



## **Iofina plc**

**(“Iofina” or “the Company”)**

17<sup>th</sup> December 2008

### **Operational and Iodine Market Update**

The directors of Iofina are pleased to announce an operational update with respect to the building, drilling and field development of the Atlantis Prospect together with an update on iodine market trends in the second half of 2008

Iofina is involved in the exploration and production of both iodine and natural gas which have been discovered on acreages which the Company holds. The Group holds a land bank position of 60,000 net acres in its development project called the Atlantis Prospect (“Atlantis”) and 30,000 net acres of the Triton Prospect (“Triton”). Both projects, in which the Company and its subsidiaries (“the Group”) hold a 100 per cent. interest, are located in the state of Montana, USA. The presence of both iodine and natural gas allows the Group to generate dual revenue streams over a single cost structure using its unique Wellhead Extraction Technology®.

#### **Operational Highlights**

- First production wells in the Atlantis Prospect have been drilled by the Company’s wholly owned drilling rig. First production of both iodine and gas is now expected in January 2009.
- High pressure readings from the initial wells indicate the likelihood that gas and brine production could be ahead of the levels indicated in the February 2008 competent persons report prepared at the time of the Company’s admission to AIM.
- Iodine and gas separation buildings have been completed and the process facility and field laboratory are now being installed.
- Enhancements made to the iodine extraction technology (WET®) and processes are indicating the potential higher iodine extraction recovery rates.
- Strong balance sheet position with over £12m of cash and no further large infrastructure capital funding required to take the company through to cash generation.

## **Iodine Market Highlights**

- Iodine pricing has increased over 20 per cent since September 2008 hitting an all time high. With supply being extremely tight, 2009 pricing indications from the market are for double digit growth.
- U. S. Environmental Protection Agency (EPA) has given final approval for the use of methyl iodide as a new pesticide eliminating the use of methyl bromide.
- New uses of iodine continue to emerge such as the new method of generating electricity via thermal solar technology which may collectively increase the demand for iodine going forward.

## **Operations Update**

### **Drilling Programme Underway**

Despite particularly difficult weather conditions in Montana since October and the need to resolve mechanical teething issues associated with the structural supporting equipment for the drilling rig, the first production wells have been drilled. The Company will also shortly spud its first brine water injection well. This will form part of the modular cluster well strategy which is based around a number of local wells feeding the gas/brine streams into a central single collection/processing point.

The adverse weather conditions and the equipment issues have therefore meant that the Company now anticipates production from the Atlantis Prospect to commence in January 2009 approximately 60 days later than expected. . However, management are confident that the 2009 drilling schedule is on track as they have hired a new full time operations manager who has been deployed to the field to manage the drill rig crew and the drilling operations. These are now being run 24 hours a day by four crews versus the 16 hours a day previously. Certain drilling performance enhancements are being enacted to reduce both mobilization time and drilling time. Furthermore, management are also pleased to announce that the second custom built Versa-Drill® rig, originally scheduled for delivery in Spring 2009 has been completed ahead of schedule and is expected to be delivered to the field in the first quarter.

The first wells have required much heavier mud than expected to control the gas in the well and as such the early pressure indications give greater confidence that the gas and water production could be higher than expected in the February 2008 MHA Petroleum Consultants' report prepared at the time of Iofina's admission to AIM. The Company intends to update the market on the actual recovery rates of gas and brine after production gets underway in January 2009.

### **Infrastructure Build On Schedule**

Following the successful completion of the nine (9) mile Iofina Express gas pipeline extension, the operational field team have now also completed the on site construction of the iodine extraction facility, field laboratory and gas separation buildings with the

process facilities construction underway. Whilst early gas production will be via a standard separator, as per the initial plan, the final and larger scale state-of-the-art gas separator has been ordered on a turnkey basis and is anticipated to be installed in the field by February 2009 to coincide with the ramp up in gas production. The high pressure injection line has been contracted to start installation before the year end and should be completed in early January 2009.

### **Iodine Extraction Efficiency Improvements**

Continued development of Iofina's proprietary iodine Wellhead Extraction Technology® (WET®) at the Kentucky chemical facility over the last few months indicates that a higher than planned extraction percentage can be anticipated versus the 70% recovery ratio expressed at the time of the IPO. Over the medium term this should have a material impact on the annual levels of iodine processed due to the substantial volumes of iodine rich brine water which Iofina will flow through the system. This leaves the Company on track to become the largest producer of iodine in the USA within the next five years. The newly improved iodine extraction system is now being transferred from Kentucky to Montana and is expected to be in situ in January 2009.

### **Strong Balance Sheet**

The Company is in a strong financial position with over £12m on the balance sheet which, as stated at the time of the IPO, is sufficient to self fund the Atlantis development strategy over the coming years and take the Company through to meaningful cash flow generation.

## **Iodine Market Update**

### **Iodine Prices Up 20% since September 2008**

Against the wider backdrop of material declines across most resource prices in the second half of 2008, iodine has bucked the trend to show significant resilience. Since September 2008 iodine prices have risen by 20% to reach an all time high. This trend has been driven by increasing demand for iodine in areas such as X-ray contract media, the coating industry and LCD displays, together with lower than expected supply from the few iodine producers predominantly in Chile and Japan. Many industry experts and large quantity buyers believe 2009 pricing projections to be in double digit growth despite any possible recessionary downward demand.

### **New Iodine Markets Emerging**

In October 2008 the U. S. Environmental Protection Agency (EPA) gave final approval for the use of iodomethane (methyl iodide or CH<sub>3</sub>I) as a new pesticide eliminating the use of methyl bromide. Methyl bromide is one of the most widely used pesticides in the world which was banned as a soil fumigant by the Montreal Protocol due to its ozone-damaging properties.

Methyl iodide is approved for applications of 50-175 pounds of product per acre. At these rates, to replace methyl bromide with methyl iodide, several thousand metric tons of iodine will be needed. This could put extreme pricing pressure on the iodine market.

**Dr David Schneider, Chief Executive Officer, commented:**

*“We have successfully resolved the initial teething issues utilizing our internal drilling operations on the first wells and are now looking forward to executing on our planned drill programme through 2009. The initial pressure indications from the first wells are highly encouraging and with the Atlantis prospect moving into production in January, and gas and iodine revenues set to build through the year, 2009 promises to be an exciting time for Iofina and its shareholders as the value of the prospect starts to be crystallized.”*

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**About Iofina**

Iofina is involved in the exploration and production of both iodine and natural gas which have been discovered on acreages which the Company holds. The presence of both iodine and natural gas allows the Group to generate dual revenue streams over a single cost structure. The dual revenue approach has worked successfully in the Mobara field in Japan which has been producing iodine and natural gas for over the past 50 years. Iodine is a rare element that is only produced in a few countries in the world with over 89 per cent. coming from Chile (60 per cent.) and Japan (29 per cent.). This has resulted in the US and Western Europe becoming major net importers to meet growing demands from pharmaceutical and industrial manufacturers. Iodine demand is growing at 6.6 per cent. per annum driven by a combination of increased usage in a wide variety of sectors from pharmaceutical manufacturing, LCD screen manufacturing, medical imaging, cosmetics, biocides in paints and pesticides, as well as the emergence of new uses for iodine and greater consumption from developing countries such as India and China. The Group's proprietary Wellhead Extraction Technology® method will allow low cost production metrics and high operational efficiencies compared to other large iodine/gas fields in Mobara, Japan and Oklahoma, USA. Iofina owns a thirteen mile pipeline that ultimately links to the TransCanada pipeline. Iofina currently has leased over 60,000 net acres in the Atlantis and approximately 30,000 net acres in its Triton Prospect. MHA Petroleum Consultants, Inc., the Competent Person, estimates that as of 1 February 2008 and, based on Iofina's core c.28,000 acres at that time in the

Atlantis Prospect, Iofina has 100.6 million kg of iodine in place and has 155.6Bcf of natural gas in place, making the Atlantis Prospect the largest known iodine resource in North America. The directors of the Company believe that Iofina's low cost development strategy and its dual revenue streams are expected to provide both excellent margins and reduced revenue volatility since the two product streams are unrelated relative to their respective markets.

Iofina is traded on the London Stock Exchange's AIM Market under the ticker: IOF.

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