

Falkland Oil and Gas Limited

Farm-out Agreement with BHP Billiton

Falkland Oil and Gas Limited ("FOGL") is pleased to announce that it has entered into a farm-out agreement with a subsidiary of BHP Billiton, the world's largest diversified resources company, over FOGL's 2002 and 2004 licences to the South and East of the Falkland Islands.

Highlights:

- Under the agreement a minimum of two exploration wells will be drilled in the next 3 years
- The farm-out agreement applies to FOGL's entire exploration acreage in the Falklands
- BHP Billiton will acquire a 40% interest, with an option to increase its interest up to 65%, and will take over the operatorship of the licences
- FOGL retains a substantial stake in the licences
- BHP Billiton pays FOGL US\$10 million in reimbursement of certain historical costs
- New licence terms have been agreed with the Falkland Islands Government
- The entry of BHP Billiton, a company with extensive deepwater exploration experience, into our licences confirms our view of the significant petroleum potential of the South and East Falkland Basins.

Details of the agreement

Under the terms of the agreement BHP Billiton will acquire a 40% interest in the 2002 and 2004 licences and will also, take over the operatorship of the licences, effective January 2008. In return BHP Billiton will pay four thirds of 40% of the costs of the forward work programme, including the drilling of two exploration wells and all other associated work to the completion of this drilling work. In addition, BHP Billiton will pay FOGL US\$10 million in relation to certain costs already incurred by the company. BHP Billiton also has the option to further increase its interest in the licences up to 65%. Under this option arrangement, BHP Billiton will pay four thirds of its share of the costs of the forward work programme up to the completion of the drilling of two exploration wells, in relation to their additional interest and also, pay FOGL an additional contribution to historic costs on a pro-rata basis. This option will expire on 27 November 2007.

Following discussions with the Falkland Islands Government it has been agreed to extend by 3 years the term of the first phases of the 2002 and 2004 licences, so that they now expire in December 2010. As part of this change to the licence terms a partial relinquishment of the 2004 licences will be made at the end of 2007. The Falkland Islands Government has also recently extended the second phase of the 'open door' licences to five years. The second phase of the licences will therefore, run from January 2011 to December 2015. The existing work commitments of the licences remain unchanged.

Tim Bushell, Chief Executive of FOGL commented:

"This is a landmark deal for FOGL. The introduction of a major company as a farm-in partner has been a key strategic objective over the last 18 months and we are delighted to welcome a partner of BHP Billiton's calibre and expertise.

The entry of BHP Billiton as operator provides us with their expertise in drilling in deepwater and sensitive environments, which combined with their access to rigs will continue the exploration programme and lead to the drilling of the first exploration wells in our licences.

BHP Billiton's commitment confirms our view that the South and East Falkland basins are prospective and have high potential for the discovery of significant volumes of oil and gas.

We are now entering a very exciting phase for FOGL and the Falkland Islands. The results of our recent exploration programme and the introduction of BHP Billiton represent a significant step in realising the potential of the region."

Steve O'Rourke, President, Exploration, BHP Billiton Petroleum, said:

"We believe this substantial Falklands acreage will be a good addition to BHP Billiton Petroleum's global portfolio and we look forward to working with our partner to pursue this under explored area. With our strong focus on growth, we now hold a significant interest in this high potential basin and will utilize the talent of our team to safely execute an exploration program in the Falkland Islands."

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