

Regulatory Announcement

[Go to market news section](#)



Company	Falkland Islands Holdings PLC
TIDM	FKL
Headline	FOGL Preliminary Results
Released	15:30 12-Mar-08
Number	9625P

Wednesday 12 March 2008

Falkland Islands Holdings plc

Falkland Oil and Gas Limited Preliminary Results

Falkland Islands Holdings plc ("FIH"), the international services Group which owns essential services businesses focused on transport and logistics and which has a 16.2% strategic shareholding in Falkland Oil and Gas ("FOGL"), notes the announcement issued today by FOGL, the full text of which is outlined below.

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

Preliminary Results for the year ended 31 December 2007

FOGL, the oil and gas exploration company focused on its extensive licence areas to the South and East of the Falkland Islands, announces Preliminary Results for the year ended 31 December 2007.

The year 2007 has seen significant progress:

- **Exploration activity further de-risks the project**
 - Over 750 kms of CSEM data were acquired over 12 prospects delivering encouraging results
 - 9,950 kms of additional 2D seismic data were acquired allowing improved definition of the key prospects
- **Positive results confirm the high potential of the project**
 - A short list has been produced of prospects which offer the lowest exploration risk but also could contain large potential hydrocarbon resource volumes
 - FOGL's top ranked prospects have the potential to contain hydrocarbon resources in excess of 10 billion barrels oil equivalent (mean, un-risked)
- **BHP Billiton farm-in deal adds credibility to the exploration assets and includes a commitment to drill a minimum of two exploration wells**
 - Following an extensive review of the exploration data, BHP Billiton acquired a 51% interest and operatorship of FOGL's licences
 - BHP Billiton paid \$12.75 million cash and will pay 68% of the costs of the first two wells in the drilling programme
 - BHP Billiton has extensive deepwater drilling expertise

- **FOGL is poised to participate in the first drilling campaign in the basin**
 - FOGL's licence areas are in the basins to the South and East of the Islands which, to date, have never been drilled
- **FOGL is substantially funded through its share of this programme**
 - Cash balance of £12.5 million at year end
- **Preparation work for drilling is in progress**
 - Enhanced processing and interpretation of CSEM results is nearing completion
 - Work on key prospects is ongoing in readiness for drilling
 - Site surveys are expected to be carried out in second half 2008
 - BHP Billiton is currently reviewing a number of rig options

Tim Bushell, Chief Executive of FOGL, said:

“FOGL is now within touching distance of realising the potential of what is probably one of the most exciting high impact exploration projects currently being undertaken anywhere in the world.

“We have brought in a credible partner with the resources and experience to undertake the drilling programme. The rewards for success could be substantial given the large resource volumes of the prospects being targeted.”

Enquiries:

Falkland Oil and Gas Tim Bushell, Chief Executive	+44 (0) 207 563 1260
KBC Peel Hunt (Nominated Advisor) Jonathan Marren / Matt Goode	+44 (0) 207 418 8900
Financial Dynamics Ben Brewerton / Ed Westropp	+44 (0) 207 831 3113

Chairman's Statement

Since FOGL embarked on its journey in 2004 it has undertaken a great deal of work to demonstrate the potential of the licence areas to hold very significant hydrocarbon resources.

The farm-out agreement signed with BHP Billiton in October 2007 was the culmination of this initial phase of work.

Under the terms of the farm-out agreement, BHP Billiton acquired a 51% interest in FOGL's entire exploration acreage and took over the operatorship. In return, BHP Billiton will pay four thirds of 51% (68%) of the costs of the near term work programme, including the drilling of two exploration wells and all other associated work to the completion of this drilling programme. In addition, BHP Billiton has paid FOGL US\$12.75 million in relation to certain costs already incurred by FOGL.

FOGL's cash balance at the year end was £12.5 million, following exploration expenditure during the year of £11 million. As a result, FOGL is funded through a significant proportion of the near term exploration programme.

The Company has retained a significant equity interest which provides the flexibility for a second farm-out deal to be considered. Since announcing the agreement with BHP Billiton, FOGL has been approached by a number of other parties potentially interested in farming in to the area. A second farminee could offer FOGL the possibility of funding additional exploration and/or appraisal wells. We will however, balance the benefits of another farm-out with the retention of sufficient equity in the licences to provide substantial benefits to shareholders from a successful drilling campaign.

FOGL is poised to enter the exploration drilling phase with a major interest in what may well be a significant new petroleum region in the South Atlantic.

Chief Executive's Review

Overview

Since 2004, £22 million has been invested in exploration activity by the Company to define and further de-risk the project. A significant proportion of that has now been recouped from BHP Billiton in a land mark deal for FOGL.

In the year under review, the Company undertook a CSEM survey and a 2D infill seismic survey. The results of both surveys were positive. Over 750kms of CSEM data were acquired along 7 lines, over a total of 12 prospects. 'Positive' CSEM anomalies, indicating the possible presence of trapped hydrocarbons, were recognised over a number of the best prospects. The most encouraging CSEM anomalies have been identified over seven prospects, which also benefit from seismically-derived direct hydrocarbon indications. Each of these prospects could contain large amounts of oil and gas, of up to 3.5 billion barrels (mean unrisked recoverable resource).

The 2007 2D seismic survey acquired a total of 9,950km. The survey was designed to infill the existing seismic grid in order to better define known leads and prospects. The new data also led to the identification of a significant new lead located in quadrant 61. Other leads have been developed into substantial prospects.

Ongoing activity

The company has entered into a new phase of operations where future work, with BHP Billiton as operator, will lead into the drilling programme. The data from the CSEM survey will undergo enhanced processing and interpretation over the next few months to produce results which will be fully integrated with the existing data and with the recent 2D infill seismic.

Site surveys are expected to be carried out in the second half of 2008. BHP Billiton is currently reviewing a number of potential rig options and an update on this will be provided at a future point. If appropriate, discussions will be held with the other Falkland operators with respect to rig sharing.

Licence Terms

The Falkland Islands Government ("FIG") has consented to the assignment of a 51% licence interest to BHP Billiton and approved BHP Billiton as licence operator. Under the revised licence terms agreed by FIG, Phase 1 of the licences has been extended by 3 years to December 2010 and Phase 2 extended by 2 years to December 2015. In return FOGL and BHP Billiton have agreed to make a 50% relinquishment of Area B of the 2004 licences and a 25% relinquishment of Area A of the 2004 licences. However even after these surrenders, in the opinion of FOGL all the significant leads and prospects have been retained within the 2004 licence area. No further relinquishment of the 2002 licences was required. The total retained area of the 2002 and 2004 licences comprises a significant 48,853 square kilometres, equivalent to over 220 UK North Sea blocks.

Financials

FOGL started the year with £14.9 million in cash, of which £11 million was invested in the exploration programme and £2 million was used to cover operating costs. At the end of the year, we received US\$12.75 million (£6.4 million) from BHP Billiton under the terms of the farm-out agreement bringing the year end cash balance to £12.5 million.

Outlook

This project has been described as high-impact/high-risk by some commentators in the past. While it is clearly high-impact, we have worked hard to mitigate the risks.

As a result of our technical work and data gathering we believe that the exploration risk has been significantly reduced. Deep water, harsh weather and the remote location have all been cited as potential obstacles to success. However, the environment is very similar to West of Shetland, UK Northern North Sea and the Norwegian Sea. In all of these areas, oil and gas have been successfully discovered

and exploited and the drilling and production technologies that have made this possible are readily applicable to FOGL's prospects. Most of them lie in water-depths of 600 to 1500 metres; whereas recent wells in the Gulf of Mexico have been drilled in water-depths of up to 6000 metres. Furthermore, the wells will be conventional (i.e. they are not high temperature or high pressure). Whilst the North Falklands basin drilling campaign of 1998 was not a commercial success, it demonstrated that offshore drilling operations could be effectively supported from a shorebase in the Falkland Islands.

Despite its perceived remoteness, the Falkland Islands is located between key oil and gas markets. It is well-positioned for North and South America, South Africa and Asia. Extensive development case modelling by FOGL based on the use of floating production, storage and offloading vessels ("FPSOs"), has been carried out using various sizes and types of discovery. FPSOs would be able to operate effectively in the licence areas and oil would be exported by shuttle tankers. Using such a development concept, even moderate sized discoveries would be commercially viable, even at oil prices substantially less than today's market prices. The favourable fiscal terms offered by the Falkland Islands Government and the Islands' political stability further enhance the attractiveness of this area.

Exploration drilling is now expected to commence in 2009 and given the potential of the short-listed prospects, we believe that the chances of a commercially viable discovery have improved further.

Unaudited income statement
for the year ended 31 December 2007

	Unaudited	Audited
	Year	Nine months
	ended	ended
	31/12/2007	31/12/2006
	£	£
Administrative expenses	(1,768,316)	(1,458,285)
Loss from operations	(1,768,316)	(1,458,285)
Finance income	456,871	437,505
Finance costs	(571,326)	(4,240)
Loss for the year before taxation	(1,882,771)	(1,029,260)
Taxation expense	(70,946)	(84,703)
Loss for the year	(1,953,717)	(1,113,963)
Loss per ordinary share – Basic and diluted	(2.12p)	(1.21p)

The operating loss for the year arose from continuing operations.

Unaudited statement of recognised income and expense
for the year ended 31 December 2007

	Unaudited	Audited
	31 December	31 December
	2007	2006
	£	£
Loss for the financial period	(1,953,717)	(1,113,963)
Total recognised income and expense for the financial period Attributable to: Equity shareholders	(1,953,717)	(1,113,963)

Unaudited balance sheet
at 31 December 2007

	Unaudited	Audited
	31 December	31 December
	2007	2006
	£	£
Non- current assets		
Intangible assets	15,914,105	11,326,049
Property, plant and equipment	74,393	100,111
	15,988,498	11,426,160
Current assets		
Trade and other receivables	193,712	2,717,477
Cash and cash equivalents	12,461,430	14,924,915
Total assets	28,643,640	29,068,552
Current liabilities		
Trade and other payables	(453,049)	(5,581,780)
Current tax payable	(83,189)	(282,260)
Net current assets	12,118,904	11,778,352
Non Current liabilities		
Long term borrowings	(6,013,486)	(1,295,688)
Total liabilities	(6,549,724)	(7,159,728)
Net assets	22,093,916	21,908,824
Capital and reserves attributable to shareholders		
Share capital	1,846	1,839
Share premium	23,631,383	24,130,993
Other reserve	2,500,975	0
Retained earnings	(4,040,288)	(2,224,008)
Total equity	22,093,916	21,908,824

Unaudited cash flow statement
for the year ended 31 December 2007

	Unaudited Year ended 31/12/2007 £	Audited Period ended 31/12/2006 £
Operating activities		
Loss for the year before taxation	(1,882,771)	(1,029,260)
Finance income	(456,871)	(437,505)
Finance expense	571,326	4,240
Net cash outflow from operating activities; Loss from operations	(1,768,316)	(1,462,525)
Adjustment for:		
Depreciation	38,082	27,840
FX differences	42,116	116,920
Share based payment expense	137,437	121,233
Net cash flow from operating activities before changes in working capital	(1,550,681)	(1,196,532)
Decrease in trade and other receivables	2,523,765	277,888
Decrease in trade and other payables	(5,128,733)	(161,640)
Cash flow generated from operating activities before taxation paid	(4,155,649)	1,082,284
Taxation paid	(270,016)	(186)
Net cash outflow from operating activities	(4,425,665)	(1,080,470)
Investing activities		
Interest received	456,871	412,294
Expenditure in respect of property, plant and equipment	(12,364)	(6,536)
Expenditure in respect of intangible assets	(10,971,657)	(199,778)
Reimbursement of past costs	6,383,601	
Cash outflow used in investing activities	(4,143,549)	205,980
Financing activities		
Proceeds from issue of Convertible Loan notes	6,000,000	2,000,000
Finance costs relating to issue of Convertible Loan notes	(2,155)	(58,950)
Issue of ordinary share capital	150,000	-
Net cash flow from financing activities	6,147,845	1,941,050
Net increase (decrease) in cash and cash equivalents in the period	(2,421,369)	1,066,560
Cash and cash equivalents at start of year	14,924,915	13,974,275
Effect of foreign exchange rate changes on cash and cash equivalents	(42,116)	(115,920)
Cash and cash equivalents at end of year	12,461,430	14,924,915

END

Close

London Stock Exchange plc is not responsible for and does not check content on this Website. Website users are responsible for checking content. Any news item (including any prospectus) which is addressed solely to the persons and countries specified therein should not be relied upon other than by such persons and/or outside the specified countries. [Terms and conditions](#), including restrictions on use and distribution apply.

