



Tuesday 15th March 2011

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

Announcement of the Final Results for the Twelve Months Ended 31 December 2010

FOGL, the oil and gas exploration company focused on its extensive licence areas to the South and East of the Falkland Islands, announces Final Results for the year ended 31 December 2010.

Financial Highlights

- Invested US\$21.8 million (2009: US\$12.9m) in the exploration programme, including US\$19.7 million to drill Toroa exploration well
- Loss before tax of US\$3.7 million (2009: US\$5.5 million)
- Cash balances at 31 December 2010 of US\$69.8 million

Operational Highlights

- Toroa F61/5-1, the first exploration well to be drilled in the East Falklands Basin, was completed on budget and without incidents
 - The well did not encounter reservoired hydrocarbons and was plugged and abandoned
 - Data obtained provided encouragement on the presence of good quality reservoirs and source rocks within the East Falkland Basin and will inform future drilling plans
 - Results have no adverse implications for FOGL's deep water prospects
- Twelve month licence extension was awarded for the Northern Licence area
- Negotiations are at an advanced stage to secure a suitable deep water rig
- Site surveys commenced in February 2011 on a number of prospects, including two new prospects within the Mid-Cretaceous fan play.

Richard Liddell, Chairman of FOGL, said:

"2010 was a landmark year for FOGL in which we drilled our first well, the first exploration well ever drilled on the East Falklands Basin. We were pleased that the well was drilled on budget and without incident."

"Our focus is now on securing a suitable deep water rig to enable us to drill the large prospects we have identified in the deep water areas of our licences. Rig contract negotiations are at an advanced stage and we will make a further announcement when appropriate."

"Meanwhile, we have commenced further work in order to broaden the range of potential targets for the deep water drilling programme."

Enquiries:

Falkland Oil and Gas

Tim Bushell, Chief Executive

+44 (0) 207 563 1260

Oriel Securities (Nominated Adviser)

David Arch

+44 (0) 207 710 7600

Financial Dynamics

Ben Brewerton / Ed Westropp

+44 (0) 207 831 3113

Copies of the Annual report will be available in May 2011.

Chairman's and Chief Executive's Statement

2010 was a landmark year for FOGL in which we drilled our first exploration well, the first ever drilled in the East Falklands Basin. We were pleased that the well was drilled on budget and without incident.

It was a significant achievement to have progressed the project from concept to drilling in just six years since FOGL was listed, and despite the failure of Toroa to find reservoired hydrocarbons, the well has provided encouragement on the presence of good quality reservoirs and source rocks, and given us valuable information to plan future wells.

Although Toroa was an attractive target for initial drilling, we believe the potential of our deep water prospects is greater and we therefore look forward with much anticipation to the commencement of the next drilling campaign. FOGL is at an advanced stage in contract negotiations for a suitable deep water rig for the Southern Licence area. BHP Billiton, as operator of the Northern Licences area, is also engaged in related negotiations to secure a rig slot to drill Loligo.

During the year, the terms of the Northern Licence area were successfully renegotiated with the Falkland Islands Government. The licences were extended by one year without any additional work commitments or acreage relinquishments being required.

On the Southern Licence area, having fulfilled the Phase 1 work commitment with the drilling of Toroa, the second phase commenced on 3 December 2010. BHP Billiton elected not to enter the second phase of the license and has assigned its 51% of the Southern Licence area and operatorship to FOGL, taking FOGL's interest in these licences back to 100%. The Falkland Islands Government (FIG) has formally approved this assignment of interest and transfer of operatorship to FOGL.

In order to provide further drilling options across FOGL's acreage, we are currently undertaking a site survey programme. The vessel is undertaking surveys on a number of separate sites including Vinson, in the Tertiary channel play, and two new prospects (Scotia and Hero), within the mid Cretaceous fan play. Site surveys will also be acquired on Inflexible, a Springhill fault-block, and Undine, a prospect in the Tertiary fold-belt play. These latter two prospects are similar to those that Borders and Southern intends to drill and will provide the option for FOGL to drill either of them in the event that Borders and Southern has encouraging drilling results. In addition, the Company may elect to acquire up to 1,300 km of new 2D seismic data, using the same vessel. This data will enhance prospect definition and aid the selection of drilling locations.

Regaining a 100% working interest and operatorship of the Southern licence area has not only given us greater control over the pace of future development, but also the option to pursue another farm-out agreement for this asset.

Financials

FOGL started 2010 with US\$93.5 million in cash. During the year we invested US\$21.8 million in the exploration programme, (including US\$19.7 million to drill Toroa), and a further US\$2.6 million for administration costs. The Company ended the year with a cash balance of US\$69.8 million and therefore the Company is fully funded for our share of the costs of the Northern licence area work commitment. The loss before tax for the 12 month period was \$3.7 million (2009: \$5.3 million). No dividend is proposed.

Falkland Oil and Gas Limited

Audited Consolidated Statement of Comprehensive Income for the year ended 31 December 2010

	2010	2009
	\$	\$
Administrative expenses	(2,581,335)	(2,838,893)
	<u> </u>	<u> </u>
Loss from operations	(2,581,335)	(2,838,893)
Finance income	711,096	115,183
Foreign exchange gains	38,223	-
Total finance income	749,319	115,183
Finance costs	(1,910,500)	(1,699,361)
Foreign exchange loss	-	(1,122,158)
Total finance costs	(1,910,500)	(2,821,519)
	<u> </u>	<u> </u>
Loss for the year before taxation	(3,742,516)	(5,545,229)
Taxation	-	217,417
	<u> </u>	<u> </u>
Loss for the year attributable to the owners of the parent	(3,742,516)	(5,327,812)
	<u> </u>	<u> </u>
Total comprehensive income for the year attributable to owners of the parent	(3,742,516)	(5,327,812)
	<u> </u>	<u> </u>
Loss and Total comprehensive income for the year per ordinary share – Basic and diluted	(2.56c)	(5.16c)
	<u> </u>	<u> </u>

The loss for the year arose from continuing operations.

Falkland Oil and Gas Limited

Audited Consolidated Statement of Financial Position at 31 December 2010

	2010 \$	2009 \$
Non- current assets		
Intangible assets	69,415,150	47,599,809
Property, plant and equipment	62,508	16,910
Investment in subsidiary	-	-
	69,477,658	47,616,719
Current assets		
Trade and other receivables	668,089	504,830
Cash and cash equivalents	69,819,625	93,535,653
Total assets	139,965,372	141,657,202
Current liabilities		
Trade and other payables	(983,522)	(873,146)
Loans and borrowings	(14,288,089)	-
Net current assets	55,216,103	93,167,337
Non current liabilities		
Long term borrowings	-	(12,744,245)
Total liabilities	(15,271,611)	(13,617,391)
Net assets	124,693,761	128,039,811
Capital and reserves attributable to equity shareholders of the Company		
Share capital	5,458	5,452
Share premium	137,204,111	137,077,241
Other reserve	4,985,693	4,985,693
Retained deficit	(17,501,501)	(14,028,575)
Total equity	124,693,761	128,039,811

Falkland Oil and Gas Limited

Audited Consolidated Statement of Cash Flows for the year ended 31 December 2010

	2010 \$	2009 \$
Operating activities		
Loss for the year	(3,742,516)	(5,327,812)
Finance income	(711,096)	(115,183)
Finance expense	1,910,500	2,821,519
Taxation expense	-	(217,417)
	(2,543,112)	(2,838,893)
Depreciation	17,689	65,157
Share based payment expense	269,590	325,743
	(2,255,833)	(2,447,993)
(Increase)/decrease in trade and other receivables	(76,855)	57,705
(Decrease)/increase in trade and other payables	(169,625)	219,303
	(2,502,313)	(2,170,985)
Cash used in operations		
Taxation received/(paid)	269,576	(269,576)
	(2,232,737)	(2,440,561)
Investing activities		
Interest received	711,096	115,183
Purchases of property, plant and equipment	(63,287)	(2,956)
Expenditure in respect of intangible assets	(21,891,341)	(12,881,072)
	(21,243,532)	(12,768,845)
Financing activities		
Issue of ordinary share capital (net of issue costs)	126,876	89,969,850
	126,876	89,969,850
Net cash from financing activities		
Net (decrease)/ increase in cash and cash equivalents in the year	(23,349,393)	74,760,444
Cash and cash equivalents at start of year	93,535,653	18,819,935
Effect of foreign exchange rate changes on cash and cash equivalents	(366,635)	(44,726)
	69,819,625	93,535,653
Cash and cash equivalents at end of year	69,819,625	93,535,653

FALKLAND OIL AND GAS LIMITED

Audited Consolidated Statement of Changes in Equity for the year ended 31 December 2010

	Share capital \$	Share premium \$	Retained deficit \$	Other Reserve \$	Total Equity \$
Balance as at 1 January 2009	3,681	47,109,162	(9,026,506)	4,985,693	43,072,030
Loss for the year	-	-	(5,327,812)	-	(5,327,812)
Shares issued	1,771	94,969,919	-	-	94,971,690
Costs associated with issue of share capital	-	(4,971,840)	-	-	(4,971,840)
Share based payments	-	-	325,743	-	325,743
Balance as at 31 December 2009	5,452	137,077,241	(14,028,575)	4,985,693	128,039,811
Loss for the year	-	-	(3,742,516)	-	(3,742,516)
Share based payments	-	-	269,590	-	269,590
Shares issued	6	126,870	-	-	126,876
Balance as at 31 December 2010	5,458	137,204,111	(17,501,501)	4,985,693	124,693,761

The financial information set out above does not constitute the company's statutory accounts for the years ended 31 December 2010 or 2009, but is derived from those accounts. Statutory accounts for 2010 will be available in May 2011. The auditors have reported on those accounts: their report was unqualified and did not draw attention to any matters by way of emphasis.