

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt about the contents of this document, you should consult a person authorised under the Financial Services and Markets Act 2000 who specialises in advising on the acquisition of shares and other securities.

A copy of this document, which comprises a prospectus in relation to Falkland Oil and Gas Limited, has been drawn up in accordance with of the Public Offers of Securities Regulations 1995, as amended and the Companies Act 1948 and has been delivered to the Registrar of Companies in England and Wales for registration pursuant to Regulation 4(2) of the POS Regulations. A copy of this document, having attached thereto the documents specified in paragraph 13(q) of Part IV, has been delivered to the Registrar of Companies in the Falkland Islands for registration pursuant to section 41(2)(a) of the 1948 Act. Details of the contracts required by the Fourth Schedule of the 1948 Act to be disclosed in this document are set out in paragraph 8 of Part VI of this document. Details of where such documents are available for inspection are set out in paragraph 15 of Part VI of this document.

Application has been made for the Shares, issued and to be issued pursuant to the Placing and the Offer, to be admitted to trading on AIM. AIM is a market designed primarily for emerging or smaller companies to which a higher investment risk tends to be attached than to larger or more established companies. AIM securities are not admitted to the Official List of the UK Listing Authority.

A prospective investor should be aware of the risks of investing in such companies and should make the decision to invest only after careful consideration and, if appropriate, consultation with an independent financial adviser.

London Stock Exchange plc has not itself examined or approved the contents of this document.

The Directors, whose names appear on page 6, accept responsibility for the information contained in this document. To the best of the knowledge and belief of the Directors, the information contained in this document is in accordance with the facts, and this document makes no omission likely to affect the import of such information.

Your attention is also drawn to the discussion of risks and other factors which should be considered in connection with an investment in the Shares, set out in "Risk Factors" in Part III of this document.

FALKLAND OIL AND GAS LIMITED

(Registered in the Falkland Islands with registered number 12913)

Admission to trading on AIM

and

Placing of 25,000,000 Shares and Offer for Subscription of up to 5,000,000 Shares at 40p per share

KBC PEEL HUNT LTD

Nominated Adviser and Broker

The Placing and the Offer are conditional, *inter alia*, on Admission taking place on or before 14 October 2004 (or such later date as the Company and KBC Peel Hunt may agree). The New Shares will on Admission rank in full for all dividends or other distributions hereafter declared, made or paid on the Shares and will rank *pari passu* in all other respects with all other Shares in issue on Admission.

The procedure for application and payment under the Offer for Subscription is set out in Part VII of this document and the Application Form is set out at the end of this document. The subscription lists for the New Shares will open at 8.00 a.m. on 5 October 2004, and may be closed at any time thereafter, but not later than 3.00 p.m. on 12 October 2004. Applications must be for a minimum of 2,500 Offer Shares. To be valid, Application Forms must be completed and returned with the appropriate remittance so as to be received by the receiving agents, Capita IRG Plc at Corporate Actions, PO Box 166, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TH by no later than 3.00 p.m. on 12 October 2004. Neither the Placing nor the Offer for Subscription has been underwritten.

KBC Peel Hunt, which is regulated by the Financial Services Authority, is acting as the Company's nominated adviser in connection with the proposed admission of the Shares to trading on AIM. Its responsibilities as the Company's nominated adviser under the AIM Rules are owed solely to London Stock Exchange plc and are not owed to the Company or to any Director or to any other person in respect of his decision to acquire shares in the Company in reliance on any part of this document. No representation or warranty, express or implied, is made by KBC Peel Hunt as to any of the contents of this document (without limiting the statutory rights of any person to whom this document is issued). KBC Peel Hunt will not be offering advice and will not otherwise be responsible for providing customer protections to recipients of this document in respect of the Issue or any acquisition of shares in the Company.

The Shares and the New Shares have not been and will not be registered under the United States Securities Act of 1933 (as amended) or under the applicable securities laws of Canada, Australia or Japan and, subject to any applicable exemptions, may not be offered or sold, directly or indirectly, within the United States of America, Canada, Australia or Japan or any of their states, provinces, territories or possessions or areas subject to their jurisdiction (together "Prohibited Territories") or as a result of a purchase order known to originate in any Prohibited Territory, or to a citizen of, or a person resident in, any Prohibited Territory or to a corporation, partnership or other entity created or organised in or under the laws of any Prohibited Territory or to an estate or trust which is subject to the taxation of any Prohibited Territory regardless of the source of its income. Persons applying for New Shares shall be deemed to represent and warrant that they are not resident in, or a citizen of, any Prohibited Territory and will not, as principal or agent, offer, sell, transfer or deliver, directly or indirectly, as part of the distribution of the New Shares, any New Shares being purchased to any person in any Prohibited Territory or as a result of a purchase order known to originate in any Prohibited Territory. Attention is drawn to the additional restrictions on participation in the Offer set out in Part VII.

CONTENTS

	<i>Page</i>
Definitions	3
Glossary of technical terms	5
Directors and Advisers	6
Key Information	7
Placing and Offer Statistics and Expected Timetable	8
PART I Information on the Company	9
PART II Petroleum Engineers' Report	16
PART III Risk Factors	41
PART IV Accountants' Report	46
PART V Summary of certain Falkland Islands Legislation, the Licences and the Joint Operating Agreement	54
PART VI Additional Information	62
PART VII Terms of the Offer	80
Application Form	89

DEFINITIONS

The following definitions apply throughout this document, unless the context requires otherwise:

“1948 Act”	the Companies Act 1948, as applicable to the Falkland Islands
“Act”	the Companies Act 1985 (as amended)
“Admission”	the admission of the Shares to trading on AIM
“AIM”	the Alternative Investment Market of London Stock Exchange
“AIM Rules”	the rules published by London Stock Exchange from time to time relating to AIM
“Application Form”	the application form for use in respect of the Offer
“Articles”	the Articles of Association of the Company
“Board”	the board of directors of the Company
“Capita”	Capita IRG Plc, the Company’s receiving agents
“Company”	Falkland Oil and Gas Limited, a company incorporated in the Falkland Islands
“CREST”	the computerised system for trading shares in uncertificated form in the UK operated by CRESTCo
“CRESTCo”	CRESTCo Limited, the operator of CREST
“Dampier”	Dampier Oil Limited, a wholly owned subsidiary of Global Petroleum and a founder of the Company
“Depository Interests”	the interests representing Shares issued through Capita
“Directors”	the directors of the Company, whose names are set out on page 6
“FIC”	Falkland Islands Company Limited, a UK company which is a founder shareholder of the Company and a wholly-owned subsidiary of Falkland Islands Holdings plc, a company traded on AIM
“Global Petroleum”	Global Petroleum Limited, whose shares are listed on the Australian Stock Exchange
“Governor”	the Governor of the Falkland Islands
“Hardman”	Hardman Resources Limited, the owner of a 22.5 per cent. interest in each of the Licences and a party to the JOA
“Issue”	the Placing and the Offer
“Issue Price”	40p per New Share
“Joint Operating Agreement” or “JOA”	the joint operating agreement relating to the Licences and to which the Company is a party
“KBC Peel Hunt”	KBC Peel Hunt Ltd
“Licences”	the seven Production Licences in each of which the Company has a 77.5 per cent. interest

“London Stock Exchange”	London Stock Exchange plc
“New Shares”	up to 30,000,000 new Shares to be issued under the Placing and the Offer
“Offer” or “Offer for Subscription”	the offer for subscription of the Offer Shares made by the Company, the terms of which are set out in Part VII
“Offer Shares”	the 5,000,000 New Shares being offered pursuant to the Offer
“Official List”	the Official List of the UK Listing Authority
“Placing”	the conditional placing by KBC Peel Hunt of the Placing Shares at the Issue Price, pursuant to the Placing and the Offer Agreement
“Placing and Admission Agreement”	the conditional agreement dated 30 September 2004 between the Company, the Directors and KBC Peel Hunt relating to the Placing and Admission, further details of which are set out in paragraph 8 of Part VI
“Placing Shares”	the 25,000,000 New Shares being placed pursuant to the Placing
“POS Regulations”	the Public Offers of Securities Regulations 1995 of the United Kingdom (as amended)
“Production Licences”	offshore petroleum production licences granted by the Government of the Falkland Islands
“RAB”	RAB Special Situations LP, a founder shareholder of the Company and a fund managed by RAB Capital plc, a company traded on AIM
“Regulations”	the Uncertificated Securities Regulations 2001, as amended from time to time
“Shares”	ordinary shares of 0.002p each in the Company
“UK Listing Authority”	the Financial Services Authority, acting in its capacity as the competent authority for the purposes of Part VI of the Financial Services and Markets Act 2000 of the United Kingdom
“Unapproved Share Option Scheme”	the Falkland Oil and Gas Unapproved Share Option Scheme

GLOSSARY OF TECHNICAL TERMS

The following technical terms are used in this document, which should be read in conjunction with the definitions in the expert's report on page 30 and 31. (Grammatical variations of these terms should be interpreted in the same way).

“2D Seismic Data”	reflection seismic data or a group of seismic lines acquired individually such that there are typically significant gaps (commonly 1km or more) between adjacent lines. A 2D seismic survey contains sufficient information to permit mapping of the geological structure of the subsurface
“3D Seismic Data”	reflection seismic data acquired at sufficient density that there are typically no significant gaps in the subsurface coverage, so that 3D images and models of the geological structure of the subsurface can be interpreted
“CAPEX”	capital expenditure
“Cenozoic”	the most recent geological age, from 65 million years ago onwards
“Mesozoic”	the secondary or reptilian age, from 245 million to 65 million years ago
“mmscfd”	millions of standard cubic feet of gas produced per day
“OPEX”	operating expenditure
“seismic survey”	linear or grid pattern for acquisition of reflection seismic data
“stratigraphy”	study of the composition, relative positions of rock strata to determine their geological history

DIRECTORS AND ADVISERS

Directors	John Armstrong , <i>Executive Chairman</i> David Hudd , <i>Deputy Chairman</i> Timothy Jones , <i>Finance Director</i> Peter Dighton , <i>Commercial Director</i> all of:
UK Office	5 Charterhouse Square, London EC1M 6PX
Registered Office	56 John Street, Stanley, Falkland Islands
Secretary	Chalmers Nominee Company (Falklands) Limited
Nominated Adviser and Stockbroker	KBC Peel Hunt Ltd 111 Old Broad Street London EC2N 1PH
Auditors and Reporting Accountants	KPMG LLP 8 Salisbury Square London EC4Y 8BB
Solicitors to the Company as to English Law	Norton Rose Kempson House Camomile Street London EC3A 7AN
Solicitors to the Company as to Falkland Islands Law	Ledingham Chalmers (Stanley) 56 John Street Stanley Falkland Islands
Solicitors to KBC Peel Hunt	Addleshaw Goddard 150 Aldersgate Street London EC1A 4EJ
Independent Petroleum Engineers	Scott Pickford Ltd Leon House 233 High Street Croydon CR0 9XT
Bankers	Lloyds TSB Bank Plc 39 Threadneedle Street London EC2R 8PT
Registrars	Capita Registrars The Registry 34 Beckenham Road Beckenham Kent BR3 4TU
Receiving Agents	Capita IRG Plc Corporate Actions PO Box 166 The Registry 34 Beckenham Road Beckenham Kent BR3 4TH

KEY INFORMATION

This information is derived from, and should be read in conjunction with, the full text of this document. In particular, your attention is drawn to the Risk Factors set out in Part III.

- The Company was formed in May 2004 to invest in an offshore oil exploration programme in licences covering approximately 33,700 sq km to the south and east of the Falkland Islands.
- The Company holds a 77.5 per cent. interest in seven offshore production licences granted by the government of the Falkland Islands.
- Two wells in the adjacent Malvinas Basin to the west of the Company's acreage have flowed hydrocarbons. In addition, in a well to the east, clean sands of Oxfordian age were found which could provide potential reservoirs for oil and gas if present in the areas of the Company's Licences.
- Based on the Company's interpretation of the pre-existing seismic data, eight leads have been identified as being potentially capable of trapping hydrocarbons and have been selected for further investigation.
- The Directors believe that each of the eight leads is of sufficient size that they could contain commercially exploitable volumes of hydrocarbons, provided source rocks exist and there are suitable reservoirs and seals to hold the oil and gas, and oil and/or gas has migrated to the lead.
- The existence of reservoirs and source rocks to the west and east of the South Falkland Basin leads the Directors to believe that similar geological features may exist in the area of the Licences.
- The first stage of further investigation of the eight leads involves a 2D seismic survey, already funded by the founder shareholders, contracted to commence by the end of 2004 with a view to further investigating, delineating and ranking the eight leads.
- Following a period of interpretation of the results of the 2D seismic survey in early 2005, and assuming the results of such interpretation are satisfactory, the Company would expect a 3D seismic survey to be commenced later in 2005, subject to weather and suitable seismic vessel availability, in order to establish locations for drilling. This survey is expected to cover an area of up to 1,500 sq km. The Company is aiming to commence drilling in late 2006 or early 2007, subject to satisfactory results of the 3D seismic survey, rig availability and agreeing a suitable funding arrangement, possibly by farm-out.
- The fiscal system (royalty and corporate tax) applicable to Production Licences currently is favourable to oil and gas exploration and production. The Directors believe that the Falkland Islands Government is committed to ensuring that the overall tax system remains attractive and conducive to attracting future investment.
- The Company is seeking to raise up to £12 million. £10 million of this is expected to be raised through the Placing and up to £2 million through the Offer.
- A subscription of £10 million is sufficient to fund a 3D seismic survey of approximately 1,500 sq km over certain of the Company's leads. A subscription of £12 million would be sufficient, in the Director's opinion, to enable the Company to also fund pre-drilling studies to prepare for drilling and possibly electro-magnetic studies, should these be appropriate.
- The Offer is expected to close on 12 October 2004.
- Dealings on AIM are expected to commence on 14 October 2004.

PLACING AND OFFER STATISTICS

Issue Price	40p
Number of New Shares being placed	25,000,000
Maximum number of New Shares being offered pursuant to the Offer	5,000,000*
Market capitalisation at the Issue Price*	£32,000,000*
Number of Shares in issue on Admission*	80,000,000*
Percentage of enlarged issued share capital subject to the Placing and the Offer*	37.5 per cent.*
Gross proceeds of the Placing and the Offer*	£12 million*
Net proceeds of the Placing and the Offer*	£11 million*

*Assuming full subscription pursuant to the Placing and Offer

EXPECTED TIMETABLE

Time of opening of subscription lists	8.00 a.m. on 5 October 2004
Latest time for receipt of completed Application Forms and payment in respect of the Offer	3.00 p.m. on 12 October 2004
Announcement of basis of allocations made under the Offer	13 October 2004
Admission and dealings in the Shares to commence on AIM	14 October 2004
CREST accounts credited in respect of Depository Interests	14 October 2004
Despatch of definitive share certificates (where applicable) by	28 October 2004

PART I

INFORMATION ON THE COMPANY

INTRODUCTION

The Company was formed in May 2004 to invest in an offshore oil exploration programme covering approximately 33,700 sq km to the south and east of the Falkland Islands. The Company's founders were The Falkland Islands Company Limited (a subsidiary of Falkland Islands Holdings plc), Dampier Oil Limited (a subsidiary of Global Petroleum Limited) and RAB Special Situations LP (a fund managed by RAB Capital plc). The Company holds a 77.5 per cent. interest in seven offshore Production Licences granted by the government of the Falkland Islands. The remaining 22.5 per cent. interest in the Licences is held by Hardman Resources Limited, an Australian listed and AIM traded company.

THE FALKLAND ISLANDS

The Falkland Islands comprise some 340 islands, located approximately 480km from the nearest point in South America. The two largest islands are East and West Falkland. Stanley, the capital, lies on the eastern shore of East Falkland. The total land area covers approximately 12,000 sq km.

The islands have no indigenous population and the current population of approximately 3,000 is predominantly of British descent, some 2,000 of whom live in Stanley, the only town.

The Falkland Islands are an overseas territory of the UK and have considerable autonomy including in relation to fiscal matters. Her Majesty Queen Elizabeth II is the Head of State and is represented by the Governor who presides over the Government of the Falkland Islands and is advised in the exercise of his functions by an Executive Council of three of the eight elected Legislative Councillors and two ex-officio members (the Chief Executive and the Financial Secretary).

The democratically elected Legislative Council has legislative powers, but responsibility for defence and foreign affairs rests with the British Government. The local administrative point of contact for the oil exploration industry is the Director of Minerals and Agriculture, a Falkland Islands Government official, based in Stanley.

The Falkland Islands' economy has traditionally been based on agriculture and a growing offshore fishing industry and has an annual GDP of about £70 million. The Directors believe that the Falkland Islands has an infrastructure network capable of supporting at least the early phases of oil exploration.

Geology

The Falkland Islands lie at the western end of the Falkland Plateau. The islands are surrounded by four major sedimentary basins: the Falkland Plateau Basin to the east, the South Falkland Basin to the south, the Malvinas Basin to the west, and the North Falkland Basin to the north. The four basins appear to have extended initially as Triassic through earliest Cretaceous rifts associated with the break-up of Gondwanaland. An early Cretaceous (Valanginian) end to rifting was followed by thermal sag. There is evidence of Tertiary uplift, possibly coincident with Andean compression and the development of overthrusting along the plate boundary to the south of the Islands resulting from opening of the Scotia Sea.

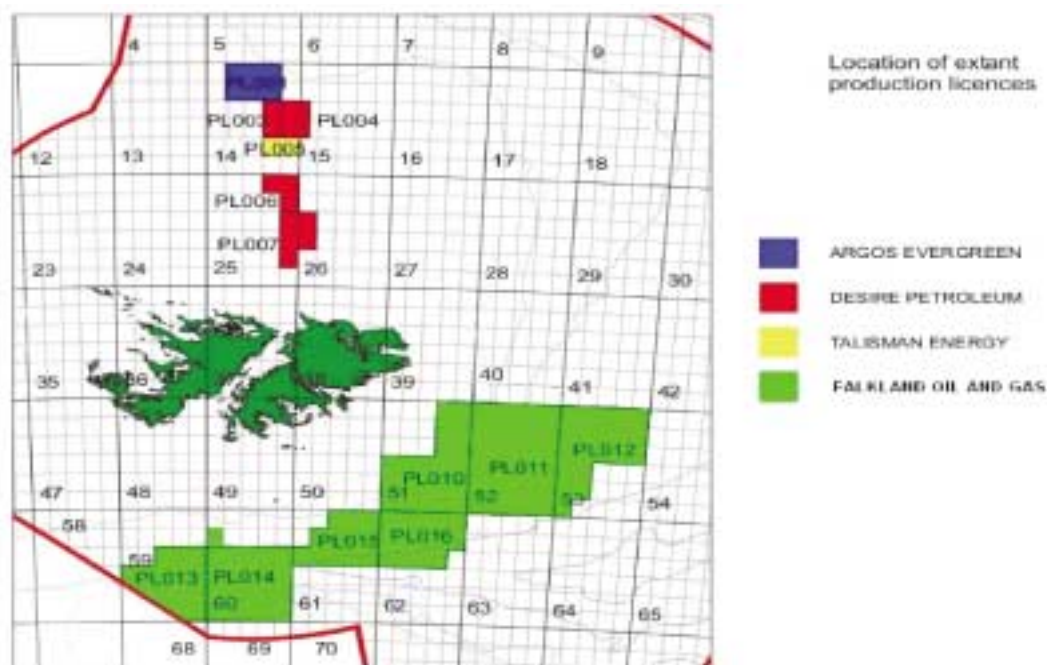
The Company's licence areas are located in the South and East Falkland Basins. The South Falkland Basin demonstrates three main structural areas. First, a narrow, rift-drift passive margin area, containing in excess of eight km of Mesozoic and Cenozoic sediments and consisting of a faulted Late Jurassic to Valanginian rift sequence, a well defined Aptian to Albian marine transitional sequence of prograding shelf, shelf slope and basal facies and a wedge of gently dipping Latest Cretaceous to Tertiary marginal sag facies. Secondly, it has an area of tilted fault blocks, consisting of a faulted, broad saddle of Tertiary sediments, up to four km thick. Thirdly, the Burdwood Bank area, consists of an overthrust, highly faulted area with a sedimentary section of limited prospectivity, over two km thick, overlying economic basement.

THE LICENCES

Exploration for petroleum in Falkland Islands waters is governed by Falkland Islands law, a more detailed summary of which is set out in Part V. Although largely based upon them, the provisions of the various ordinances and regulations are entirely independent of their UK equivalents. Under the terms of the Offshore Petroleum (Licensing) Regulations 2000, FIC, Dampier and Hardman were in July 2002 together awarded ten offshore Production Licences. Following the purchase and review of pre-existing seismic data covering a wide area which includes the area covered by these licences, the licensees relinquished three licences and some small areas from others, with the result that they held seven licences covering approximately 33,700 sq km. In 2004 the Company entered into an assignment agreement with the three original licensees which resulted in the Licences being held as to 77.5 per cent. and 22.5 per cent. by the Company and Hardman respectively. Notwithstanding these percentage interests, one of the terms of the assignment provided that the first US\$4,500,000 of expenditure on joint operations exploiting the Licences will be funded 80 per cent. by the Company and 20 per cent. by Hardman. The operating agreement between the licensees is regulated by a standard form Joint Operating Agreement, details of which are set out in Section C of Part V of this document.

Under the Licences, the Company and Hardman have to appoint an operator to organise, supervise and be responsible for all activities related to the exploration for and production of oil and gas from the Licences. Under the Joint Operating Agreement, Dampier is currently the operator, but the Company intends to incorporate a wholly-owned subsidiary of the Company to be the operator following completion of the interpretation of the 2D seismic survey. The operator is not permitted to commence, abandon or recommence the drilling, or completion for development, of any well without the consent of the Governor. Good oilfield practices have to be observed at all times and licence holders must comply with additional conditions to the licences as detailed in Petroleum Operations Notices issued from time to time by the Falkland Islands Government. In addition, Production Licence regulations require the holder to supply copies of data to the Governor.

The map set out below shows the location of the Company's Licences, together with those of certain other licences in the vicinity of the Falkland Islands:



Two wells in the adjacent Malvinas Basin to the west of the Company's acreage have flowed hydrocarbons. The Calamar X-1 well flowed some 2,500 bopd of 38^o API oil, and the Salmon X-2 well flowed 20 mmscf/d of gas, together with 375 bopd and 630 b/d of condensate. In addition, in the Malvinas basin early Cretaceous potentially oil and gas source rock shales have been found with TOC of between three and eight per cent.

To the east, in well DSDP 330 clean sands of Oxfordian age were found which could provide potential reservoirs for oil and gas if present in the areas of the Company's Licences. In addition, wells DSDP 330 and 511 encountered claystones of Oxfordian to Aptian age containing up to six per cent. TOC which was mainly oil prone with a potential yield of 25 kg of hydrocarbons per ton of rock.

The existence of reservoirs and source rocks to the west and east of the South Falkland Basin leads the Directors to believe that similar geological features may exist in the area of the Licences.

Previous drilling has been undertaken in Falkland Islands waters only to the north of the islands and has not been commercially successful to date. The geology of the North Falkland Basin is quite different to that expected to the south and east of the islands and cannot therefore be used as an indication of the prospectivity of the Company's Licences.

Based on the Company's interpretation of the pre-existing seismic data referred to above, eight leads have been identified as being potentially capable of trapping hydrocarbons and have been selected for further investigation. The Directors believe that each of the eight leads is of sufficient size that they could contain commercially exploitable volumes of hydrocarbons, provided source rocks exist and there are suitable reservoirs and seals to hold the oil and gas, and oil and/or gas has migrated into the lead.

The first stage of further investigation of the eight leads involves a 2D seismic survey, already funded by the founder shareholders, contracted to commence by the end of 2004 with a view to further investigating, delineating and ranking the eight leads. Under the Licences, at least 3,500km of seismic data must be acquired, processed, and interpreted by July 2005. Following a period of interpretation of the results of the 2D seismic survey in early 2005, and assuming the results of such interpretation are satisfactory, the Company would expect a 3D seismic survey to be commenced later in 2005, subject to weather and suitable seismic vessel availability in order to establish locations for drilling. This survey is expected to cover an area of up to 1,500 sq km. The Company is aiming to commence drilling in late 2006 or early 2007, subject to satisfactory results of the 3D seismic survey, rig availability and agreeing a suitable funding arrangement, possibly by farm-out.

The principal terms of the Licences are summarised in Part V.

REASONS FOR THE PLACING AND OFFER

The Company's 80 per cent. share of the cost of the 2D seismic survey will be met from the US\$3.8 million which the Company raised in June 2004 from its founder shareholders. However, the Directors wish the Company to be in a position to be able to follow up the forthcoming 2D seismic surveys by securing funding now for a 3D seismic survey expected to be commenced later in 2005, subject to weather and suitable seismic vessel availability. The Company is seeking to raise up to £12 million. £10 million of this is expected to be raised through the Placing and up to £2 million through the Offer. A subscription of £10 million is sufficient to fund a 3D seismic survey of approximately 1,500 sq km over certain of the Company's leads. A subscription of £12 million would be sufficient, in the opinion of the Directors, to enable the Company to also fund pre-drilling studies in advance of drilling and possibly electro-magnetic studies should this be appropriate. The funding requirements have been determined making no assumption that Hardman will participate in funding its share of the 3D seismic survey or the other pre-drilling and electromagnetic studies. Should Hardman decide to participate to an extent commensurate with its 22.5 per cent. interest in the Licences, this would reduce the cost of the 3D seismic survey and the other studies to the Company and therefore further funds would be available for additional work in 2006 if required.

Any decision to undertake drilling will require the Company to have obtained further funding. This may include raising fresh equity, or a farm-out arrangement with a larger oil company. The latter could substantially dilute the Company's interest in the Licences, however, given the size of the Company's existing holding, it would be expected, although there is no guarantee, that the Company will retain a significant equity interest in the Licences.

DIRECTORS

Details of the Directors, their roles and their backgrounds are as follows:

John Dennis Armstrong (Executive Chairman, aged 60)

Dr Armstrong joined the Board of the Company on its establishment. He joined Global Petroleum, one of the Company's major shareholders, in June 2002 as executive chairman. Dr Armstrong has had a 30 year career in the upstream oil and gas industry – most recently as a general manager of Santos and before that as exploration manager for UNOCAL's Indonesian operations. He has a successful track record of finding and developing oil and gas fields. Dr Armstrong played an important role in growing Santos from a small local gas company to a company with operations throughout Australia and internationally.

David Leslie Hudd FCA (Deputy Chairman – Non-Executive, aged 59)

David Hudd, a Chartered Accountant, was a partner in Price Waterhouse until 1982. Since then he has been chairman or chief executive of a number of listed companies, including, from 1992 to April 1998, Vardon plc, now Cannons Group PLC, a company he founded. He is currently executive chairman of Falkland Islands Holdings plc which he joined in March 2002 and which is a major shareholder in the Company. He is also non-executive chairman of API Group plc and a non-executive director of Paramount plc and QA plc. Mr Hudd joined the Board in June 2004.

Timothy Stephen Jones FCA (Finance Director, aged 55)

Timothy Jones qualified as a Chartered Accountant with Price Waterhouse in 1974 where his clients included a major UK offshore oil and gas operator. In 1983, he left Price Waterhouse to join a client as financial director before founding his own accountancy and consultancy practice in 1990. He now has clients in a range of business sectors and sits on the boards of a number of private companies. Mr Jones joined the Board in September 2004.

Peter Francis Dighton (Commercial Director, aged 43)

Peter Dighton joined the Board in August 2004. A qualified lawyer specialising in the planning, structuring and documentation of major energy projects and transactions, he is principal of Law Strategies Pty Ltd. Mr Dighton has undertaken projects in Australia, Papua New Guinea, Indonesia, India, Europe and the Middle East on behalf of oil majors, listed companies and government owned corporations. Mr Dighton is also a director of Global Petroleum.

It is the intention of the Company to appoint a further independent Director to the Board as soon as practicable after Admission.

PROJECT MANAGER

James Webb (aged 57)

James Webb has had a 35 year career in the upstream oil and gas business, including positions as senior geologist with Marathon Petroleum, director of exploration for Kerr-McGee in London and subsequently president of Hunt United Corporation, a subsidiary of Hunt Oil Company, gaining experience of exploration in most of Europe, north, east and west Africa and the Middle East. Since 1996, Mr Webb has acted as an independent consultant to several private oil companies, assisting in acreage acquisition and disposal. Mr Webb is contracted to devote two days per week to the Company's business.

BOARD COMPOSITION AND COMMITTEES

The Board comprises three Directors with executive functions and one Non-Executive Director. Mr Armstrong is contracted to work for approximately 45 days a year and Mr Jones and Mr Dighton for a minimum of two days a month. This is a level of commitment which the Directors believe is appropriate for the Company in the early stage of its development.

The Company will hold at least four Board meetings throughout the year at which reports relating to the Company's operations, together with finance reports, will be considered. The Board is responsible for formulating, reviewing and approving the Company's strategy, budgets, major items of capital expenditure and acquisitions. Following the appointment of an additional independent Non-Executive director, the Board will establish audit and remuneration committees.

The audit committee will comprise two Non-Executive Directors, and will be chaired by Mr Hudd. It will meet at least twice a year and will be responsible for, amongst other things, ensuring that the financial performance of the Company is properly reported and monitored, focusing particularly on compliance with legal requirements, accounting standards and relevant regulatory requirements. The audit committee will also meet the auditors at least once a year and will review the reports from the auditors relating to accounts and internal control systems.

The remuneration committee will comprise two Non-Executive Directors. The committee will review the performance of Executive Directors and, within agreed terms of reference, set the scale and structure of their remuneration including pension rights, the Company's policy on compensation of the Executive Directors and the basis of their service agreements with due regard to the interests of shareholders. No Director will participate in discussions or decisions concerning his own remuneration.

The Company has adopted a share dealing code governing the share dealings of the Directors and certain employees and will take proper steps to ensure compliance by those to whom such code applies.

EQUITY PARTICIPATION

John Armstrong, David Hudd, Timothy Jones and Peter Dighton are subscribing 25,000, 250,000, 75,000 and 25,000 New Shares respectively in the Placing. Following the Placing and Offer, the Directors will be interested, in aggregate, in 375,000 Shares, representing 0.47 per cent. of the issued ordinary share capital of the Company assuming that the maximum number of shares are subscribed pursuant to the Issue. The Directors have agreed that they will not dispose of any interests in the Company's share capital within the twelve months following Admission and in respect of half their holdings for a further period of twelve months without the consent of KBC Peel Hunt except in certain strictly limited circumstances.

Paragraph 7 of the AIM Rules provides *inter alia* that since the Company has not been earning revenue for at least two years, any shareholder (save for certain limited exemptions) holding ten per cent. or more of the Company's issued share capital on Admission must not, except in certain strictly limited circumstances, dispose of any Shares within a period of one year from Admission. Dampier is accordingly prohibited from selling any Shares until after the expiry of one year from Admission. Although Falkland Islands Holdings plc falls under one of the limited exemptions and is therefore exempt from the requirements of paragraph 7 of the AIM Rules, it has agreed with the Company and with KBC Peel Hunt that it will not dispose of any Shares until one year from Admission. RAB Special Situations LP also falls under one of the limited exemptions from the requirements of paragraph 7 of the AIM Rules. It has however agreed to be subject to an orderly market agreement for a period of 12 months from Admission.

As part of the Company's incentivisation strategy going forward, the Company has established the Unapproved Share Option Scheme, under which options can be granted over Shares, at the discretion of the remuneration committee, to selected directors, employees or consultants providing services to the Company.

The Directors and Mr Webb will be granted immediately prior to Admission options to subscribe for, in aggregate, 963,000 Shares at the Issue Price and further options to subscribe for, in aggregate, 963,000 Shares at 150 per cent. of the Issue Price. The exercise prices for subsequent options will be not less than the market value of a Share on the date of grant.

Details of the grants to be made under the Unapproved Share Option Scheme are set out in paragraph 4 of section VI of this document.

At any time, the aggregate number of Shares which have been issued under options granted under the Unapproved Share Option Scheme and any options or awards granted under any other employee share scheme which the Company may establish in the future and the number of Shares issuable under such

outstanding options or awards may not exceed that number of Shares which is equal to 10 per cent. of the Company's issued share capital at that time. Options or awards granted more than 10 years previously are not taken into account for the purposes of this limit.

Further details of the Unapproved Share Option Scheme are set out in paragraph 7 of Part VI.

Further details of the interests of the Directors in Shares and in options over Shares and of the founder shareholders in Shares are set out in paragraph 4 of Part VI.

DETAILS OF THE PLACING AND THE OFFER

A maximum of 30,000,000 New Shares are available under the Placing and the Offer. The Placing and the Offer, neither of which is underwritten, are conditional, *inter alia*, upon Admission occurring by 14 October 2004, or such later time as KBC Peel Hunt and the Company agree.

KBC Peel Hunt, as agent for the Company, has conditionally placed 25,000,000 New Shares with placees at the Issue price under the Placing.

Under the Offer, applicants may apply for New Shares at the Issue Price. The minimum number of Offer Shares in respect of which applications may be made is 2,500. If the Offer is fully subscribed, £12 million will be raised for the Company before expenses (£11,000,000 after estimated expenses of £1,000,000 (including VAT)). Pending their use in the manner set out above, the net subscription moneys will be placed on deposit.

It is expected that Admission will take place on 14 October 2004 and that the proceeds of the Issue will be received by the Company on that date. It is expected that the appropriate CREST accounts of placees and subscribers under the Offer will be credited with Depository Interests on that date. Depository Interests are explained below. In the case of placees requesting Placing Shares in certificated form, it is expected that certificates in respect of the Placing Shares will be despatched by post, within 14 days of the date of Admission.

Further details of the Placing and Offer Agreement are set out in paragraph 8 of Part VI.

The subscription lists for the Offer will open at 8.00 a.m. on 5 October 2004 and will close at any time thereafter, but not later than 3.00 p.m. on 12 October 2004 although the Directors reserve the right to extend this date on the basis set out in Part VII, which should be read in conjunction with this summary. Applications under the Offer should be made by eligible investors completing the Application Form at the end of this document.

If there is excess demand for Offer Shares under the Offer, applications will be scaled back. There will be no reallocation of New Shares placed pursuant to the Placing. The basis of any scaling back will be at the sole discretion of the Company. In the event of any scaling back, the basis of allocation under the Offer is expected to be announced on 13 October 2004. The Company reserves the right, in its absolute discretion, to decline, in whole or in part, to accept an application for Offer Shares under the Offer. Accordingly, applicants for Shares under the Offer may not be allotted the number of New Shares for which they have applied.

ADMISSION, SETTLEMENT (CREST) AND DEALINGS

CREST is a UK computerised paperless share transfer and settlement system, which allows shares and other securities, including depository interests, to be held in electronic form rather than in paper form.

The Company, through its UK Registrar, Capita Registrars, is in the process of establishing a facility whereby Depository Interests may be issued to investors who wish to hold Shares in electronic form within the CREST system. This will be done pursuant to a deed poll to be executed by Capita IRG Trustees Limited, acting as Depository. Application will be made for the Depository Interests, representing Shares, to be admitted to CREST with effect from Admission. Accordingly, settlement of transactions in Shares following Admission may take place within the CREST system if the relevant Shareholders so wish.

CREST is a voluntary system and holders of shares who wish to receive and obtain share certificates will be able to do so. Shareholders of the Company who elect to hold their shares in uncertificated form through the Depository Interest facility will be bound by the terms of a deed poll, the proposed form of which is available for inspection.

It is emphasised that, although the Shares will trade on AIM, the Company will not be subject to takeover regulation in the UK as it is incorporated in the Falkland Islands although certain related provisions have been included in the Articles as summarised in paragraph 3 of Part VI.

Further details in relation to trading in the Shares are outlined in the Risk Factors in Part III of this document.

DIVIDEND POLICY

The Directors intend to devote the Company's cash resources to its exploration activities. Unless and until income and distributable reserves are generated, the Company will not be in a position to pay any dividends. The Directors will consider the Company's dividend policy further once the Company is in a position to pay dividends.

PART II
PETROLEUM ENGINEERS' REPORT



Scott Pickford Ltd
4th Floor, Leon House
233 High Street,
Croydon CR0 9XT

To:

The Directors
Falkland Oil and Gas Limited
5 Charterhouse Square
London
EC1M 6PX

The Directors
KBC Peel Hunt Ltd
4th Floor, 111 Old Broad Street
London
EC2N 1PH

30 September 2004

Dear Sirs,

**An evaluation of Hydrocarbon prospectivity of Blocks PL010, PL011, PL012, PL013, PL014,
PL015 and PL016, offshore Falkland Islands**

On behalf of:
Falkland Oil and Gas Limited

Scott Pickford was asked by Falkland Oil and Gas Limited to review the reserves potential of oil and gas assets in blocks PL010, PL011, PL012, PL013, PL014, PL015 AND PL016 in the South Falkland Basin. We have calculated potential volumes for the leads identified by Falkland Oil and Gas Limited and have produced our own view of the range of potential volumes of oil that they may contain. For the purposes of producing an indicative pre and post tax value of a development in this basin we have devised a conceptual development scenario and estimated a most likely production profile for a single lead. The reserves classification in this report follows the 2001 SPE definitions that are used extensively across the world. This report was provided for the sole use of Falkland Oil and Gas Limited on a fee basis. The data for this review were sourced from Dampier Oil Limited. We believe that these data represent as recent and comprehensive a dataset as it has been possible to collate. All interpretations and conclusions presented herein are therefore opinions based on inferences from these geological, geophysical, engineering or other data. Scott Pickford has accepted without independent verification the completeness and validity of such data. The report represents Scott Pickford's best professional judgement and should not be considered a guarantee or prediction of future results. **In order to fully understand the nature of the information and conclusions contained within this report it is strongly recommended that it should be read in its entirety.** Scott Pickford Ltd is an ECL (Exploration Consultants Ltd) group company.

Scott Pickford Ltd, 4th Floor, Leon House, 233 High Street, Croydon CR0 9XT

Registered Office: c/o ECL Highlands Farm, Grays Road, Henley on Thames, Oxfordshire RG9 4PR
Registered Number 02153257

1 Introduction

Falkland Oil and Gas Limited (“FOGL”) has an interest in a large exploration area covering seven offshore licences (PL010, PL011, PL012, PL013, PL014, PL015 and PL016) in the South Falkland Basin. The licences are located as shown in Figure 1 and cover a total area of 33,700 sq km. A 4,600km, multi-client 2D seismic survey has been acquired, of which, some 1,118 km of this seismic situated within the licence blocks, has been reprocessed. No wells have been drilled in the licenses. An interpretation of the seismic data has revealed the presence of a number of interesting structural and stratigraphic features that may have the potential to be structures capable of trapping hydrocarbons. FOGL has already committed to the acquisition of 3,500km of new 2D seismic data commencing in the fourth quarter 2004 with the aim of further delineating and ranking these prospective features. Tenders have been received and a contractor has been appointed. Following this process the high-graded areas will then be covered by 3D data (up to 1,500 sq km) in order to facilitate the detailed interpretation required to make the resultant prospects “drill-ready”. 3D seismic interpretation techniques using horizon consistent amplitude extraction can often aid the identification of sedimentary depositional systems. In instances where such systems can be recognised seismically the degree of risk associated with the presence or otherwise of a suitable hydrocarbon reservoir is greatly reduced.

It must be stated however that seismic data alone are generally not sufficient to establish the existence of a working hydrocarbon system the establishment of which requires the drilling of wells. A possible exception to this statement may occur where the seismic data show the presence of well-defined flatspots and/or amplitude anomalies, which may be indicative of hydrocarbons.

Data available for this evaluation consisted of the Joint Operating Agreement, various exploration and geophysical reports, technical-powerpoint presentations, interpretations of selected 2D seismic lines illustrating the prospects and a brief economics report. All oil volumes quoted by Scott Pickford belong in the Prospective Resources category as defined in the Society of Petroleum Engineers (“SPE”) guidelines last revised in 2002. A definition of the abbreviations used in this report is given in Appendix A.

Scott Pickford has independently reviewed the prospects currently identified by FOGL and has produced its own view of the range of potential volumes of oil that they may contain. For the purposes of producing an indicative pre and post tax value of a development in this basin we have devised a conceptual development scenario and estimated a most likely production profile for a single lead.

2 Petroleum System of the South Falkland Basin

The understanding of the petroleum system is based on the interpretation of the 2D seismic data, together with analogies drawn from the Malvinas Basin to the west, the Falkland Plateau Basin to the east and the Bredasdorp, Pletmos and Southern Outeniqua basins located along the South African coastline. The South African basins are useful in understanding the petroleum system of the South Falkland Basin because the British Geological Survey’s theory on the composition of the Gondwana continent, prior to breakup, places the Falkland Islands Plate against the southeast margin of the current South African continent. Two wells (Calamar X-1 and Salmon X-2) lie 200-300km to the west of the licence area in the Malvinas Basin while two further wells (DSDP 330 and 511) lie 675km to the east in the Falkland Plateau Basin. These four wells provide the closest stratigraphic control points. The licence area lies within the South Falkland Basin, a classic narrow passive margin rift-drift basin with more than eight km of interpreted sedimentary section. The basin underwent complex rifting from the Triassic through to the Valanginian, during which period fragmentation of Gondwanaland was ongoing. Subsequently the basin was subjected to Cretaceous thermal sag and Cenozoic uplift coincident with Andean compression and the development of overthrusting along the plate boundary to the south (Richards, 2001).

Three main structural areas are recognised within the South Falkland Basin:

- (i) A narrow, rift-drift passive margin area, containing >8km of Mesozoic and Cenozoic sediments and consisting of:
 - a. A faulted Late Jurassic to Valanginian rift sequence.

- b. A well defined Aptian to Albian marine transitional sequence of prograding shelf, shelf slope and basinal facies.
 - c. A wedge of gently dipping Latest Cretaceous to Tertiary marginal sag facies.
- (ii) An area of tilted fault blocks, consisting of a faulted, broad saddle of Tertiary, or older, sediments, up to 4km thick.
 - (iii) The Burdwood Bank area, consisting of an overthrust, highly faulted area with a sedimentary section of limited prospectivity, <2km thick, overlying economic basement.

The stratigraphy of the South Falkland Basin is shown on Figure 2. Source quality claystones of Oxfordian to Aptian age were encountered in DSDP 330 and 511. The claystones contain terrestrial and marine organic matter (predominantly oil prone) with up to six per cent. TOC and a potential yield of 25kg/ton. Additionally, in the Malvinas Basin the early Cretaceous Innoceramus Formation consists of shales with source potential (TOC 3-8 per cent.). On the basis of this evidence, claystones of source quality can be inferred in the rift and transitional sequences of the South Falkland Basin. The onset of oil generation requires sediment thicknesses in the region of 2,500m and 3,300m in the South Falkland Basin, dependent on the magnitude of heatflow, which is very uncertain. The sediment thickness in the South Falkland Basin is at least this thick, and in places is considerably greater. Oil generation commenced at around 95-105 million years ago (Richards, 2001). An Aptian source kitchen of up to 10,000 sq km in area may be mapped on the basis of the sparse available seismic.

Sediments of Mesozoic age of proven reservoir quality have been found in DSDP 330 and consist of clean sands of Oxfordian age. In the Malvinas Basin the main reservoir interval is comprised of sandstones of the Lower Cretaceous Springhill Formation. The Springhill Formation is a transgressive fluvial sandstone deposited over relict basement topography. Some 2,500 bopd of 38° API oil was tested from a 60m gross reservoir section of the Springhill Formation in the Calamar X-1 well. The Salmon X-2 well yielded 20 mmscfd gas (together with 375 bopd and 630 b/d condensate) on test. In the Malvinas Basin the sandstones of the Springhill Formation are 30-150m thick and in the Hidra Field have porosities of 15-25 per cent. and permeabilities of 200-800 mD. The Springhill Formation may well extend eastwards into the South Falkland Basin. The overlying sequences of Aptian and Albian age are inferred to contain reservoir sandstones in three possible settings:

- (i) Basin floor fans within the central low.
- (ii) Highstand system tracts, on the shelf and shelf break, may contain fluvial channel and delta front sands.
- (iii) The basal sands of transgressive systems tracts.

Reservoir targets within the uppermost Cenomanian to Recent drift phase consist of sands inferred along the crests of tilted fault blocks and incised channels within the passive margin. Some oil (19 bopd) was tested from sands of Paleocene age in well Salmon X-1.

It is possible that appreciable amounts of gas hydrate may be present within the licence areas. Platt and Philip (1994) have noted a prominent seismic reflector from the South Falkland Basin with the characteristics of a “bottom simulating reflector” of the type commonly displayed by gas hydrates. However, at this stage it is not understood how such volumes could be commercially developed.

3 Potential Play Types

Five principal trap types and play fairways were recognized within the licence area. The play types are illustrated on Figures 3 and 4, and described in stratigraphic order (from oldest to youngest):

- (i) Basin margin rollovers of the rift sequence. Low-side fault closure against the basement footwall also form part of this play type. This play type relies on the Springhill Formation equivalent as the reservoir.
- (ii) Basin floor fans of Aptian to Albian age within the central basinal low. The reservoir is inferred to be derived from re-worked shelf sands deposited during a lowstand. The trapping mechanism is stratigraphic.

- (iii) Tilted fault blocks of probable Upper Cretaceous age, which are draped over regional basement highs. Reservoir is inferred to be sands at the base of the sedimentary sequence overlying the basement.
- (iv) Basin margin rollover with Upper Cretaceous reservoir sands.
- (v) Basal Tertiary incised channels that rely on stratigraphic trapping. These are characterised by localised high amplitude reflections.

Other possible play types include horst and tilted fault blocks along the basin margin, within the rift sequence, Aptian and Albian fluvial channel and shallow marine sands on the shelf and pinch out, together with updip facies changes within the drift sediments along the passive margin.

4 Description of Prospective Features

Eight principal leads have been identified (Leads 1-8) by FOGL and their locations are shown in Figure 5. Presented below is a summary of the structure, reservoir and source of each lead. Also, the principal risks associated with each lead are described. Most likely (“ML”) resources were calculated from most likely reservoir parameters while P90, P50 and P10 resources were calculated by Monte Carlo modeling using the Crystal Ball risk analysis software. Some of the reservoir parameters used in the calculation of resources were the same for each lead and these parameters are summarized below:

Reservoir Parameter	Most Likely Value
Porosity	20%
Hydrocarbon Saturation	70%
FVF	1.25
Recovery Factor	0.3

Lead 1

Structure

Lead 1 comprises a 4-way closure produced by a fault rollover in the rift-drift passive margin area. Seismic line GF193-312 shows 150m of rollover into the fault. The possible area within closure is in the range 40-80 sq km, a significant upside exists if the reservoir seals against the basement. The area within closure in the upside case is approx 800 sq km. The structure of Lead 1 is shown on Figure 6.

Reservoir

Springhill Formation sandstone equivalent close to basement, together with other syn-rift sediments within the rollover. A net pay thickness of 20m has been assumed, less than the minimum thickness of the Springhill Formation in the Hydra Field (30m).

Source

Shales in the rift sequence located in the deep basin to the south where the sedimentary section is >8km thick. The lead is ideally located to receive charge from the interpreted kitchen area.

Risk

The main risk for 4-way closure is lack of seismic coverage over the area, the major risk for the upside closure is fault seal along the basement footwall.

VOLUMETRICS

LEAD 1

	ML Values	
Area (km ²)	80	
GRV (MM m ³)	1,600	Assuming 20m net pay
ML Recoverable Oil (MMSTB)	338	

MONTE CARLO

Lead 1 Percentile	STOIP MMSTB	RECOVERABLE OIL MMSTB
90%	487	146
50%	1,613	484
10%	3,697	1,109

Leads 2, 4 and 5

Structure

Leads 2, 4, & 5 are formed by the crests of tilted fault blocks. Mapping undertaken by MBA Petroleum Consultants shows that these all form part of a regional, southward plunging high. Leads 4 and 5 rely on fault seal to the north, and dip closure to the west and east. Lead 2 requires both fault closure to the north and south and dip closure along the flanks. The structure of leads 2, 4 and 5 is shown on Figure 7.

Reservoir

Sands at the base of the Upper Cretaceous sequence, directly overlying, or near, the basement in a manner analogous to the Springhill Formation. A net pay thickness of 20m has been assumed, less than the minimum thickness of the Springhill Formation in the Hydra Field (30m).

Source

Shales in the rift sequence in the kitchen area >100km predominantly to the east, but also potentially to the south. However, recent generation from rift shales, equivalent to the Inoceramas Formation, and migration from lows in the local area to the south may be possible.

Risk

The most likely mature kitchen area lies >100km to the east and migration into these leads would have been over a considerable distance. However, it is possible that shales within the area between the tilted fault blocks and the Burdwood Bank may also be mature and hydrocarbons generated here could migrate relatively easily into the structures. It is possible that shales adjacent to the potential reservoir horizons may be mature and ideally placed to charge them.

VOLUMETRICS

LEAD 2

	ML Values	
Area (km ²)	150	
GRV (MM m ³)	3,000	Assuming 20m net pay
ML Recoverable Oil (MMSTB)	634	

MONTE CARLO

Lead 2 Percentile	STOIP MMSTB	RECOVERABLE OIL MMSTB
90%	1,197	359
50%	2,087	626
10%	3,290	987

VOLUMETRICS

LEAD 4

	ML Values	
Area (km ²)	100	
GRV (MM m ³)	2,000	Assuming 20m net pay
ML Recoverable Oil (MMSTB)	423	

MONTE CARLO

Lead 4 Percentile	STOIP MMSTB	RECOVERABLE OIL MMSTB
90%	1,007	302
50%	1,780	534
10%	3,213	964

VOLUMETRICS

LEAD 5

	ML Values	
Area (km ²)	75	
GRV (MM m ³)	1,500	Assuming 20m net pay
ML Recoverable Oil (MMSTB)	317	

MONTE CARLO

Lead 5 Percentile	STOIP MMSTB	RECOVERABLE OIL MMSTB
90%	603	181
50%	1,153	346
10%	2,147	644

Lead 3

Structure

Lead 3 is located along a tilted fault block. Structural closure is difficult to define with current seismic and this makes the lead difficult to evaluate. If closure occurs, an area of approx 100 sq km is possible.

Reservoir

Sands at the base of the Upper Cretaceous sequence directly overlying, or near, the basement. Also, sandstones equivalent to the Springhill Formation may also form the reservoir. A net pay thickness of 20m has been assumed, less than the minimum thickness of the Springhill Formation in the Hydra Field (30m).

Source

Shales in the rift sequence in the kitchen area >100km to the east. However, deep burial within the elongate low that strikes through the Tilted Fault Block area may also have resulted in the recent generation of hydrocarbon.

Risk

High risk associated with the structure due to lack of seismic coverage. Also, there is a similar source rock risk to that associated with Leads 2, 4 and 5.

VOLUMETRICS

LEAD 3

	ML Values	
Area (km ²)	100	
GRV (MM m ³)	2,000	Assuming 20m net pay
ML Recoverable Oil (MMSTB)	423	

MONTE CARLO

Lead 3 Percentile	STOIP MMSTB	RECOVERABLE OIL MMSTB
90%	970	291
50%	1,753	526
10%	3,347	1,004

Lead 6

Structure

A stratigraphic play with evidence of an incised channel that is associated with confined and high amplitude reflectors.

Reservoir

Tertiary sands infill the incised channel.

Source

Shales in the rift sequence located within the deep basin to the south. The migration pathway is shorter than that of Lead 1.

Risk

Top and updip seal to the channel forms the principal risk.

VOLUMETRICS

LEAD 6

	ML Values	
Area (km ²)	120	
GRV (MM m ³)	2,400	Assuming 20m net pay
ML Recoverable Oil (MMSTB)	507	

MONTE CARLO

Lead 6 Percentile	STOIP MMSTB	RECOVERABLE OIL MMSTB
90%	1,227	368
50%	1,687	506
10%	2,133	640

Lead 7

Structure

A stratigraphic trap characterised by onlapping packages of high amplitude seismic reflectors that define a basin floor fan.

Reservoir

Clastics deposited during an Aptian or Albian lowstand. Examination of seismic line GF193-307 shows that the fan is ca. 400m thick, on the basis of a net to gross of 0.125, the net pay thickness is therefore estimated to be 50m.

Source

Shales in the rift sequence located within the deep basin to the south. The migration pathway is shorter than Lead 1.

Risk

The areal extent of the prospect, together with the presence of a seal, constitute the principal risks.

VOLUMETRICS

LEAD 7

	ML Values	
Area (km²)	50	
GRV (MM m³)	2,500	Assuming 50m net pay
ML Recoverable Oil	528	

MONTE CARLO

Lead 7	STOIPP	RECOVERABLE OIL
Percentile	MMSTB	MMSTB
90%	1,053	316
50%	1,730	519
10%	2,417	725

Lead 8

Structure

A potential rollover located at the basin margin. The lateral extent of the lead is unknown due to lack of seismic coverage.

Reservoir

Latest Cretaceous sands or Springhill Formation equivalent. A net pay thickness of 20m has been assumed, less than the minimum thickness of the Springhill Formation in the Hydra Field (30m).

Source

Shales in the rift sequence are mature in more basinal areas to the east.

Risk

Uncertainty in the mapped structure, due to the lack of seismic coverage, forms the principal risk.

VOLUMETRICS

LEAD 8

	ML Values	
Area (km ²)	50	
GRV (MM m ³)	1,000	Assuming 20m net pay
ML Recoverable Oil (MMSTB)	211	

MONTE CARLO

Lead 8	STOIP	RECOVERABLE OIL
Percentile	MMSTB	MMSTB
90%	617	185
50%	703	211
10%	793	238

The eight leads are summarised below:

Lead	Type	Water Depth (m)	P50		ML	
			STOIP (MMSTB)	Recoverable Oil (MMSTB)	STOIP (MMSTB)	Recoverable Oil (MMSTB)
1	Basin margin rollover – Lower Cretaceous	410	1,613	484	1,127	338
2	Tilted Fault Block – Upper Cretaceous	900	2,087	626	2,113	634
3	Tilted Fault Block – Upper Cretaceous	1,350	1,753	526	1,410	423
4	Tilted Fault Block – Upper Cretaceous	1,750	1,780	534	1,410	423
5	Tilted Fault Block – Upper Cretaceous	1,125	1,153	346	1,057	317
6	Incised Channel – Tertiary	1,480	1,687	506	1,690	507
7	Basin Floor Fan – Aptian or Albian	1,450	1,730	519	1,760	528
8	Basin margin rollover – Upper Cretaceous	1,800	703	211	703	211
					Total	<u>ca. 2,960</u>

5 Production Profile from Lead 1

For the purposes of producing an indicative pre-tax value of a development in this basin we have selected Lead 1 as this possess a large potential upside volume and is situated in relatively shallow water (<500m) and consequently is the most attractive lead. We have devised a conceptual development scenario and estimated a most likely production profile.

The assumptions used to generate this profile are as follows:

P50 STOIP (MMSTB)	1,613
Recovery factor (%)	30
Ultimate Recoverable Reserves (MMSTB)	484
Drive Mechanism	Water Drive + Water Injection
Number of Producers (Horizontal)	30
Number of Water Injectors (Horizontal)	6
First Oil	1st January 2010
Average Well Production Rate (Mbo/d)	6
Time to drill and complete a well	1 month
Start of Production Drilling Campaign	1st July 2009
End of Drilling Campaign	31st December 2010
Plateau Production Rate (Mbo/d)	150
Field Abandonment Rate	5

The resulting production profile is tabulated below and illustrated on Figure 8.

Year	Oil Production Rate (Mbo/d)	Total Oil Production (MMSTB)	Cumulative Oil Production (MMSTB)
2010	118	43	43
2011	150	55	98
2012	150	55	153
2013	128	47	199
2014	108	40	239
2015	92	34	272
2016	79	29	301
2017	69	25	327
2018	60	22	348
2019	52	19	368
2020	45	17	384
2021	39	14	399
2022	34	13	411
2023	30	11	422
2024	26	19	432
2025	23	8	440
2026	20	7	447
2027	17	6	453
2028	15	6	459

The production profile was generated assuming 30 wells capable of producing 6,000 barrels/day. However, the plateau production rate in the production profile is only 150,000 barrels/day. An excess well capacity of 30,000 barrels/day, or 20% of plateau production, has been built into the production profile to allow for weather-related down time.

Capital Costs

A hypothetical scenario to develop and produce oil from Lead 1 for the purposes of economic modelling is as follows:

Exploration

After shooting 1,500 sq km 3D seismic in 2005 at a cost of US\$7,000/sq km, making a total of US\$11 MM, a deep-water drilling rig will be mobilized (from the Gulf of Mexico to the Falklands) to undertake a 4 well exploration programme with the option to drill up to 3 additional appraisal wells.

The cost of the exploration programme, including mobilisation/demobilisation, appraisal wells and coring/testing etc. is estimated at US\$95 MM for a 7 well program to which must be added a US\$29 MM contingency and a US\$15 MM mobilization/demobilization charge making the total estimated cost of the exploration programme US\$150 MM.

Field Development

The field will be developed by drilling highly deviated/horizontal sub-sea completed wells, tied back to three sub-sea production manifolds and one sub-sea water injection manifold, all connected to a turret moored FPS with offshore loading to ocean going tankers via a CALM buoy. The storage capacity of the FPS is 1,000,000 bbls, sufficient for approximately 7 days production.

Wells

It is assumed two drilling rigs will be mobilized/demobilised from the Gulf of Mexico at a total cost of US\$28 MM.

The field will require a total of 36 wells, 30 producers and 6 water injectors. It is assumed that each well will take approximately 30 days to drill at a cost of US\$140,000/day. A break down of the estimated well costs is shown below:

	US\$ MM	US\$ MM
	Producer	Water Injector
Drilling	4.2	4.2
Well Head	0.2	0.2
Tree	2.25	2.0
Casing, tubing etc.	0.5	0.5
Sub Total	7.15	6.9
Contingency	2.15	2.1
Totals	9.3	9.0

The total estimated cost of the drilling programme is therefore US\$333 MM or approximately US\$350 MM.

Sub-sea Equipment

We estimate 4x12 slot manifolds including flowlines and umbilicals at US\$2.25 MM/well slot making a total of US\$108 MM or US\$140 MM including contingency.

Installation

We estimate US\$5.9 MM per well slot making a total of US\$236 MM, or US\$300 MM including contingency.

FPS

As advised, by SBM Monaco, US\$400 or US\$550 MM including contingency.

CALM buoy

As advised, by SBM Monaco, US\$30 MM or US\$40 MM including contingency.

Shore Base

A small shore base would be required including accommodation for operations staff and transit staff at an estimated cost of some US\$15 MM.

Capital Cost Summary

	US\$ MM
Exploration	150
Development Wells	350
Sub-Sea Equipment	140
Installation	300
FPS	550
CALM Buoy	40
Operations Base	15
TOTAL	1,545

The capital cost to develop the field is US\$3.46 per barrel recovered over the life of the project, which is equivalent to recent developments in offshore Angola and Brazil.

Operating Costs

Operating costs are dominated by the operating cost of the FPS together with CALM Buoy, the well intervention costs and the operation of the Shore Base.

The operating cost of the FPS and CALM buoy are estimated to be in the range US\$50-60,000 per day, or some US\$22 MM per year.

Assuming each well requires regular intervention by a drilling rig for an average of 6 days per year the, total cost for well work over would be of the order of US\$30 MM per year. However, due to the remoteness of the area, and to avoid multiple mobilization/demobilizations, it is assumed that a rig will be held permanently in the area at about US\$51 MM per year.

Due to the remoteness of the area the operation of the Shore Base, including logistics support, insurance and Head Office costs could add an additional US\$25 MM per year to the operating cost.

Allowing for a 30 per cent. contingency the operating costs are summarized below:

	US\$ MM
FPS CALM Buoy	30
Wells	70
Operations Base	35
Total	135

The total annual operating cost is therefore in the range US\$4.98 per barrel recovered over project life, which is similar to many UK North Sea fields.

Economics

The pre tax economics have been evaluated using the CAPEX and OPEX described above and a US\$26/barrel oil price at the CALM Buoy. The post-tax economics have been calculated with reference to the Falkland Islands Government Taxation Office document “Guide for corporation tax in the Falkland Islands for non-resident offshore contractors” and by assuming that royalties are nine per cent. per annum, payable half yearly, and paid in the year in which they are incurred.

In unescalated 2004 US\$ the project generates a positive Net Present Value of US\$2,047 MM (US\$3,002 MM pre tax) when discounting future cash flows at 10 per cent. Increasing the discount factor to 15 per cent. reduces the Net Present Value to US\$1,744 MM (US\$2,619 MM pre tax) as shown in the table below.

Year	Production MMSTB	Revenue US\$ MM	CAPEX US\$ MM	OPEX US\$ MM	Pre tax Cash Flow US\$ MM	Royalty at 9% US\$ MM	Corpor-	Post Tax Cash flow US\$ MM
							ation Tax US\$ MM	
2005	0	0	11	0	(11)	0	0.00	(11.0)
2006	0	0	80	0	(80)	0	0.00	(80.00)
2007	0	0	75	0	(75)	0	0.00	(75.00)
2008	0	0	0	0	0	0	0.00	0.00
2009	0	0	543	0	(543)	0	0.00	(543.00)
2010	43	1,121	836	67.5	217	101	0.00	116.23
2011	55	1,424	0	135	1,289	128	0.00	1,161.27
2012	55	1,424	0	135	1,289	128	192.82	968.45
2013	47	1,211	0	135	1,076	109	217.19	749.64
2014	40	1,029	0	135	894	93	186.86	614.69
2015	34	875	0	135	740	79	159.26	501.82
2016	29	752	0	135	617	68	134.42	415.20
2017	25	655	0	135	520	59	114.27	346.35
2018	22	569	0	135	434	51	97.80	285.39
2019	19	495	0	135	360	45	82.78	233.04
2020	17	431	0	135	296	39	69.20	188.02
2021	14	375	0	135	240	34	56.98	149.25
2022	13	326	0	135	191	29	46.07	115.80
2023	11	284	0	135	149	26	36.35	86.93
2024	9	247	0	135	112	22	27.73	61.97
2025	8	215	0	135	80	19	20.11	40.38
2026	7	188	0	135	53	17	13.39	22.67
2027	6	164	0	135	29	15	7.71	6.96
2028							2.69	(2.69)
Totals	447	11,622	1,545	2,228	7,849	1,046	1,455	5,348
	Net Present Value at 10% discount Rate US\$ MM				3,002			2,047
	Net Present Value at 15% discount Rate US\$ MM				2,619			1,744
	Operating Cost per barrel recovered US\$				4.98			4.98
	Capital Cost per barrel recovered US\$				3.46			3.46
	Net Present Value at 10% discount Rate per barrel recovered US\$				6.72			4.58
	Net Present Value at 15% discount Rate per barrel recovered US\$				5.86			3.90

The project is very robust, reducing the oil price to US\$20/bbl only reduces the Net Present Value at a 10 per cent. discount rate to US\$1,053 MM, whilst increasing CAPEX and OPEX by 30 per cent. does not significantly impact the Net Present Value of the project.

The impact of a delay in production start was also evaluated. Keeping the CAPEX phasing as in the Base Case but delaying both production and OPEX by one and two years does not significantly impact project economics.

The sensitivities evaluated are tabulated below.

Oil Price

Oil Price \$/BBL	20	22	24	26	28	30	32
NPV@10% (US\$ MM)	1,053	1,384	1,716	2,047	2,379	2,710	3,041

CAPEX

CAPEX % Change	(30)	(20)	(10)	0	10	20	30
NPV@10% (US\$ MM)	2,358	2,254	2,151	2,047	1,943	1,840	1,736

OPEX

OPEX % Change	(30)	(20)	(10)	0	10	20	30
NPV@10% (US\$ MM)	1,961	2,186	2,116	2,047	1,977	1,907	1,837

DELAY

Delay Years	2	1	0
NPV@10% (US\$ MM)	1,256	1,634	2,047

6 Conclusions

The South Falkland Basin is a truly unexplored basin with only a reconnaissance type seismic grid currently available from which a number of potentially interesting areas have been identified. FOGL plans to acquire firstly a more detailed 2D grid over these areas and then follow up with 3D seismic over the areas high-graded by the additional 2D data. This procedure is the standard exploration approach that has been pursued consistently and effectively in many frontier areas such as deepwater West Africa.

However, as stated in the introduction, certain requirements for a working petroleum system such as the presence and effectiveness of source rocks cannot be established by seismic alone and require the drilling of wells. Despite this, the presence of the source rocks in neighbouring, similar basins to the east and west is encouraging.

Should the prospects turn out to be of the size that initial indications suggest they may attain, then our scoping economics suggest that they will be eminently economic using already existing technology.

References

Platt N. H. and Philip P. R. 1994. Structure of the southern Falkland Islands continental shelf. Initial results from new seismic data. *Marine and Petroleum Geology*, 12, 759-771.

Richards P. 2001. Falkland Islands: past exploration strategies and remaining potential in underexplored deepwater basins. British Geological Survey.

7 Professional Qualifications

This valuation was carried out by Scott Pickford Ltd. Scott Pickford Ltd is a consultancy specialising in geology, geophysics, petrophysics, petroleum engineering and economic analyses. Scott Pickford Ltd began undertaking reserves reporting and valuation functions in 1996 and all its personnel involved in such exercises have at the very minimum a first degree in geoscience or petroleum engineering and many have masters degrees or doctorates. All personnel have a minimum of five years relevant valuation experience and in the case of the senior project leaders involved in this exercise this period exceeds ten years. Neil Oates as Head of Valuations is fully authorised by Scott Pickford Ltd to supervise and sign off valuation reports on its behalf. Except for the provision of professional services on a fee basis, Scott Pickford Ltd and its employees has no commercial arrangement with any person or company involved in the interests that are the subject of this report.

8 Consent

We confirm that we have given our written consent for the inclusion of our report and to references to our report contained in Part II of the Admission Document and to our name in the Admission Document in the form and context in which they appear and have not withdrawn our consent and we authorise the contents of our report for the purpose of regulation 13(1)(g) of the Public Offers of Securities Regulations 1995 and the 1948 Act (as amended) and accept responsibility for it.

Yours faithfully,

Neil K. Oates, BSc (Mining Geology, University of Nottingham), Ph.D (Geology Department (Engineering Geology), University of Aston-in-Birmingham). Member of the Petroleum Exploration Society of Great Britain.

Head of Valuations

Scott Pickford Ltd

4th Floor, Leon House
233 High Street
Croydon
Surrey CR0 9XT
UK

Appendix A: Definitions

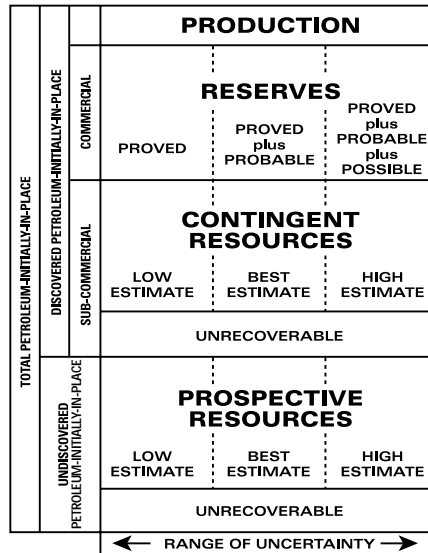
Definitions used in this report are as follows.

“/d”, “PD”	means per day
“API”	means American Petroleum Institute units of specific gravity of liquid hydrocarbon
“bbl” or “b”	means barrel(s)
“bopd” or “bo/d”	means barrels of oil produced per day
“CALM buoy”	buoy for mooring, loading and off-loading oil tanks using a catenary anchor leg mooring system
“DHI”	means direct hydrocarbon indicator
“DSDP”	Deep Sea Drilling Project
“FPSO”	means Floating Production, Storage and Offtake vessel
“GOC”	means gas-oil-contact
“GOR”	means gas:oil ratio
“GRV”	means gross rock volume
“GWC”	means gas-water-contact
“Hydrocarbon”	means oil and/or gas and/or condensate
“Kr”	means relative permeability
“Lead”	means a structure that requires further technical appraisal prior to a decision to drill or not
“M”, “MM”, “B”	means thousands, millions, billions (thousand million) respectively
“mybp”	means millions of years before present
“NPV”	means Net Present Value and is the total present value of a series of cash flows discounted at a specified rate, to a specified date
“ODT”	means oil-down-to
“OWC”	means oil-water-contact
“P10”	means 10% probability that value will be equal to or greater than stated value. Note that where indicative STOIP and reserve volumes are mentioned these are probabilities of volume size if any hydrocarbons are encountered
“P50”	means 50% probability that value will be equal to or greater than stated value. Note that where indicative STOIP and reserve volumes are mentioned these are probabilities of volume size if any hydrocarbons are encountered
“PPL”	Petroleum Production Licence
“Prospect”	means a structure that has been technically evaluated to a state where it is ready to be drilled
“PSC”	Production Sharing Contracts
“PVT”	means pressure – volume – temperature
“RCI”	Formation Pressure Testing Tool (Baker Atlas)

“Reserves”	means potential volume of hydrocarbon that could be commercially produced from a field. Note that all reserves presented in this report are conceptual. Formal reserves cannot be attributed to the prospects at this stage of exploration since the existence of commercially developable hydrocarbon accumulations is conceptual. In all of the prospects there is uncertainty about reservoir presence and quality, hydrocarbon presence and, on the assumption that hydrocarbons are found, their type and the potential well deliverability
“RMS”	means root mean squared
“Sw”	means water saturation (compliment of hydrocarbon saturation)
“s”, “scf”, “SCF”	means standard cubic feet (of gas)
“SPE”	means Society of Petroleum Engineers
“stb”, “STB”	means stock tank barrel(s) measured at 14.7 psia and 60° Fahrenheit
“STOIP”	means stock tank volume of oil initially-in-place, i.e. prior to production
“TOC”	means total organic carbon
“tvdss”	means true vertical depth sub sea
“Vsh”	means volume of shale
“WPC”	means World Petroleum Congress

Reserve and Resource Definitions

The diagram below illustrates the different reserve and resource categories as defined by the SPE and adhered to in this report.



Given below are brief definitions of the main reserve and resource categories.

Proved Reserves

Based on the available evidence and taking into account technical and economic factors these reserves will have a better than 90 per cent. chance of being produced.

Probable Reserves

Based on the available evidence and taking into account technical and economic factors these reserves will have a better than 50 per cent. chance of being produced.

Possible Reserves

Based on the available evidence and taking into account technical and economic factors these reserves will have a better than 10 per cent. chance of being produced.

Contingent Resources

Volumes of hydrocarbon that are potentially recoverable from a known accumulation subject to the formulation of an economic development scheme.

Prospective Resources

The potential volume of hydrocarbon that could be commercially produced from an as yet undiscovered field.

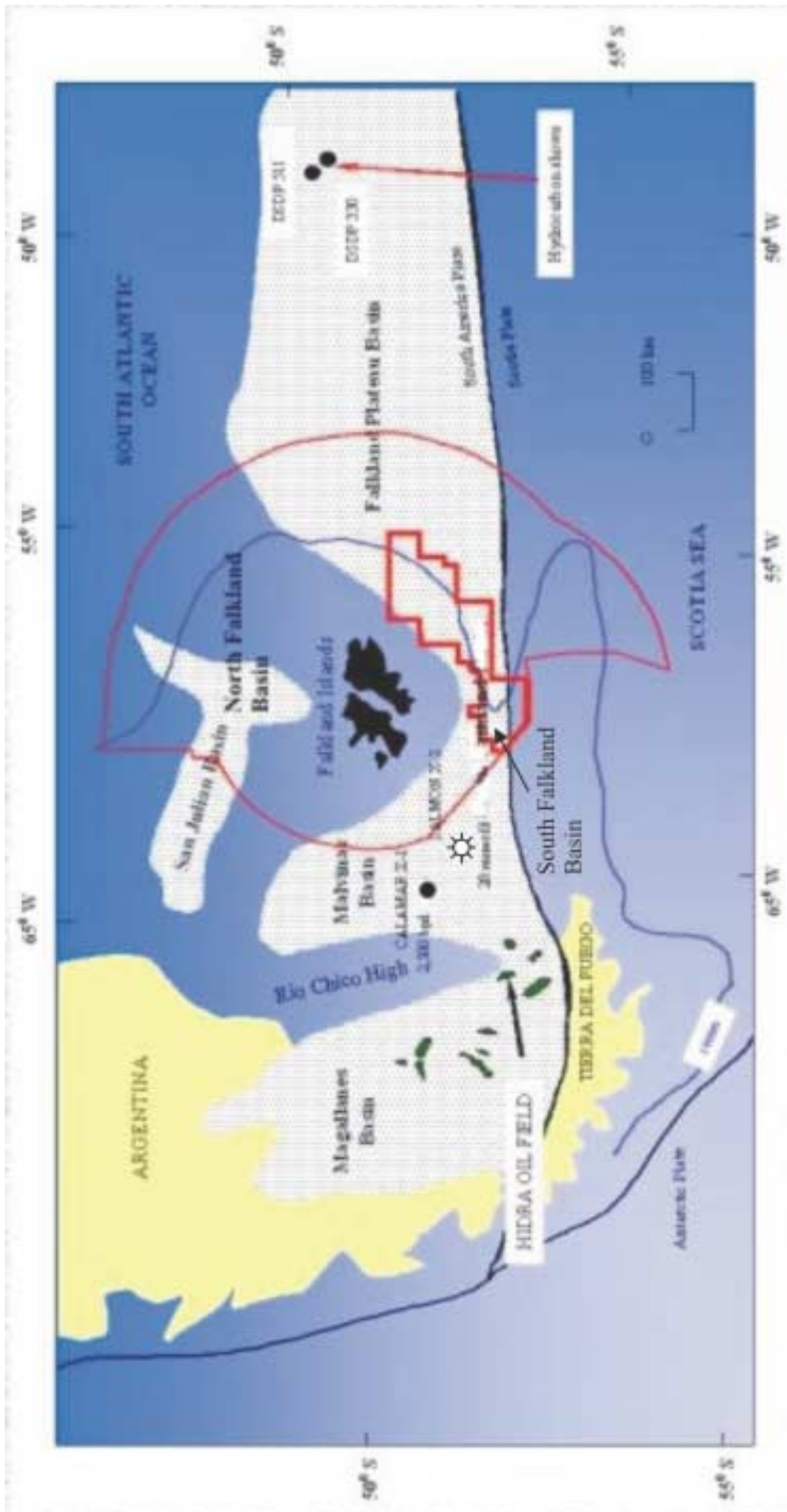


Figure 1: Location of the license blocks (thick red outline), basins and surrounding wells.

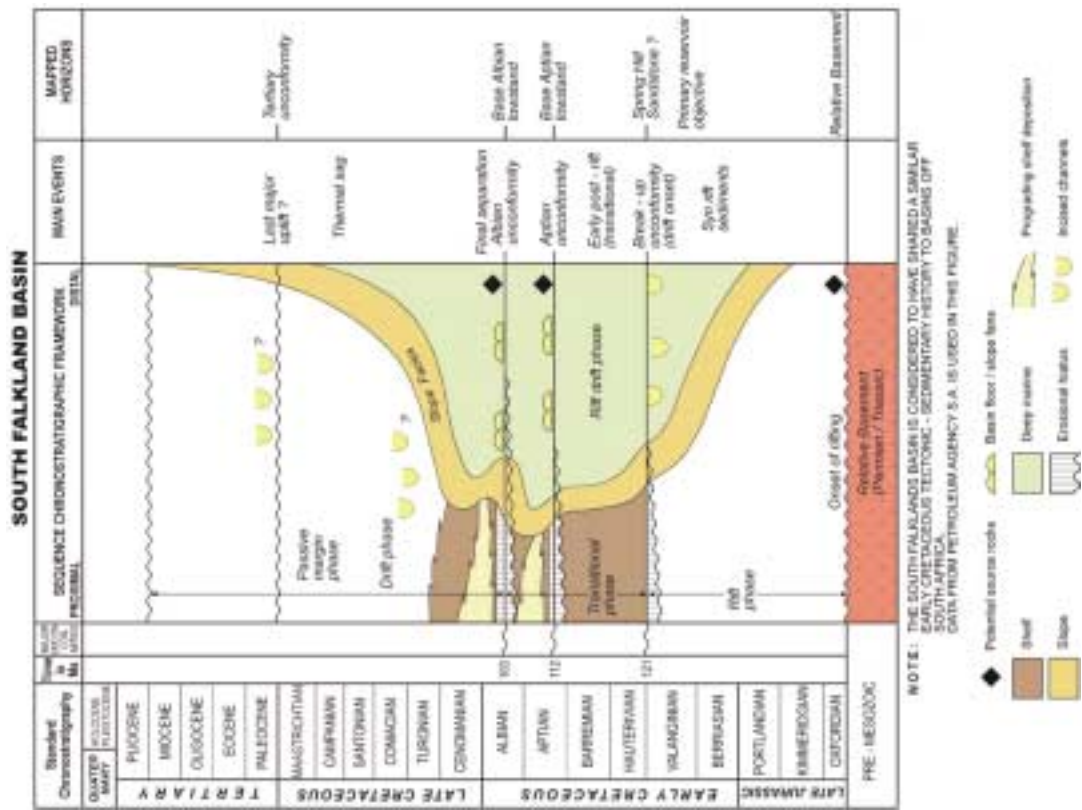


Figure 2: Stratigraphical column for the South Falkland Basin.

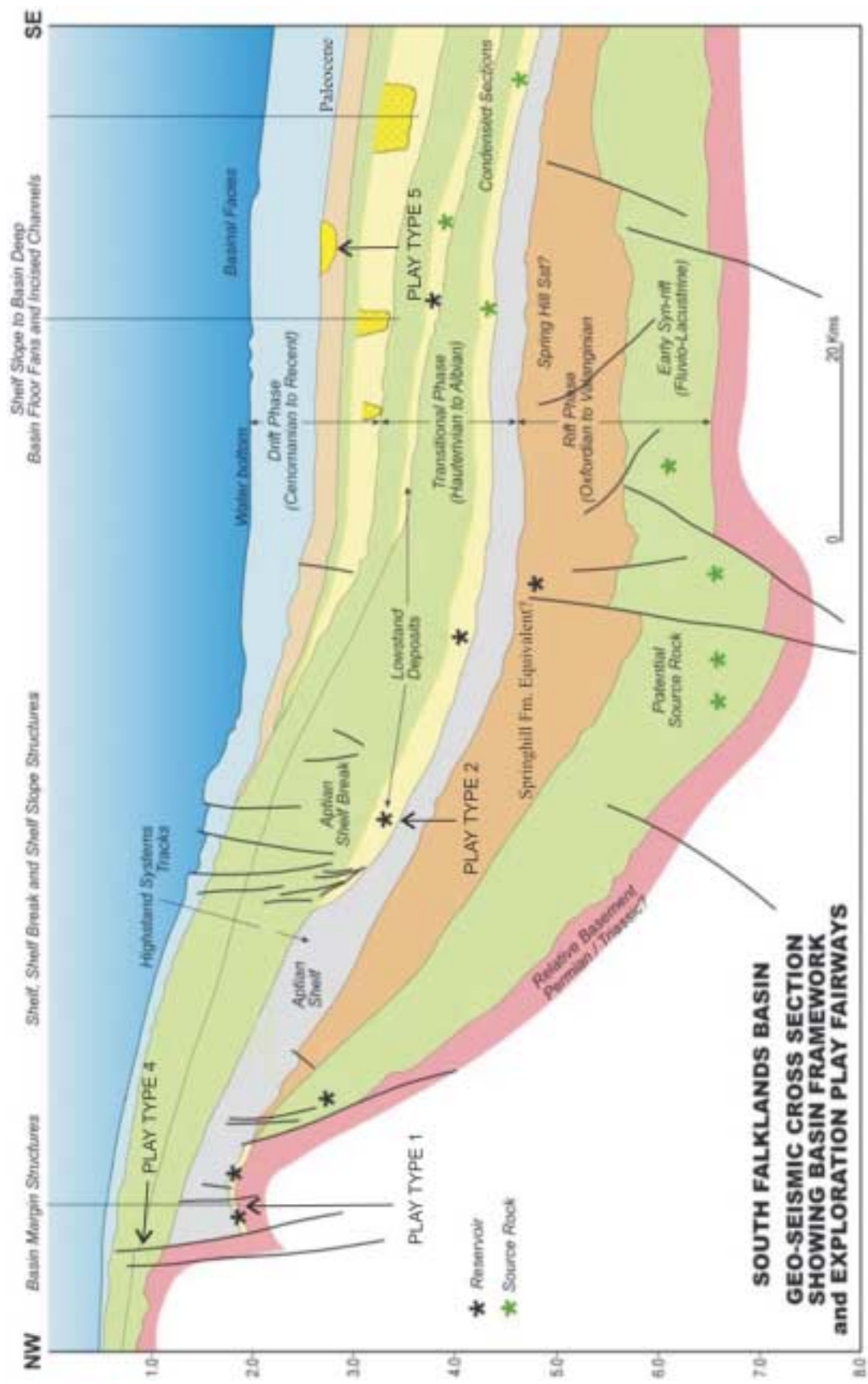


Figure 3: Play types 1, 2, 4 and 5 in the South Falkland Basin. (The location of Play Type 4 is shown, but this section does not show the necessary rollover).

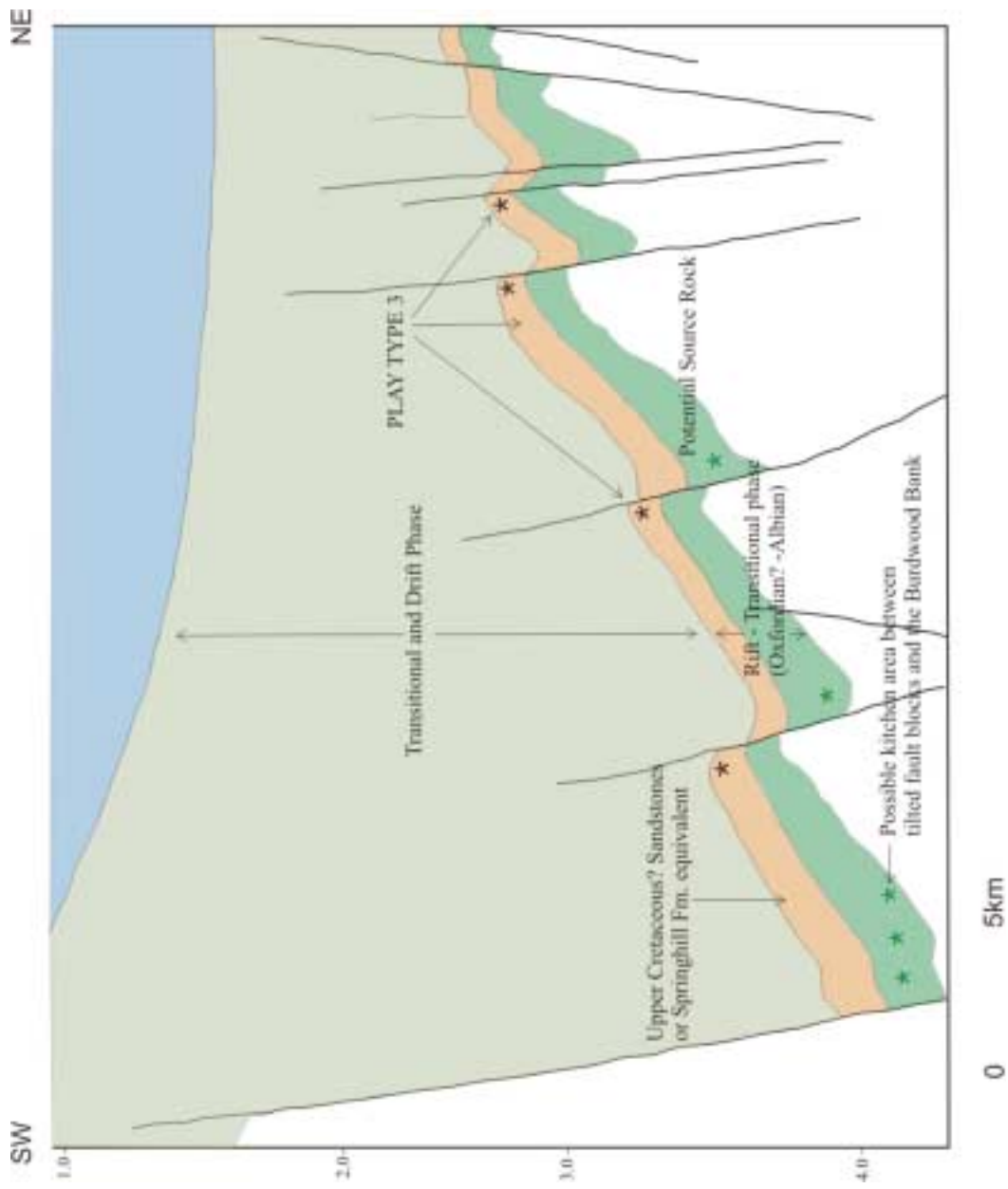


Figure 4: Play type 3 in the South Falkland Basin.

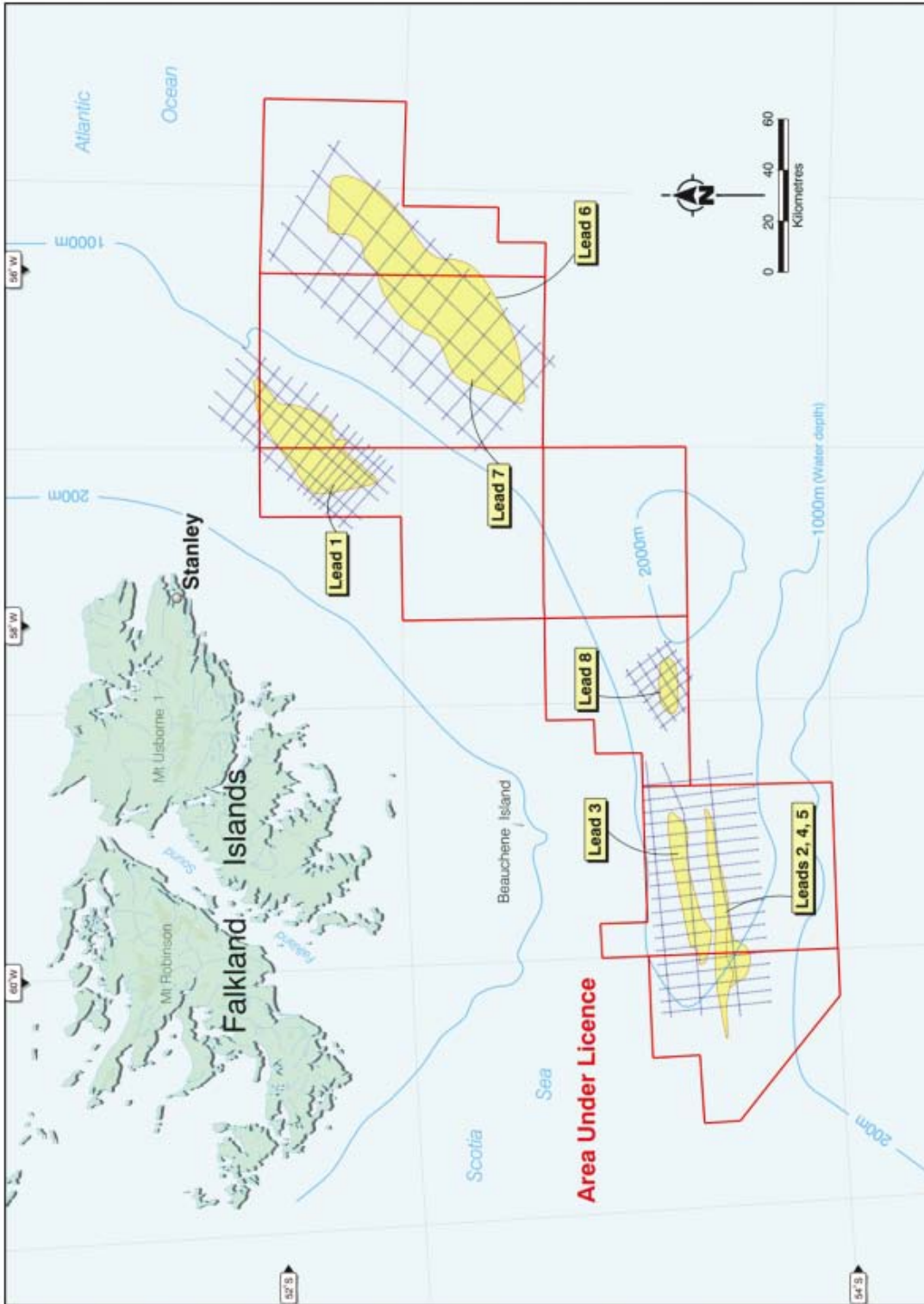


Figure 5: Location of leads and proposed areas of 2004 seismic.

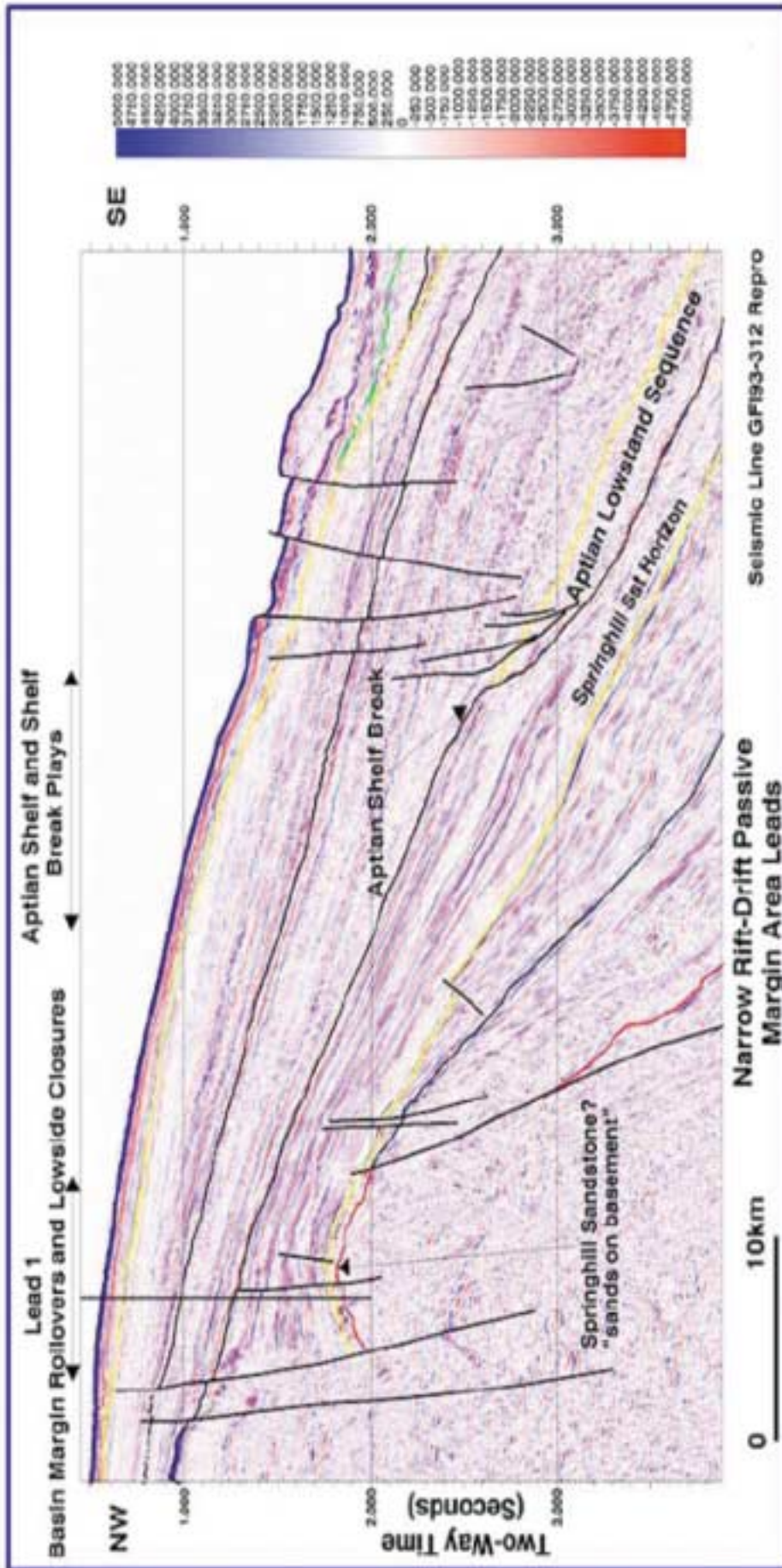


Figure 6: Seismic line GF193-312 illustrating Lead 1.

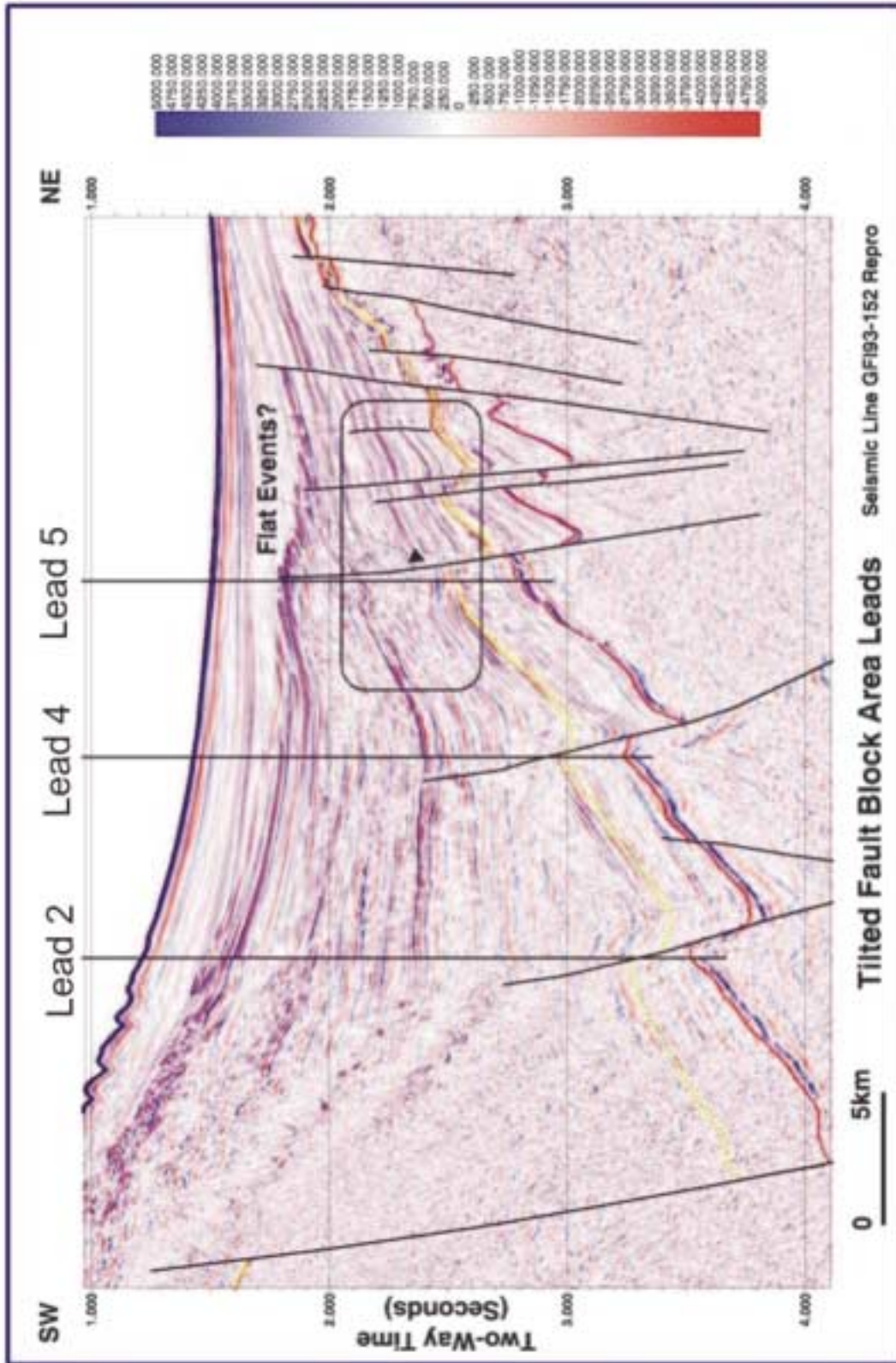


Figure 7: Seismic line GF 193-152 illustrating leads 2, 4 and 5.

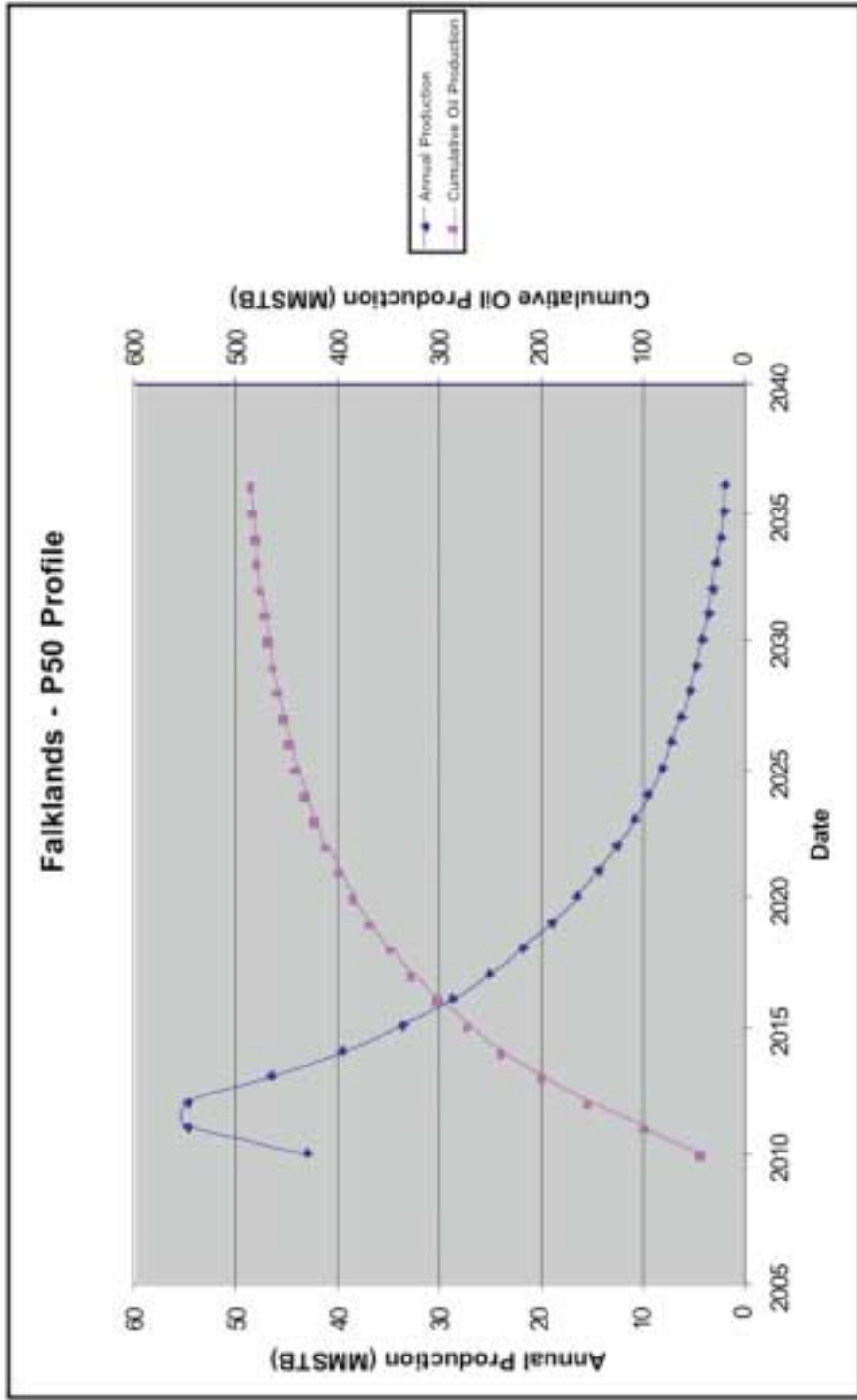


Figure 8: P50 production profile for Lead 1.

PART III

RISK FACTORS

Prospective investors should be aware that an investment in the Company involves a high degree of risk and should only be made by those with the necessary expertise to appraise the investment. The following are considered by the Board to be the main risk factors which could have a material adverse effect on the business, financial condition, results or future operations. The following list is not intended to be exhaustive but it should be considered carefully by prospective investors in evaluating whether to make an investment in the Company in addition to the other information contained in this document.

An investment in the Company is only suitable for financially sophisticated investors who are capable of evaluating the merits and risks of such an investment and who have sufficient resources to be able to bear any losses which may arise therefrom (which may be equal to the whole amount invested).

There can be no certainty that the Company will be able to implement successfully the strategy set out in this document. No representation is or can be made as to the future performance of the Company and there can be no assurance that the Company will achieve its objectives.

Exploration Risk

No oil or gas has yet been discovered in the areas covered by the Licences. There is no certainty that such discoveries will ever be made or that the surveys due to be undertaken this year will justify the undertaking of the further surveys planned for 2005, or that even if the 2005 surveys are undertaken they will justify subsequent drilling.

Oil and gas exploration involves significant risks which even a combination of experience, knowledge and careful evaluation may not be able to overcome. There is no assurance that oil and gas will be discovered or, even if they are, that commercial quantities of oil and/or gas can be recovered from the Company's licence acreage. No assurances can be given that if oil and gas are discovered the Company will be able to exploit such reserves as intended.

Future funding requirements

The Company will need to raise additional funding to undertake work beyond that being funded by the Placing and the Offer. There is no certainty that this will be possible at all or on acceptable terms. In some cases, the Company may finance development by farming out or otherwise reducing its level of participation in interests which it holds. This could substantially dilute the Company's interest in the Licences, however, given the size of the Company's existing holding it would be expected, although there is no guarantee, that the Company will retain a significant equity interest in the Licences.

Drilling and Operating Risks

Oil and gas drilling activities are subject to numerous risks, many of which are beyond the Company's control. The Company's operations may be curtailed, delayed or cancelled as a result of weather conditions, mechanical difficulties, shortage or delays in the delivery of rigs and/or other equipment and compliance with governmental requirements. Drilling may involve unprofitable efforts, not only with respect to dry wells, but also with respect to wells which, though yielding some petroleum, are not sufficiently productive to justify commercial development or cover operating and other costs. Completion of a well does not assure a profit on the investment or recovery of drilling, completion and operating costs. Hazards incident to the exploration and development of oil and gas properties such as unusual or unexpected formations, pressures, oceanographic conditions or other factors are inherent in drilling and operating wells and may be encountered by the Company.

Industry operating risks include the risk of fire, explosions, blow-outs, pipe failure, abnormally pressured formations and environmental hazards such as accidental spills or leakage of petroleum liquids, gas leaks,

ruptures or discharges or toxic gases, the occurrence of any of which could result in substantial losses to the Company due to injury or loss of life, severe damage to or destruction of property, natural resources and equipment, pollution or other environmental damage, clean-up responsibilities, regulatory investigation and penalties and suspension of operations. Damages occurring as a result of such risks may give rise to claims against the Company which may not be covered, in whole or part, by insurance (see below).

Market Risk

The marketability of any oil and gas discovered will be affected by numerous factors beyond the control of the Company. These factors include market fluctuations, proximity and capacity of oil and gas pipelines and processing equipment and government regulations including regulations relating to taxation, royalties, allowable production, importing and exporting of oil and gas, and environmental protection.

Insurance Risks

The Company plans to insure its operations in accordance with industry practice and plans to insure the risks it considers appropriate for the Company's needs and for its circumstances. Insurance cover will not be available for every risk faced by the Company.

Although the Company believes that it or the operator should carry adequate insurance with respect to its operations in accordance with industry practice, in certain circumstances the Company's or the operator's insurance may not cover or be adequate to cover the consequences of such events. In addition the Company may be subject to liability for pollution, blow-outs or other hazards against which the Company or the operator may elect not to insure because of high premium costs or other reasons. The occurrence of an event that is not covered or fully covered by insurance could have a material adverse effect on the business, financial condition and results of operations of the Company.

There is a risk that insurance premiums may increase to a level where the Company considers it is unreasonable or not in its interests to maintain insurance cover or not to a level of coverage which is in accordance with industry practice. In addition, the Company may, following a cost-benefit analysis, elect to not insure certain risks on the ground that the amount of premium payable for that risk is excessive when compared to the potential benefit to the Company of the insurance cover.

Ability to Exploit Successful Discoveries

It may not always be possible for the Company to participate in the exploitation of any successful discoveries which may be made in any areas in which the Company has an interest. Such exploitation will involve the need to obtain the necessary licences or clearances from the relevant authorities, which may require conditions to be satisfied and/or the exercise of discretions by such authorities. It may or may not be possible for such conditions to be satisfied. In addition, the decision to proceed to further exploitation may require the participation of other companies whose interests and objectives may not be the same as the Company. As described above, such further work may require the Company to meet or commit to financing obligations for which it may not have planned.

Commercial Risks

Even if the Company recovers quantities of oil or gas, there is a risk the Company will not achieve a commercial return. The Company may not be able to transport the oil or gas to commercially viable markets at a reasonable cost or may not be able to sell the oil or gas to customers at a price and quantity which would cover its operating and other costs.

Competition Risks

Some of the Company's competitors, including major oil companies, have greater financial and other resources than the Company and, as a result, may be in a better position to compete for future business opportunities.

Many of the Company's competitors not only explore for, and produce oil and gas, but also carry out refining operations and market their petroleum and other products on a worldwide basis. There can be no assurance that the Company can compete effectively with these companies.

No Profit to Date

The Company has incurred losses since its inception and it is therefore not possible to evaluate its prospects based on past performance. Since the Company intends to continue investing in the project it currently holds an interest in, the Directors anticipate making further losses for the foreseeable future.

There can be no certainty that the Company will achieve or sustain profitability or achieve or sustain positive cash flow from its activities.

Joint Venture Parties and Contractors

The Directors are unable to predict the risk of (i) financial failure of non compliance with respective obligations or default by a participant in any joint venture to which the Company is, or may become, a party; (ii) insolvency or other managerial failure by any of the contractors used by the Company in its exploration activities; or (iii) insolvency or other managerial failure by any of the other service provider used by the Company for any activity.

Environmental Risks

The Company's operations are subject to the environmental risks inherent in the exploration industry. The Company is subject to environmental laws and regulations in connection with all of its operations. Although the Company believes that it intends to be in compliance in all material respects with all applicable environmental laws and regulations, there are certain risks inherent to its activities, such as accidental spills, leakages or other circumstances, that could subject the Company to extensive liability.

Further, the Company may require approval from the relevant authorities before it can undertake activities which are likely to impact the environment. Failure to obtain such approvals will prevent the Company from undertaking its desired activities. The Company is unable to predict the effect of additional environmental laws and regulations which may be adopted in the future, including whether any such laws or regulations would materially increase the Company's cost of doing business or affect its operations in any area.

Payment Obligations

Under the Licences and certain other contractual agreements to which the Company is, or may in the future become, a party, the Company is, or may become, subject to payment and other obligations. If such obligations are not complied with when due, in addition to any other remedies which may be available to other parties, this could result in dilution or forfeiture of interests held by the Company. The Company may not have, or be able to obtain, financing for all such obligations as they arise.

Corporate and Regulatory Formalities

The conduct of petroleum operations and the steps involved in the Company acquiring its current interests involve or have involved the need to comply with numerous procedures and formalities. It may not in all cases be possible to comply with or obtain waivers of all such formalities.

Volatility of Prices of Oil and Natural Gas

The demand for, and price of, oil and natural gas is highly dependent on a variety of factors including international supply and demand, the level of consumer product demand, weather conditions, the price and availability of alternative fuels, actions taken by governments and international cartels, and global economic and political developments. International oil prices have fluctuated widely in recent years and may continue to fluctuate significantly in the future. Fluctuations in oil and natural gas prices and, in particular, a material decline in the price of oil or natural gas may have a material adverse effect on the Company's business, financial condition and results of operations assuming production is achieved from the Licences. Oil and gas prices could affect the viability of exploring and/or developing the Company's interests.

Currency Risk

The Company will report its financial results in Sterling, while many contracts in the oil and gas industry are principally denominated in United States Dollars.

Dependence on key personnel

In common with other services and businesses in this industry sector, the Company's business is dependent on retaining the services of a small number of key personnel of the appropriate calibre as the business develops. The success of the Company is, and will continue to be to a significant extent, dependent on the expertise and experience of the Directors and senior management and the loss of one or more could have a materially adverse effect on the Company.

Economic, political, judicial, administrative, taxation or other regulatory factors

The Company may be adversely affected by changes in economic, political, judicial, administrative, taxation or other regulatory factors, in the areas in which the Company will operate and holds its major assets. For example, the Falkland Islands Government may not give permission to carry out the proposed 3-D seismic programme in 2005 or may not give permission to a future assignment/farm-out of the whole or part of the Licences by the Company. There may be other unforeseen matters such as disputes over borders. Investors will be aware that the Falkland Islands were, in 1982, the subject of hostilities between the United Kingdom and Argentina.

The Argentine Government has not relinquished all its claims in relation to the Falkland Islands. However, the position of the UK and Falkland Islands Governments is that the United Kingdom has no doubt about its sovereignty over the Falkland Islands, South Georgia and the South Sandwich Islands and the surrounding maritime areas. Her Majesty's Government remains fully committed to the offshore prospecting policy pursued by the Falkland Islands Government, as laid out in the Offshore Petroleum (Licensing) Regulations 2000. This policy is entirely consistent with Her Majesty's sovereign rights over the Falkland Islands.

Share price volatility and trading basis

The Shares are not listed on the Official List and although the Shares are to be traded on AIM, this should not be taken as implying that there will be a liquid market in the shares. A return on investment in the Shares may, therefore, in certain circumstances be difficult to realise. The price at which the Shares may trade and the price which investors may realise for their Shares will be influenced by a large number of factors, some specific to the Company and some which may affect quoted companies generally. These factors could include the performance of the Company's operations, large purchases or sales of shares, liquidity (or absence of liquidity) in its shares, currency fluctuations, legislative or regulatory changes and general economic conditions. The value of the Shares will therefore fluctuate and may not reflect their underlying asset value.

Application has been made for the Shares, issued and to be issued pursuant to the Placing and the Offer, to be traded on AIM. AIM is a market designed primarily for emerging or smaller companies. The rules of this market are less demanding than those of the Official List. Neither London Stock Exchange nor the UK Listing Authority has itself examined this document for the purposes of Admission.

Investment Risk

Prospective investors should be aware that the value of an investment in the Company may go down as well as up. In addition, there can be no certainty that the market value of an investment in the Company will fully reflect its underlying value.

Taxation

The attention of potential investors is drawn to paragraph 11 of Part VI headed "United Kingdom Taxation" and paragraph 12 "Falkland Islands Taxation". The tax rules, including stamp duty provisions, and their interpretation relating to an investment in the Company may change during the life of the Company as may the tax residence of the Company.

The levels of, and reliefs from, taxation may change. The tax reliefs referred to in this document are those currently available and their value depends on the individual circumstances of investors. Any change in the Company's tax status or the tax applicable to holding Shares or in taxation legislation or its interpretation, could affect the value of the investments held by the Company, affect the Company's ability to provide returns to shareholders and/or alter the post-tax returns to shareholders. Statements in this document concerning the taxation of the Company and its investors are based upon current tax law and practice which is subject to change.

In addition, the taxation regime applicable in the Falkland Islands may change and could have an adverse impact on the after-tax profits available to the Company in the future.

PART IV

ACCOUNTANTS' REPORT

The following is the text of a report received from the Company's reporting accountants:



The Directors
Falkland Oil and Gas Limited
56 John Street
Falkland Islands

KPMG LLP
8 Salisbury Square
London
EC4Y 8BB

The Directors
KBC Peel Hunt Ltd
111 Old Broad Street
London EC2N 1PH

30 September 2004

Dear Sirs

Falkland Oil and Gas Limited

We report on the financial information set out below. This financial information has been prepared for inclusion in the Prospectus ("Prospectus") dated 30 September 2004 of Falkland Oil and Gas Limited ('the Company').

Basis of preparation

The financial information set out below is based on the audited financial statements of the Company for the period from incorporation to 31 August 2004 prepared on the basis described in note 1 to which no adjustments were considered necessary.

Responsibility

Such financial statements are the responsibility of the Directors who approved their issue.

The Directors are responsible for the contents of the Prospectus dated 30 September 2004 in which this report is included.

It is our responsibility to compile the financial information set out in our report from the financial statements, to form an opinion on the financial information and to report our opinion to you.

Basis of opinion

We conducted our work in accordance with the Statements of Investment Circular Reporting Standards issued by the Auditing Practices Board of the United Kingdom. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. It also included an assessment of significant estimates and judgements made by those responsible for the preparation of the financial statements underlying the financial information and whether the accounting policies are appropriate to the entity's circumstances, consistently applied and adequately disclosed.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the

financial information is free from material misstatement whether caused by fraud or other irregularity or error.

Opinion

In our opinion the financial information gives, for the purposes of the Prospectus, a true and fair view of the state of affairs of Falkland Oil and Gas Limited as at the date stated and of its result and cash flows for the period then ended.

We consent to the inclusion in the Prospectus dated 30 September 2004 of this report and accept responsibility for this report for the purposes of paragraph 45 (1)(b)(iii) of Schedule 1 of the Public Offers of Securities Regulations 1995.

**Profit and loss account
for the 3 month period ended 31 August 2004**

	<i>Notes</i>	<i>3 month period ended 31/08/04 £</i>
Administrative expenses		(25,908)
Operating loss		(25,908)
Interest income	2	21
Loss on ordinary activities before taxation		(25,887)
Tax on loss on ordinary activities	3	–
Loss on ordinary activities after taxation		(25,887)
Loss for the period		(25,887)

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

**Balance sheet
at 31 August 2004**

	<i>Notes</i>	<i>£</i>	<i>31/08/04</i> <i>£</i>
Fixed assets			
Intangible assets	4		623,937
Current assets			
Cash at bank and in hand		2,053,391	
		<u>2,053,391</u>	
Creditors: amounts falling due within one year	5	<u>(5,701)</u>	
Net current assets			<u>2,047,690</u>
Net assets			<u>2,671,627</u>
Capital and reserves			
Called up share capital	6		1,000
Share premium account	7		2,696,514
Profit and loss account	7		<u>(25,887)</u>
Shareholders' funds			<u>2,671,627</u>

**Cash flow statement
for the 3 month period ended 31 August 2004**

	<i>Period ended 31/8/04 £</i>
Cash flow statement	
Net cash outflow from operating activities	(20,207)
Returns on investments and servicing of finance	
Interest received	21
Capital expenditure	
Payments to acquire intangible assets	(41,765)
Cash outflow before financing	(61,951)
Financing-	
Issue of shares for cash	2,115,342
Increase in cash in the period	<u>2,053,391</u>
Reconciliation of operating loss to net cash outflow from operating activities	
Operating loss	(25,908)
Increase in trade creditors and accruals	5,701
Net cash outflow from operating activities	<u>(20,207)</u>

**Reconciliation of movements in shareholders' funds
for the 3 month period ended 31 August 2004**

	<i>3 month period ended 31/8/04 £</i>
Loss for the financial period	(25,887)
New share capital subscribed (net of issue costs)	<u>2,697,514</u>
Net addition to/(reduction in) shareholders' funds	2,671,627
Opening shareholders' funds	—
Closing shareholders' funds	<u>2,671,627</u>

**Notes to the financial statements
for the period ended 31 August 2004**

1. Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material to the financial statements.

1.1. Basis of preparation

The financial statements are prepared in accordance with United Kingdom applicable accounting standards and under the historical cost convention on a going concern basis. The financial statements fall within the scope of the UK Oil Industry Accounting Committee's Statement of Recommended Practice "Accounting for Oil and Gas Exploration, Development, Production and Decommissioning Activities" and have been prepared in accordance with its provisions.

1.2. Capitalisation of oil and gas expenditure

The company applies the full-cost method of accounting under which all expenditure relating to the acquisition, exploration, appraisal and development of oil and gas interests, including an appropriate share of overheads, is capitalised. Capitalised costs are amortised on a unit of production basis. The board regularly reviews the carrying values of intangible assets and writes down capitalised expenditure to levels it considers to be prudent. If no discoveries are made, the accumulated capitalised costs will be written off through the profit and loss account.

1.3. Deferred taxation

The charge for taxation is based on the results for the year and takes into account taxation deferred because of timing differences between the the treatment of certain items for taxation and accounting purposes. Full provision is made for the tax liability on all timing differences in accordance with FRS 19. Deferred tax balances are not subject to discounting.

1.4. Foreign currencies

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the rates of exchange prevailing at the balance sheet date. Transactions in foreign currencies are translated at the exchange rate ruling at the date of the transaction. Exchange differences are taken to the Profit and Loss account.

2. Interest income

	<i>3 month period ended 31/08/04</i>
	£
Bank interest	21

3. Taxation

Factors affecting the tax charge for the current period

The current tax charge for the period is lower than the standard rate of corporation tax in the UK (30%). The differences are explained below.

	<i>3 month period ended 31/08/2004</i>
	£
<i>Current tax reconciliation</i>	
Profit on ordinary activities before tax	(25,887)
Current tax at 30%	(7,766)
<i>Effects of:</i>	
Expenses not deductible for tax purposes	–
Tax losses carried forward	5,170
Pre-trading expenses carried forward	2,596
Total current tax charge	–

Factors that may affect future current and total tax charges

The Company has tax losses carried forward on which no deferred tax asset is recognised. This may affect future tax charges should the Company produce taxable profits in future periods.

4. Intangible fixed assets

	<i>Exploration and appraisal costs</i>	<i>Total</i>
	£	£
Cost		
Additions	623,937	623,937
At 31 August 2004	623,937	623,937
Net book value		
At 31 August 2004	623,937	623,937

5. Creditors: amounts falling due within one year

	<i>31/08/04</i>
	£
Trade creditors	148
Accruals	5,553
	5,701

6. Share capital

	31/08/04
	£
Authorised	
2,000 Ordinary shares of £1 each	2,000
	<hr/>
Allotted, called up and fully paid	
1,000 Ordinary shares of £1 each	1,000
	<hr/>

7. Reserves

	<i>Share premium account</i>	<i>Profit and loss account</i>	<i>Total</i>
	£	£	£
Premium on issue of shares	2,696,514		2,696,514
Loss for the period		(25,887)	(25,887)
At 31 August 2004	<hr/> 2,696,514	<hr/> (25,887)	<hr/> 2,670,627

8. Commitments

Commitments at the balance sheet date were as follows:

- (a) The company has entered into a joint venture agreement with Hardman Resources Limited whereby it agreed to fund 80 per cent. of the expenditure on joint operations. To date the maximum agreed joint venture expenditure is US\$4,500,000.
- (b) The company has entered into a Seismic Agreement with ECL Pty Ltd for the provision of consulting services in relation to an offshore seismic programme in the Falkland Islands. The total commitment is for US\$82,500.
- (c) The company has assumed its participating interest share (77.5 per cent.) of amounts which may be payable in the future under an agreement between the original joint venture participants and a seismic contractor for the acquisition of seismic data. That agreement provides for payment to the contractor of potential bonuses up to a further US\$1,650,000. The potential total amount payable by the company under this commitment is US\$1,278,750.

9. Related party transactions

Management fees of £8,654 were paid to Dampier Oil Limited, a shareholder in the company, during the period. £7,291 was paid to Law Strategies Pty Ltd, a company controlled by Peter Dighton, from his appointment as a director of the company until 31 August 2004.

10. Post balance sheet events

On 29 September 2004, a resolution was passed to subdivide the share capital of the Company into 100,000,000 ordinary shares of 0.002p each and to increase the authorised share capital from £2,000 to £2,400 by the creation of an additional 20,000,000 ordinary shares of 0.002p each.

Dampier Oil Limited (the operator of the joint venture between the Company and Hardman) has engaged Geophysical Service Incorporated ("GSI") on behalf of the joint venture to undertake a non-exclusive 2D seismic survey in the Production Licence areas. The total lump sum contract value is US\$3,250,000, although the actual final cost will depend on the number of kilometers ordered by Dampier and the line length of the kilometers.

Yours faithfully

KPMG LLP

PART V

SUMMARY OF CERTAIN FALKLAND ISLANDS LEGISLATION, THE LICENCES AND THE JOINT OPERATING AGREEMENT

Section A – LEGISLATION

THE FALKLAND ISLANDS FISCAL SYSTEM

The following is intended as a general guide and is based on the Directors' understanding of current Falkland Islands law.

The Directors believe that the Falkland Islands Government is committed to ensuring that the overall tax system remains attractive and conducive to future investment.

The Falkland Islands Government petroleum fiscal system comprises an acreage rental that will be imposed during the exploration phases, followed by a revenue-based royalty on production and includes a profits and gains based corporation tax. There are no signature bonuses, back-in rights, local market discounts or production sharing elements to the fiscal system. The regime is predominantly profits based and the Directors believe that the Government is committed to ensuring that the overall tax system remains attractive and conducive to attracting future investment.

THE LICENSING REGIME

Exploration for petroleum on the Falkland Islands Continental Shelf is governed by Falkland Islands law. The provisions of the various ordinances and regulations are entirely independent of UK laws and regulations, although largely based on them. The regulations that apply to the Falkland Islands designated exploration area are outlined below.

Falkland Islands Designated Exploration Area

This covers over 400,000 sq km, and is therefore an area approximately 50 per cent. larger than the UK North Sea. The area is based on a pre-existing fisheries conservation zone; the western boundary of the area being more or less coincident with the eastern limits of the Argentine Exclusive Economic Zone.

The designated area is subdivided into quadrants based on one degree of latitude by one degree of longitude, each of which is subdivided into thirty blocks. The numbering system used for the quadrants and blocks is similar to that in the UK North Sea, and wells are numbered in a similar fashion; for example, 14/09-1 refers to the first well in Quadrant 14, Block 09.

Licences for exploration and development activities in the designated exploration area

Three types of licence are available for hydrocarbon exploration work in the designated exploration area. In general terms, exploration licences allow the collection of remote sensing data (eg. seismic) but do not allow drilling or production ("Exploration Licences"); while the two types of Production Licences allow exploration (the search for oil and gas via seismic), and extraction (production) of petroleum. Differences between the two types of Production Licences also relate to whether they are awarded through competitive licensing rounds or through open-door licensing.

Exploration Licences

Exploration Licences can be granted by the Governor, under the Offshore Minerals Ordinance 1994, subject to Model Clauses in the Offshore Petroleum (Licensing) Regulations 1995 and the Petroleum Survey Licences (Model Clauses) Regulations 1992; these clauses can be varied by the Governor at his discretion where this is agreed with the licensee.

These licences are designed primarily to allow service/specialist exploration companies to acquire speculative and/or proprietary seismic, gravity, magnetic, geochemical and sea-bed data. Exploration

Licences are not area specific and, dependent on the details contained within the individual licences, can apply to all of the Designated Area: exceptions to this rule of applicability are that no exploration survey may be undertaken within the boundaries of a Production Licence area without the consent of the licensee, and that the licence will not extend into that part of the designated area incorporated within the Special Area of Cooperation to the southwest of the Falkland Islands unless by prior agreement of the Joint Commission that oversees activity in that area.

There is a requirement that all service and/or specialist exploration companies contracted by Production Licence holders to acquire proprietary data within the geographic limits of their Production Licence area must independently hold an Exploration Licence. However, Production Licence holders do not require an Exploration Licence unless they intend to conduct surveys themselves outside the confines of their Production Licence areas.

All surveys to be conducted under an Exploration Licence must be notified to the Director of Mineral Resources at least 30 days in advance of operations starting. Holders of Exploration Licences are required to supply copies of all data to the Governor (or more usually to the British Geological Survey). All data will be held in confidence by the Falkland Islands Government for a period of five years (or longer as determined by negotiation) but may then be released to the public.

Production Licences

Production Licences can be granted by the Governor, under the Offshore Minerals Ordinance 1994, and in the case of open door Production Licences incorporate Model Clauses from the Offshore Petroleum (Licensing) Regulations 2000. Work practices under both competitive and open-door Production Licences are governed to some extent by specific clauses of the licence and by Petroleum Operations Notices issued from time to time by the Department of Mineral Resources. Awards in the first competitive licensing round (1996) were made on a discretionary basis in similar fashion to the award of licences in the UK.

Production Licences permit the search for and extraction of petroleum, are area-specific and provide exclusive rights within that area. The licence holders must appoint an operator acceptable to the Governor, and that operator must organise, supervise and be responsible for all activities. The operator is not allowed to commence, abandon or recommence the drilling of or completion for development of any well without the consent of the Governor. Good oilfield practices must be observed at all times. Licence holders must comply with additional conditions to the licences as detailed in Petroleum Operations Notices issued from time to time by the Government. Production Licence regulations require the holder to supply copies of all data to the Governor (or more usually to the British Geological Survey). All data will be held in confidence by the Falkland Islands Government for a period of five years but may then be released to the public.

Production Licence holders require an Exploration Licence to conduct work outside the geographical limits covered by any of their Production Licences, but do not require an Exploration Licence to conduct work themselves within the Production Licence's geographical limits. However, should the Production Licence holder appoint a third party contractor to acquire exploration data on their behalf within the area covered by the Production Licence, the contractor must hold an Exploration Licence in their own right. No Licence or interest in a Licence may be assigned without the permission of the Governor.

The Company and Hardman's seven Production Licences were acquired under the open-door system rather than under competitive bidding.

Open-door Production Licences

All acreage not already covered by an existing or relinquished Production Licence, but excluding the special co-operation area, is available for the award of Production Licences as part of the open-door system. However, acreage will not be licensed in environmentally sensitive areas or within twelve miles of the coastlines of the Falkland Islands. These licences can be maintained for a total period of up to eight years for exploration, a further five years for appraisal drilling/development planning after a discovery has been notified, and then for 35 or more years for exploitation purposes. The exploitation phase may be started only after the approval, by the Governor, of a development plan, which can be submitted for approval at any time.

Licence assignments

There is no general requirement that licensees should be companies incorporated in the Falkland Islands. Licensees will be required to appoint an approved local person as their agent for the service of process and other communications and to form a ready channel between the Falkland Islands Government and the licensee. Before Production Licence holders enter into production they will be required to register as companies doing business in the Falkland Islands and to establish an office in the Islands. They will in any event be liable to Falkland Islands tax in relation to oil revenues from the Designated Area as if they had a permanent establishment in the Falkland Islands.

Although a licensee requires specific consent from the Falkland Islands Government to assign any interest or right in a licence, the Government has stated on its website that it will not exercise its powers under the relevant provisions to frustrate the proper development of an oilfield or the enjoyment by the licensee of the fruits of the licence, rather it will seek to ensure that the purpose for which a licence is granted is fully safeguarded by any transaction that requires the Government's consent. Every application for consent to a disposal or other transaction will be considered by the Government on its merits. It will in particular consider: (a) the technical and financial capabilities of the company acquiring an interest and its intentions as regards further exploration and exploitation; (b) if the application is made during the exploration period, whether satisfactory progress has been made by the original licensee(s) on the original work programme; and (c) the number of licensees under the licence and the effect of any increase on efficient management of activity.

FACTORS AFFECTING EXPLORATION IN THE FALKLANDS

The Offshore Minerals Ordinance 1994 contains a number of provisions in relation to the protection of the environment, as does the Marine Environment (Protection) Ordinance 1995. Further provisions designed to protect the environment are set out in individual production licences.

The climate of the Falkland Islands is similar to that of north-east Scotland. The Islands are located at approximately 52° south latitude, a similar latitude south as London is north. Winters tend not to be as severe as in some parts of the UK but they are longer. Summers are not quite as warm as in the UK but the Falkland Islands on average enjoy more hours of sunshine than the South of England.

The offshore climate favours exploration for most months of the year. Past experience of seismic surveying in the area suggests that the amount of weather down-time may vary with locality as well as season. Drilling, however, can take place all year round. The water depths in the Company's Licences ranges from 410m to 1,800m and the oil exploration and production industry has successfully operated in such conditions.

Restrictions due to fishing are imposed on exploration. Significant stocks of Illex and Loligo squid are fished in Falklands waters. Finfish are also trawled in substantial quantities. The Illex squid shoals in particular are migratory and are fished from January to June by jigging vessels in large fleets. The Illex are fished to the north and north-west of the Islands while the Loligo are fished to the south and the south-east. The Illex squid and the restrictions relating to them are not relevant to the Company's Licences. The sale of fishing licences provides the largest single source of income for the Falkland Islands.

Priority is given to the fishing fleets over seismic fleets for short periods and the following restrictions are placed on geophysical survey activities around the Islands:

- no surveying is allowed within 12 miles of the coastline unless by special arrangement on an individual case basis;
- Loligo squid move offshore in January and remain in offshore feeding grounds until October. Therefore, operations in areas to the north of 53°15'S and where the water depth is less than 400 metres should ideally take place between mid-October and mid-January. Applications to conduct seismic surveys in these areas outside this period will be considered on a case by case basis, but approval is only likely to be given in exceptional circumstances.

The Company proposes that a 3D seismic survey will commence later in 2005, subject to weather and the availability of a suitable seismic vessel. The Company believes the proposed work areas are not affected by

these restrictions, because each area is either too far south or the water is deeper than 400m, or both. Nevertheless the Company has been consulting, and will continue to consult, with the relevant Falkland Island authorities and is working on a seismic acquisition schedule which minimizes any potential impact on the Loligo squid.

Care has to be exercised by all operators during seismic acquisition to ensure that no damage is done to the potential catch of the fishing fleets.

The Falkland Islands are a haven for many wildlife species. All marine mammals are protected under the Marine Mammals Protection Ordinance 1992. Some parts of the coastline and many of the small islands are designated as protected areas. In addition there are numerous wrecks in inshore waters dating back to the last century when the Falklands played an important role as a repair port for ships damaged while rounding Cape Horn.

Section B – LICENCES

The ten licences initially awarded to the Dampier, Hardman and FIC were Petroleum Production Licences PL 008 to PL 017. PL 008, PL 009 and PL 017 have been relinquished, together with ten blocks in PL012, 12 blocks in PL 013 and 15 blocks in PL 017.

As a result, the Company has a 77.5 per cent. interest in seven production licences all dated 3 July 2002 and originally granted to Dampier, Hardman and FIC and now held by the Company and Hardman (the “Licensees”). Certain terms of the Licences were varied in January 2004 and subsequently. The following is a summary of the principal terms as so varied.

The Licensees have been granted exclusive licences to search and drill for and get petroleum in the seabed and subsoil in the respective licence areas set out in each Licence (subject to relinquishment provisions). Each Licence permits in accordance with its terms the drilling of wells and taking of samples in the course of exploration.

As between the Company and Hardman (and the Operator) the operations in the Licence areas are regulated by the provisions of the Joint Operating Agreement.

The commencement date of each Licence is their date of grant. The initial term of each Licence is three years, which subject to compliance with the Licence terms can be extended for a further three years. If a discovery well is drilled during the licence period and notified to the Government, the Licence in respect of that discovery area will be extended for a further five years from the date of the spudding of that well for appraisal drilling and development planning. An appraisal well notified must be drilled within the first three of those five years, or if no such well was notified the development plan must have been submitted during that period. On the expiry of the second exploration term of a Licence the Licensees may request extension of the Licence (in respect of discovery areas or other potential fields) for a further 35 years for exploitation. Further extension beyond that period may be applied for.

The consideration due for the grant of these licences is the annual payment of acreage rent, as set out in the Licence terms, and the payment of royalties for the value of petroleum obtained during a particular period. The acreage rents payable in respect of each Licence are as follows:

- (a) US\$10,000 per annum during the initial exploration term rising to US\$30,000 during the second initial exploration term in respect of one Licence only;
- (b) US\$375,000 per annum per discovery area;
- (c) US\$375,000 per annum per square kilometre as to production fields provided that no rent shall be payable in respect of which royalty is payable.

The royalty rate is 9 per cent. (or such lesser percentage as the Governor may from time to time stipulate) of the value of petroleum relating to each 6 month period in respect of which the royalty is paid.

The work programme which is to be completed is specified in Schedule 4 of the Licences as varied. This work programme covers all, and can be satisfied by work on all or any, of the seven Licences. It includes that:

- (a) within 36 months (3 July 2005):
 - (i) 3,500km of new seismic must be acquired, processed and interpreted;
 - (ii) a prospect evaluation report must be prepared;
- (b) by 3 July 2006 the Licensees must relinquish at least 50 per cent. of the area covered at the time of grant by the original 10 licences and must commit to undertake the work summarised in paragraph (b) below, or must surrender the Licence. The Licensees have already fulfilled a significant proportion of the relinquishment obligation. The original licence area was 231 blocks of which 115 were required to be relinquished by July 2006. To date, 97 of these blocks have been relinquished leaving a further relinquishment of 18 blocks in 2006.

- (c) within 72 months (3 July 2008):
 - (i) if considered necessary additional 2D or 3D seismic must be acquired to firm up a proposed well target;
 - (ii) a well must be drilled to an approved objective or depth and evaluated unless geological or engineering constraints make this unreasonable;
 - (iii) the remaining Licence area must be surrendered or application must be made for one or more “discovery areas” covering the limits of potentially developable field or fields, to allow, for 3 years appraisal drilling and/or submission for approval of a development plan. Such “discovery areas” can be held for 5 years but the appraisal drilling and/or submission for approval of a development plan must be commenced within 3 years of the discovery being made. At the end of the 5 years the licensee may apply for a 35 year extension in respect of the discovery area for production.

The Licensees have various additional obligations during the terms of the Licences, which include those in relation to:

- (a) keeping and retaining accounts, records of work and samples;
- (b) supplying the Governor with details of programmes and specific returns within set time limits or at specified times;
- (c) various restrictions and requirements in relation to operations – a wide range of activities in relation to the Licensees’ operations require the prior consent of the Governor by way of programme approvals or specific consents and the Licensees are under obligations to avoid harmful methods of working or operations which unjustifiably interfere with navigation or fishing or with conservation of living resources of the sea.

The Licences can be terminated by the Licensees, or licence areas surrendered, on not less than 6 months’ notice to expire on any anniversary of the date of the Licences – subject to the relevant provisions of the Licences. Termination or surrender shall not entitle the Licensees to receive any repayment of rent or royalty paid to the Government.

The operator must be approved by the Governor, whose consent shall not be unreasonably withheld if the person is competent to exercise the required functions.

The Licences may be revoked by the Governor if any of the events set out in clause 38 of the Offshore Petroleum (Licensing) Regulations 1995 occurs. The relevant events include:

- (a) acreage rent and royalty payments being in arrears or unpaid for two months after the due date for payment;
- (b) any breach or non-observance of the terms of the licence or of a development programme;
- (c) the bankruptcy of any Licensee;
- (d) the appointment of a receiver or the making by any Licensee of any arrangement or composition with its creditors;
- (e) failure to establish a permanent establishment in the Falkland Islands (of a kind and nature approved by the Governor) in the event of the licensee winning and saving any petroleum;
- (f) failure to pay any tax liability payable under the Taxes Ordinance 1997 within 90 days of the due date for payment; and
- (g) any breach of a condition subject to which the Governor has given his approval under clause 37(3) of the Licence (agreements relating to proceeds of sale of petroleum).

Under clause 38(1), the Governor may also revoke the Licence if there is a change in the control of the licensee. The Governor has a discretion to serve notice requiring further changes in the control which, if not

complied with, will enable the Governor to terminate the licence after three months. The provisions contained in section 416 of the Income and Corporation Taxes Act 1988 (as modified by clause 37(4) of the Licence) apply for the purposes of determining whether there has been a change of control. The Falkland Islands Government has provided comfort to the Company that this provision will not be triggered as a result of the admission of the Company to AIM, or the gradual dilution of the shareholdings of the founder shareholders as a result of trading on AIM.

Neither the burden nor the benefit of the Licences may be assigned without the consent in writing of the Governor. Among other implications of these provisions are that seismic contractors must obtain licences to undertake their work.

The Licences are governed by the law of the Falkland Islands and the Supreme Court of the Falkland Islands has sole and exclusive jurisdiction in respect thereof subject to the provisions providing for London arbitration in the event of certain disputes in respect of the Licence and the ability of the Government to enforce payment obligations in courts in the place of incorporation or residence of the Licensee.

Section C – JOINT OPERATING AGREEMENT

The Joint Operating Agreement is based upon the Model Form of the American Institute of Petroleum Negotiators (AIPN) and was entered into as of 26 November 2002 between Dampier, Falkland Islands Company Limited and Hardman (who together then held the original ten licences), with Dampier being appointed as operator. With effect from 29 June 2004, the agreement was assigned with the result that the joint venture parties are now the Company and Hardman, with Dampier remaining as a party in its role of operator for the time being.

The following is a summary of some of the key commercial terms of the Joint Operating Agreement:

- The Operator has rights and duties consistent with good and prudent petroleum industry practices. The Operator is only liable to the parties for Negligence or Wilful Misconduct (as defined) or for a failure to obtain or maintain insurance. The Operator's charges are set out in an accounting guide and are subject to audit.
- The Operator is subject to the control of the Operating Committee which consists of those parties holding a participating interest (currently the Company and Hardman). Resolutions of the Operating Committee require a Majority Vote (as defined) except some reserved items, most notably the approval of work programmes and budgets in excess of the Minimum Work Programmes (as defined) in the Licences, require unanimity. If unanimity cannot be obtained, there are provisions for sole risk work.
- Operational expenditure of amounts in excess of US\$250,000 require the approval of the Operating Committee.
- Any transfers of interests in the Licences by the Company or Hardman are subject to pre-emptive rights in favour of the other party.
- Any disputes between the parties are to be resolved by arbitration under the rules of the International Chamber of Commerce and will be held in Brisbane, Australia.
- Where unanimous approval for work in excess of the minimum work programme cannot be achieved, the party(ies) preparing to do the work may do so on a sole risk basis. Any party which chooses not to participate may, in certain circumstances, subsequently elect to participate again in those operations by paying:
 - (i) in respect of the acquisition of data, its share of the costs; and
 - (ii) in respect of drilling work, its share of the costs plus a 300 per cent. premium.

PART VI

ADDITIONAL INFORMATION

1. Incorporation and principal activities

- (a) The Company was incorporated on 27 May 2004 in the Falkland Islands under the Companies and Private Partnership Ordinance (Cap. 13) with registered number 12913, under the name Falkland Oil and Gas Limited.
- (b) The principal legislation under which the Company operates is the 1948 Act. The Company's registered office is at 56 John Street, Stanley, Falkland Islands.
- (c) The Company's principal place of business in the United Kingdom is 5 Charterhouse Square, London EC1M 6PX.
- (d) The liability of the members of the Company is limited.

2. Share capital

- (a) The Company was incorporated with an authorised share capital of £2,000 divided into 2,000 ordinary shares of £1 each of which two were issued to the subscribers to the memorandum of association.
- (b) In consideration for Dampier, FIC and RAB Special Situations LP agreeing to pay the subscription funds pursuant to a share subscription agreement dated 23 June 2004 and in consideration for FIC and Dampier agreeing to assign their Participating Interests as defined in the Assignment Agreement (details of which are set out in paragraph 8 of this Part VI), 289 shares, 257 shares, 454 shares (each of £1) were received by FIC, Dampier and RAB respectively.
- (c) Apart from the allotments referred to in this paragraph 2, since incorporation, no capital of the Company has been allotted for cash or for consideration other than cash.
- (d) On 30 September 2004, resolutions of the Company were passed:
 - (i) subdividing each ordinary share of £1 each in the capital of the Company into 50,000 Shares of 0.002p each;
 - (ii) increasing the authorised share capital of the Company from £2,000 to £2,400 by the creation of an additional 20,000,000 Shares of 0.002p each;
 - (iii) adopting new Articles; andthe company was converted into a public limited company.

- (e) The authorised and issued share capital of the Company at the date of this document is as follows:

	<i>Authorised</i>		<i>Issued (fully paid)</i>	
	<i>Number</i>	<i>£</i>	<i>Number</i>	<i>£</i>
Ordinary shares of 0.002p each	120,000,000	2,400	50,000,000	1,000

- (f) Immediately following Admission, on the basis that the Issue is fully subscribed, the authorised and issued share capital of the Company will be as follows:

	<i>Authorised</i>		<i>Issued (fully paid)</i>	
	<i>Number</i>	<i>£</i>	<i>Number</i>	<i>£</i>
Ordinary shares of 0.002p each	120,000,000	2,400	80,000,000	1,600

- (g) The New Shares will be issued in accordance with the authority and power contained in the Articles.
- (h) On Admission the Shares will rank *pari passu* in all respects.
- (i) There are no rights of pre-emption attaching to the Shares.

3. Memorandum and Articles of Association

The memorandum of association of the Company provides that, *inter alia*, the Company's principal objects are:

- (a) to carry on the business of exploring and searching for, prospecting, examining and developing in any and all ways, petroleum, natural gas and related hydrocarbons or any of them and in connection therewith to acquire by purchase, lease, assignment, participation arrangements, concessions, joint venture or otherwise howsoever oil, natural gas or related hydrocarbon permits, leases, rights and concessions of all kinds;
- (b) to carry on the business of drilling in any and all ways of petroleum, natural gas and related hydrocarbons or any of them and in connection therewith to acquire by purchase, lease, assignment, participation arrangements, concession, joint venture of otherwise howsoever oil, natural gas or related hydrocarbon permits, leases, rights and concessions of all kinds;
- (c) to carry on the business of producing, refining, processing, buying, selling, importing, exporting, manufacturing, storing, preparing, transporting, supplying, marketing and generally dealing in all kinds of petroleum, petroleum products or natural gas; and
- (d) to carry on the business of operating pipelines and transmission systems for the transmission of oil and natural gas or any of them.

The Articles of Association of the Company (the "**Articles**") contain, *inter alia*, provisions to the following effect:

- (a) **Voting Rights** Subject to the provisions of the 1948 Act, to any special terms as to voting on which any shares may have been issued or may for the time being be held and to any suspension or abrogation of voting rights pursuant to the Articles, at any general meeting every member who is present in person shall on a show of hands have one vote and every member present in person or by proxy shall on a poll have one vote for every share of which he is the holder. In the case of joint holders, the vote of the senior (determined by the order in which the names of the holders stand in the Register) who tenders a vote, whether in person or by proxy shall be accepted to the exclusion of the votes of the other joint holders.

A corporation which is a member may, by resolution of its directors or other governing body, authorise such person as it thinks fit, to act as its representative at any meeting of the Company or at any separate meeting of the holders of any class of shares. Any person so authorised shall be entitled to exercise the same powers on behalf of the corporation as the corporation could exercise if it were an individual member. The corporation shall be deemed to be present in person at any such meeting if a person so authorised is present at it. A certified copy of the resolution authorising such person or such other evidence of his authority may be required before he is permitted to exercise his powers.

Unless the Board otherwise determines, no member is entitled to vote at a general meeting or at any separate meeting of the holders of any class of shares, either in person or by proxy, or to exercise any other right or privilege as a member in respect of a share held by him unless and until all calls or other sums presently due and payable by him in respect of that share whether alone or jointly with any other person together with interest and expenses (if any) have been paid to the Company.

If:

- (i) at any time when the Company is not subject to the UK City Code on Takeovers and Mergers (the "**Code**") or any successor regime (whether statutory or non-statutory) governing the conduct of takeovers and mergers in the UK (any of such being the "**Takeover Regime**"), any person (together with any persons held to be acting in concert with him) acquires any shares in the Company and as a result he (whether or not with other persons) would (in the opinion of the Board) have been obliged under the Takeover Regime to extend an offer (a "**Mandatory Offer**") to the holders of any other shares in the Company had the Takeover Regime applied to the

Company (such person or persons who would from time to time have been required to have made such an offer being the “**Mandatory Offeror(s)**”), and

- (ii) the Mandatory Offeror(s) fail(s) to make such an offer on terms no less favourable (in the opinion of the Board) to the other shareholders than he/they would have been obliged to offer under the provisions of the Takeover Regime had it applied (a “**Compliant Offer**”) within 21 days following the date on which the obligation would have arisen

the Board shall be entitled, but not obliged, to suspend with immediate effect, with notification thereof being given to the Mandatory Offeror(s) or (if different) the registered holders of the shares in the Company in which they have an interest, all voting rights attributable to the shares in the Company in which the Board considers the Mandatory Offeror(s) from time to time to have an interest. Any such suspension may, at the discretion of the Board extend for any period during which the obligation to make a Mandatory Offer would have continued to exist under the Takeover Regime unless and until a Compliant Offer is made.

In applying the foregoing provisions the Board shall be entitled but not obliged to take into account any notes included in, or prepared in connection with, the Takeover Regime and any views of the supervisory body under the Takeover Regime.

The Board shall have no liability to any shareholder of the Company, any person who has any interest in shares in the Company, or any other person for the manner in which they exercise or refrain from exercising any suspension powers under the relevant Article or for any determination which the Board makes as to the application of the provisions of the relevant Article to any particular circumstances.

- (b) **Failure to disclose interests in shares** If a member, or any other person appearing to be interested in shares held by that member, has been issued with a notice pursuant to section 173 of the 1948 Act and has failed in relation to any shares (“the default shares”, which expression includes any shares issued after the date of such notice in right of those shares) to give the information required to the Board of Trade of the Falkland Islands may by order direct that the shares are subject to the sanctions contained in section 174 of the 1948 Act.
- (c) **Dividends** Subject to the provisions of the 1948 Act and of the Articles, the Company may by ordinary resolution declare dividends to be paid to members according to their respective rights and interests in the profits of the Company. However, no dividend shall exceed the amount recommended by the Board.

Subject to the provisions of the 1948 Act, the Board may declare and pay such interim dividends (including any dividend payable at a fixed rate) as appears to the Board to be justified by the profits of the Company available for distribution. If at any time the share capital of the Company is divided into different classes, the Board may pay such interim dividends on shares which rank after shares conferring preferential rights with regard to dividends as well as shares conferring preferential rights, unless at the time of payment any preferential dividend is in arrears.

Except as otherwise provided by the rights attached to shares, all dividends shall be declared and paid (otherwise than in advance of calls) according to the amounts paid up on the shares on which the dividend is paid but no amount paid up on a share in advance of the date on which a call is payable shall be treated as paid up on the share. If cheques, warrants or orders for dividends or other sums payable in respect of a share sent by the Company to the person entitled to them are returned or left uncashed on two consecutive occasions or, following one occasion, reasonable enquiries have failed to establish any new address to be used for the purpose, the Company shall not be obliged to send any dividends or other moneys payable to that person until he notifies the Company of an address to be used for that purpose.

The Board may, with the authority of an ordinary resolution of the Company, direct that payment of any dividend declared may be satisfied wholly or partly by the distribution of assets, and in particular of paid up shares or debentures of any other company, or in any one or more of such ways. Where any difficulty arises in regard to such distribution, the Board may settle it as it thinks fit.

The Board may also, with the prior authority of an ordinary resolution of the Company and subject to such conditions as the Board may determine, offer to holders of ordinary shares the right to elect to receive ordinary shares, credited as fully paid, instead of the whole (or some part, to be determined by the Board) of any dividend specified by the ordinary resolution.

Where the Board of Trade has sought to investigate the ownership of any shares in accordance with section 173 of the 1948 Act and it appears to the Board of Trade that there is difficulty in finding out the relevant facts about any shares, the Board of Trade may by order direct that the shares shall until further order be subject to restrictions in accordance with section 174 of the 1948 Act including that except in a liquidation, no payment shall be made on any sums due from the Company on those shares, whether in respect of capital or otherwise.

- (d) **Distribution of assets on a winding-up** If the Company is wound up the liquidator may, with the sanction of a special resolution of the Company and any other sanction required by law, divide among the members in specie the whole or any part of the assets of the Company and may, for that purpose, value any assets and determine how the division shall be carried out as between the members or different classes of members or vest the whole or any part of the assets in trustees on such trusts for the benefit of the members as he with the like sanction shall determine, but no member shall be compelled to accept any assets on which there is a liability. Any such division may be otherwise than in accordance with the existing rights of the members, though will be subject to applicable insolvency laws.
- (e) **Unclaimed dividends** No dividend or other monies payable in respect of a share shall bear interest as against the Company unless otherwise provided by the rights attached to the share. All dividends, interest or other sum payable and unclaimed for 12 months after having become payable may be used by the Board for the benefit of the Company until claimed. All dividends unclaimed for a period of 12 years after having been declared or become due for payment shall (if the Board so resolves) be forfeited and shall cease to remain owing by the Company and belong to the Company absolutely.
- (f) **Transfer of Shares** All transfers of shares shall be effected in writing in any usual form or in any form approved by the Board. The instrument of transfer shall be executed by or on behalf of the transferor and (in the case of a transfer of share which is not fully paid up) by or on behalf of the transferee. The transferor is deemed to remain the holder of the share until the name of the transferee is entered on the register of members. The Directors shall, subject always to the 1948 Act and any other applicable laws and regulations and the facilities and requirements of any relevant system concerned and these Articles, have power to implement and/or approve any arrangements they may, in their absolute discretion, think fit in relation to the evidencing of title to and transfer of interests in shares in the capital of the Company in the form of depository interests or similar interests, instruments or securities. The Board may, in its absolute discretion and without giving any reason, refuse to register any transfer of a share (or renunciation of a renounceable letter of allotment) unless:
 - (i) it is in respect of a share which is fully paid up;
 - (ii) it is in respect of only one class of shares;
 - (iii) it is in favour of a single transferee or not more than four joint transferees;
 - (iv) it is duly stamped (if so required); and
 - (v) it is delivered for registration to the registered office for the time being of the Company or such place as the Board may determine, accompanied (except in the case of a transfer by a recognised person where a certificate has not been issued or in the case of a renunciation) by the certificate for the shares to which it relates and such other evidence as the Board may reasonably require to prove the title of the transferor or person renouncing and the due execution of the transfer or renunciation by him or, if the transfer or renunciation is executed by some other person on his behalf, the authority of that person to do so;

provided that the Board shall not refuse to register any transfer or renunciation of partly paid shares which are traded on AIM on the London Stock Exchange on the grounds that they are partly paid shares

in circumstances where such refusal would prevent dealings in such shares from taking place on an open and proper basis.

Where the Board of Trade has sought to investigate the ownership of any shares in accordance with section 173 of the 1948 Act and it appears to the Board of Trade that there is difficulty in finding out the relevant facts about any shares, the Board of Trade may by order direct that the shares shall until further order be subject to restrictions in accordance with section 174 of the 1948 Act including that any transfer of such shares shall be void.

- (g) **Variation of Rights** If at any time the share capital of the Company is divided into shares of different classes, any of the rights for the time being attached to any share or class of shares in the Company (and notwithstanding that the Company may be or be about to be in liquidation) may be varied or abrogated in such manner (if any) as may be provided by such rights or, in the absence of any such provision, either with the consent in writing of the holders of not less than three-quarters in nominal value of the issued shares of that class or with the sanction of an extraordinary resolution passed at a separate general meeting of the holders of shares of the class duly convened and held whenever the Board thinks fit, whether or not the business to be transacted involves a variation or abrogation of class rights. The quorum at every such meeting shall be not less than two persons holding or representing by proxy at least one-third of the nominal amount paid up on the issued shares of the class. Every holder of shares of the class, present in person or by proxy, may demand a poll. Each such holder shall on a poll be entitled to one vote for every share of the class held by him. If at any adjourned meeting such quorum is not present, not less than one person holding shares of the class who is present in person or by proxy shall be a quorum. If in pursuance of this provision the rights attached to any such class of shares are at any time varied, the holders of not less in the aggregate than 15 per cent. of the issued shares of that class, being persons who did not consent to or vote in favour of the resolution for variation, may apply to the court to have the variation cancelled, and, where such application is made, the variation shall not have effect unless and until it is confirmed by the court.

Subject to the terms of issue of or rights attached to any shares, the rights or privileges attached to any class of shares shall be deemed not to be varied or abrogated by the creation or issue of any new shares ranking *pari passu* in all respects (save as to the date from which such new shares shall rank for dividend) with or subsequent to those already issued or by the reduction of the capital paid up on such shares or by redemption by the Company of its own shares in accordance with the provisions of the 1948 Act and the Articles.

- (h) **Borrowing powers** The Board may exercise all the powers of the Company to borrow money and to mortgage or charge all or any part of the undertaking, property and assets (present and future) and uncalled capital of the Company and, subject to the provisions of the 1948 Act, to create and issue debenture and other loan stock and debentures and other securities, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.
- (i) **Changes in capital** The Company in general meeting may from time to time by ordinary resolution increase its share capital by such sum to be divided into shares of such amount as the resolution prescribes, consolidate and divide all or any of its share capital into shares of larger amount than its existing shares, cancel any shares which at the date of the passing of the resolution have not been taken or agreed to be taken by any person and diminish the amount of its share capital by the amount of the shares so cancelled and, subject to the provisions of the 1948 Act, sub-divide its shares or any of them into shares of smaller amount, and may by such resolution determine that, as between the shares resulting from such sub-division, one or more of the shares may, as compared with the others, have any such preferred, deferred or other special rights or be subject to any such restrictions as the Company has power to attach to unissued or new shares. The Company may also subject to the provisions of the 1948 Act and to any rights for the time being attached to any shares, by special resolution reduce its share capital or any capital redemption reserve or share premium account in any way.
- (j) **Issue and allotment of Shares** Subject to the provisions of the 1948 Act and to any special rights for the time being attached to any existing shares, any shares may be allotted or issued with or have attached to them such preferred, deferred or other special rights or restrictions, whether in regard to

dividend, voting, transfer, return of capital or otherwise, as the Company may from time to time by ordinary resolution determine or, if no such resolution has been passed or so far as the resolution does not make specific provision, as the Board may determine, and any share may be issued which is, or is liable to be, redeemed at the option of the Company or the holder in accordance with the Articles. Subject to the 1948 Act and to any relevant authority of the Company in general meeting required by the provisions of the 1948 Act, the unissued shares at the date of adoption of the Articles and any shares created thereafter shall be at the disposal of the Board.

- (k) **Remuneration of Directors** The Directors (other than alternate Directors and executive Directors) shall be entitled to receive by way of fees for their services as Directors such sum as the Board may from time to time determine (not exceeding £250,000 per annum in aggregate or such other sum as the Company in general meeting by ordinary resolution shall from time to time determine). Such sum (unless otherwise directed by the resolution of the Company by which it is voted) shall be divided among the Directors in such proportions and in such manner as the Board may determine or, in default of such determination, equally. Any fees payable under the Articles shall be distinct from any salary, remuneration or other amounts payable to a Director.

The Directors are entitled to be repaid all reasonable travelling, hotel and other expenses properly incurred by them in or about the performance of their duties as Directors.

The salary or remuneration of any Director appointed to hold any employment or executive office may be either a fixed sum of money, or may altogether or in part be governed by business done or profits made or otherwise determined by the Board and may be in addition to or in lieu of any fee payable to him for his services as Director.

- (l) **Pensions and gratuities for Directors** The Board may exercise all the powers of the Company to establish, maintain, subscribe and contribute to pensions, other retirement or superannuation benefits, death or disability benefits or other allowances or gratuities for persons who are or were directors or employees of any company in the Group and their relatives or dependants.
- (m) **Directors' interests in contracts** Subject to the provisions of the 1948 Act and provided that his interest is disclosed at a meeting of the Board in accordance with the Articles, a Director, notwithstanding his office, may enter into or otherwise be interested in any contract, arrangement, transaction or proposal with the Company or in which the Company is otherwise interested, may hold any other office or place of profit under the Company (except that of auditor of the Company or of a subsidiary of the Company) in conjunction with the office of Director and may act by himself or through his firm in a professional capacity for the Company, and in any such case on such terms as to remuneration and otherwise as the Board may arrange, may be a director or other officer of, or employed by, or a party to any transaction or arrangement with, or otherwise interested in, any company promoted by the Company or in which the Company is otherwise interested or as regards which the Company has any powers of appointment and shall not be liable to account to the Company for any profit, remuneration or other benefit realised by any such office, employment, contract, arrangement, transaction or proposal. No such contract, arrangement, transaction or proposal shall be avoided on the grounds of any such interest or benefit.
- (n) **Share qualification** A Director shall not be required to hold any shares of the Company.
- (o) **Restrictions on Directors' voting** Save as provided in the Articles, a Director shall not vote on, or be counted in the quorum in relation to, any resolution of the Board or of a committee of the Board concerning any contract, arrangement, transaction or any other proposal whatsoever to which the Company is or is to be a party and in which he has an interest which (together with any interest of any person connected with him within the meaning of the 1948 Act) is to his knowledge a material interest otherwise than by virtue of his interests in shares or debentures or other securities of or otherwise in or through the Company, unless the resolution concerns any of the following matters:
- (i) the giving of any guarantee, security or indemnity in respect of money lent or obligations incurred by him or any other person at the request of or for the benefit of the Company or any of its subsidiary undertakings;

- (ii) the giving of any guarantee, security or indemnity in respect of a debt or obligation of the Company or any of its subsidiary undertakings for which he himself has assumed responsibility in whole or in part under a guarantee or indemnity or by the giving of security;
- (iii) any proposal concerning an offer of shares or debentures or other securities of or by the Company or any of its subsidiary undertakings in which offer he is or may be entitled to participate as a holder of securities or in the underwriting or sub-underwriting of which he is to participate;
- (iv) any proposal concerning any other body corporate in which he (together with persons connected with him within the meaning of the 1948 Act) does not to his knowledge have an interest (as the term is used in the 1948 Act) in one per cent. or more of the issued equity share capital of any class of such body corporate or of the voting rights available to members of such body corporate;
- (v) any proposal relating to an arrangement for the benefit of the employees of the Company or any of its subsidiary undertakings which does not award him any privilege or benefit not generally awarded to the employees to whom such arrangement relates; or
- (vi) any proposal concerning insurance which the Company proposes to maintain or purchase for the benefit of Directors or for the benefit of persons who include Directors.

A Director shall not vote or be counted in the quorum on any resolution of the Board or committee of the Board concerning his own appointment (including fixing or varying the terms of his appointment or its termination) as the holder of any office or place of profit with the Company or any company in which the Company is interested. Where proposals are under consideration concerning the appointment (including fixing or varying the terms of his appointment or its termination) of two or more Directors to offices or places of profit with the Company or any company in which the Company is interested, such proposals may be divided and a separate resolution considered in relation to each Director. In such case each of the Directors concerned (if not otherwise debarred from voting under the Articles) shall be entitled to vote (and be counted in the quorum) in respect of each resolution except that concerning his own appointment.

If any question arises at any meeting as to the materiality of a Director's interest (other than the Chairman's interest) or as to the entitlement of any Director (other than the Chairman) to vote or be counted in a quorum, and such question is not resolved by his voluntarily agreeing to abstain from voting or being counted in the quorum, such question shall be referred to the Chairman of the meeting. The Chairman's ruling in relation to the Director shall be final and conclusive except in a case where the nature or extent of the interest of the Director concerned (so far as it is known to him) has not been fairly disclosed to the Board.

If any question arises at any meeting as to the materiality of the Chairman's interest or as to the entitlement of the Chairman to vote and be counted in the quorum, and such question is not resolved by his voluntarily agreeing to abstain from voting or being counted in the quorum, such question shall be decided by resolution of the Directors or committee members present at the meeting (excluding the Chairman) whose majority vote shall be final and conclusive.

- (p) **Age of Directors** The Articles do not require a Director to vacate his office on or by reason of his attaining or having attained the age of 70 and accordingly no special notice is required by any resolution appointing or approving the appointment of such a Director.
- (q) **Number of Directors** Unless and until otherwise determined by an ordinary resolution of the Company, the number of Directors (other than alternate Directors) shall be not more than ten or less than two.
- (r) **Directors' appointment and retirement by rotation** Directors may be appointed by the Company by ordinary resolution or by the Board. If appointed by the Board, a Director holds office only until the next annual general meeting and shall not be taken into account in determining the number of Directors who are to retire by rotation.

- (s) **Untraced shareholders** Subject to the Articles, the Company may sell any shares in the Company registered in the name of a member remaining untraced for 12 years who fails to communicate with the Company following advertisement of an intention to make such a disposal. Until the Company can account to the member, the net proceeds of sale may either be employed in the business of the Company or invested in whatever investments as the Board sees fit, in either case at the discretion of the Board. The proceeds will not carry interest.

CREST AND DEPOSITORY INTERESTS

- (a) The Articles contain other provisions in respect of transactions with the shares in the Company in uncertificated form and generally provide for the modifications of certain provisions of the Articles so that they can be applied to transactions with shares in the Company in uncertificatable form.
- (b) Shareholders of the Company who elect to hold their shares in uncertificated form through the Depository Interest facility will be bound by the terms of a deed poll, the proposed form of which is available for inspection.

4. Directors' and other interests

- (a) The interests of the Directors and their immediate families and of persons connected with the Directors within the meaning of section 195 of the 1948 Act, in the share capital of the Company, as at the date of this document (which have where applicable been notified to the Company pursuant to section 198 of the 1948 Act, are required to be entered into the register of Directors' interests maintained under section 195 of the 1948 Act or which could, with reasonable diligence, be ascertained by the Directors) and as they are expected to be immediately following Admission and completion of the Placing are as follows:

Shares

	<i>As at</i>		<i>Following</i>	
	<i>30 September</i>		<i>Admission</i>	
	<i>2004</i>		<i>Percentage of</i>	
	<i>Percentage of</i>		<i>Enlarged Issued</i>	
	<i>Issued Share</i>		<i>Share Capital⁽¹⁾</i>	
	<i>No. of Shares</i>	<i>Capital</i>	<i>No. of Shares</i>	
<i>Directors:</i>				
J D Armstrong	–	–	25,000	0.03
D L Hudd	–	–	250,000	0.31
T S Jones	–	–	75,000	0.09
P F Dighton	–	–	25,000	0.03

Note:

1. assuming that the maximum number of Shares are subscribed pursuant to the Issue.

Options to acquire Shares

The following options will be granted immediately prior to Admission to the Directors and the Consultant:

	<i>Number of Shares</i>		<i>Exercise dates</i>	
	<i>Exercise price</i>	<i>Exercise price</i>	<i>from</i>	<i>to</i>
	<i>of 40p</i>	<i>of 60p</i>		
J D Armstrong	375,000	375,000	14 October 2004	14 October 2011
D L Hudd	225,000	225,000	14 October 2004	14 October 2011
T S Jones	150,000	150,000	14 October 2004	14 October 2011
P F Dighton	150,000	150,000	14 October 2004	14 October 2011
J Webb	63,000	63,000	14 October 2004	14 October 2011

The Shares comprising the Directors' and Consultant's interests set out above, will be held immediately following Admission, directly and indirectly by the Directors and Consultant named.

Save as disclosed in this paragraph, no Director nor any member of their respective immediate families, nor any person connected with them within the meaning of section 195 of the 1948 Act, is interested in any share capital of the Company.

- (b) No loan or guarantee has been granted or provided by the Company to any Director or any person connected with them.
- (c) None of the Directors has or has had any interest in transactions effected by the Company since its incorporation which are or were unusual in their nature or conditions or which are or were significant to the business of the Company.
- (d) Other than the holdings of the Directors, which are set out in paragraph (a) of this paragraph 4, the Company is aware of the following persons who, as at 30 September 2004 and following completion of the Placing and the Offer, directly or indirectly, jointly or severally hold or will hold, 3 per cent. or more of the Company's share capital or exercise or could exercise control over the Company:

	<i>No. of Shares</i>	<i>As at 30 September 2004 Percentage of Issued Share Capital</i>	<i>No. of Shares</i>	<i>Following Admission Percentage of Enlarged Issued Share Capital</i>
RAB Special Situations LP	22,700,000	45.4	22,700,000	28.4
RAB Energy Fund Limited	—	—	1,000,000	1.3
RAB Investment Funds plc	—	—	400,000	0.5
	<u>22,700,000</u>	<u>45.4</u>	<u>24,100,000</u>	<u>30.1</u>
Falkland Islands Holdings plc	14,450,000	28.9	14,450,000	18.1
Dampier Oil Ltd	12,850,000	25.7	12,850,000	16.1

Notes:

- assuming that the maximum number of shares are subscribed pursuant to the Issue.
- RAB Energy Fund Limited, RAB Special Situations LP and RAB Investment Funds plc are all funds managed by RAB Capital plc.

5. Additional information on the Directors

The directorships and partnerships held by each of the Directors over the five years preceding the date of this document other than in the Company are as follows:

	<i>Current directorships</i>	<i>Former directorships held in last five years</i>
J D Armstrong	Dampier Oil Limited Falkland Islands Minerals Ltd Global Mine Management Limited Global Petroleum Limited Star Petroleum plc Star Petroleum Holdings Limited	—
D L Hudd	API Group plc API Share Scheme Trustees Limited Falkland Islands Holdings plc Falkland Minerals Limited GameAccount Global Limited Marylebone Cricket Club Foundation Olympia Executives Limited Paramount plc QA plc The Cutty Sark Trust	Combe Grove Manor Hotel & Country Club Limited Forest Garden (Holdings) Limited Hudson (Europe) Limited Hudson (NBB) Limited Jigsaw Day Nurseries Limited Jigsaw Group Limited VFG plc

	<i>Current directorships</i>	<i>Former directorships held in last five years</i>
T S Jones	Alaska Developments Limited Alaska Estates Limited Alaska Properties Limited Alaska Property Group Limited Alaska (Wrexham) Limited Esher Management Services Limited Hayters Teamwork Limited New Generations Bingo Plc Point Leisure Limited Shrewsbury Business Park Management Limited Sports Broadcasting Company Limited Supremo Estates Limited Top of the Shop Bingo Limited	MG Finance (UK) Limited Reg Hayter Limited The Qdos Tour Limited
P F Dighton	Australian-Arab Chamber of Commerce & Industry Inc. Dampier Oil Ltd Global Petroleum Ltd Law Strategies Pty Ltd Pearl Development (Australia) Pty Ltd	—

Banaville Limited, of which Mr Jones was a director, was dissolved on 17 August 1999 following the appointment of a liquidator on 8 March 1995 and a creditors' voluntary liquidation.

Millbridge Holdings Ltd, of which Mr Jones was appointed as a director on 10 December 1991, was dissolved on 9 February 1999 following the appointment of an administrative receiver on 3 March 1995 and a compulsory liquidation.

Reg Hayter Limited, of which Mr Jones was appointed as a director on 20 January 1999, became subject to an administration order on 11 November 2002. Subsequently the assets have been successfully sold and the company is in the process of being wound up.

Mr Hudd served as a director of VFG plc for the period from 28 April 1999 until 11 April 2001. Throughout the period of his directorship, Mr Hudd served as Chairman. Joint administrative receivers were appointed in respect of VFG plc on 20 December 2001. In their report to the creditors of VFG plc dated 14 March 2002, the joint administrative receivers reported that the statement of affairs made by the directors of VFG plc as at 20 December 2001 revealed a deficiency as regards ordinary creditors of £29,398,000 and the joint administrative receivers advised that there would be no dividend payment to unsecured creditors.

Forth Investments PLC, of which Mr Hudd was appointed as a director on 14 June 1990, was dissolved on 1 March 1996 following the appointment of a receiver on 5 June 1991.

Betancuria Limited was dissolved on 2 June 1998 following a creditor's voluntary liquidation on 12 December 1994. Mr Hudd served as a director of the company from 14 May 1993 until 18 December 1997.

- (a) None of the Directors or any persons connected with them are in a partnership nor have they been partners in any partnerships in the five years preceding the date of this document.
- (b) None of the Directors has any unspent convictions relating to indictable offences, has been bankrupt or has made or been the subject of any individual voluntary arrangement.
- (c) Save as disclosed above, none of the Directors has been a director of any company at the time of or within twelve months preceding the date of its receivership, compulsory liquidation, creditors'

voluntary liquidation, administration, company voluntary arrangement or any composition or arrangement with its creditors generally or any class of its creditors.

- (d) None of the Directors has been a partner of any partnership at the time of or within twelve months preceding the date of its compulsory liquidation, administration or partnership voluntary arrangement or the receivership of any assets of such partnership nor have any of their assets been the subject of receivership.
- (e) There have been no public criticisms of any of the Directors by any statutory or regulatory authority (including recognised professional bodies) and none of the Directors has ever been disqualified by a court from acting as a director of a company or from acting in the management or conduct of the affairs of any company.

6. Directors' service contracts and emoluments

The following Directors have entered into service contracts or consultancy agreements with the Company:

- (a) Appointment of Dr John Armstrong as Executive Chairman of the Company

Pursuant to a service agreement dated 29 September 2004 between the Company and Dr John Armstrong, Dr Armstrong was appointed to act as Executive Chairman of the Company. The employment commenced on 1 September 2004 and continues for an initial term of 24 months and thereafter unless or until terminated by either party giving to the other not less than six months' notice in writing to expire on (i) 1 September 2006 or at any time thereafter (in the case of notice by the Company) or (ii) on 1 September 2005 or at any time thereafter (in the case of notice by Dr Armstrong) provided that if Admission has not taken place by 1 November 2004 the employment may be terminated by either party giving to the other not less than one month's notice in writing to expire at any time. Following termination Dr Armstrong shall, if so requested by the Company, resign from office as a Director of the Company and all offices held by him in any Group Company.

Dr Armstrong is entitled to a salary at the rate of £50,000 per annum and to reimbursement of reasonable expenses incurred by him in the proper performance of his duties. The Remuneration Committee will annually consider the payment of a bonus to him. He will work for the Company for 45 days per year. In the event of a successful takeover of the Company, Dr Armstrong shall be entitled to resign his appointment and receive a payment equal to his basic remuneration for the balance of the initial 24 month term or, thereafter, six months.

For 12 months following termination of the employment Dr Armstrong shall not (except with the prior sanction of a resolution of the Board) be directly or indirectly either on his own account or on behalf of any other person, company, business entity or other organisation be employed, engaged, concerned or interested in any other oil and gas or minerals business or undertaking operating in the Falkland Islands except Global Petroleum Pty Limited, provided that this shall not prohibit the holding (directly or through nominees) of investments listed on the London Stock Exchange or the Australian Stock Exchange or in respect of which dealing takes place on AIM or any recognised investment exchange as long as not more than 10 per cent. of the issued shares or other securities of any class of any one company shall be so held without the prior sanction of a resolution of the Board.

- (b) Appointment of Mr David Hudd as Deputy Chairman-(Non-Executive)

The appointment of Mr Hudd as a Non-Executive Director of the Company was approved at the meeting of the Board on 16 June 2004 and the appointment pursuant to a letter of appointment dated 29 September 2004 on the terms described in this paragraph commenced with effect from 1 September 2004. Subject to Admission, the appointment will continue for an initial period of twelve months and shall continue thereafter unless terminated by either party giving not less than three months' written notice. Continuation of the appointment is contingent on satisfactory performance and re-election at future Annual General Meetings. The appointment is reviewed annually and will automatically terminate without any entitlement to compensation in certain circumstances. Mr Hudd is entitled to a fee for his services as a Non-Executive Director at the rate of £25,000 per annum. In addition, Mr Hudd

is entitled to the repayment of expenses on the basis prescribed in his letter of appointment and the Articles including legal fees. He was appointed Deputy Chairman on 20 September 2004.

(c) Appointment of Mr Timothy Jones as Finance Director of the Company

Pursuant to an agreement for the provision of services dated 29 September 2004 between the Company and Esher Management Services Ltd (the "Consultant"), the Consultant has agreed to provide the services of Mr Jones (the "Consultant's Employee") as Finance Director of the Company. The engagement commences on Admission and continues for a period of 12 months from such date and thereafter unless or until terminated by either party giving to the other not less than three months' notice. During the continuance of this agreement, the Consultant is entitled to receive a sum at the rate of £20,000 per annum (or such other rate as the parties may from time to time agree) plus an additional amount of £600 for each day over and above two days per calendar month on which the Consultant provides services to the Company under the Agreement. The Consultant is entitled to reimbursement of all cost, charges and expenses incurred by the Consultant to third parties but is not entitled to receive any fee or be reimbursed in respect of any expenses incurred by it in the performance of its duties under the agreement. The Consultant will receive £600 per day for professional services prior to Admission.

The Consultant has agreed to indemnify the Company against all possible taxation liabilities or any intentional and conscious or reckless disregard by the Consultant's Employee of his duties or responsibilities and any negligent or other wrongful act or omission by the Consultant's Employee.

(d) Appointment of Mr Peter Dighton as Commercial Director

The appointment of Mr Dighton as a Director of the Company was approved at the meeting of the Board on 19 August 2004. The appointment pursuant to a letter of appointment dated 29 September 2004 on the terms described in this paragraph is conditional upon Admission and continues for an initial period of twelve months and shall continue thereafter unless terminated by either party giving not less than three months' notice. Continuation of the appointment is contingent on satisfactory performance and re-election at future Annual General Meetings. The appointment is reviewed annually and will automatically terminate without any entitlement to compensation in certain circumstances. The Company expects Mr Dighton to spend at least two days per calendar month on the Company's business. Mr Dighton is entitled to a fee for the services as Commercial Director at the rate of £20,000 per annum from 1 September 2004. If Mr Dighton provides excess time to the Company, the excess time will be invoiced to the Company by his consultancy company, Law Strategies Pty Ltd.

(e) Save as set out in this paragraph 6, there are no service contracts or consultancy agreements in existence between any of the Directors and the Company which cannot be determined by the employing company without payment of compensation (other than statutory compensation) within one year and no such contracts are proposed.

(f) The aggregate of the remuneration paid and benefits in kind (including pension contributions) granted to the Directors by the Company during the financial period ended 31 August 2004 was £Nil. The aggregate of the remuneration payable and benefits in kind (including pension contributions) to be granted by the Company to the Directors for the financial year ending 31 March 2005 under the arrangements in force at the date of this document is estimated to be approximately £90,000.

7. Unapproved Share Option Scheme

(a) Introduction

Under the Unapproved Share Option Scheme, options are granted over Shares. The Unapproved Share Option Scheme was adopted on 29 September 2004 and does not qualify for approval by the Inland Revenue.

(b) Administration

The Unapproved Share Option Scheme will be operated by the remuneration committee (the “Committee”).

(c) Eligibility

Any employee or director of the Company and any consultant to the Company is eligible to participate in the Unapproved Share Option Scheme, at the discretion of the Committee.

(d) Grant of Options

Options may be granted in the six weeks following the occurrence of any of the following events:

- (i) the adoption of the Unapproved Share Option Scheme;
- (ii) the date on which any amendment to the Unapproved Share Option Scheme becomes effective; and
- (iii) an announcement by the Company of its final or interim results.

Options may also be granted outside these periods in circumstances deemed exceptional by the Committee. No options will be granted under the Unapproved Share Option Scheme following the 10th anniversary of its date of adoption.

No amount is payable by a participant on the grant of an option.

(e) Unapproved Share Option Scheme Limit

At any time, the aggregate number of Shares which have been issued under options granted under the Unapproved Share Option Scheme and any options or awards granted under any other employee share scheme which the Company may establish in the future and the number of Shares issuable under such outstanding options or awards may not exceed that number of Shares which is equal to 10 per cent. of the Company’s issued share capital at that time. Options or awards granted more than 10 years previously are not taken into account for the purposes of this limit.

(f) Exercise Price

For options granted immediately prior to Admission, 50 per cent. of the shares comprised in each option shall have an exercise price per Share of 40p (which is equal to the Issue Price) and the other 50 per cent. of the Shares comprised in each option shall have an exercise price per share of 60p (which is equal to 150 per cent. of the Issue Price). For options granted subsequently, the exercise price will be not less than the market price of a Share at the date of grant.

(g) Exercise of Options

Options shall become exercisable on the first anniversary of the date of grant.

An option will generally only be exercisable by an individual who is a director, employee or consultant of the Company at the date of exercise and may not be exercised after the seventh anniversary of the date of grant.

The exercise of options may be made dependent upon the achievement of performance conditions. It is not intended that options granted on Admission should be subject to such conditions.

(h) Leavers

Early exercise of an option will be permitted if an optionholder dies or he ceases his connection with the Company as a result of injury, ill-health or disability. In all other circumstances, a leaver’s option will be forfeited unless the Committee determines otherwise.

(i) Change of Control

In the event of a takeover of the Company, options may be exercised in full shortly thereafter.

(j) Variation of Capital

In the event of a rights or capitalisation issue or any sub-division, consolidation, reduction or other variation of the Company's share capital, the exercise price of an option and the number of option shares may be adjusted in such manner as the Committee determines is fair and reasonable.

(k) Voting, Dividend and other Rights

Until optionholders exercise their options, they have no voting or dividend rights. Shares allotted under the Unapproved Share Option Scheme will rank *pari passu* with existing Shares with the exception of rights attaching by reference to a record date prior to the allotment date. Application will be made for all the Shares to be admitted to trading on AIM.

All options are non-transferable and non-pensionable.

(l) Amendments

The Unapproved Share Option Scheme may be amended by the Board, although amendments to the material detriment of an optionholder would require his prior written consent.

8. Material Contracts

Save as disclosed herein, the Company has not entered into any contract not being a contract in the ordinary course of business in the past two years which is or may be material.

(a) *Placing and Admission Agreement*

Under an agreement made between the Company, the Directors and KBC Peel Hunt and dated 30 September 2004, KBC Peel Hunt has agreed:

- (i) to use reasonable endeavours to procure subscribers for 25,000,000 New Shares pursuant to the Placing; and
- (ii) on behalf of the Company, to submit to the London Stock Exchange an application for Admission and to act as the Company's nominated adviser in respect of such application.

The obligations of the parties under the Placing and Admission Agreement are conditional upon certain conditions having been fulfilled (or waived by KBC Peel Hunt) by midnight on 14 October 2004, or such later date as may be agreed by KBC Peel Hunt and the Company (not being later than midnight on 21 October 2004). The agreement contains certain representations and warranties by the Company and the Directors as to the accuracy of the information contained in this document and other matters relating to the Company and its business. Under the Placing and Admission Agreement and conditional upon Admission, the Company shall pay to KBC Peel Hunt for its services a fee of £200,000 and a commission equal to three per cent. of the total value of the Issue Shares subscribed pursuant to the Issue and shall reimburse KBC Peel Hunt for all costs and expenses in connection with the application. The Company has agreed to indemnify KBC Peel Hunt against all losses, costs, charges and expenses which KBC Peel Hunt may suffer or incur as a result of, occasioned by or attributable to the carrying out of its duties under the Placing and Admission Agreement.

(b) *Share Subscription Agreement*

Pursuant to an agreement dated 23 June 2004 between FIC, Dampier, RAB and the Company, the subscribers agreed to contribute US\$1.1 million, US\$500,000, and \$2.2 million to the Company ("Subscription Funds"). In consideration of the Subscription Funds and the assignment of the Participation Interests under the Assignment Agreement at paragraph 8(c) below, FIC, Dampier, and RAB received 289, 257, and 454 fully paid ordinary shares respectively. This agreement will be terminated with effect from Admission.

(c) *Assignment Agreement – Falklands Offshore Petroleum Licences*

Pursuant to an assignment agreement dated 23 June 2004 between FIC, Dampier, Hardman (together the “Assignors”) and the Company, in consideration for the Company allotting 60 fully paid shares and 150 fully paid shares in the Company to FIC and Dampier respectively, FIC and Dampier assigned their undivided percentage interests in the rights and obligations derived from the licences and the JOA (the “Participating Interests”) to the Company. In consideration of the Company agreeing to fund the work programme as set out in this agreement, Hardman assigned a portion of its Participating Interest to the Company with the result that the Participating Interests of the Company and Hardman are 77.5 per cent. and 22.5 per cent. respectively. Under the assignment agreement, the Company covenanted that it will assume the obligations of the Assignors in relation to their assigned interests (including reimbursement of future payments payable by the Assignors to a seismic operator) and agreed to be bound by the terms and conditions, restrictions and obligations of the Licences. With effect from 29 June 2004, the Company was entitled to the rights and interests of the Assignors under the JOA and the transfer of the interests in the Licences pursuant to the Assignment Agreement was effected through a Deed of Assignment executed by the parties on 31 August 2004 and lodged with the Falkland Islands Government. Notwithstanding the Participating Interests, expenditure on joint operations after the date of this agreement up to US\$4,500,000 are to be borne as to 80 per cent. by the Company and 20 per cent. by Hardman. Thereafter the continuing parties will fund joint operations according to their interests.

- (d) Geophysical Service Incorporated (“GSI”) has been engaged by the Operator, Dampier Oil Ltd, to undertake a non-exclusive 2D seismic survey in the Production Licence areas, after a competitive bid process. The agreement has a start date between 1 November 2004 and 1 December 2004, subject to up to 2 weeks delay in the start date if there are any weather delays. The mobilisation fee is US\$900,000. This is refundable if the contractor is unable to obtain the necessary operational permit from the Falkland Islands Government or if the vessel is not approved by a technical and safety audit. The demobilisation fee is US\$600,000. The kilometres to be shot by the seismic contractor will be a minimum of 3,500 km to meet the Production Licence commitments of FOGL and Hardman. The joint venture has the option of acquiring extra seismic at the nominated kilometre rate. The kilometre rate depends on the overall average line length but the kilometre expenditure equates in each scenario to US\$1,750,000, making a total lump sum contract value of US\$3,250,000, not including any optional seismic the joint venture may order.
- (e) The Company has agreed that Capita shall provide the Company with services as depositary in accordance with a trust deed poll to be executed by Capita, pursuant to which Capita will determine to constitute and issue from time to time the Depositary Interests with a view to facilitating the indirect holding of, and settlement of transactions by participants in CREST.
- (f) The Company has agreed to lease premises at Charterhouse Square, London for a period of 6 months from TM Services Limited with an option to renew for a further 6 months. The rent is payable at a rate of £25,000 per annum.

9. Working Capital

The Directors are of the opinion that, having made due and careful enquiry, the working capital available to the Company will be sufficient for its present requirements, that is for at least twelve months from the date of Admission.

10. Litigation

There are no legal or arbitration proceedings, active, pending or threatened against, or being brought by, the Company which are having or may have a significant effect on the financial position of the Company.

11. United Kingdom Taxation

The following paragraphs are a general statement about the tax position of shareholders who are resident or ordinarily resident in the United Kingdom in relation to the payment of dividends, capital gains, stamp duty and stamp duty reserve tax. The statements below do not constitute advice to any shareholder on his or her

personal tax position, and may not apply to certain classes of investor (such as persons carrying on a share dealing trade in the United Kingdom or United Kingdom insurance companies). Any investors who are in doubt as to their tax position should consult their professional adviser.

The Company

The Directors consider that at least initially the Company will be resident for tax purposes in the UK. The following summary has been prepared on this basis.

Taxation of Dividends

Under current United Kingdom tax legislation no taxation is withheld at source from dividend payments made by the Company to its shareholders. Individual shareholders resident in the United Kingdom for tax purposes will be entitled to a tax credit in respect of dividends paid by the Company at the rate of one ninth of the cash dividend or 10 per cent. of the aggregate of the cash dividend and the associated tax credit. Such shareholders will be liable to income tax (if at all) on the aggregate of the dividend and the associated tax credit at, in the case of starting and basic rate taxpayers, the Schedule F ordinary rate (10 per cent. in 2004-2005) or, in the case of higher rate taxpayers, the Schedule F upper rate (32.5 per cent. in 2004-2005). The tax credit will be offset against their total income tax liability, giving rise to a net tax rate on the net dividend of 25 per cent. in 2004-2005. Therefore, taxpayers who, after taking into account dividend income, are liable to United Kingdom income tax at only the starting or basic rate, will have no further liability to income tax.

United Kingdom resident corporate shareholders will generally not be subject to corporation tax in respect of dividends received from the Company. UK resident corporate shareholders cannot obtain relief for the 10 per cent. tax credit suffered.

Shareholders resident outside the United Kingdom or subject to tax in a jurisdiction other than the United Kingdom should consult an appropriate professional adviser concerning their liabilities to tax on dividends received.

Taxation of Chargeable Gains

A disposal of Shares by a shareholder resident or ordinarily resident for tax purposes in the United Kingdom or a shareholder who carried on a trade, profession or vocation in the United Kingdom through a branch or agency and has used, held or acquired the Shares for the purposes of such trade, profession or vocation or such branch or agency may, depending on the shareholder's circumstances, and subject to any available exemptions, allowances or reliefs, give rise to a chargeable gain or an allowable loss for the purposes of United Kingdom taxation of chargeable gains. Taper relief may be available to reduce chargeable gains accruing to individuals. The Company will not initially be trading and therefore shares in the Company are likely to be regarded as non-business assets for taper relief purposes. Special rules apply to disposals by individuals at a time when they are temporarily not resident or ordinarily resident in the United Kingdom.

Stamp Duty and Stamp Duty Reserve Tax

The Directors have been advised in relation to stamp duty and stamp duty reserve tax ("SDRT") that except in relation to depository and clearance services (to which special rules apply) no United Kingdom stamp duty will arise on the issue by the Company of the Shares. Transfers of Shares will be liable to ad valorem stamp duty normally at the rate of 0.5 per cent. of the actual consideration paid, rounded up to the nearest multiple of £5. A charge to SDRT, normally at the rate of 0.5 per cent. of the consideration, arises, in the case of an unconditional agreement to transfer shares, on the date of the agreement and, in the case of a conditional agreement, on the date the agreement becomes unconditional. However, where an instrument of transfer is executed and duly stamped before the expiry of a period of six years beginning with the date of that agreement (or the date on which the agreement becomes unconditional, as the case may be), the SDRT charge is cancelled to the extent that the SDRT has not been paid and, if any of the SDRT has been paid, a claim may be made for its repayment. Transfers within CREST are usually subject to SDRT.

The above paragraphs are a general guide only to the tax regime in the United Kingdom and are not exhaustive. If you are in any doubt as to your taxation position you should consult an appropriate professional adviser without delay.

Non-UK resident Shareholders

Subject to certain exceptions for individuals who are Commonwealth citizens, citizens of the Republic of Ireland, residents of the Isle of Man or the Channel Islands, nationals of States which are part of the European Economic Area and certain others, non-UK resident Shareholders will not generally be able to claim repayment from the Inland Revenue of any part of the tax credit attaching to dividends paid by the Company. A Shareholder resident outside the UK may also be subject to foreign taxation on dividend income under local law. A Shareholder who is not resident in the UK (for tax purposes) should consult his own tax adviser concerning his tax liabilities on dividends received from the Company.

12. Falkland Islands Taxation

This section is intended as a general guide and is based on the directors' understanding of current Falkland Islands tax laws.

Broadly the fiscal system applicable to the Company in respect of its Falkland Islands offshore oil and gas exploration and production activities comprises:

- Corporation tax payable at 25 per cent. on all taxable profits and gains. Capital allowances and other reliefs will be given on capital expenditure but no deductions will be given for acreage rentals.
- A small acreage rental is payable on licences up to the time development approval is given. Following that a US\$375,000 per annum charge for discovery areas and a US\$375,000 per square kilometre per annum charge for other production areas is levied up until first royalties are paid from production.
- A royalty of 9 per cent. is payable on the market value of any petroleum won.

13. General

- (a) The accounting reference date of the Company is 31 March.
- (b) The Company commenced trading on 29 June 2004.
- (c) Save as set out herein and in paragraph 6 (c) of Part VI, no persons (excluding professional advisers otherwise disclosed in this document and trade suppliers) have received, directly or indirectly, from the Company within the 12 months preceding the date of this document nor have they entered into contractual arrangements to receive, directly or indirectly, from the Company on or after Admission, fees totalling £10,000 or more, or securities in the Company with a value of £10,000 or more calculated by reference to the Issue Price, or any other benefit with a value of £10,000 or more at the date of Admission. Up to 31 August 2004, Law Strategies Pty Ltd, of which Mr Dighton is a principal, has invoiced the Company for approximately £17,000 for professional services.
- (d) The financial information contained in this document does not constitute statutory accounts.
- (e) Save as disclosed, there are no patents or other intellectual property rights, licences or particular contracts which are of fundamental importance to the Company.
- (f) The Company has no significant investments in progress.
- (g) There are no exceptional factors which have influenced the Company's activities.
- (h) Each of the Directors is, or may be deemed to be, a promoter of the Company.
- (i) KBC Peel Hunt has given and has not withdrawn its written consent to the inclusion in this document of references to its name in the form and context in which they appear. KBC Peel Hunt is regulated by the Financial Services Authority and is registered in England and Wales with registered number 02320252.
- (j) Scott Pickford Ltd has given and has not withdrawn its written consent to the issue of this document with the inclusion of its name and the references to it in the form and context in which they appear and has authorised the inclusion of its report set out in Part II of this document for the purposes of paragraph 13(1)(g) of the POS Regulations and for the purposes of the 1948 Act and has accepted responsibility for its report.

- (k) KPMG has given and has not withdrawn its written consent to the inclusion of its report in this document.
- (l) It is intended that application will be made for the Depository Interests to be issued pursuant to the Placing and/or the Offer to be admitted to CREST with effect from Admission. Accordingly, it is expected that the Depository Interests will be enabled for settlement in CREST following Admission.
- (m) The expenses of the Placing and Offer are estimated at approximately £1 million, including VAT, all of which are payable by the Company.
- (n) The minimum amount which, in the opinion of the Directors, must be raised under the Placing and Offer to provide the sums required in respect of the matters specified in paragraph 21 of Schedule 1 of the POS Regulations and in section 4 of Part 2 of the Fourth Schedule to the 1948 Act is £5 million, divided as follows:

	<i>£ million</i>
(i) the purchase price of any property	–
(ii) preliminary expenses of the Placing and the Offer	1
(iii) repayment of money borrowed in respect of (i) and (ii)	–
(iv) working capital	4

The issue will not proceed if the minimum subscription is not achieved.

- (o) The Shares are not currently admitted to dealings on a recognised investment exchange and, other than the Company's application for the Shares, both issued and to be issued under the Placing and Offer, to be admitted to trading on AIM, no applications for such admission have been made.
- (p) 250,000 Shares have been made available to market makers in the Placing, of which 200,000 have been subscribed by KBC Peel Hunt.
- (q) The documents attached to this document delivered to the Registrar of Companies in the Falkland Islands for registration are the written consents referred to in paragraphs 13(i), 13(j) and 13(k) above and the contracts summarised in paragraph 8 of this Part VI.

14. Availability of this document

Copies of this document will be available for collection only, free of charge, from the UK Office of the Company, at 5 Charterhouse Square, London EC1M 6PX and from the offices of KBC Peel Hunt, at 4th Floor, 111 Old Broad Street, London EC2N 1PH, during normal office hours on any weekday (Saturdays and public holidays excepted) for a period of not less than one month from the date of Admission.

15. Documents available for inspection

Copies of the following documents will be available for inspection at the offices of Norton Rose, Kempson House, Camomile Street, London EC3A 7AN, and at the Company's registered office during usual business hours for a period of 14 days following Admission:

- (a) the Memorandum and Articles of Association of the Company;
- (b) the reports set out in Parts II and IV;
- (c) the service contracts, consultancy agreements and appointment letters referred to in paragraph 6 above;
- (d) the material contracts referred to in paragraph 8 above;
- (e) the letters of consent referred to in paragraphs 13(i), 13(j) and 13(k) above;
- (f) the audited accounts of the Company for the three months ended 31 August 2004; and
- (g) the pre-paid form of trust deed poll in relation to the Depository Interests.

30 September 2004

PART VII

TERMS OF THE OFFER

1. INTRODUCTION

- (a) If you apply for New Shares in the Offer, you will be agreeing with the Company, KBC Peel Hunt and Capita IRG Plc (“Capita IRG”) as set out below.
- (b) Applicants who wish to subscribe for New Shares under the Offer should use the Application Form which has been set out at the end of this document. This should be completed in accordance with the instructions and guidelines set out thereon and after reading the terms and conditions of application set out below.
- (c) It is expected that the basis of allocation of the New Shares will be announced on 13 October 2004 and that dealings in the New Shares will commence at 8.00 a.m on 14 October 2004.
- (d) It is expected that CREST accounts will be credited in respect of Depository Interests on 14 October 2004 or definitive share certificates will be despatched to successful applicants under the Offer on or before 28 October 2004.

2. OFFER TO SUBSCRIBE FOR ORDINARY SHARES

- (a) The Offer is being made by the Company to the extent and for the purposes referred to in this document. Applications must be made on the Application Form. By completing and delivering an Application Form, you as the applicant (and, if you sign the Application Form on behalf of somebody else or a corporation, that person or corporation):
 - (i) offer to subscribe at the Issue Price for the number of New Shares that you have specified in your Application Form (or any smaller number in respect of which your application is accepted), subject to these terms and conditions, the terms of the Application Form, and solely on the basis of this document and the Memorandum and Articles of Association of the Company; and
 - (ii) authorise Capita IRG to send on behalf of the Company a definitive share certificate for the number of New Shares for which your application is accepted or to credit your CREST account for such number of Depository Interests and/or to send a cheque crossed “Account Payee” for any monies returnable (without interest) or your cheque or banker’s draft, in each case by post at the risk of the person(s) entitled to it, to your address (or, in the case of joint applicants, to that of the first-named applicant as set out in your Application Form) and to do all things and to take all action necessary to procure that your name (together with the name(s) of any other joint applicant(s)) is/are placed on the register of members of the Company in respect of the New Shares for which your application is accepted.
- (b) In consideration of the Company agreeing that it will not prior to Admission (or such later date as the Company and KBC Peel Hunt may agree) allot, issue or sell to any person any of the New Shares other than by means of the procedures referred to in this document and, as a collateral contract between you, any person on whose behalf you are signing the application form and the Company which will become binding on despatch by post or delivery to Capita IRG of the Application Form, you:
 - (i) agree that your application may not be revoked by you until after 31 October 2004;
 - (ii) undertake to pay the Issue Price for the New Shares (payable in full in sterling on application) in respect of which your application is accepted and warrant that your remittance will be honoured on first presentation and agree that, if such remittance is not so honoured, notwithstanding that you may have been entered on the register of members of the Company you will not be entitled to receive a share certificate or have your CREST account credited in respect of the Depository Interests applied for or to enjoy or receive any rights or distributions in respect of such Depository

Interests unless and until you make payment in cleared funds for such New Shares and such payment is accepted by the Company (which acceptance shall be in its absolute discretion and on the basis that you indemnify the Company against all costs, damages, losses, expenses and liabilities arising out of or in connection with the failure of your remittance to be honoured on first presentation) and that at any time prior to unconditional acceptance by the Company of such late payment, the Company may (without prejudice to any other rights) terminate the agreement to allocate such New Shares to you without liability to you and may reallocate such New Shares to some other person, in which case you will not be entitled to any refund or payment in respect of such New Shares (other than the refund to you at your risk of any proceeds of the remittance accompanying your Application Form, without interest) and in the event of termination you will pay the Company, on demand, such amount as may be certified on its behalf as being necessary to compensate the Company for any losses, costs and expenses incurred or expected to be incurred as a result of your remittance not being honoured on first presentation and as a result of termination;

- (iii) agree that any share certificate to which you may or the person on whose behalf you have made the application become entitled and monies returnable to you may be retained or the crediting of your CREST account deferred pending clearance of your remittance or pending investigation of any suspected breach of any of the warranties contained in paragraphs 6(a), 6(b), 6(f), 6(g) or 6(i) below and that any interest accruing on such retained monies shall accrue to and for the benefit of the Company;
- (iv) agree, on request by the Company, to disclose promptly in writing to it or Capita IRG any information which it may request in connection with your application and authorise the Company or Capita IRG to disclose any information relating to your application which it may consider in its absolute discretion appropriate;
- (v) agree that any share certificate to which you or the person on whose behalf you have made the application may become entitled and monies returnable to you may be retained or the crediting of your CREST account deferred pending clearance of your remittance, investigation of any suspected breach of these terms and conditions and any verification of identity which is, or which Capita IRG consider may be, required for the purposes of the Money Laundering Regulations 2003, and that any interest accruing on such retained monies shall accrue to and for the benefit of the Company;
- (vi) agree that, if evidence of identity satisfactory to Capita IRG is not provided to Capita IRG on or before 14 October 2004, the Company may terminate the contract of allocation with you and any person on whose behalf you have applied and, in such case, the New Shares which would otherwise have been allocated to you will be sold as soon as is reasonably practicable (and for which purpose you and any person on whose behalf you have applied, agree to hereby irrevocably authorise the Company or any person appointed by it for the purpose to execute on your behalf any instrument or transfer which may be necessary to effect such sale) and, as soon as is reasonably practicable after such sale, your application monies (or, if less, an amount equal to the proceeds of such sale net of all expenses of the sale including for the avoidance of doubt any stamp duty and/or stamp duty reserve tax) will be returned to the bank or other account at which the cheque or other remittance accompanying your application was drawn and you agree for yourself and on behalf of any person for whom you have made the application that, in such event, neither you nor any person on whose behalf you made the application will have claim against the Company or Capita IRG or any of their respective officers, agents or employees in respect of the balance of your application monies, if any (such balance being retained by the Company as compensation for breach of contract), or for any loss arising from the price, the timing or the manner of such sale or otherwise in connection therewith;
- (vii) agree that your Application Form is addressed to the Company;
- (viii) represent and warrant that you are not applying on behalf of a person engaged in money laundering;

- (ix) undertake to ensure that, in the case of an application signed by someone else on your behalf, the original of the relevant power of attorney or other authority (or a complete copy certified by a solicitor or notary) is enclosed with your application form;
 - (x) agree that the Company, in consultation with KBC Peel Hunt, reserves the right to alter any arrangements in connection with the Offer (including the timetable of the application); and
 - (xi) agree that the contract arising from acceptance of applications (in whole or in part) under the Offer will be, or be deemed to be, entered into by you (if you are a successful applicant) and by any person on whose behalf you have applied (if such person is a successful applicant) on these terms and conditions of application for the Offer subject to paragraph (xi) above and any changes, additions or alternations made to any application form will have no effect.
- (c) If your Application Form is not completed correctly or is amended or if the accompanying cheque or banker's draft is for the wrong amount of currency or if your Application Form is not accompanied by a power of attorney or other authority where required, it may still be treated as valid. In these circumstances, the Company's decision as to whether to treat your application as valid, and how to construe, amend or complete it, shall be final. You will not, however, be treated as having offered to subscribe for a higher number of New Shares than is indicated in your application.
- (d) The Company reserves the right to reject any application or in whole or in part, or to scale down any application, including without limitation:
- (i) multiple or suspected multiple applications;
 - (ii) any application form not accompanied by a cheque or banker's draft in sterling for the sum stated in the application form;
 - (iii) any application where the accompanying application is not properly completed in all respects in accordance with the instructions accompanying the application form;
 - (iv) any application where as a result of such application, the provisions of the terms of the Offer are, or, but for the rejection of such application, would be, breached; and
 - (v) any application in names that are, or are suspected to be fictitious.

3. ACCEPTANCE OF YOUR OFFER

- (a) The Company may accept your offer to subscribe for New Shares under the Offer (if your application is received, valid (or treated as valid), processed and not rejected) either:
- (i) by notifying the London Stock Exchange of the basis of allocation (in which case the acceptance will be on that basis); or
 - (ii) by notifying acceptance to Capita IRG.
- (b) The basis of allocation of New Shares will be determined by the Company. The acceptance of your offer to subscribe for New Shares may (at the absolute discretion of the Company) be rejected or be of the whole or any part of your offer and, accordingly, the amount you have offered to invest may be scaled back. Accordingly, you or any person on whose behalf you have applied, may not receive all of the shares applied for and may not receive any at all.

4. CONDITIONS

- (a) The contract arising from acceptance of applications (in whole or in part) under the Offer will be entered into by successful applicants and the Company under which you or the person on whose behalf you applied will be required to subscribe for the New Shares (at the Issue Price) in respect of which your application has been accepted and will be conditional upon: (i) the admission of the entire issued share capital of the Company to AIM becoming effective on or before 14 October 2004 or such later

date as the Company may agree; and (ii) the Placing and Admission Agreement referred to in paragraph 8 of Part VI becoming wholly unconditional.

- (b) You or any person on whose behalf you may have applied will not be entitled to exercise any remedy of rescission for innocent misrepresentation (including pre-contractual representations) at any time after acceptance. This does not affect any other right you or such other person may have.

5. RETURN OF APPLICATION MONIES

If any application is not accepted or if any contract created by acceptance does not become unconditional or if any application is accepted for a smaller number of New Shares than that offered, the application monies or the balance of the amount paid on application (as the case may be) will be returned without interest by post at the risk of the applicant(s) not later than 40 days after the date of this document except that no balance of less than £2.00 will be returned, being the amount estimated by the Company to be the administrative cost of any such payment. In the meantime, application monies will be retained by Capita IRG in an account designated for the purposes of the Offer and any interest accrued on the application monies shall be retained by, and for the benefit of, the Company. The cheque and/or banker's draft accompanying your application may be presented on receipt and before acceptance of your offer, but this will not constitute acceptance of your offer either in whole or in part. The proceeds of this presentation will be held pending acceptance and, if your application is accepted and the conditions of paragraph 4 above are satisfied, will be applied in discharging the total amount due for the New Shares you or any person on whose behalf you have applied have been allocated. Share certificates and surplus application monies (if any) may be retained and the crediting of CREST accounts deferred pending clearance of the applicant's cheque and/or banker's draft. The right is also reserved to reject any application in respect of which the applicant's cheque or banker's draft has not been cleared on first presentation and, in any event, by 3.00 p.m. on 12 October 2004. The Company may require an applicant to pay interest or other resulting costs (or both) if the cheque or banker's draft accompanying his application is not honoured on first presentation. Any sums refunded will be paid in sterling only.

6. WARRANTIES

By completing the Application Form, you and, if signing on behalf of another person, that person:

- (a) warrant that if the laws of any territory outside the UK are relevant to your application, you have complied with all such laws, obtained all governmental and other consents which may be required, complied with all requisite formalities and paid any issue, transfer or other taxes due in connection with your application in any territory and that you have not taken any action or omitted to take any action which will or may result in KBC Peel Hunt or the Company or any of their respective officers, agents or employees acting in breach of the regulatory or legal requirements of any territory outside the UK in connection with the Offer or your application;
- (b) warrant that if you sign an Application Form on behalf of somebody else or a corporation you have the authority to do so and that such other person will be bound accordingly and will be deemed also to have given the confirmations, warranties and undertakings contained in these terms and conditions and undertake to enclose your power of attorney or other authority (or a copy thereof duly certified by a solicitor) where required by the instructions contained in the guide to completing the Application Form and otherwise comply with such instructions;
- (c) confirm that, in making this application, neither you nor any person on whose behalf you are applying is relying on any information or representation in relation to the Company or to any other member of the Group other than such as may be contained in this document and you agree that none of KBC Peel Hunt, the Company, the Directors or any person acting on behalf of them or any person responsible solely or jointly for this document, or any part of it, shall have any liability for any such information or representation;

- (d) agree that, having had the opportunity to read this document, you shall be deemed to have notice of all information and representations concerning the Company or any other member of the Group contained in this document;
- (e) acknowledge that no person is authorised in connection with the Offer to give any information or to make any representation other than as contained in this document and, if given or made, such information or representation must not be relied upon as having been authorised by KBC Peel Hunt or the Company;
- (f) confirm that you have reviewed the restrictions contained in paragraph 8 below and warrant, to the extent relevant, that you (and any person on whose behalf you apply) are (an) eligible person(s) and comply or have complied with the provisions of paragraph 8 below;
- (g) warrant that you (and any person on whose behalf you apply) are not a person who is under 18 years of age on the date of your application;
- (h) agree that all documents in connection with the Offer and any returned monies will be sent at your risk and at the risk of any person on whose behalf you are applying and may be sent by post to you at your address (or, in the case of joint applicants, the address of the first-named applicant) set out in the Application Form;
- (i) warrant that you are not applying as, or as nominee or agent of, a person who is or may be a person mentioned in any of sections 67, 70, 93 or 96 of the Finance Act 1986 (depository receipts and clearance services);
- (j) agree not to dispose of any shares in the Company for one year from Admission if you qualify as a “related party” or “applicable employee” for the purposes of Rule 7 of AIM;
- (k) represent and warrant that you have carefully read the Admission Document and understood and have evaluated the risk of a purchase of New Shares in the Company hereunder, including the risks set out under “Risk Factors” in the Admission Document and have relied solely on the information contained in the Admission Document; and
- (l) covenant and agree to indemnify and hold harmless the Company and/or KBC Peel Hunt and any corporation or other legal entity affiliated with the Company and/or KBC Peel Hunt, or any of the officers, directors, shareholders and agents of any of the foregoing and all professional advisors thereto (including, without limitation, the legal counsel and accountants of each such parties), from and against any or all loss, liability, damage or expense, including costs and reasonable legal counsel’s fees and related expenses, to which any of them may become subject or which any of them may incur by reason of or in connection with any misrepresentation made by you in your application form, any breach of any representation or warranty by your acceptance of these terms and conditions, or your failure to fulfil any of your covenants and agreements under these terms and conditions.

7. MONEY LAUNDERING

- (a) You agree that, in order to ensure compliance with the Money Laundering Regulations 2003, Capita IRG may at its absolute discretion require verification of identity from any person lodging an Application Form and in particular any person who either: (i) tenders payment by way of banker’s draft or cheque drawn on, or by way of telegraphic transfer or similar electronic means from, an account in the name of another person or persons; or (ii) appears to Capita IRG to be acting on behalf of some other person. In the former case, verification of identity of the applicant may be required. In the latter case, verification of identity of any persons on whose behalf the applicant appears to be acting may be required. Failure to provide the necessary evidence of identity may result in application(s) being rejected or delays in the despatch of documents.
- (b) Without prejudice to the generality of paragraph 7(a) above, verification of the identity of applicants may be required if the value of the Shares applied for exceeds £9,300 (€15,000). If in such circumstances, you use: (i) a cheque drawn by a third party; or (ii) a building society cheque or banker’s draft you should:

- (i) where the cheque is drawn by a third party, ensure that a certified copy of the applicant's passport or driving licence certified by a solicitor and a recent original bank or building society statement or utility bill in the applicant's name and showing his current address (which originals will be returned by post at the applicant's risk) is enclosed with your application; or
 - (ii) where you use a building society cheque or banker's draft, ensure that the bank or building society enters the name, address and account number of the person whose account is being debited on the reverse of the cheque or banker's draft and adds its stamp.
- (c) If you are making the application as agent for one or more persons indicated in the Application Form whether you are a UK or European Union regulated person or institution and specify your status. Such payments must be accompanied by written confirmation that evidence has been obtained and recorded to verify the identity of the applicant as required by the Money Laundering Regulations 2003 and that such records will be retained for at least five years.

8. OVERSEAS INVESTORS

- (a) The Offer is only being made to persons ("Eligible Persons") aged 18 or over who resident in the UK or the Falkland Islands and who are not US persons (as defined in Regulation S under the US Securities Act of 1933 (as amended) (a "US Person")). No other persons may apply for Shares under the Offer without the consent of the Company, at its sole discretion. The Offer is not being made anywhere else or to any other person.
- (b) An Eligible Person who wishes to apply for Shares in the Offer must complete and return the Application Form in accordance with its instructions and in accordance with the terms and conditions set out in this Part VII.
- (c) The distribution of this document or of any Shares in certain jurisdictions may be restricted by law and therefore persons into whose possession this document comes should inform themselves about and observe any such restrictions, including those in the paragraphs that follow. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction.
- (d) This document does not constitute or form part of any offer or invitation to sell or issue, or the solicitation of any offer to purchase or subscribe for, Shares in any jurisdiction in which such offer, invitation or solicitation is unlawful and, without limitation, is not for distribution in or into the United States or Canada or Australia or Japan. The Shares have not been and will not be registered under the applicable securities laws of the United States or Canada or Australia or Japan and may not be offered or sold within the United States or Canada or Australia or Japan or to any national, resident or citizen of the United States, Canada, Australia or Japan.
- (e) No person receiving a copy of this document and/or an Application Form in any territory other than the United Kingdom or the Falkland Islands may treat it as constituting an offer or invitation to him, nor should he in any event use an Application Form, unless he is a resident of the UK or the Falkland Islands, and in the relevant territory, such an invitation or offer could lawfully be made to him or such Application Form could lawfully be used without contravention by any person of any registration or other regulatory or legal requirements. It is the responsibility of any person outside the UK or the Falkland Islands receiving a copy of this document and/or an Application Form and wishing to apply for Shares under the Offer to satisfy himself as to full observance of the laws of any relevant territory, including the obtaining of requisite governmental or other consents, the observance of any other requisite formalities and the payment of any issue, transfer or other taxes due in such territories. In particular, no persons may apply on any Application Form if they are unable to represent, agree and acknowledge that they are not, and are not acting on behalf of, a US Person and are not in the United States or acting on behalf of a person in the United States and are not a Canadian person or an individual, corporation or other entity resident in Japan or Australia. If the Company has cause to believe that any applicant is a US Person or in the United States or is acting on behalf of a US Person or a person in the United States, any application which they may make may be rejected.

9. MISCELLANEOUS

- (a) To the extent permitted by law, all representations, warranties and conditions, express or implied and whether statutory or otherwise (including, without limitation, pre-contractual representations but excluding any fraudulent representations) by the Company are expressly excluded upon and in relation to the New Shares and the Offer.
- (b) Save where the context requires otherwise, terms defined in this document bear the same meaning when used in these terms and conditions and in the Application Form used by you and in the guide to completing the Application Form. In the case of a joint application, references in these terms and conditions to “you” or “the applicant” are to each joint applicant (and “your” shall be construed accordingly) and the liability of joint applicants is joint and several.
- (c) The rights and remedies of the Company, KBC Peel Hunt and Capita IRG under these terms and conditions are in addition to any rights and remedies which would otherwise be available to any of them and the exercise or partial exercise of any one will not prevent the exercise of others or full exercise
- (d) The Company and KBC Peel Hunt reserve the right to delay the closing time of the Offer from 3.00 p.m. on 12 October 2004. In that event, the revised closing time will be published in such manner as the Company and KBC Peel Hunt in their absolute discretion determine.
- (e) If the Placing and Offer Agreement does not become unconditional in all respects, the Offer will lapse and any monies will be returned to you without interest. The Company and KBC Peel Hunt each expressly reserves the right to determine not to proceed with the Offer. If such right is exercised, the Offer will lapse and any monies received in respect of the Offer will be returned to applicants without interest.
- (f) You agree that all applications, acceptances of applications and contracts resulting from them under the Offer shall be governed by and construed in accordance with English Law and that you submit to the jurisdiction of the English courts and agree that nothing shall limit the right of KBC Peel Hunt or the Company to bring any action, suit or proceedings arising out of or in connection with any such applications, acceptances or contracts in any other manner permitted by law or in any court of competent jurisdiction.
- (g) You agree that neither KBC Peel Hunt nor Capita IRG will treat you as its customer by virtue of such application being accepted and that neither KBC Peel Hunt nor Capita IRG will be responsible to you for providing to you the protections afforded to its customers and neither KBC Peel Hunt nor Capita IRG will owe you any duties or responsibilities concerning the price of the New Shares or concerning the suitability of the New Shares for you as an investment or (save as expressly set out in these terms and conditions) otherwise in connection with the Offer.
- (h) You authorise Capita IRG or KBC Peel Hunt or their agents to do all things necessary to effect registration into your name(s) of any New Shares acquired by you and authorise any representative of Capita IRG or KBC Peel Hunt to execute and/or complete any document of title required therefor.
- (i) Only persons applying for New Shares under the Offer may rely on the information and representations contained in this document and, to the extent permitted by law, any liability for this document to any other person is hereby excluded by the Company, KBC Peel Hunt, Capita IRG and any other person responsible solely or jointly for this document, or any part of it.
- (j) The dates and times referred to in these terms and conditions may be altered by KBC Peel Hunt and the Company.

Falkland Oil and Gas Limited

(Incorporated in the Falkland Islands with registered number 12913)

Offer for Subscription of up to 2,000,000 Shares at 40p per share payable in full on application.

Application Form

INSTRUCTIONS FOR THOSE RESIDENT IN THE UNITED KINGDOM

This Application Form should be completed and sent to Capita IRG Plc, Corporate Actions, PO Box 166, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TH, together with your cheque or banker's draft payable to "Capita IRG Plc, a/c Falkland Oil and Gas Limited" and crossed "A/C Payee" for the amount payable (inserted in Box 2) so as to arrive as soon as possible and in any event so as to be received by no later than 3.00 pm on 12 October 2004.

INSTRUCTIONS FOR THOSE RESIDENT IN THE FALKLAND ISLANDS

Please contact Hugh Ferguson at the offices of Ledingham Chalmers, 56 John Street, Stanley, Falkland Islands (Telephone number 00 500 22690) for further details and instructions.

The subscription lists will open at 8.00 a.m. on 5 October 2004 and may be closed at any time thereafter and in any event by 3.00 p.m. on 12 October 2004 (unless extended by the Directors). If you need further copies of the Prospectus, which includes an Application Form, please call Capita IRG Plc on 0870 162 3100 or if telephoning from outside the UK on +44 208 639 2157.

IMPORTANT – Before completing this Application Form you should carefully read the Prospectus dated 30 September 2004 including the Terms of the Offer set out in Part VII.

Definitions used in the Prospectus shall have the same meaning in this Application Form. This Application Form is only made available with and as an enclosure to the Prospectus. The entire contents of the section in the Prospectus headed "Terms of the Offer" is deemed to be included and set out in this Application Form.

Applications may only be made by persons who are residents in the United Kingdom or the Falkland Islands and who are not US persons (as defined in Regulation S under the US Securities Act of 1933 (as amended)).

Box 1	I/We hereby irrevocably offer to subscribe for <input type="text"/> Offer Shares at 40p each on the terms and conditions (including the undertakings and the warranties) set out in the Prospectus and subject to the Memorandum and Articles of Association of the Company or any smaller number of Ordinary Shares for which this application is accepted.
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Any person signing this Application Form under power of attorney or other authority must enclose the original power of attorney or other authority (or a copy certified by a solicitor or notary) for inspection. If you post your Application Form, you are recommended to use first class post and allow at least two working days for delivery.

Note: Applications must be for a minimum of 2,500 shares at a subscription price of 40p per Offer Share.

Box 2	I/We attach a cheque or banker's draft payable to "Capita IRG Plc, a/c Falkland Oil and Gas Limited", for the total amount of (multiply the number of shares applied for by 40p sterling).	£
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Please use block capitals	Box 3	Forename/s (in full)
		Surname (Mr/Mrs/Ms/Miss or title)
		Address (in full)
		Postcode Daytime Telephone Number
		Signature Date



The first or sole applicant should sign and complete Box 3. Fill in Boxes 4 and 5 only if there is more than one applicant. Insert in Box 4 the names and addresses of the further joint applicants, each of whose signature is required in Box 5.

PLEASE USE BLOCK CAPITALS

Box 4	Forename(s) in full	Forename(s) in full	Forename(s) in full
	Surname	Surname	Surname
	Mr, Mrs,Ms, Miss or title	Mr, Mrs,Ms, Miss or title	Mr, Mrs,Ms, Miss or title
	Address (in full)	Address (in full)	Address (in full)
	Postcode	Postcode	Postcode

Box 5	Signature	Signature	Signature
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Box 6	For applicants wishing to hold shares in electronic form:	
	Participant ID:	Member Account ID:

I/We authorise/I/We do not authorise (delete whichever is inapplicable) the Company or its advisers to contact me by telephone in connection with any queries arising on my application.

If you have any queries relating to the completion of this Application Form, please telephone Capita IRG Plc on 0870 162 3100 or if telephoning from outside the UK on +44 208 639 2157.

I/We understand and acknowledge that the Company will determine the basis of allocation of the Offer Shares and that accordingly, I/we may not receive all of the Offer Shares applied for and may not receive any at all.

If your application is successful it is expected that a share certificate for your Shares will be sent to you on 28 October 2004. If you wish to hold shares in electronic form please complete Box 6 with the relevant participant ID and member account ID details of the applicant.

The Offer is only being made to persons ("Eligible Persons") aged 18 or over who resident in the UK, or the Falkland Islands and who are not US persons (as defined in Regulation S under the US Securities Act of 1933 (as amended) (a "US Person")). No other persons may apply for Shares under the Offer without the consent of the Company, at its sole discretion. The Offer is not being made anywhere else or to any other person.

This document does not constitute or form part of any offer or invitation to sell or issue, or the solicitation of any offer to purchase or subscribe for, Shares in any jurisdiction in which such offer, invitation or solicitation is unlawful and, without limitation, is not for distribution in or into the United States or Canada or Australia or Japan. The Shares have not been and will not be registered under the applicable securities laws of the United States or Canada or Australia or Japan and may not be offered or sold within the United States or Canada or Australia or Japan or to any national, resident or citizen of the United States, Canada, Australia or Japan.

No person receiving a copy of this document and/or an Application Form in any territory other than the United Kingdom or the Falkland Islands may treat it as constituting an offer or invitation to him, nor should he in any event use an Application Form, unless he is a resident of the UK or the Falkland Islands, and in the relevant territory, such an invitation or offer could lawfully be made to him or such Application Form could lawfully be used without contravention by any person of any registration or other regulatory or legal requirements. It is the responsibility of any person outside the UK or the Falkland Islands receiving a copy of this document and/or an Application Form and wishing to apply for Shares under the Offer to satisfy himself as to full observance of the laws of any relevant territory, including the obtaining of requisite governmental or other consents, the observance of any other requisite formalities and the payment of any issue, transfer or other taxes due in such territories. In particular, no persons may apply on any Application Form if they are unable to represent, agree and acknowledge that they are not, and are not acting on behalf of, a US Person and are not in the United States or acting on behalf of a person in the United States and are not a Canadian person or an individual, corporation or other entity resident in Japan or Australia. If the Company has cause to believe that any applicant is a US Person or in the United States or is acting on behalf of a US Person or a person in the United States, any application which they may make may be rejected.

I/We agree that, having had the opportunity to read this document, I/we shall be deemed to have notice of all information and representations concerning the Company or any other member of the Group contained in this document.

I/We acknowledge that no person is authorised in connection with the Offer to give any information or to make any representation other than as contained in this document and, if given or made, such information or representation must not be relied upon as having been authorised by KBC Peel Hunt or the Company.

Guide to Completing the Application Form

(references are to numbers on the Application Form)

Insert in Box 1 (in figures) the number of Offer Shares for which you are applying

Application must be for a minimum of 2,500 Offer Shares.

Put in Box 2 (in pounds sterling) the amount of your cheque or bankers draft

Payment must be for the exact amount you have put in Box 2. No receipt will be issued. Payments must be made by cheque or bankers' draft in pounds sterling drawn on a branch in the United Kingdom of a bank or building society which is either a settlement member of the Cheque and Credit Clearing Company Limited or the CHAPS Clearing Company Limited or which has arranged for its cheques and banker's drafts to be cleared through the facilities provided for the members of any of those companies and must bear the appropriate sorting code in the top right hand corner. If you are resident in the United Kingdom, cheques or bankers' drafts should be made payable to **Capita IRG Plc, a/c Falkland Island Oil and Gas Limited** and crossed "A/C Payee". The cheque should not be post dated. Any monies returned will be returned without interest and will be sent by cheque crossed "A/C Payee" payable to the person named in Box 3.

Under the provisions of the Money Laundering Regulations 2003 you may be required to produce satisfactory evidence of your identity and address or the identity and address of any person on whose behalf you are applying. Failure to do so, if required, may result in rejection of your application or delay in the issue of a share certificate (and/or a return money cheque) to you (or such person) and/or in your (or such person's) ability to obtain the benefits of ownership of the Ordinary Shares. If you apply for Ordinary Shares at an aggregate price of more than £9,300 (€15,000) using a cheque, or bankers' draft or building society cheque drawn on an account which is not in your name, please ask the bank or building society on which it is drawn to enter your name, address and account number on the back and its stamp.

Insert in Box 3 your name and address in full and sign and date the Application Form.

As stated on the Application Form, the Application Form may only be signed by someone else on your behalf if they are authorised to do so.

Complete Boxes 4 and 5 only if there is more than one applicant.

Complete Box 6 if you wish to hold any resulting Falkland Oil and Gas Limited Shares in electronic form.

