

Falkland Oil and Gas Limited



**Interim Results for the
six months ended
June 2011**



7th September 2011

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

Interim Results for the six months ended 30 June 2011

FOGL, the oil and gas exploration company focused on its extensive licence areas to the South and East of the Falkland Islands, announces its Interim Results for the six months ended 30 June 2011.

Highlights

- Contract signed for the Leiv Eiriksson drilling rig for two firm slots in first half 2012.
- Operatorship and remaining 51% equity in Northern Licence Area assigned back to FOGL by BHP Billiton together with a significant cash settlement.
- Completed the site survey and 2D seismic programme.
- Equity placing raised US\$51.8 million before expenses. Cash balance of \$110.6 million at period end (2010: \$80.4m).
- Current available funds, including BHPB settlement, of \$150.6 million.

Richard Liddell, Chairman of FOGL, said:

"We made good progress during the first half of 2011, during which we negotiated the exit of BHPB from our licences and regained complete control and operatorship of our licence areas while also securing a significant cash payment from BHPB. This was an excellent outcome, which has enabled us to drive forward with the most important phase of our exploration programme. In addition, we successfully raised \$51.8 million through a share placing, which, combined with existing cash resources and BHPB's payment, leaves us in a strong financial position to drill two wells in 2012. We also signed a rig contract and expect drilling to commence with the Loligo well in the first quarter of 2012. In addition, a number of other prospects have been selected and prioritised as possible targets for the second well in the programme."

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Chairman's Statement

The first six months of 2011 have been very productive for Falkland Oil and Gas. We have now regained 100% ownership of our licences on terms which will continue to benefit shareholders, have built a strong financial position and made excellent progress with our exploration programme.

100% Licence Ownership Secured

On 30 March 2011, binding Heads of Agreement were signed with our previous joint venture partner, BHP Billiton that provided for their exit from the Northern Licence area. Their exit means that FOGL has re-gained total control and operatorship of its licences enabling us to move forward at pace with our planned exploration programme.

We also received approval from the Falkland Islands Government to extend the term of the northern licence area to 12 June 2012, in order to accommodate the drilling of the Loligo well. This well will fulfill our Phase 1 commitment and allow us to enter the second phase of the licences which run until 15 December 2015. Our southern licence area is already in the second phase and runs until 30 December 2015.

Financials

The loss before tax for the six month period was \$3.56 million (2010:\$2.1 million).

On 19 April 2011, 45.7 million new shares were placed to raise approximately US\$51.8 million before expenses, and an additional 15.1 million shares were issued on the 18th May 2011, in settlement of the RAB convertible loan note, which was a related party transaction.

The exit negotiations with BHP Billiton delivered a significant cash settlement to FOGL. The net proceeds of the April 2011 fund raise, together with FOGL's existing cash resources and the settlement with BHP Billiton, which will be held in a separate escrow account, will be used to drill the Loligo well and a second well in the 2012 drilling programme. Total funds available to FOGL, including the BHP Billiton settlement, amount to US\$150.6 million.

As a result FOGL has the financial resources to drill a well on the Loligo complex and a further well yet to be determined; the options of which depend principally on the results from Loligo. If Loligo proves successful, FOGL could drill an appraisal well on Loligo, or alternatively another prospect within the Tertiary Channel play such as Nimrod or Vinson. If the Loligo results are disappointing, the most likely drilling candidate will then be the Scotia prospect, within the Mid Cretaceous fan play. FOGL is not however, currently fully funded to drill Scotia.

Cash Balance

FOGL started the period with \$69.8 million in cash, of which \$11 million were expensed in the exploration programme and \$1.5 million used to cover administration costs. At the end of the period the cash balance was \$110.6 million of which 20% is held in Sterling.

Rig sharing contract with Borders and Southern Petroleum Plc

In May 2011, we signed an agreement with Borders & Southern Petroleum plc. ("B&S") and Ocean Rig 1 Inc. to contract the Leiv Eiriksson for two firm drilling slots. The Leiv Eiriksson is a large fifth generation harsh environment dynamically positioned semi-submersible rig, ideally suited to operating in Falkland waters. The rig is currently expected to arrive in the Falkland Islands in the fourth quarter of 2011. FOGL expects to access the rig for the third and fourth slots in the combined B&S and FOGL programme and to commence drilling in the first quarter of 2012 on the Loligo prospect in FOGL's Northern Licence area.

Operational Achievements

During the period, we also completed a comprehensive site survey and focused 2D seismic programme.

A total of five site surveys were completed on the following prospects: Inflexible, Vinson, Scotia, Hero and Loligo. The site survey on Loligo was the fourth site surveyed on this prospect following three previous site surveys conducted in 2009. Having a range of sites on Loligo will enable us to determine the location of the initial exploration well and also, in the event of encouraging results, potential appraisal drilling sites.

Utilising the site survey vessel some additional focused 2D seismic was acquired over the Scotia and Hero prospects. These data will be used to fine tune the location of an exploration well on either of these two prospects.

Significant progress has been made in establishing a strong and experienced drilling management team for FOGL and an operations office has been opened in Stanley, Falkland Islands.

FOGL has contracted AGR Peak Well Management Ltd to perform well engineering, procurement, service contracting and well operations supervision for the drilling programme. Initial well designs are already well advanced and long lead drilling equipment, such as subsea wellhead systems and casing strings will be delivered to the Falklands in good time for drilling.

Farmout

Discussions continue with several parties who have expressed an interest in participating in our exploration drilling programme. FOGL has appointed Stellar Energy Advisors to assist with the farmout process. However, the Company does not anticipate concluding any farm out agreement until the fourth quarter of 2011 at the earliest.

Outlook

The management and operational team at FOGL continue to work towards the commencement of the drilling campaign in first quarter of 2012. The main focus is on ensuring that our wells are drilled in the safest and most efficient manner.

Condensed Consolidated Statement of Comprehensive Income

for the six months ended 30 June 2011

	6 months ended 30 June 2011 (Unaudited) \$000	6 months ended 30 June 2010 (Unaudited) \$000	Year ended 31 December 2010 (Audited) \$000
Administrative expenses	(1,541)	(1,198)	(2,581)
Loss from operations	(1,541)	(1,198)	(2,581)
Finance income	504	295	711
Foreign exchange gains	-	-	38
Total Finance income	504	295	749
Finance costs	(2,188)	(618)	(1,911)
Foreign exchange Loss	(311)	(641)	-
Total Finance expense	(2,499)	(1,259)	(1,911)
Loss before tax	(3,536)	(2,162)	(3,743)
Taxation	-	-	-
Loss for the financial period	(3,536)	(2,162)	(3,743)
Total comprehensive income for the financial period	(3,536)	(2,162)	(3,743)
Attributable to:			
Equity shareholders of the parent	(3,536)	(2,162)	(3,743)
Loss per share			
Basic and diluted loss per share on loss for the period	2	(2.23c)	(1.48c)
			(2.56c)

All amounts included above relate to continuing operations.

Condensed Consolidated Statement of Financial Position

at 30 June 2011

	Note	At 30 June 2011 (Unaudited) \$000	At 30 June 2010 (Unaudited) \$000	At 31 December 2010 (Audited) \$000
Non-current assets				
Property, plant and equipment		51	41	63
Deferred exploration expenditure		80,492	65,143	69,415
		80,543	65,184	69,478
Current assets				
Trade and other receivables		952	220	668
Cash and cash equivalents		87,932	80,444	69,820
Restricted Cash	3	22,663	-	-
Total Assets		192,090	145,848	139,965
Current liabilities				
Trade and other payables		(3,607)	(6,423)	(984)
Loan and borrowings		-	-	(14,288)
Corporation tax payable		-	-	-
Net current assets		107,940	74,241	55,216
Non-current liabilities				
Convertible Loan Notes		-	(13,353)	-
Total Liabilities		(3,607)	(19,776)	(15,272)
Net assets		188,483	126,072	124,694
Capital and reserves				
Called up share capital		7	6	6
Share premium account		204,176	137,132	137,204
Other reserves		-	4,986	4,986
Retained deficit		(15,700)	(16,052)	(17,502)
Equity attributable to shareholders of the parent		188,483	126,072	124,694

Condensed Consolidated Statement of Cash flows

for the six months ended 30 June 2011

	6 months ended 30 June 2010 (Unaudited) \$000	6 months ended 30 June 2010 (Unaudited) \$000	Year ended 31 December 2010 (Audited) \$000
Operating Activities			
Loss for year before taxation	(3,536)	(2,162)	(3,743)
Finance income	(504)	(295)	(711)
Finance expense	2,499	1,259	1,911
Taxation	-	-	-
	(1,541)	(1,198)	(2,543)
Depreciation	11	7	17
Share-based payments	352	139	269
Cash flow from operating activities before changes in working capital	(1,178)	(1,052)	(2,256)
Increase in trade and other receivables	(284)	285	(77)
Decrease in trade and other payables	2,120	(690)	(170)
Cash generated (used in) /from operations	658	(1,457)	(2,502)
Income tax refund	-	270	269
Net cash outflow generated from/(used in) operating activities	658	(1,187)	(2,233)
Cash flows used in investing activities			
Interest income	504	295	711
Purchase of property, plant and equipment	-	(31)	(63)
Deferred exploration expenditure	(11,077)	(11,304)	(21,891)
Net cash used in investing activities	(10,573)	(11,040)	(21,244)
Cash flows from financing activities			
Issue of ordinary share capital	49,906	55	126,876
Net cash inflow from financing activities	49,906	55	126,876
Net (decrease)/Increase in cash and cash equivalents	39,991	(12,172)	(23,349)
Cash and cash equivalents at start of period	69,820	93,536	93,536
Effect of exchange rate changes on cash and equivalents	784	(920)	(367)
Cash and cash equivalents at end of period	110,595	80,444	69,820

Material non cash transaction: During the period the Group issued shares with a value of \$17.1 million in settlement of convertible loans.

Condensed Consolidated Statement of changes in equity (unaudited)

	Share capital \$000	Share premium \$000	Retained deficit \$000	Other Reserve \$000	Total \$000
Balance as at 1st January 2010	6	137,077	(14,209)	4,986	128,040
Total comprehensive income for the period	-	-	(2,162)	-	(2,162)
Share based payments	-	-	139	-	139
Shares option exercised	-	55	-	-	55
Balance as at 30 June 2010	6	137,132	(16,052)	4,986	126,072
Total comprehensive income for the period	-	-	(1,450)	-	(1,450)
Shares Issued	-	72	-	-	72
Balance as at 31 December 2010	6	137,204	(17,502)	4,986	124,694
Total comprehensive income for the period	-	-	(3,536)	-	(3,536)
Share based payment	-	-	352	-	352
Reserve transfer	-	-	4,986	(4,986)	-
Shares issued	1	66,972	-	-	66,973
Balance as at 30 June 2011	7	204,176	(15,700)	-	188,483

Notes forming part of the interim report

for the six months ended 30 June 2011

1. Accounting policies

The consolidated unaudited interim financial information set out in this report is based on the consolidated financial statements of Falkland Oil and Gas Limited ("FOGL") and its subsidiary company (together referred to as the 'Group'). The condensed consolidated financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2010, which have been prepared in accordance with IFRSs. The accounts of the Group for the 6 months ended 30 June 2011 were approved and authorised for issue by the Board on 7th September 2011. These accounts have been prepared in accordance with the accounting policies that are expected to be applied in the Report and Accounts of FOGL for the year ending 31 December 2011 and are consistent with International Financial Reporting Standards adopted for use in the European Union.

Basis of preparation

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

The financial information for the six months ended 30 June 2011 and 30 June 2010 is unreviewed and unaudited and does not constitute the Group's statutory financial statements for those periods. The comparative financial information for the full year ended 31 December 2010 has, however, been derived from the statutory financial statement for that period. The statutory accounts for the year ended the 31 December 2010 have been filed with the registrar of Companies. The auditors' report on those accounts was unqualified.

The financial statements are presented in United States Dollars and all values are rounded to the nearest thousand dollars (\$'000) except when otherwise indicated.

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

2. (Loss) per share

The basic loss per share is calculated on a loss of \$ 3,536,134 (2010: interim loss of \$2,162,318) and on 158,448,718 (2010: 146,252,066) ordinary shares, being the weighted average number of ordinary shares in issue during the period. There is no difference between diluted loss per share and the basic loss per share as the Group reported a loss for the period.

3. Restricted Cash

Restricted cash relates to cash deposited in Escrow or Letter of Credit (LOC) accounts, required for operational purchases. In the event the goods are not supplied, the funds will return to FOGL. As of June 30th 2011, the Company had approximately \$16.8million in LOC accounts and \$5.5million in Escrow accounts.

4. Interim Statement

Copies of this Interim report for the six months ended 30 June 2011 will be available from the UK office 32-34 Wigmore Street, London, W1U 2RR, and on the company's website www.fogl.com.