

Falkland

Oil and Gas Limited

Interim Report 2008



Falkland Oil and Gas in brief

Falkland Oil and Gas (FOGL) is focused exclusively on oil and gas exploration in the Falkland Islands. Our Licences lie offshore in the prospective South and East Falkland Basins. Since the Company was formed, we have pursued an aggressive exploration programme and are now within touching distance of drilling the first exploration wells on our Licences. If successful, our exploration efforts could lead to the development of a new hydrocarbon province in the South Atlantic.



The MV Fugro Meridian site survey vessel due to commence operations in November 2008, in preparation for drilling.

Photo courtesy of Fugro Surveys Ltd.

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“Highlights

All the work streams required ahead of drilling are now in progress. We are working closely with our partner, BHP Billiton, to identify the prospects that will be drilled in the forthcoming drilling programme, which is planned to commence in second half 2009.”

Richard Liddell
Chairman

Highlights

- Drilling preparatory work is continuing
- Site surveys expected to commence in November 2008
- Environmental impact assessment underway
- Determining the initial prospects in readiness for drilling
- Cash balance of £11.3 million as at 30 June 2008

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Chairman's statement



During the first six months of this year FOGL and its partner BHP Billiton, have been focused on the preparatory work for the forthcoming drilling programme. An environmental impact assessment has been initiated and a site survey programme is planned to commence in November 2008. These are important steps in providing greater detail on the key areas of the Licences and will feed into the final drilling programme.

One of the most important decisions in the near future will be the selection, and order, of the prospects to be drilled. Whilst no final decisions have been made regarding this selection, it is likely that Loligo will be one of the prospects tested in the initial drilling programme. Loligo is one of a number of prospects within the Tertiary channel play system – it has been well defined by seismic surveys and it has exhibited a positive CSEM anomaly. It is also of considerable size: FOGL estimates unrisks reserves of 3.5 billion barrels of oil*, and clearly a successful result with Loligo would have a significant impact on FOGL.

Efforts to secure a suitable rig are in progress and it is currently expected that a drilling programme will commence in the second half of 2009. The rewards for success could be substantial, given the large resource volumes of the prospects being targeted.

Financials

FOGL started the period with £12.5 million in cash, of which £0.67 million was invested in the exploration programme and £0.75 million was used to cover

operating costs. The loss before tax for the six month period was £1.1 million. At the end of the period the cash balance was £11.3 million, of which £8.7 million is held as US dollars.

Outlook

BHP Billiton is currently reviewing a number of potential rig options and an announcement will be made as soon as a rig is secured.

A handwritten signature in dark ink, appearing to read 'R Liddell', written in a cursive style.

Richard Liddell
Chairman

Notes

*The results of the Company's technical evaluation have been reviewed, verified and compiled by the Company's geological staff, which includes a qualified person, Colin More BSc., MSc. (Exploration Manager), who has over 25 years of experience in petroleum exploration, for the purpose of the Guidance Note for Mining, Oil and Gas Companies issued by the London Stock Exchange in respect of AIM companies, which outlines standards of disclosure for mineral projects.

£11.3m

cash balance at
end June 2008

3.5bn barrels

the estimated most likely reserves
within the Loligo prospect

Consolidated condensed income statement

for the six months ended 30 June 2008

	Notes	Six months ended 30 June 2008 (Unaudited) £	Six months ended 30 June 2007 (Unaudited) £	Year ended 31 December 2007 (Audited) £
Administrative expenses		(849,508)	(670,569)	(1,768,316)
Loss from operations		(849,508)	(670,569)	(1,768,316)
Finance income		192,669	282,108	456,871
Finance costs		(460,908)	(185,056)	(571,326)
Loss before tax		(1,117,747)	(573,517)	(1,882,771)
Income tax expense		-	(58,028)	(70,946)
Loss for the financial period		(1,117,747)	(631,545)	(1,953,717)
Attributable to:				
Equity shareholders		(1,117,747)	(631,545)	(1,953,717)
Loss per share				
Basic and diluted loss per share on loss for the period	2	(1.21p)	(0.69p)	(2.12p)

All amounts included above relate to continued operations.

Consolidated condensed balance sheet

at 30 June 2008

	At 30 June 2008 (Unaudited) £	At 30 June 2007 (Unaudited) £	At 31 December 2007 (Audited) £
Non-current assets			
Property, plant and equipment	54,080	82,549	74,393
Deferred exploration expenditure	16,588,150	19,745,443	15,914,105
Current assets			
Trade and other receivables	95,680	595,262	193,712
Cash and cash equivalents	11,331,919	7,939,949	12,461,430
Total assets	28,069,829	28,363,203	28,643,640
Non-current liabilities			
Convertible loan notes	(6,474,394)	(4,211,436)	(6,013,486)
Current liabilities			
Trade and other payables	(455,289)	(1,385,572)	(453,049)
Corporation tax liability	(83,189)	(156,649)	(83,189)
Total liabilities	(7,012,872)	(5,753,657)	(6,549,724)
Net assets	21,056,957	22,609,546	22,089,916
Capital and reserves			
Called-up share capital	1,846	1,839	1,846
Share premium account	23,631,383	23,481,391	23,631,383
Other reserves	2,500,975	1,916,755	2,500,975
Retained earnings	(5,077,247)	(2,790,439)	(4,040,288)
Equity attributable to shareholders	21,056,957	22,609,546	22,089,916

Consolidated condensed cash flow statement

for the six months ended 30 June 2008

	Six months ended 30 June 2008 (Unaudited) £	Six months ended 30 June 2007 (Unaudited) £	Year ended 31 December 2007 (Audited) £
Operating activities			
Loss for year before taxation	(1,117,747)	(573,517)	(1,882,771)
Finance income	(192,669)	(282,108)	(456,871)
Finance expense	460,908	185,056	571,326
Cash flows from operating activities			
Loss from operations	(849,508)	(670,569)	(1,768,316)
Adjustments for:			
Depreciation	20,480	18,792	38,082
Foreign exchange differences	–	(4,707)	42,116
Share-based payments	80,788	65,114	137,437
Cash flow from operating activities before changes in working capital	(748,240)	(591,370)	(1,550,681)
Decrease in trade and other receivables	98,032	2,091,241	2,523,765
Decrease in trade and other payables	2,241	(5,497,330)	(5,128,733)
Cash generated from operations	(647,967)	(3,997,459)	(4,155,649)
Income taxes paid	–	(183,638)	(270,016)
Net cash outflow from operating activities	(647,967)	(4,181,097)	(4,425,665)
Cash flows used in investing activities			
Interest income	192,669	282,108	456,871
Purchase of property, plant and equipment	(168)	(1,230)	(12,364)
Deferred exploration expenditure	(674,045)	(7,087,299)	(10,971,657)
Reimbursement of past costs	–	–	6,383,601
Net cash used in investing activities	(481,544)	(6,806,421)	(4,143,549)
Cash flows from financing activities			
Proceeds from issue of convertible loan notes	–	4,000,000	6,000,000
Issue costs of convertible loan notes	–	(2,155)	(2,155)
Issue of ordinary share capital			150,000
Net cash inflow from financing activities	–	3,997,845	6,147,845
Net decrease in cash and cash equivalents	(1,129,511)	(6,989,673)	(2,421,369)
Cash and cash equivalents at start of period	12,461,430	14,924,915	14,924,915
Effect of exchange rate changes on cash and equivalents	–	4,707	(42,116)
Cash and cash equivalents at end of period	11,331,919	7,939,949	12,461,430

Statement of changes in equity

for the six months ended 30 June 2008

	Six months ended 30 June 2008 (Unaudited) £	Six months ended 30 June 2007 (Unaudited) £	Year ended 31 December 2007 (Audited) £
Opening balance	22,093,916	21,908,824	21,908,824
Total recognised losses for the period	(1,117,747)	(631,545)	(1,953,717)
Fair value of share-based payments	80,788	65,114	137,437
Share options taken up	–	–	150,000
Issue of convertible loan notes	–	1,267,153	1,851,372
Closing balance	21,056,957	22,609,546	22,093,916

Notes forming part of the Interim Report

for the six months ended 30 June 2008

1 Accounting policies

The consolidated unaudited interim financial information set out in this report is based on the consolidated financial statements of Falkland Oil and Gas Limited (FOGL) and its subsidiary company (together referred to as the Group). The accounts of the Group for the six months ended 30 June 2008 were approved and authorised for issue by the Board on 17 September 2008. These accounts have been prepared in accordance with the accounting policies that are expected to be applied in the Report and Accounts of FOGL for the year ending 31 December 2008 and are consistent with International Financial Reporting Standards adopted for use in the European Union.

Basis of preparation

The accounts have been consolidated in order to incorporate FOGL Finance Limited, a wholly-owned subsidiary.

The financial information for the six months ended 30 June 2008 and 30 June 2007 is unreviewed and unaudited and does not constitute the Group's statutory financial statements for those periods. The comparative financial information for the full year ended 31 December 2007 has, however, been derived from the statutory financial statement for that period. The statutory accounts for the year ended the 31 December 2007 have been filed with the registrar of Companies. The auditors' report on those accounts was unqualified, did not include any references to any matters to which the auditors drew attention by way of emphasis without qualifying their report and did not contain a statement under section 237(2)-(3) of the Companies Act 1985.

The financial statements are presented in pounds sterling and all values are rounded to the nearest pound (£) except when otherwise indicated.

The financial statements have been prepared under the historical cost convention, except for financial assets, which are carried at fair value.

The Company has certain contractual agreements with other participants to engage in joint activities that do not create an entity carrying on a trade or business of its own. The Company includes its share of assets, liabilities and cash flows in joint arrangements, measured in accordance with the terms of each arrangement.

2 (Loss) per share

The basic loss per share is calculated on a loss of £1,117,747 (2007: £631,545) and on 92,325,706 (2007: 91,950,706) ordinary shares, being the weighted average number of ordinary shares in issue during the period. There is no difference between diluted loss per share and the basic loss per share as the Group reported a loss for the period.

Officers and advisers

Directors

Richard Liddell	Chairman
Tim Bushell	Chief Executive
David Hudd	Non-executive Director (Deputy Chairman)
Peter Dighton	Non-executive Director
Timothy Jones	Finance Director

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Falkland Oil and Gas Limited is listed on AIM,
a market operated by the London Stock Exchange
(Symbol FOGL)

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