



17 March 2009

Falkland Oil and Gas Limited
("FOGL" or "the Company")

Unaudited Preliminary Results for the twelve months ended 31 December 2008

FOGL, the oil and gas exploration company focused on its extensive licence areas to the South and East of the Falkland Islands, announces unaudited Preliminary Results for the twelve months ended 31 December 2008.

Highlights

- **Site survey programme successfully completed**
- **Regulatory submissions and environmental impact assessments being prepared**
- **Four initial prospects for drilling identified, with combined potential mean reserves of over 8 billion barrels (unrisked)**
- **On track to be 'drill ready' during Q3 2009**
- **Formal farm out process initiated**
- **Cash balance of \$18.8 million as at 31 December 2008 (2007: \$24.9 million)**

Richard Liddell, Chairman of FOGL, said:

"The focus for FOGL in 2008 has been on the preparatory work for the forthcoming drilling programme and we expect to be 'drill ready' by the end of the third quarter this year.

"BHP Billiton is actively seeking a suitable drilling rig and the deep water rig market is improving. Ultimately, the availability of a suitable rig will determine the timing of drilling although we currently expect that the drilling programme will commence in late 2009 or early 2010."

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Chairman's statement

Having signed the farm-in agreement with BHP Billiton late in 2007, the focus for FOGL in 2008 has been on the preparatory work for the forthcoming drilling programme. We now expect to have everything in place to be 'drill ready' by the end of the third quarter this year.

The farm-in deal with BHP Billiton was transformational for FOGL at the time, and in today's economic climate, the transaction looks even better for FOGL and its shareholders. FOGL retained a material 49% interest in its licences, whilst at the same time BHP Billiton is funding more than two thirds of the committed two well programme. Through the farm-in, FOGL has secured a partnership with a major Exploration and Production company with substantial resources, an excellent deep-water exploration track-record, good contacts in the rig market and the determination to move the project forward in a timely manner.

The United States dollar has become the functional and reporting currency for the Company and the Board has decided that it would be appropriate for it to become the reporting currency. This year's accounts including the comparatives are stated in United States dollars. FOGL started the year with \$24.9 million in cash. The loss before tax for the period was \$1.3 million. As at 31 December 2008 the cash balance was \$18.8 million, substantially held in US dollar deposits.

FOGL is funded through a proportion of the near term exploration programme as a result of the BHP Billiton farm-in. The Board is currently pursuing a number of financing options to provide the balance of the funding for the exploration drilling programme. These options include a second farm-out and/or the raising of new capital via an equity issue.

In the past year, FOGL has been approached by a number of companies potentially interested in farming-in to its licence area and a formal process has now been initiated. A data room has been set up and a number of parties have already scheduled visits. A second farminee would assist FOGL in funding the drilling programme and any additional exploration or appraisal wells. The Board will balance the funding and other benefits of another farm-in with the retention of sufficient equity in the licences to provide substantial upside for shareholders from a successful drilling campaign.

BHP Billiton has been working to secure a suitable drilling rig and it is currently expected that the drilling programme will commence in late 2009 or early 2010.

Richard Liddell
Chairman

Chief Executive's Review

BHP Billiton, in collaboration with FOGL, has carefully evaluated a range of prospects within the licences. Of these, four have been selected as potential initial drilling targets with combined, most likely mean reserves of over 8 billion barrels (unrisked). These prospects represent a range of different geological play types across the licences.

A comprehensive site survey programme commenced over these four prospects in December 2008 and was completed in February 2009. The MV Fugro Meridian, operated by Fugro Surveys Limited, acquired digital site surveys in order to assess drilling hazards in the top few hundred meters of sediment below the sea bed. Detailed sea bed bathymetry and imaging surveys were also obtained to assist with the selection of suitable and stable drilling sites.

The British Antarctic Survey vessel, the James Clark Ross, was contracted to deploy wave and current meters. These instruments are being used in the environmental assessment and the preparation of rig positioning and riser design.

A geotechnical boring programme was also undertaken by the MV Fugro Saltire to establish the composition and physical properties of the top 200 metres of sediment below the seabed. Information derived from this survey will be used to assist in the detailed conductor and casing design of the wells.

We will now utilise the data acquired in the surveys in the detailed design of the wells and this will also form part of the regulatory submissions. The site survey data will also be utilised in the environmental impact assessment that will be submitted to the Falkland Islands' Government in the coming months.

BHP Billiton is committed to a programme of a minimum of two exploration wells. However, additional exploration or appraisal wells may be incorporated into the programme, but this will be dependent on both the initial drilling results and the duration of the rig contract.

Despite the recent significant fall in oil and gas prices, the economics of our prospects remain robust; for example, a 100 million barrel discovery would be viable at an oil price as low as \$25 per barrel. Given the size of the prospects being targeted the rewards for a major find could be very substantial.

BHP Billiton is actively seeking a rig, and obviously the availability of a suitable rig will determine the ultimate timing of drilling. The deep water rig market is improving, in that more rigs are becoming available, and oilfield services and material costs are falling. The options being pursued include a direct contract with a rig owner, a sub-let on an existing contract or a 'time-share' swap with one of the rigs already under charter to BHP Billiton located elsewhere.

The recent site survey programme completes the final phase of offshore activities prior to drilling and we can look forward to commencing an exploration drilling programme in late 2009 or early 2010. Any drilling success will have a transformational impact on FOGL. Given the size of the prospects being targeted the rewards could be very substantial

Tim Bushell
Chief Executive

**Unaudited consolidated income statement
for the year ended 31 December 2008**

	2008 \$	2007 \$ Restated
Administrative expenses	(2,905,958)	(3,447,740)
Loss from operations	(2,905,958)	(3,447,740)
Finance income	673,334	912,507
Foreign exchange gains	2,583,210	-
Total finance income	3,256,544	912,507
Finance costs	(1,596,659)	(1,225,226)
Loss for the year before taxation	(1,246,073)	(3,760,459)
Taxation expense	(25,960)	(141,700)
Loss for the year	(1,272,033)	(3,902,159)
Loss per ordinary share – Basic and diluted	(1.38c)	(4.24c)

The loss for the year arose from continuing operations.

Restatement

In the comparative information a foreign exchange loss of \$84,117 has been reclassified from Administrative expenses into Finance costs as, in the view of the directors, this represents a more appropriate classification.

**Unaudited statement of recognised income and expense
for the year ended 31 December 2008**

	2008 \$	2007 \$ Restated
Loss for the financial period	(1,272,033)	(3,902,159)
Total recognised income and expense for the financial year attributable to equity shareholders	(1,272,033)	(3,902,159)

**Unaudited consolidated balance sheet
at 31 December 2008**

	2008	2007
	\$	\$
		Restated
Non current assets		
Intangible assets	38,643,981	31,785,242
Property, plant and equipment	79,111	148,585
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	38,723,092	31,933,827
Current assets		
Trade and other receivables	296,123	386,901
Cash and cash equivalents	18,819,935	24,889,214
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Total assets	57,839,150	57,209,942
Current liabilities		
Trade and other payables	(4,579,087)	(904,874)
Current tax payable	(146,409)	(166,153)
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Net current assets	14,390,562	24,205,088
Non current liabilities		
Long term borrowings	(10,041,624)	(12,010,737)
Total liabilities	(14,767,120)	(13,081,764)
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Net assets	43,072,030	44,128,178
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Capital and reserves attributable to shareholders		
Share capital	3,681	3,688
Share premium	47,109,162	47,198,961
Other reserve	4,985,693	4,995,197
Retained earnings	(9,026,506)	(8,069,668)
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Total equity	43,072,030	44,128,178
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**Unaudited consolidated cash flow statement
for the year ended 31 December 2008**

	2008	2007
	\$	\$
		Restated
Operating activities		
Loss for the year after taxation	(1,272,033)	(3,902,159)
Finance income	(3,256,544)	(912,507)
Finance expense	1,596,659	1,225,226
Taxation expense	25,960	141,700
	<u>(2,905,958)</u>	<u>(3,447,740)</u>
Adjustment for:		
Depreciation	70,001	76,060
Share based payment expense	298,367	274,503
	<u>(2,537,590)</u>	<u>(3,097,177)</u>
Net cash flow from operating activities before changes in working capital	(2,537,590)	(3,097,177)
Decrease in trade and other receivables	90,777	5,040,716
Decrease in trade and other payables	(484,911)	(10,243,617)
	<u>(2,931,724)</u>	<u>(8,300,078)</u>
Cash flow generated from operating activities before taxation paid	(2,931,724)	(8,300,078)
Taxation paid	-	(539,306)
	<u>(2,931,724)</u>	<u>(8,839,384)</u>
Net cash flow from operating activities after taxation paid	(2,931,724)	(8,839,384)
Investing activities		
Interest received	673,334	912,507
Expenditure in respect of property, plant and equipment	(1,326)	(24,694)
Expenditure in respect of intangible assets	(2,699,716)	(21,913,691)
Reimbursement of past exploration costs	-	12,749,968
	<u>(2,027,708)</u>	<u>(8,275,910)</u>
Cash outflow used in investing activities	(2,027,708)	(8,275,910)
Financing activities		
Proceeds from issue of Convertible Loan notes	-	11,983,800
Issue costs relating to Convertible Loan notes	-	(4,304)
Issue of ordinary share capital	-	299,595
	<u>-</u>	<u>12,279,091</u>
Net cash flow from financing activities	-	12,279,091
Net decrease in cash and cash equivalents in the period	(4,959,432)	(4,836,203)
Cash and cash equivalents at start of year	24,889,214	29,809,534
Effect of foreign exchange rate changes on cash and cash equivalents	(1,109,847)	(84,117)
	<u>18,819,935</u>	<u>24,889,214</u>
Cash and cash equivalents at end of year	18,819,935	24,889,214