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Falkland oil and gas limited
Report and Financial Statements
Year Ended *31 December 2009*

Officers and advisors

Directors
Richard Liddell Chairman
Tim Bushell Chief Executive Officer
David Hudd Non-executive Director (Deputy Chairman)
Timothy Jones Non-executive Director (Finance Director)
Colin More Exploration Director

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VAT registration: 848 9450 75
UK registration: FC026234
www.fogl.com

Registered Office
56 John Street, Stanley, Falkland Islands, FIQQ 1ZZ
Registration: 12913

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

Auditors
BDO LLP
55 Baker Street
London
W1U 7EU

Nominated advisor and broker
Oriel Securities Limited
125 Wood Street
London
EC2V 7AN

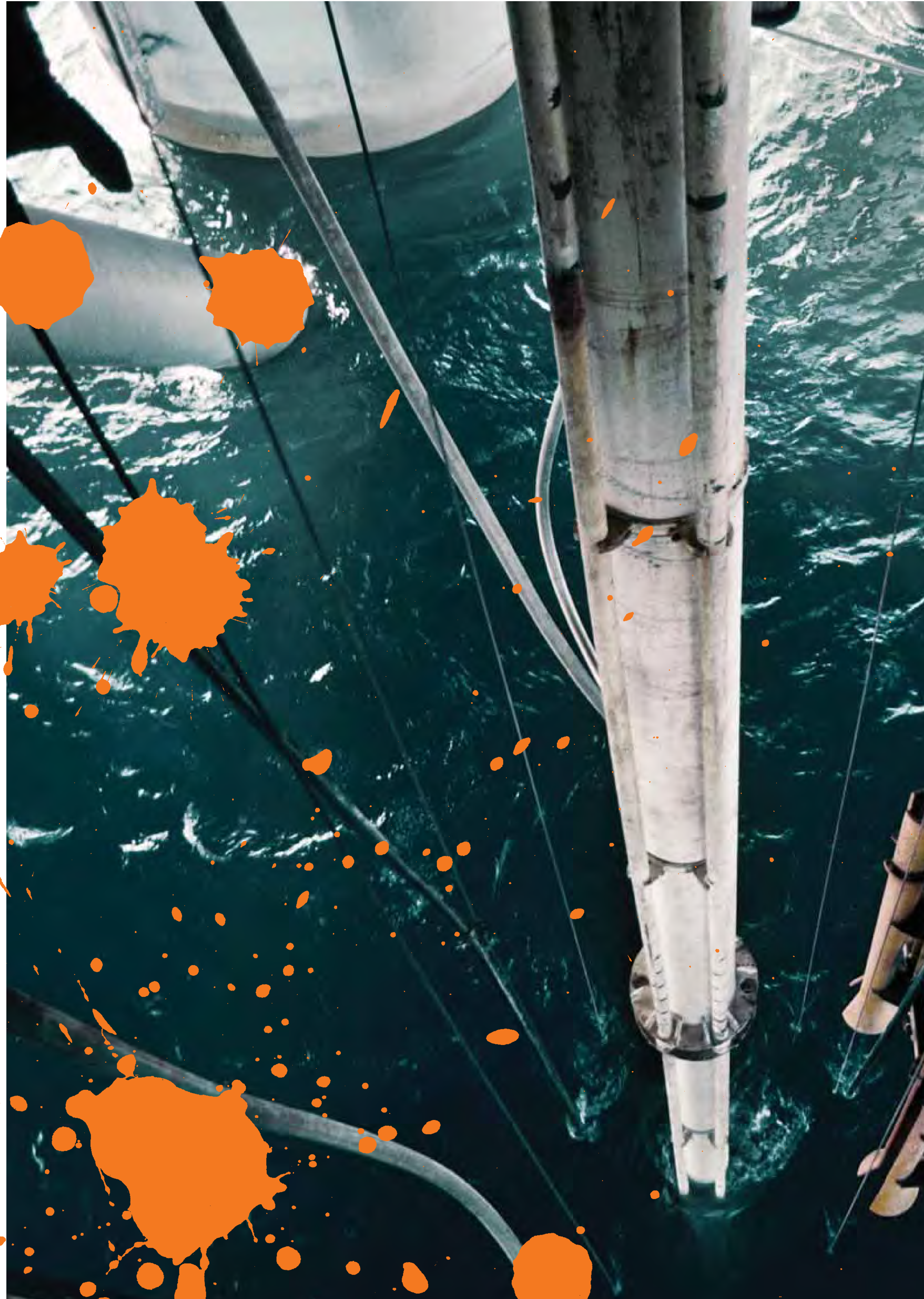
Secretary
McGrigors Nominee Company (Falklands) Limited
Company Secretary

Solicitors to the Company as to English Law
McGrigors LLP
Princes Exchange
1 Earl Grey Street
Edinburgh
EH3 9AQ

Solicitors to the Company as to Falkland Islands Law
McGrigors LLP
56 John Street
PO Box 21
Stanley
Falkland Islands

Registrars
Capita Registrars (Jersey) Limited
12 Castle Street
St Helier
Jersey
JE2 3RT

Depositary
The Registry
34 Beckenham Road
Beckenham
Kent
BR3 4TU



Progress in 2009

Drill Ready

Following an extensive site survey programme, undertaken in 2008 and the early part of 2009, Falkland Oil and Gas (FOGL) and BHP Billiton, as licence holders, were able to submit an Environmental Impact Statement (EIS) and apply for regulatory approval for drilling. Preparations for drilling commenced in late 2009, with the ordering of long lead equipment and implementation of associated logistical plans to support the drilling operations. A rig specific addendum to the EIS was submitted on 25 January 2010, and full regulatory approval for drilling is expected in early 2010.

Selection of First Drilling Targets

Having selected four initial prospects for potential drilling, the first prospect to be drilled has been confirmed as Toroa.

Securing a Rig

In November 2009, FOGL announced that advanced discussions with Desire Petroleum were taking place to contract the Ocean Guardian rig to drill the first ever exploration well in the East Falklands Basin. Since then, the contract has been agreed and an exploration well on the Toroa prospect is expected to start in the first half of 2010.

Funding Secured

During the year, FOGL raised £57.6 million ($94.7 million) gross before expenses (£7.6 million in May and £50 million in November). Accordingly, the Company is currently fully funded for its estimated share of the committed two well work programme, which will commence with the Toroa well in the southern (2002) licences.

Outlook for 2010

FOGL's First Exploration Well

2010 will see the drilling of the Company's first exploration well. FOGL estimates that the Toroa prospect has mean, gross, unrisked prospective resources (recoverable hydrocarbons) of 1.7 billion barrels.

Deep Water Drilling Programme

FOGL's partner, BHP Billiton, continues to seek a suitable drilling rig in order to commence a deep water drilling campaign in late 2010. The timing of commencement of drilling will be determined by the availability of a suitable rig.

Chairman's and Chief Executive's statement

Commencement of exploratory drilling

2010 will see the culmination of the work undertaken since FOGL was founded in 2004 with the drilling of its first exploration well; the first ever well to be drilled in the East Falklands Basin.

During 2009 extensive site surveys were completed over four selected prospects, featuring different play types and large potential reserves. The results from these surveys were integrated into an Environmental Impact Statement (EIS) which has been reviewed by the Falkland Islands Government (FIG). An addendum to the EIS was submitted in January 2010 and FOGL now awaits FIG's final approval and consent to drill.

In November 2009 FOGL announced that the joint venture was in advanced discussions with Desire Petroleum to contract the Ocean Guardian rig to drill the Toroa prospect. The Ocean Guardian has been contracted by Desire to drill a multi-well programme and the rig arrived in Falkland Islands waters in mid-February 2010. This rig has now been contracted for the third slot in the drilling programme, and we expect to start this well in the first half of 2010.

Since late 2009, FOGL has been working with BHP Billiton to prepare for the drilling of the Toroa well. Due to the water depth, the prospect is best drilled by an anchored rig, such as the Ocean Guardian. However, the other prospects which have been site surveyed, Loligo, Nimrod, and Endeavour, all lie in water depths greater than 1,000 metres and are best suited to being drilled by a dynamically positioned drillship or semi-submersible rig. Toroa lies in water depths of between 550 and 750 metres, and is situated approximately 140 kilometres (90 miles) south of Stanley, within the Company's southern (2002) licences.

Funding and Financials

In May 2009, £7.6 million (gross before expenses) was raised through a Placing of 10,488,099 shares at 73p per share and in November 2009, a further £50 million (gross before expenses) was raised through the placing of 43,478,261 shares at 115p per share. Both existing and new institutional investors showed strong support for FOGL's prospects through these placings.

FOGL started the period with $18.8 million in cash, of which $12.9 million was invested in the exploration programme and $2.8 million used to cover administration costs. At the end of the period the cash balance was $93.5 million. The loss before tax for the year was $5.5 million (2008: $1.3 million) made up of an operating loss of $2.8 million (2008: $2.9 million), net finance costs of $1.6 million (2008: $1 million), and foreign exchange losses of $1.1 million (2008: gain of $2.6 million). The sterling proceeds of the placings were converted into US dollars shortly after their receipt, to the extent necessary to meet future US dollar expenditures. No dividend is proposed.

The Company believes it is fully funded for its share of the costs of both phases of the initial drilling programme. Phase One will commence in the first half of 2010 with the drilling of Toroa by the Ocean Guardian, and Phase Two, which is the deep water campaign, is currently expected to start in late 2010. FOGL has retained a material 49% interest in its licences, whilst under the terms of the farm-in agreement, BHP Billiton is funding more than two thirds of the total cost of the committed two well programme.

Outlook

2010 will be a momentous year for FOGL, with the start of exploratory drilling. By any standard, Toroa is a large attractive prospect, but we believe the potential of the northern licences (2004) is even greater, and it is with much anticipation that FOGL awaits the commencement of the deep water drilling campaign. BHP Billiton is actively seeking a modern, dynamically positioned, semi-submersible rig or a large drillship to carry out this drilling programme.

Richard Liddell
Chairman

Tim Bushell
Chief Executive Officer

Environmental Impact Statement (EIS)

FOGL announced in February 2009, that the site survey work was complete over four key prospects: Loligo, Toroa, the Nimrod complex and Endeavour. The site survey programme comprised three main elements: the MV Fugro Meridian acquired digital site surveys; the MV Fugro Saltire undertook a geotechnical boring programme and the British Antarctic Survey vessel, the James Clark Ross, was used to deploy wave and current meters. Data derived from the current meter survey provided comfort that, no matter what the season and at any level in the water column, ocean currents should not pose a risk to drilling. This data also helped the Company make an informed decision to use a dynamically positioned vessel at the Loligo location and an anchored semi submersible rig at the Toroa location.

The remaining geotechnical and geophysical survey data were carefully analysed throughout the summer and the results were then incorporated into preliminary drilling plans, and an EIS, which was submitted to the Falkland Island Government in October 2009. However, an addendum to this document was required (submitted January 2010) because the precise details of the well design had not been finalised, and the rig and support vessels, all of which can have an impact on the environment, were unknown at the time of submission. A similar addendum to the EIS will be required before drilling can commence in the deep water of the northern licences.

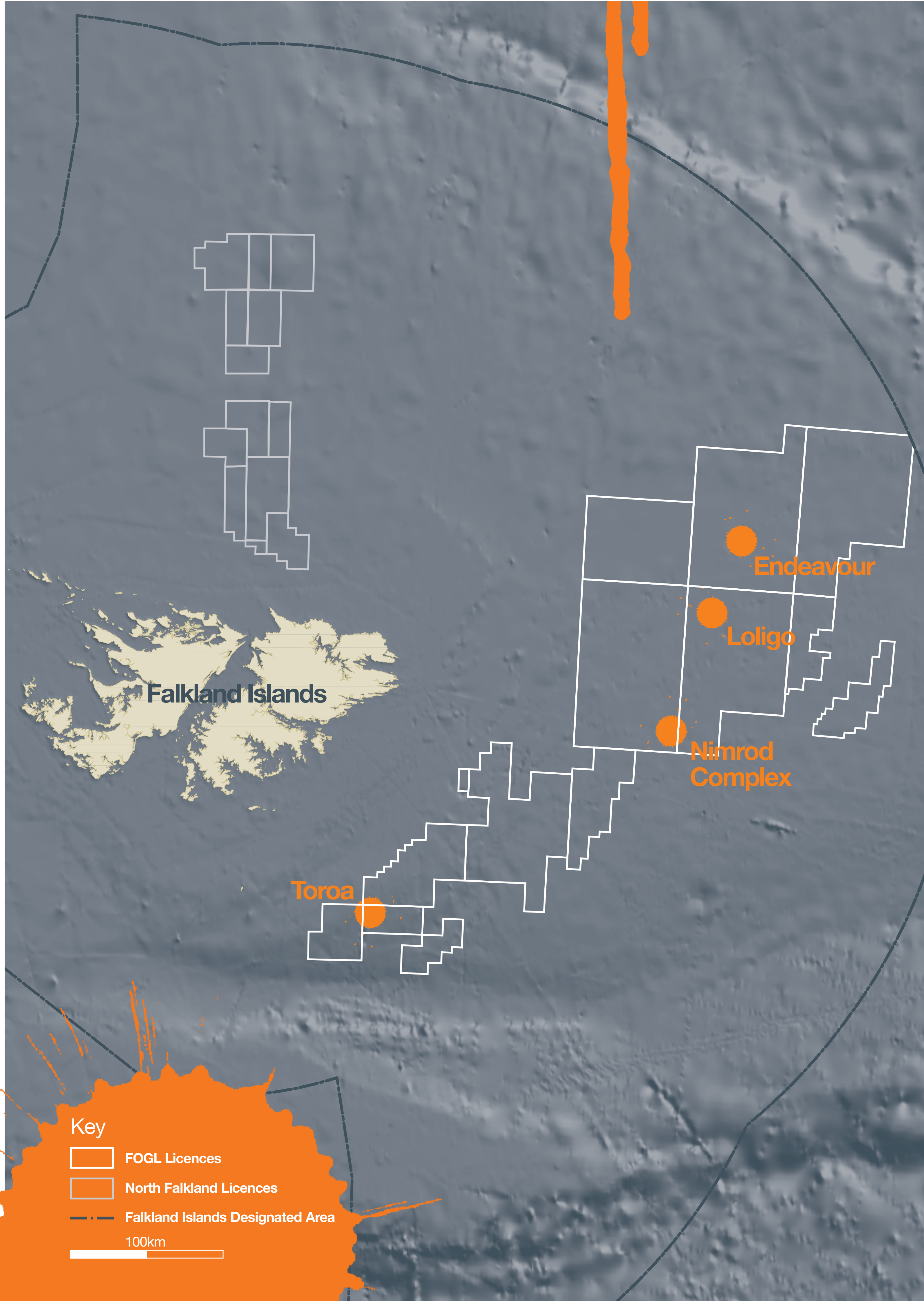
Drilling

The original concept for drilling the prospects in the FOGL acreage, was to use a dynamically positioned semi-submersible rig or drill ship. However, the site survey data collection was comprehensive and consideration was given to the possibility that an anchored rig might be used. The extensive multi-beam imaging programme which generated a clear 3D image of the sea bed can be used to site anchor locations. The extensive sea bed sampling programme and the geotechnical boring programme, provided geotechnical measurements on near surface soil strength, again allowing an accurate prediction of anchoring conditions and performance, as well as providing key data for conductor and riser design. As a result of this work, it was decided that the Ocean Guardian rig would be suitable to use at the Toroa location.

The Toroa Prospect

The Toroa prospect is situated approximately 140 kilometres (90 miles) south of Stanley, within the Company's southern (2002) licences. It is one of several prospects and leads that have been mapped in the Springhill play, which is the main producing play in the offset Magallanes basin in Argentina. The trap is a combination structural and stratigraphic trap, located up-dip from a deep basin, containing thick Jurassic and Cretaceous sediments, which is thought to have generated hydrocarbons from high quality source rocks. Small traces of hydrocarbons were encountered in the site survey core taken above the Toroa prospect which may be indicative of local oil generation and seepage. Whilst mildly encouraging, these 'oil shows' do not substantially reduce the risk on the Toroa prospect.

FOGL estimates that the Toroa prospect has mean, gross, unrisked prospective resources (recoverable hydrocarbons) of 1.7 billion barrels, but the resource estimates range from 380 million barrels (P90) to 2.9 billion barrels (P10). The well will be drilled to a total depth of approximately 2,700 metres below sea bed level and the water depth at the planned location is circa 600 metres.



Social responsibility statement

FOGL supports the growing awareness of social, environmental and ethical matters when considering business practices. This statement provides an outline of the policies in place that guide FOGL and its employees when dealing with social, environmental and ethical matters in the workplace.

Directors, company employees and contractors are responsible for ensuring compliance with this policy, and specifically to:

- Respect the rights of employees, treating them fairly and without discrimination
- Maintain high ethical standards in carrying out business activities in regard to dealing with gifts, hospitality, corruption, fraud and the use of inside information and whistle blowing
- Commit to provide opportunities for staff development
- Provide equal employment opportunities
- Commit to being honest and fair in all dealings with its partners, contractors and suppliers
- Commit to a proactive quality policy to ensure stakeholders are satisfied with the Company results and the way the business operates and to promote continuous improvement in the overall operations of the Company
- Maintain and regularly review the environmental policy

FOGL is committed to continual improvement in all its standards and practices.

Tim Bushell
Chief Executive Officer

Board of Directors

Richard Liddell
Chairman

Richard Liddell was Operations Director of Premier Oil from 1999 before joining the FOGL Board in March 2005. He has many years experience in the oil and gas industry and, prior to Premier Oil, he spent two years as Director of Development at BG Exploration and Production. He previously held a number of senior international positions during an eighteen-year career at Philips Petroleum Company.

David Hudd FCA
Non-executive Director (Deputy Chairman)

David Hudd, was a partner in Price Waterhouse until 1982. Since then he has been Chairman or Chief Executive of a number of listed companies. He is currently Executive Chairman of Falkland Islands Holdings plc which he joined in March 2002 which is a major shareholder in the Company. Mr Hudd was a founder Director of FOGL in 2004.

Tim Bushell
Chief Executive Officer

Tim Bushell joined FOGL in January and the Board in February 2006 from Paladin Resources plc where he was Managing Director, Norway, from 2001. Tim joined Paladin Resources from Lasmo where he worked for 10 years, including spells as Manager of Lasmo's North Sea assets and General Manager of its South Atlantic business unit, which included the drilling campaign in the North Falklands Basin in 1998. Prior to joining Lasmo, Tim spent time at Ultramar, British Gas and Schlumberger. A qualified geologist, he has a total of 27 years experience in the oil and gas industry.

Timothy Jones FCA
Non-executive Director (Finance Director)

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 companies. Mr Jones joined the Board in September 2004.

Colin More
Exploration Director

Colin More joined FOGL in April 2006 and has 27 years experience in the oil and gas industry. Mr More joined FOGL from Paladin Resources plc where he was the Exploration Manager in the UK. Prior to Paladin, he was the Exploration Manager at Cairn Energy, initially responsible for China, before moving on to India. He has previously worked in technical positions at Conoco and Scott Pickford. Mr More joined the Board of FOGL in March 2009.

Report of the Directors for the year ended 31 December 2009

The Directors present their report and the financial statements of the Group for the year ended 31 December 2009.

Principal activity and review of the business

The principal activity of the Company is that of oil and gas exploration.

Results and dividends

The results for the year are set out on page 17.

The Directors do not recommend payment of a dividend.

Review of business and future developments

A review of the business and likely future developments of the Group are contained in the Chairman's and Chief Executive's statement on page 7.

Directors and Directors' interests

The Directors of the Company during the year are noted on page 10.

Peter Dighton resigned as Non-executive Director on 30th November 2009.

Details of Directors' interests in share options are disclosed in note 19 on page 35.

Political and charitable contributions

During the year a total of $816 was contributed in support of 'The Blackfriars settlement' (2008: $3,950 was contributed in support of a Falklands Conservation project "Identification of Marine Important Bird Areas")

Policy and practice on payment of creditors

It is Group policy to settle all debts on a timely basis, taking account of the credit period given by each supplier. Trade creditors at 31 December 2009 were equivalent to 14 days of purchases (2008 - 13 days) based on the average daily amount invoiced by suppliers during the year.

Financial instruments

Details of the use of financial instruments by the Group are contained in note 18 to the financial statements.

Principal risks and uncertainties

There are risks associated with the oil exploration industry. The Board regularly reviews the risks to which the Group is exposed and endeavours to minimise these risks as far as possible. The following summary, which is not exhaustive, outlines some of the risks and uncertainties facing the Group at its present stage of development:

- The exploration for and development of oil reservoirs involves technical risks, which even a combination of careful evaluation and knowledge may not eliminate;

- There can be no assurance that the Group's projects will be fully developed in accordance with the current plans. Future development work and financial returns arising may be adversely affected by factors outside the control of the Group.

Post balance sheet events

Details of post balance sheet events are included in Note 22 to these financial statements.

Related party contract of significance

RAB Special Situations (Master) Fund Limited (RAB) have subscribed for a total of £8 million of convertible loan notes (Notes). The terms of the Notes are set out in note 16 to the financial statements. No further notes were issued during the year (2008: £ nil).

Auditors

All of the current Directors have taken all the steps that they ought to have taken to make themselves aware of any information needed by the Company's auditors for the purposes of their audit and to establish that the auditors are aware of that information. The Directors are not aware of any relevant audit information of which the auditors are unaware.

BDO LLP have expressed their willingness to continue in office and a resolution to re-appoint them will be proposed at the annual general meeting.

By order the Board

Timothy Jones
Director
26 February 2010

Corporate governance statement for the year ended 31 December 2009

The Combined Code

Falkland Oil and Gas Limited's shares are traded on AIM and as such, FOGL is not subject to the requirements of the Combined Code on Corporate Governance, nor is it required to disclose its specific policies in relation to Corporate Governance. The Directors, however, support high standards of Corporate Governance and will progressively adopt best practices in line with the Combined Code on Corporate Governance, so far as is practicable. The Board of Directors operates within the framework described below.

The workings of the Board and its Committees

The Board of Directors

The Board meets frequently to consider all aspects of the Company's activities. A formal schedule of matters reserved for the Board has been issued and approved and includes overall strategy and approval of major capital expenditure.

The Board consists of the Chairman, a Non-executive Director (Deputy Chairman), Chief Executive Officer, a Non-executive Director (Finance Director) and Exploration Director. All Directors have access to the advice and services of the Company Secretary and the Company's professional advisers.

	Remuneration	Audit	Nomination	Board
No. of meetings	3	1	-	10
Attendance				
Richard Liddell	3	1	-	10
Tim Bushell	-	-	-	10
David Hudd	3	1	-	10
Peter Dighton	-	-	-	10
Timothy Jones	-	1	-	10
Colin More	-	-	-	10

Remuneration Committee

The Remuneration Committee comprises David Hudd and Richard Liddell, and is chaired by David Hudd. Its terms of reference are discussed in the remuneration report.

Audit Committee

The Audit Committee comprises David Hudd and Richard Liddell, and is chaired by David Hudd. It is responsible for ensuring that the financial performance of the Company is properly reported on and monitored, and for reviewing the auditors' reports relating to accounts and internal control systems.

Nomination Committee

The Nomination Committee comprises David Hudd and Richard Liddell and is chaired by Richard Liddell. It is responsible for the selection and appointment of Board Members.

Relations with shareholders

Communications with shareholders are given a high priority by the Board of Directors who take responsibility for ensuring that a satisfactory dialogue takes place. Directors meet with the Company's institutional shareholders following the announcement of interim and final results and at other appropriate times. The Directors are also in regular contact with stockbrokers' analysts. The Company has developed a website containing investor information to improve communications with individual investors and other interested parties.

Internal control

The Directors acknowledge their responsibility for the Company's system of internal control and for reviewing its effectiveness. The system of internal control is designed to manage the risk of failure to achieve the Company's strategic objectives. It cannot totally eliminate the risk of failure but will provide reasonable, although not absolute, assurance against material misstatement or loss.

Going concern

The Directors consider that the Company has adequate financial resources to enable it to continue in operation for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the financial statements.

Statement of Directors' responsibilities for the year ended 31 December 2009

The Directors are responsible for preparing the Directors' report and the financial statements for the Group and Parent Company accounts in accordance with applicable Falkland Islands law and regulations.

Falkland Islands legislation requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Group and Parent Company and of the profit or loss of the Group for that year. The Directors are required to use the International Financial Reporting Standards "IFRS" as adopted by the European Union (IFRS) in preparing the Group's financial statements. The Directors have chosen to prepare financial statements for the Company in accordance with IFRS.

International Accounting Standard 1 requires that the financial statements present fairly for each financial period the Group and Parent Company's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's "Framework for the preparation and presentation of financial statements". In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRS. A fair presentation also requires the Directors to:

- consistently select and apply appropriate accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information; and
- provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 1948 as amended by the Companies (Amendment) Ordinance 2006 (Falkland Islands Companies Act) as it applies in the Falkland Islands. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Financial information is published on the Company's website. The maintenance and integrity of this website is the responsibility of the Directors; the work carried out by the Auditors does not involve consideration of these matters and, accordingly, the Auditors accept no responsibility for any changes that may occur to the financial statements after they are initially presented on the website.

Legislation in the Falkland Islands governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Remuneration report for the year ended 31 December 2009

During the year under review, the members of the Remuneration Committee (the Committee) were David Hudd (Chairman) and Richard Liddell. The Committee met formally three times during the period under review.

The Committee keeps itself fully informed of all relevant developments and best practice in the field of remuneration and seeks advice where appropriate from external advisors. The Committee has taken advice on remuneration matters from Patterson Associates LLP. The adviser provided no other services to the Company during the year.

Remuneration Policy

The Committee, in forming its policy on remuneration, has given due consideration to the needs of the Company, the shareholders and the provisions of the Combined Code. The ongoing policy of the Committee is to provide a competitive remuneration package to enable it to retain and motivate its key executives and to cost effectively incentivise them to deliver long-term shareholder value.

It is the aim of the Committee to reward key executives on a basis which is linked to a significant extent to the performance of the Company which the Committee believes is currently best measured by share price performance. Also the remuneration is subject to the broader principle that their remuneration should be competitive with that enjoyed by Directors of comparable companies.

The remuneration policy for the Chairman and the Non-executive Directors is determined by the Board, taking into account the limit set in the Articles of Association.

Explanation of the implementation of the Remuneration Policy;

Base salary

The policy is to pay a fair and reasonable base salary, taking into account comparative salaries for similar roles in similar companies. The base salary is reviewed annually by the Committee having regard to the performance of the Company and economic conditions.

Benefits

The Executive Directors receive a car allowance and payments are made to personal pension schemes for the Executive Directors.

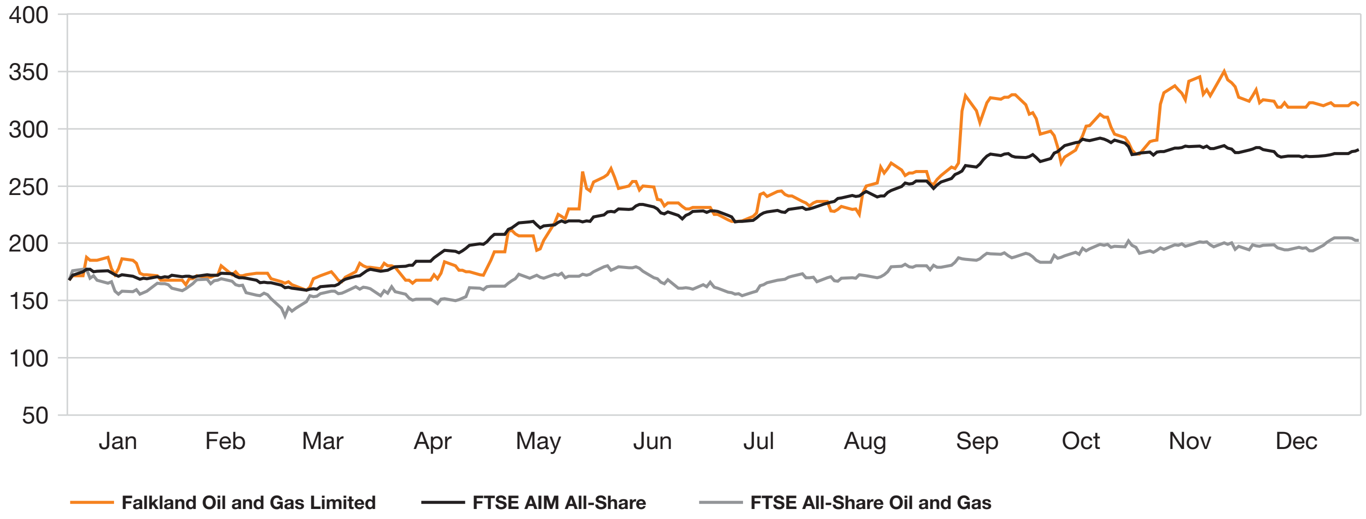
Short-term incentive plan

The Executive Directors participate in annual performance related bonus arrangements. The Chief Executive has the opportunity of earning a bonus of up to 100% of his salary. 50% of the bonus is attributed to the achievement of specified personal and corporate objectives and up to 50% is payable subject to the achievement of specified increases in the share price over the period. The Exploration Director is able to earn a bonus of up to 50% of his basic salary based upon the achievement of personal and corporate objectives. Bonus payments are not pensionable.

Long-term incentive schemes

There are two equity based incentive schemes under which options have been granted to the Executive Directors and employees to acquire shares in the Company;

Total Shareholder Return



The Falkland Oil & Gas Share Option Scheme

Options have been granted which require the achievement of demanding share price targets over 3 year performance periods in order to vest. Each tranche of options requires a minimum compound annual growth rate (CAGR) in the Company's share price of not less than 10% per annum for any to vest and a CAGR of not less than 25% for all to vest.

The demanding share price performance which is required in order for the share options granted to the Executive Directors to vest means that the options granted in 2006 to the Executive Directors, would have lapsed. The Remuneration Committee believes that the share price performance of the Company will be largely determined by the outcome of its drilling programme, the timing of which, following the farm-in by BHP Billiton is outside their control. In order to align the interests of the Executive Directors with those of shareholders, the share price performance period has been extended by two years to encompass drilling, for the options granted in 2006 to Tim Bushell (194,595 at 92.5p) and to Colin More (50,352 at 142p). The number of options that they will be able to exercise, will be determined by the share price of the Company in the 30 days ending 31 December 2011.

To date, options under this scheme have been granted to the Chief Executive over shares with a value of approximately 4 times his current base salary. The Exploration Director has options over shares with a value of approximately 3 times his current salary.

Falkland Oil & Gas Long Term Incentive Plan (LTIP)

Options have been granted in annual tranches, to the Executive Directors, to acquire shares in the Company at par (0.002p per share) on the third anniversary of the grant contingent upon the achievement of two performance conditions over that period, being:

1) The achievement of an annually compounded increase in the share price of the Company of not less than 20% from the baseline price being the average share price for a period before the grant. For the options to vest in full the share price must increase by 50% annually from the baseline price.

2) If the above condition is satisfied, the relative performance of the Company's share price is then compared against the share price performance of a group of comparator oil exploration companies. For the options to vest at all, the Company's share price performance must exceed that achieved by at least half the members of the peer group.

LTIP options granted to the Executive Directors on 27 December 2006 over a total of 255,245 shares at a baseline price of 81.27p have lapsed. Currently the Executive Directors have LTIP options granted in 3 tranches. The Chief Executive has LTIP options with a grant value of 2.9 times his current base salary while the Exploration Director has LTIP options with a value at grant equivalent to approximately 2.3 times his current base salary.

Option granted to Non-executive Directors

In order to reflect the work carried out prior to flotation of the Company in 2004, options were granted to Messrs Hudd, Jones and Dighton, of these options 50% were exercisable at a 50% premium to the price at which shares were placed on flotation. In order to secure the services of Mr Liddell as Chairman he was granted options in 2006 exercisable at the then ruling market price without a performance condition.

Details of Directors interests in share options are disclosed in note 19 on page 35.

Service contracts

The Committee reviews and agrees Directors' service agreements. The Chief Executive's and the Exploration Director's contracts provide for a 12 month notice period. The Non-executive Directors' appointments are reviewed annually and are subject to 6 months' notice by either party.

By order of the board

David Hudd
Chairman of the Renumeration Committee

Independent auditor's report to the Members of Falkland Oil and Gas Limited

To the members of Falkland Oil and Gas Limited

We have audited the Group and Parent financial statements (the financial statements) of Falkland Oil and Gas Limited for the year ended 31 December 2009 which comprise the consolidated statement of comprehensive income, the consolidated and parent statements of financial position, the consolidated and parent statement of cash flows, the consolidated and company statements of changes in equity and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

The Directors' responsibilities for preparing the annual report and the financial statements in accordance with the applicable Falkland Islands law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are as set out in the statement of Directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and have been properly prepared in accordance with the Falkland Islands Companies Act 1948 (as amended for the Companies (Amendment) Ordinance 2006) and whether the information given in the Directors' report is consistent with those financial statements. We also report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed.

We read other information contained in the annual report and consider whether it is consistent with the audited financial statements. The other information comprises only the chairman's statement, the Chief Executive's review, the technical review, the social responsibility statement, the Board of Directors, the Directors' report, the remuneration report, and the Corporate Governance statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Our report is made solely to the Company's members, as a body, in accordance with the Falkland Islands Companies Act 1948 (as amended for the Companies (Amendment) Ordinance 2006) and for no other purpose. No person is entitled to rely on this report unless such a person is a person entitled to rely upon this report by virtue of and for the purpose of the Falkland Islands Companies Act 1948 (as amended for the Companies (Amendment) Ordinance 2006) or has been expressly authorised to do so by our prior written consent. Save as above, we do not accept responsibility for this report to any other person or for any other purpose and we hereby expressly disclaim any and all such liability.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit 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 statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- the group financial statements give a true and fair view, in accordance with IFRS as adopted by the European Union, of the state of the group's affairs as at 31 December 2009 and of its loss for the year then ended;
- the parent company financial statements give a true and fair view, in accordance with IFRS as adopted by the European Union, of the state of the parent company's affairs as at 31 December 2009;
- the financial statements have been properly prepared in accordance with the Falkland Islands Companies Act 1948 (as amended for the Companies (Amendment) Ordinance 2006); and
- the information given in the Directors' report is consistent with the financial statements.

BDO LLP
Chartered Accountants and Registered Auditors
London
26 February 2010

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

Consolidated Statement of Comprehensive Income for the year ended 31 December 2009

	Note	Group 2009 $	Group 2008 $
Administrative expenses		(2,838,893)	(2,905,958)
Loss from operations	3	(2,838,893)	(2,905,958)
Finance income		115,183	673,334
Foreign Exchange Gains		-	2,583,210
Total finance income	4	**115,183**	**3,256,544**
Finance costs		(1,699,361)	(1,596,659)
Foreign Exchange Loss		(1,122,158)	-
Total Finance Costs	4	(2,821,519)	(1,596,659)
Loss for the year before taxation		**(5,545,229)**	**(1,246,073)**
Taxation expense	7	217,417	(25,960)
Loss for the year attributable to equity shareholders of the parent		**(5,327,812)**	**(1,272,033)**
Total comprehensive income for the year attributable to equity shareholders of the parent		**(5,327,812)**	**(1,272,033)**
Loss for the year per ordinary share – Basic and diluted	9	(5.16c)	(1.38c)

The loss for the year arose from continuing operations.

The notes on pages 21 to 37 form part of these financial statements.

Consolidated and Company Statements of Financial Position at 31 December 2009

	Note	Group 2009 $	Group 2008 $	Company 2009 $	Company 2008 $
Non-current assets					
Intangible assets	11	47,599,809	38,643,981	47,599,809	38,643,981
Property, plant and equipment	12	16,910	79,111	16,910	79,111
Investment in subsidiary	13	-	-	1	1
		47,616,719	38,723,092	47,616,720	38,723,093
Current assets					
Trade and other receivables	14	504,830	296,123	504,830	296,123
Cash and cash equivalents		93,535,653	18,819,935	93,535,653	18,819,935
Total assets		**141,657,202**	**57,839,150**	**141,657,203**	**57,839,151**
Current liabilities					
Trade and other payables	15	(873,146)	(4,579,087)	(873,147)	(4,579,088)
Current tax payable		-	(146,409)	-	(146,409)
Net current assets		**93,167,337**	**14,390,562**	**93,167,336**	**14,390,561**
Non current liabilities					
Long term borrowings	16	(12,744,245)	(10,041,624)	(12,744,245)	(10,041,624)
Total liabilities		**(13,617,391)**	**(14,767,120)**	**(13,617,392)**	**(14,767,121)**
Net assets		**128,039,811**	**43,072,030**	**128,039,811**	**43,072,030**
Capital and reserves attributable to equity shareholders of the Company					
Share capital	17	5,452	3,681	5,452	3,681
Share premium	17	137,077,241	47,109,162	137,077,241	47,109,162
Other reserve		4,985,693	4,985,693	4,985,693	4,985,693
Retained earnings		(14,028,575)	(9,026,506)	(14,028,575)	(9,026,506)
Total equity		**128,039,811**	**43,072,030**	**128,039,811**	**43,072,030**

The financial statements were approved by the Board of Directors and authorised for issue on 26 February 2010 and were signed on its behalf by:

Timothy Jones
Director

Tim Bushell
Director

The notes on pages 21 to 37 form part of these financial statements.

Consolidated and Company Statements of Cash Flows for the year ended 31 December 2009

	Group 2009 $	Group 2008 $	Company 2009 $	Company 2008 $
Operating activities				
Loss for the year	(5,327,812)	(1,272,033)	(5,327,812)	(1,272,033)
Finance income	(115,183)	(3,256,544)	(115,183)	(3,256,544)
Finance expense	2,821,519	1,596,659	2,821,519	1,596,659
Taxation expense	(217,417)	25,960	(217,417)	25,960
	(2,838,893)	(2,905,958)	**(2,838,893)**	(2,905,958)
Depreciation	65,157	70,001	65,157	70,001
Share based payment expense	325,743	298,367	325,743	298,367
Net cash flow from operating activities before changes in working capital	**(2,447,993)**	(2,537,590)	**(2,447,993)**	(2,537,590)
Decrease in trade and other receivables	57,705	90,777	57,705	90,777
Increase/(decrease) in trade and other payables	219,303	(484,911)	219,303	(484,911)
Cash used in operations	(2,170,985)	(2,931,724)	(2,170,985)	(2,931,724)
Taxation paid	(269,576)	-	(269,576)	-
Net cash flow from operating activities	**(2,440,561)**	(2,931,724)	**(2,440,561)**	(2,931,724)
Investing activities				
Interest received	115,183	673,334	115,183	673,334
Purchases of property, plant and equipment	(2,956)	(1,326)	(2,956)	(1,326)
Expenditure in respect of intangible assets	(12,881,072)	(2,699,716)	(12,881,072)	(2,699,716)
Cash used in investing activities	**(12,768,845)**	(2,027,708)	**(12,768,845)**	(2,027,708)
Financing activities				
Issue of ordinary share capital (net of issue costs)	89,969,850	-	89,969,850	-
Net cash from financing activities	**89,969,850**	**-**	**89,969,850**	**-**
Net increase (decrease) in cash and cash equivalents in the year	74,760,444	(4,959,432)	74,760,444	(4,959,432)
Cash and cash equivalents at start of year	18,819,935	24,889,214	18,819,935	24,889,214
Effect of foreign exchange rate changes on cash and cash equivalents	(44,726)	(1,109,847)	(44,726)	(1,109,847)
Cash and cash equivalents at end of year	**93,535,653**	18,819,935	**93,535,653**	18,819,935

Statements of Changes in Equity for the year ended 31 December 2009

	Equity Share capital $	Group and Company Share premium $	Retained deficit $	Other Reserve $	Total Equity $
Balance as at 1 January 2008	**3,688**	**47,198,961**	**(8,069,668)**	**4,995,197**	**44,128,178**
Total comprehensive income for the year	-	-	(1,272,033)	-	(1,272,033)
Revaluation adjustment resulting from change in functional currency	(7)	(89,799)	16,828	(9,504)	(82,482)
Share based payments	-	-	298,367	-	298,367
Balance as at 31 December 2008	**3,681**	**47,109,162**	**(9,026,506)**	**4,985,693**	**43,072,030**
Total comprehensive income for the year	-	-	(5,327,812)	-	(5,327,812)
Share based payment	-	-	325,743	-	325,743
Shares Issued	1,771	94,939,919	-	-	94,941,690
Costs associated with issue of share capital	-	(4,971,840)	-	-	(4,971,840)
Balance as at 31 December 2009	**5,452**	**137,077,241**	**(14,028,575)**	**4,985,693**	**128,039,811**

Notes to the financial statements for the year ended 31 December 2009

1 General information

Falkland Oil and Gas Limited is a company incorporated in the Falkland Islands. The address of the registered office is given in the officers and advisors section of this report. The Company's administrative office is in London, UK. The nature of the Company's operations and its principal activities are set out in the Chief Executive's review, the Report of Directors and the Technical review on pages 7 and 8.

2 Accounting policies

IAS 8 requires that management shall use its judgement in developing and applying accounting policies that result in information which is relevant to the economic decision-making needs of users; that are reliable, free from bias, prudent, complete and represent faithfully the financial position, financial performance and cash flows of the entity.

Basis of preparation

The principal accounting policies adopted in the preparation of the financial statements are set out below. The policies have been consistently applied to all the years presented, unless otherwise stated. All amounts presented are in US dollars unless otherwise stated.

These financial statements have been prepared on the basis of a going concern and in line with International Financial Reporting Standards (IFRS) and IFRIC interpretations issued by the International Accounting Standards Board (IASB) adopted by the European Union and in accordance with applicable Falkland Islands Law. The adoption of all of the new and revised Standards and Interpretations issued by the IASB and the IFRIC of the IASB that are relevant to the operations and effective for annual reporting periods beginning on 1 January 2009 are reflected in these financial statements.

The financial statements are also prepared in accordance with the Statement of Recommended Practice "Accounting for Oil and Gas Exploration, Development, Production and Decommissioning Activities" and have been prepared in accordance with its provisions.

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision only affects that period or in the period of revision and future periods if the revision affects both current and future periods.

In common with many exploration companies, the Group raises finance for its exploration and appraisal activities in discrete tranches. Further funding is raised as and when required.

Going concern

The Directors are of the opinion that the Group has adequate financial resources to enable it to undertake its planned programme appraisal and drilling activities over the forthcoming 12 months.

New Accounting Standards

New mandatory standards, amendments and interpretations effective in 2009:

IFRS 8 Operating Segments

IAS 23 (Amendment) Borrowing costs

Amendment to IAS 1 Presentation of financial information

Amendment to IFRS 2 Share-based payment Vesting conditions and cancellations

Amendments to IAS 32 and IAS 1 Puttable financial instruments and obligations arising on liquidation

Amendments to IFRS 1 and IAS 27 Cost of an Investment in a subsidiary, jointly-controlled entity or associate

Amendments to IFRS 7 Improving Disclosures about Financial Instruments

Improvements to IFRSs (2009) A collection of amendments to IFRSs

Notes to the financial statements for the year ended 31 December 2009

Standards, amendments and interpretations effective in 2009 but not relevant for the Group:

IFRIC 13, Customer Loyalty Programmes (effective for accounting periods beginning on or after 1 July 2008). IFRIC 13 is still to be endorsed by the EU.

IFRIC 15 Agreements for the Construction of Real Estate (effective for accounting periods beginning on or after 1 January 2009). IFRIC 15 is still to be endorsed by the EU.

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2010 or later periods and which the Group has decided not to adopt early. These are:

Amendments to IFRIC 9 and IAS 39 Embedded Derivatives. The Group will apply the revised standard from 1 January 2010 subject to endorsement by the EU.

IAS 27 (Revised) Consolidated and separate financial information. The Group will apply the revised standard from 1 January 2010.

IFRS 3 (Revised) Business combinations. The Group will apply the revised standard from 1 January 2010.

Amendments to IAS 39 Financial Instruments: Recognition and Measurement: Eligible Hedged Items. The Group will apply the revised standard from 1 January 2010.

IFRIC 16 Hedges of a Net Investment in a Foreign Operation. The Group will apply the Interpretation from 1 January 2010.

Improvements to IFRSs (2010) Eliminating inconsistencies within and between Standards. The Group will apply the amendments from 1 January 2010 subject to endorsement by the EU.

Amendments to IFRS 2 Group Cash-settled Share-based Payment Transactions. The Group will apply the Interpretation from 1 January 2010 subject to endorsement by the EU.

Amendment to IAS 32 Classification of Rights Issues. The Group will apply the Interpretation from 1 January 2011 subject to endorsement by the EU.

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments. The Group will apply the Interpretation from 1 January 2011 subject to endorsement by the EU.

Revised IAS 24 Related Party Disclosures. The Group will apply the revised standard from 1 January 2011 subject to endorsement by the EU.

Amendments to IFRIC 14 IAS 19 Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction. Management do not expect this amendment, subject to endorsement by the EU, to be relevant to the Group.

IFRS 9 Financial Instruments. The Group will apply the standard from 1 January 2013 subject to endorsement by the EU.

Except for the adoption of IFRS 3 Revised the above standards, interpretations and amendments will not significantly affect the Group's results or reported financial position. We are in the process of establishing the potential effect of IFRS 9.

Interpretation that is not yet effective and not relevant for the Group:

IFRIC 18, Transfer of Assets from Customer, effective for annual periods beginning on or after 1 July 2009, but not yet endorsed by the EU. Management do not expect the interpretation to be relevant for the Group.

IFRIC 17 Distributions of Non-cash Assets to Owners. The Interpretation is applicable from 1 January 2010 subject to endorsement by the EU. Management do not expect the interpretation to be relevant for the Group.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of Falkland Oil and Gas Limited and its wholly-owned subsidiary made up to the end of the reporting period each year. Control is achieved where Falkland Oil and Gas Limited has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

The results of the subsidiary are included in the consolidated statement of comprehensive income from the date of incorporation. Where necessary, adjustments are made to the financial statements of subsidiary to bring the accounting policies used into line with those used by the parent company.

All significant intercompany transactions and balances between group entities are eliminated on consolidation.

As a consolidated Group statement of comprehensive income is published, a statement of comprehensive income for the Parent Company is omitted from the Group financial statements by virtue of the Falkland Islands Companies Act 1948 (as amended for the Companies (Amendment) Ordinance 2006)

Intangible Assets

Oil and gas assets: exploration and appraisal
The Group has continued to apply the full cost method of accounting for Exploration and Appraisal (E&A) costs, having regard to the requirements of IFRS 6 'Exploration for and Evaluation of Mineral Resources'. Under the full cost method of accounting, costs of exploring and evaluating oil and gas properties are accumulated and capitalised by reference to appropriate cost pools. For E&A asset purposes the Group has one cost pool being the Falkland Islands.

E&A costs are initially capitalised within 'Intangible assets'. Such E&A costs may include costs of licence acquisition, technical services and studies, seismic acquisition, exploration drilling and testing, but do not include costs incurred prior to having obtained the legal rights to explore an area, which are expensed directly to the statement of comprehensive income as they are incurred.

Intangible E&A assets related to each exploration licence/prospect are not depreciated and are carried forward until the existence (or otherwise) of commercial reserves has been determined. The Group's definition of commercial reserves for such purpose is proven and probable reserves on an entitlement basis.

If commercial reserves have been discovered, the related E&A assets are assessed for impairment.

E&A assets are assessed for impairment when facts and circumstances suggest that the carrying value of the E&A cost pool to which they relate may exceed its future recoverable amount. Such indicators include the point at which a determination is made as to whether or not commercial reserves exist.

Where there are deemed to be no commercial reserves the E&A assets concerned will generally be written off in full.

Any material impairment loss is recognised in the statement of comprehensive income and separately disclosed.

Jointly controlled assets

Jointly controlled assets are arrangements in which the Group holds an interest on a long term basis which are jointly controlled by the Group and one or more venturers under a contractual arrangement. The Group's exploration, development and production activities are generally conducted jointly with other companies in this way. Since these arrangements do not constitute entities in their own right, the consolidated financial statements reflect the relevant proportion of costs, revenues, assets and liabilities applicable to the Group's interests.

Taxation

Income tax expense represents the sum of the current tax and deferred tax charge for the period.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases, and is accounted for using the balance sheet liability method. Deferred tax liabilities are recognised for all taxable temporary differences except for differences arising on:

- The initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting or taxable profit; and
- Investments in subsidiaries and jointly controlled entities where the group is able to control the timing of the reversal of the difference and it is probable that the difference will not reverse in the foreseeable future.

Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that have been enacted or substantively enacted and are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited to the statement of comprehensive income, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to off set current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Foreign currencies

Monetary assets and liabilities denominated in foreign currencies are translated into dollars 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 statement of comprehensive income.

On consolidation, assets and liabilities of subsidiary undertakings and representative offices which are denominated in foreign currencies are translated into Dollars at the rate ruling at the balance sheet date. Income and cash flow statements are translated at average rates of exchange prevailing during the year. Exchange differences resulting from the translation at closing rates of net investments in subsidiary undertakings and of foreign currency representative offices, together with differences between earnings for the year translated at average and closing rates, are dealt with in the foreign currency translation reserve.

The functional currency of the Company and presentational currency of the Group is United States Dollars and accordingly the financial statements have been prepared in this currency.

Property, plant and equipment and depreciation

Property, plant and equipment are recorded at historical cost less accumulated depreciation. Property, plant and equipment are depreciated using the straight line method over their estimated useful lives, as follows:

Fixtures, fittings and equipment - four years

Investments

In its separate financial statements, the Company recognises its investments in subsidiaries at cost less any provision for impairment.

Leases

Rent paid on operating leases is charged to the statement of comprehensive income on a straight line basis over the term of the lease.

Share based payments

The share option programme allows Directors and employees to acquire shares of the Company. The fair value of options granted is recognised as an expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the Directors and employees become unconditionally entitled to the options. The fair value of the options granted is measured using an option pricing model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted based on time based conditions to reflect the actual number of share options that will vest. The actual number of share options expected to vest is not adjusted for market vesting conditions. Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also charged to the consolidated statement of comprehensive income over the remaining vesting period. Further details of the treatment of share based payments can be found in note 19.

Segmental disclosures

The Group's operations are entirely focused on oil and gas exploration activities in the Falkland Islands with its corporate head office in the UK. Based on risks and returns the Directors consider that there is only one business segment that they use to assess the Group's performance and allocate resources being oil and gas exploration activities in the Falkland Islands and therefore the segmental disclosures for the Group have already been given in these financial statements.

Financial instruments

The Group's financial assets consist of current account or short term deposits at variable interest rates, loans and other receivables. Any interest earned is accrued and classified as interest. Trade and other receivables are stated initially at fair value and subsequently at amortised cost.

The Group's financial liabilities consist of convertible loan notes, trade and other payables. All are non derivative assets. The trade and other payables are stated initially at fair value and subsequently at amortised cost. Convertible loan notes are treated as described below.

Convertible loan notes

In accordance with IAS 32, the Group has classified the convertible debt in issue as a compound financial instrument. Accordingly, the Group presents the liability and equity component separately on the balance sheet. The classification of the liability and equity component is not reversed as a result of a change in the likelihood that the conversion option will be exercised. No gain or loss arises from initially recognising the components of the instrument separately. Interest on the debt element of the loan is accreted over the term of the loan at the effective interest rate. In the event of conversion the equity component relating to the conversion rights and the warrants issued will be transferred to share capital and share premium (for any amount over the nominal value of each share).

The assessment of the equity and debt components of the convertible instrument was made on inception and was not revisited as a result of the change in functional currency.

Notes to the financial statements
for the year ended 31 December
2009

Derivatives

Derivatives are recognised initially, and subsequently re-measured, at fair value. Changes in value are recognised in the statement of comprehensive income.

Derivatives may be embedded in other instruments. Embedded derivatives are treated as separate derivatives and measured at fair value, with changes in value being recognised in the statement of comprehensive income, when:

- their terms would meet the definition of a stand alone derivative if they were contained in a separate contract;
- their economic characteristics and risks are not clearly and closely related to those of the host contract; and
- the combined contract is not measured at fair value with changes in value being recognised in the statement of comprehensive income.

Conversion features of convertible debt issued by the group which do not meet the definition of an equity instrument are accounted for as derivatives over the company's own equity and are recognised initially, and subsequently remeasured, at fair value. Changes in value are recorded in the statement of comprehensive income.

Critical accounting estimates and judgments

The Group makes estimates and assumptions regarding the future. Estimates and judgements are continually evaluated based on historical experiences and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may deviate from these estimates and assumptions. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are as follows:

Recoverability of intangible assets

Under the full cost based method of accounting, the Group capitalises exploration and appraisal costs until it is capable of determining whether its exploration efforts were successful and, if they were successful, whether any impairment charges may be required to bring the net book values of assets in line with their economic values.

This assessment involves judgement as to the likely future commerciality of the asset and when such commerciality should be determined as well as future revenues and costs pertaining to the utilisation of the licence rights to which such capitalised costs relate and the discount rate to be applied to such future revenues and costs in order to determine a recoverable value.

Impairment review

The carrying amounts of the Group's E&A assets are reviewed at each balance sheet date and, if there is any indication that an asset may be impaired, its recoverable amount is estimated. The recoverable amount is the higher of its net selling price and its value in use.

Impairment assessments are carried out by the Directors if there has been an event or a change in circumstance that would indicate that the carrying value of the asset may not be recoverable.

While conducting an impairment review of its assets, the Group exercises judgement in making assumptions about future oil and gas prices, oil and gas reserves/resources and future development and production costs. By their nature, impairment reviews include significant estimates regarding future financial resources and commercial and technical feasibility to enable the successful realisation of the exploration expenditure. Changes in the estimates used can result in significant charges to the statement of comprehensive income as any impairment loss arising from the review is charged to the statement of comprehensive income whenever the carrying amount of the asset exceeds its recoverable amount.

Convertible loan notes

The fair value of the liability component on initial recognition is the present value of the stream of future cash flows (including both coupon payments and redemption) discounted at the market rate of interest that would have been applied to an instrument of comparable credit quality with substantially the same cash flows, on the same terms, but without the conversion option. The applicable rate of interest is estimated at 15%.

Share based payments

Directors best estimate of the valuations underlying the share based payments are based on assumptions made by Directors using updated models previously prepared by external consultants. Those assumptions are described in the Notes to the accounts and include, among others, the dividend growth rate, expected volatility, expected life of the options and number of options expected to vest. See note 19 for further details of these assumptions.

3 Loss from operations

	Group 2009 $	Group 2008 $
Loss from operations is stated after charging:		
Depreciation	65,157	70,001
Share based payments	325,744	298,367
Operating lease payments	171,322	170,806
Auditors' remuneration:		
Audit fee	38,223	39,084
Tax services - current year	11,743	-
- in respect of prior years	10,000	-

4 Finance income and expense

	Group 2009 $	Group 2008 $
Bank interest receivable	115,183	673,334
Foreign exchange gains	-	2,583,210
Total Finance income	115,183	3,256,544
Interest expense on convertible loan notes	(1,699,361)	(1,596,659)
Foreign exchange losses	(1,122,158)	-
Total finance costs	(2,821,519)	(1,596,659)
Net finance (expense)/income	(2,706,336)	1,659,885

Notes to the financial statements for the year ended 31 December 2009

5 Employees

	Group 2009 $	Group 2008 $	Company 2009 $	Company 2008 $
Employment costs (excluding Directors) consist of:				
Wages and salaries	381,755	442,227	381,755	442,227
Share based payments	34,888	81,422	34,888	81,422
Pension costs	4,104	32,452	4,104	32,452
Social security costs	26,690	54,580	26,690	54,580
	447,437	610,681	447,437	610,681

The average monthly number of employees (including Directors) during the year was 8 (2008 - 8)

Pension costs

The Group does not operate a pension plan for Directors or employees but does, at the Directors' and employees' option, contribute to the personal pension plans of each Director and employee, up to a specified percentage of salary. The pension cost charge for employees (excluding Directors) for the year amounted to $ 4,104 (2008 - $32,452).

The average monthly number of employees (including only Executive Directors) of the Group during the year was:

	Group 2009 Number	Group 2008 Number	Company 2009 Number	Company 2008 Number
Technical	1	1	1	1
Administration	3	3	3	3
	4	4	4	4

6 Directors' remuneration

	Group 2009 $	Group 2008 $	Company 2009 $	Company 2008 $
Directors' remuneration consists of:				
Directors' fees and benefits	1,204,435	958,582	1,204,435	958,582
Share based payments	290,856	216,945	290,856	216,945
Pension costs	130,116	66,797	130,116	66,797
Social security costs	174,756	110,465	174,756	110,465
	1,800,163	1,352,789	1,800,163	1,352,789
Amounts attributable to the highest paid director:				
Director's fees and benefits	583,678	593,042	583,678	593,042
Share based payments	118,355	216,945	118,355	216,945
Pension costs	56,185	66,797	56,185	66,797
Social security costs	108,236	81,998	108,236	81,998
	866,454	958,782	866,454	958,782

Key management and personnel are considered to be the Directors. No Directors or key management exercised any share options during either year. The Company provides Directors & Officers liability insurance at a cost of $22,007 (2008: $ 21,168). This cost is not included in the above table.

7 Taxation

	Group 2009 $	Group 2008 $
Current year UK corporation tax at 28% (2008 - 28.5%)	-	209,972
Adjustment in respect of prior period	(217,417)	(184,012)
	(217,417)	25,960

Factors affecting the tax charge for the current period.

The tax charge for the year is higher than the standard rate of corporation tax in the UK (28%) (2008 - 28.5%).

The differences are explained below:

	Group 2009 $	Group 2008 $
Tax reconciliation		
Loss for the year before tax	(5,545,229)	(1,246,073)
Current tax credit at 28% (2008, 28.5%)	(1,552,664)	(355,131)
Effects of:		
Expenses not deductible for tax purposes	91,532	86,167
Depreciation	18,244	19,939
Loss carry back to prior year	308,376	-
Realised losses carried forward	550,710	-
Pre-trading losses carried forward	583,802	458,997
Adjustment in respect of prior period	(217,417)	(184,012)
	(217,417)	25,960

Factors that may affect future current and total tax charges

The Group had tax losses carried forward on which no deferred tax asset is recognised. This may affect future tax charges should the Group produce taxable trading profits in future periods. No deferred tax asset is recognised in respect of losses carried forward to future periods due to the uncertainty of the timing of future taxable profits.

8 Deferred taxation

	Group 2009 $	Group 2008 $	Company 2009 $	Company 2008 $
The elements of deferred taxation are as follows:				
Depreciation in excess of capital allowances	90,308	72,063	90,308	72,063
Pre-trading expenditure carried forward	3,958,310	3,373,785	3,958,310	3,373,785
Unexpired Share options	863,312	535,002	863,312	535,002
Total unrecognised deferred tax asset	4,911,930	3,980,850	4,911,930	3,980,850

Total tax allowances available to claim in future periods in respect of pre-trading capital expenditure for which a deferred tax asset has not been recognised are $12,056,561 (2008: $10,423,015).

Pre-trading expenditure expires after seven years. Deferred Tax assets have not been recognised in respect of these items because at this point in the Group's development it is not virtually certain that future taxable profits will be available against which the Company can utilise the benefits of tax losses.

Financial Year	Expire (year)	$
2005	2012	694,927
2006	2013	4,989,350
2007	2014	2,716,158
2008	2015	1,990,880
2009	2016	1,665,246

9 Loss per share

The calculation of basic loss per ordinary share is based on a loss of $5,327,812 (2008 - loss of $1,272,033) and on 102,801,956 ordinary shares (2008 - 92,025,706), being the weighted average number of ordinary shares in issue during the year. There is no difference between the diluted loss per share and the basic loss per share presented as the Group reported a loss for the year.

The effect of all potential ordinary shares arising from the exercise of options going forward is considered to be anti-dilutive 2,657,398 (2008 - 2,454,257) potential ordinary shares have been excluded from the above calculation as they are anti-dilutive.

10 Loss for the financial year

The Company has taken advantage of the exemption allowed under section 230 of the United Kingdom Companies Act 1985, as it applies in the Falkland Islands, by virtue of section 2(1)(c) of the Companies (Amendment) Ordinance 2006 and has not presented its own statement of comprehensive income in these financial statements. The Company loss for the year was $5,327,812 (2008 Loss: $1,272,033).

11 Intangible assets

	Group and Company Exploration and appraisal costs 2009 $
Cost	
At 1 January 2009	38,643,981
Additions during the year	8,955,828
At 31 December 2009	47,599,809

	Group and Company Exploration and appraisal costs 2008 $
Cost	
At 1 January 2008	31,785,242
Additions during the year	6,858,739
At 31 December 2008	38,643,981

Intangible assets represent exploration expenditure on the Group's licences offshore the Falkland Islands. The Company holds all the intangible assets of the Group.

12 Property, plant and equipment

	Group and Company Fixtures, fittings and equipment 2009 $
Cost	
At 1 January 2009	324,902
Additions during the year	2,956
At 31 December 2009	327,858
Depreciation	
At 1 January 2009	245,791
Charge for the year	65,157
At 31 December 2009	310,948
Net book value	
At 31 December 2009	16,910

	Group and Company Fixtures, fittings and equipment 2008 $
Cost	
At 1 January 2008	324,376
Additions during the year	526
At 31 December 2008	324, 902
Depreciation	
At 1 January 2008	175,790
Charge for the year	70,001
At 31 December 2008	245,791
Net book value	
At 31 December 2008	79,111

13 Investment in subsidiary

The principal subsidiary of Falkland Oil and Gas Limited is FOGL Finance Limited, a company incorporated in the United Kingdom, which is 100% owned by the Company and which has been included in these consolidated financial statements.

14 Trade and other receivables

	Group 2009 $	Group 2008 $	Company 2009 $	Company 2008 $
Sundry receivables	416	57	416	57
Prepayments	234,818	296,066	234,818	296,066
Corporation tax receivable	269,596	-	269,596	-
	504,830	296,123	504,830	296,123

All above amounts are due within one year.

Notes to the financial statements for the year ended 31 December 2009

15 Trade and other payables

	Group 2009 $	Group 2008 $	Company 2009 $	Company 2008 $
Trade payables	307,522	4,186,211	307,522	4,186,211
Other taxes and social security costs	87,057	38,644	87,057	38,644
Other payables	2,174	9,720	2,175	9,721
Accruals	476,393	344,512	476,393	344,512
	873,146	4,579,087	873,147	4,579,088

Trade payables and accruals principally comprise amounts outstanding for the farm-in partner, trade purchases, staff bonuses and ongoing costs.

16 Non-current liabilities: long term borrowings

	Group 2009 $	Group 2008 $	Company 2009 $	Company 2008 $
Brought forward from prior year	10,041,624	12,010,737	10,041,624	12,010,737
Exchange rate revaluation	1,003,260	(3,565,772)	1,003,260	(3,565,772)
Accrued interest	1,699,361	1,596,659	1,699,361	1,596,659
Carrying amount of liability at 31 December	12,744,245	10,041,624	12,744,245	10,041,624

On 22 December 2006, the Company entered into a financing agreement with RAB Special Situations (Master) Fund Limited (RAB) under which RAB would advance £8 million under convertible loan notes. These funds were made available over four tranches between December 2006 and September 2007. No further Notes were issued during the year ended 31 December 2009 (2008: nil).

The Notes are for a term of 5 years and bear interest at 6 per cent per annum. They carry the right to be converted at any time at the discretion of RAB in whole or in part into ordinary shares of 0.002 pence each in the Company Shares at a price of 80 pence per Share (subject to adjustment). Interest can be paid in cash or Notes at the option of the Noteholder and the Notes convert into Shares in the Company on the same basis as stated above. Full conversion of the notes issued would lead to the issue of 10,000,000 new Shares in the Company. The Notes are not redeemable / repayable by the Company until the expiry of the term. On issue of the first tranche of Notes RAB received 6,000,000 warrants, exercisable in whole or in part over a 6 year term, to acquire one Company Share per warrant at a price of 94.9 pence (2008: 100 pence per Share) (subject to adjustment) (Warrants).

The conversion price for the Notes will, in the event that the Company issues Shares or securities convertible into Shares at a price lower than 80 pence per Share, be adjusted to the lower of 80 pence and a 10 per cent premium to the price at which such Shares are issued. The exercise price for the Warrants will, in the event that the Company issues Shares or securities convertible into Shares at a price lower than 94.9 pence per share (2008: 100 pence per Share), be adjusted to the lower of 94.6 (2008: 100 pence) and a 30 per cent premium to the price at which such Shares are issued.

The fair value of the liability component of the transaction is the present value of cash flows relating to the carrying value of the notes as at maturity date discounted at the prevailing market rate of 15%. The amount of the convertible notes classified as equity is $4,985,693 (2008 - $4,985,693).

A tripartite contract was signed on the 28th April 2008 between the Company, RAB and FOGL Finance Limited (a wholly owned subsidiary of the Company). The essence of this agreement was to substitute the Group's wholly-owned subsidiary, FOGL Finance Limited, as the Note holder and subsequently list the Notes on the Channel Islands Stock Exchange. FOGL Finance Limited is a UK registered company and the obligations of the subsidiary are guaranteed by Falkland Oil and Gas Limited.

The Notes are secured against the assets of the Company.

17 Share capital

	Company 2009 Number £	Company 2008 Number £
Authorised		
195,000,000 ordinary shares of 0.002p each (2008 : 145,000,000)	3,900	2,900
	$	$
Allotted, called up and fully paid		
146,252,066 ordinary shares of 0.002p each (2008 - 92,325,706)	5,452	3,681

Following the change in functional currency share capital was converted in US Dollars at the exchange rate on 1 July 2008.

The shares are legally 0.002p shares. The share capital has therefore been translated at the historic rate of raising.

Details of the ordinary shares issued during the period are given in the table below:

Date	Description	Price (£)	No. of shares
20 May 2009	Placing of shares to provide working capital	73p	10,448,099
26 November 2009	Placing of shares to provide working capital	115p	43,478,261

The following describes the nature and purpose of each reserve within owners' equity.

Share premium	Amount subscribed for share capital in excess of nominal value.
Other reserve	Amount of proceeds on issue of convertible debt relating to the equity component (i.e. option to convert the debt into share capital) and the fair value of warrants issued.
Retained earnings	Cumulative net gains and losses recognised in the financial statements.

Notes to the financial statements
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18 Financial instruments

The Board of Directors determine, as required, the degree to which it is appropriate to use financial instruments or other hedging contracts or techniques to mitigate risk. The main risk affecting such instruments is foreign currency risk which is discussed below. Throughout the period ending 31 December 2009 no trading in financial instruments was undertaken (2008 – Nil).

There is no material difference between the book value and fair value of the Group cash balances, and the short term receivables and payables because of their short maturities.

Market risk

Market risk arises from the Group and Company's use of interest bearing and foreign currency financial instruments. It is the risk that future cash flows of a financial instrument will fluctuate because of changes in interest rates (interest rate risk), and foreign exchange rates (currency risk).

Currency risk

The Group and Company have potential currency exposures in respect of items denominated in foreign currencies comprising transactional exposure in respect of operating costs and capital expenditure incurred in currencies other than the functional currency of operations.

At the year end, the Group and Company had cash balances of $93,535,653 (2008 - $18,819,949) comprising the following currencies:

	Group 2009 $	Group 2008 $	Company 2009 $	Company 2008 $
Sterling	13,848,801	2,628,986	13,848,801	2,628,986
US dollars	79,686,852	16,190,949	79,686,852	16,190,949
	93,535,653	18,819,935	93,535,653	18,819,935

As well as the above Sterling cash balance the convertible loan note instruments are denominated in a currency other than US Dollars.

A 10% increase or decrease in the dollar/sterling exchange rate would result in reported losses being $1,384,193 higher or lower respectively (2008 - $741,264) on cash balances.

A 10% increase or decrease in the dollar/sterling exchange rate would result in reported convertible loan liability of $1,274,425 higher or lower respectively (2008 - $1,004,162).

A 10% increase or decrease in the dollar/sterling exchange rate would result in a reported Trade debtors balance $50,483 higher or lower respectively (2008 - $29,612).

Capital

The Group and Company considers its capital to comprise its ordinary share capital, share premium and retained earnings as well as the convertible loan notes.

In managing its capital, the Group and Company's primary objective is to maintain a sufficient funding base to enable the Group and Company to meet its working capital and strategic investment needs. In making decisions to adjust its capital structure to achieve these aims, through new share issues, the Group and Company considers not only their short-term position but also their long-term operational and strategic objectives.

	Group 2009 $	Group 2008 $	Company 2009 $	Company 2008 $
Capital and reserves attributable to shareholders				
Share capital	5,452	3,681	5,452	3,681
Share premium	137,077,241	47,109,162	137,077,241	47,109,162
Other reserve	4,985,693	4,985,693	4,985,693	4,985,693
Retained earnings	(14,028,575)	(9,026,506)	(14,028,575)	(9,026,506)
Total equity	128,039,811	43,072,030	128,039,811	43,072,030

There have been no significant changes to the Group and Company's capital management objectives, policies and processes in the year nor has there been any change in what the Company considers to be its capital.

Interest risk

The Group and Company's fixed-rate loan note borrowings are not exposed to a risk of changes in interest rates. The Group and Company's cash and cash equivalents are subject to interest rate exposure due to changes in interest rates. The following table shows the period in which interest-bearing financial assets and liabilities reprice.

	Average interest rate Contractual %	Effective %	0-3 mths $	2-4 years $	4-5 years $	Total $
Financial Assets classified as Loans and Receivables						
Cash and cash equivalents	0.25	0.25	93,535,653	-	-	93,535,653
Other financial assets	-	-	416	-	-	416
Comparative information						
Cash and cash equivalents	1.75	1.75	18,819,935	-	-	18,819,935
Other financial assets	-	-	57	-	-	57
Liabilities						
Convertible loan notes	(6)	(15.69)	-	12,744,245	-	12,744,245
Other financial liabilities	-	-	783,914	-	-	783,914
Comparative Information						
Convertible loan notes	(6)	(15.69)	-	-	10,041,624	10,041,624
Other financial liabilities	-	-	4,540,443	-	-	4,540,443

A 1% increase or decrease in the floating rate attributable to the cash balances held at the year end would result in interest receivable being $935,357 higher or lower respectively (2008 - $188,199)

Liquidity risk

The liquidity risk of the Group is managed centrally by the Group treasury function. The Group and Company's practice is to regularly review cash needs and to place excess funds on fixed term deposits for periods not exceeding three months or short term deposits for periods between daily and one month.

All Trade and other payables are due for payment within three months of the balance sheet date.

The Loan notes issued to date (see note 16) are redeemable 5 years from date of issue (22 December 2006) and bear a fixed interest rate of 6% per annum. Adjustments to the loan note payable represent the possible future interest payment based on the current year end foreign exchange rate. At the earliest date the group can be required to pay the undiscounted payment to settle the loan note is $12,723,358 (2008: $9,986,518).

Credit risk

Credit risk arises from cash and cash equivalents and deposits held at bank. The majority of the Group and Company's deposits are held within the UK and 96% are held with AA Fitch rated institutions with the remainder at BBB to A rated Fitch institutions. The Group continues to monitor its treasury management to ensure an appropriate balance of the safety of funds and the maximisation of yield.

Notes to the financial statements for the year ended 31 December 2009

19 Share based payments

During the year, the Company operated two share plans (the current plans), the Falkland Oil and Gas Share Option Plan (Share Option Scheme) and the Falkland Oil and Gas Long-Term Incentive Plan (LTIP).

Under IFRS 2, an expense is recognised in the statement of comprehensive income for share based payments, calculated on their fair value at the date of grant. The application of IFRS 2 gave rise to a charge of $325,744, for the year ended 31 December 2009. The equivalent charge for the year ended 31 December 2008 was $298,367.

The Group recognised total expenses (all of which related to equity settled share-based payment transactions) under the current plans of:

	Group 2009 $	Group 2008 $	Company 2009 $	Company 2008 $
Share Option Scheme	128,210	177,085	107,057	177,085
LTIP	197,534	121,282	197,534	121,282
	325,744	298,367	304,591	298,367

Share Option Scheme

The Option Plan provides for an exercise price equal to the closing market price of the Company shares on the date of the grant. The vesting period is three years. The options expire if they remain unexercised after the exercise period has lapsed and have been valued using the Black Scholes model. The options which are subject to the satisfaction of performance criteria relating to the compound annual increase in share price of the Company and comparing the Company share price to a similar selected group of companies are valued using the Monte Carlo model (see below).

The following table sets out details of all outstanding options granted under the Share Option Scheme.

	2009 Options	2009 Exercise price weighted average	2008 Options	2008 Exercise price weighted average
Outstanding at beginning of period	2,474,257	£0.73 ($1.06)	2,431,229	£0.74 ($1.48)
Granted during the period	203,141	£1.21 ($1.96)	43,028	£1.255 ($2.47)
Forfeited during the period	20,000	£1.235 ($1.96)	-	-
Exercised during the period	-	-	-	-
Lapsed during the period	-	-	-	-
Outstanding at the end of the period	2,657,398	£0.837 ($1.33)	2,474,257	£0.80 ($1.16)
Exercisable at the end of the period	2,360,877	£0.78 ($1.24)	1,940,727	£0.73 ($1.06)

The range of the exercise price of share options exercisable at the year end falls between £0.655 ($0.95) - £1.35 ($2.24), (2008 - £0.40 ($0.58) - £1.42 ($2.06))

The estimated fair values of options which fall under IFRS 2, and the inputs used in the Monte Carlo models and the Black-Scholes Option model to calculate those fair values are as follows:

Date of grant	Estimated fair value	Share price	Exercise price	Expected volatility	Expected life	Risk free rate	Expected dividends
13 October 2004*	£0.16 ($0.29)	£0.40 ($0.72)	£0.40 ($0.72)	50.0%	3.5	4.61%	0.00%
13 October 2004*	£0.11 ($0.20)	£0.40 ($0.72)	£0.60 ($1.07)	50.0%	3.5	4.61%	0.00%
24 March 2005*	£0.52 ($0.97)	£1.27 ($2.37)	£1.27 ($2.37)	50.0%	3.5	4.78%	0.00%
3 June 2005*	£0.37 ($0.67)	£0.92 ($1.67)	£0.92 ($1.67)	50.0%	3.5	4.18%	0.00%
5 January 2006*	£0.49 ($0.85)	£1.24 ($2.14)	£1.24 ($2.14)	50.0%	3.5	4.12%	0.00%
23 January 2006º	£0.35 ($0.62)	£1.18 ($2.09)	£1.18 ($2.09)	50.0%	3.5	4.23%	0.00%
11 September 2006º	£0.34 ($0.63)	£1.13 ($2.11)	£1.13 ($2.11)	50.0%	3.5	4.80%	0.00%
27 December 2006º	£0.31 ($0.61)	£0.96 ($1.88)	£0.93 ($1.82)	50.0%	3.5	5.12%	0.00%
5 October 2007*	£0.30 ($0.61)	£1.42 ($2.89)	£1.42 ($2.89)	50.0%	3.5	5.50%	0.00%
14 April 2008*	£0.27 ($0.53)	£1.25 ($2.46)	£1.25 ($2.46)	50.0%	3.5	5.50%	0.00%
21 October 2009*	£0.08 ($0.13)	£1.21($1.96)	£1.21($1.96)	50.0%	3.5	1.45%	0.00%

*Calculated using the Black Scholes model.
ºCalculated using the Monte Carlo model.

Expected volatility was determined by calculating the annualised standard deviation of the daily changes in the share price.

During the year, for certain options granted in 2006 to Tim Bushell and to Colin More the share price performance period was been extended by two years. The incremental fair value of the modification was calculated as being $21,153 using the Monte Carlo model.

LTIP

The LTIP is an unapproved employee share option plan under which options over ordinary shares may be granted to any employee or Director of the Company. There are currently two members of the plan; Tim Bushell and Colin More.

During the year Tim Bushell was granted an option over 171,746 ordinary shares of 0.002p each at an exercise price of 0.002p (0.003c) each. Colin More was granted an option over 122,570 ordinary shares of 0.002p (0.003c) each at an exercise price of 0.002p (0.003c) each. The options may be exercised after 20 October 2012 subject to the satisfaction of performance criteria relating to the compound annual increase in the share price of the Company and comparison to a similar selected group of companies.

	2009 Options	2009 Weighted average Exercise price	2008 Options	2008 Weighted average Exercise price
Outstanding at beginning of period	850,926	0.002p (0.003c)	439,922	0.002p (0.004c)
Granted during the period	294,316	0.002p (0.003c)	411,004	0.002p (0.003c)
Forfeited during the period	-		-	-
Exercised during the period	-		-	-
Lapsed during the period	255,245	0.002p (0.003c)	-	-
Outstanding at the end of the period	1,145,242	0.002p (0.003c)	850,926	0.002p (0.003c)
Exercisable at the end of the period	-	-	-	-

The estimated fair value of the share award under the LTIP and the inputs used in the Monte Carlo Simulation model to calculate at fair values, are as follows:

Date of grant	Estimated fair value	Share price	Exercise price	Expected volatility	Expected life	Risk free rate	Expected dividends
5 October 2007	£0.41 ($0.83)	£1.265 ($2.57)	£0.00	50.0%	3	5.50%	0.00%
20 October 2008	£0.42 ($0.73)	£0.79 ($1.34)	£0.00	50.0%	3	5.50%	0.00%
21 October 2009	£1.29 ($2.05)	£1.21 ($$1.92)	£0.00	50.0%	3	1.45%	0.00%

Expected volatility was determined by calculating the annualised standard deviation of the daily changes in the share price.

Exchange rates at 31 December 2009 have been used to calculate the US$ value of options, these are for indicative purposes only.

Directors' share option scheme

The Directors who held office at the end of the financial year had the following interests in the share option scheme:

	Options held at 1 January 2009	Options granted in the year	Options exercised in the year	Options held at 31 December 2009	Exercise price (p)	Exercisable from	Expiry date
Richard Liddell	118,100	-	-	118,100	127	24.03.2006	24.03.2012
Tim Bushell	457,627	-	-	457,627	118	23.01.2006	26.12.2013
	194,595	-	-	194,595	92.5	27.12.2009	26.12.2013
	43,028			43,028	125.5	14.11.2011	14.11.2015
David Hudd	225,000	-	-	225,000	40	14.10.2004	14.10.2011
	225,000	-	-	225,000	60	14.10.2004	14.10.2011
Timothy Jones	150,000	-	-	150,000	40	14.10.2004	14.10.2011
	150,000	-	-	150,000	60	14.10.2004	14.10.2011
Colin More	245,907			245,907	112.5	11.09.2009	11.09.2012
	-	119,835	-	119,835	121	21.10.2012	21.10.2015
Total	1,809,257	119,835	-	1,929,092			

20 Commitments

Commitments at the balance sheet date that have not been provided for were as follows:

The Company is liable for future fees payable in respect of the use of third party data over the Southern area licences. These payments include farm-in bonuses and a Drilling Bonus of US$500,000 for the first well and US$250,000 for each subsequent well. The cap on total payable by the Company under this commitment is US$1,650,000. The $500,000 will be liable to pay in 2010 once drilling in early 2010 commences. These amounts have not been provided for as drilling has not commenced.

Operating lease commitments

At 31 December, the total of future minimum lease payments under non-cancellable operating leases for each of the following periods were:

	31 December 2009 $	31 December 2008 $
Within 1 year	**170,000**	120,000
Between 1 and 5 years	**280,000**	300,000
Total	**450,000**	420,000

The Group has entered into a longer-term contract over its premises in central London which is subject to rent reviews and which has a break clause that becomes applicable in August 2011.

21 Related party transactions

Fees of $7,762 (2008 - $14,890) were paid to Law Strategies Pty, a company controlled by Mr Dighton, during the year for his services to the Company. There were no amounts outstanding at the end of the year (2008 - $Nil)

Fees of $15,844 (2008 -$32,449) were paid to Timothy Jones and Co, a company controlled by Mr Jones during the year for his services to the company. There were no amounts outstanding at the end of the year (2008 - $Nil)

During 2006 and 2007 RAB Special Situations (Master) Fund Limited (RAB) subscribed for a total of £8 million convertible loan notes. RAB also holds 6 million warrants exercisable in whole or part over 6 years to acquire one Company share per warrant at a price of 94.9 pence (2008: 100 pence) per share (subject to adjustment). RAB is a significant shareholder.

A tripartite contract was signed on the 28th April 2008 between the Company, RAB and FOGL Finance Limited (a wholly owned subsidiary of the Company). The essence of this agreement was to substitute the Group's wholly-owned subsidiary, FOGL Finance Limited, as the Note holder and subsequently list the Notes on the Channel Islands Stock Exchange. FOGL Finance Limited is a UK based company and the obligations of the subsidiary are guaranteed by Falkland Oil and Gas Limited.

Falkland Oil and Gas Limited has assumed a guarantee obligation to pay if FOGL Finance Limited defaults on its responsibilities under the loan note.

The Notes are secured against the assets of the Company.

22 Post balance sheet events

On the 12th February, FOGL reached an agreement with Desire Petroleum Plc to contract the Ocean Guardian rig to drill an exploration well in the East Falklands Basin on the Toroa prospect, with drilling expected to commence in the first half of 2010.

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