

21st December 2006

Falkland Oil and Gas Limited

(“FOGL” or “the Company”)

Interim results for the six month period ended 30 September 2006

Highlights

- Revised forward programme approved by the Falkland Islands Government – Additional infill 2D seismic, Controlled Source Electro–Magnetic (“CSEM”) and sea bottom coring surveys
- Work programme to be executed over the coming Austral Summer is specifically targeted at our top 20 prospects
- Discussion with potential farminees ongoing
- RAB Special Situations (Master) Fund Limited has committed £8 million by way of convertible loan notes in the Company.
- Independent technical verification received from TRACS International. Their evaluation focussed on 10 prospects, which they assessed to have a net risked prospective resource potential of 863 million barrels and unrisked net prospective resources of 10,089 MMbbls
- Cash balance of £12.6 million as at 30 September 2006

Strategy & Outlook

- FOGL is committed to pursuing an aggressive exploration programme which could lead to the development of a new petroleum province in the South Atlantic
- Revised work programme designed to de-risk and define prospects ready for drilling
- Introduce suitable partners
- Secure a rig during 2007 and commence drilling in 2008

Richard Liddell, Chairman of FOGL, said:

"FOGL is in excellent shape for 2007. We have secured financing and have two vessels starting work in the Falklands in the near future. The results of their work should enable us to confirm our drilling targets, which will facilitate the farmout process and rig acquisition.

The last six months has been a period of further progress for our company. Our new work programme has been approved and we believe it will provide the most effective exploration solution for our acreage and improve our chances for success. This programme is targeted at our larger prospects and we believe that the data gained will allow us to define drilling targets and provide potential farminees with further confidence in our project.

We have a clear focus for the year ahead. The year will be crucial for FOGL as we drive towards our goal of drilling our first exploration wells in 2008. There is a great deal of important pre-drilling work being undertaken; evaluating the results of our programme, finalising our exploration plans and sourcing a rig. With our strong balance sheet the Board believe that the company is well placed and will make further significant progress in the coming year."

21 December 2006

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FOGL

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Operational Update

In the last six months FOGL has made significant progress as the Company works towards its objective of drilling the first exploration wells in the South and East Falkland licences in 2008. This period has seen us build upon the huge quantity of work that we had already undertaken through our previous extensive 2D seismic programmes which identified over 100 prospects and leads on our acreage.

From this position we set out three clear objectives which we have continued to progress during the period under review:

- Define, de-risk and prioritise the top prospects for drilling
- Introduce suitable partners
- Secure a rig and commence drilling during 2008

With clear sight on these objectives we have designed the exploration strategy and programme and advanced into its implementation.

Over the last six months we have continued to investigate the best methods for further exploring our licences. Approval was obtained from the Falklands Government, for a revised work programme which will specifically target the larger prospects in the licence areas. The original licence obligation was to carry out a 3D seismic programme however, on further consideration; it was deemed that such a survey was not appropriate at this time. In our view the revised programme is more suitable, given the scale and number of prospects that need to be evaluated prior to drilling.

The revised programme comprises three main elements: a Controlled Source Electro-Magnetic survey ("CSEM"), additional infill 2D seismic and a sea bottom coring programme. Contracts have been executed with Offshore Hydrocarbon Mapping ("OHM") for the CSEM and Wavefield InSeis As ("Wavefield") to undertake the 10,000 km 2D infill seismic survey. The contract for sea bottom coring is currently under discussion.

CSEM is a relatively new technology which we are excited about using in our licenses. It investigates the electromagnetic properties of rocks and has a recognisable response when oil and gas are present. This is an extremely cost effective method of high grading an extensive inventory of prospects and leads. We will acquire CSEM data over many of the larger prospects and based on these results we will then direct the infill 2D seismic. These surveys have the potential to dramatically reduce the exploration risks, and also determine the best prospects for drilling.

We are also planning to acquire sea bottom cores. These will be targeted at a number of possible oil seeps that have been identified from seismic data and satellite imagery. We hope to recover 'live' oil samples. This would demonstrate that oil has been generated and that it has migrated within the South and East Falkland basins.

The preparatory work on these programmes is already underway. The 2D seismic programme is expected to commence in mid December, the CSEM survey in January 2007 and the sea bottom coring in February 2007.

FOGL has also gained an extension to the work programme for its 2002 Licences from the Falkland Island Government. In accordance with our licence agreements we have had to relinquish part of these licences; however we still retain a significant acreage position which contains all of the most prospective targets.

Since we last reported we have continued to make presentations to a number of prospective farm-in partners. Nearly all of these companies were major oil companies and the discussions progressed well. A great deal of interest was shown by these companies in our acreage, but to date no farm-in deal has been agreed. However, dialogue continues and our revised work programme has been very favourably received by these companies. We believe the results of this programme are likely to appeal to a wider range of potential farminees and should provide a basis for further discussions with potential partners in the coming year.

Our goal remains to drill the first exploration well on our licences in 2008, however in order for this to take place we need to secure a rig. We are examining a number of options:

- Combining with the other oil and gas operators in the Falklands region with a view to building a consortium to create a drilling campaign that provides a more attractive proposition to rig contractors.
- Ceding an equity stake in FOGL or an interest in the licences in exchange for providing a rig.
- Obtaining a rig through a farm-in partner.

We believe that we will be able to secure a rig for our 2008 drilling programme during the course of 2007.

Post Balance sheet events

In October TRACS International (“TRACS”) completed an independent review on our interests in the East and South Falkland licences. TRACS completed a review of what they believe are the Company’s top ten prospects as regards potential size and greatest chance of success. Following evaluation of the prospects TRACS reported that FOGL has Unrisked Net Prospective Resources (best estimate) of 10,089 MMbbls based on the portfolio of 10 prospects reviewed. The estimated ranges of Prospective Resource volumes are summarised in the table below.

Classification	Unrisked Net Volume			Risky Net Volume		
	Low Est.	Best Est.	High Est.	Low Est.	Best Est.	High Est.
	MMbbls	MMbbls	MMbbls	MMbbls	MMbbls	MMbbls
Prospective Resources	5202	10089	20148	435	863	1761

The full report by TRACS is available on FOGL’s website.

On 29 November the Company announced that it had entered into an agreement with RAB Special Situations (Master) Fund Limited ("RAB SSMF") for RAB SSMF to invest £8 million by way of convertible loan notes ("Notes") in FOGL. It is intended that RAB SSMF will subscribe £2 million on completion of the final documentation, £2 million on 23 February 2007, £2 million on 30 April 2007 and £2 million on 24 September 2007. On issue of the Notes RAB SSMF will receive 6,000,000 warrants, exercisable in whole or in part over a 6 year term, to acquire one Company Share per warrant at a price of 100 pence per Share (subject to adjustment). The issue of these Notes will provide the Company with additional cash resources for the funding of its ongoing exploration programme.

Financials

At 30 September the Company had cash reserves of £12.6 million.

As announced in our Preliminary results in July we are planning to change our financial reporting onto a calendar year basis, a similar regime as adopted by the majority of companies in our industry. As such our next accounting period will be the nine months ending 31 December 2006.

Outlook

The next 18 months are crucial for the FOGL as we continue to pursue an aggressive exploration programme. This programme is designed to confirm the potential of our licences and provide prospective partners with the confidence to invest in the region, thus achieving our second objective. With this in place, the final task will be to secure a rig. Whilst continuing to investigate a number of options we are confident that we will achieve this and drill the first exploration wells in 2008.

Richard Liddell
Chairman

Tim Bushell
Chief Executive

**Unaudited Profit and Loss Account
for the 6 months ended 30 September 2006**

	Note	Unaudited 6 months ended 30 September 2006 £	Restated Unaudited 6 months ended 30 September 2005 £
Administrative expenses		<u>(875,314)</u>	<u>(696,186)</u>
Operating loss		(875,314)	(696,186)
Interest income		<u>281,648</u>	<u>361,163</u>
Loss on ordinary activities before taxation		(593,666)	(335,023)
Tax on loss on ordinary activities		<u>(81,494)</u>	<u>-</u>
Loss on ordinary activities after taxation		<u>(675,160)</u>	<u>(335,023)</u>
Loss for the period		<u>(675,160)</u>	<u>(335,023)</u>
Loss per ordinary share – Basic and diluted	2	(0.73p)	(0.38p)

There were no recognised gains or losses in the period other than those dealt with in the profit and loss account above.

The operating loss for the period arose from continuing operations.

Unaudited Balance Sheet at 30 September 2006

	Note	£	Unaudited at 30 September 2006 £	£	Restated Unaudited at 30 September 2005 £
Fixed assets					
Intangible assets			9,078,269		4,823,615
Tangible assets			108,230		68,097
			9,186,499		4,891,712
 Current assets					
Debtors		321,374		451,627	
Cash at bank and in hand		12,643,836		17,585,232	
			12,965,210		18,036,859
Creditors: amounts falling due within one year			(494,449)		(112,409)
Net current assets			12,470,761		17,924,450
Net assets			21,657,260		22,816,162
 Capital and reserves					
Called up share capital	4		1,839		1,835
Share premium account	4		23,481,391		23,386,963
Profit and loss account	4		(1,825,970)		(572,636)
			21,657,260		22,816,162
Shareholders' funds			21,657,260		22,816,162

Unaudited Cash Flow Statement for the 6 months ended 30 September 2006

	Unaudited 6 months ended 30 September 2006 £	Restated Unaudited 6 months ended 30 September 2005 £
Net cash outflow from operating activities	(881,181)	(1,550,860)
Returns on investments and servicing of finance		
Interest received	281,648	361,163
Capital expenditure and financial investment		
Expenditure in respect of intangible fixed assets	(726,690)	(1,956,779)
Expenditure in respect of tangible fixed assets	(5,216)	(66,695)
Cash outflow before financing	(1,331,439)	(3,213,171)
Financing		
Issue of ordinary share capital	-	10,000,000
Issue costs	-	(281,573)
(Decrease) / increase in cash in the period	(1,331,439)	6,505,256
Reconciliation of operating loss to net cash outflow from operating activities		
Operating loss	(875,314)	(696,186)
Depreciation	18,401	9,875
Fair value of share based payments	80,468	56,079
Decrease/(increase) in debtors	673,464	(376,193)
Decrease in creditors	(778,200)	(544,435)
Net cash outflow from operating activities	(881,181)	(1,550,860)

**Reconciliation of movements in shareholders' funds
for the 6 months ended 30 September 2006**

	Unaudited 6 months ended 30 September 2006 £	Restated Unaudited 6 months ended 30 September 2005 £
Loss for the financial period	(675,160)	(335,023)
Fair value of share based payments	80,468	56,079
New share capital subscribed (net of issue costs)	-	9,718,427
	<hr/>	<hr/>
Net (decrease)/increase in shareholders' funds	(594,692)	9,439,483
Opening shareholders' equity funds	22,251,952	13,376,679
	<hr/>	<hr/>
Closing shareholders' funds	21,657,260	22,816,162
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Notes to the interim results

1. Basis of financial information

The interim financial information in this announcement has been prepared on the same basis and using the same accounting policies as were applied in the Company's statutory financial statements for the year ended 31 March 2006 with the exception of the accounting for share based payments.

With effect from 1 April 2006, the Company has adopted FRS20 *Share Based Payments*. Under FRS20, an expense is recognised in the profit and loss account for share based payments, calculated on their fair value at the date of grant. The adoption of FRS20 has given rise to a charge of £80,468 for the period ended 30 September 2006. The equivalent charge for the period ended 30 September 2005 is £56,079 and the comparative figures have been restated accordingly..Compliance with FRS20 has reduced 2005 interim shareholders' funds by £nil and increased the 2005 interim loss by £56,079. The net loss for 30 September 2006 has been increased by £80,468.

The financial information for the 6 months ended 30 September 2006 is unaudited. In the opinion of the directors the financial information for this period fairly presents the financial position, results of operations and cash flows for the period in compliance with Falkland Islands company law and UK generally accepted accounting principles.

The auditor's report on the statutory financial statements for the year ended 31 March 2006 was unqualified.

2. Loss per share

The calculation of basic loss per ordinary share is based on a loss of £675,160 (6 months ended 30 September 2005: loss £335,023) and on 91,950,706 ordinary shares (6 months ended 30 September 2005: 87,843,137 ordinary shares), being the weighted average number of ordinary shares in issue during the period. There is no difference between the diluted loss per share and the basic loss per share presented as the company reported a loss for the period and, in accordance with Financial Reporting Standard Number 22, the share options in issue are not considered dilutive.

3. Dividends

The directors do not recommend the payment of a dividend.

4. Capital and reserves

	Called up share capital £	Share premium account £	Profit and loss account £	Total £
At 1 April 2006 as restated	1,839	23,481,391	(1,231,278)	22,251,952
Loss for the period	-	-	(675,160)	(675,160)
Fair value of share based payments	-	-	80,468	80,468
At 30 September 2006	<u>1,839</u>	<u>23,481,391</u>	<u>(1,825,970)</u>	<u>21,657,260</u>