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**(Possible Offer) San Leon Energy plc proposes combination with Island Oil & Gas plc**

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**(Possible Offer) San Leon Energy plc ("San Leon") proposes combination with Island Oil & Gas plc ("Island")**

**Receipt of 18.4 per cent. Irrevocable undertaking to accept an offer if made**

**Introduction**

San Leon announces that it has made a proposal to Island for the combination of the two companies with a view to building a strong Irish-based oil and gas exploration and development business. Island is considering this proposal. San Leon is keen to hold a constructive dialogue with Island with a view to working towards a recommended transaction.

**Possible Offer**

San Leon has put forward an indicative non-binding offer for Island (the "Possible Offer") on the following basis:

**For every 2.3 Island Shares 1 new San Leon Share**

Based on the closing price per San Leon Share of 23.0p on 14 October 2009, the Possible Offer would value each Island Share at 10.0p and Island's entire issued share capital at £13.6 million. The Possible Offer would represent a premium of approximately 31 per cent. over Island's share price of 7.625p at the close of business on 14 October 2009.

**Irrevocable undertaking**

San Leon has received an irrevocable undertaking from Platinum Petroleum Limited ("Platinum"), the largest shareholder in Island, that, if within three months of 14 October 2009 San Leon was to make an offer for Island on the above basis or upon terms which represent a greater number of San Leon shares per Island share or otherwise on improved terms, Platinum would accept or procure acceptance of such offer in respect of, in aggregate, 25,000,000 Island Shares representing approximately 18.4 per cent. of Island's issued share capital.

The irrevocable undertaking will cease to be binding if an offer or proposed offer (a "Higher Competing Offer") is made by someone other than San Leon for the entire issued share capital of Island, the making of which is not or has ceased to be subject to any pre-condition, and which represents an improvement of 30 per cent. or more on the value of the Possible Offer and San Leon has not made or announced a firm intention to make a revised offer on terms substantially equal to or better than those available under the Higher Competing Offer by the date 5 business days prior to the closing date of the Higher Competing Offer.

**Strategic benefits of a combination**

San Leon believes that there is compelling strategic fit between San Leon and Island (together the "Combined Group"). San Leon already has extensive knowledge of certain of Island's assets: its two Moroccan onshore assets (the Tarfaya area and Zag basin), its recently acquired Moroccan offshore assets at Sidi Moussa and Fom Draa and the Netherlands offshore Amstel Field in which each of San Leon and Island has a royalty interest. San Leon also has good working knowledge of a majority of Island's Celtic Sea assets and Atlantic Margin assets and would undertake a strategic review of Island's Albanian assets following a combination.

San Leon believes that the Possible Offer should provide Island Shareholders with an opportunity to share in what San Leon believes to be significant value upside in the Combined Group's prospects.

San Leon expects the benefits of a combination to include:

**SHARE PRICE**

London Stock Exchange

**23.75 p**

3:37PM 10/19/2009

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**(Possible Offer) San Leon Energy plc proposes combination with Island Oil & Gas plc**

(Possible Offer) "San Leon Energy plc ("San Leon") proposes combination with Island Oil & Gas plc ("Island")

Receipt of 18.4 per cent. Irrevocable undertaking to accept an offer if made"

**Interim Results 2009**

San Leon Energy, the AIM listed international oil and gas company with assets in Morocco, Italy, Poland, the Netherlands and the USA is pleased to announce its interim results.

**£6m Placing and up to \$50m**

#### agreement with PGS

San Leon is pleased to announce that it has conditionally placed 41,866,666 new ordinary shares of EUR 0.05 each par value (the "Placing Shares") at a price of 15 pence per share (the "Placing Price"), raising £6.3 million (before expenses) for the Company from a number of institutional and other investors (the "Placing") through Arbutnot Securities, Fox-Davies Capital and the Company.

#### Gas Production Update

San Leon Energy is pleased to advise that it commenced commercial delivery of the gas production from its first well in Palo Pinto County, Texas. As a follow up of the discovery in the Nichols # 1 well, notified on the 6th of July 2009, the company can now confirm that the gas pipeline has been completed and a commercial agreement is in place to sell the gas from the 17th of August. A 2.3 kilometre pipeline has been installed which will also accommodate the output from three other well sites to be drilled in the vicinity this autumn.

#### Award of full Exploration licence in Zag, Morocco

San Leon is pleased to announce that it has completed its work obligations and as a result of the positive results received from this work the Company has successfully negotiated with ONHYM the conversion of the Reconnaissance Licence into a full Exploration Licence which was signed on the 18th of June in Rabat and was approved for release by ONHYM on the 17th July.

#### Commercial Natural Gas Discovery

San Leon Energy, the AiM listed international oil and gas company with assets in Morocco, Italy, Poland, the Netherlands and the USA is pleased to announce a significant discovery of natural gas in the Palo Pinto County, Regular (Gas) Field, District 07B, Texas, which will produce at commercial rates.

*The resources to develop the potential of Island's Celtic Sea assets from a position of strength*

San Leon believes that as offshore gas production from the Kinsale field in the Celtic Sea declines, the opportunities presented by surrounding fields such as Island's Old Head of Kinsale (Part Block 49/23) and Schull Field (Block 57/2) as they come on stream will become increasingly viable. The Combined Group's greater financial, technical and operational resources should allow the Combined Group to retain and develop these fields and create potentially valuable opportunities for a future Celtic Sea Gas Storage business;

*An opportunity to apply the skills of San Leon's management team to Island's assets, combine the technical skills of the two teams and realise efficiencies*

San Leon has an experienced management team with extensive exploration and development capabilities which could be applied to Island's assets. A transaction would also combine the skills bases of the two companies allowing cost savings to be achieved and the combined portfolio to be managed and developed more efficiently;

*Extension of San Leon's seismic programme facility to Island's prospects*

San Leon has entered into an agreement with PGS Ventures AS ("PGS"), a subsidiary of the Petroleum Geo-Services ASA Group, whereby PGS would fund by way of a subscription for equity in San Leon at least 40 per cent. of the costs of its seismic programme. San Leon believes that the extension of its seismic programme facility to Island's Irish Atlantic Margin interests should realise savings and accelerate the development of those assets;

*Combination of two companies' Moroccan assets should offer enhanced returns*

A combination of the two companies would result in the Combined Group holding a 70 per cent. gross interest, before the participation of ONYHM (the Moroccan Government-owned entity), in the onshore Zag and Tarfaya interests in Morocco. Philip Thompson, the Chief Executive of San Leon, is very familiar with both assets in Morocco having devoted a substantial amount of his professional life since 1999 engaged in offshore and onshore hydrocarbon exploration projects in Morocco. San Leon believes that the combined holding by San Leon and Island of the Moroccan Zag and Tarfaya assets should allow it to secure enhanced returns.

Speaking today, Oisín Fanning, Chairman of San Leon, said:

*"We believe the combination of our two companies would create a strong Irish based oil and gas exploration and development business with the management skills and financial resources to develop the asset portfolio to its full potential and create value.*

*We believe the terms we are proposing represent a fair basis for a possible combination and look forward to engaging constructively with the Board of Island with a view to consummating a recommended transaction."*

#### General

The making of any announcement of a firm intention to make an offer is subject to the following pre-conditions:

- ♦ San Leon being granted access to conduct and complete limited confirmatory due diligence (principally legal, commercial and financial due diligence) to its satisfaction;
- ♦ the recommendation of the Board of Island as advised by its Rule 3 adviser and such recommendation not being subsequently modified or withdrawn;
- ♦ Island not selling or agreeing to sell or otherwise disposing of any of its assets (including without limitation the Celtic Sea assets) or acquiring further assets or entering into any other contracts which are outside the ordinary course of business;
- ♦ Island not agreeing to any further work programmes, financial commitments or fiscal terms (whether by way of amendment, extension or otherwise) in respect of any of its assets which are or would be material in the context of Island's existing cash resources; and
- ♦ no determination being made that the proceeds of Island's Overriding Royalty Interest in the Amstel Oil Field will not repay Island's loan from Delta Hydrocarbons BV in full including interest and such loan not containing any right to accelerated repayment on a change of control.

San Leon reserves the right to:

- ♦ vary the terms of the Possible Offer and to make an offer at any time with an exchange rate higher or lower than 1 new San Leon Share for every 2.3 Island Shares or with an implied value higher or lower than 10.0p per Island Share (taking the value of a San Leon Share at the close of business on the latest practicable date prior to the announcement of a firm intention to make an offer);
- ♦ vary the form of consideration of the Possible Offer; and/or
- ♦ waive any or all of the pre-conditions to the making of an offer referred to above.

It is San Leon's preference to implement any offer by means of a Scheme of Arrangement but San Leon reserves the right to change this to a general offer. Any offer, if made, would be subject to the terms and conditions usually attaching to a Scheme of Arrangement, or offer, involving an Irish company and would also be conditional on admission of the new San Leon Shares to trading on AiM. San Leon reserves the right to vary the conditions attaching to any offer or make any offer

subject to additional conditions or not to make any offer or not to announce any firm intention to make an offer.

In the event of San Leon announcing any firm intention to make an offer, appropriate proposals would be made in due course to holders of convertible loans, or options over Island Shares.

Arbuthnot Securities Limited is acting as Financial Adviser and Broker to San Leon. Fox-Davies Capital Limited is also acting as Financial Adviser.

#### Sources and bases

- Save where otherwise stated, financial and other information concerning Island and
- ◊ San Leon has been extracted from published sources or from San Leon's management sources.
- ◊ The value attributed to Island's issued share capital is based upon 135,926,678 Island shares in issue as announced by Island on 7 August 2009.
- ◊ The stated share prices of San Leon and Island are based on the closing middle-market price provided by the London Stock Exchange.

**This announcement does not constitute an announcement of a firm intention to make an offer under Rule 2.5 of the Irish Takeover Act 2007, Takeover Rules 2007 ("Irish Takeover Rules") and, accordingly, shareholders are advised that there can be no certainty that any offer to acquire Island shares will be made even if the pre-conditions are satisfied.**

#### Press enquiries

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#### Qualified person

Philip Thompson has over 25 years' experience in the oil and gas industry. He has a M.Sc. in Geophysics from Southern Methodist University and a B.Sc. in Geophysics from Texas A&M University.

#### Rule 2.10 disclosure

San Leon announces, in accordance with Rule 2.10 of the Irish Takeover Rules, that at the close of business on 14 October 2009, it had the following relevant securities (within the meaning of the Irish Takeover Rules) in issue:

320,993,004 shares (excluding shares held in Treasury). The ISIN reference number for these securities is IE00B3CLK236.

#### Responsibility

The Directors of San Leon (being Oisin Fanning, Philip Thompson, Paul Sullivan, Charles McEvoy, Raymond King and Jeremy Boak) accept responsibility for all the information in this press announcement. To the best of the knowledge and belief of the Directors of San Leon (having taken all reasonable care to ensure that such is the case), the information contained in this announcement is in accordance with the facts and does not omit anything likely to affect the import of such information.

Arbuthnot Securities Limited, which is authorised and regulated in the United Kingdom by the Financial Services Authority, is acting as financial adviser and Broker to San Leon and no one else in connection with the contents of this announcement and the Possible Offer and will not be responsible to any person other than San Leon for providing the protections afforded to clients of Arbuthnot Securities Limited, nor for providing advice in relation to the Possible Offer or any matters referred to herein.

Fox-Davies Capital Limited, which is authorised and regulated in the United Kingdom by the Financial Services Authority, is acting as Financial Adviser to San Leon and no one else in connection with the contents of this announcement and the Possible Offer and will not be responsible to any person other than San Leon for providing the protections afforded to clients of Fox-Davies Capital Limited, nor for providing advice in relation to the Possible Offer or any matters referred to herein.

This announcement is not intended to, and does not, constitute or form part of any offer, invitation or the solicitation of an offer to purchase, otherwise acquire, subscribe for, sell or otherwise dispose of, any securities, or the solicitation of any vote or approval in any jurisdiction, pursuant to this announcement or otherwise. Any offer will be made solely by certain offer documentation which will contain the full terms and conditions of any offer, including details of how it may be accepted.

This announcement has been prepared in accordance with Irish law and the Irish Takeover Rules and information disclosed may not be the same as that which would have been prepared in accordance with the laws of jurisdictions outside Ireland.

The distribution of this announcement in jurisdictions other than Ireland and the United Kingdom and the availability of the Possible Offer to shareholders of Island who are not resident in Ireland or the United Kingdom may be affected by the laws of relevant jurisdictions. Therefore any persons who are subject to the laws of any jurisdiction other than Ireland and the United Kingdom or shareholders of San Leon who are not resident in Ireland or the United Kingdom will need to inform themselves about, and observe, any applicable requirements.

#### **Forward-looking statements**

This announcement contains statements about San Leon, Island and the Combined Group that are or may be forward looking statements. All statements other than statements of historical facts included in this announcement may be forward looking statements. Forward looking statements often use words such as "target", "plan", "believe", "expect", "aim", "intend", "will", "should", "could", "would", "may", "consider", "anticipate", "estimate", "synergy", "cost saving", "project", "goal" or "strategy" or words or terms of similar substance or the negative thereof. Forward looking statements include statements relating to future capital expenditures, expenses, revenues, earnings, synergies, economic performance, indebtedness, financial condition, dividend policy and future prospects of San Leon, Island or the Combined Group.

These forward looking statements are not guarantees of future performance. They have not been reviewed by the auditors of San Leon or Island. These forward looking statements involve known and unknown risks, uncertainties and other factors which may cause them to differ from the actual results, performance or achievements expressed or implied by such forward looking statements. These risk factors and uncertainties are many and include, amongst others, the possibility that the Possible Offer will not be successfully consummated, that efforts to integrate Island into San Leon's operations may take longer, be more difficult or be more costly than San Leon currently expects or that the Combined Group may not achieve the synergies and cost savings San Leon expects to achieve. These forward looking statements are based on numerous assumptions regarding the present and future business strategies of such persons and the environment in which each will operate in the future. All subsequent oral or written forward looking statements attributable to San Leon or any of its respective members, directors, officers or employees or any persons acting on their behalf are expressly qualified in their entirety by the cautionary statement above. All forward looking statements included in this announcement are based on information available to San Leon on the date hereof. Undue reliance should not be placed on such forward looking statements. Subject to compliance with the Irish Takeover Rules, San Leon does not intend, or undertake any obligation, to update any information contained in this announcement.

#### **Dealing disclosure requirements**

Any person, who is a holder of one per cent. or more of Island Shares or of San Leon Shares may have disclosure obligations under Rule 8.3 of the Irish Takeover Rules, effective from the date of this Announcement.

