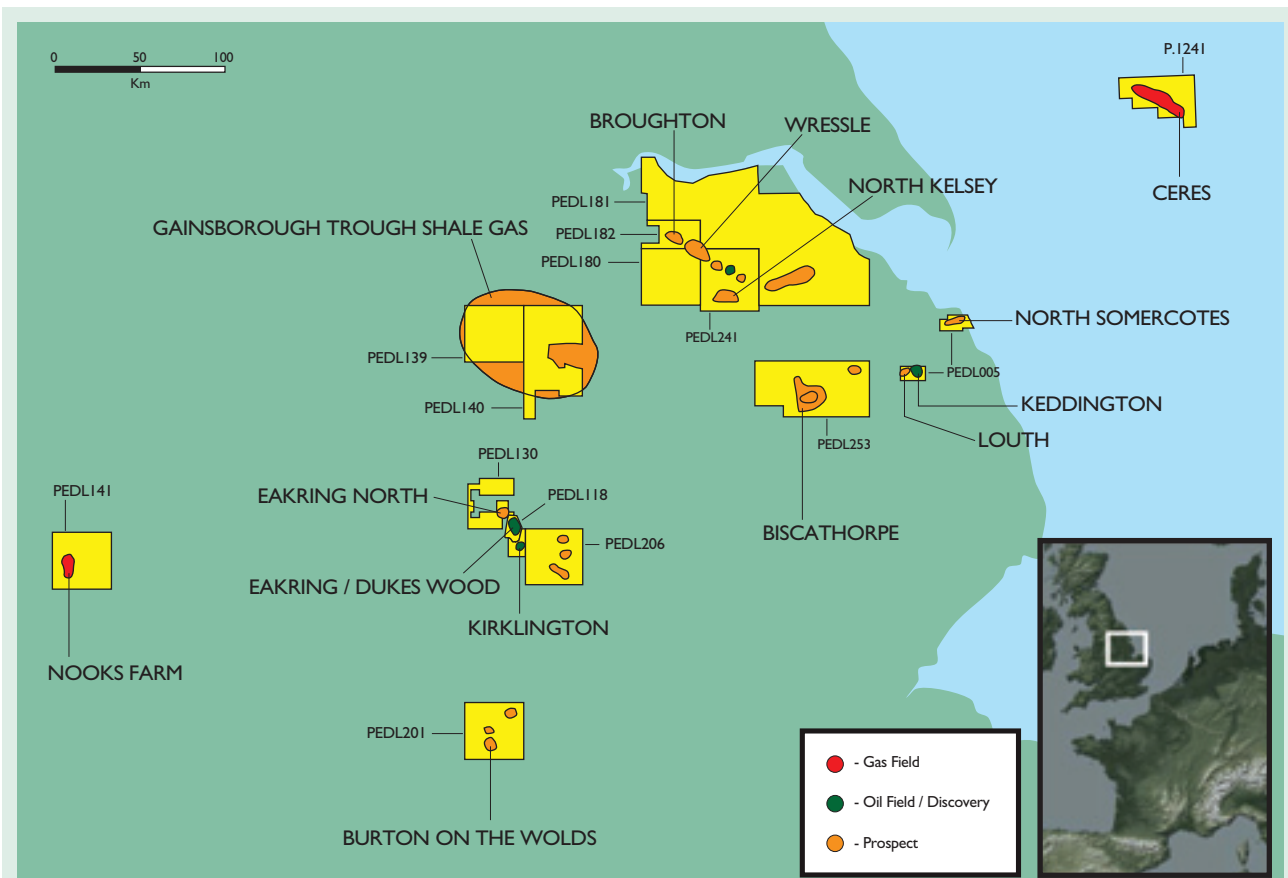
The **Biscathorpe Prospect** is located approximately 15 kilometres to the west of Keddington. Oil was discovered but not tested in a thin sand (1 metre) in the Biscathorpe-1 well drilled by BP in 1987. The sands are predicted to thicken off the crest of the structure and there is also potential for stratigraphic trapping which could increase the Expected Prospective Reserves from a Net Egdon Best Estimate case of 8.47 mmbo up to 25 mmbo in the upside case.

North Kelsey, Wressle and Broughton lie along an oil bearing trend to the south-east of Scunthorpe with the Crosby Warren Oil field at one end and the Brigg oil discovery at the other. The **Broughton Prospect** is located immediately

up-dip of the Broughton-B1 well which was drilled by BP in 1984 and tested oil at rates of up to 40 bopd prior to being plugged and abandoned. The prospect is mapped as having Net Egdon Best Estimate Prospective Resources of 1 mmbo. The nearby **Wressle Prospect** has Net Egdon Best Estimate Prospective Resources of 1.3 mmbo. A 49 square kilometres 3D seismic survey is planned over the Broughton and Wressle prospects later in 2011 to define the bottom-hole locations for one or more exploration wells. A drilling decision at the 3D defined **North Kelsey Prospect** (Net Egdon Best Estimate Prospective Resources 3.14 mmbo) will be made during 2012.

The **Burton on the Wolds Prospect** is located on the southern margin of the Widmerpool Gulf in Leicestershire. A 2D seismic survey in May 2011 has enabled a shallow prospect to be mapped with preliminary Net Egdon Best Estimate Prospective Resources potential of 0.5 mmbo.

Landowner negotiations and the planning process are progressing on all these locations with a view to commencing a four to five well drilling programme by mid-2012.



Egdon's East Midlands Licences and Prospects

# Managing Director's Operational Review

## (continued)

### Exploiting Gas in Northern England and Offshore

Egdon has a core area for gas production and exploration in North-East England where the reservoir objectives are sandstones or limestones of Permian age. In Egdon's only offshore licence, P.1241, offshore North Yorkshire, where we have a 10% interest, gas production resumed in September 2011 following a major programme of repairs to a BP platform during 2010-11 and has continued through October with further production interruptions. This delay has been highly frustrating but we now anticipate that the **Ceres Gas Field** will begin to contribute the expected stable net Egdon production of 1.2 mmcf/d (200 boepd) in the coming year (Net Egdon Proven and Probable Reserves of 3.7 bcf with Best Estimate Prospective Resources of 1.7 bcf).

The **Kirkleatham Gas Field** in PEDL068 where the Company has a 40% interest has been on production since April 2011. The Kirkleatham-4 well appears to be connected to a limited volume of highly permeable rock being fed by a larger volume of lower permeability rock. To manage this type of reservoir behaviour and to match reduced output from the GT2 gas turbine we have reduced overall flow rates. Water production has been increasing in recent months. The well is currently shut-in awaiting intervention to remove accumulated water from the tubing. It is planned to produce the well at between 1.5 and 2.0 mmcf/d (Net Egdon 0.6 to 0.8 mmcf/d or 100 to 133 boepd). Our pre-production estimate of Proven Reserves was 0.8 bcf (Net Egdon) and we will be able to provide an update on ultimate expected field reserves once we have further production and pressure data.

Elsewhere in PEDL068 we are making good progress in submitting a planning application for drilling of the **Ralph Cross/Westerdale** gas discovery where we map Net Egdon Best Estimate Prospective Resources of 6.2 bcf. A well is planned for late 2012 conditional upon gaining planning consent.

Egdon is awaiting a decision on the award of a licence in the UK 26th Offshore Round which with others has been subject to a further round of environmental scrutiny and which contains a potentially significant near-shore gas discovery. If successful with an award, this would become a priority project for Egdon with plans to appraise and hopefully develop the discovery from an onshore location.

### France

The period saw a significant restructuring of Egdon's portfolio in France, with the sale of Egdon Resources (New Ventures) Ltd to eCORP and completion of the acquisition of EnCore's French subsidiary. Egdon now holds interests in four onshore licences, is awaiting the award of a fifth and has back-in options on two permits and a pending application. The French Parliament passed a law in May 2011 banning the use of hydraulic fracturing and requiring

all licence holders to submit details of their proposed work programmes for review with the possibility of cancellation of those permits which did not meet the requirements of the legislation. The short-term effect on Egdon of the ban should be minimal as our primary focus remains exploration for conventional reservoir targets. However, although we have received confirmation that all the Group's French licences remain in force following the review, the resultant regulatory delays have impacted on the timing of activity (e.g. drilling of the Mairy well), and the award of the Donzacq Permit.

In addition to potential drilling on the Mairy Permit the key focus of activity for Egdon in the next 18 months will be on the St Laurent and Pontenx Permits.

The high impact **Audignon Prospect** within the St Laurent Licence area (Net Egdon Best Estimate Prospective Resources of 896 bcf) is a large sub-salt Triassic sandstone prospect. The current work programme includes pre-stack depth migration of existing 2D data and new seismic acquisition planned for early 2012 with a view to drilling prior to the end of the permit in 2013. A farm-in partner will be sought for the drilling of this "company making" sized prospect. We also anticipate award of the adjacent Donzacq Permit which contains a possible western extension of Audignon and also the adjacent **Bastennes-Gaujac Prospect** (Net Egdon Best Estimate Prospective Resources of c. 300 bcf).

Recent technical work has highlighted a number of prospective areas in the **Pontenx Permit** including the **Mimizan Nord** abandoned heavy oil field which produced a total of 3.5 mmbo and three other undeveloped oil discoveries such as the **Pontenx Prospect**. Additional seismic and geological evaluation will inform a decision on new seismic acquisition and drilling which are planned in 2012.

### Outlook

In the last year we have carefully managed a restructuring of our asset holdings and despite delays we have established a sound production base to fund future activity. The next 18 months could see Egdon participating in up to 12 wells and three seismic programmes across our UK and French portfolios targeting 33 mmboe (Net Egdon Prospective Resources). This should be an exciting time for the company as we look to test many of the prospects developed over recent years and look to increase the reserves base production levels and value of the Group.

### Mark Abbott

Managing Director  
4 November 2011



# UK Licences in Summary

## PL090 Waddock Cross

### (45% Egdon Operated Interest)

- Located in Dorset in the Wessex Basin
- Waddock Cross - Bridport Sandstone (Jurassic) oil discovery with in excess of 20 mmbo in place, and Proven and Probable Reserves of 0.6 mmbo (Net Egdon)
- Extended well test currently ongoing to determine field commerciality - results in early 2012
- Significant Sherwood Sandstone oil prospects at Winfrith (1.9 mmbo Net Egdon Best Estimate Prospective Resources) and elsewhere (see PEDL237)

## PEDL005 (Remainder) Keddington

### (75% Egdon Operated Interest)

- Located in Lincolnshire in the East Midlands petroleum province
- Contains the Keddington oil field which produces from carboniferous sandstone reservoir at a depth of 2,200 metres
- Keddington-4 sidetrack drilled in April 2011 - stable production of 75 bopd and 200,000 cubic feet of gas per day
- Keddington-3 free-flowing production well constrained by ability to utilise associated gas
- Plans for gas to electricity project
- 2P Field reserves currently estimated at 0.3 mmbo
- Louth Prospect - 3D defined prospect contiguous with Keddington - c. 1.25 mmbo Net Egdon Best Estimate Prospective Resources
- North Somercotes Prospect - 3D defined gas prospect to the north of the Saltfleetby gas field - c. 7.26 bcf Net Egdon Prospective Resources

## PEDL068 Kirkleatham and Westerdale

### (40% Egdon Operated Interest)

- Located in North Yorkshire and Cleveland in the Cleveland Basin
- Permian age carbonate gas plays
- Kirkleatham producing gas field - first production April 2011
- Current production of 1.5 to 2.0 mmcf/d - Net Egdon Proven Reserves of 0.8 bcf
- Westerdale/Ralph Cross gas discovery in Brotherton formation - Net Egdon Best Estimate Prospective Resources of 6.2 bcf. Late 2012 well planned conditional upon planning

## PEDL070 Avington

### (26.67% Egdon Interest)

- Located in the Weald Basin of Hampshire
- Avington - Great Oolite (Jurassic) oil field with two producing wells - Net Egdon production of c. 20 bopd
- Net Egdon Proven and Probable Reserves of 120,000 bbls
- Recently sold 10% interest in field for £400,000

## PEDL118 Dukes Wood

### (65% Egdon Operated Interest)

- Located in Nottinghamshire in the East Midlands Petroleum Province
- Single well producing field Dukes Wood-1 - 20 bopd - currently shut-in
- To be produced as part of Dukes Wood/Eakring/Kirklington production unit in early 2012

## PEDL125 Hedge End

### (10% Egdon Interest)

- Located in the Weald Basin of Hampshire
- Great Oolite Prospect tested by 1988 Hedge End-1 oil discovery - 330,000 bbls Net Egdon Best Estimate Prospective Resources - Operator trying to secure a suitable site and planning

## PEDL126 Markwells Wood

### (10% Egdon Interest)

- Located in West Sussex in the Weald Basin
- Oil discovered in the Great Oolite
- Pre-drill Net Egdon Best Estimate Prospective Resource of 320,000 bbls
- To be tested in November 2011

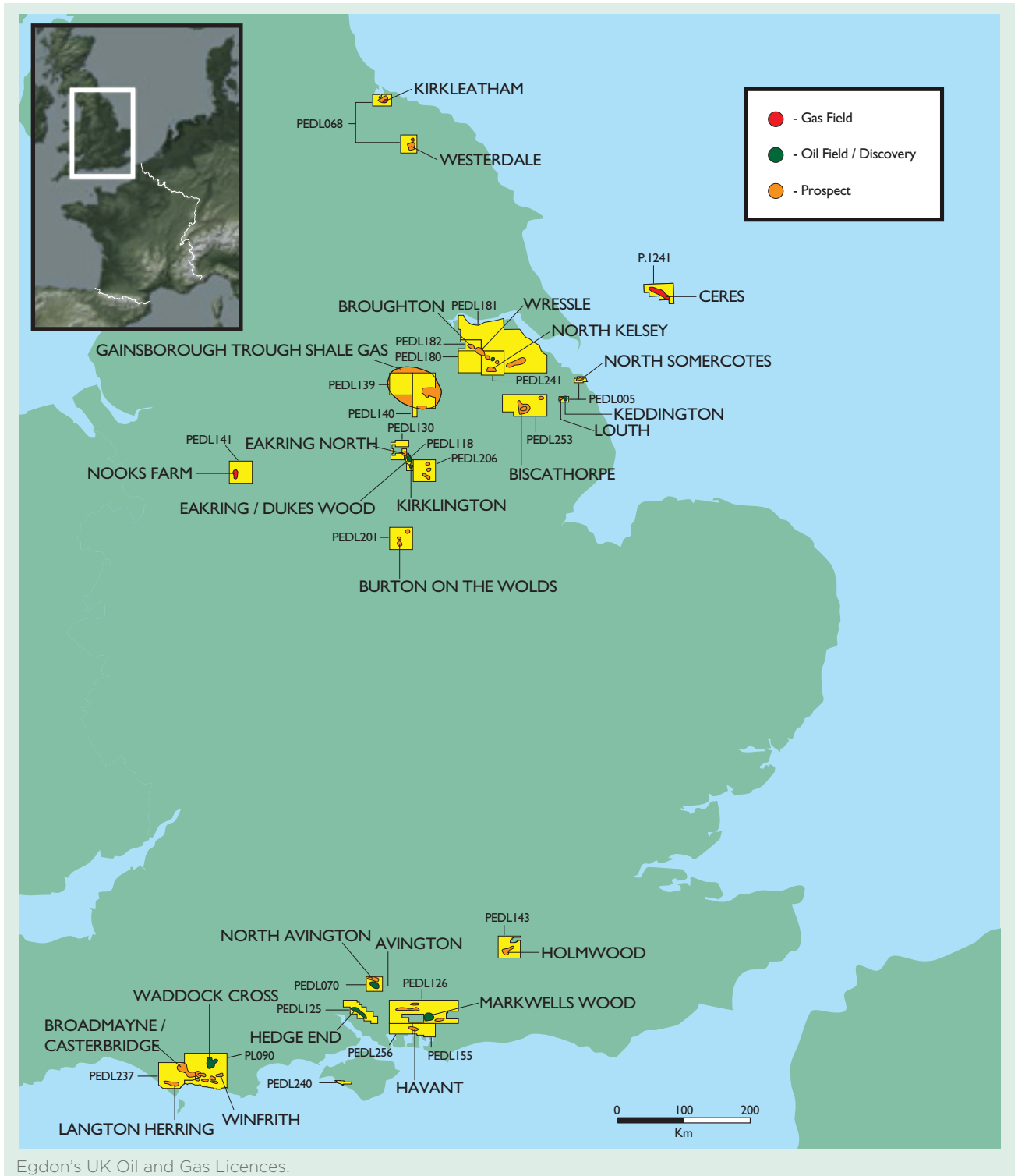
## PEDL130 Eakring West

### (100% Egdon Operated Interest)

- Located in Nottinghamshire in the East Midlands petroleum province
- Egdon holds 100% of the conventional exploration rights
- Exploration for oil on the flanks of the Eakring-Dukes Wood oil field

# UK Licences in Summary

(continued)



Egdon's UK Oil and Gas Licences.

## PEDL139/PEDL140

(13.5% Egdon Interest; 10% interest in coal bed methane)

- Located in Nottinghamshire/Lincolnshire in the East Midlands petroleum province
- Significant Namurian "Bowland Shale" shale-gas potential identified - 2012 exploration well planned - costs carried
- Coal Bed Methane potential in permit

## PEDL141 Nooks Farm

(46% Egdon Interest)

- Nooks farm-1A gas discovery made by Shell in Staffordshire in 1982
- Planning consent received for re-entry of original well - development plan = gas to electricity generation
- Operatorship transferred to Seven Star Natural Gas Limited (Alkane Energy plc)
- Net Egdon Best Estimate Contingent Resources of 1 bcf

**PEDL143 Holmwood****(38.4% Egdon Interest)**

- Located in Surrey in the Weald Basin
- Holmwood prospect - Jurassic carbonate and sandstone prospect (Net Egdon Best Estimate Prospective Resources of 16.6 bcf)
- Planning permission for exploration well refused - being appealed
- Assuming successful planning appeal could be 2012-13 well

**PEDL155/256 Havant****(10%/7.5% Egdon Interest)**

- Located in Hampshire in the Weald Basin
- Great Oolite Prospect - 160,000 bbls Net Egdon Best Estimate Prospective Resources - possible 2012 well

**PEDL180 Wressle****(33.33% Egdon Operated Interest)**

- Located in Lincolnshire in the East Midlands petroleum province
- Located between Crosby Warren, Broughton-B1 and Brigg-1 oil wells - Net Egdon Best Estimate Prospective Resources of 1.3 mmbo
- 3D seismic programme in Q4 2011 and drilling planned in 2012

**PEDL181 Humber Basin****(25% Egdon Interest)**

- Located in Lincolnshire and Humberside in the Humber Basin
- Underexplored basin with identified leads requiring additional technical evaluation

**PEDL182 Broughton****(33.33% Egdon Operated Interest)**

- Located in Lincolnshire in the East Midlands petroleum province
- Potential identified up-dip of 1984 well which produced at 40 bopd - Net Egdon Best Estimate Prospective Resources of 1 mmbo
- 3D seismic programme in Q4 2011 and possible drilling in 2012

**PEDL201 Widmerpool****(50% Egdon Operated Interest)**

- Located in Nottinghamshire and Leicestershire in the East Midlands petroleum province
- Burton on the Wolds Prospect - Potential 2012/13 well - Net Egdon Best Estimate Prospective Resources of 0.5 mmbo

**PEDL203 Kirklington****(65% Egdon Operated Interest)**

- Located in Nottinghamshire in the East Midlands petroleum province
- Single well producing field Kirklington-3z - 20 bopd - currently shut-in
- To be produced as part of Dukes Wood/Eakring/Kirklington production unit

**PEDL206 Kelham****(75% Egdon Operated Interest)**

- Located in Nottinghamshire in the East Midlands petroleum province
- Small low risk prospects identified on the flank of abandoned Kelham Hills oil field

**PEDL237 Weymouth****(45% Egdon Operated Interest)**

- Located in Dorset in the Wessex Basin
- Significant Sherwood Sandstone Prospects identified - 31.5 mmbo combined Net Egdon Best Estimate Prospective Resources
- Langton Herring Bridport Sandstone Lead - 3 mmbo Net Egdon Best Estimate Prospective Resources

**PEDL240 Isle of Wight****(7.5% Egdon Interest)**

- Located on the Isle of Wight in the Wessex Basin
- A Jurassic and Triassic prospect has been identified - M prospect

**PEDL241 North Kelsey****(50% Egdon Operated Interest)**

- Located in Lincolnshire in the East Midlands petroleum province
- 3D defined oil prospect with Net Egdon Best Estimate Prospective Resource potential of 3.14 mmbo

**PEDL253 Biscathorpe****(60% Egdon Operated Interest)**

- Located in Lincolnshire in the East Midlands petroleum province
- Oil discovered by BP in 1987 in a thin sand on a large 3D defined regional structure
- Net Egdon Best Estimate Prospective Resources of 8.47 mmbo, High Estimate of 25 mmbo where stratigraphic trapping works
- Egdon may look to farm-out interest prior to drilling which is planned for 2012

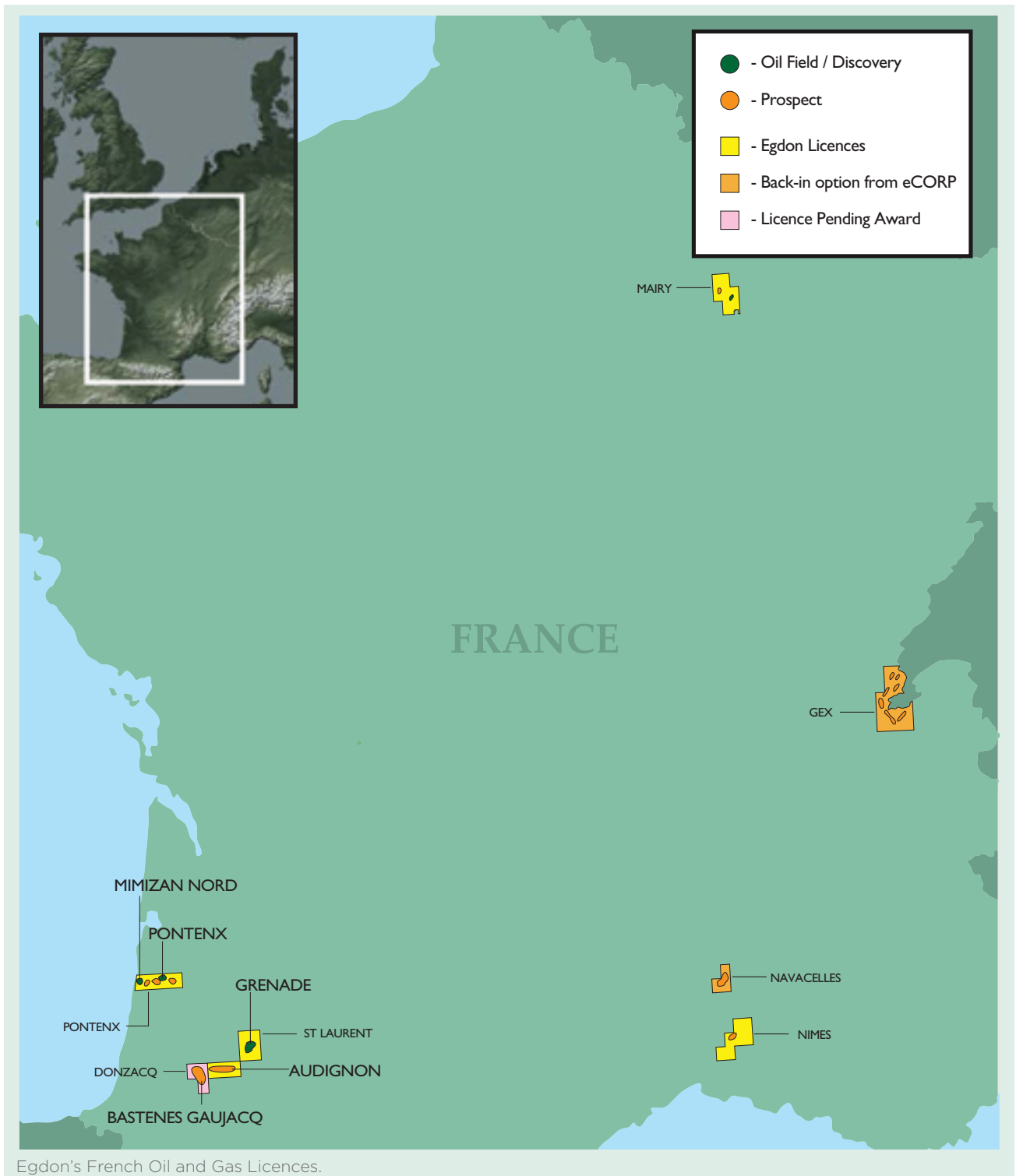
**P.1241 Block 47/9C Ceres****(10% Egdon Interest)**

- Located offshore Yorkshire in the Southern Gas Basin
- Lower Permian Leman Sandstone reservoir gas field
- Production resumed in September 2011
- Expected production of 1.2 mmscfd Net Egdon during 2011-12
- Net Egdon 2P reserves of 3.7 bcf and Best Estimate Prospective Resources of 1.7 bcf

**26th Round**

- Pending award of 26th Round Licence (Egdon 100%)
- Contains significant gas discovery

# French Licences in Summary



## St Laurent

(33.423% Egdon Operated Interest)

- Located in the Aquitaine Basin of South-West France
- Contains multi-TCF Audignon gas prospect (896 bcf Net Egdon Best Estimate Prospective Resources)
- Seeking to farm-out to de-risk prospect ahead of drilling
- Seismic acquisition planned for 2012
- Contains the Grenade heavy oil accumulation – Net Egdon 2.06 mmbo Best Estimate Contingent Resources

## Pontenx

(40% Egdon Operated Interest)

- Located in the Parentis Basin South-West France to the south of the Parentis Oil Field, the largest in France
- Contains the abandoned Mimizan Nord field which produced 3.5 mmbls of 12 API oil
- Three additional undeveloped oil discoveries identified in Cretaceous age carbonate sequences
- Seismic and drilling planned for 2012

**Mairy****(50% Egdon Interest)**

- Located in the Paris Basin of Northern France
- Contains Triassic age oil prospects including Le Petit Pierere which produced oil from the Rhaetic sandstone reservoir
- Contains non-conventional oil-shale potential in Jurassic age (Lower Liassic) shales
- Exploration well now planned for 2012

**Nimes****(100% Egdon Operated Interest)**

- Located in the South-East basin of Southern France
- Potential for conventional oil and gas prospects in Tertiary and Cretaceous plays
- Permit evaluation ongoing

**Donzacq Application****(33.423% Egdon Operated Interest)**

- Located in the Aquitaine Basin of South-West France adjacent to St Laurent
- Awaiting award
- Contains the Bastennes-Gaujacq Prospect (c. 300 bcf Net Egdon Best Estimate Prospective Resources)

**Gex, Navacelles and Gex Sud Application Options****(eCORP Operated)**

- Egdon has back in options of 6% (Gex and Gex Sud Application) and 9% (Navacelles)
- Egdon contracted to undertake exploration work on behalf of eCORP
- Gex contains Triassic and Jurassic conventional reservoir targets
- Gravity survey completed over main prospects
- Navacelles contains Cretaceous and Jurassic carbonate prospects
- Gravity survey over permit planned for 2011
- 2D seismic programme planned for 2012
- Drilling expected 2012-13 on Gex and Navacelles
- Gex Sud (awaiting award) contains Triassic and Jurassic conventional reservoir targets

# Oil and Gas Reserves and Resources Estimates

Class of Reserve/Resource	Proven	Proven + Probable	Proven + Probable + Possible	Units	Field/Prospect Name
<b>Net Oil Reserves</b>	0.62	<b>1.01</b>	1.60	MMstb	Keddington, Avington, Waddock Cross
	Low Estimate	<b>Best Estimate</b>	High Estimate		
<b>Net Oil Contingent Resources</b>	1.07	<b>3.08</b>	5.76	MMstb	Grenade, Broughton, Eakring/Dukes-Wood/Kirklington
<b>Net Oil Prospective Resources</b>	29.49	<b>80.40</b>	155.56	MMstb	Other blocks
<b>Total Oil</b>	31.18	<b>84.49</b>	162.92	MMstb	

Class of Reserve/Resource	Proven	Proven + Probable	Proven + Probable + Possible	Units	Field/Prospect Name
<b>Net Gas Reserves</b>	3.30	<b>6.71</b>	11.06	Bscf	Kirkleatham, Ceres, Keddington
	Low Estimate	<b>Best Estimate</b>	High Estimate		
<b>Net Gas Contingent Resources</b>	3.21	<b>7.36</b>	13.13	Bscf	Nooks Farm, Keddington Namurian
<b>Net Gas Prospective Resources</b>	298.29	<b>1,008.45</b>	2,275.13	Bscf	Audignon, North Somercotes, Westerdale, etc.
<b>Total Gas</b>	304.8	<b>1,022.52</b>	2,299.32	Bscf	
<b>Total boe</b>	81.974	<b>254.916</b>	546.137	Mmboe	

Note: All resource numbers are Company estimates

# Financial Review

Ken Ratcliff

**Group revenue from oil and gas was up 90% to £2.38 million.**

 For the detailed financial statements please go to **page 23** →



## Results

The Group recorded a profit after tax of £4.08 million for the period (2010: £0.24 million). This includes a profit on disposal of £4.3 million related to the sale of Egdon Resources (New Ventures) Ltd. to eCORP.

Revenue from oil and gas production during the year was up 90% to £2.38 million (2010: £1.25 million).

Adjusted operating profit, which is defined as Gross Profit, excluding the cost of exploration write offs, impairments and pre-licence expenditure, less administrative expenses, plus other operating income, was £710,020 (2010: loss of £61,007). This is primarily as a result of an improvement in the Gross Profit margin, excluding exploration write offs and pre-licence costs, to 49% (2010: 34%).

Earnings per share for the period were 3.12p (2010: 0.29p).

Exploration costs written off, impairments and pre-licence costs of £890,699 (2010: £64,786) include impairments recognised in respect of two producing assets totalling £230,000 (2010: nil) and write offs in respect of seven relinquished licences totalling £586,063 (2010: £nil).

During the year, the Group acquired EnCore (E&P) Limited for cash consideration of £100,000.

The sale of a 10% interest in PEDL070 containing the Avington oil field which was agreed in July 2011 has resulted in a small loss on disposal. This sale has an economic transfer date of 1 June 2011.

## Taxation

No taxation charge arises on the result for the year.

The Group has been advised that no taxation liability should arise out of the sale of Egdon Resources (New Ventures) Ltd owing to the availability of the Substantial Shareholders Exemption.

The changes to oil and gas taxation announced in the April 2011 budget are not expected to have a significant impact on the Group as all but the Keddington oil field will continue to benefit from the Field Allowance for small fields.

## Statement of Financial Position

As at 31 July 2011 the Group had Net Assets of £20.17 million (2010: £16.03 million). This comprises of the Group's investments in intangible exploration and appraisal assets of £7.10 million (2010: £7.03 million), Property, Plant and Equipment (our producing assets) of £10.72 million (2010: £8.42 million), net current assets of £3.28 million (2010: £1.49 million) and non-current liabilities of £0.94 million (2010: £0.92 million).

The Group currently has debt of £1 million (31 July 2010: Nil). This attracts interest of 10% per annum and is repayable by 28 July 2012. It is intended to repay the loan out of cash flow and this has been modelled in our going concern considerations.

## Development & Production Assets

During the year the Kirkleatham gas field was brought into production and costs of £2,610,136 were transferred from exploration and evaluation costs to development and production assets.

The above Avington interest sale resulted in the disposal of exploration and evaluation assets with a net book value of £447,256, the release of a proportion of the decommissioning provision amounting to £18,823 and the partial release of the provision to make payments under a Net Profit Interest agreement of £22,742 resulting in a loss of £5,692.

## Key Performance Indicators

The Board considers both financial and non-financial Key Performance Indicators (“KPI’s”) in measuring the performance of the business as summarised in the table below.

KPIs	y/e 31 July 2011	y/e 31 July 2010	Change
Revenue	£2.38 million	£1.25 million	+ 90% ↑
Total comprehensive income (net profit)	£4.08 million	£0.24 million	+ 1600% ↑
Net current assets	£3.28 million	£1.49 million	+220% ↑
Equity	£20.17 million	£16.03 million	+ 26% ↑
Production Volumes	46,919 boe	27,056 boe	+ 73% ↑
No of Licences	29	34	- 15% ↓
Reserves and Resources (most likely)	255 mmboe	295 mmboe	- 14% ↓
Reportable Health and Safety Incidents	0	0	0%

## Receivables

Receivables have increased to £2,258,276 (2010: £1,038,896). Trade receivables have increased by £1,097,405 to £1,604,317 reflecting the significant increase in revenues during the year and, in particular, the volume of gas sold at Kirkleatham prior to the year end.

The increase of £289,851 in other receivables reflects proceeds of £400,000 due in respect of the Avington interest sale and the inclusion in the prior year of amounts paid in respect of the acquisition of EnCore (E&P) Limited (which completed within the current year). The reduction in prepayments to £92,720 (2010: £185,402) is primarily due to the inclusion in the prior year of prepaid costs relating to the disposal of Egdon Resources (New Ventures) Ltd. to eCORP and the timing of licence fee renewal payments.

## Payables

Payables have increased to £2,725,717 (2010: £1,639,667) following the draw down of the EnCore and Carbon Trust loans. Further details are shown in note 25.

## Cash Flow

The Group ended the year with £3.69 million of cash and cash equivalents (2010: £2.03 million). Cash and cash equivalents include restricted cash of £296,027 (2010: £295,527).

In line with last year the Directors do not currently recommend the payment of a dividend.

## Risk Management

Like all exploration and production businesses the Group is exposed to a range of technical, geological, operational, political, environmental, health and safety and financial risks in the conduct of its operations. The Group seeks to manage and mitigate these risks through maintaining a spread of exploration and production interests, through compliance with the terms of its licences, through adopting policies appropriate to the Group’s size and by the use of skilled personnel.

The table below sets out the principal risk factors that may affect the Group’s business, their potential impact and mitigation strategies developed. Risks are grouped into four main categories: strategic; financial; operational; and external. Such risk factors are not intended to be presented in any assumed order of priority. The risks as set out are not exhaustive and additional risks and uncertainties, not presently identified or considered material by the Group, may arise or become material in the future. Any of the risks and uncertainties could have a material adverse impact on the business and all are continuously monitored. The Board considers and highlights those risks which could have the most significant impact on the Groups business during a specific period and devotes the most attention to mitigating these. In the year under review, four particular areas have been the focus of our attention:-

## Financial Review (continued)

A key risk is the operational, financial and reputational risk associated with a Health, Safety or Environmental incident in any of the Group's operations. Egdon employs a full-time HSE Manager and operates using best-practice in all of its operations. The Group also maintains appropriate levels of insurance for all of its operations to ensure adequate cover in the case of any incident.

Commodity price fluctuations have an impact on revenues and forward investment decisions as they affect project economics. The Group does not currently hedge any production due to the limited number of producing assets/wells and low level of debt within the Group. We carefully monitor the forward commodity prices and review our projects using a range of commodity prices and continue to keep the use of hedging under review.

As the Group has become involved in field development (e.g. Kirkleatham) it has become more exposed to risks associated with project delays and cost overruns. In addition as production and revenues have increased and the Group's reliance on cash flow for future work programme has increased the performance of assets has become a more material risk.

Regulatory changes in both the UK and France have had an impact on the business during the year. In the UK there were changes to the fiscal regime with the introduction of an increased Supplementary Tax on oil company profits in the April 2011 budget. In France a law has been passed during the year banning the use of "hydraulic fracturing" in the country.

### Strategic risk

#### Ineffective or poorly executed strategy fails to create shareholder value

Risk Category	Mitigation
– Ineffective mix of oil and gas interests	Interests in two countries and several sedimentary basins.
– Organic and acquisition led-growth	Regular review of capital investment programmes. Board approval required for exploration programmes, acquisitions and divestments.
– Ineffective or inadequate management processes	Policies and procedures appropriate for an exploration and production group of Egdon's scale and size.
– Loss of key staff/succession planning	Remuneration policies to attract and retain staff.

### Financial risk

#### Failure to meet financial obligations to stakeholders

Risk Category	Mitigation
– Industry cost inflation	Rigorous contracting procedures with competitive tendering.
– Oil and gas price volatility	Use range of commodity prices in forecasting. Look to hedging as production volumes and number of fields increase.
– Inadequate or excessive hedging	Limited opportunity for hedging with current producing assets. Review hedging policy as production volumes and number of fields increase.
– Uninsured events	Comprehensive insurance policies.
– Underperforming assets	Range of production forecasting in budget process. Increase number and breadth of producing assets.
– Cost overrun	Main capital expenditure is in drilling operations. Look to farm-out projects where significant risk of cost over-run exists to limit exposure.
– Mis-priced corporate acquisitions	Board approval required for acquisitions. Conservative valuation of assets.



## Operational risk

Operational event impacts staff, contractors, communities or the environment leading to loss of reputation and revenue

Risk Category	Mitigation
– HSE incident	HSE standards set and monitored across the Group.
– Development failure	Technical, Financial and Board approval of development projects with regular reporting of field performance.
– Sustained exploration failure	Robust technical review of all projects. Board approval of exploration budgets and regular reporting of exploration results.
– Corruption or reputation failure	High level of ethical standards apply to all Group activity.
– Loss of key staff	Remuneration policies to attract and retain staff.
– Failure to secure equipment, services and resources	Rigorous contracting and procurement procedures applied to all operations. Long-term planning of required resources. Maintain intelligence on availability of equipment, services and materials in areas of operation.
– Corporate and social responsibility	Maintain good community relationships.

## External risk

Failure to manage and grow the business caused by external political, industry or market factors

Risk Category	Mitigation
– Political risk and fiscal change	Develop sustainable relationships with government ministries and collaborate with industry bodies to communicate interests to government authorities.
– Oil and gas price volatility	Use range of commodity prices in forecasting. Look to hedging as production volumes and number of fields increase.
– Lack of control of key assets	Proactive formal and informal communications with joint venture partners.
– Corporate governance changes	Review of compliance requirements and ongoing consultation with legal and financial advisors and audit committee.
– Shareholder sentiment	Maintain good communications with shareholders. Present timely and transparent information. Maintain website. Effectively convey and execute corporate strategy.

### Ken Ratcliff

Chairman of Audit Committee  
4 November 2011

## Board of Directors



The Egdon Board of Directors has wide-ranging experience in the oil and gas sector.

### 1. Philip Stephens MA (Oxon.)

(Non-Executive Chairman) Aged 69

Philip is a corporate financier with 38 years of City experience. He is currently Non-Executive Chairman of Neptune-Calculus Income and Growth VCT plc. He is also a Non-Executive Director of Foresight 4 VCT plc. He was Joint Head of the Corporate Finance Department of stockbrokers Williams de Broë for four years until his retirement in 2002 and before that was Head of UK Corporate Finance at UBS from 1995, having joined in 1989.

### 2. Mark Abbott

(Managing Director) Aged 50

Mark is an experienced geophysicist and founding Director of Egdon Resources plc. He graduated from the University of Nottingham in 1985 with a degree in Exploration Sciences (Geology/Geophysics/Mining Engineering). He worked for the British Geological Survey from 1985 to 1992 in the UK and overseas. Between 1992 and 1996 he worked in the International Division of British Gas Exploration and Production Limited and was employed by Anadarko Algeria Corporation from 1996 to 1997. He is also a Non-Executive Director of MA Exploration Services Limited, Bishopswood Pavilion Limited and a Trustee of the UK Onshore Geophysical Library.

### 3. Walter Roberts

(Non-Executive Director and Company Secretary) Aged 60

Walter is an oil and gas lawyer with an engineering background. He qualified as a solicitor with Simmons & Simmons before joining Phillips Petroleum in 1980. In 1986 he set up the legal department for Lasmo in Australia and later became the principal UK joint venture negotiator for Talisman. Walter is currently the Commercial Director of Infrastrata plc, an Executive Director of Pinnacle Energy Limited and a Non-Executive Director of Bow Valley Petroleum (UK) Limited.

### 4 Ken Ratcliff JP, BSc FCA

(Non-Executive Director) Aged 61

Ken is a chartered accountant with extensive finance and business experience. He is currently the College Accountant at Epsom College and is the co-founder and former Accountant at Geokinetics Processing UK Limited. Ken is non-executive Chairman of Infrastrata plc and has previously held senior management positions with GDC UK Limited, Ensign Geophysics Limited, Seismic Geocode Limited, Tenneco Corporation and Merlin Geophysical Limited.

### 5. John Rix FCA

(Non-Executive Director) Aged 77

Following five years abroad with Shell International, John worked in the City as an Investment Analyst specialising in the oil industry, holding positions in N.M. Rothschild, de Zoete & Bevan and Greig Middleton. Since retiring in 1994, he has continued to be actively involved with investment, mainly related to the Oil Industry. John is Chairman and Managing Director of both Dorset Exploration Limited and Yorkshire Exploration Limited.

### 6. Alan Booth

(Non-Executive Director) Aged 53

Alan is a highly experienced geoscientist. He holds a BSc degree in Geology from Nottingham University, and a Masters Degree in Petroleum Geology from the Royal School of Mines, Imperial College London. Alan is founder and Chief Executive Officer of EnCore Oil plc having previously held senior management positions in EnCana, Amerada Hess and Oryx Energy. Alan has previously served as President of the United Kingdom Offshore Operators Association, as a Director of Oil and Gas UK and was a member of PILOT. He is a past-president of the Petroleum Exploration Society of Great Britain. Alan is also currently a director of the Oil & Gas Independents Association ("OGIA").

# Corporate Governance Statement

The Egdon Resources plc Board is committed to running its business with integrity and high ethical standards across all of the Group's activities. The Directors recognise the value of the UK Corporate Governance Code and whilst under the AIM rules compliance is not required, the Directors believe that the Company applies the recommendations in so far as is practicable and appropriate for a public company of its size.

This statement explains how the Directors applied the principles of the code during the year ended 31 July 2011.

## The Board

The Board comprises of one Executive Director and five Non-Executive Directors.

The background and experience of the Directors are relevant to the Group activities and are summarised on page 16 of this report. As such, 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 is responsible for formulating, reviewing and approving the Group's strategy, financial activities and operating performance. Day-to-day management of the Company is devolved to the Executive Director who is charged with consulting the Board on all significant financial and operational matters. Consequently, decisions are made promptly and following consultation amongst the Directors concerned where necessary and appropriate.

The Board meets regularly throughout the year and met seven times in the year to 31 July 2011. All meetings were attended by all Directors, except for one from which two Directors were absent. In addition there were six meetings to approve administrative resolutions which were only partly attended although all the Directors had approved the business. There was also a meeting of a committee of the Board, consisting of three directors, to deal with matters arising from the sale of an interest in Avington to IS E&P Limited and IS NV Limited. The committee was formed as the other directors had a potential conflict of interest (see note 34).

A statement of the Directors' responsibilities in respect of the accounts is set out on page 21.

The Company has established Audit and Remuneration Committees which are discussed further below.

## Audit Committee

An Audit Committee has been established and currently comprises Ken Ratcliff (Chairman), Philip Stephens and John Rix. The Audit Committee is responsible for ensuring that the financial performance of the Group is properly reported on and monitored. This includes reviewing significant financial reporting issues and accounting policies and disclosures in financial reports. The Audit Committee reviews the scope and results of the external audit and monitors the integrity of the financial statements of the Company. If required, meetings are attended by appropriate members of the senior management. The external auditors have unrestricted access to the Chairman of the Committee. The Audit Committee is also responsible for reviewing the requirement for an internal audit function.

The Audit Committee plans to meet at least twice a year. The committee met twice in the year to 31 July 2011 with all members present or available at both meetings.

# Corporate Governance Statement (continued)

## Remuneration Committee

A Remuneration Committee has been established and its current members comprise Walter Roberts (Chairman), Philip Stephens and Ken Ratcliff. The principal objective of the Remuneration Committee is to ensure that members of the executive management of the Company are provided with appropriate incentives to encourage enhanced performance and are, in a fair and responsible manner, rewarded for their individual contributions to the success of the Group.

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 Director and the senior management of the Company. Non-Executive fees are considered and agreed by the Board as a whole.

The Remuneration Committee plans to meet at least twice in each year. It met once in the year to 31 July 2011 with all members present.

## Nomination Committee

The Company has not established a Nomination Committee as the Directors are of the opinion that such a committee is inappropriate given the current size of the Group.

## Relations with Shareholders

Communication with shareholders is given a high priority and the Managing Director has regular dialogue with institutional investors, as well as making general presentations to analysts at the time of the annual and interim results.

The Group maintains a website ([www.egdon-resources.com](http://www.egdon-resources.com)) for the purpose of providing information to shareholders and potential investors. The website contains all news, releases, reports and accounts and public presentations. In addition further detailed information about the Group's activities is available on the website.

Enquiries from individual shareholders in relation to their shareholding and the business as a whole are welcomed and the website has an enquiry facility and contact details to assist in facilitating this. Shareholders are encouraged to attend the Annual General Meeting at which they are able to put questions to the Chairman and other board members.

## Internal Controls

The Board is responsible for establishing and maintaining the effectiveness of the Group's internal controls and risk management systems. They are designed to safeguard the assets of the Group and to ensure the reliability of financial information for both internal use and external publication. The controls which cover financial and operational matters are reviewed on an ongoing basis. It is recognised that a system of internal controls cannot provide absolute assurance that material financial irregularities will be detected or that a risk of failure to achieve business objectives is eliminated. The Board keeps under review the necessity for establishing an internal audit function but considers that, given the size of the Group and the close involvement of senior management in day-to-day operations, there is currently no requirement for such a function.

## Bribery Act

The Group has put in place appropriate measures to ensure compliance with the Bribery Act 2010.

## Risk

The Directors are responsible for the effectiveness of the Group's risk management activities and internal control processes. The Group's approach to risk is described in more detail in the Financial Review on page 13.

# Directors' Report

The Directors submit their report together with the audited consolidated financial statements of Egdon Resources plc for the year ended 31 July 2011.

## Business review

The principal activity of the Group during the year continued to be exploration and production of hydrocarbons in the UK and France.

The Company is required by the Companies Act to set out in this report a fair review of the business of the Group during the financial year ended 31 July 2011 and of the position of the Group at the end of the year and a description of the principal risks and uncertainties facing the Group including consideration of future developments ("business review"). The information that fulfils the requirements of the business review can be found within the Chairman's Statement, Managing Director's Operational Review, the Financial Review and Corporate Governance Statement on pages 4 to 15 and 17.

## Health, Safety and Environmental

As an oil and gas exploration and production business, the Company is conscious of its health, safety and environmental responsibilities. The Company is committed to high standards of health, safety and environmental protection and performance and these aspects command equal prominence with other business considerations in the decision making process.

There were no reportable Health and Safety incidents during the period.

## Results and dividends

The Group recorded a consolidated profit from continuing operations during the year of £4,076,610 (2010: £235,417). The profit for the year is after charging exploration write-downs, impairments and pre-licence costs of £890,699 (2010: £64,786).

The Directors do not recommend the payment of a dividend (2010: £nil).

## Share capital

At the date of this report 130,969,094 ordinary shares are issued and fully paid. Details of movements in share capital during the year are given in note 28 to the financial statements. Movements subsequent to the year end are given in Note 36.

## Substantial Shareholders

As of the date of this report the Company had been notified of the following interests of three per cent. or more in the Company's ordinary share capital:

	% Shares
Encore (NNS) Limited	13.74
Encore Petroleum Limited	15.58
Hargreave Hale & Co	11.04
Williams de Broë	6.43
Heyco Energy Holdings SL	5.25
Andrew Hindle	4.99
Maven Capital Partners UK LLP	3.30

The Company has not been notified of any other person who has an interest in three per cent. or more in the Company's share capital.

## Directors

The Directors of the Company at the date of this report, and their biographical summaries are given on page 16. six Directors served throughout the year. Andrew Hindle resigned from the board with effect from 1 February 2011.

The Directors' remuneration is detailed in note 9 to the financial statements. All Directors benefit from the provision of Directors' and Officers' indemnity insurance policies. Premiums payable to third parties are described in note 9.

The Directors of the Company at the date of this report held the following interests in the Company.

	%	Shares
Mark A W Abbott	5.53	7,238,648
Ken Ratcliff	0.04	53,000
John Rix	0.99	1,293,949
Walter Roberts	0.99	1,291,750
Philip Stephens	0.08	100,000
Alan Booth	0.00	0

## Directors' Report (continued)

### Charitable and political donations

During the year the Group made various charitable contributions in the UK totalling £76 (2010: £900). No donations were made for political purposes (2010: £nil).

### Creditor payment policy

The Group's policy for all suppliers is to fix terms of payment when entering into a business transaction, ensure that the supplier is aware of those terms and to abide by the agreed terms of payment. The number of day's trade creditors was 41 (2010: 80) for the Group.

### Financial instruments

The financial risk management objectives and policies of the Company in relation to the use of financial instruments and the exposure of the Company and its subsidiary undertakings to its main risks, credit risk and liquidity risk, are set out in note 26 to the financial statements.

### Employees

The Group had 13 employees as at 31 July 2011 (2010: 11). Employees are encouraged to directly participate in the business through a share option scheme. Details of the share option scheme are given in note 10 to the financial statements.

### Post balance sheet events

Details of post balance sheet events are shown in note 36 to the financial statements.

### Auditor

A resolution to reappoint the auditor, Nexia Smith & Williamson, will be proposed at the forthcoming Annual General Meeting.

### Going concern

After making enquiries the Directors have a reasonable expectation that the Group and the Company have adequate resources to continue in operation for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the financial statements.

### Disclosure of information to the auditor

In the case of each person who was a Director at the time this report was approved: so far as the Director was aware there was no relevant available audit information of which the Company's auditor was unaware and that Director had taken all steps that the Director ought to have taken as a Director to make himself aware of any relevant information and to establish that the Company's auditor was aware of that information.

By order of the Board

### Mark A W Abbott

Managing Director  
4 November 2011

# Statement of Directors' Responsibilities

The Directors are responsible for preparing the Directors' report and the financial statements in accordance with applicable law and regulations,

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Group, and elected to prepare the Company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under Company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss of the Group for that year. The Directors are also required to prepare financial statements in accordance with the rules of the London Stock Exchange for companies trading securities on the Alternative Investment Market.

- In preparing these financial statements the Directors are required to:
- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRS as adopted by the European Union;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company and the Group will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and 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.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of the financial statements and other information included in annual reports may differ from legislation in other jurisdictions.

# Independent Auditor's Report

## To the members of Egdon Resources plc

We have audited the financial statements of Egdon Resources plc for the year ended 31 July 2011 which comprise the Consolidated statement of comprehensive income, the Consolidated and Parent Company statement of financial position, the Consolidated and Parent Company statements of cash flows, the Consolidated and Parent Company statements of changes in equity and the related notes 1 to 36. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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

### Respective responsibilities of Directors and auditor

As explained more fully in the Directors' Responsibilities statement as set out on page 21, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

### 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 website at [www.frc.org.uk/apb/scope/private.cfm](http://www.frc.org.uk/apb/scope/private.cfm).

### Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and the Parent Company's affairs as at 31 July 2011 and of the Group's profit 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.

### Opinion on other matter 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.

### Matters on which we are required to report by exception

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

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

Sancho Simmonds  
Senior Statutory Auditor,  
for and on behalf of

1 Bishops Wharf  
Walnut Tree Close  
Guildford GU1 4RA

### Nexia Smith & Williamson

Statutory Auditor  
Chartered Accountants

4 November 2011



# Consolidated Statement of Comprehensive Income

For the year ended 31 July 2011

	Notes	2011 £	2010 £
<b>Continuing operations</b>			
Revenue	3	2,379,150	1,251,676
Cost of sales - exploration costs written off, impairments and pre-licence costs	4	(890,699)	(64,786)
Cost of sales - other		(1,207,502)	(819,133)
<b>Total cost of sales</b>		<b>(2,098,201)</b>	(883,919)
<b>Gross profit</b>		<b>280,949</b>	367,757
<b>Administrative expenses</b>			
	4	(687,181)	(668,347)
Other operating income		225,553	174,797
Exceptional item - profit on disposal of subsidiary	5	4,338,290	—
Exceptional item - (loss)/profit on disposal of property, plant and equipment	6	(648)	388,881
		4,156,963	263,088
Finance income	12	41,505	1,156
Finance costs	13	(121,858)	(28,714)
<b>Profit before taxation</b>		<b>4,076,610</b>	235,530
Taxation	14	—	(113)
<b>Profit for the period</b>		<b>4,076,610</b>	235,417
<b>Other comprehensive income for the period</b>		<b>—</b>	—
<b>Total comprehensive income for the period attributable to equity holders of the parent</b>		<b>4,076,610</b>	235,417
<b>Earnings for the period per share</b>			
	15		
Basic earnings per share		3.12p	0.29p
Diluted earnings per share		3.10p	0.29p

## Consolidated Statement of Financial Position

As at 31 July 2011

	Notes	2011 £	2010 £
<b>Non-current assets</b>			
Intangible assets	17	7,104,670	7,032,533
Property, plant and equipment	18	10,721,342	8,422,363
<b>Total non-current assets</b>		<b>17,826,012</b>	15,454,896
<b>Current assets</b>			
Inventory	20	9,796	—
Trade and other receivables	21	2,258,276	1,038,896
Available for sale financial assets	22	50,000	50,000
Cash and cash equivalents	24	3,691,175	2,029,835
		<b>6,009,247</b>	3,118,731
Assets held for sale	23	—	21,600
<b>Total current assets</b>		<b>6,009,247</b>	3,140,331
<b>Current liabilities</b>			
Trade and other payables	25	(2,725,717)	(1,639,667)
Liabilities directly associated with assets classified as held for sale	23	—	(8,645)
		<b>(2,725,717)</b>	(1,648,312)
<b>Net current assets</b>		<b>3,283,530</b>	1,492,019
<b>Total assets less current liabilities</b>		<b>21,109,542</b>	16,946,915
<b>Non-current liabilities</b>			
Provisions	27	(940,316)	(915,910)
<b>Net assets</b>		<b>20,169,226</b>	16,031,005
<b>Equity</b>			
Share capital	28	13,086,909	13,067,577
Share premium	29	1,374,428	1,362,500
Share based payment reserve		107,332	84,907
Retained earnings		5,600,557	1,516,021
		<b>20,169,226</b>	16,031,005

These financial statements were approved by the Board of Directors and authorised for issue on 4 November 2011.

They were signed on its behalf by:

**M A W Abbott**

Director

Company registration number 06409716

## Company Statement of Financial Position

As at 31 July 2011

	Notes	2011 £	2010 £
<b>Non-current assets</b>			
Property, plant and equipment	18	7,400	6,655
Investments	19	14,999,606	14,999,606
<b>Total non-current assets</b>		<b>15,007,006</b>	15,006,261
<b>Current assets</b>			
Trade and other receivables	21	117,078	1,191,295
Cash and cash equivalents	24	2,300,530	36,952
<b>Total current assets</b>		<b>2,417,608</b>	1,228,247
<b>Current liabilities</b>			
Trade and other payables	25	(1,499,794)	(80,911)
<b>Net current assets</b>		<b>917,814</b>	1,147,336
<b>Total assets less current liabilities</b>		<b>15,924,820</b>	16,153,597
<b>Non-current liabilities</b>			
Provisions	27	(56,947)	(90,695)
<b>Net assets</b>		<b>15,867,873</b>	16,062,902
<b>Equity</b>			
Share capital	28	13,086,909	13,067,577
Share premium	29	1,374,428	1,362,500
Merger reserve	30	2,357,816	2,357,816
Share based payment reserve		107,332	84,907
Retained earnings - deficit	16	(1,058,612)	(809,898)
		<b>15,867,873</b>	16,062,902

These financial statements were approved by the Board of Directors and authorised for issue on 4 November 2011.

They were signed on its behalf by:

**M A W Abbott**

Director

Company registration number 06409716

## Consolidated Statement of Cash Flows

For the year ended 31 July 2011

	2011 £	2010 £
<b>Cash flows from operating activities</b>		
Profit before tax	4,076,610	235,530
Adjustments for:		
Depreciation and impairment of fixed assets	728,649	265,346
Exploration costs written off	593,705	—
Loss/(profit) on disposal of property, plant and equipment	648	(388,881)
Profit on disposal of subsidiary	(4,338,290)	—
Increase in trade and other receivables	(960,114)	(399,622)
(Increase)/decrease in inventory	(9,796)	12,127
Increase in trade payables and other payables	10,524	358,177
Movement in provisions	(11,006)	(3,612)
Finance costs	121,858	27,905
Finance income	(41,505)	(1,156)
Share based remuneration charge	30,351	54,831
Cash flow generated from operations	201,634	160,645
Interest paid	(49,592)	—
Taxation paid	—	(113)
Net cash flow generated from operating activities	152,042	160,532
<b>Investing activities</b>		
Finance income	41,505	1,156
Payments for exploration and evaluation assets	(3,236,954)	(1,132,998)
Purchase of property, plant and equipment	(861,531)	(898,055)
Gross profit on oil well testing	—	32,767
Sale of subsidiary net of costs incurred	4,484,184	—
Sale of property, plant and equipment	5,044	502,950
Sale of intangible fixed assets	—	146,635
Net cash generated from/(used in) capital expenditure and investing activities	432,248	(1,347,545)
<b>Financing activities</b>		
Issue of shares	31,260	2,000,000
Costs associated with issue of shares	—	(82,500)
Proceeds from short term borrowings	1,053,652	—
Repayments of short term borrowings	(15,657)	—
Net cash flow from financing	1,069,255	1,917,500
Net increase in cash and cash equivalents	1,653,545	730,487
Cash and cash equivalents as at 31 July 2010	2,037,630	1,307,143
<b>Cash and cash equivalents as at 31 July 2011</b>	<b>3,691,175</b>	<b>2,037,630</b>

In 2010 significant non-cash transactions comprised the issue of equity share capital as consideration for the acquisition of tangible and intangible fixed assets from EnCore Oil Plc (note 28), and for decommissioning and reinstatement provisions (note 27). There were no significant non-cash transactions in 2011.

## Company Statement of Cash Flows

For the year ended 31 July 2011

	2011 £	2010 £
<b>Cash flows from operating activities</b>		
Loss before tax	(256,640)	(272,197)
Adjustments for:		
Depreciation and impairment of plant and equipment	4,089	3,322
Increase in trade and other receivables	(852,143)	(135,449)
Decrease in trade payables	(25,896)	(441,766)
Share based remuneration charge	30,351	54,831
Movement in provision	(11,006)	(3,612)
Finance costs	87,123	—
Cash flow used in operations	(1,024,122)	(794,871)
Interest paid	(49,592)	—
Net cash used in operating activities	(1,073,714)	(794,871)
<b>Investing activities</b>		
Loan from/(to) subsidiaries	2,272,871	(1,080,000)
Purchase of property, plant and equipment	(4,834)	(7,785)
Net cash generated from/(used in) capital expenditure and financial investment	2,268,037	(1,087,785)
<b>Financing activities</b>		
Issue of shares	31,260	2,000,000
Costs associated with issue of shares	—	(82,500)
Proceeds from short term borrowings	1,053,652	—
Repayment of short term borrowings	(15,657)	—
Net cash flow from financing	1,069,255	1,917,500
Net increase in cash and cash equivalents	2,263,578	34,844
Cash and cash equivalents as at 31 July 2010	36,952	2,108
<b>Cash and cash equivalents as at 31 July 2011</b>	<b>2,300,530</b>	<b>36,952</b>

In 2010 significant non-cash transactions comprised the issue of equity share capital as consideration for the acquisition of tangible and intangible fixed assets from EnCore Oil plc (note 28). There were no significant non-cash transactions in 2011.

## Consolidated Statement of Changes in Equity

For the year ended 31 July 2011

	Share capital £	Share premium £	Share based payment reserve £	Retained earnings £	Total equity £
Balance at 1 August 2009	7,547,577	65,000	30,076	1,280,604	8,923,257
Profit for the period	—	—	—	235,417	235,417
Total comprehensive income for the period	—	—	—	235,417	235,417
Issue of ordinary shares (April 2010)	1,600,000	317,500	—	—	1,917,500
Issue of ordinary shares (July 2010)	3,920,000	980,000	—	—	4,900,000
Share option charge	—	—	54,831	—	54,831
<b>Balance at 31 July 2010</b>	<b>13,067,577</b>	<b>1,362,500</b>	<b>84,907</b>	<b>1,516,021</b>	<b>16,031,005</b>
Profit for the period	—	—	—	4,076,610	4,076,610
Total comprehensive income for the period	—	—	—	4,076,610	4,076,610
Transfer of share option charge on exercise	—	—	(7,926)	7,926	—
Issue of ordinary shares (December 2010)	8,200	5,060	—	—	13,260
Issue of ordinary shares (January 2011)	11,132	6,868	—	—	18,000
Share option charge	—	—	30,351	—	30,351
<b>Balance at 31 July 2011</b>	<b>13,086,909</b>	<b>1,374,428</b>	<b>107,332</b>	<b>5,600,557</b>	<b>20,169,226</b>

## Company Statement of Changes in Equity

For the year ended 31 July 2011

	Share capital £	Merger reserve £	Share premium £	Share based payment reserve £	Retained earnings £	Total equity £
Balance at 1 August 2009	7,547,577	2,357,816	65,000	30,076	(537,701)	9,462,768
Loss for the period	—	—	—	—	(272,197)	(272,197)
Total comprehensive income for the period	—	—	—	—	(272,197)	(272,197)
Issue of ordinary shares (April 2010)	1,600,000	—	317,500	—	—	1,917,500
Issue of ordinary shares (July 2010)	3,920,000	—	980,000	—	—	4,900,000
Share option charge	—	—	—	54,831	—	54,831
<b>Balance at 31 July 2010</b>	<b>13,067,577</b>	<b>2,357,816</b>	<b>1,362,500</b>	<b>84,907</b>	<b>(809,898)</b>	<b>16,062,902</b>
Loss for the period	—	—	—	—	(256,640)	(256,640)
Total comprehensive income for the period	—	—	—	—	(256,640)	(256,640)
Transfer of share option charge on exercise	—	—	—	(7,926)	7,926	—
Issue of ordinary shares (December 2010)	8,200	—	5,060	—	—	13,260
Issue of ordinary shares (January 2011)	11,132	—	6,868	—	—	18,000
Share option charge	—	—	—	30,351	—	30,351
<b>Balance at 31 July 2011</b>	<b>13,086,909</b>	<b>2,357,816</b>	<b>1,374,428</b>	<b>107,332</b>	<b>(1,058,612)</b>	<b>15,867,873</b>

# Notes Forming Part of the Financial Statements

For the year ended 31 July 2011

## 1. General information

Egdon Resources plc is a company incorporated and domiciled in England & Wales with registered number 06409716. The address of the registered office is The Wheat House, 98 High Street, Odiham, Hampshire RG29 1LP. The Company's administrative office is at the same address.

Egdon Resources plc (the "Company") and its subsidiaries (together, the "Group") explore for and develop oil and gas reserves in England and France.

The Company's shares are quoted on the Alternative Investment Market ("AIM") of the London Stock Exchange.

## 2. Accounting policies

The financial statements are based on the following accounting policies of Group and Company.

### Basis of preparation and statement of compliance with IFRS

The Group's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. IFRS comprises the Standards issued by the International Accounting Standards Board (IASB) and Interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) that have been endorsed by the European Union (EU). The principal accounting policies adopted by the Group and by the Company where applicable are set out below.

As permitted by Section 408 of the Companies Act 2006, no income statement or associated notes are presented for the Company as an entity.

### Going concern

The Directors have reviewed the budget, projected cash flows, considered committed expenditure and based on this review are confident that the Group will have adequate financial resources to continue in existence for the foreseeable future. Consequently the Directors consider it appropriate to prepare the financial statements on the going concern basis.

Based on current forecasts of production and revenues, the Group has sufficient funding to undertake its planned work programme and repay its existing debt. The Directors recognise that should circumstances change then some planned exploration and development work will need to be deferred or delayed until such time as additional funding is obtained either through revenues from production, asset disposals (sales or farm outs), the negotiation of a debt facility and/or the issue of shares.

### Adoption of new and revised standards

In the current financial year, the Group has adopted International Financial Reporting Standard 2 "Share-Based Payments" (revised 2009), International Accounting Standard 32 "Financial Instruments: Presentation" (revised 2009) and IFRIC 19 "Extinguishing financial liabilities with equity instruments".

The adoption of these standards and interpretation did not have any impact on the financial position or performance of the Group.

At the date of authorisation of these financial statements, the following relevant standards and interpretations which have not been applied in these financial statements were in issue but not yet effective:

- IFRS 7 Financial Instruments: Disclosure (revised 2010)
- IFRS 9 Financial Instruments: Recognition and measurement (revised 2009)
- IAS 1 Presentation of Financial Statements (revised 2010)
- IAS 24 Related Party Disclosures (revised 2009)

## Notes Forming Part of the Financial Statements (continued)

### 2. Accounting policies (continued)

The Directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the Group.

#### Basis of consolidation

The Group financial statements incorporate the financial statements of Egdon Resources plc (the "Company") and entities controlled by the Company prepared to 31 July each year. 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.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

The financial statements of subsidiaries are prepared for the same reporting year as the parent company, using consistent accounting policies. All inter-company balances and transactions, including unrealised profits arising from them, are eliminated in preparing the consolidated financial statements.

#### Business combinations and goodwill

The Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition by acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition date fair value of any previous equity interest in the acquiree over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the statement of comprehensive income.

Where the Group incurs obligations to pay net profit interest as part of an acquisition, the estimated fair value of the net profit interest is recognised at the date of acquisition. Any subsequent variations in the net profit interest arising from events occurring after acquisition are recognised through the income statement. Where the fair value of a net profit interest cannot be established (for example, because the relevant licence has yet to be fully appraised) no provision is recognised.

The value of options and any net profit interests arising on disposal are recognised at their fair value as at the date of disposal, except in circumstances where the fair value cannot be determined.

An acquisition is not classified as a business combination when an acquired entity does not have processes or outputs as defined by IFRS 3 (Revised). Such transactions are accounted for as asset acquisitions and the assets acquired are measured at cost.

#### Investments in subsidiaries

Investments in subsidiaries are stated at cost less any provision for impairment.

#### Revenue and other operating income

Revenue represents amounts receivable for oil and gas sales, net of VAT and trade discounts, and is recognised on delivery to third party facilities.

Income charged to other companies net of VAT in respect of fees for acting as operator and consultancy fees is disclosed within other operating income and is recognised on an accruals basis when the services are provided.

#### Jointly controlled operations and assets

The Group's exploration and development activities are generally conducted as co-licensees in joint operation with other companies. The financial statements reflect the relevant proportions of capital expenditure and operating revenues and costs applicable to the Group's interest.



## 2. Accounting policies (continued)

Currently all of the Group's exploration and development activities in respect of the licence interests disclosed in the asset summary on pages 7 to 11 are accounted for as jointly controlled operations, except for those where 100% of the licence is held within the Group.

### Intangible assets — exploration and evaluation assets

The Group accounts for oil and gas expenditure under the full cost method of accounting.

Costs (other than payments to acquire the legal right to explore) incurred prior to acquiring the rights to explore are charged directly to the income statement. All costs incurred after the rights to explore an area have been obtained, such as geological, geophysical, data costs and other direct costs of exploration and appraisal are accumulated and capitalised as intangible exploration and evaluation ("E&E") assets.

E&E costs are not amortised prior to the conclusion of appraisal activities. At completion of appraisal activities if technical feasibility is demonstrated and commercial reserves are discovered, then following development sanction, the carrying value of the relevant E&E asset will be reclassified as a development and production asset, but only after the carrying value of the E&E asset has been assessed for impairment and, where appropriate, its carrying value adjusted.

If after completion of appraisal activities in an area, it is not possible to determine technical feasibility or commercial viability, then the costs of such unsuccessful exploration and evaluation are written off to the income statement as a component of cost of sales in the period the relevant events occur. The costs associated with any wells which are abandoned are fully amortised when the abandonment decision is taken.

As permitted by IFRS 6, on adoption of IFRS, the Group continued to apply the accounting requirements of the Statement of Recommended Practice issued by the UK Oil Industry Accounting Committee as applied under UK GAAP in respect of revenue generated from the sale of oil during the appraisal process and the treatment on disposal of any part of an E&E asset.

Revenue is recorded in the statement of comprehensive income and, in order that no profit is recognised on the sale, a corresponding entry is recorded in cost of sales. The carrying value of E&E assets is reduced by the gross profit generated from the oil sales from an appraisal well.

On disposal of any part of an E&E asset, proceeds are credited against the cost of the asset. No profit is recognised on the disposal, unless the proceeds exceed the capitalised cost.

### Intangible assets — other

Costs of purchased data used to assist with formulating strategy for licence applications and asset purchases are accumulated and capitalised as other intangibles.

Such assets are considered to have an indefinite useful life and are not subject to amortisation but are tested annually for impairment and elements that have no ongoing commercial value are written off to the income statement.

### Impairment of intangible assets

E&E assets are reviewed annually for impairment and these are grouped with the development and production assets belonging to the same exploration area to form the Cash Generating Unit ("CGU") for impairment testing. The equivalent combined carrying value of the CGU is compared against the CGU's recoverable amount and any resulting impairment is written off to the income statement. The recoverable amount of the CGU is determined as the higher of its fair value less costs to sell and its value in use. E&E assets which are relinquished are written down immediately in the accounting period of the relinquishment date.

### Property, plant and equipment — development and production assets

Development and production ("D&P") assets are accumulated into cost centres and represent the cost of developing the commercial reserves and bringing them into production together with the E&E expenditures previously transferred from E&E assets as outlined in the policy above.

## Notes Forming Part of the Financial Statements (continued)

### 2. Accounting policies (continued)

Costs relating to each cost centre are depleted on a unit of production method based on the commercial proven and probable reserves for that cost centre. Development assets are not depreciated until production commences. The depreciation calculation takes account of the residual value of site equipment and the estimated future costs of development of recognised proven and probable reserves, based on current price levels. Changes in reserve quantities and cost estimates are recognised prospectively.

On disposal of any part of a D&P asset, proceeds are credited to the income statement, less the percentage cost relating to the disposal.

#### Impairment of development and production assets

A review is performed for any indication that the value of the D&P assets may be impaired. For D&P assets when there are such indications, an impairment test is carried out on the CGU. Additional depletion is included within cost of sales within the income statement if the capitalised costs of the CGU exceed the associated estimated future discounted cash flows of the related commercial oil and gas reserves.

#### Property, plant and equipment — other than D&P assets

Property, plant and equipment other than D&P assets are stated in the statement of financial position at cost less accumulated depreciation. Depreciation is provided at rates calculated to write off the cost less estimated residual values of each asset over its expected useful life, as follows:

Fixtures and fittings	25% straight line
Computer equipment	33% straight line

#### Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event which it is probable will result in an outflow of economic benefits that can be estimated with reasonable certainty. If the effect of the time value of money is material, provisions are discounted using a pre tax rate that reflects, where appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

#### Decommissioning and reinstatement provisions

Licenseses have an obligation to restore fields to a condition acceptable to the relevant authorities at the end of their commercial lives. Provision for decommissioning and reinstatement is recognised in full as a liability and an asset when the obligation arises. The asset is included within exploration and evaluation assets or property, plant and equipment as is appropriate. The liability is included within provisions. The amount recognised is the estimated cost of decommissioning and reinstatement, discounted where appropriate to its net present value, and is reassessed each year in accordance with local conditions and requirements. Revisions to the estimated costs of decommissioning and reinstatement which alter the level of the provisions required are also reflected in adjustments to the decommissioning and reinstatement asset. The increase in the net present value of the future cost arising from the unwinding of the discount is included within finance costs.

#### Foreign currencies

Transactions denominated in foreign currencies are translated into Sterling at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities in foreign currencies are translated into Sterling at the rate of exchange ruling at the end of the financial year. All exchange differences are dealt with in the income statement.

#### Operating leases

Rentals under operating leases are charged on a straight line basis over the lease term, even if the payments are not made on such a basis.

#### Inventory

Inventory is stated at the lower of cost and net realisable value. Cost is calculated annually based on the ratio of closing stock to total annual production and the cost of production (including depreciation) for the year.

#### Cash and cash equivalents

Cash and cash equivalents comprise cash held by the Group and short term bank deposits with an original maturity of three months or less.

The cash and cash equivalent amount in the Statements of Cash Flow includes overdrafts where relevant.

## 2. Accounting policies (continued)

### Assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than continuing use. This condition is regarded as met only when a sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale which should be expected to qualify for recognition as a completed sale within one year from the date of classification. Disposal groups are groups of assets, and liabilities directly associated with those assets, that are to be disposed of together as a group in a single transaction. Non-current assets (and disposal groups) classified as held for sale are initially measured at the lower of carrying value and fair value less costs to sell.

### Financial instruments

Financial assets and financial liabilities are recognised on the statement of financial position when the Group becomes a party to the contractual provisions of the instrument.

Trade and other receivables are measured at initial recognition at fair value and are subsequently measured at amortised cost using the effective interest method. A provision is established when there is objective evidence that the Group will not be able to collect all amounts due. The provision amount is recognised in the income statement.

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

Financial liabilities and equity instruments issued by the Group are classified in accordance with 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. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs. Equity issued for non-monetary consideration is recorded at the fair value of the equity instruments issued.

Interest bearing bank loans, overdrafts and other loans are recorded at fair value, net of direct issue costs, when the proceeds are received and subsequently at amortised cost. Finance costs are accounted for on an accruals basis in the income statement using the effective interest method.

Available for sale financial assets are those non-derivative financial assets that are designated as available for sale or are not classified as financial assets at fair value through profit and loss, held to maturity investments or loans and receivables. After initial recognition available for sale financial assets are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in the income statement.

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the reporting date. For investments where there is no active market, fair value is determined using appropriate valuation techniques.

### Taxation

The tax expense represents the sum of the tax currently payable and any deferred tax.

The tax currently payable is based on the taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantially enacted by the reporting date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

## Notes Forming Part of the Financial Statements (continued)

### 2. Accounting policies (continued)

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current assets and liabilities on a net basis.

#### Share based payment transactions

Employees (including senior executives) of the Group receive remuneration in the form of share based payment transactions, whereby employees render services as consideration for equity instruments (equity settled transactions).

The cost of equity settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the vesting date).

The cumulative expense recognised for equity settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The income statement charge or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

Where the terms of an equity settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any modification, which increases the total fair value of the share based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

#### Retirement benefit costs

The Group has a defined contribution plan which requires contributions to be made into an administered fund. The amount charged to the income statement in respect of pension costs reflects the contributions payable in respect of the year. Differences between contributions payable during the year and contributions actually paid are shown as either accrued liabilities or prepaid assets in the statement of financial position.

#### Exceptional items

Exceptional items are defined as material items which derive from events or transactions that fall within the Group's ordinary activities but which, due to their size or incidence, are disclosed separately in order to present fairly the reported results.

#### Use of judgements and estimates when preparing the annual financial statements

Preparation of the consolidated financial statements in accordance with IFRS requires management to make estimates and assumptions affecting recognition and measurement in the consolidated statement of financial position and statement of comprehensive income, as well as the disclosure of contingent assets and liabilities. Future events may lead to these estimates being changed. In particular, judgements and estimates are required when:

## 2. Accounting policies (continued)

- Assessing the need for and measurement of impairment of oil and gas assets (tangible and intangible)
- Capitalising project costs
- Assessing contingent consideration on acquisition
- Determining the fair value of share based payments
- Estimating decommissioning and reinstatement liabilities (note 27)
- Determining going concern

### *Oil and gas assets*

Management is required to assess the oil and gas assets for indicators of impairment. Note 18 discloses the carrying value of tangible oil and gas assets. As part of this assessment, management has carried out an impairment test on the tangible assets. This test compares the carrying value of the assets at the reporting date with the expected discounted cash flow from the project. For the discounted cash flows to be calculated, management has used a production profile based on its best estimate of proven and probable reserves of the asset and a range of assumptions, including oil/gas prices and a discount rate.

### *Intangible assets*

The Group determines whether intangible assets are impaired at least on an annual basis. This requires an estimation of the value in use of the asset. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the asset and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

### *Capitalisation of project costs*

The assessment of whether costs incurred on project exploration and evaluation should be capitalised or expensed involves judgement. Management considers the nature of the costs incurred and the stage of project development and concludes whether it is appropriate to capitalise the costs.

### *Contingent consideration*

Contingent consideration is measured at fair value at the date of the transaction. Changes to the amount of the contingent consideration arising as a result of a post-acquisition event are reflected in the income statement where the additional consideration is cash or other assets. The amount is not remeasured where the additional consideration is equity. A retrospective adjustment is required where new information results in a change to fair value at the acquisition date.

### *Share based payments*

Determining the fair value of share based payments requires assumptions in respect of the inputs used in the option pricing model. Details can be found in note 10.

### *Decommissioning and reinstatement*

The Group determines decommissioning and reinstatement liabilities by making assumptions, based on the current economic environment, which management believe are a reasonable basis upon which to estimate the future liability. These estimates are reviewed regularly to take into account any material changes to assumptions. However, the actual decommissioning and reinstatement cost will ultimately depend upon future market prices for the necessary works required which will reflect market conditions at the relevant time. Furthermore, actual costs will also reflect the extent of decommissioning and reinstatement work required to be performed, whether the works can be performed as part of a multi well programme or in isolation and progress in the relevant technologies.

### *Going concern*

The preparation of the financial statements requires an assessment of the validity of the going concern assumption, this being dependent on the availability of adequate financial resources to allow the Group to continue in operational existence for the foreseeable future. The incoming financial resources expected to be available depend on estimated production volumes, forecast oil & gas prices and operating costs. Expenditure is primarily dependent on the planned programme of exploration and its estimated cost. The Directors have reviewed budgets, projected cash flows and other financial options, and based on this review are confident that the Group will have adequate resources to continue in operational existence for the foreseeable future. Consequently the Directors consider it appropriate to prepare the financial statements on the going concern basis. Should the going concern basis not be appropriate, adjustments would have to be made to the assets and liabilities in the Group statement of financial position.

## Notes Forming Part of the Financial Statements (continued)

### 3. Segmental information

For management purposes, the Group currently operates in two geographical markets: UK and Europe. Unallocated operating expenses, assets and liabilities relate to the general management, financing and administration of the Group.

The following tables present the profit/(loss) and certain asset and liability information regarding the Group's operating segments for the year ended 31 July 2011 and for the year ended 31 July 2010.

Revenue of the Group for the period has been derived from the sale of oil and gas which has been extracted from wells in the UK during production and production testing operations. Oil is a commodity product and can be sold to a number of customers on industry-standard terms. For reasons of operational convenience, 78% (2010: 93%) of oil sales in the year were made to one organisation. Gas is a commodity product and can be sold to a number of customers on industry-standard terms. For contractual reasons, 87% of gas sales in the year were made to one organisation (2010: no production).

#### 2011

	UK £	Europe £	Unallocated £	Total £
Revenue	2,379,150	—	—	2,379,150
Cost of sales — exploration costs written off and pre-licence costs	(642,385)	(18,314)	—	(660,699)
Cost of sales — impairments	(230,000)	—	—	(230,000)
Cost of sales — depreciation	(491,258)	—	—	(491,258)
Cost of sales — other	(715,712)	(532)	—	(716,244)
<b>Total cost of sales</b>	<b>(2,079,355)</b>	<b>(18,846)</b>	<b>—</b>	<b>(2,098,201)</b>
<b>Gross profit/(loss)</b>	<b>299,795</b>	<b>(18,846)</b>	<b>—</b>	<b>280,949</b>
Other administrative expenses	(477,112)	(37,250)	(165,428)	(679,790)
Depreciation	—	—	(7,391)	(7,391)
<b>Total administrative expenses</b>	<b>(477,112)</b>	<b>(37,250)</b>	<b>(172,819)</b>	<b>(687,181)</b>
Other operating income	223,843	1,710	—	225,553
Exceptional item — profit on disposal of subsidiary	—	4,338,290	—	4,338,290
Exceptional item — (loss)/profit on disposal of property, plant and equipment	(648)	—	—	(648)
<b>Total</b>	<b>45,878</b>	<b>4,283,904</b>	<b>(172,819)</b>	<b>4,156,963</b>
Finance income	—	—	41,505	41,505
Finance costs	(33,153)	(1,582)	(87,123)	(121,858)
<b>Profit/(loss) before taxation</b>	<b>12,725</b>	<b>4,282,322</b>	<b>(218,437)</b>	<b>4,076,610</b>
Taxation	—	—	—	—
<b>Profit/(loss) for the period</b>	<b>12,725</b>	<b>4,282,322</b>	<b>(218,437)</b>	<b>4,076,610</b>
<b>Other segment information</b>				
Non-current assets	16,171,293	1,647,319	7,400	17,826,012
Current assets	5,911,170	29,335	68,742	6,009,247
Current liabilities	(1,254,474)	(340,702)	(1,130,541)	(2,725,717)
Non-current liabilities	(814,675)	(68,694)	(56,947)	(940,316)
Net assets/(liabilities)	20,013,314	1,267,258	(1,111,346)	20,169,226
<b>Capital expenditure</b>				
Intangible exploration and evaluation assets	2,787,735	488,243	—	3,275,978
Property, plant and equipment				
— oil and gas assets	842,744	—	—	842,744
— other	17,170	—	4,834	22,004
	<b>3,647,649</b>	<b>488,243</b>	<b>4,834</b>	<b>4,140,726</b>

### 3. Segmental information (continued)

2010

	UK £	Europe £	Unallocated £	Total £
Revenue	1,251,676	—	—	1,251,676
Cost of sales — exploration costs written off and pre-licence costs	(37,145)	(27,641)	—	(64,786)
Cost of sales — depreciation	(256,882)	—	—	(256,882)
Cost of sales — other	(561,790)	(461)	—	(562,251)
<b>Total cost of sales</b>	<b>(855,817)</b>	<b>(28,102)</b>	<b>—</b>	<b>(883,919)</b>
<b>Gross profit/(loss)</b>	<b>395,859</b>	<b>(28,102)</b>	<b>—</b>	<b>367,757</b>
Other administrative expenses	(377,497)	(19,339)	(263,047)	(659,883)
Depreciation	—	—	(8,464)	(8,464)
<b>Total administrative expenses</b>	<b>(377,497)</b>	<b>(19,339)</b>	<b>(271,511)</b>	<b>(668,347)</b>
Other operating income	168,622	6,706	(531)	174,797
Exceptional item — profit on disposal of property, plant and equipment	388,881	—	—	388,881
	575,865	(40,735)	(272,042)	263,088
Finance income	1,156	—	—	1,156
Finance costs	(25,698)	(3,016)	—	(28,714)
<b>Profit/(loss) before taxation</b>	<b>551,323</b>	<b>(43,751)</b>	<b>(272,042)</b>	<b>235,530</b>
Taxation	(113)	—	—	(113)
<b>Profit/(loss) for the period</b>	<b>551,210</b>	<b>(43,751)</b>	<b>(272,042)</b>	<b>235,417</b>
<b>Other segment information</b>				
Non-current assets	14,273,473	1,174,768	6,655	15,454,896
Current assets	3,033,408	35,130	71,793	3,140,331
Current liabilities	(1,551,145)	(16,257)	(80,910)	(1,648,312)
Non-current liabilities	(760,065)	(65,150)	(90,695)	(915,910)
Net assets	14,995,671	1,128,491	(93,157)	16,031,005
<b>Capital expenditure</b>				
Intangible exploration and evaluation assets	1,097,216	35,782	—	1,132,998
Property, plant and equipment				
— oil and gas assets	5,933,635	—	—	5,933,635
— other	—	—	7,785	7,785
	7,030,851	35,782	7,785	7,074,418

### 4. Other expenditure

	2011 £	2010 £
Auditor's remuneration (see note 7 below)	42,063	48,400
Depreciation and other amounts written off tangible assets	498,649	265,346
Impairments	230,000	—
Exploration and pre-licence costs written off	660,699	64,786
Foreign exchange losses/(gains)	32,157	(31,613)
Operating lease rentals		
— land and buildings (in administrative expenses)	25,000	17,500
— leases on operational sites included within cost of sales	35,444	47,862
— leases on exploration and evaluation sites capitalised in intangible assets	33,760	21,342

## Notes Forming Part of the Financial Statements (continued)

### 5. Exceptional item — profit on disposal of subsidiary

On 5 October 2010 the sale of Egdon Resources (New Ventures) Ltd (“ERNV”), the holder of certain of Egdon’s permit interests in France, to eCORP Oil and Gas UK Ltd (“eCORP”) was completed.

The consideration was £4.5 million in cash and the grant of options in relation to the permits sold. The assets of ERNV at completion were a 60% interest in the Navacelles Permit, a 40% interest in the Gex Permit and a 40% interest in the Gex Sud Permit Application (the “Permit Interests”). The Options are in relation to a 6% interest in the Gex Permit and the Gex Sud Permit Application and a 9% interest in the Navacelles Permit. These Options are exercisable up to the later of two years from the 23 June 2010 (or in the case of the Gex Sud Permit Application two years from any licence award) or 60 days following plugging and abandonment or the completion of initial testing of the first well on each permit, subject to an end-stop date of 23 June 2015. On exercise of any Option Egdon will pay to ERNV its pro-rata share of all costs incurred by ERNV on that permit and pay to eCORP the appropriate proportion of the original acquisition price. At present the fair value of these options cannot be determined and has therefore not been included in calculating the profit on disposal.

On a consolidated basis, the value of ERNV’s net assets at the date of completion was £12,477 attributable to the permit interests detailed above. Incidental costs were incurred on the sale totalled £149,233. This resulted in the gain on sale of subsidiary of £4.3 million.

### 6. Exceptional item — (loss)/profit on disposal of property, plant and equipment

During the year the Group sold a 5% interest in PEDL070 containing the Avington oil field to IS E&P Limited for a cash consideration of £200,000. At the date of sale, 5% of the net book value of this asset amounted to £214,217. As part of the sale agreement, IS E&P Limited became liable for 5% of the outstanding Net Profit Interest agreement and as such the net book value at the date of sale was reduced by £11,371, giving rise to a loss on disposal of £2,846. During the year the Group also sold a further 5% interest in PEDL070 containing the Avington oil field to IS NV Limited. The sale was based on the same conditions detailed above and also gave rise to a loss on disposal of £2,846. During the course of the year, the Group also sold sundry plant and equipment giving rise to a profit on disposal of £5,044.

In 2010, the Group sold a 15% interest in PEDL005 (Remainder) containing the Keddington oil field to Terrain Energy Limited for cash consideration of £236,500 and deferred cash consideration of £50,000 payable on the commencement of the K-3 sidetrack well. At the date of sale, 15% of the net book value of this asset amounted to £82,838, giving rise to a profit of £203,663. In the same deal the Group sold 25% interest in PEDL203 containing the Kirklington oil field for cash consideration of £66,865 and deferred cash consideration of £87,500 payable on commencement of the Kirklington sidetrack well. At the date of sale, 25% of the net book value of this asset amounted to £21,174, giving rise to a profit of £133,191.

Also in 2010, the Group also sold a further 10% interest in PEDL203 containing the Kirklington oil field to Angus Energy Kirklington Development Limited by way of a farm-out for contingent consideration of £59,585. This was based on 10% of the drilling costs for the sidetrack at Kirklington 2 well. At the date of sale, 10% of the net book value of the asset amounted to £10,058, giving rise to a profit of £49,527.

### 7. Auditor’s remuneration

	2011 £	2010 £
Audit services:		
Fees payable to the Group’s auditor for the audit of the Group’s annual financial statements	9,200	9,000
Other services:		
The auditing of financial statements of subsidiaries of the Company pursuant to legislation	27,613	27,000
All other services	5,250	12,400
Total audit and other services	42,063	48,400



## 8. Employee information

	2011 Number	2010 Number
The average number of persons employed by the Group in the year, including Executive and Non-Executive Directors, was:		
Management and administration	12	11
	2011 £	2010 £
Employee costs during the year amounted to:		
Wages and salaries	519,386	394,418
Social security costs	61,541	44,990
Share based remuneration charges	30,351	54,831
Pension costs	15,008	10,838
	<b>626,286</b>	<b>505,077</b>

## 9. Remuneration of Directors and key management

The board considers that the group and company's key management comprises the directors of the company

	2011 £	2010 £
<b>Group and company</b>		
Directors' emoluments	277,301	235,507
Employers national insurance contributions	28,518	23,283
Short term employment benefits	305,819	258,790
Post employment benefits	6,875	6,000
Share based remuneration charge attributable to Directors	—	12,434
	<b>312,694</b>	<b>277,224</b>

The emoluments and compensation of individual Directors were as follows:

	Salary and fees £	Bonus £	Medical £	Insurance benefits £	Pension £	Total 2011 £	Total 2010 £
M A W Abbott	137,500	12,000	2,898	8,221	6,875	167,494	130,322
A D Hindle (resigned 1.2.2011)	7,500	—	—	385	—	7,885	16,237
P H P Stephens	37,500	—	—	1,024	—	38,524	38,737
K M Ratcliff	22,500	—	—	1,024	—	23,524	23,737
J G R Rix	15,000	—	—	1,024	—	16,024	16,237
W R Roberts	15,000	—	—	1,024	—	16,024	16,237
A Booth (appointed 28.7.2010)	13,750	—	—	951	—	14,701	—
	<b>248,750</b>	<b>12,000</b>	<b>2,898</b>	<b>13,653</b>	<b>6,875</b>	<b>284,176</b>	<b>241,507</b>

The emoluments of the highest paid Director excluding pension contributions were £160,619 (2010: £124,322).

Life policy and critical illness premiums of £7,198 (2010: £1,842) were paid in respect of the Executive Director and Directors' indemnity insurance premiums of £6,455 (2010: £7,422) were paid in respect of all Directors.

MAW Abbott participated in the Company's pension scheme (see note 11) and the Company made payments of £6,875 (2010: £6,000) during the period in respect of pension contributions. The Company does not currently provide pension arrangements or benefits other than as described above.

## Notes Forming Part of the Financial Statements (continued)

### 9. Remuneration of Directors and key management (continued)

Directors' share options outstanding at 31 July 2011 and at 31 July 2010

	Exercise price	Number of options	Date granted	First date of exercise
M A W Abbott	16.17p	618,429	12/05/2008	01/08/2010

No Director is entitled to receive any shares under the terms of any long term incentive scheme in respect of qualifying services other than as noted above. No options were granted to the Directors in the year to 31 July 2011 (see below).

### 10. Share based payment plans

On 13 May 2008, the Company established an Enterprise Management Incentive Scheme and made the initial grant of options to all eligible employees.

On 13 May 2008, Options were granted over a total of 1,631,908 ordinary shares at an exercise price of 16.17p (being the average middle-market closing price on the three trading days preceding the grant). These options became exercisable on 1 August 2010. The options will vest for all grantees that remain in service to date. The options do not have a cash settlement alternative. The charge to income in respect of these options is £nil (2010: £29,606). An amount equivalent to the charge to income is credited to reserves and appears in the Group and Company statement of financial positions described as "share based payment reserve".

On 1 September 2009, the Company granted additional options to all eligible employees. Options have been granted over a total of 1,470,724 ordinary shares at an exercise price of 11p (being the average middle-market closing price on the three trading days preceding the grant). The options are exercisable on or after 1 September 2011. The options will vest if the grantees are in service at the 1 September 2011. The options do not have a cash settlement alternative. The charge to income in respect of these options is £27,650 (2010: £25,225). An amount equivalent to the charge to income is credited to reserves and appears in the Group and Company statement of financial positions described as "share based payment reserve".

In the year to 31 July 2010, 176,252 options were forfeited in respect of the May 2008 options granted, when an eligible employee left the company.

During the year to 31 July 2011, two employees have exercised their options granted in May 2008 over 193,320 shares. At the end of the year there are options granted over a total of 1,262,336 (2010: 1,455,656) ordinary shares in respect of the May 2008 options.

On 1 February 2011, options have been granted over a total of 298,804 ordinary shares at an exercise price of 20.08p (being the average middle-market closing price on the three trading days preceding the grant) to a new employee. The options are exercisable on or after 1 August 2013. The options will vest if the grantee is in service at the 1 August 2013. The options do not have a cash settlement alternative. The charge to income in respect of these options is £2,701 (2010: £nil). An amount equivalent to the charge to income is credited to reserves and appears in the Group and Company statement of financial positions described as "share based payment reserve".

The fair value of equity settled share options granted is estimated as at the date of grant using a Black-Scholes option pricing model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model.

	13 May 2008 & 1 September 2009
Dividend yield	—
Expected share price volatility (%)	35
Risk-free interest rate (%)	5.5
Expected life of option (years)	2

## 10. Share based payment plans (continued)

1 February 2011

Dividend yield	—
Expected share price volatility (%)	35
Risk-free interest rate (%)	0.5
Expected life of option (years)	2.5

The expected volatility is based on the assumption that the historical volatility of a sample of oil and gas companies is indicative of future trends for Egdon Resources plc, which may not necessarily be the actual outcome.

The following table illustrates the number and weighted average exercise prices (WAEP) of, and movement in, share options during the year.

Company and group	2011 No	2011 WAEP	2010 No	2010 WAEP
Opening balance	2,926,380	13.57	1,631,908	16.17
Granted during the year	298,804	20.08	1,470,724	11.00
Forfeited during the year	—	—	(176,252)	16.17
Exercised during the year	(193,320)	16.17	—	—
Outstanding at 31 July 2011	3,031,864	14.05	2,926,380	13.57

The weighted average remaining contractual life of share options outstanding as at 31 July 2011 is 7.5 years (2010: 8.25 years). At 31 July 2011 1,262,336 (2010: nil) of the total number of share options outstanding could be exercised and these options had a weighted average exercise of 16.17 pence (2010: nil). The weighted average share price at the date the options were exercised was 16.17 pence.

## 11. Defined contribution pension plan

The Group operates a defined contribution retirement plan for all qualifying employees who wish to participate. The assets of the scheme are held separately from those of the Group in funds under the control of trustees.

The total cost in the year of £15,008 (2010: £10,838) represents the sum payable to the scheme by the Group at rates agreed in respect of participating employees.

## 12. Finance income

	2011 £	2010 £
Interest receivable on short term deposits	41,505	1,156

## 13. Finance costs

	2011 £	2010 £
Unwinding of decommissioning discount	34,735	27,905
Interest payable on loan from EnCore Oil plc	87,123	—
Other interest payable	—	809
	121,858	28,714

## Notes Forming Part of the Financial Statements (continued)

### 14. Income tax

The major components of income tax expense for the years ended 31 July 2011 and 2010 are:

	2011 £	2010 £
<b>a) Consolidated income statement</b>		
Current income tax charge	—	113
<b>b) A reconciliation between tax expense and the product of the accounting profit and the standard rate of tax in the UK for the years ended 31 July 2011 and 2010 is as follows:</b>		
Accounting profit before tax from continuing operations	4,076,610	235,530
Profit on ordinary activities multiplied by the standard rate of tax of 27.33% (2010: 28%)	1,114,138	65,948
Expenses not permitted for tax purposes	18,898	25,052
Profit on sale of subsidiary not taxable	(1,185,654)	—
Impact of change in tax rate	—	—
Carry forward/(utilisation) of tax losses and movement in unrecognised deferred tax assets	52,618	(90,887)
Income tax expense reported in the income statement	—	113

### c) Factors that may affect the future tax charge:

The Group has trading losses of £21,167,766 (2010: £20,888,574) which may reduce future tax charges. Future tax charges may also be reduced by capital allowances on cumulative capital expenditure, supplementary allowance on ring-fenced exploration expenditure and the extent to which any profits are generated by any ring-fenced activities, which attract a higher rate of tax.

### d) Deferred taxation

The Group has an unrecognised deferred taxation asset of £1,576,084 (2010: £1,752,321) at the year end, calculated at a rate of 27.33%. This is represented by accumulated tax losses of £5,785,150 (2010: £5,848,802) offset by accelerated capital allowances of £4,209,066 (2010: £4,096,481).

### 15. Earnings per share

	2011 £	2010 £
Net profit for the financial year	4,076,610	235,417
Basic weighted average ordinary shares in issue during the year	130,786,388	80,882,893

	Pence	Pence
Basic profit per share	3.12	0.29

### Diluted profit per share

	2011 £	2010 £
Net profit for the financial year	4,076,610	235,417
Diluted weighted average ordinary shares in issue during the year	131,349,668	80,887,969

	Pence	Pence
Diluted profit per share	3.10	0.29

A calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The diluted weighted average ordinary shares in issue during the year is calculated from the basic weighted average ordinary shares in issue during the year, adjusted to reflect the potential dilution assuming the exercise of the options. However, the 2 February 2011 share options have been excluded as these would be anti-dilutive.

## 16. Losses attributable to Egdon Resources plc

The loss for the financial year dealt with in the financial statements of Egdon Resources plc was £256,640 (2010: £272,197). As permitted by Section 408 of the Companies Act 2006, no income statement is presented in respect of Egdon Resources plc.

## 17. Intangible fixed assets

Group	Goodwill £	Exploration and evaluation costs £	Other intangibles £	Total £
At 1 August 2009	2,856	5,686,168	11,240	5,700,264
Additions	—	1,835,437	—	1,835,437
Reclassifications to D&P assets	—	(207,105)	—	(207,105)
Gross margin on oil sales from well testing	—	(32,767)	—	(32,767)
Reclassifications to Assets held for sale (note 23)	—	(13,805)	—	(13,805)
Disposals	—	(246,635)	—	(246,635)
<b>At 1 August 2010</b>	<b>2,856</b>	<b>7,021,293</b>	<b>11,240</b>	<b>7,035,389</b>
Additions	—	<b>3,275,978</b>	—	<b>3,275,978</b>
Reclassifications to D&P assets	—	<b>(2,610,136)</b>	—	<b>(2,610,136)</b>
Disposals	<b>(2,856)</b>	—	—	<b>(2,856)</b>
Exploration written off	—	<b>(593,705)</b>	—	<b>(593,705)</b>
Transfers	—	<b>(102,069)</b>	<b>102,069</b>	—
<b>At 31 July 2011</b>	<b>—</b>	<b>6,991,361</b>	<b>113,309</b>	<b>7,104,670</b>
<b>Amortisation</b>				
At 1 August 2009	2,856	—	—	2,856
Disposals	—	—	—	—
<b>At 1 August 2010</b>	<b>2,856</b>	—	—	<b>2,856</b>
Disposals	<b>(2,856)</b>	—	—	<b>(2,856)</b>
<b>At 31 July 2011</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>
<b>Net book value</b>				
<b>At 31 July 2011</b>	<b>—</b>	<b>6,991,361</b>	<b>113,309</b>	<b>7,104,670</b>
At 31 July 2010	—	7,021,293	11,240	7,032,533

Goodwill related to the acquisition of shares in Egdon Resources (New Ventures) Ltd. On the disposal of Egdon Resources (New Ventures) Ltd this goodwill has been removed.

The Group's unevaluated oil and gas interests at 31 July 2011 are its equity interests in licences in the UK and France held through its wholly owned subsidiaries Egdon Resources U.K. Limited and Egdon Resources Avington Ltd, and through sub-subsidiaries Egdon Resources Europe Limited, Egdon Resources France Limited, Aquitaine Exploration Limited and Egdon (E&P) Limited. Additions to exploration and evaluation costs represent exploration and appraisal costs incurred in the year in respect of unproven properties.

A formal impairment review has been carried out and the Directors have considered and reviewed the potential value of all projects and licences. The Directors have also considered the likely opportunities for realising the value of licences, either by development of discovered hydrocarbons, the farm-out of the asset leading to a development or by the disposal of the assets, and have concluded that the likely value of the expenditure on each exploration area is individually in excess of its carrying amount. The amount described as exploration written off, which relates to dry wells and relinquished licences, has been charged to the consolidated income statement and included within cost of sales and described as "Cost of sales – exploration costs written off, impairments and pre-licence costs".

In the year ended 31 July 2010, additions include £534,825 in respect of interests in nine exploration and appraisal licences acquired from EnCore in return for issue of shares in Egdon (note 28).

Other intangibles represent the costs of purchased data and other geological standards which are used to assist with formulating strategy for licence applications and asset purchases. The costs are subject to an annual impairment test, and elements are written off if they have no future commercial value.

## Notes Forming Part of the Financial Statements (continued)

### 17. Intangible fixed assets (continued)

The Group's unevaluated oil and gas interests at 31 July 2011 are its equity interests in licences in the UK and France held through its wholly owned subsidiaries Egdon Resources U.K. Limited and Egdon Resources Avington Ltd, and through sub-subsidiaries Egdon Resources Europe Limited, Egdon Resources France Limited, Aquitaine Exploration Limited and Egdon (E&P) Limited.

A formal impairment review has been carried out and the Directors have considered and reviewed the potential value of all projects and licences. The Directors have also considered the likely opportunities for realising the value of licences, either by development of discovered hydrocarbons, the farm-out of the asset leading to a development or by the disposal of the assets, and have concluded that the likely value of the expenditure on each exploration area is individually in excess of its carrying amount. The amount described as exploration written off, which relates to dry wells and relinquished licences has been charged to the consolidated income statement and included within cost of sales and described as "Cost of sales – exploration costs written off, impairments and pre-licence costs".

### 18. Property, plant and equipment

Group	Development and production assets £	Fixtures and fittings £	Computer equipment £	Total £
<b>Cost</b>				
At 1 August 2009	2,848,751	4,686	50,188	2,903,625
Additions	6,176,363	—	7,785	6,184,148
Disposals	(218,462)	—	—	(218,462)
Reclassifications from intangible assets	207,105	—	—	207,105
<b>At 1 August 2010</b>	<b>9,013,757</b>	<b>4,686</b>	<b>57,973</b>	<b>9,076,416</b>
Additions	<b>842,744</b>	<b>—</b>	<b>22,004</b>	<b>864,748</b>
Disposals	<b>(571,635)</b>	<b>—</b>	<b>—</b>	<b>(571,635)</b>
Reclassifications from intangible assets	<b>2,610,136</b>	<b>—</b>	<b>—</b>	<b>2,610,136</b>
<b>At 31 July 2011</b>	<b>11,895,002</b>	<b>4,686</b>	<b>79,977</b>	<b>11,979,665</b>
<b>Depreciation</b>				
At 1 August 2009	376,037	4,686	42,414	423,137
Charge for the year	256,882	—	8,464	265,346
Disposals	(34,430)	—	—	(34,430)
<b>At 1 August 2010</b>	<b>598,489</b>	<b>4,686</b>	<b>50,878</b>	<b>654,053</b>
Charge for the year	<b>721,258</b>	<b>—</b>	<b>7,391</b>	<b>728,649</b>
Disposals	<b>(124,379)</b>	<b>—</b>	<b>—</b>	<b>(124,379)</b>
<b>At 31 July 2011</b>	<b>1,195,368</b>	<b>4,686</b>	<b>58,269</b>	<b>1,258,323</b>
<b>Net book value</b>				
<b>At 31 July 2011</b>	<b>10,699,634</b>	<b>—</b>	<b>21,708</b>	<b>10,721,342</b>
At 31 July 2010	8,415,268	—	7,095	8,422,363

The prior year comparative figure, includes additions totalling £4.5 million in respect of a 10% interest in the Ceres gas field acquired from EnCore in return for issue of shares in Egdon (Note 28).

The depreciation charge for the year includes impairment charges in respect of the Avington (£130,000) and Kirklington (£100,000) fields; these charges are included within Exploration costs written off, impairments and pre-licence costs in the consolidated statement of comprehensive income. Both fields are within the UK market for segmental reporting.

## 18. Property, plant and equipment (continued)

These productive oil fields are within geographical CGU's containing exploration & evaluation assets that have been subject to impairment review and, in the case of Avington, surrender of the adjoining licence. The recoverable amounts are based on value in use assessed from forecast production, oil price per barrel of \$100 - \$109 and a discount rate of 8%.

Company	Computer equipment £
<b>Cost</b>	
At 1 August 2009	2,832
Additions	7,785
<b>At 1 August 2010</b>	<b>10,617</b>
Additions	<b>4,834</b>
<b>At 31 July 2011</b>	<b>15,451</b>
<b>Depreciation</b>	
At 1 August 2009	640
Charge for the year	3,322
<b>At 1 August 2010</b>	<b>3,962</b>
Charge for the year	<b>4,089</b>
<b>At 31 July 2011</b>	<b>8,051</b>
<b>Net book value</b>	
<b>At 31 July 2011</b>	<b>7,400</b>
At 31 July 2010	6,655

## 19. Investments in subsidiaries

	Shares in subsidiary undertakings £	Loans to subsidiary undertakings £	Total £
<b>Balance at 31 July 2009</b>	9,964,782	—	9,964,782
Additions in year	—	5,034,824	5,034,824
<b>Balance at 31 July 2010</b>	9,964,782	5,034,824	14,999,606
Additions in year	—	—	—
<b>Balance at 31 July 2011</b>	<b>9,964,782</b>	<b>5,034,824</b>	<b>14,999,606</b>

The balance represents the investment in Egdon Resources U.K. Limited and Egdon Resources Avington Ltd. The loan advanced in the year ended 31 July 2010 represents the value of licence interests acquired from EnCore Oil plc transferred to Egdon Resources U.K. Limited and Egdon Resources Europe Limited.

## Notes Forming Part of the Financial Statements (continued)

### 19. Investments in subsidiaries (continued)

#### Holdings of more than 20%

As at the year end the Company directly and indirectly held more than 20% of the share capital of the following companies:

Company	Country of registration or incorporation	Class of shares held	% of shares held
Egdon Resources U.K. Limited	England	Ordinary	100
Egdon Resources Europe Limited	England	Ordinary	100
Egdon Resources Avington Ltd	England	Ordinary	100
Egdon Resources France Limited	England	Ordinary	100
Aquitaine Exploration Limited	England	Ordinary	100
Egdon (E&P) Limited	England	Ordinary	100

All of these companies are involved in oil and gas exploration and production.

On the 23 November 2010 Egdon Resources U.K. Limited completed the acquisition of EnCore (E&P) Limited (now renamed Egdon (E&P) Limited). The company which holds two Permits in France (Mairy and Nimes) and was acquired in the period for a cash consideration of £100,000. This transaction has been accounted for as an asset acquisition rather than a business combination as the acquired company did not have processes or outputs as defined by IFRS 3 (Revised) and so is not classified as a business.

### 20. Inventory

	Group 2011 £	Group 2010 £	Company 2011 £	Company 2010 £
Oil stock	9,796	—	—	—

### 21. Trade and other receivables

	Group 2011 £	Group 2010 £	Company 2011 £	Company 2010 £
Amounts falling due within 1 year				
Trade receivables	1,604,317	506,912	—	—
Amounts owed by subsidiaries	—	—	75,995	1,156,454
VAT recoverable	58,069	133,263	5,281	10,863
Other receivables	503,170	213,319	—	—
Prepayments and accrued income	92,720	185,402	35,802	23,978
	2,258,276	1,038,896	117,078	1,191,295

The Directors consider that the carrying amount of trade and other receivables approximates to their fair value.

Trade and other receivables represent amounts due from customers for the company's oil and gas products, balances due from joint venture partners regulated by signed operator agreements, or receipts in respect of asset sales.

As at 31 July 2011 no trade receivables were considered to be impaired (2010: £nil).

As at 31 July 2011 trade receivables of £81,896 (2010: £32,037) were past due but not impaired.

The ageing analysis of these trade receivables is as follows:

	2011	2010
Up to 3 months past due	41,214	30,065
3-6 months past due	4,939	1,972
Over 6 months past due	35,743	—
	81,896	32,037

Other receivables do not contain impaired assets.



## 22. Available for sale financial assets

	Group 2011 £	Group 2010 £
At 1 August 2010	50,000	50,000
Additions	—	—
At 31 July 2011	50,000	50,000

The investment in securities above represents an investment in Infrastrata plc (previously Portland Gas plc) redeemable preference shares. The securities are held at cost as an approximation of fair value.

## 23. Assets held for sale

	Group 2011 £	Group 2010 £
Intangible assets	—	13,805
Cash at bank	—	7,795
Assets held for sale	—	21,600
Trade payables	—	1,979
Other taxes and social security costs	—	1,916
Accruals and deferred income	—	4,750
Liabilities directly associated with assets classified as held for sale	—	8,645
	—	12,955

At 31 July 2010 the Company classified Egdon Resources (New Ventures) Ltd as a disposal group. This included the Navacelles and Gex Sud permits previously included in exploration and evaluation assets and all other associated current assets and liabilities.

The sale of 100% of the share capital of Egdon Resources (New Ventures) Ltd was completed on 5 October 2010 for a consideration of £4.5 million in cash and the grant of options in relation to the permits sold.

The permits were measured at their carrying amount as this is lower than the fair value less costs to sell. There were no discontinued operations as a result of this sale, due to the non-producing nature of the permits, which had not generated any direct costs or revenues.

## 24. Cash and cash equivalents

	Group 2011 £	Group 2010 £	Company 2011 £	Company 2010 £
Short term bank deposits	2,997,063	370,918	2,272,871	—
Restricted cash at bank	296,027	295,527	—	—
Cash at bank	398,085	1,363,390	27,659	36,952
	3,691,175	2,029,835	2,300,530	36,952

The Directors consider that the carrying amount of these assets approximates to their fair value. The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings.

Restricted cash at bank represents funds held in escrow accounts under arrangements relating to decommissioning and similar obligations at Keddington and Burton Agnes.

## Notes Forming Part of the Financial Statements (continued)

### 25. Trade and other payables

	Group 2011 £	Group 2010 £	Company 2011 £	Company 2010 £
Trade payables	1,060,679	802,053	4,401	41,354
Amounts due to subsidiaries	—	—	369,253	—
Other taxes and social security costs	22,170	14,487	22,169	14,487
Other payables	1,039,367	—	1,039,253	—
Accruals and deferred income	603,501	823,127	64,718	25,070
	<b>2,725,717</b>	1,639,667	<b>1,499,794</b>	80,911

The Directors consider that the carrying amount of trade and other payables approximates to their fair value.

Other payables includes £1,000,000 (2010: £nil) due to EnCore Oil plc for a loan drawn down in the period under the facility agreement which was provided as part of the purchase of assets from EnCore during 2010. The loan attracts interest at the higher of 10% or LIBOR plus 5%. The loan is repayable on 28 July 2012.

Also included in other payables is £37,995 (2010: £nil) due to The Carbon Trust. This loan is repayable via monthly instalments of £2,235. This loan is provided on an interest free basis.

### 26. Financial assets and liabilities

The Group's objective is to minimise financial risk. In prior years, the policies to achieve this were to fund operations from equity capital and not to make use of derivatives or complex financial instruments. These policies have been amended as the Group now considers that it may also be appropriate to fund certain projects from debt. The Group's ordinary shares are considered to be equity capital, together with share premium, share based payment reserve and retained earnings. The Group is not subject to any externally imposed capital requirements.

During the year the Group drew down on a loan facility made available under the terms of the acquisition of certain licence interests from EnCore Oil plc. The loan facility has been used to fund the development of the Kirkleatham gas field.

The Group's financial instruments comprise cash and cash equivalents, trade payables, the above EnCore loan, accruals, trade receivables, other receivables and available for sale assets which arise directly from its operations. The Group's operations expose it to a variety of financial risks including credit risk, liquidity risk, interest rate risk, foreign currency exchange risk and market risk. 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 policies set by the Board of Directors are implemented by the Company's finance department.

#### Credit risk

The credit risk on liquid funds is limited because the Group policy is to only deal with counterparties with high credit ratings and more than one institution is utilised to deposit cash holdings. At year end the Group had cash and cash equivalents of £3,691,175 (2010: £2,029,835) and the Company £2,300,530 (2010: £36,952). The balances at 31 July 2011 are held with two banks. Trade receivables comprise amounts due from trading entities and total £1,604,317 (2010: £506,912) for the Group and £nil (2010: £nil) for the Company (note 21). Trade receivables are mainly due from joint venture partners and the purchasers of the Group's produced oil and gas. For joint venture partners, the Group would have alternative means of recourse in the event of any credit default. The purchasers of the Group's oil & gas production are substantial companies or subsidiaries of major international companies. At the year end, the total exposure to credit risk was £5,848,662 (2010: £2,800,066); Company £2,300,530 (2010: £36,952).

#### Liquidity risk

The Group policy is to actively maintain a mixture of long term and short term deposits that are designed to ensure it has sufficient available funds for operations. The Group also has access to the remaining undrawn loan facility of £500,000 provided by EnCore Oil plc. The Group monitors its levels of working capital to ensure it can meet financial liabilities as they fall due. The Group's financial liabilities comprise trade and other payables as set out in note 25, held at amortised cost, which total £2,725,717 (2010: £1,639,667). Of this balance £1,690,820 (2010: £1,639,667) are all due within 1-2 months. Additionally the Group has a liability under a Net Profit Interest agreement where £12,101 (2010: £21,269) is estimated to be due within 12 months.

## 26. Financial assets and liabilities (continued)

### Interest rate risk

The Group has interest bearing assets, comprising cash balances which earn interest at variable rates and interest bearing liabilities in the form of loans. The financial assets of the Group are cash at bank and fixed term bank deposits (money market) most of which are Sterling denominated, further detailed below:

	2011 £	2010 £
Cash at bank at floating interest rates	2,997,063	370,918
Restricted cash at bank	296,027	295,527
Cash at bank	398,085	1,363,390

Cash at bank at floating rates consisted of money market deposits which earn interest at rates set in advance for periods up to three months by reference to Sterling LIBOR. Restricted cash at bank represents amounts lodged in support of guarantee commitments, earning interest at short term rates based on Sterling LIBOR.

An effective interest rate increase or decrease by 1% on the cash and cash equivalents balance at year end would result in a before tax financial effect of an increase or decrease in finance income of £36,912 (2010: £20,298).

The Group has interest bearing liabilities as disclosed in note 25. No sensitivity analysis is provided as the probability of LIBOR plus 5% exceeding 10% before the loan is repaid is remote.

### Foreign currency exchange risk

The Group is exposed to foreign currency exchange rate risk in relation to short term bank deposits, trade receivables and payables denominated in US dollars and Euros. The value of the Group's financial assets denominated in foreign currencies at 31 July 2011 was £416,195 (2010: £85,206) Company £nil (2010: £nil).

A 10% change in the Sterling exchange rate would result in an increase or decrease of £41,620 (2010: £8,521) in profit before tax.

### Market risk

Payments to the former shareholder of Egdon Resources Avington Ltd under the Net Profit Interest ("NPI") agreement vary in line with the oil price. If the oil price is below \$100 per barrel, NPI payments are based on 5% of Egdon's net revenues realised from the licences after subtracting allowable costs. If the oil price exceeds \$130 per barrel the NPI payment percentage increases to 10%. If the oil price is between \$100 and \$130, the NPI payment percentage is 7.5%. The provision at 31 July 2011 assumes that oil price will continue to be less than \$100 per barrel. If this level were to be exceeded, the liability would rise, but any increase would be exceeded by the corresponding increase in revenue from oil sales. If the oil price were to fall below \$100 per barrel the liability would decrease and there would be a corresponding decrease in revenues from oil sales.

## Notes Forming Part of the Financial Statements (continued)

### 27. Provision for liabilities

Group	Other provisions £	Decommissioning provision £	Reinstatement provision £	Total £
At 1 August 2009	94,307	233,506	422,520	750,333
Provision made during the year	—	208,808	37,965	246,773
Paid during the year	(3,612)	—	—	(3,612)
Disposals in the year	—	(69,962)	(35,527)	(105,489)
Transfer of provision on reclassification to D&P assets	—	116,412	(116,412)	—
Unwinding of discount	—	13,762	14,143	27,905
<b>At 1 August 2010</b>	<b>90,695</b>	<b>502,526</b>	<b>322,689</b>	<b>915,910</b>
Provision created/released during the year	—	<b>(55,847)</b>	<b>98,089</b>	<b>42,242</b>
Paid during the year	<b>(11,006)</b>	—	—	<b>(11,006)</b>
Disposals in the year	<b>(22,742)</b>	<b>(18,823)</b>	—	<b>(41,565)</b>
Transfer of provision on reclassification to D&P assets	—	<b>121,553</b>	<b>(121,553)</b>	—
Unwinding of discount	—	<b>21,124</b>	<b>13,611</b>	<b>34,735</b>
<b>At 31 July 2011</b>	<b>56,947</b>	<b>570,533</b>	<b>312,836</b>	<b>940,316</b>

Company	Other provisions £	Decommissioning provision £	Reinstatement provision £	Total £
At 1 August 2009	94,307	—	—	94,307
Provision made during the year	—	—	—	—
Paid during the year	(3,612)	—	—	(3,612)
Unwinding of discount	—	—	—	—
<b>At 1 August 2010</b>	<b>90,695</b>	—	—	<b>90,695</b>
Provision made during the year	—	—	—	—
Paid during the year	<b>(11,006)</b>	—	—	<b>(11,006)</b>
Disposals in the year	<b>(22,742)</b>	—	—	<b>(22,742)</b>
Unwinding of discount	—	—	—	—
<b>At 31 July 2011</b>	<b>56,947</b>	—	—	<b>56,947</b>

At 31 July 2011 provision has been made for decommissioning costs on the productive fields at Keddington, Kirkleatham, Ceres, Avington and Kirklington. Provision has also been made for reinstatement costs relating to exploration and evaluation assets where work performed to date gives rise to an obligation, principally for site restoration. Assumptions, based on the current economic environment, have been made which management believe are a reasonable basis upon which to estimate the future liability. This estimate will be reviewed regularly to take into account any material change to assumptions. Actual costs will depend on future market prices, any variation in the extent of decommissioning and reinstatement to be performed, whether the works can be performed as part of a multi-well programme or in isolation and progress in the relevant technologies. Decommissioning and reinstatement costs are expected to arise between 2011 and 2021.

Other provisions represent the amount expected to be payable to the former shareholder of Egdon Resources Avington Ltd under the Net Profit Interest agreement entered into at the time of acquisition. As detailed in note 6 other provisions reduced due to the sale of 10% interest in PEDLO70. Of the total provision, £12,101 is estimated to be payable within one year.

## 28. Share capital and redeemable preference shares

Ordinary share capital	Allotted, called up and fully paid	
	Number	£
<b>At 31 July 2009</b>	75,475,774	7,547,577
— Issue of new £0.10 ordinary shares	55,200,000	5,520,000
<b>At 31 July 2010</b>	130,675,774	13,067,577
— Issue of new £0.10 ordinary shares	<b>193,320</b>	<b>19,332</b>
<b>At 31 July 2011</b>	<b>130,869,094</b>	<b>13,086,909</b>
<b>Redeemable preference shares of £1 each (classed as liabilities)</b>		
At 31 July 2010	50,000	12,500
<b>At 31 July 2011</b>	<b>50,000</b>	<b>12,500</b>

On 6 April 2010 a placing of 16,000,000 10p ordinary shares with a market value of 12.5p was made. Following the placing 91,475,774 ordinary shares were in issue.

On 28 July 2010 a placing of 39,200,000 10p ordinary shares with a market value of 12.5p was made with EnCore Oil plc in consideration for the acquisition of interests in nine exploration and appraisal licences and a 10% interest in the Ceres gas field. Following the placing 130,675,774 ordinary shares were in issue.

On 21 December 2010 82,003 10p Ordinary shares were issued to staff under the Company's Enterprise Management Incentive Scheme for a cash consideration of £13,260. Following this 130,757,777 Ordinary shares were in issue.

On 25 January 2011 111,317 10p Ordinary shares were issued to staff under the Company's Enterprise Management Incentive Scheme for a cash consideration of £18,000. Following this 130,869,094 Ordinary shares were in issue.

On 6 November 2007 50,000 redeemable preference shares of £1 each were issued and are now held by Infrastrata plc. One quarter of the nominal value of these shares is paid up and the shares are entitled to an annual dividend out of distributable profits of 0.00001% per annum on the amount for the time being paid up on each such share and do not carry any voting rights. The Company may redeem the shares at any time by giving preference shareholders one week's notice. Preference shareholders may require the Company to redeem their shares at any time by giving six months' notice. In each case, any redemption is at par and is subject to the provisions of the Companies Act. The preference shares are treated as short term liabilities and included within trade payables.

## 29. Share premium reserve

During the year to 31 July 2011 193,320 ordinary shares of 10p were issued for cash consideration of £31,260 creating additional share premium of £11,928. This resulted in a closing share premium reserve carried forward of £1,374,428 (2010: £1,362,500).

## 30. Merger reserve

### Company

The merger reserve arose on the demerger of the Egdon Resources Group of companies from Infrastrata plc (formerly Portland Gas plc) and represented the difference between the market value of the shares issued on the date of the demerger at the closing rate of trading and nominal value of the shares so issued.

The reserve is not distributable.

### Group

The merger reserve was eliminated on demerger effected by a Court Order.

## Notes Forming Part of the Financial Statements (continued)

### 31. Movements in cash and cash equivalents

Group	As at	Cash flow	As at
	31 July		31 July
	2010		2011
	£	£	£
Cash at bank and in hand	1,363,390	(965,305)	<b>398,085</b>
Term deposits	370,918	2,626,145	<b>2,997,063</b>
Restricted cash at bank	295,527	500	<b>296,027</b>
Cash and cash equivalents as per statement of financial position	2,029,835	1,661,340	<b>3,691,175</b>
Cash held in disposal group (note 23)	7,795	(7,795)	<b>—</b>
Cash and cash equivalents as per statement of cash flow	2,037,630	1,653,545	<b>3,691,175</b>

Company	As at	Cash flow	As at
	31 July		31 July
	2010		2011
	£	£	£
Cash at bank and in hand	36,952	(9,293)	<b>27,659</b>
Term deposits	—	2,272,871	<b>2,272,871</b>
Cash and cash equivalents	36,952	2,263,578	<b>2,300,530</b>

### 32. Obligations under leases

At 31 July 2011 the Group had future minimum commitments under non-cancellable operating leases as follows:

	2011	2010
	£	£
Within 1 year		
— Land and buildings	<b>25,000</b>	25,000
— Leases on operational and exploration and evaluation sites	<b>69,203</b>	62,113
From 1–5 years	<b>18,750</b>	43,750
After 5 years	<b>—</b>	—
	<b>112,953</b>	130,863

### 33. Capital commitments — tangible and intangible assets

Capital commitments of £605,458 (2010: £1,451,100) relate to expenditure committed under signed authorisations for expenditure and relate to exploration, development and production assets. No other capital commitments have been made as at 31 July 2011.

### 34. Related party transactions

Mr Walter Roberts is a Non-Executive Director of Egdon Resources plc and is also a Director and shareholder in Pinnacle Energy Limited, a company that provides legal and consultancy services to the oil and gas industry. During the year to 31 July 2011 Pinnacle Energy Limited invoiced the Group £113,565 (2010: £130,107) for legal and consultancy services provided at commercial rates and agreed by the Directors of the Company. At the year end £1,321 was owing to Pinnacle Energy Limited (2010: £45,606).

Mr John Rix is a Non-Executive Director of Egdon Resources plc and controlling shareholder in Dorset Exploration Limited and Yorkshire Exploration Limited, companies that hold non-operating partnership interests in certain licences in which Egdon has an interest as operator. During the year to 31 July 2011 Egdon invoiced Dorset Exploration Limited and Yorkshire Exploration Limited £29,955 (2010: £9,602) and £323,173 (2010: £76,315) respectively by way of cost-recovery. At 31 July 2011 £22,517 (2010: £352) was due from Dorset Exploration Limited and £17,508 (2010: £15,295) was due from Yorkshire Exploration Limited. Also during the year to 31 July 2011 Yorkshire Exploration Limited invoiced Egdon Resources U.K. Limited £88,998 (2010: £nil) relating to their proportion of gas sales from the Kirkleatham licence on which Egdon Resources U.K. Limited is the operator. At 31 July 2011 £63,881 (2010: £nil) was due to Yorkshire Exploration Limited.

EnCore Oil plc is a shareholder in the Company and Alan Booth, the Chief Executive Officer of EnCore, is a Non-Executive Director of Egdon Resources plc. EnCore provided a loan facility at the time of an asset purchase transaction in 2010, details of which are provided in Note 25.

### 34. Related party transactions (continued)

Note 6 records the sale of a 5% interest in the Avington oil field to IS E&P Limited and a further 5% interest to IS NV Limited. The IS companies are private companies involved in oil and gas exploration and production. InfraStrata plc is a 50% shareholder in both companies, although each company has an independent board. Ken Ratcliff and Walter Roberts are directors of InfraStrata plc and Walter Roberts and John Rix have shareholdings in the IS companies. An independent committee of Egdon directors comprising Philip Stephens, Alan Booth and Mark Abbott was established to consider the offers for the Avington interests, and to negotiate and approve the transaction. Independent advice was sought.

During the year the Group provided services to companies with interests in jointly controlled operations as follows:

	2011 £	2010 £
Time costs	118,698	99,022
Overhead recharged in accordance with Joint Operating Agreement	177,725	55,049
	<b>296,423</b>	154,071

The balances due from companies with interests in jointly controlled operations in respect of these transactions as at 31 July 2011 and 31 July 2010 are set out below:

	2011 £	2010 £
Due from companies with interests in jointly controlled operations	90,007	30,424

The Company has a related party relationship with its subsidiaries in the course of normal operations.

During the year the Company provided management services, and billed for time spent on subsidiary Company projects. The total amounts invoiced were as follows:

	2011 £	2010 £
Invoiced to subsidiary companies	731,832	503,499

The balances outstanding at 31 July 2011 and 31 July 2010 are set out in the following table.

As at 31 July 2011	Amounts owed by related parties £	Amounts owed to related parties £
<b>Related party</b>		
<b>The ultimate parent</b>		
Egdon Resources plc	4,741,566	—
<b>Subsidiaries</b>		
Egdon (E&P) Limited	—	12,076
Egdon Resources Europe Limited	—	2,242,711
Egdon Resources U.K. Limited	—	2,422,860
Egdon Resources Avington Ltd	—	22,304
Egdon Resources France Limited	—	30,083
Aquitaine Exploration Limited	—	11,532

## Notes Forming Part of the Financial Statements (continued)

### 34. Related party transactions (continued)

As at 31 July 2010	Amounts owed by related parties £	Amounts owed to related parties £
<b>Related party</b>		
<b>The ultimate parent</b>		
Egdon Resources plc	6,191,278	—
<b>Subsidiaries</b>		
Egdon Resources (New Ventures) Limited	—	7,820
Egdon Resources Europe Limited	—	2,276,266
Egdon Resources U.K. Limited	—	3,888,692
Egdon Resources Avington Ltd	—	5,000
Egdon Resources France Limited	—	7,778
Aquitaine Exploration Limited	—	5,722

### 35. Control of the Group

There is no ultimate controlling party of Egdon Resources plc.

### 36. Post balance sheet events

#### Transfer of operatorship of PEDL141 to Seven Star Natural Gas Limited

On 19 August 2011, Egdon transferred operatorship of licence PEDL141 ("Nooks Farm") to Seven Star Natural Gas Limited.

#### Issue of shares under EMI scheme

On 14 September 2011, 100,000 ordinary shares of 10 pence were issued and allotted under the Company's Enterprise Management Incentive Scheme. Following this allotment, the total issued share capital of the Company increased to 130,969,094 ordinary shares.

#### Resumption of Ceres Production

Gas production resumed from the Ceres gas field on 17 September 2011, following prolonged maintenance shut-down of the BP Cleeton Platform and associated infrastructure.



# Letter from the Chairman with Notice of Annual General Meeting

## EGDON RESOURCES PLC

(THE "COMPANY")

(Incorporated and registered in England and Wales with registered number 06409716)

### Directors:

Philip Stephens (Non-executive Chairman)  
Mark Abbott (Managing Director)  
Alan Booth (Non-executive Director)  
Kenneth Ratcliff (Non-executive Director)  
John Rix (Non-executive Director)  
Walter Roberts (Non-executive Director)

### Registered Office:

The Wheat House  
98 High Street  
Odiham  
Hampshire  
RG29 1LP

4 November 2011

Dear Shareholder,

## 1. Introduction

Notice of the Company's forthcoming annual general meeting to be held on Thursday 8 December 2011 ("AGM" or "Annual General Meeting") appears on the following pages.

As in previous years your Board is not recommending the payment of a dividend.

## 2. Resolutions to be proposed at the AGM

### Ordinary Business

#### *Annual report and accounts (Resolution 1)*

A copy of the annual report and accounts (together with the Directors' and Auditor's reports on the annual report and accounts) for the Company for the financial year ended 31 July 2011 (the "Accounts") has been sent to you with this document. Shareholders will be asked to receive the Accounts at the Annual General Meeting.

#### *Re-appointment of auditor (Resolution 2)*

The Company is required at each general meeting at which accounts are presented to appoint an auditor to hold office until the next such meeting. Resolution 2 proposes the re-appointment of Nexia Smith & Williamson Audit Limited as the auditor of the Company to hold office from the conclusion of the Annual General Meeting until the conclusion of the next annual general meeting of the Company at which accounts are laid, and authorises the Directors to determine their remuneration.

#### *Retirement by Directors (Resolutions 3 & 4)*

Walter Roberts and Philip Stephens are the Directors retiring by rotation this year and each offers himself for re-election. All members of the Board are required to submit themselves for re-election at least once every three years. Brief biographical details of each of the Directors appear on page 16 of the Accounts.

### Special Business

#### *Authority of Directors to allot shares (Resolution 5)*

The authority given to the Directors to allot further shares in the capital of the Company requires the prior authorisation of the shareholders in general meeting under section 551 Companies Act 2006. Upon the passing of Resolution 5, pursuant to paragraph (A) of the Resolution, the Directors will have authority to allot shares up to a maximum of £4,365,636 which is approximately one third of the current issued share capital as at 4 November 2011, being the latest practicable date before the publication of this Letter. This authority will expire immediately following the annual general meeting in 2012 or, if earlier, six months following the date to which the Company's next annual report and accounts are made up.

In addition, in accordance with the guidance from the Association of British Insurers ("ABI") on the expectations of institutional investors in relation to the authority of directors to allot shares, upon the passing of Resolution 5, the Directors will have authority (pursuant to paragraph (B) of the Resolution) to allot an additional number of ordinary shares up to a maximum of £4,365,636 which is approximately a further third of the current issued ordinary share capital as at 4 November 2011, being the latest practical date before the publication of this Letter. However, the Directors will only be able to allot those shares for the purposes of a rights issue in which the new shares are offered to existing shareholders in proportion to their existing shareholdings. This authority will also expire immediately following the next annual general meeting or, if earlier, six months following the date to which the Company's next annual report and accounts are made up to.

## Letter from the Chairman with Notice of Annual General Meeting (continued)

As a result, if Resolution 5 is passed, the Directors could allot shares representing up to two-thirds of the current issued share capital pursuant to a rights issue.

### *Disapplication of pre-emption rights (Resolution 6)*

If the Directors wish to exercise the authority under Resolution 5 and offer unissued shares (or sell any shares which the Company may purchase and elect to hold as treasury shares) for cash, the Companies Act 2006 requires that unless shareholders have given specific authority for the waiver of the statutory pre-emption rights, the new shares be offered first to existing shareholders in proportion to their existing shareholdings. In certain circumstances, it may be in the best interests of the Company to allot new shares (or to grant rights over shares) for cash without first offering them to existing shareholders in proportions to their holdings.

Resolution 6 would authorise the Directors to do this by allowing the Directors to allot shares for cash (i) by way of a rights issue (subject to certain exclusions), (ii) by way of an open offer or other offer of securities (not being a rights issue) in favour of existing shareholders in proportions to their shareholdings (subject to certain exclusions) and (iii) to persons other than existing shareholders up to an aggregate nominal value of £3,929,072 which is equivalent to 30% of the issued share capital of the Company on 4 November 2011, being the latest practicable date prior to the publication of this Letter. If given, the authority will expire on the conclusion of the annual general meeting in 2012 or, if earlier, 31 January 2013.

For this purpose the ABI recommendation for companies on the LSE main list is 5%, although it is generally recognised that for smaller companies and those on AIM this may be too restrictive. Consequently I would ask that you approve a 30% disapplication of pre-emption rights to provide your Board with the flexibility to pursue investment opportunities without incurring the costs of a rights issue or the need to market part of the investment opportunity to third parties.

### **3. Recommendation**

Your Directors consider the resolutions to be proposed at the AGM to be in the best interests of the Company and its shareholders as a whole. Consequently, the Directors recommend shareholders to vote in favour of the resolutions as they intend to do in respect of their own beneficial holdings totalling 9,977,347 ordinary shares (representing 7.62% of the Company's issued share capital as at the date of this Letter).

A form of proxy is included for use at the AGM. Forms of proxy should be completed, signed and returned as soon as possible and in any event so as to be received by Capita Registrars at The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU not less than 48 hours prior to the time appointed for the holding of the AGM on 8 December 2011. Completion of a proxy form will not prevent you from attending the AGM in person if you so wish.

Yours sincerely,

**Philip Stephens**

Non-Executive Chairman

# Notice of Annual General Meeting

## EGDON RESOURCES PLC

(Incorporated and registered in England and Wales with registered number 06409716)

Notice is hereby given that the Annual General Meeting of Egdon Resources plc (the “Company”) will be held at the offices of Buchanan Communications Limited, 107 Cheapside, London, EC2V 6DN, United Kingdom on Thursday 8 December 2011 at 11.30 a.m. for the purpose of passing the following resolutions, of which Resolutions 1 to 5 will be proposed as Ordinary Resolutions and Resolution 6 will be proposed as a Special Resolution:

### ORDINARY RESOLUTIONS:

- 1 To receive the report of the Directors and the audited accounts of the Company for the year ended 31 July 2011, together with the report of the Auditor on those audited accounts.
- 2 That Nexia Smith & Williamson Audit Limited be and are hereby re-appointed as auditor of the Company to hold office from the conclusion of this meeting until the conclusion of the next meeting at which accounts are laid before the meeting, at a remuneration to be determined by the Directors.
- 3 To re-elect Walter Roberts as Director who retires pursuant to article 92 of the Company’s articles of association and who, being eligible, offers himself for re-election.
- 4 To re-elect Philip Stephens as Director who retires pursuant to article 92 of the Company’s articles of association and who, being eligible, offers himself for re-election.
- 5 To consider and, if thought fit, to pass the following resolution as an ordinary resolution:

THAT the Directors be and they are hereby generally and unconditionally authorised in accordance with section 551 Companies Act 2006 (CA 2006) to exercise all the powers of the Company to allot shares in the Company and to grant rights to subscribe for, or to convert any security into, shares in the Company:

(A) up to an aggregate nominal amount of £4,365,636; and

(B) comprising equity securities (within the meaning of section 560 CA 2006) up to a further aggregate nominal amount of £4,365,636 in connection with an offer by way of a rights issue:

(i) to ordinary shareholders in proportion (as nearly as may be practicable) to their existing holdings; and

(ii) to holders of other equity securities as required by the rights of those securities or as the Directors otherwise consider necessary,

and so that that Directors may impose any limits or restrictions and make any arrangements which they consider necessary or appropriate to deal with treasury shares, fractional entitlements, record dates, legal, regulatory or practical problems in, or under the laws of, any territory or the requirements of any regulatory body or stock exchange or any other matter (including any such problems arising by virtue of equity securities being represented by depositary receipts).

The authorities conferred on the Directors under paragraphs (A) and (B) above shall expire at the conclusion of the next annual general meeting of the Company after the passing of this Resolution or 31 January 2013, whichever is the earlier save that the Company may before such expiry make an offer or agreement which would or might require shares to be allotted or rights to subscribe for, or to convert any security into, shares to be granted after such expiry and the Directors may allot shares or grant rights to subscribe for, or to convert any security into, shares (as the case may be) in pursuance of such an offer or agreement as if the authority conferred hereby had not expired.

## Notice of Annual General Meeting (continued)

### SPECIAL RESOLUTION:

6 To consider and, if thought fit, to pass the following resolution as a special resolution:

THAT, subject to the passing of Resolution 5 above the Directors be and they are hereby empowered pursuant to section 570 CA 2006 to allot equity securities (within the meaning of section 560 CA 2006) for cash pursuant to the authority conferred by Resolution 5, as if section 561 CA 2006 did not apply to any such allotment, provided that this power shall be limited:

(A) to the allotment of equity securities in connection with an offer of equity securities (but in the case of the authority granted under paragraph (B) of Resolution 5, by way of a right issue only):

(i) to ordinary shareholders in proportion (as nearly as may be practicable) to their existing holdings; and

(ii) to holders of other equity securities as required by the rights of those securities or as the Directors otherwise consider necessary,

and so that the Directors may impose any limits or restrictions and make any arrangements which they consider necessary or appropriate to deal with any treasury shares, fractional entitlements, record dates, legal, regulatory or practical problems in, or under the laws of, any territory or the requirements of any regulatory body or stock exchange or any other matter (including any such problems arising by virtue of equity securities being represented by depositary receipts); and

(B) to the allotment (otherwise than under paragraph (A) of this Resolution 6) of equity securities up to an aggregate nominal amount of £3,929,072.

and shall expire at the conclusion of the next annual general meeting of the Company after the passing of this Resolution or 31 January 2013, whichever is the earlier, except that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of such offer or agreement as if the power conferred hereby had not expired.

Dated 4 November 2011

By Order of the Board

Walter Roberts  
Secretary

Registered Office:  
The Wheat House  
98 High Street  
Odiham  
Hampshire  
RG29 1LP

### Notes:

- 1 A member is entitled to appoint one or more proxies to exercise all or any of the member's rights to attend, speak and vote on his/her behalf at the meeting. A proxy need not be a member of the Company. If a member appoints more than one proxy to attend the meeting, each proxy must be appointed to exercise the rights attached to a different share or shares held by the member. If a member wishes to appoint more than one proxy and so requires additional proxy forms, the member should contact Capital Registrars on +44 (0)871 664 0300 (calls cost 10p per minute plus network extras). A form of proxy for use by members at the Annual General Meeting accompanies this notice.
- 2 To be effective, the form of proxy and the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such authority, must be received by post or (during normal business hours only) by hand at the office of the Company's Registrars, being Capita Registrars at The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU, not less than 48 hours before the time of the holding of the meeting or any adjournment thereof.
- 3 Completion and return of the proxy form does not preclude a member from attending and voting at the meeting in person.
- 4 In the case of joint shareholders, where more than one of the joint holders purports to appoint a proxy, only the appointment submitted by the most senior holder will be accepted. Seniority is determined by the order in which the names of the joint shareholders appear in the Company's register of members in respect of the joint holding (the first-named being the most senior).
- 5 To change your proxy instructions simply submit a new proxy appointment using the methods set out above. Note that the cut-off time for receipt of proxy appointments (see above) also apply in relation to amended instructions; any amended proxy appointment received after the relevant cut-off time will be disregarded. If you submit more than one valid proxy appointment, the appointment received last before the latest time for the receipt of proxies will take precedence.

- 6 In order to revoke a proxy instruction you will need to inform the Company by sending notice in writing clearly stating your intention to revoke your proxy appointment to Company's Registrars, being Capita Registrars at The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU. In the case of a member which is a company, the revocation notice must be executed under its common seal or signed on its behalf by an officer of the company or an attorney for the company. Any power of attorney or any other authority under which the revocation notice is signed (or a duly certified copy of such power or authority) must be included with the revocation notice. The revocation notice must be received by the Company no later than 48 hours before the time of the holding of the meeting or any adjournment thereof. If you attempt to revoke your proxy appointment but the revocation is received after the time specified then your proxy appointment will remain valid. If you have appointed a proxy and attend the meeting in person, your proxy appointment will automatically be terminated.
- 7 In accordance with the permission in Regulation 41(1) of The Uncertificated Securities Regulations 2001 (SI 2001 No. 3755), only those holders of ordinary shares who are registered on the Company's share register at 1800 hours on 6 December 2011 shall be entitled to attend the above Annual General Meeting (or, in the case of an adjourned meeting, 1800 hours on the day which is two days before the adjourned meeting) and to vote in respect of the number of shares registered in their names at that time. Changes to entries on the share register after 1800 hours on 6 December 2011 shall be disregarded in determining the rights of any person to attend and/or vote at the Annual General Meeting.
- 8 In order to facilitate voting by corporate representatives at the meeting, arrangements will be put in place at the meeting so that (i) if a corporate shareholder has appointed the Chairman of the meeting as its corporate representative with instructions to vote on a poll in accordance with the directions of all of the other corporate representatives for that shareholder at the meeting, then on a poll those corporate representatives will give voting directions to the Chairman and the Chairman will vote (or withhold a vote) as corporate representative in accordance with those directions; and (ii) if more than one corporate representative for the same corporate shareholder attends the meeting but the corporate shareholder has not appointed the Chairman of the meeting as its corporate representative, a designated corporate representative will be nominated, from those corporate representatives who attend, who will vote on a poll and the other corporate representatives will give voting directions to that designated corporate representative. Corporate shareholders are referred to the guidance issued by the Institute of Chartered Secretaries and Administrators on proxies and corporate representatives ([www.icsa.org.uk](http://www.icsa.org.uk)) for further details of this procedure. The guidance includes a sample form of representation letter if the Chairman is being appointed as described in (i) above.
- 9 If the Chairman, as a result of any proxy appointments, is given discretion as to how the votes the subject of those proxies are cast and the voting rights in respect of those discretionary proxies, when added to the interests in the Company's securities already held by the Chairman, result in the Chairman holding such number of voting rights that he has a notifiable obligation under the Disclosure and Transparency Rules, the Chairman will make the necessary notifications to the Company and the Financial Services Authority. As a result, any member holding 3% or more of the voting rights in the Company who grants the Chairman a discretionary proxy in respect of some or all of those voting rights and so would otherwise have a notification obligation under the Disclosure and Transparency Rules, need not make a separate notification to the Company and the Financial Services Authority.
- 10 Copies of the service agreements and letters of appointment between the Company and its Directors will be available for inspection at the registered office of the Company during usual business hours on any weekday (Saturdays, Sundays and Bank Holidays excluded) until the date of the meeting and also on the date and at the place of the meeting from half an hour before the meeting until the conclusion of the meeting.

## Licence Holdings

As at 31 July 2011

	Licences	Operator	Egdon Interest	Area km <sup>2</sup>
<b>UK</b>				
1	PL090	Egdon Resources U.K. Limited	45.000%	202.00
2	PEDL005 (Remainder)	Egdon Resources U.K. Limited	75.000%	23.57
3	PEDL 068	Egdon Resources U.K. Limited	40.000%	78.30
4	PEDL070	Star Energy Group Limited	26.670%	36.00
5	PEDL118	Egdon Resources U.K. Limited	65.000%	10.40
6	PEDL125	Northern Petroleum Plc	10.000%	197.10
7	PEDL126	Northern Petroleum Plc	10.000%	256.20
8	PEDL130	Egdon Resources U.K. Limited	100.000%	94.60
9	PEDL139	Greenpark Energy Limited	13.500%*	100.00
10	PEDL140	Greenpark Energy Limited	13.500%*	130.00
11	PEDL141	Seven Star Natural Gas Ltd.	46.000%	100.00
12	PEDL143	Europa Oil and Gas plc	38.400%	80.00
13	PEDL155	Northern Petroleum Plc	10.000%	52.80
14	PEDL180	Egdon Resources U.K. Limited	33.330%	100.00
15	PEDL181	Europa Oil and Gas Limited	25.000%	540.00
16	PEDL182	Egdon Resources U.K. Limited	33.330%	40.00
17	PEDL201	Egdon Resources U.K. Limited	50.000%	100.00
18	PEDL203	Egdon Resources U.K. Limited	65.000%	10.54
19	PEDL206	Egdon Resources U.K. Limited	75.000%	100.00
20	PEDL237	Egdon Resources plc	45.000%	108.53
21	PEDL240	Northern Petroleum Plc	7.500%	7.20
22	PEDL241	Egdon Resources U.K. Limited	50.000%	110.00
23	PEDL253	Egdon Resources U.K. Limited	60.000%	189.30
24	PEDL256	Northern Petroleum Plc	7.500%	52.80
25	P.1241 block 47/9c	Centrica Energy	10.000%	85.50
<b>FRANCE</b>				
26	St Laurent	Egdon Resources France Limited†	33.423%	615.00
27	Pontenx	Egdon Resources France Limited†	40.000%	313.00
28	Nimes	Egdon Resources (E&P) Limited	100.000%	507.00
29	Mairy	Toreador Energy France	50.000%	444.00
	<b>Awaiting Award</b>			
	Donzacq‡	Egdon Resources France Limited	33.423%	218.00
	<b>Back-in Option Licences</b>		Back-in interest	
	Gex	eCORP France Limited	6.000	932.00
	Navacelles	eCORP France Limited	9.000	216.00
	Gex Sud‡	eCORP France Limited	6.000	1991.00

\* Egdon holds a 10% interest on the coal bed methane potential of these licences

† Awaiting completion of licence transfer

‡ Awaiting award

**Egdon Resources plc**

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