Egdon Resources plc
Annual Report and Accounts 2008

Egdon Resources plc

The oil and gas exploration and production company focused on the onshore UK and mainland Europe.

An established business with 25 licences in proven oil and gas producing basins in the UK and France.

A balanced portfolio of development, appraisal and exploration projects positioning the Company for future growth.

A proven operator with an experienced and respected management team.

OPERATIONAL HIGHLIGHTS

- Balanced portfolio of 25 licences in onshore UK and France – providing exploration, development and near term production opportunities
- Oil production of 23,430 barrels during period from Keddington and Avington
- Acquisition of four licences from Stag Energy Limited including PEDL118 containing the Eakring-Dukes Wood abandoned oil field which is scheduled for rejuvenation
- Successful award of six licences in the 13th UK Landward Licensing round
- Pending award of two new licences onshore France
- Planning awarded for drilling at Eakring-Dukes Wood
- Significant work programme defined for 2008/09 intended to increase production and revenues

FINANCIAL AND CORPORATE HIGHLIGHTS

- Successful admission of "new" Egdon Resources plc to AIM on 17 January 2008, following demerger of Gas Storage business, Portland Gas plc
- Transition to International Financial Reporting Standards (IFRS)
- Oil revenues during the year of £1,121,624 (2007: £41,397)
- Loss for period from continuing operations of £2,376,262 (after exploration write-downs and pre-licence costs of £1,441,260 and demerger expenses of £453,389) (2007: £364,559)
- Loss per share from continuing operations for period of 3.52p (2007: 0.57p)
- Net current assets as at 31 July 2008 £2.29 million (31 July 2007: £6.55 million (including funds subsequently transferred to Portland Gas))

Oil revenues for period

£1.12m

(31 July 2007: £41,400)

Net current assets at 31 July 2008

£2.29m

(31 July 2007: £6.55m*)
*including Portland Gas plc

Total licence holdings

25

licences in UK and France
(31 July 2007: 20)

CHAIRMAN'S STATEMENT

Overview

The results for the year include the results of Portland Gas plc for the period from 1 August 2007 until demerger on 16 January 2008. The demerger left your Group as an independent onshore European oil and gas exploration and production company. We have pursued a strategy of developing production and are pleased to report oil sales revenues of over £1.1 million in the year under review.

Strategy

The aim of the Company is to become a profitable and material full cycle exploration and production business with a focus on onshore UK and European operations.

The Company's strategy is to remain geographically focused, with activity restricted to proven oil and gas producing areas of the onshore UK and mainland Europe. The Company has a near-term drive on production and revenue growth through the development and enhancement of its existing portfolio of oil and gas discoveries. The Company also has a strategic objective of adding value via reserve growth through an active exploration programme. Egdon will look to maintain material interests in its projects and be a licence operator where appropriate. The Company will continue actively to pursue new projects via licence applications and asset acquisitions to expand the breadth and quality of its opportunity base.

Financial

The financial statements for the period are presented under IFRS for the first time. Continuing operations are defined as the Group's oil and gas exploration and production activities.

The loss from continuing operations during the period was £2,376,262 (2007: restated loss on continuing operations of £364,559). The loss for continuing operations for the year includes exploration write-downs and pre-licence costs of £1,441,260 and one-off demerger costs of £453,389. The Group (including gas storage operations to 16 January 2008) recorded a consolidated loss of £3,174,262 during the year (2007: restated loss after tax of £573,074). The Group loss includes a loss of £798,000 in relation to gas storage operations for the period from 1 August 2007 to the demerger of Portland Gas on 16 January 2008.

The Group had sustained oil production throughout the year with oil sales of £1,121,624 (2007: £41,397) on volumes of 23,430 barrels (2007: 1,091 barrels).

The Group had net current assets of £2,292,824 as at 31 July 2008 (2007: £6,548,877).

The Directors do not recommend the payment of a dividend (2007: £nil).

Operations

I am pleased to report that good progress has been made in a number of areas of Egdon's portfolio during the period.

UK onshore

Following its acquisition in March 2007, and subsequent restoration to production in June 2007, the Keddington oil field in Lincolnshire has continued to produce at average rates of between 40-50 barrels of oil per day ("bopd") during the period. A full-technical review of the field has highlighted significant remaining potential and it is intended to drill a further well on the field to increase production levels and total field recovery. Planning consent is already in place for this well and drilling is scheduled for 2009.

A six month production test was undertaken during the period on the Avington-3z well, where Egdon holds a 20% interest. Avington-3z was completed as a horizontal production well in the Great Oolite reservoir. After an initial period of free-flow production, the well was completed with a jet-pump for a period of pumped test production. The well produced a total of 12,564 barrels net to Egdon during the six month test. The well is currently shut-in. The operator Star Energy Limited has now obtained the required approvals to put the Avington-3z and -2z wells back onto test production through enhanced facilities and also for the drilling of two further appraisal wells. It is anticipated that test production will re-commence during autumn 2008.

During October 2007, the Company completed the acquisition from Stag Energy Limited of 100% interests in four licences in the East Midlands for a consideration of £100,000 in cash and the allotment of 10,494 new ordinary shares and a Gross Overriding Royalty of 5% of future production from the licences. The acquisition adds significant acreage to a core area and has the potential to add material reserves. The PEDL118 licence contains the Eakring-Dukes Wood oil field which produced 6.5 million barrels of oil from 1940 until abandonment in 1966 and achieved peak production of 1,600 bopd in 1941. The Company believes there is potential to rejuvenate the field to take advantage of higher oil prices, improved technology and the recognition of undrilled and undrained parts of the field.

We recently announced that Egdon has received planning consent to drill an exploratory well at Whip Ridding Farm to test the Dukes Wood anticline in a crestal location. It is intended to spud the well during the fourth quarter of 2008.

Progress continues to be made in negotiations for a gas sales agreement for production from the Kirkleatham gas discovery in the operated licence PEDL068 where the Company holds a 20% interest. It is hoped to conclude an agreement during 2008 to enable development and production to progress through 2009. As previously reported Kirkleatham has the potential for conversion into a gas storage facility in due course.

Elsewhere in PEDL068 restoration of the Westerdale-1 well site was completed during late 2007. The Westerdale-1 well proved a separate northern closure to the Ralph Cross gas accumulation. A suitable well site has been identified for a possible Westerdale-2 well to test the main part of the Ralph Cross accumulation and progress is being made with a view to submitting a planning application in 2009 for further drilling.

During the year the Company drilled the Burton Agnes-1 exploration well in East Yorkshire licence PEDL071. The well confirmed the presence of a thick, good quality Leman sandstone reservoir and a viable petroleum system but the reservoir was water wet. Post-well evaluation has indicated that potential exists up-dip of the current well. Burton Agnes-1 was suspended and provides the option to sidetrack to this more elevated part of the structure. Egdon's costs in the well were carried by other participants.

UK offshore

The Company also participated in offshore well 42/27a-3 which targeted the Tees Prospect, a Lower Permian Leman Sandstone structural closure mapped on 3D seismic data. The primary Leman Sandstone target was penetrated close to prognosis with minor gas shows but the sands encountered were water bearing. There were also good indications of gas within a 25 metre sandstone in the Carboniferous interval but following log evaluation these were not considered worth testing and the well was plugged and abandoned. Egdon has subsequently relinquished blocks 42/27 and 42/26 and written off £1,277,973 in relation to these licences during the period.

France

In France Egdon drilled its first operated well, Grenade-3, in the St Laurent Permit of SW France. The target "Vraconian" limestone interval was penetrated 21 metres up-dip of the Grenade-1 oil discovery well. However, coring and logging indicated that the target interval had no effective porosity and was therefore not hydrocarbon bearing. The well defined the eastern limit of reservoir development within the structure. Recent evaluation work has indicated that potential exists to the west and south around the Grenade-1 well and also northwards towards the Maurrin-1 well. Grenade-3 has been suspended to retain the option to target other areas of the Grenade prospect via a sidetrack. Other options include re-entering and sidetracking the Grenade-1 discovery well.

Elsewhere within the St Laurent Permit further technical work during the period has enabled the definition of the Audignon Prospect, a multi-trillion cubic feet of gas prospect. It is intended to look for a farm-in partner during 2008/09 to progress this deep, high potential prospect. The St Laurent licence is in the process of being extended into its third term for a period of a further five years.

Licensing activity

As part of the normal exploration cycle a number of licences have come to the end of their term and been relinquished during the period. Promote licence P1296 covering block 15/7 in the outer Moray Firth was surrendered during the period. In the Weald Basin all of PEDL110 and most of PEDL069 have also been relinquished. That part of PEDL069 which contains the potential extension of the Avington oil accumulation has been retained. Licence PEDL094 was also relinquished during September 2008.

Your Board recognises the need to replenish and widen its opportunity base as non-prospective licences and areas within its existing portfolio are relinquished. The period has seen significant success in this area with ten additional licences added through the acquisition of four licences from Stag Energy Limited in October 2007 and the award of six licences in the 13th Landward licensing round with an effective date of 1 July 2008.

These new operated licence awards significantly strengthen and broaden Egdon's onshore UK asset and opportunity position. The new licences add net Egdon best-estimate prospective resources of over 50 million barrels of oil. The new licences have a broad mix of opportunities, from an early oil production project at Kirklington in PEDL203, through identified prospects up-dip of known oil such as at Broughton in PEDL182 and Brigg and Glanford in PEDL241, to high potential plays such as those seen in the Sherwood Sandstone of the Wessex Basin in PEDL237 and new play concepts as seen in PEDL201 in the East Midlands.

Additionally Egdon is awaiting the formal award of two new licences in France. Egdon will be operator of both permits with a 40% interest. The first of these Pontenx, had a competitive bid during the 90 day competition period which closed on 19 March 2008. Agreement was reached with the French authorities to split the application area between the two competing parties and the proposal has now been approved by the French General Council of Mines. The Pontenx Permit is located on the southern margins of the Parentis Basin, an oil productive region on the west coast of France, to the south of Bordeaux. The Pontenx Permit will cover an area of 313 square kilometres against the original application area of 387 square kilometres.

The Gex Permit, which covers an area of 932 square kilometres, is located in eastern France adjacent to the Swiss border close to Geneva. The permit is located in the Jura-Molasse Basin. The 90 day competition period has lapsed with no competing applications. Both permits are expected to be formally awarded later in 2008 or early in 2009, with detailed technical evaluation to commence in 2009.

Egdon has identified France as a target for potential growth and these two new licences represent excellent progress with our business development strategy. These highly prospective licences contain a good mix of field rejuvenation, appraisal and exploration opportunities which complement our existing French licence. Egdon will also continue to review additional opportunities in France and we expect to make further applications as we look to strengthen our acreage position and opportunity base in the country.

At 31 July 2008 the Group held interests in 26 oil and gas licences onshore UK and France.

Outlook

The 2008/09 financial year will see a continuing focus on increasing production from the Group's oil and gas assets. Ongoing production is expected from Keddington and production or production testing is anticipated to commence at Avington, Waddock Cross, Kirkleatham, Kirklington and Eakring-Dukes Wood during the period. The Company anticipates drilling activity at Eakring-Dukes Wood, Keddington, Kirklington, Holmwood and Winfrith during the period and during the year decisions will be taken on further drilling at both Burton Agnes and Grenade. In anticipation of increasing sales revenues we have sufficient cash resources for our present plans.

The Company will continue to evaluate the exploration and development potential of its licences and will look to strengthen its asset position through active management of its existing portfolio, new licence applications and review of potential acquisition opportunities.

Your Board recognises the challenges of developing and growing the oil and gas business to a more material size following the successful demerger of the gas storage business, and continues to review various options to achieve this.

We look forward to a further year of progress and thank our shareholders for their continued support.

Philip Stephens

Chairman
21 October 2008

"Egdon's aim is to become a material full cycle exploration and production business with a focus on onshore operations in the UK and mainland Europe. The Group currently holds interests in twenty five licences in the UK and France, all located within proven oil and gas producing areas, and containing a balance of oil and gas prospectivity. A key focus for the coming year is increasing production and revenues from the Group's producing and development assets."

Licence Holdings

Egdon Resources U.K. Limited

Licence No.	Operator	Egdon interest	Area Km²
Onshore U.K.			
PL090	Egdon Resources U.K. Limited	45.00%	202
PEDL005 (Remainder)	Egdon Resources U.K. Limited	100.00%	23.57
PEDL048	Egdon Resources U.K. Limited	45.00%	30
PEDL068	Egdon Resources U.K. Limited	20.00%	195
PEDL069	Sterling Resources (UK) Limited	33.33%	60.5
PEDL070	Star Energy Oil UK Limited	20.00%	100
PEDL071	Egdon Resources U.K. Limited	25.00%	250
PEDL118	Egdon Resources U.K. Limited	100.00%	10.4
PEDL128	Egdon Resources U.K. Limited	50.00%	107
PEDL130	Egdon Resources U.K. Limited	100.00%	94.6
PEDL132	Egdon Resources U.K. Limited	100.00%	77.4
PEDL138	Star Energy Oil & Gas Limited	50.00%	45
PEDL139	Star Energy Oil & Gas Limited	25.00%	100
PEDL140	Star Energy Oil & Gas Limited	50.00%	130
PEDL141	Egdon Resources U.K. Limited	50.00%	100

Licence No.	Operator	Egdon interest	Area Km²
Onshore U.K. continued			
PEDL142	Egdon Resources U.K. Limited	96.00%	42
PEDL143	Europa Oil and Gas plc	38.40%	80
PEDL144	Egdon Resources U.K. Limited	96.00%	100
PEDL182	Egdon Resources U.K. Limited	50.00%	40
PEDL201	Egdon Resources U.K. Limited	50.00%	100
PEDL203	Egdon Resources U.K. Limited	100.00%	10.5
PEDL206	Egdon Resources U.K. Limited	100.00%	100
PEDL237	Egdon Resources U.K. Limited	45.00%	108.5
PEDL241	Egdon Resources U.K. Limited	50.00%	110

Egdon Resources (New Ventures) Ltd

Onshore France			
St Laurent	Egdon Resources (New Ventures) Ltd	33.423%	507
Pending award			
Pontenx	Egdon Resources (New Ventures) Ltd	40.00%	313
Gex	Egdon Resources (New Ventures) Ltd	40.00%	932

Oil and gas reserves and resources

Class of Reserve/ Resource	Proven	Proven+ Probable	Proven+ Probable+ Possible	Units	Field/Prospect Name
Net Oil Reserves	0.35	1.04	2.08	MMstb	Keddington(2), Avington(1), Waddock Cross(1)
		Best estimate			
Net Oil Contingent Resources		7.24		MMstb	Avington Phase 2(1), Grenade(2), Kirklington(2), Broughton(2)
Net Oil Prospective Resources		100.55		MMstb	Winfrith(1), Casterbridge/Broadmayne, North Kelsey, Goudhurst, Eakring, etc(2)
Total Oil		108.83		MMstb	
		Best estimate			
Net Gas Contingent Resources		1.84		Bscf	Nooks Farm(1), Kirkleatham(2), Keddington(2)
Net Gas Prospective Resources		424.81		Bscf	Audignon(2), Holmwood(1), Duggleby South(2), Westerdale/Ralph Cross(2)
Total Gas		426.65		Bscf	

Notes

(1)Independent Assessment by RPS Troy-Ikoda undertaken in 2004 (2)Based on Company evaluations

The Midlands

The Midlands region has been an area of active hydrocarbon exploration since the early 1900s with oil and gas currently produced in a number of fields from rocks of Carboniferous age. This is a core area for Egdon with the Group holding interests in 12 operated and three non-operated licences.

Egdon's licences:

Licence No.	Operator	Egdon interest	Area Km²
PEDL005 (Remainder)	Egdon Resources U.K. Limited	100.00%	23.57
PEDL118	Egdon Resources U.K. Limited	100.00%	10.4
PEDL128	Egdon Resources U.K. Limited	50.00%	107
PEDL130	Egdon Resources U.K. Limited	100.00%	94.6
PEDL132	Egdon Resources U.K. Limited	100.00%	77.4
PEDL138	Star Energy Oil & Gas Limited	50.00%	45
PEDL139	Star Energy Oil & Gas Limited	25.00%	100
PEDL140	Star Energy Oil & Gas Limited	50.00%	130
PEDL141	Egdon Resources U.K. Limited	50.00%	100
PEDL142	Egdon Resources U.K. Limited	96.00%	42
PEDL182	Egdon Resources U.K. Limited	50.00%	40
PEDL201	Egdon Resources U.K. Limited	50.00%	100
PEDL203	Egdon Resources U.K. Limited	100.00%	10.5
PEDL206	Egdon Resources U.K. Limited	100.00%	100
PEDL241	Egdon Resources U.K. Limited	50.00%	110

Play types:

- Carboniferous oil play – Westphalian and Namurian sandstone and Dinantian carbonate reservoirs
- Carboniferous gas play – Namurain, Westphalian and Dinantian sandstone reservoirs

Prospectivity:

- Keddington Oil Field – PEDL005 (Remainder) – Westphalian sandstone oil production – c. 50 bopd with significant upside potential
- Eakring-Dukes Wood Oil Field – PEDL118 – Stacked Namurian sandstone oil reservoirs – rejuvenation project
- Kirklington Oil Field – PEDL203 – rejuvenation project
- Nooks Farm gas discovery – PEDL141 – Dinantian sandstone gas discovery
- Broughton oil discovery – PEDL182 – Westphalian oil discovery
- Numerous structural leads and prospects identified with both oil and gas potential through out the area

Planned activity:

- Drill sidetrack at Keddington to increase production
- Drill appraisal well at Whip Ridding Farm (Dukes Wood-1) on Eakring-Dukes Wood oil field
- Produce and drill sidetrack at Kirklington oil field
- Appraisal of the Nooks Farm gas accumulation in PEDL141 during 2009–2010
- Fully evaluate all licences for potential 2010 drilling activity

Keddington Oil Field

The Egdon operated Keddington oil field in licence PEDL005 (remainder) (Egdon 100%) has continued to produce throughout the period. Keddington produces from a sandstone reservoir of Westphalian (Carboniferous) age at a depth of around 2,180 metres.

The Keddington Oil Field has produced a total of approximately 180,000 barrels of oil, only a small percentage (4.4%) of the mapped oil in place, which Egdon estimate as 4.4 MMstb, thus highlighting the potential for additional drilling to increase the current production levels and total field recovery. Planning consent is already in place for additional wells and as such further drilling via a sidetrack is planned for 2009.

Eakring-Dukes Wood Oil Field

During October 2007 the Company completed the acquisition of four licences from Stag Energy Limited. The focus of the acquisition is Licence PEDL118 which contains the Eakring-Dukes Wood abandoned oil field. The field was discovered in 1939 and produced from a number of shallow sandstone reservoirs of Carboniferous age from 1940 until 1966. The total production at abandonment in 1966 was 6.5 MMStb out of mapped still in place of 25.6 MMStb. Egdon believe there is potential to rejuvenate the field to take advantage of increased oil price, improved technology and the recognition of undrilled and un-drained parts of the field.

Egdon received planning consent on 10 October 2008 for the drilling of an exploratory well at Whip Ridding Farm. The well will be drilled directionally to a planned measured depth of around 800 metres to test the highest part of the Dukes Wood anticline in an area where Egdon have identified potential for un-drained oil and re-migrated oil. The Eakring-Dukes Wood oil field represents a low risk opportunity to add production and reserves to the near term asset base and the well will be spudded during 2008.

Kirklington Oil Field

Egdon was awarded PEDL203 in the 13th Onshore Round. PEDL203 is located to the south of the Eakring – Dukes Wood oil field and contains the Kirklington oil field which produced from two reservoirs during the period 1991 to 2004. Egdon believe that over 0.5 MMstb could remain recoverable from the field via the existing Kirklington-2 well. Egdon have reached agreement to take over the existing site and anticipate restoring production later in 2008. A sidetrack of the existing well may be undertaken in 2009 to increase production.

Nooks Farm

Egdon has a 46% carried interest in PEDL141 which contains the Nooks Farm gas discovery. The Nooks Farm gas accumulation was discovered by Shell in 1982, with the Nooks Farm-1a well encountering gas bearing sandstones of Carboniferous age at shallow depth, which tested at a maximum flow rate of over 1 million cubic feet of gas per day. Development options for Nooks Farm are likely to involve on-site electricity generation.

13th round licences and other exploration

Egdon has a significant exploration portfolio within the East Midlands Petroleum Province. This was enhanced during the year with the award of five new licences in the 13th onshore licensing round. In addition to PEDL203 containing the Kirklington oil field and discussed above, two of the other awards contain oil discoveries. PEDL182 (Egdon 50%) contains the Broughton Prospect, a structure up-dip and to the north and west of the Broughton-1 oil discovery well. PEDL241 (Egdon 50%) contains the Glanford-Brigg High along which oil has been found by wells at Brigg and Glanford. The primary focus of this block will be on the North Kelsey Prospect, an un-tested tilted fault-block, and the Brigg and Glanford Prospects. Egdon have also been awarded PEDL206 (Egdon 100%) which contains the Kelham Hills and Caunton abandoned oil fields and a number of identified leads and prospects. PEDL201 is located between the Rempstone and Long Clawson producing oil fields on the southern margin of the Widmerpool Gulf Basin where Egdon have identified a number of prospective structures and also a new high potential play.

A number of other licences in the region are reaching the end of technical evaluation with drilling plans due to be determined during 2009. Egdon has also recently commissioned a review of the Coal Bed Methane potential of its East Midlands licences.

Northern England

The Cleveland Basin of northern England is a gas prone area on the western and northern margins of the prolific Southern Gas Basin of the North Sea, located largely in the county of Yorkshire. Egdon has interests in two operated licences in the area and has discovered gas at Kirkleatham and Westerdale.

Egdon's licences:

Licence No.	Operator	Egdon interest	Area Km^2
PEDL068	Egdon Resources U.K. Limited	20.00%	195
PEDL071	Egdon Resources U.K. Limited	25.00%	250

Play types:

- Zechstein carbonate gas play (produces at Malton, Pickering, Marishes and Kirby Misperton)
- Leman Sandstone gas play (produces from Caythorpe and numerous offshore fields)
- Carboniferrous gas play (produces from Kirby Misperton)

Prospectivity:

- Kirkleatham-4 gas discovery – development planned for 2009
- Westerdale/Ralph Cross gas discovery – further well planned
- Burton Agnes Leman Sandstone gas prospect
- Additional Zechstein, Leman and Carboniferous leads and prospects

Planned activity:

- Development plan to be submitted and production of gas from Kirkleatham
- Further drilling planned for Westerdale and possibly Burton Agnes

Kirkleatham

The Kirkleatham gas discovery is located in Egdon operated licence PEDL068 (Egdon 20%). The Kirkleatham-4 exploration well was completed in January 2006 and encountered a 19 metre gas column in the target Cadeby Formation at a depth of 804.3 metres. Testing produced good quality gas at rates of up to 5 million cubic feet of gas per day.

Evaluation of this stratigraphically trapped gas accumulation has indicated potential gas in place ("GIIP") in the range 2 to 15.75 Bscf. Based on a proved GIIP of 2 Bscf it is planned to sell gas into a nearby industrial user to obtain further reservoir data and determine ultimate GIIP. Negotiations are ongoing to enable a gas development to commence during 2009 with the option for converting the Kirkleatham reservoir into a gas storage facility once the gas reserves are depleted.

Westerdale

Also in PEDL068, the Westerdale-1 well was plugged and abandoned during the period. Westerdale-1, which was designed to test a gas accumulation up-dip of the Ralph Cross-1 gas discovery made in 1966, encountered potential gas pay within two intervals but did not flow at commercial rates. However, interpretation of reprocessed seismic data incorporating the results of Westerdale-1 show that the well tested a subsidiary structure to the north of the main closure and as such a structure at Ralph Cross with Best Estimate Prospective Resources of 22 Bscf remains un-appraised. Additional work, to include a further well, will be required to determine if the prospect can be developed commercially and progress is currently being made to identify a suitable well site. It is anticipated that a planning application will be made for the Westerdale-2 well during 2009.

Burton Agnes

During the year the Company drilled the Burton Agnes-1 exploration well in East Yorkshire licence PEDL071 (Egdon 25%). The well confirmed the presence of a thick, good quality Leman sandstone reservoir interval but without hydrocarbons. Subsequent evaluation has indicated that a potential prospect may exist up-dip of the current well. The Burton Agnes-1 well was suspended to provide the option to sidetrack to this more elevated part of the structure should the ongoing technical evaluation prove positive. A decision will be made during 2009.

Exploration

A number of further exploration prospects have been identified within the region and will be further developed during the next year. Examples include the Great Busby Prospect in PEDL068 and the Duggleby Prospect in PEDL071.

Wessex Basin

The oil prone Wessex Basin of southern England, in which Egdon holds three operated licences, is largely located within the county of Dorset. Exploration here started in the 1930s, with oil found at Kimmeridge in 1959, at Wareham in 1964 and at the Giant Wytch Farm oil field in 1974.

Egdon's licences:

Licence No.	Operator	Egdon interest	Area Km²
PL090	Egdon Resources U.K. Limited	45.00%	202
PEDL048	Egdon Resources U.K. Limited	45.00%	30
PEDL237	Egdon Resources U.K. Limited	45.00%	108.5

Play types:

Bridport Sandstone Oil Play – Developed throughout the basin (produces from Wytch Farm, and Wareham)

Sherwood Sandstone Oil Play – Developed along the Central Wessex High on E-W trending structure to the west of the giant Wytch Farm oil-field (produces from Wytch Farm)

Frome Clay Limestone – Localised reservoir development (Produces at Wytch Farm)

Prospectivity:

Waddock Cross Oil discovery

Winfrith and Casterbridge/Broadmayne Sherwood Prospects – exploration drilling planned

Langton Herring Prospect – Bridport Sandstone oil prospect

Planned activity:

Production Testing Planned for Waddock Cross oil discovery on block PL090 during 2008–2009

Exploration drilling of Sherwood Sandstone Prospect (Winfrith) in 2009–2010

Waddock Cross

The Waddock Cross oil accumulation located in Egdon operated licence PL090 (Egdon 45%) was originally tested by the Waddock Cross-1 well drilled in 1982. Egdon have drilled two wells on the accumulation, Waddock Cross-2 in 2004 and Waddock Cross-3 during 2005. Waddock Cross-2 found a 24 metre oil column in the upper two intervals of the Bridport Sandstone. Test operations were undertaken during 2004 with equipment constrained flow rates of up to 31 bopd from a vertical well. Waddock Cross-3 was drilled with a 695 metre horizontal section through upper part of the reservoir. The well was tested for a two month period with flow rates of 270 to 400 barrels of fluid per day with an average oil cut of 12%. Planning consent is anticipated to be awarded shortly for further production testing at Waddock Cross. This testing is anticipated to commence towards the end of 2008 and continue for a period of six months. The test is designed to confirm the development plans for the accumulation.

Wessex Basin exploration

Significant exploration potential has been identified within the Group's licences. The main play is the Sherwood Sandstone which is productive at the giant Wytch Farm oilfield located 10 kilometres to the east of the Company's licences.

Egdon have identified the Winfrith Prospect, with Best Estimate Contingent Resource potential of 3.6 MMstb, which is the closest to the Wytch Farm oilfield, and is considered to have the lowest risk. A potential well site has been identified and plans are being progressed to secure landowner agreement and planning consent to drill an exploration well here in 2009 or 2010. During the period Egdon and its joint venture partners have been awarded 13th Onshore Round licence PEDL237 which is contiguous with existing licences PEDL048 and PL090. Egdon have mapped best estimate gross prospective resource potential of 70 MMstb within PEDL237, in the Sherwood Sandstone at the Casterbridge and Broadmayne Prospects and in the Bridport Sandstone at the Langton Herring Prospect.

Weald Basin

Egdon has interests in one operated and three non-operated licences in the Weald Basin of Southern England. Hydrocarbon exploration began here in the late 1800s but peaked in the 1980s with the discovery of a number of oil and gas accumulations. Both oil and gas are currently produced from the Weald Basin. .

Egdon's licences:

Licence No.	Operator	Egdon interest	Area Km^2
PEDL144	Egdon Resources U.K. Limited	96.00%	100
PEDL143	Europa Oil and Gas plc	38.40%	80
PEDL069	Sterling Resources (UK) Limited	33.33%	60.5
PEDL070	Star Energy Oil UK Limited	20.00%	100

Play types:

Jurassic Great Oolite carbonate oil play (produces from Stockbridge, Humbly Grove, etc)

Jurassic sandstone oil/gas play – (produces from Brockham, etc.)

Prospectivity:

Discovered and tested oil at Avington in PEDL070.

Holmwood Prospect in PEDL143

Numerous additional leads/prospects – e.g. Goudhurst

Planned activity:

Production at Avington

Planning being sought for exploration well on Holmwood Prospect (PEDL143) – anticipated 2009 or 2010 well

Avington

Egdon has a 20% interest in Star Energy operated licence PEDL070 which contains the Avington Great Oolite oil discovery. Work carried out by Egdon and its partners show the Avington structure may extend into the adjacent PEDL069 licences where Egdon hold a one-third interest.

During the year the Avington-3z well produced a total of 61,200 barrels of oil during a six month extended well test which finished in early February 2008. The operator has subsequently obtained the required consents to improve the surface facilities, restart production from the Avington-3z and Avington-2z wells, and to drill further appraisal wells. It is anticipated that further production will commence from Avington before the end of 2008.

Holmwood

Egdon has a 38.4% interest in block PEDL143 which contains the Holmwood Prospect. Holmwood is a robust anticlinal structure located between known gas and oil accumulations, and although Egdon consider gas to be most likely there is also the possibility of oil being present. Net Egdon Best Estimate Contingent Resources are estimated at 16.6 Bscf.

The operator Europa Oil and Gas pc has identified a suitable well site to the north of the prospect and is in the process of submitting a revised Environmental Statement and planning application. It is hoped that the application will be determined during early 2009 to enable drilling later in 2009 or 2010.

Goudhurst

The Goudhurst Prospect is the largest prospect in Egdon operated licence PEDL144 in Surrey. Goudhurst is a four-way dip closed structure which has net Egdon best estimate prospective resources of 7.1 MMstb. Seismic reprocessing is being completed and a drill or drop decision is anticipated during 2009.

OPERATIONAL REVIEW – FRANCE ONSHORE

France

Egdon operates its French licences through wholly owned subsidiary Egdon Resources (New Ventures) Ltd. Egdon has identified onshore France as a focus for growth and has made a number of licence applications during the period. Egdon has one current operated licence and two further licences pending award.

Egdon's licences:

Licence No.	Operator	Egdon interest	Area Km^2
St Laurent	Egdon Resources (New Ventures) Ltd	33.423%	507
Pending award			
Pontenx	Egdon Resources (New Ventures) Ltd	40.00%	313
Gex	Egdon Resources (New Ventures) Ltd	40.00%	932

Play types:

- Cretaceous carbonate oil and gas plays
- Triassic sandstone gas play
- Molasse oil play

Prospectivity:

- Discovered heavy oil (10° API) in Aptian age carbonates at Grenade Sur Adour-1.
- Triassic "sub-salt" gas prospect along the E-W trending Audignon Ridge
- Cretaceous reef carbonates in Pontenx licence including Mimizan Nord heavy oil field
- Molasse Basin shallow oil play in Gex licence

Planned activity:

- Complete evaluation of Audignon Ridge Prospect
- Potential additional drilling at Grenade
- Evaluation of Pontenx and Gex Permits

Grenade heavy oil accumulation

Egdon through its wholly owned subsidiary Egdon Resources (New Ventures) Ltd. operates the St. Laurent Permit in SW France with a 33.423% interest. The St Laurent licence is in the process of being extended into its third term for a period of a further five years.

The primary focus of activity on the permit has been the Grenade heavy oil accumulation. The discovery well, Grenade Sur Adour-1 was drilled by Elf in 1975 and found a 97 metre column of 10° API oil. Grenade-3 was drilled during early 2008 to test the easterly extent of the oil accumulation. The target "Vraconian" limestone interval was penetrated 21m up-dip of the Grenade-1 oil discovery well. However, the target interval had no effective porosity and was therefore not hydrocarbon bearing. The well defined the eastern limit of reservoir development within the structure. Evaluation work has indicated that potential remains around the Grenade-1 well and also northwards towards the Maurrin-1 well. The Grenade-3 well has been suspended to retain the option to target other areas of the Grenade prospect via a sidetrack. Other options include re-entering and sidetracking the Grenade-1 discovery well. Further progress on the Grenade prospect is anticipated during 2009.

Audignon Prospect

The Audignon Prospect has been mapped on reprocessed 2D seismic data during the period and comprises a large Triassic sandstone sub-salt gas prospect. The Audignon Anticline has a surface expression and is some 30 kilometres by 10 kilometres in extent. Potential prospective resources are significant and range up to 3.8 trillion cubic feet of gas in place. Egdon will farm-out this prospect during 2008/09.

Pontenx

Egdon are awaiting formal award of the Pontenx Permit in South West France which will cover an area of 313 square kilometers and run for an initial four year period. The Pontenx Permit is located on the southern margins of the Parentis Basin, an oil productive region on the west coast of France. The licence contains oil prospective Cretaceous age platform and reef carbonate reservoirs. The licence also contains the abandoned Mimizan Nord heavy oil field.

France's largest onshore oil field, Parentis, is located some 10 kilometres to the north of the licence area.

Gex

Egdon are also awaiting award of the Gex Permit, which covers an area of 932 square kilometres, is located in eastern France adjacent to the Swiss border close to the city of Geneva, and will have a five year initial term. The permit is located in the Jura-Molasse Basin where the main plays are; oil in shallow Oligocence age sandstones and oil and gas in older Mesozoic reservoirs. A number of surface anticlines are developed within the licence area and will be the focus for exploration. Oil has been described from surface seeps and also in a number of shallow cored boreholes drilled within the area.

Further applications are anticipated within France during the coming year.

DIRECTORS, SECRETARY AND SHAREHOLDER INFORMATION

Board of Directors
P H P Stephens (Chairman)
M A W Abbott (Managing Director)
W R Roberts (Non-Executive)
A D Hindle (Non-Executive)
K M Ratcliff (Non-Executive)
J G R Rix (Non-Executive)

Company Secretary
W R Roberts

Principal and Registered Office
Suite 2
90-96 High Street
Odiham
Hampshire RG29 1LP

Nominated Advisor and Stockbrokers
Seymour Pierce Limited
20 Old Bailey
London EC4M 7EN

Auditors
Nexia Smith & Williamson
1 Bishops Wharf
Walnut Tree Close
Guildford
Surrey GU1 4RA

Solicitors
Norton Rose
3 More London Riverside
London SE1 2AQ

Tax Advisors
Smith & Williamson Limited
1 Bishops Wharf
Walnut Tree Close
Guildford
Surrey GU1 4RA

Financial Public Relations
Buchanan Communications Limited
45 Moorfields
London
EC2Y 9AE

Registrars
Capita IRG plc
Bourne House
34 Beckenham Road
Beckenham Kent BR3 4TU

Principal bankers
HSBC Bank plc
PO Box 160-168
Guildford
Surrey GU1 3YU

REPORT OF THE DIRECTORS

The Directors submit their report and audited Group financial statements for the year ended 31 July 2008.

Principal activity and review of business

The principal activities of the Group are exploration and production of hydrocarbons in the UK and France. Prior to the demerger of Portland Gas plc on 16 January 2008 the Group's activities also included development of gas storage facilities.

Demerger

During the period covered by these financial statements a restructuring was undertaken to effect a demerger of the gas storage business, Portland Gas plc.

For the purposes of the demerger, it was necessary for the Egdon Group to be held by a new holding company, the Company (formerly New Egdon PLC) which was incorporated on 25 October 2007. The Company became the ultimate holding company of the Egdon Group pursuant to a Scheme of Arrangement under Section 425 of the Companies Act 1985. Under the Scheme of Arrangement shareholders on the register of the former holding company of the Egdon Group exchanged shares for one share in the Company. The transfer of the Gas Storage business was effected by means of a reduction in capital of the Company, following which the Company transferred Portland Gas A Limited (one holding company of the Gas Storage business) to Portland Gas plc. By way of consideration for such transfer, Egdon shareholders received shares in Portland Gas plc in proportions that mirrored their holdings in Egdon. In essence the demerger of Portland Gas and the Gas Storage business resulted in each shareholder who held one share in the former holding company of the Egdon Group receiving one share in Portland Gas plc, (holding the gas storage assets and business), and one share in the Company, (holding the balance of the oil and gas exploration and production assets).

Although the Company was only incorporated on 25 October 2007 and only received a certificate allowing it to trade on 7 November 2007, it inherited every aspect of the former holding company of the Egdon Group (Egdon Resources plc, which has subsequently been renamed Egdon Resources U.K. Limited) except the Gas Storage business. The Group comparatives are for the consolidated Egdon Group, which include the results and activities of the Portland Gas storage business until the demerger.

Egdon Resources plc was only incorporated as New Egdon PLC on 25 October 2007, consequently comparative Company financial information is not presented in these financial statements.

Operational review

The Group held interests in 26 oil and gas licences onshore UK and France at 31 July 2008. During the year ten additional licences were added through the acquisition of four licences from Stag Energy Limited in October 2007 and the award of six licences in the thirteenth Landward licensing round with an effective date of 1 July 2008. Relinquishments were made of offshore licences 15/7, 42/26 and 42/27 and of onshore UK licence PEDL110. The St Laurent licence is in the process of being extended into its third term.

The period saw the first sustained oil production and revenues from the Keddington oil field in Lincolnshire and also from a period of test production at the Avington oil discovery in Hampshire. Three wells were drilled during the period at Burton Agnes-1, 42/27a-3 on the Tees Prospect and at Grenade-3. None of these wells found significant indications of hydrocarbons.

There was one minor lost-time reportable Health and Safety incident during the period.

Outlook

The 2008/09 financial year will see a focus on increasing production from the Group's oil and gas assets. Continuing production is expected from Keddington and production or production testing is anticipated to commence at Avington, Waddock Cross, Kirkleatham, Kirklington and Eakring-Dukes Wood during the period.

The Company also anticipates drilling activity at Eakring-Dukes Wood, Keddington, Kirklington, Holmwood and Winfrith during the period.

The Company will continue to evaluate the exploration and development potential of its licences and will look to strengthen its asset position through active management of its existing portfolio, new licence applications and review of potential merger and acquisition opportunities.

Results and dividends

The financial statements are presented under IFRS for the first time. The Group recorded a consolidated loss of £3,174,262 during the year (2007: restated loss after tax of £573,074). The loss from continuing operations during the period was £2,376,262 (2007: restated loss on continuing operations of £364,559). The loss for the year includes exploration write-downs and pre-licence costs of £1,441,260 and demerger costs of £453,389.

Accumulated reserves carried forward amount to £1,364,127 and include a transfer of reserve resulting from the Court Order associated with the reduction of capital of £19,087,102, a distribution of Portland Group of £14,580,000, the restated profit brought forward of £31,287 and the consolidated loss for the year of £3,174,262.

The Directors do not recommend the payment of a dividend (2007: £nil).

Share capital

At 31 July 2008 the total number of shares in issue in the Company was 68,614,340 ordinary 10p shares. Details of movements in share capital made during the year are given in note 26 to the financial statements.

Charitable and political donations

During the year the Group made various charitable contributions in the UK totalling £400 (2007: £nil). No donations were made for political purposes. (2007: £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 24 (2007: 26) for the Group.

Risk management
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 24 to the financial statements.

Key performance indicators
The Company's Directors are of the opinion that analysis using KPIs is not necessary for an understanding of the development, performance or position of the business.

Employees
The Group had 12 employees as at 31 July 2008 (2007: nine). Employees are encouraged to directly participate in the business through a share option scheme. Details of the share option scheme are given in note 8 to the financial statements.

Post balance sheet events
The Group has relinquished licence PEDL094 and has been awarded planning for an exploratory well in licence PEDL118 post year-end (see note 34).

Directors
The Directors who served during the year and their abridged CV's were as follows:

	Appointment date
P H P Stephens	6 November 2007
M A W Abbott	25 October 2007
W R Roberts	6 November 2007
A D Hindle	25 October 2007
K M Ratcliff	6 November 2007
J G R Rix	6 November 2007

Philip Stephens MA (Oxon.) (Non-Executive Chairman), aged 66, is a corporate financier with 37 years of City experience. He is currently Non-Executive Chairman of Oakdene Homes plc, Neptune-Calculus Income and Growth VCT plc. He is also a Non-Executive Director of Business Post Group plc and Foresight 4 VCT plc. He was Joint Head of the Corporate Finance Department of stockbrokers Williams de Broe 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.

Mark Abbott (Managing Director), aged 47, 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 Director of MA Exploration Services Limited, Bishopswood Pavilion Limited and a Trustee of the UK Onshore Geophysical Library.

Walter Roberts (Non-Executive Director and Company Secretary), aged 57, 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 Portland Gas plc, an Executive Director of Pinnacle Energy Limited and a Non-Executive Director of Bow Valley Petroleum (UK) Limited.

Andrew Hindle (Non-Executive Director), aged 46, is an experienced geologist and founding Director of Egdon Resources plc. He holds a BSc degree in Geological Sciences (1983) from Leeds University and an MSc. Degree in Petroleum Geology (1985) from Aberdeen University. In 1998 he completed a PhD (part-time) through the Open University for research into petroleum migration. He worked for Texaco from 1985 until 1996 on UK and international exploration and development projects. Subsequently he worked for Anadarko Algeria Corporation from 1996 to 1997. Andrew is Chief Executive Officer of Portland Gas plc, and is also a Director of Geofocus Limited, Toffee Limited, Eskbank Resources Limited and Eskbank Resources (Canada) Ltd.

Ken Ratcliff JP, BSc FCA, (Non-Executive Director), aged 58, 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 Accountant at Geokinetics Processing UK Limited. Ken is non-executive Chairman of Portland Gas plc and has previously held senior management positions with GDC UK Limited, Ensign Geophysics Limited, Seismic Geocode Limited, Tenneco Corporation and Merlin Geophysical Limited.

John Rix FCA, (Non-Executive Director), aged 74, 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.

The Directors' remuneration is detailed in note 7 to the financial statements. All Directors benefit from the provisions of Directors' and officers indemnity insurance policies. Premiums payable to third parties are described in note 7

CORPORATE GOVERNANCE

The Combined Code

The Directors recognise the value of the Combined Code on Corporate Governance 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.

The Board

The Board comprises of one Executive Director and five Non-Executive Directors whose background and experience are relevant to the Group activities. 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, through the Chairman and Executive Director in particular, maintain regular contact with its advisors and public relations consultants in order to ensure that the Board develops an understanding of the views of major shareholders about the Group.

The Board meets regularly throughout the year and met eight times in the year to 31 July 2008. With the exception of one apology from one meeting, all Directors attended all of the scheduled meetings. 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.

Audit Committee

The Audit Committee met twice in the year to 31 July 2008. Its members are Ken Ratcliff (Chairman), Philip Stephens and John Rix and all were present either in person or by telephone at the meetings. In addition, the Chairman held a telephone conference meeting with senior representatives of the external auditors in July 2008. The external auditors have unrestricted access to the Chairman of the Committee.

The Audit Committee reviews the scope and results of the external audit and monitors the integrity of the financial statements of the Company. The Committee 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. Notwithstanding the absence of an internal audit function, the Committee keeps under review the effectiveness of the Group's internal controls and risk management systems.

Remuneration Committee

The Remuneration Committee plans to meet at least twice in each year. It has met twice in the year to 31 July 2008. Its members are Walter Roberts (Chairman), Philip Stephens and Ken Ratcliff and all were present either in person or by telephone at the meetings.

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. The principal objective of the 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 Company. Non-executive fees are considered and agreed by the Board as a whole.

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.

DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable United Kingdom law and the International Financial Reporting Standards (IFRS) as adopted by the European Union.

The Directors are required to prepare financial statements for each financial year which present fairly the financial position of the Company and of the Group and the financial performance and cash flows of the Company and of the Group for that period. In preparing those financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- state that the Company and the Group have complied with IFRS, subject to any material departures disclosed and explained in the financial statements.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and of the Group and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors confirm that they have complied with these requirements and, having a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future, continue to adopt the going concern basis in preparing the financial statements.

Financial statements are published on the Company's website in accordance with the legislation in the UK governing the dissemination of financial statements. The maintenance and integrity of the Company's website, including that of the financial statements contained therein, is the responsibility of the Directors.

Disclosure of information to the auditors

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 auditors were 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 auditors were aware of that information.

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.

Auditors

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

By order of the Board

M A W Abbott Managing Director

21 October 2008

INDEPENDENT AUDITORS' REPORT

To the shareholders of Egdon Resources plc

Nexia Smith & Williamson

We have audited the financial statements of the group for the year ended 31 July 2008 and the Parent Company for the period ended 31 July 2008 ("the financial statements") of Egdon Resources plc which comprise the Consolidated Profit and Loss Account, the Consolidated and Company Balance Sheets, the Consolidated and Company Cash Flow Statements, the Consolidated and Company Statements of Changes in Equity and the related notes 1 to 35. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and auditors

As described in the Statement of Directors' Responsibilities the Company's Directors are responsible for the preparation of the financial statements in accordance with applicable law and International Financial Reporting Standards as adopted by the European Union applied in accordance with the provisions of the Companies Act 1985.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We state in our report whether in our opinion the information given in the Directors' Report is consistent with the financial statements. We also report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if the information specified by law regarding Directors' remuneration and transactions with the Company is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises only the Chairman's Statement and the Directors' Report. We consider the implications for our report if we become aware of any apparent misstatements within it or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with International Financial Reporting Standards, as adopted by the European Union applied in accordance with the provisions of the Companies Act 1985 of the state of affairs of the Company and the Group as at 31 July 2008 and of the loss of the Group for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

Nexia Smith & Williamson Chartered Accountants
Registered Auditors

1 Bishops Wharf
Walnut Tree Close
Guildford GU1 4RA
21 October 2008

The maintenance and integrity of the Egdon website is the responsibility of the Directors. The work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

CONSOLIDATED INCOME STATEMENT

For the year ended 31 July 2008

	Notes	2008 £	2007 £
Continuing operations			
Revenue	3	**1,121,624**	41,397
Cost of sales – exploration costs written off and pre-licence costs	4	**(1,441,260)**	(35,106)
Cost of sales – other		**(1,103,236)**	(53,396)
Total cost of sales		**(2,544,496)**	(88,502)
Gross loss		**(1,422,872)**	(47,105)
Administrative expenses	4	**(1,189,836)**	(635,943)
Other operating income		**91,295**	59,123
Operating loss		**(2,521,413)**	(623,925)
Financial revenue	10	**161,476**	259,366
Finance costs	11	**(16,325)**	–
Loss on ordinary activities before taxation		**(2,376,262)**	(364,559)
Taxation on loss on ordinary activities	12	**–**	–
Loss for the period from continuing operations after taxation		**(2,376,262)**	(364,559)
Loss from discontinued operations	13	**(798,000)**	(208,515)
Loss for the period		**(3,174,262)**	(573,074)
Loss per ordinary share	14		
Basic and diluted loss per share		**(4.70)p**	(0.90)p
Basic loss per share (continuing operations)		**(3.52)p**	(0.57)p
Basic loss per share (discontinued operations)		**(1.18)p**	(0.33)p

CONSOLIDATED BALANCE SHEET

As at 31 July 2008

	Notes	2008 £	2007 £
Non-current assets			
Intangible assets	16	**5,471,666**	14,623,727
Property, plant and equipment	17	**775,616**	147,304
Total non-current assets		**6,247,282**	14,771,031
Current assets			
Inventory	19	**–**	24,169
Trade and other receivables	20	**394,312**	640,625
Available for sale financial assets	21	**50,000**	–
Cash and cash equivalents	22	**2,167,058**	7,899,676
Total current assets		**2,611,370**	8,564,470
Current liabilities			
Trade and other payables	23	**(318,546)**	(2,015,593)
Net current assets		**2,292,824**	6,548,877
Total assets less current liabilities		**8,540,106**	21,319,908
Non-current liabilities			
Provisions	25	**(249,545)**	(246,591)
Net assets		**8,290,561**	21,073,317
Shareholders' funds			
Share capital	26	**6,861,434**	654,657
Share premium	27	**65,000**	–
Merger reserve	28	**–**	20,387,373
Retained earnings		**1,364,127**	31,287
		8,290,561	21,073,317

These financial statements were approved by the Board of Directors and authorised for issue on 21 October 2008.
They were signed on its behalf by:

M A W Abbott Director

COMPANY BALANCE SHEET

As at 31 July 2008

	Notes	2008 £
Non-current assets		
Property, plant and equipment	17	**591**
Investments	18	**16,780,955**
Total non-current assets		**16,781,546**
Current assets		
Trade and other receivables	20	**119,378**
Cash and cash equivalents	22	**2,731**
Total current assets		**122,109**
Current liabilities		
Trade and other payables	23	**(179,553)**
Net current (liabilities)		**(57,444)**
Net assets		**16,724,102**
Shareholders' funds		
Share capital	26	**6,861,434**
Share premium	27	**65,000**
Merger reserve	28	**10,000,771**
Retained Earnings – deficit	15	**(203,103)**
		16,724,102

These financial statements were approved by the Board of Directors and authorised for issue on 21 October 2008.
They were signed on its behalf by:

M A W Abbott Director

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 July 2008

	2008 **£**	2007 £
Loss from operations	**(3,174,262)**	(573,074)
Adjustments for:		
Depreciation and impairment of fixed assets	**1,537,531**	16,692
(Increase)/decrease in trade and other receivables	**(109,437)**	396,778
Decrease/(increase) in inventory	**24,169**	(24,169)
(Decrease) in trade payables	**(660,258)**	(445,836)
Movement in provisions	**2,954**	(164,929)
Financial revenue	**(290,476)**	(402,559)
Bonus paid by way of issue of shares	**146,250**	–
Net cash flow used in operating activities	**(2,523,529)**	(1,197,097)
Investing activities		
Interest received	**290,476**	402,559
Payments for exploration and evaluation assets	**(2,055,487)**	–
Payments for other intangible fixed assets	**(2,556,248)**	(4,882,321)
Purchase of property, plant and equipment	**(62,351)**	(161,493)
Cash held by subsidiary on demerger	**(3,650,735)**	–
Net cash flow from capital expenditure and financial investment	**(8,034,345)**	(4,641,255)
Financing activities		
Issue of shares	**5,000,000**	12,325,001
Costs associated with issue of shares	**(174,744)**	(480,000)
Net cash flow from financing	**4,825,256**	11,845,001
Net (decrease)/increase in cash and cash equivalents	**(5,732,618)**	6,006,649
Cash and cash equivalents as at 1 August 2007	**7,899,676**	1,893,027
Cash and cash equivalents as at 31 July 2008	**2,167,058**	7,899,676

COMPANY CASH FLOW

For the period ended 31 July 2008

	2008 £
Loss from operations	**(203,103)**
Adjustments for:	
Depreciation and impairment of plant and equipment	**74**
Increase in trade and other receivables	**(119,378)**
Increase in trade payables	**179,553**
Share based payments	**146,250**
Financial revenue	**(47)**
Net cash flow from operating activities	**3,349**
Investing activities	
Interest received	**47**
Purchase of plant and equipment	**(665)**
Net cash flow from capital expenditure and financial investment	**(618)**
Financing activities	
Net increase in cash and cash equivalents	**2,731**
Cash and cash equivalents on incorporation	**–**
Cash and cash equivalents as at 31 July 2008	**2,731**

Significant non-cash transactions comprised the issue of equity share capital as consideration for the acquisition of subsidiary companies and the disposal of Portland Gas plc, effected by way of a scheme of arrangement (see note 26).

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the year ended 31 July 2008

	Share capital £	Merger reserve £	Share premium £	Retained earnings £	Total equity £
Balance at 1 August 2006	**571,499**	**8,625,530**	**–**	**604,361**	**9,801,390**
Loss for the period and total recognised income and expense for the period	–	–	–	(573,074)	(573,074)
Issue of ordinary shares	83,158	11,761,843	–	–	11,845,001
Balance at 31 July 2007	**654,657**	**20,387,373**	**–**	**31,287**	**21,073,317**
Loss for the period and total recognised income and expense for the period	–	–	–	(3,174,262)	(3,174,262)
Issue of ordinary shares (September 2007)	23,256	4,802,000	–	–	4,825,256
Effect of share cancellation	(677,913)	677,913	–	–	–
Issue of shares following scheme of arrangement	6,780,184	(6,780,184)	–	–	–
Transfer of reserve resulting from Court Order	–	(19,087,102)	–	19,087,102	–
Distribution of Portland Group	–	–	–	(14,580,000)	(14,580,000)
Issue of ordinary shares (May 2008)	81,250	–	65,000	–	146,250
Balance at 31 July 2008	**6,861,434**	**–**	**65,000**	**1,364,127**	**8,290,561**

COMPANY STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the period ended 31 July 2008

	Share capital £	Merger reserve £	Share premium £	Retained earnings £	Total equity £
Shares issued on incorporation	**2**	**–**	**–**	**–**	**2**
Loss for the period and total recognised income and expense for the period	–	–	–	(203,103)	(203,103)
Issue of equity on demerger	6,780,182	10,000,771	–	–	16,780,953
Issue of equity share capital	81,250	–	65,000	–	146,250
Balance at 31 July 2008	**6,861,434**	**10,000,771**	**65,000**	**(203,103)**	**16,724,102**

1. General information

Egdon Resources plc is a Company incorporated in England & Wales under the Companies Act 1985 and is domiciled in the United Kingdom.

Egdon Resources plc (the "Company") and its subsidiaries (together, the "Group") explore for and develop oil and gas reserves in onshore England and France. During the year, gas storage activities were disposed of and offshore exploration activities ceased.

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

For all periods up to and including the year ended 31 July 2007, the Group prepared its financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (UK GAAP). These financial statements are the first the Group is required to prepare in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and the International Accounting Standards Board. Accordingly the Group has prepared financial statements which comply with IFRS applicable for the periods beginning 1 August 2007 and the significant accounting policies adopted by the Group are shown below. In preparing these financial statements, the Group has started from an opening balance sheet at 1 August 2006, the Group's date of transition to IFRS, and made those changes in accounting policies and other restatements required by IFRS 1 for the first time adoption of IFRS.

The reconciliation to IFRS from the previously published UK GAAP financial statements are summarised in note 35.

For the year ended 31 July 2008, the Group capitalised direct staff costs attributable to exploration and appraisal activities; previously these costs were expensed. This has no material impact on the results or assets of the Group.

The Company's full financial statements cover the period from incorporation to the year end and have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and the International Accounting Standards Board. As permitted by Section 230 of the Companies Act 1985, extracts from the Company's full financial statements are presented.

The IFRS standards and IFRIC interpretations adopted in these financial statements are those issued by the International Accounting Standards Board ("IASB") up to 31 July 2008 that are mandatory for the year ended 31 July 2008.

The future accounting standards that may affect the Group and Company in 2009 and subsequently are as follows:

IFRS 8 "Operating Segments" will replace **IAS 14 "Segment Reporting"** and requires that entities adopt a management approach to reporting financial performance. We do not anticipate that this standard will have any material impact on the Group's financial statements.

IFRS 3 (revised) "Business Combinations" – This standard includes some significant changes to IFRS3 in respect of business combinations with all payments made to purchase a business recorded at fair value at acquisition date. This standard will affect any acquisitions the Group makes from 1 January 2010.

IAS 1 (revised) "Presentation of Financial Statements" – This standard prescribes the basis for presentation of financial statements and aims to ensure comparability both with the entity's financial statements of previous periods and with the financial statements of other entities.

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.

Business combinations and goodwill

On acquisition, the assets and liabilities and contingent liabilities of subsidiaries are measured at their fair values at the date of acquisition. Any excess of cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. Any deficiency of the cost of acquisition below the fair values of the identifiable net assets acquired (i.e. discount on acquisition) is credited to the income statement in the period of acquisition. Goodwill arising on consolidation is recognised as an asset and reviewed for impairment at least annually. Any impairment is recognised immediately in the income statement and is not subsequently reversed.

With effect from 16 January 2008 a new parent company Egdon Resources plc (the "Company") was introduced to the Group.

The introduction of a new holding company does not result in the addition of any new businesses to the Group, and as such it falls outside of the scope of IFRS 3. Therefore, it has been accounted for using merger accounting principles. As a result, although the Group reconstruction did not become effective until January 2008, the consolidated financial statements of Egdon Resources plc are presented as if Egdon Resources plc and its subsidiaries had always been part of the same Group. Accordingly, the financial information for the current period has been presented, and that for the prior periods restated, as if the subsidiaries had been owned by Egdon Resources plc throughout the current and comparative accounting periods.

2. Accounting policies (continued)

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 sales, net of VAT and trade discounts, and is recognised on delivery. When oil is sold from a test well, an amount equal to the revenue achieved is credited to cost of sales.

Income charged to other companies net of VAT, in respect of fees for acting as operator 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 costs applicable to the Group's interest.

Intangible assets – exploration and evaluation assets

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.

When oil is sold from a test well, the carrying value of E&E assets is reduced by the gross profit generated from the oil sales.

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.

Property, plant and equipment – development and production assets

Development and production ("D&P") assets are accumulated into single field 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.

Costs relating to each single field 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 amortisation calculation takes account of 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.

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. If necessary, additional depletion is charged through the income statement if the capitalised costs of the CGU exceeds 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 balance sheet 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:

Plant and equipment	20% straight line
Fixtures and fittings	25% straight line
Computer equipment	33% straight line

2. Accounting policies (continued)

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 borrowing cost.

Decommissioning provision and asset

Licensees have an obligation to restore fields to a condition acceptable to the relevant authorities at the end of their commercial lives. Provision is made for such obligations, representing the Group's share of the estimated liability for costs which will be incurred in removing installed facilities (including the abandonment of wells) at the end of commercial production from the field. A provision is established when the related wells are drilled and the facilities installed and is created in the financial statements at the present value of the estimated future costs. A corresponding asset is also created for the amount equal to the provision when it is first made in the financial statements. This asset is subsequently depleted as part of oil and gas assets in accordance with the depreciation and depletion policy applied to such assets. The increase in the net present value of the future cost arising from the unwinding of the discount is included within interest payable and other similar charges.

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 Company and short term bank deposits with an original maturity of three months or less.

Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet 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 amount of any provision 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 balance sheet date. For investments where there is no active market, fair value is determined using appropriate valuation techniques.

2. Accounting policies (continued)

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 balance sheet 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.

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 balance sheet 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 balance sheet.

2. Accounting policies (continued)

Judgements and estimates

Amounts included in the financial statements involve the use of judgement and/or estimation. These estimates and judgements are based on management's best knowledge of the relevant facts and circumstances, having regard to previous experience, but actual results may differ from the amounts included in the financial statements. Information about such judgements and estimation is contained in the accounting policies and/or the notes to the financial statements, and the key areas are summarised below.

Review of project asset carrying values

The assessment of capitalised project costs for any indications of impairment involves judgement. A formal impairment review is undertaken to determine the expected value of the asset. Where the expected value is less than the capitalised project cost an impairment loss is recognised against the income statement. The key assumptions in the valuation are the net income expected to be generated from the asset which is a function of the expected future commodity sale price (oil, gas or electricity price), expected commodity reserves and production volumes, operating costs and the costs of abandonment.

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.

Going concern

The preparation of the financial statements requires an assessment on the validity of the going concern assumption. The validity of the going concern assumption is dependent on the availability of adequate financial resources to allow the Group to continue in operational existence for the foreseeable future. The Directors have reviewed budget, projected cash flows and other financial options, and based on this review are confident that the Group will have adequate financial 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 balance sheet of the Group.

3. Segmental information

During the year, the Group's activities were exploration and development of oil and gas reserves, and the development of gas storage facilities; as at the year end the Group's sole business segment was the exploration and development of oil and gas reserves. The Group's primary operations are located in the United Kingdom and France with its head office in the United Kingdom. The turnover of the Group for the period has been derived from the sale of oil which has been extracted from wells during production and testing operations.

	2008 **£**	2007 £
Turnover by segment:		
UK oil sales	**1,121,624**	41,397
France oil sales	**–**	–
Total oil sales	**1,121,624**	41,397
Gas storage (discontinued operations)	**–**	–
	1,121,624	41,397
Loss on ordinary activities by segment:		
UK oil and gas exploration	**(2,468,515)**	(623,925)
France oil and gas exploration	**(52,898)**	–
Loss from oil and gas exploration/continuing activities	**(2,521,413)**	(623,925)
UK – Gas storage (discontinued operations)	**(927,000)**	(351,708)
(Loss) for the year	**(3,448,413)**	(975,633)
Financial revenue	**290,476**	402,559
Financial costs	**(16,325)**	–
(Loss) for the year after interest and tax	**(3,174,262)**	(573,074)

3. Segmental information (continued)

	2008 £	2007 £
Assets by segment:		
UK oil and gas exploration	**5,509,768**	6,337,199
France oil and gas exploration	**1,131,826**	249,487
Total oil and gas exploration	**6,641,594**	6,586,686
Gas storage (discontinued operations)	**–**	8,958,142
Liabilities by segment:		
UK oil and gas exploration	**(493,317)**	(847,725)
France oil and gas exploration	**(74,774)**	(81,718)
Total oil and gas exploration	**(568,091)**	(929,443)
Gas storage (discontinued operations)	**–**	(1,441,298)
Net assets excluding interest bearing assets and liabilities	**6,073,503**	13,174,087
Interest bearing assets UK oil and gas exploration	**2,202,924**	4,249,580
Interest bearing assets France oil and gas exploration	**11,403**	212,955
Interest bearing assets gas storage	**–**	3,436,695
Interest bearing assets – unallocated corporate assets	**2,731**	–
Net assets including interest bearing assets and liabilities	**8,290,561**	21,073,317
Cash expenditure on segmental assets:		
Oil and gas exploration	**2,581,478**	1,325,187
Gas storage	**2,234,384**	3,753,733

4. Other expenditure

	2008 £	2007 £
Auditors' remuneration (see note 5 below)	**131,285**	74,435
Depreciation and other amounts written off tangible assets (plant)	**165,535**	16,992
Exploration and pre-licence costs written off	**1,441,260**	35,106
Foreign exchange differences	**(42,889)**	–
Research expenditure	**–**	24,748
Increase in provision for national insurance on share options	**–**	33,280
Operating lease rentals – land and buildings	**71,430**	171,593
Demerger costs	**453,389**	–

Demerger costs relate to professional fees incurred to implement the demerger of the Portland Gas Group from Egdon Resources plc.

5. Auditors' remuneration

	2008 £	2007 £
Audit services:		
Fees payable to the Group's auditor for the audit of the Group's annual financial statements	**18,000**	15,000
Other services:		
The auditing of financial statements of subsidiaries of the Company pursuant to legislation	**20,000**	19,750
Other services relating to taxation	**40,255**	6,330
All other services	**53,030**	33,355
Total audit and other services	**131,285**	74,435

6. Employee information

	2008 Number	2007 Number
The average number of persons employed by the Group in the year, including Executive and Non-Executive Directors, was:		
Management and administration	**12**	9

	2008 £	2007 £
Employee costs during the year amounted to:		
Wages, salaries and benefits	**613,574**	449,109
Social security costs	**87,707**	116,742
Pension costs	**2,877**	–
	704,158	565,851

7. Remuneration of Directors and key management

Group	2008 £	2007 £
Directors' emoluments	**536,185**	372,504

The emoluments of individual Directors were as follows:

	Salary and fees £	Bonus £	Insurance benefits £	Pension £	Total 2008 £	Total 2007 £
M A W Abbott	**127,500**	**93,600**	**2,213**	**2,000**	**225,313**	126,029
A D Hindle	**75,000**	**11,700**	**2,147**	**–**	**88,847**	125,963
P H P Stephens	**37,500**	**29,250**	**1,313**	**–**	**68,063**	38,878
K M Ratcliff	**36,573**	**17,550**	**1,313**	**–**	**55,436**	27,628
J G R Rix	**15,000**	**11,700**	**1,313**	**–**	**28,013**	16,378
W R Roberts	**57,500**	**11,700**	**1,313**	**–**	**70,513**	37,628
	349,073	**175,500**	**9,612**	**2,000**	**536,185**	372,504

A D Hindle was an Executive Director from the 1 August 2007 until the date of demerger.

Life policy and critical illness premiums of £4,492 (2007: £4,492) were paid in respect of the Executive Directors and Directors' indemnity insurance premiums of £6,372 (2007: £8,270) were paid in respect of all Directors.

The remuneration of the Group's key management was £534,185 (2007: £850,075) in respect of salaries, bonuses, benefits and employers' national insurance and £2,000 (2007: £nil) in respect of pension contributions.

Company

Emoluments of the Company's key management totalled £335,711, comprising £291,583 in respect of salary and bonuses, £6,806 in respect of benefits and employers' national insurance contributions were £37,322.

M A W Abbott participated in the Company's pension scheme (see note 9) and the Company made payments of £2,000 during the period in respect of pension contributions. The Company does not currently provide pension arrangements or benefits other than as described above.

Share based payments – 2007 (Company and Group)

The gain on the exercise of share options exercised by the Directors in 2007 was £3.475 million. As the options had previously vested, there was no charge to the income statement in respect of these options.

Directors' share options outstanding at 31 July 2008

	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 in 2007.

8. 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.

Options have been 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). The options are exercisable on or after 1 August 2010. The options will vest if the grantees are in service at the 1 August 2010. The options do not have a cash settlement alternative. The charge to income in respect of these options is insignificant and as such is not recognised.

9. Defined contribution 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 charged to expenses of £2,877 represents the sum payable to the scheme by the Group at rates specified in the rules of the scheme for the period.

10. Financial revenue

	2008 **£**	2007 £
Interest receivable on short term deposits	**290,476**	402,559
Interest receivable by discontinued operations	**(129,000)**	(143,193)
	161,476	259,366

11. Finance costs

	2008 **£**	2007 £
Unwinding of decommissioning discount	**16,325**	–

12. Income tax

The major components of income tax expense for the years ended 31 July 2008 and 2007 are:

	2008 **£**	2007 £
a) Consolidated income statement		
Current income tax charge	**–**	–
Adjustments in respect of current income tax of previous years	**–**	–
b) A reconciliation between tax expense and the product of accounting loss for the years ended 31 July 2008 and 2007 is as follows:		
Accounting loss before tax from continuing operations	**(2,376,262)**	(364,559)
Loss on ordinary activities multiplied by the standard rate of tax	**(665,306)**	(109,368)
Expenses not permitted for tax purposes	**126,400**	14,438
Deductions for tax not included in income statement	**–**	(1,042,500)
Movements in unrecognised deferred tax assets	**532,998**	1,108,423
Group relief	**5,908**	29,007
At effective tax rate of 49.44% (2007: 30%)		
Income tax expense reported in the income statement	**–**	–

c) Factors that may affect the future tax charge

The Group has trading losses of £13,673,772 (2007: £10,998,297 restated) which may reduce future tax charges. Future tax charges may also be reduced by capital allowances on cumulative capital expenditure, supplementary allowances on ring-fenced exploration expenditure and the extent to which any profits are generated by ring fenced activities, which attract a higher rate of tax.

d) Deferred taxation

The Group has an unrecognised deferred taxation asset of £3,540,748 (2007: £2,830,815) at year end.

13. Discontinued operations

	2008 £	2007 £
Administrative expenses	**(927,000)**	(351,708)
Investment revenues	**129,000**	143,193
Tax charge	**–**	–
Loss for the period	**(798,000)**	(208,515)
Included within the cash flow are the following amounts in relation to discontinued operations:		
Interest received	**129,000**	143,193
Payments to acquire intangible assets	**(2,175,794)**	(3,749,000)
Purchase of equipment	**(58,590)**	(5,000)
	(2,105,384)	(3,610,807)

The discontinued operations relate to the Portland Gas group – see note 26.

14. Loss per share

	2008 £	2007 £
Net loss for the financial year	**(3,174,262)**	(573,074)
Net loss for the financial year (continuing operations)	**(2,376,262)**	(364,559)
Net loss for the financial year (discontinued operations)	**(798,000)**	(208,515)
Basic weighted average ordinary shares in issue during the year	**67,582,585**	63,392,512

	2008 Pence	2007 Pence
Basic loss per share	**(4.70)**	(0.90)
Basic loss per share (continuing operations)	**(3.52)**	(0.57)
Basic loss per share (discontinued operations)	**(1.18)**	(0.33)

The basic loss per share has been calculated on the loss on ordinary activities after taxation of £3,174,262 divided by the weighted average number of ordinary shares in issue of 67,582,585 during the period. The loss per share for continuing operations excludes the financial results for Portland Gas plc.

In accordance with IAS 33, diluted earnings per share calculations are not presented as assumed conversion of outstanding share options would be anti-dilutive.

15. Losses attributable to Egdon Resources plc

The loss for the financial year dealt with in the financial statements of Egdon Resources plc was £203,103. As provided by Section 230 of the Companies Act 1985, no income statement is presented in respect of Egdon Resources plc.

16. Intangible fixed assets

Group	Goodwill £	Exploration and evaluation costs £	Development cost gas storage £	Total £
Cost				
At 1 August 2006	2,856	4,161,018	4,043,661	8,207,535
Additions		1,413,270	5,005,778	6,419,048
At 1 August 2007	2,856	5,574,288	9,049,439	14,626,583
Additions	–	2,581,478	2,556,248	5,137,726
Reclassifications to D&P assets	–	(786,556)	–	(786,556)
Gross margin on oil sales from well testing	–	(525,991)	–	(525,991)
Disposals	–	–	(11,605,687)	(11,605,687)
At 31 July 2008	**2,856**	**6,843,219**	**–**	**6,846,075**
Amortisation				
At 1 August 2006	2,856	–	–	2,856
Charge for year	–	–	–	–
At 1 August 2007	2,856	–	–	2,856
Charge for the year	–	–	–	–
Exploration written off	–	1,371,553	–	1,371,553
At 31 July 2008	**2,856**	**1,371,553**	**–**	**1,374,409**
Net book value				
At 31 July 2008	**–**	**5,471,666**	**–**	**5,471,666**
At 31 July 2007	–	5,574,288	9,049,439	14,623,727

Goodwill relates to the acquisition of shares in Egdon Resources (New Ventures) Ltd.

Additions to exploration and evaluation costs represent exploration and appraisal costs incurred in the year in respect of unproven properties.

The Group's unevaluated oil and gas interests at 31 July 2008 are its equity interests in licences in onshore UK and France held through its wholly owned subsidiary Egdon Resources U.K. Limited, and through its wholly owned subsidiaries Egdon Resources (New Ventures) Ltd and Egdon Resources (Purbeck) Limited.

A formal impairment review has been carried out and the Directors have fully considered and reviewed the potential value of all projects and licences. The Directors have also considered the likely opportunities for realising the value of the 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. Exploration written off relates to dry wells and relinquished licences.

17. Property, plant and equipment

Group	Development and production assets £	Fixtures and fittings £	Computer equipment £	Total £
Cost				
At 1 August 2006	–	4,686	24,913	29,599
Additions	141,389	–	20,104	161,493
At 1 August 2007	141,389	4,686	45,017	191,092
Additions	4,287	–	62,464	66,751
Disposals	–	–	(59,460)	(59,460)
Reclassifications from intangibles	786,556	–	–	786,556
At 31 July 2008	**932,232**	**4,686**	**48,021**	**984,939**
Depreciation				
At 1 August 2006	–	4,686	22,410	27,096
Charge for the year	11,999	–	4,693	16,692
At 1 August 2007	11,999	4,686	27,103	43,788
Charge for the year	158,621	–	7,357	165,978
Disposals	–	–	(443)	(443)
At 31 July 2008	**170,620**	**4,686**	**34,017**	**209,323**
Net book value				
At 31 July 2008	**761,612**	**–**	**14,004**	**775,616**
At 31 July 2007	129,390	–	17,914	147,304

Company	Computer equipment £
Cost	
On incorporation	–
Additions	665
At 31 July 2008	**665**
Depreciation	
On incorporation	–
Charge for the year	74
Transfers	–
At 31 July 2008	**74**
Net book value	
At 31 July 2008	**591**
At 31 July 2007	–

18. Investments in subsidiaries

	Shares in subsidiary undertakings £
Additions in year	31,770,114
Disposals	(14,989,159)
Balance at 31 July 2008	**16,780,955**

The balance represents the investment in Egdon Resources U.K. Limited acquired via a share for share exchange, the value of the addition being the fair value of the shares issued. Details of the disposal are given in note 26.

Holdings of more than 20%

As at the year end the Company holds 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 (New Ventures) Ltd	England	Ordinary	100
Egdon Resources (Purbeck) Limited	England	Ordinary	100

Egdon Resources U.K. Limited, Egdon Resources (New Ventures) Ltd and Egdon Resources (Purbeck) Limited are involved in oil and gas exploration and production.

19. Inventory

	Group 2008 £	Group 2007 £	**Company 2008 £**
Oil stock	**–**	24,169	**–**

20. Trade and other receivables

	Group 2008 £	Group 2007 £	**Company 2008 £**
Amounts falling due within one year:			
Trade receivables	**159,548**	266,842	**–**
Amounts owed by subsidiaries	**–**	–	**83,512**
Other receivables	**140,641**	283,179	**–**
Prepayments and accrued income	**94,123**	90,604	**35,866**
	394,312	640,625	**119,378**

Prepayments include a rent deposit of £17,819 (2007: £17,819) which would be repayable on termination of the premise's lease.

The loans to the subsidiary companies are interest free, unsecured and there are no fixed terms for repayment.

An element of the Company and Group's credit risk is attributable to its trade and other receivables. Based on prior experience and an assessment of the current economic environment, the Directors did not consider any provision for irrecoverable amounts was required and consider that the carrying amounts of these assets approximates to their fair value.

21. Available for sale financial assets

	2008 £
At 1 August 2007	–
Additions	**50,000**
Fair value at 31 July 2008	**50,000**

The investment in securities above represents an investment in Portland Gas plc redeemable preference shares. The fair value of these securities is based on estimates after consideration of market returns on comparable assets.

22. Cash and cash equivalents

	Group 2008 £	Group 2007 £	Company 2008 £
Short term bank deposits	**2,121,027**	7,740,584	**–**
Cash at bank	**46,031**	159,092	**2,731**
	2,167,058	7,899,676	**2,731**

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 counterparty is a bank with a high credit rating.

23. Trade and other payables

	Group 2008 £	Group 2007 £	Company 2008 £
Trade payables	**139,091**	725,502	**21,961**
Amounts due to subsidiaries	**–**	–	**147,411**
Other taxes and social security costs	**–**	21,893	**–**
Accruals and deferred income	**179,455**	1,268,198	**10,181**
	318,546	2,015,593	**179,553**

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

24. Financial assets and liabilities

The activities of the Group are funded out of working capital and do not include the use of derivatives or complex financial instruments. The Group's objective is to minimise financial risk and the policies to achieve this are to fund operations from equity capital and not to make use of complex financial instruments.

The Group has financial instruments in the form of short term receivables and payables which arise in the normal course of business and are not discounted, offered as security or pledged in any way, cash at bank and fixed term bank deposits and immaterial available for sale financial assets. The main risks arising from the Group's financial instruments are liquidity risk, credit risk, interest rate risk and foreign currency risk.

Operations during the year were financed through cash resources derived from shareholder subscriptions.

The financial assets of the Group are mainly comprised of cash at bank and fixed term bank deposits (money market) the majority of which were Sterling denominated. These attract interest at rates that vary with bank interest rates. Cash at bank at floating rates consisted of money market deposits which earn interest at rates set in advance for periods of up to three months by reference to Sterling LIBOR.

24. Financial assets and liabilities (continued)

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 total carrying value of Group and Company financial liabilities is disclosed below. The Company issues share capital when external funds are required. At year end the Group had net current assets of £2,292,824 (2007: £6,548,877) and the Company had net current liabilities of £57,444.

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 £2,167,058 (2007: £7,899,676) and the Company £2,731. The balances at 31 July 2008 are held with two banks. Trade and other receivables, which are held at amortised cost, largely comprise amounts due from trading entities and VAT refunds, carrying a low credit risk, and total £394,312 (2007: £640,625) for the Group and £119,378 for the Company (note 20). As at the year end, the total exposure to credit risk was £2,521,370 (2007: £8,540,301; Company £122,109).

Interest rate risk

Interest bearing assets include only cash balances which earn interest at variable rates. The financial assets of the Group are cash at bank and fixed term bank deposits (money market) most of which are Sterling denominated. These attract interest at rates that vary with bank interest rates. 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. 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 investment revenues of £21,670 (2007: £79,000).

Foreign currency risk

The Group's currency exposure comprises monetary assets and liabilities that are denominated in currency other than Sterling. The value of financial assets denominated in foreign currencies at 31 July 2008 was £552,764 (2007: £nil; Company £nil). A 10% change in the sterling exchange rate would result in a before tax financial effect of an increase or decrease of £55,276 (2007: £nil).

Financial assets

The financial assets of the Group are cash at bank and fixed term bank deposits (money market) all of which were Sterling and United States Dollar denominated. These attract interest at rates that vary with bank interest rates. The interest rate profile of the Group's financial assets and liabilities at 31 July was as follows:

	2008 **£**	2007 £
Cash at bank at floating interest rates	**2,121,027**	7,740,584
Cash at bank	**46,031**	159,092

Cash at bank at floating rates consisted of money market deposits which earn interest at rates set in advance from periods of 1–3 months by reference to Sterling LIBOR.

Financial liabilities

The Group's financial liabilities, comprise trade and others payable as set out in note 23, held at amortised cost, which comprise a total of £318,546 (2007: £2,015,593) and are all due within 1–2 months. The Company's financial liabilities are £179,553 which are all due within 1–2 months.

25. Provision for liabilities

Group	**National insurance provision** **£**	**De-commissioning provision** **£**	**Total** **£**
At 1 August 2006	411,520	–	411,520
Provision made during the year	33,280	246,591	279,871
Provision utilised during the year	(444,800)	–	(444,800)
At 1 August 2007	–	246,591	246,591
Provision released during the year	–	(13,371)	(13,371)
Unwinding of discount	–	16,325	16,325
At 31 July 2008	**–**	**249,545**	**249,545**

The decommissioning provision relates to the estimated future costs of decommissioning the Group's oil and gas assets, expected to be incurred once the relevant reservoirs are commercially depleted. This is expected to occur in four to five years' time. The Company provision at 31 July 2008 was nil.

26. Share capital and redeemable preference shares

	Authorised		Allotted, called up and fully paid	
Ordinary share capital	**Number**	**£**	**Number**	**£**
At 1 August 2006				
– Ordinary shares of £0.01 each	90,000,000	900,000	57,149,974	571,499
– Issue of new £0.01 ordinary shares	–	–	8,315,790	83,158
– Increase in authorised share capital	10,000,000	100,000	–	–
At 31 July 2007				
– Ordinary shares of £0.01 each	100,000,000	1,000,000	65,465,764	654,657
– Issue of new £0.01 ordinary shares	–	–	2,336,074	23,360
– Cancellation of ordinary shares of £0.01 each	(100,000,000)	(1,000,000)	(67,801,840)	(678,017)
– Authorised share capital of Egdon Resources plc at demerger	88,461,538	8,846,154	–	–
– Issue of ordinary shares of £2.60 each to shareholders of Egdon Resources plc (now renamed Egdon Resources U.K. Limited)	–	–	67,801,840	176,284,784
– Reduction in share capital by a reduction in the nominal value of shares from £2.60 to £0.10	–	–	–	(169,504,600)
– Issue of new £0.10 ordinary shares	–	–	812,500	81,250
At 31 July 2008				
– Ordinary shares of £0.10 each	88,461,538	8,846,154	68,614,340	6,861,434
Redeemable preference shares of £1 each (classified as assets)				
Creation and issue of £1 redeemable preference shares	50,000	50,000	50,000	12,500
At 31 July 2008				
– Redeemable preference shares of £1 each	50,000	50,000	50,000	12,500

The share capital presented above at 1 August 2006 and 31 July 2007 is that of Egdon Resources plc the ultimate parent company of the Egdon Resources Group at that time as described below.

2007 – Share capital of Egdon Resources plc (now renamed Egdon Resources U.K. Limited)

On 28 September 2007 the former holding company of the Egdon Group placed 2,325,582 new 1p ordinary shares with a nominal value of £23,256 for a gross cash consideration of £5,000,000. Following the placing, 67,791,346 ordinary shares were in issue.

On 23 October 2007 10,494 1p ordinary shares with a nominal value of £105 and an aggregate market value of £25,000 were issued to Stag Energy Limited in part consideration for the acquisition of their entire interest in licences PEDL094, PEDL118, PEDL130 and PEDL132. Following the placing, 67,801,840 ordinary shares were in issue.

2008 – Share capital of Egdon Resources plc (formerly New Egdon PLC)

During the period covered by these financial statements a restructuring was undertaken to effect a demerger of the gas storage business, Portland Gas plc which became effective on 16 January 2008.

For the purposes of the demerger, it was necessary for the Egdon Group to be held by a new holding company, New Egdon PLC ("the Company" or "New Egdon"). New Egdon became the ultimate holding company of the Egdon Group pursuant to a Scheme of Arrangement under Section 425 of the Companies Act 1985.

Egdon Resources plc was incorporated as New Egdon PLC on 25 October 2007 with an authorised share capital of 5,000,000 ordinary shares of 1p each. On 6 November 2007 the authorised share capital was increased to £230,000,000 by increase in authorised shares to 23,000,000,000 shares of 1p each. On the same day the shares were consolidated into ordinary shares of £2.30 each resulting in a reduction in the authorised number of shares to 100,000,000. On 14 January 2008 the £2.30 shares were subdivided into 1p ordinary shares and then consolidated into £2.60 ordinary shares such that the number of authorised shares reduced from 100,000,000 to 88,461,538. Upon the reduction in capital becoming effective the issued and unissued shares reduced from £2.60 to £0.10 in nominal value resulting in an authorised share capital of £8,846,153.80.

On the 6 November 2007 50,000 redeemable preference shares of £1 each were issued and are held by Portland Gas NV Limited. 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 at par and is subject to the provisions of the Companies Act. The preference shares are treated as short term liabilities.

26. Share capital and redeemable preference shares (continued)

2008 – Share capital of Egdon Resource Plc (formerly New Egdon PLC) (continued)

Under the Scheme of Arrangement, Egdon shareholders on the register exchanged their existing shares for shares in the Company on the basis of one New Egdon share for each Egdon share. As a result the Company became the ultimate holding company of the Egdon Group and all of its shares were owned by former Egdon shareholders. This resulted in an effective reduction of £15,768,296 to the share premium account of the Company and elimination of the investment in demerged activities. In the Group accounts the merger reserve was eliminated subsequent to the Court Order.

Following the Scheme of Arrangement becoming effective, the subsidiaries of Egdon Resources Plc, which owned directly or indirectly the gas storage business, were demerged pursuant to a reduction of capital of the Company as follows:

(a) the capital of New Egdon was reduced by reducing the nominal value of each New Egdon share by an amount determined by the Directors;

(b) New Egdon transferred the whole of the issued share capital of Portland Gas to New Portland such that it came to own the Gas Storage Business; and

(c) the New Egdon shareholders at the Demerger Record Time were allotted and issued one New Portland share, credited as fully paid, for each New Egdon share then held resulting in 67,801,838 ordinary shares of 10p being allotted on the 16 January 2008.

The market value of the shares at the date of issue was 24.75p per share.

Former Egdon Shareholders thus came to hold one New Egdon share and one New Portland share for every one Egdon share formerly held by them.

Portland Gas A Limited was distributed by means of the scheme of arrangement. The book value of the assets and liabilities distributed was £14,579,402. The assets and liabilities were made up as follows:

	£
Intangible assets	**11,605,687**
Equipment	**54,617**
Trade and other receivables	**430,250**
Cash and cash equivalents	**3,650,735**
Available for sale assets	**50,000**
Trade and other payables	**(1,211,887)**
Net assets on disposal	**14,579,402**

New Egdon PLC was renamed Egdon Resources plc and Egdon Resources Plc, the previous holding company, was renamed Egdon Resources U.K. Limited.

Prior to demerger on 16 January 2008, 67,801,840 ordinary 10p shares in Egdon Resources plc were issued on the basis of one new 10p ordinary share to each shareholder who held one share in the former holding company of the Egdon Group. The market value of the shares issued was 24.75p per share.

On 24 May 2008 a total of 812,500 10p ordinary shares were issued to Directors at a price of 18p per share (being the market value at the date of issue) in lieu of cash bonuses (see note 7). Following this 68,614,340 10p ordinary shares were in issue.

27. Share premium reserve

812,500 ordinary shares of 10p were issued to Directors for £146,250 creating a share premium reserve of £65,000.

28. Merger reserve

Company

The merger reserve arose on the demerger of the Egdon Resources Group of companies from Portland Gas plc and represents 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.

29. Cash used in operations

Group	As at 1 August 2006 £	Cash flow £	As at 1 August 2007 £	Cash flow £	**As at 31 July 2008 £**
Cash at bank and in hand	386,837	(227,745)	159,092	(113,061)	**46,031**
Term deposits	1,506,190	6,234,394	7,740,584	(5,619,557)	**2,121,027**
Cash and cash equivalents	1,893,027	6,006,649	7,899,676	(5,732,618)	**2,167,058**

Cash flow from operations

Company	On incorporation 2007 £	Cash flow £	**As at 31 July 2008 £**
Cash at bank and in hand	–	2,731	**2,731**
Term deposits	–	–	**–**
Cash and cash equivalents	–	2,731	**2,731**

30. Operating lease commitments

At 31 July 2008 the Group had commitments under non-cancellable operating leases as follows:

Land and buildings

	2008 £	2007 £
Payable within 1 year	**31,881**	231,828
Payable within 2–5 years	**–**	774,400
Payable in more than 5 years	**–**	1,790,800
	31,881	2,797,028

Operating lease payments represent rentals payable by the Group for office premises and land which is for the purposes of exploration and production activities. None of the leases are for a period greater than one year.

31. Capital commitments – intangible assets

Capital commitments of £228,348 (2007: £2,300,000) relate to expenditure committed under signed authorisations for expenditure. No other capital commitments have been made as at 31 July 2008.

32. 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 2008 Pinnacle Energy Limited invoiced the Group £215,417 (2007: £70,086) for legal and consultancy services provided at commercial rates and agreed by the Directors of the Company. At the year-end £26,539 was owing to Pinnacle Energy Limited (2007: £ 6,618).

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 2008 Egdon invoiced Dorset Exploration Limited and Yorkshire Exploration Limited £8,012 (2007: £5,816) and £63,530 (2007: £18,004) respectively by way of cost-recovery. At 31 July 2008 £1,681 (2007: £218 due from) was due to Dorset Exploration Limited and £995 (2007: £1,715) was due from Yorkshire Exploration Limited. These amounts have been paid since the year-end.

Egdon Resources Plc was the ultimate Parent Company of the Portland Gas Group before demerger. Inter company transactions took place between the two Groups as payments were made to third parties on behalf of the respective counterparty and these amounts were recovered or settled by inter company loan account transactions. In addition Egdon Resources Plc subscribed for 4,000,000 Portland Gas A Limited ordinary shares on the 26 October 2007 for £4,000,000.

The Company and Group also have a related party relationship with its subsidiaries in the course of normal operations.

33. Related party transactions (continued)

The balances outstanding at 31 July 2008 are provided in the following table.

Related party	Amounts owed by related parties £	Amounts owed to related parties £
The ultimate parent		
Egdon Resources plc	**25,838**	**89,737**
Subsidiaries		
Egdon Resources (New Ventures) Ltd	**25,338**	**–**
Egdon Resources (Purbeck) Limited	**500**	**–**
Egdon Resources (U.K.) Limited	**–**	**89,737**

As at 31 July 2007 Related party	Amounts owed by related parties £	Amounts owed to related parties £
The ultimate parent		
Egdon Resources plc	427,726	108,559
Subsidiaries		
Egdon Resources (New Ventures) Ltd	424,080	–
Egdon Resources (Purbeck) Limited	396	–
Portland Gas A Limited	3,250	–
Portland Gas Storage Limited	–	106,840
Portland Gas NI Limited	–	1,719

33. Control of the Group

There is no ultimate controlling party of Egdon Resources plc. The largest Group in which the results of the Company are consolidated is that headed by Egdon Resources plc (2007 Egdon Resources Plc renamed Egdon Resources U.K. Limited). It is the ultimate holding company and is incorporated in Great Britain and registered in England.

34. Post balance sheet events

Licence PEDL094 was relinquished on 7 September 2008. Planning consent was granted for the drilling of an exploratory well in licence PEDL118 on 10 October 2008.

35. Transition to IFRS

For all periods up to and including the year ended 31 July 2007, the Group prepared its financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (UK GAAP). These financial statements, for the year ended 31 July 2008, are the first the Group is required to prepare in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and the International Accounting Standards Board. Accordingly the Group has prepared financial statements which comply with IFRS applicable for the periods beginning 1 August 2007 and the significant accounting policies adopted by the Group are shown above. In preparing these financial statements, the Group has started from an opening balance sheet at 1 August 2006, the Group's date of transition to IFRS, and made those changes in accounting policies and other restatements required by IFRS 1 for the first time adoption of IFRS. This note explains the principal adjustments made by the Group in restating its UK GAAP balance sheet as at 1 August 2006 and its previously published UK GAAP financial statements for the year ended 31 July 2007.

Exemptions applied

IFRS 1 "first time adoption of International Financial Reporting Standards" establishes the transitional requirements for the preparation of financial statements upon first time adoption of IFRS. IFRS 1 generally requires an entity to comply with IFRS effective at the reporting date and to apply these retrospectively to the opening balance sheet, the comparative period and the reporting period. The standard allows certain optional exemptions from full retrospective application and other elections on transition.

Elections made pursuant to IFRS 1 "First Time Adoption" are as follows:

IFRS 3 "Business Combinations" has not been applied retrospectively to business combinations made before 31 July 2006. Thus both the classification of the business and the determination of fair value at the time of the business combination have been maintained.

The adjustments to the UK GAAP financial statements can be explained as follows:

35. Transition to IFRS (continued)

IFRS 6 – Exploration for and evaluation of mineral resources

Under UK GAAP all costs incurred prior to having obtained licence rights were included within intangible assets. Under IFRS such expenditure has to be written off as an expense in full in the year in which it occurs.

This has resulted in an adjustment of £76,828 to retained earnings for the opening balance sheet. The total adjustment to the balance sheet as at 31 July 2007 is £111,934, although £76,828 was written off in the prior year resulting in an adjustment to the income statement of £35,106.

IAS 16 – Property, plant and equipment

Under UK GAAP, tangible fixed assets comprised oil and gas producing properties for which the existence or otherwise of commercial reserves had been established and other fixed assets including non oil and gas specific fixtures and fittings and office equipment.

Under IFRS, all amounts previously classified as "Tangible assets" have been recorded as "Property plant and equipment".

Consolidated Balance Sheet as at 1 August 2006

	UK GAAP £	IFRS 6 £	IAS 16 £	IFRS £
Non-current assets				
Intangible assets	8,284,367	(76,828)		8,207,539
Property, plant and equipment			2,503	2,503
Tangible assets	2,503		(2,503)	–
	8,286,870	(76,828)		8,210,042
Current assets				
Oil Stock				
Trade and other receivables	1,037,403			1,037,403
Investments	1,506,190			1,506,190
Cash and cash equivalents	386,837			386,837
	2,930,430			2,930,430
Current liabilities				
Trade and other payables	(927,562)			(927,562)
Net current assets	2,002,868			2,002,868
Non-current liabilities				
Provisions	(411,520)			(411,520)
Net assets	9,878,218	(76,828)		9,801,390
Equity				
Called up share capital	571,499			571,499
Merger reserve	8,625,530			8,625,530
Other reserves	–			–
Profit and loss account	681,189	(76,828)		604,361
Total equity	9,878,218	(76,828)		9,801,390

35. Transition to IFRS (continued)

Consolidated Income Statement for the year ended 31 July 2007

	UK GAAP £	IFRS 6 £	IFRS £
Revenue	41,397		41,397
Cost of sales write down of exploration costs			
Cost of sales pre-licence costs		(35,106)	(35,106)
Cost of sales other			
Cost of sales	(53,396)		(53,396)
Gross loss	(11,999)	(35,106)	(47,105)
Other administrative expenses	(987,651)		(987,651)
Other operating income	59,123		59,123
Operating loss	(940,527)	(35,106)	(975,633)
Impairment of financial asset			
Finance revenue	402,559		402,559
Finance costs	–		–
Unwinding of discount	–		–
Loss on ordinary activities before taxation	(537,968)	(35,106)	(573,074)
Tax on loss on ordinary activities	–		–
Loss for the financial period	(537,968)	(35,106)	(573,074)
Loss per ordinary share			
Basic and diluted	(0.85)		(0.90)

Consolidated Balance Sheet as at 31 July 2007

	UK GAAP £	IFRS 6 £	IAS 16 £	IFRS £
Non-current assets				
Intangible assets	14,735,661	(111,934)		14,623,727
Property, plant and equipment			147,304	147,304
Tangible assets	147,304		(147,304)	–
	14,882,965	(111,934)		14,771,031
Current assets				
Oil Stock	24,169			24,169
Trade and other receivables	640,625			640,625
Investments	7,740,584			7,740,584
Cash and cash equivalents	159,092			159,092
	8,564,470			8,564,470
Current liabilities				
Trade and other payables	(2,015,593)			(2,015,593)
Net current assets	6,548,877			6,548,877
Non-current liabilities				
Provisions	(246,591)			(246,591)
Net assets	21,185,251	(111,934)		21,073,317
Equity				
Called up share capital	654,657			654,657
Merger reserve	20,387,373			20,387,373
Other reserves				–
Profit and loss account	143,221	(111,934)		31,287
Total equity	21,185,251	(111,934)		21,073,317

35. Transition to IFRS (continued)
Consolidated Cash Flow Statement for the year ended 31 July 2007

	UK GAAP £	IFRS 6 and reclassification £	IFRS £
Net cash from operating activities	(1,161,991)	(35,106)	(1,197,097)
Interest received	402,559	(402,559)	–
Interest paid	–		–
Taxation paid	–		–
Investing activities			
Interest received	–	402,559	402,559
Proceeds from sale of intangible fixed assets	–		–
Purchase of intangible assets	(4,917,427)	35,106	(4,882,321)
Purchase of property, plant and equipment	–		–
Purchase of tangible assets	(161,493)		(161,493)
Net cash flow from investing activities	(5,078,920)	437,665	(4,641,255)
Net cash flow before use of liquid resources and financing	(5,838,352)		(5,838,352)
Financing activities			
Funds received in connection with new share issues	12,325,001		12,325,001
Costs associated with share issue	(480,000)		(480,000)
Net cash from financing activities	11,845,001		11,845,001
Net decrease in cash and cash equivalents	6,006,649		6,006,649
Cash and cash equivalents at beginning of year	1,893,027		1,893,027
Effect of foreign exchange rate changes	–		–
Other non-cash movements	–		–
Cash and cash equivalents at end of year	7,899,676		7,899,676

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