

# Falkland

Gold and Minerals Limited



ANNUAL REPORT 2006





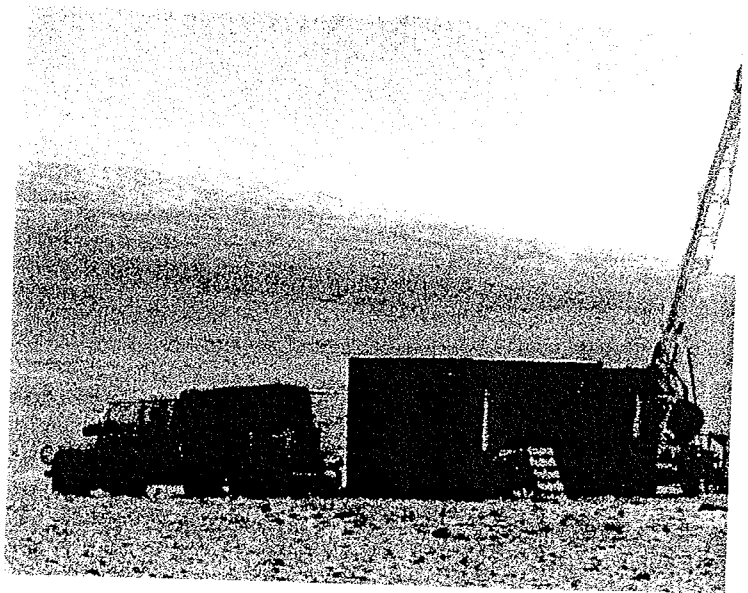
## Contents

- 02 Chairman's Statement
- 04 Operating Review
- 09 Financial Review
- 10 Officers and Advisers
- 11 The Board and Senior Management
- 12 Social Responsibility Statement
- 13 Remuneration Report
- 15 Corporate Governance
- 16 Directors' Report
- 17 Statement of Directors' Responsibilities
- 18 Profit and Loss Account
- 19 Balance Sheet
- 20 Cash Flow Statement
- 21 Reconciliation of Movements in Shareholders' Equity Funds
- 22 Notes to the Financial Statements
- 23 Report of the Independent Auditors

## Highlights

OF THE FINANCIAL PERIOD

- ⌘ Exploration work now focusing on three target areas – Target 11 (Glorious Hill), Target 25 and Black Shale Project;
- ⌘ Project review with British Geological Survey confirms Black Shale mineral potential;
- ⌘ Second major ground magnetic survey completed – December 2005;
- ⌘ July to September – Drilling continued through the Winter with 11,445 metres drilled in the year to September 2006;
- ⌘ Sample preparation laboratory upgrade finished in 2nd Quarter 2006 with new drying oven, crusher and pulveriser; and
- ⌘ Cash balances just under £5.8m as at 30 September 2006.



Winter drilling with "Falklands 1" - Target 25 Area.

## Chairman's Statement

**"As at the end of October 2006, twelve of the original twenty three targets had been drill tested and a total of 18,034 metres drilled with 7,856 samples sent for analysis."**



**Richard Linnell**  
Executive Chairman

This year has seen solid progress from the team in the Falkland Islands which has continued to conduct a professional exploration programme through the use of geochemical, geophysical and drilling techniques.

The ground geochemistry work has continued with the use of a probe which penetrates the peat to take a sample of the soil and clay immediately below. The results of this help refine target definition (improving our ability to drill anomalies accurately).

As at the end of October 2006, twelve of the original twenty three targets had been drill tested and a total of 18,034 metres drilled with 7,856 samples sent for analysis.

As reported last year, the drilling has given our team a much better appreciation of the geology. As a result, three new targets T22, T23, and T24 were generated to the south of Area 6. The work completed on T22, T23 and T24 involved ground magnetic surveys that provided definition of the intersection of the linear dykes with the carbonaceous shale that resulted in the drilling of 5 holes in T22, 6 holes in T23 and 4 holes in T24.

While it is not possible to claim that we have discovered any economic quantities of gold we have made good progress in focusing our attention on three targets. These are Glorious Hill (Target 11), Target 25 (a new target located

within Area 6 north east of Goose Green) and the Black Shale Project which is continuing to develop and here our focus is to confirm the potential of this prospect.

Drilling on these targets commenced in November 2006.

The drilling programme, sub peat soil sampling, geochemical and a variety of geophysical programmes have isolated encouraging anomalies that, coupled with the distribution of gold grains found during stream sediment sampling, give us cause to believe we are getting much closer to establishing the source of some of the gold.

As was referred to in last year's Annual Report, the new Mining Legislation was promulgated on 27 May 2005 and, as a result of our admission to AIM, our licence was extended to 31 July 2009. We are required to relinquish 50 per cent of the licence area by 16 January 2007 and the Board met in the Falklands in November to discuss this and our plan has been submitted. Based on the work to date, we believe the ground that we are releasing is sterile and that there is no purpose in reapplying for it.

Under the new legislation, the Company is also applying for three Exploration Licences that will cover the three areas the work programme is now focused on while retaining our Prospecting Licence over the remaining land. The Exploration

Licences will provide the Company with new tenure that can be converted to mining licences in the future if required.

We continue to pay close attention to the environment in which we operate and careful rehabilitation takes place at all our work sites. The health and safety of our team remains a high priority and our performance in the past year has been good.

Relationships, both with the local administration and with the local community, remain excellent and, as our Operations Manager reports, the new Governor has already been apprised of the exploration programme.

Financially, your Company remains in a healthy position with good financial controls. The average monthly cash burn is £155,000 and cash balances at the end of the year were just under £5.8 million.

During the year, funds associated with RAB Capital plc acquired the entire shareholdings of Falkland Islands Mineral Development Limited and South Atlantic Resources Limited, raising

their stake to 62%. This matter was reported in our press release of 16 December 2005.

While the performance of the share price has reflected our inability to release positive results, your Board's view is that the original premise for exploration remains valid and that this coming year could not only delineate the sources of the gold but also establish their potential viability.

I would like to thank my deputy Chairman, David Hudd for his support and work in the audit committee and the rest of the directors Mark Fresson, Rob Weinberg and Peter Bojtos.

Special thanks go to Derek Reeves who heads up the Falkland operations and has maintained high levels of morale and performance during a long exploration period.

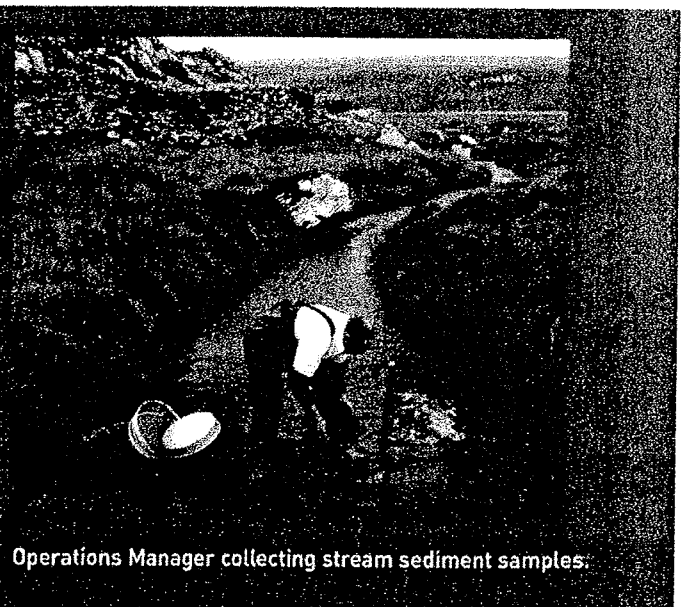
**Richard Linnell**

Executive Chairman

5 December 2006



Sub-peat soil sampling with Eziprobe rig.



Operations Manager collecting stream sediment samples.

## Operating Review



**Derek Reeves**  
Operations Manager

**"The Board visited the Falkland Islands operations in November 2006 to review the relinquishment plan and the exploration prospects including viewing the three key areas now being focused on – Target 25, Target 11 and the Black Shale Project."**

The exploration programme for the period 1 October 2005 to 30 September 2006 has involved:

- Drilling 64 holes across 11 of the identified targets (11,445 m);
- Ground geophysical surveys;
- Soil geochemical sampling;
- Stream sediment geochemical sampling;
- Gold particle sample collection from streams and characterisation studies;
- British Geological Survey (BGS) data review; and
- Shallow trenching at T11 and Area 6.

### Drilling programme

In total we have drill tested twelve of the original twenty three targets being T1N, T2N, T2S, T5, T6, T7, T8W, T8E, T9N, T10, T12, and T15E. As a result of this work, four further targets have been identified - T22, T23, T24 and T25 which have already been partially drilled. As a result of drilling targets T22 and T23 and the review conducted by the BGS, the prospectivity for a mineral deposit hosted by an identified zone within a carbonaceous black shale associated with a regional sedimentary unit has been highlighted. The Black Shale Project activities have led to the selection of ten key prospective areas which are being reviewed for further work in the forthcoming year.

By the end of October 2006, a cumulative total of 18,034 metres of predominantly HQ core had been drilled and 7,856 samples had been sent for assaying.

### Ground magnetics and geophysics

The groundwork programme has extended beyond that originally planned at the date of the November 2004 prospectus. So far, outside contractors have been used to conduct two major surveys. Between March and May 2005, a 1,500 line km survey was performed across targets T2S, T2N, T8E, T9N, T9S-1 to 3, T10, T18 and T20. A second, 1,676 line km survey was conducted in late 2005 across targets T1, T5, T7, T8W, T12, T15, T23 and T24. These surveys have allowed the refinement of prospective targets and developed our understanding of the underlying geology and structures.

Further ground geophysics was planned over three areas with the methods to be used being Electro-Magnetic ("EM"), Induced Polarisation ("IP") and gravity. The surveys on Target 11 (Glorious Hill Prospect) and Target 25 were completed in October 2006. The surveys identified new anomalies in the target areas and the Company has commenced the methodical testing of these anomalies by drilling.

### Sampling and trenching

We have been acquiring geochemical data on the soil/clay horizon in four of six planned areas



being Target 11 ("Glorious Hill Prospect"), Target 9S, Area 6 and the Warrah Prospect. We are looking for a geochemical signature or 'halo' of mineralised zones that are related to weathered mineral deposits. We have been assaying for a range of minerals to identify concentration spikes of pathfinder elements such as arsenic, mercury, silver, antimony, copper and lead.

This sampling method was successful in delineating a gold soil anomaly over Target 11 that was confirmed by shallow trenching (nine trenches and over 2,400 trench samples taken). This has been followed up with the ground geophysical surveys to delineate sub-surface targets that are currently being drill tested.

Regional stream sediment geochemical sampling from streams to the north, south and west of the Target 11 area have identified several key areas that, on current understanding, could represent an extension of a similar zone to that identified at Target 11. Work has been scheduled to follow up on these new areas.

Five parcels of particulate gold have been collected from the streams draining from

Target 25 and Target 11 and were delivered to the BGS for characterisation study. A similar study was completed in the early stages of the Falkland Islands exploration and this additional study has provided confirmation on the findings of that earlier work. The studies have assisted in developing our understanding of the source of the gold. Both pieces of work concluded that the gold particles are derived from an epithermal source and that in most cases the transport distance is minimal indicating the source should be nearby.

#### **Review of prospects**

The Board visited the Falkland Islands operations in November 2006 to review the relinquishment plan and the exploration prospects including viewing the three key areas now being focused on – Target 25, Target 11 and the Black Shale Project. Those prospects are considered in more detail below.

#### **Target 25**

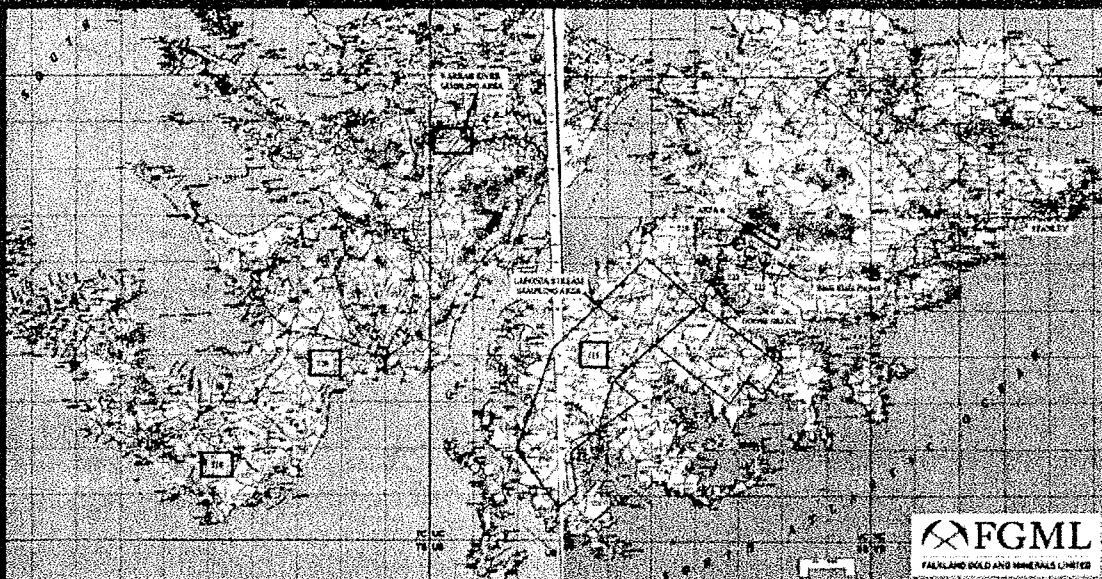
Target 25 is located at the base of Mount Usborne within the regional prospect known as Area 6 and was originally identified from ground magnetic data acquired in November 2005. This ground



**Shallow trenching on Glorious Hill Prospect.**

## Operating Review

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Project overview plan.

magnetic data identified an area of structural interest in association with a displaced north-south dolerite dyke. Target 25 also "straddles" the upper reaches of two major streams from which gold particles have been recovered. These particles have been characterised by the British Geological Survey as having a likely epithermal source. The current area under investigation is some 2.5 square kilometres in size.

The recent ground geophysical survey was commissioned to provide additional data of the structure and geology beneath the peat covered terrain that will allow further drilling to be planned to identify the source of the gold in this prospect.

The geophysical survey identified several conductors three of which exhibit strong readings compared to the surrounding tillite rock unit. These conductors have been classified as T25 Central, T25 North and T25 East and coincide with geophysical gravity lows. The Company is now drilling to determine the source of the conductors. This should ascertain if the new

targets are the source of the gold from this area or provide further geological data to assist in the delineation of the gold source. An assessment of areas of low conductivity is also in progress.

The current drilling schedule allows for the drilling of several preliminary holes in each of the three conductors. Once drilled, the Company will then assess the geology in the recovered core and be able to plan the follow-up drilling according to the prospectivity of each conductor.

### Target 11 – Glorious Hill Prospect

As reported in the last operational update a gold in soils anomaly over Target 11 was to be followed up with ground geophysical surveys to delineate a sub-surface target that could be tested with the drill. The geophysical survey was completed in October with the electromagnetic (EM) survey proving to be the most effective in acquiring quality data due to the survey conditions and ground conditions.

The Company is currently focusing on an area of some 20 square kilometres within which gold



in soils anomalies exist. It is within this area that the conductors have been identified from the EM survey.

Five key conductors numbered from 1 to 5 in priority order have been segregated from the survey. A drilling programme has been designed to test the anomalies, beginning with Anomaly 1. Drilling commenced in mid November with results expected to be received in a progressive manner. The Company will re-design the drilling programme as and when required in order to continue the work to delineate the source of the gold.

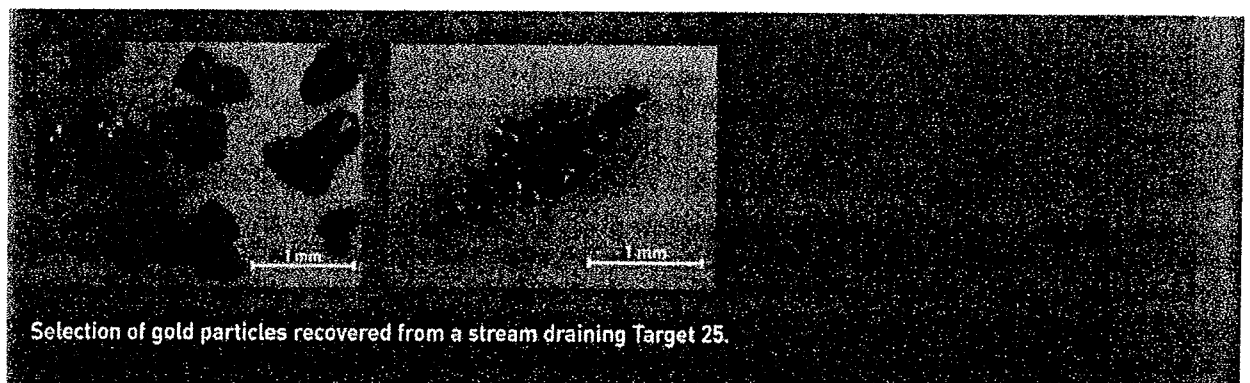
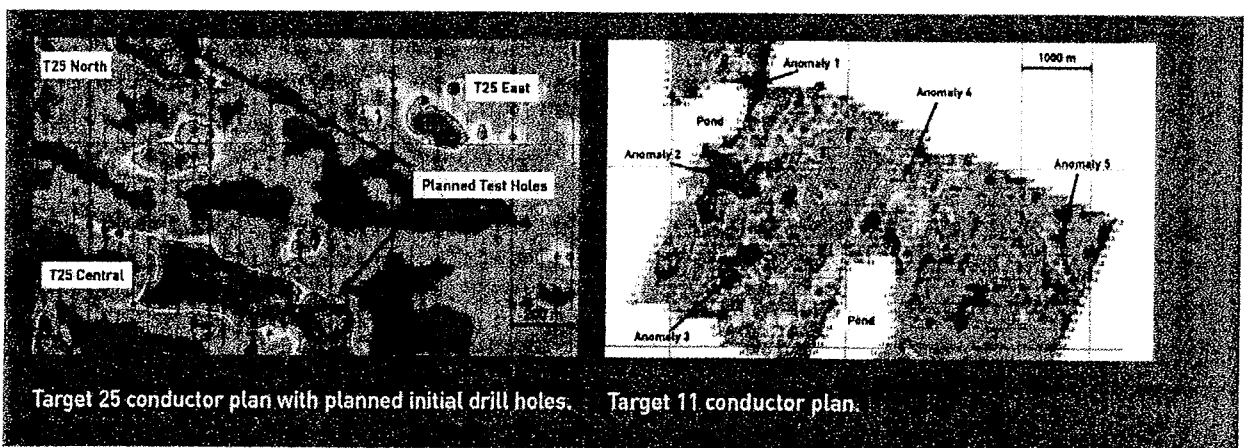
Work is continuing to compare the latest geophysical data to the existing database in order to evaluate the extension of the gold anomalies to the north and south of the current defined area.

### Black Shale Project

The Black Shale Project covers an area of some 16 square kilometres lying in a low valley to the south of the Area 6 region. The current database of geological findings and assay results have allowed the generation of three conceptual styled models of mineralisation:

- "Saddle-reef" like structures in the vicinity of the identified dolerite dykes and the major Goose Green Lineament that extends to and near Target 11,
- Mesothermal quartz veins – on contact with dykes and on contacts with the tillite and the shale,
- Black shale hosted nickel-zinc-molybdenum-platinum group elements.

The work to date, including the drilling of 19 holes, has confirmed zones of anomalous

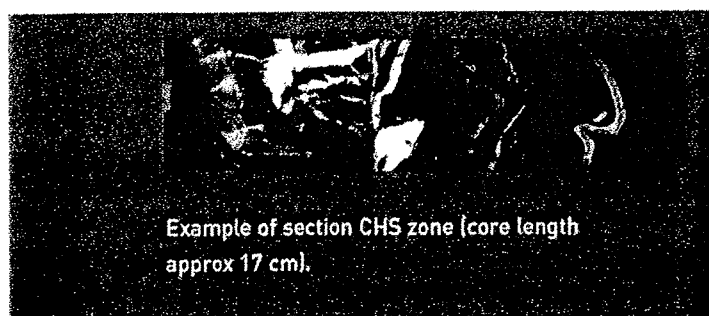
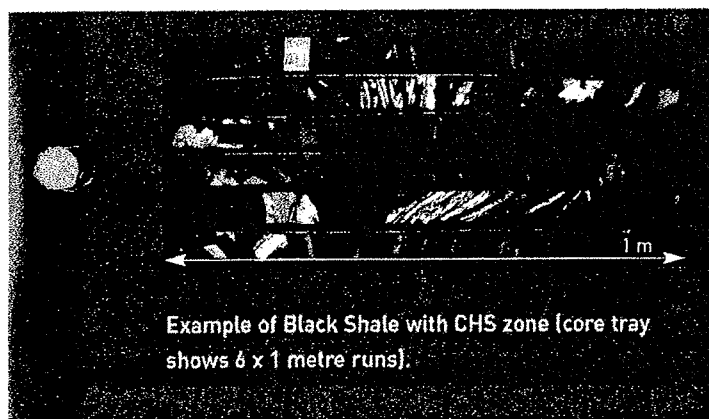


## Operating Review

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mineral chemistry that could be expected to exist in the vicinity of the conceptual models. The anomalous mineralisation is associated with a unique zone varying from some 40 metres to 100 metres in width within the black shale (250 metres to some 380 metres thick). This zone is characterised by an increased concentration of sulphides chiefly pyrite, high levels of carbonaceous material, quartz and carbonate veining as well as folding and brecciation. The zone has been termed the Carbonaceous Shale zone (CSH) and it is this zone that will be the focus of the Company's work in order to explore for and delineate an economic mineral concentration.

The exploration focus will be on where dykes and large fractures traverse the CSH. They act as conduits for fluids that can precipitate minerals immediately adjacent to the dykes and fractures within the CSH. Ten such areas have been selected for exploration involving sub-peat soil sampling on closely spaced sample grids as well as possible electromagnetic surveys.



### Health and Safety

The Company has maintained a high level of health and safety compliance in the period. Management continues to refine and amend policies as and when needed in order to maintain the required standards of a company in the exploration industry. It is pleasing to report that only eight minor incidents have been documented since the start of operations with no lost time injuries to date.

### Government relations

The Company continues to develop the excellent working relationship with the Falkland Islands Government by inviting government officials to inspect the operations on a regular basis.

The newly appointed Governor of the Falkland Islands, HE Governor, Alan Huckle, has been briefed on the operations and an invitation to inspect the exploration sites during the summer period has also been extended.

### Outline of work in progress

The exploration work underway and planned for the coming months comprises:

- Drilling the newly identified geophysical anomalies at Target 25 and Target 11;
- Collecting soil samples to confirm extension of the gold anomaly identified at Target 11;
- Collecting soil samples from West Falkland targets – Target 18; and
- Assessment and review of the data associated with the Black Shale Project to confirm the potential of this unit to host a mineral deposit. The review will also involve the collection of sub-peat soil samples from areas of structural interest as well as conducting geophysical tests over of a small selected area to gauge the effectiveness of the geophysical techniques.

### Derek Reeves

Operations Manager  
5 December 2006

## Financial Review



**Mark Fresson**  
Finance Director

The results for the year to 30 September 2006 reflect the Company's first full year of operations after having raised £8.9 million after costs from the IPO in December 2004.

### Operating loss

The operating loss for the period was £1,524,800 (2005: £1,108,203). After interest income, the loss on ordinary activities before tax was £1,239,691 (2005: £785,493).

### Relinquishment of 50% of the Licence Area

As reported in the Chairman's Statement the Company will be relinquishing 50% of the licence area in January 2007. This year we have made a full provision with respect to the costs incurred on that licence area.

### Cash flow

Net cash outflow from operating activities for the period was £888,099 (2005: £869,413). The bulk of this related to wages and salaries of the operatives working on the Falkland Islands and the ground surveys undertaken in the year. As last year, we continue to carry a greater stock of spares than was originally budgeted and have purchased rather than leased all key operational equipment.

Overall, the Company is still well placed financially with just under £5.8 million (2005: £7.6 million) of cash reserves available at the year end. The Company remains free of debt.

### Mark Fresson

Finance Director  
5 December 2006

## Officers and Advisers

### Directors

Richard Linnell	Executive Chairman
Mark Fresson	Executive Finance Director
David Hudd	Non-Executive Deputy Chairman
Peter Bojtos	Non-Executive Director
Robert Weinberg	Non-Executive Director

### Secretary

McGrigors Nominee Company (Falklands) Ltd

### Registered offices

Falkland Islands	56 John Street, Stanley Falkland Islands, FIQQ 1ZZ
United Kingdom	5 Charterhouse Square London EC1M 6PX

### Company registration numbers

Falkland Islands	12840
United Kingdom	BR007990

### Nominated adviser and broker

W H Ireland Ltd

### Bankers

Lloyds TSB Bank plc

### Auditors

KPMG Audit Plc  
Chartered Accountants

### Solicitors

Falkland Islands	McGrigors LLP
United Kingdom	Norton Rose

### Registrars

Capita IRG plc

Falkland Gold and Minerals Limited is listed on the Alternative Investment Market (AIM) of the London Stock Exchange (symbol FGML).

### Contact details

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[www.fgml.co.uk](http://www.fgml.co.uk)

## The Board and Senior Management



### 1 Richard Linnell Executive Chairman

Richard Linnell has been active in the resources sector for over thirty years and has significant global experience in the development and marketing of resources and commodities. In his early career he was involved in the establishment of the Delta Manganese Project (now Manganese Metal Company) and he was general manager of the Manganese Division of Samancor, a joint venture between Billiton plc and the Anglo American Corporation. In 1997 Richard became responsible for Billiton Plc's exploration and development activities throughout Africa. Richard was previously a Director of BHP Billiton (SA) Ltd and a member of the Eskom Council. Richard is currently a non-executive Chairman of GVM Metals Ltd and its subsidiaries/associates, GMA Resources Plc, Mag Industries and SAMROC, a non-executive Director of Resource and Investments NL, and GRD Minproc Ltd and Chairman of Chrome Corporation Ltd. Richard is also Chairman of the Trustees of the New Africa Mining Fund.

### 2 Mark Fresson Finance Director

Mark Fresson is a chartered accountant, having qualified with Touche Ross in 1989. He spent ten years in various tax-related roles before joining Nomura's principal finance group in 2000 as head of tax and accounting. He formed part of the team that left Nomura to establish the Terra Firma Capital Partners private equity operation in 2002, where he ultimately held the position of senior tax and structuring counsel. Over the past six years, Mark has been a Director of several privately-owned companies.

### 3 David Hudd Non-Executive Deputy Chairman

David Hudd, a chartered accountant, was a partner in Price Waterhouse until 1982. Since then he has acted as 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 and which is a major shareholder in FGML. He is also non-executive Chairman of Betcorp Limited and Deputy Chairman of Falkland Oil and Gas Limited both listed on AIM.

### 4 Peter Bojtos Non-Executive Director

Peter Bojtos is a graduate of Leicester University and a Professional Engineer with over 33 years' experience in the mining industry. He has held senior management positions at mining groups in Canada and the United States and from 1993 to 1995 he was Chairman and Chief Executive Officer of Greenstone Resources Limited, a company that constructed gold mines in Central America. Since 1996, Peter has been a Director of several mining and exploration companies, including Birim Goldfields Inc, Desert Sun Mining Corp, Queenstake Resources Ltd, US Gold Corp, Vaaldiam Resources Ltd and William Resources Inc.

### 5 Robert Weinberg Non-Executive Director

Robert Weinberg gained his doctorate in geology from Oxford University in 1973. Rob has more than 30 years' experience of the international mining industry and is an independent mining research analyst and consultant. Prior to his current activities he was Managing Director, Institutional Investment at the World Gold Council, and a Director of Gold Bullion Securities. Previously he was a Director of the investment banking division at Deutsche Bank in London after having been head of the Global mining research team at SG Warburg Securities. He has also held senior positions within Société General and was head of the mining team at James Capel & Co. He was formerly marketing manager of the gold and uranium division of Anglo American Corporation of South Africa Ltd. Dr Weinberg also sits as a non-executive Director on the board of Solomon Gold Ltd, Medusa Mining Ltd, Kasbah Resource Ltd and non-executive Chairman of Great Bear Resources Plc.

### 6 Derek Reeves Operations Manager

Derek Reeves has a 22-year career in the mining and exploration business, including positions as senior geologist with Argyle Diamond Mines, a Director of Falkland Island Mineral Development, Technical Director of Dampier Oil, underground geologist of North Kalgurli Mines and business development manager with Global Petroleum. In addition he has acted as a consultant to a number of diamond and gold exploration companies, managing their exploration programmes.

## Social Responsibility Statement

The Company is committed to supporting the increasing awareness of social, environmental and ethical issues in all its activities. The following review summarises the Company's policies and procedures relating to these matters in the workplace.

### Code of conduct

A high level of ethical behaviour is required and expected of each of its employees when dealing with all aspects of the Company's business activities. This is especially so when dealing with gifts, hospitality, corruption, fraud and the use of whistle-blowing. The Company aims to conduct all its affairs with integrity, honesty and fairness. During the year the Company set up an Applications and Awards Committee to consider requests for donations from the local community. The Committee is Chaired by our Office Manager who is a local resident.

### Equal opportunity

The Company is an equal opportunity employer and its policy is to adhere to all legislation relating to employment rights and equal opportunities including non-discrimination on the basis of race, ethnic origin, sex, religion, disability or sexual orientation.

### Employee welfare

Despite having a small workforce, the Company recognises the value of its employees and is committed to training to promote career development with the emphasis on retaining its staff.

### Joint venture partners, contractors and suppliers

The Company seeks to be fair and honest in all its relationships with partners, contractors and suppliers. The Company aims to carry out its business activities honestly, ethically and with respect for the rights and interests of the people and entities it deals with.

### Operating responsibly and continuous improvement

The Company aims to ensure the highest possible standards of financial management to make certain the business operates in the best possible way and to promote continuous improvement in the overall operation of the Company.

### Environmental policy

The Company has adopted an Environmental Policy designed to comply with all relevant environmental laws and implement best practice in all of its activities. It is designed to ensure that all employees are aware of the impact of exploration activities on the environment and know how to avoid, manage and minimise any adverse effects.

### Health and safety

Falkland Gold and Minerals Limited (FGML) staff and employees work to a Health and Safety Policy that seeks to adhere to international best practice. This includes appropriate training and inductions for all staff.

This training and induction assists all employees to maintain a safe working environment, where all incidents, no matter how minor, are encouraged to be reported and documented. This enables the Health and Safety Policy to be updated when required in order to increase the employees' knowledge on maintaining a safe working environment.

There were no recorded lost time incidents during the period. A registered lost time incident is where an individual cannot start their normal duties the day after that incident.



## Remuneration Report

### Remuneration Committee

The Company's Remuneration Committee comprises Richard Linnell and David Hudd.

The purpose of the Remuneration Committee is to:

- Make recommendations to the Board on an overall remuneration policy for Executive Directors and other senior executives in order to retain, attract and motivate high quality executives capable of achieving the Company's objectives; and
- Demonstrate to shareholders that the remuneration of the Executive Directors of the Company is set by a committee whose members have no personal interest in the outcome of their decision, and who will have due regard to the interests of the shareholders.

### Procedures for developing policy and fixing remuneration

The Board has demonstrated a commitment to formalising procedures for developing a remuneration policy, fixing executive remuneration and ensuring that no Director is involved in deciding his or her own remuneration. The Committee is authorised to obtain outside professional advice and expertise as necessary.

The Remuneration Committee is authorised by the Board to investigate any matter within its terms of reference. It is authorised to seek any information that it requires from any employee.

### Details of the remuneration policy

The basic fees to be paid to the Directors are recommended by the Remuneration Committee, and are subject to approval by the full Board.

### Share options

The Company operates a share option scheme pursuant to which Directors and senior executives may be granted options to acquire ordinary shares in the Company at a fixed option price. No options were granted during the period.

### Directors' service agreements

All service agreements for Executive Directors are terminable by either party on six months notice (Non-Executives 3 months notice).

### Directors' emoluments

The following emoluments were paid to Directors during the year ended 30 September 2006:

	30/09/06 £	30/09/05 £
Richard Linnell	50,000	45,458
Mark Fresson	35,000	53,167
David Hudd	25,000	22,751
Peter Bojtus	20,000	18,345
Robert Weinberg	20,000	16,260
Colin Ikin	-	2,658
<b>Total</b>	<b>150,000</b>	<b>158,639</b>

# Remuneration Report

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## Directors' interests in shares

The Directors who held office at the end of the period and subsequently had the following interests in the issued share capital of the Company according to the register of Directors' interests.

Ordinary 0.002p shares	30/09/06	30/09/05
Directors:		
Richard Linnell <sup>(1)</sup>	500,000	500,000
Mark Fresson	200,000	200,000
David Hudd	200,000	200,000
Peter Bojtos	200,000	200,000
Robert Weinberg	50,000	50,000

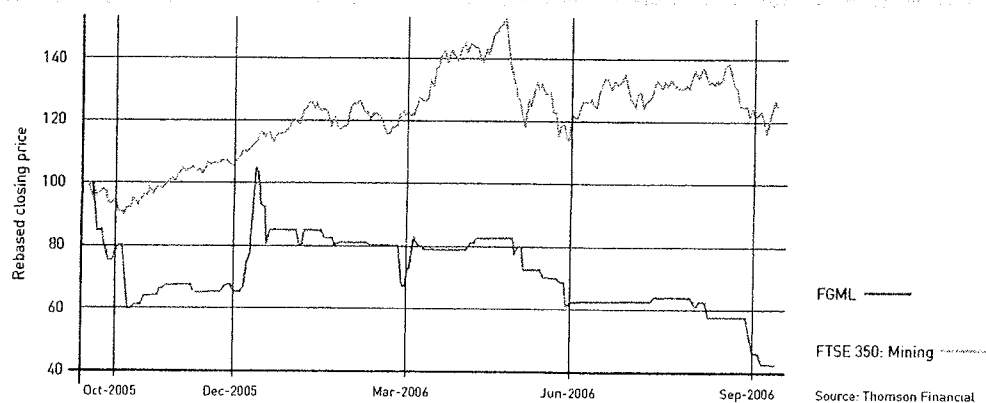
<sup>(1)</sup> These shares are held by Richard Linnell through Terra African Investments Limited which is wholly owned by Richard Linnell.

## Directors' share options

The Directors who held office during the year had the following interests in share options:

Options to acquire shares as at 30/09/06 and 30/09/05	No. of shares Exercise price of 40p	No. of shares Exercise price of 60p	Exercise dates from	Exercise dates to
Directors:				
Richard Linnell	250,000	250,000	8 December 2005	7 December 2011
Mark Fresson	150,000	150,000	8 December 2005	7 December 2011
David Hudd	150,000	150,000	8 December 2005	7 December 2011
Peter Bojtos	75,000	75,000	8 December 2005	7 December 2011
Robert Weinberg	75,000	75,000	8 December 2005	7 December 2011

## FGML v FTSE 350 Mining Index total shareholder return



The above graph compares a share price performance of the Company (by reference to total shareholder return) with that of the FTSE 350 Mining Index.

The FTSE 350 Mining Index has been chosen as the most appropriate comparison index as there are no published indices available for pure mineral exploration companies.

## David Hudd

Chairman of the Remuneration Committee

5 December 2006

## Corporate Governance

### The Combined Code

Falkland Gold and Minerals Limited's shares are traded on AIM and as such the Company 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 Quoted Companies' Alliance has issued a guidance booklet setting out a code of best practice and via the framework described below, the Board of Directors of FGML seeks to operate within that code and within the Combined Code in so far as it is practicable for a company of its size.

### The workings of the Board and its Committees

#### The Board of Directors

The Board meets regularly to discuss and consider all aspects of the Company's activities. A formal schedule of the matters reserved for the Board includes setting the overall strategy and approving major capital expenditure and substantial commitments.

The Board consists of the Executive Chairman, the Non-Executive Deputy Chairman, the Finance Director and two Non-Executive Directors. All Directors have access to the Company Secretary and the Company's professional advisers.

#### Remuneration Committee

The Remuneration Committee comprises David Hudd (Chairman) and Richard Linnell. Its terms of reference are outlined in the Remuneration Report.

#### Record of Board meetings

There were 7 meetings during the financial year.

	Attendance
Richard Linnell	7
David Hudd	7
Mark Fresson	6
Peter Bojtos	7
Robert Weinberg	7

#### Audit Committee

The Audit Committee comprises David Hudd (Chairman), Peter Bojtos and Robert Weinberg. The Audit Committee 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 the accounts and internal controls.

#### Health and Safety and Environmental Committees

The Health and Safety and Environmental Committees comprise Peter Bojtos (Chairman), Richard Linnell and Robert Weinberg. The Committees have responsibility for reviewing the Company's Health and Safety Policy and Environmental Policy and making recommendations as appropriate. Management has a duty to inform the Committees about all lost time incidents and significant environmental issues.

#### 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. To improve communications with investors and other stakeholders, the Company has developed a website that contains press releases, general information about the operations and financial performance.

#### 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 at least 12 months. For this reason they continue to adopt the going concern basis of preparing the financial statements.

## Directors' Report

The Directors present their Report with the financial statements of the Company for the year ended 30 September 2006.

### Principal activity

The principal activity of the Company during the year was that of gold and mineral exploration in the Falkland Islands.

### Review of business

The results for the year and financial position of the Company are as shown in the annexed financial statements.

### Dividends

No dividends will be distributed for the year ended 30 September 2006.

### Substantial shareholdings

At 30 September 2006 the Board had been formally notified of the following interests representing 3% or more of the Company's issued share capital.

	No. of shares	Percentage of Issued Share Capital
RAB Special Situations (Master) Fund Ltd	49,139,650	62.80
Falkland Islands Holdings plc	11,250,000	14.38

### Charitable donations

Our Operations Manager, Derek Reeves, has been coaching the Falkland Island Cricket Association youth team. In furtherance of our stated policy on Social Responsibility detailed at page 12, the Company made a donation of £2,000 to the club to assist them with the purchase of clothing and equipment. FGML logos have been provided for their whites.

### Events since the end of the year

Information relating to events since the end of the year is given in the notes to the financial statements.

### Directors

The Directors during the year under review were:

Richard Linnell

Mark Fresson

David Hudd

Peter Bojtos

Robert Weinberg

The beneficial interests of the Directors holding office on 30 September 2006 in the issued share capital of the Company are detailed in the Remuneration Report on pages 13 and 14.

### Company's policy on payment of creditors

Liabilities are recognised for amounts to be paid in the future for quotes or services received. Trade accounts are normally settled within 30 days.

### Reserves

There has been a transfer from reserves of £1,366,794 (2005: £785,493).

### Auditors

The Auditors, KPMG Audit Plc, will be proposed for re-appointment at the next Annual General Meeting in accordance with the Companies Act 1948, which applies in the Falkland Islands.

Approved by the Board of Directors and signed on behalf of the Board:

**Mark Fresson**

Finance Director

5 December 2006

## Statement of Directors' Responsibilities

The Directors are responsible for preparing the Director's Report and the financial statements in accordance with applicable Falkland Islands law and regulation.

Falkland Island Company law 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 Company and of the profit or loss of the Company for that period. The Directors have elected to adopt UK Generally Accepted Accounting Principles in preparing the financial statements. In preparing these financial statements, the Directors have:

- selected suitable accounting policies and then applied them consistently;
- made judgements and estimates that are reasonable and prudent;
- stated whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepared the financial statements on the going concern basis as the Company will continue in business.

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, which 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.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the Falkland Islands governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

# Profit and Loss Account

FOR THE YEAR ENDED 30 SEPTEMBER 2006

Notes	Year ended 30/09/06 €	Year ended 30/09/05 €
Administrative expenses	(1,524,800)	(1,108,203)
2 <b>Operating loss</b>	(1,524,800)	(1,108,203)
3 Interest receivable and similar income	262,289	324,843
4 Interest payable and similar charges	-	(2,133)
Other income	22,820	-
<b>Loss on ordinary activities before taxation</b>	(1,239,691)	(785,493)
7 Tax on loss on ordinary activities	(127,103)	-
<b>Loss for the financial year after taxation</b>	(1,366,794)	(785,493)
<b>Loss for the year</b>	(1,366,794)	(785,493)
	Year ended 30/09/06	Year ended 30/09/05
8 Loss per ordinary share basic and diluted	(1.75)p	(1.09)p

## Continuing operations

None of the Company's activities were acquired or discontinued during the current year or previous period.

## Total recognised gains and losses

The Company has no recognised gains or losses other than the losses for the current year or previous period.



# Balance Sheet

AT 30 SEPTEMBER 2006

Notes	At 30/09/06 £	At 30/09/06 £	At 30/09/05 £	At 30/09/05 £
<b>Fixed assets</b>				
9 Intangible assets		1,834,282		1,158,218
10 Tangible assets		442,132		537,938
		2,276,414		1,696,156
<b>Current assets</b>				
11 Debtors	35,771		61,001	
Cash at bank and in hand	5,782,956		7,659,993	
	5,818,727		7,720,994	
12 Creditors: amounts falling due within one year	(136,427)		(91,642)	
<b>Net current assets</b>		5,682,300		7,629,352
<b>Net assets</b>		7,958,714		9,325,508
<b>Capital and reserves</b>				
14 Called up share capital		1,565		1,565
15 Share premium		10,209,182		10,209,182
15 Profit and loss account		(2,252,033)		(885,239)
<b>Shareholders' equity funds</b>		7,958,714		9,325,508

These financial statements were approved by the Board of Directors on 5 December 2006 and were signed on its behalf by:

David Hudd  
Director

Mark Fresson  
Director

## Cash Flow Statement

FOR THE YEAR ENDED 30 SEPTEMBER 2006

Notes	Year ended 30/09/06 £	Year ended 30/09/05 £
<b>Net cash flow from operating activities</b>	(888,099)	(869,413)
<b>Returns on investments and servicing of finance</b>		
3 Interest received	262,289	324,843
Other income	22,820	-
<b>Capital expenditure</b>		
Purchase of intangible fixed assets	(963,699)	(534,127)
Purchase of tangible fixed assets	(183,245)	(686,886)
<b>Cash outflow before financing</b>	(1,749,934)	(1,765,583)
<b>Financing</b>		
Issue of Ordinary shares	-	10,362,925
Share issue costs	-	(1,113,482)
7 Taxation	(127,103)	-
17 <b>(Decrease)/increase in cash in the period</b>	(1,877,037)	7,483,860

### Reconciliation of operating loss to net cash outflow from operating activities

	Year ended 30/09/06 £	Year ended 30/09/05 £
Operating loss	(1,524,800)	(1,108,203)
Depreciation and amortisation	566,686	225,778
Decrease/(increase) in debtors	25,230	(55,586)
Increase in creditors	44,785	68,598
<b>Net cash outflow from operating activities</b>	(888,099)	(869,413)

## Reconciliation of Movements in Shareholders' Equity Funds

FOR THE YEAR ENDED 30 SEPTEMBER 2006

	Year ended 30/09/06 £	Year ended 30/09/05 £
<b>Loss for the financial year</b>	(1,366,794)	(785,493)
New share capital subscribed (net of issue costs)	–	9,300,693
<b>Net addition to shareholders' equity funds</b>	(1,366,794)	8,515,200
Opening shareholders' equity funds	9,325,508	810,308
<b>Closing shareholders' equity funds</b>	<b>7,958,714</b>	<b>9,325,508</b>

# Notes to the Financial Statements

FOR THE YEAR ENDED 30 SEPTEMBER 2006

## 1 Accounting policies

During this period, several new Financial Reporting Standards (FRSs) were adopted for the first time. They were:

- FRS 17 Retirement benefits;
- FRS 21 Events after the balance sheet date;
- FRS 22 Earnings per share;
- FRS 25 Financial instruments: disclosure and presentation;
- FRS 28 Corresponding amounts.

None of these new standards has had a material effect. The following accounting policies have been applied consistently in dealing with items which are considered material to the financial statements.

### 1.1 Basis of preparation

The financial statements are prepared in accordance with UK accounting standards as adopted by the Company under the historical cost convention on a going concern basis.

### 1.2 Deferred exploration costs

All costs associated with mineral exploration and investments are capitalised on a project by project basis, pending determination of the feasibility of the project. Costs incurred include appropriate technical and administrative expenses but not general overhead. If an exploration project is successful, the related expenditures will be transferred to intangible assets and amortised over the estimated life of the commercial ore reserves on a unit of production basis. Where a licence is relinquished, a project is abandoned, or is considered to be of no further commercial value to the Company, the related costs are written off.

The recoverability of deferred exploration costs is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain necessary financing to complete the development of reserves and future profitable production or proceeds from the disposition thereof.

### 1.3 Ceiling tests

Where there is an indication that the value of a mining asset may be impaired, the net amount at which the asset is recorded is assessed for recoverability against the discounted future estimated net cash flows expected to be generated from the estimated remaining commercial reserves. This assessment is made on the basis of future mineral prices, exchange rates and cost levels as forecast at the balance sheet date. A provision is made, by way of an additional depreciation charge, where the carrying value of the asset exceeds the discounted future net cash flows to be derived from its estimated remaining commercial reserves.

### 1.4 Exploration licence

The exploration licence is amortised on a straight line basis over the life of the licence.

### 1.5 Decommissioning, site restoration and environmental costs

Licensees are generally required to restore mine and processing sites at the end of their producing lives to a condition acceptable to the relevant authorities. The expected cost of any committed decommissioning or restoration programme, discounted to its net present value, is provided and capitalised at the beginning of each project development. The capitalised cost is amortised over the life of the operation and the increase in the net present value of the provision for the expected cost is included with interest payable and similar items.

The cost of ongoing programmes to prevent and control pollution and to rehabilitate the environment is charged to the profit and loss account as incurred.

### 1.6 Depreciation

Assets have limited lives and are depreciated using the straight line method over their estimated lives. Assets are depreciated from the date of acquisition. Depreciation rates and methods are reviewed annually for appropriateness. When changes are made, adjustments are reflected prospectively in current and future periods only.

Plant and machinery	33.33%
Fixtures, fittings and equipment	33.33%
Motor vehicles	33.33%

Depreciation in respect of exploration and evaluation expenditure is referred to within the accounting policies.

## 1 Accounting policies CONTINUED

### 1.7 Deferred tax

The charge for taxation is based on the results for the year and takes into account taxation deferred because of timing differences between treatment of certain items for taxation and accounting purposes.

Full provision is made for the tax liability on all timing differences in accordance with FRS 19. Deferred tax balances are not subject to discounting.

### 1.8 Foreign currencies

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the rates of exchange prevailing at the balance sheet date. Transactions in foreign currencies are translated into sterling at the rate of exchange ruling at the date of transaction. Exchange differences are taken to the profit and loss account.

### 1.9 Leases

Rentals paid under operating leases are charged to the profit and loss account as incurred.

### 1.10 Pensions

The Company operates a defined contribution pension scheme. Contributions payable for the year are charged in the profit and loss account.

### 1.11 Cash

Cash, for the purposes of the cash flow statement, comprises cash at bank and short term deposits.

## 2 Operating loss

The operating loss is stated after charging:

	Year ended 30/09/06 £	Year ended 30/09/05 £
Hire of plant and machinery	14,778	16,820
Depreciation - owned assets	279,051	147,739
Amortisation of exploration licence	192,604	78,039
Write off exploration assets	95,031	-
Auditors' remuneration	30,000	32,500

## 3 Interest receivable and similar income

	Year ended 30/09/06 £	Year ended 30/09/05 £
Bank interest	262,289	324,843

## 4 Interest payable and similar charges

	Year ended 30/09/06 £	Year ended 30/09/05 £
Unrealised foreign exchange loss	-	2,133

## Notes to the Financial Statements

FOR THE YEAR ENDED 30 SEPTEMBER 2006 CONTINUED

### 5 Remuneration of Directors

	Year ended 30/09/06 £	Year ended 30/09/05 £
Richard Linnell	50,000	45,458
Mark Fresson	35,000	53,167
David Hudd	25,000	22,751
Peter Bojtos	20,000	18,345
Robert Weinberg	20,000	16,260
Colin Ikin	–	2,658
	150,000	158,639

### 6 Staff numbers and costs

The average number of persons employed by the Company (including Directors) during the period, analysed by category, was as follows:

	Year ended 30/09/06 Number	Year ended 30/09/05 Number
Administrative	9	9
Operational	14	8
	23	17

The aggregate payroll costs of these persons were as follows:

	Year ended 30/09/06 £	Year ended 30/09/05 £
Wages and salaries	665,808	390,293
Social security costs	19,494	16,073
Other pension costs	10,829	7,831
	696,131	414,197

### 7 Taxation

Analysis of the tax charge:

	Year ended 30/09/06 £	Year ended 30/09/05 £
Current tax:		
UK corporation tax – current	49,761	–
– prior year	77,342	–
Tax on loss on ordinary activities	127,103	–



## 7 Taxation CONTINUED

## Factors affecting the tax charge

The tax assessed for the year is lower than the standard rate of corporation tax in the UK (30%). The difference is explained below:

	Year ended 30/09/06 £	Year ended 30/09/05 £
Loss on ordinary activities before tax	(1,239,691)	(785,493)
Loss on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30% (2005: 30%)	(371,907)	(235,648)
Effects of:		
Tax losses carried forward	277,772	157,940
Depreciation and amortisation in excess of capital allowances	170,006	67,808
Small companies relief	(27,570)	-
Permanently disallowable expenditure	1,460	9,900
Prior year adjustment	77,342	-
Current tax charge	127,103	-

## Factors that may affect future tax charges

The Company has accumulated pre-trading expenditure carried forward amounting to approximately £1.8m (2005: £0.9m). This may affect future tax charges should the Company produce taxable trading profits in future periods.

## 8 Loss per share

The basic and diluted loss per ordinary share is based on losses of £1,366,794 (12 months to 30 September 2005: £785,493) and the weighted average number of ordinary shares outstanding of 78,250,000 (30 September 2005: 72,227,260).

## 9 Intangible fixed assets

	Exploration and evaluation £	Exploration licence £	Total £
Cost			
At 1 October 2005	857,561	378,696	1,236,257
Additions	958,559	5,140	963,699
At 30 September 2006	1,816,120	383,836	2,199,956
Amortisation			
At 1 October 2005	-	78,039	78,039
Impairment losses	95,031	113,193	208,224
Amortisation	-	79,411	79,411
At 30 September 2006	95,031	270,643	365,674
Net book value			
At 30 September 2006	1,721,089	113,193	1,834,282
At 30 September 2005	857,561	300,657	1,158,218

## Notes to the Financial Statements

FOR THE YEAR ENDED 30 SEPTEMBER 2006 CONTINUED

### 10 Tangible fixed assets

	Plant and machinery £	Fixtures, fittings and equipment £	Motor vehicles £	Total £
Cost				
At 1 October 2005	567,546	36,978	81,400	685,924
Additions	159,347	12,648	11,250	183,245
At 30 September 2006	726,893	49,626	92,650	869,169
Depreciation				
At 1 October 2005	124,293	6,571	17,122	147,986
Charge for year	234,271	14,101	30,679	279,051
At 30 September 2006	358,564	20,672	47,801	427,037
Net book value				
At 30 September 2006	368,329	28,954	44,849	442,132
At 30 September 2005	443,253	30,407	64,278	537,938

### 11 Debtors: amounts falling due within one year

	2006 £	2005 £
Other debtors	6,450	7,993
Prepayments and accrued income	29,321	53,008
	35,771	61,001

### 12 Creditors: amounts falling due within one year

	2006 £	2005 £
Trade creditors	283	25,667
Taxation and social security	63,576	1,678
Other creditors	18,148	10,705
Accruals and deferred income	54,420	53,592
	136,427	91,642

### 13 Deferred taxation

The elements of unrecognised deferred taxation are as follows:

	2006 £	2005 £
Difference between accumulated depreciation and amortisation and capital allowances	237,813	67,808
Unrecognised deferred tax asset	237,813	67,808

No deferred tax asset has been recognised for pre-trading expenditure carried forward amounting to approximately £1.8m (2005: £0.9m) and the difference between accumulated depreciation and capital allowances as the realisability of the deferred tax asset is not considered likely in the foreseeable future.

## 14 Called up share capital

	2006 £	2005 £
Authorised		
120,000,000 Ordinary shares of 0.002p each (2005: 2,000 Ordinary shares of £1 each)	2,400	2,400
Allotted, called up and fully paid		
78,250,000 Ordinary shares of 0.002p each	1,565	1,565

## 15 Reserves

	Profit and loss account £	Share premium account £	Total £
At 1 October 2005	(885,239)	10,209,182	9,323,943
Retained loss for the year	(1,366,794)	–	(1,366,794)
At 30 September 2006	(2,252,033)	10,209,182	7,957,149

## 16 Commitments

a) Capital commitments at the end of the financial year for which no provision has been made, are as follows:

	2006 £	2005 £
Geophysics and testing work	45,384	–
Ground magnetic survey	–	64,000
	45,384	64,000

b) Annual commitments under non-cancellable operating leases are as follows:

	Land and buildings 2006 £	Land and buildings 2005 £
Operating leases which expire:		
Within one year	63,300	9,600
In the second to fifth years inclusive	18,000	18,000
	81,300	27,600

## 17 Analysis of changes in net funds

	At 01/10/05 £	Cash flow £	At 30/09/06 £
Net cash:			
Cash at bank and in hand	7,659,993	(1,877,037)	5,782,956

## Notes to the Financial Statements

FOR THE YEAR ENDED 30 SEPTEMBER 2006 CONTINUED

### 18 Related party disclosures

£2,155 (2005: £36,425) was paid in legal fees to McGrigors, a legal practice of which the members of McGrigors Nominee Company (Falklands) Limited are partners. McGrigors Nominee Company (Falklands) Limited acts as the Company Secretary of FGML.

GMA Resources plc, a company chaired by Richard Linnell, was charged £12,500 (2005: £nil) in respect of administration services.

GVM Metals Ltd, a company chaired by Richard Linnell, is paid £500 per month as a contribution to maintaining the Chairman's office in South Africa.

### 19 Post balance sheet events

No significant change has occurred since the date of the financial statements.

# Report of the Independent Auditors

TO THE MEMBERS OF FALKLAND GOLD AND MINERALS LIMITED

We have audited the financial statements of Falkland Gold and Minerals Limited for the year ended 30 September 2006 which comprise the profit and loss account, the balance sheet, the cash flow statement, and the reconciliation of movements in shareholders' funds and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with Section 162 of the Companies Act 1948, which applies in the Falkland Islands. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

## Respective responsibilities of Directors and Auditors

The Directors responsibility for preparing the directors' report and the financial statements in accordance with applicable Falkland Islands law are set out in the statement of directors' responsibility on page 17. The Directors of the Company have accepted responsibility for the preparation of these financial statements in accordance with United Kingdom applicable accounting standards.

Our responsibility is to audit the financial statements in accordance with relevant Falkland Islands legal law, UK regulatory requirements, International Standards on Auditing (UK and Ireland) and the terms of our engagement letter dated 30 June 2006.

We report to you our opinion as to whether the financial statements give a true and fair view, whether proper books of account have been kept by the Company, whether proper returns have been received from branches not visited by us, whether the Company's balance sheet and profit and loss account are in agreement with the books of account and returns and whether we have received all the information and explanations we require for our audit. We also report to you if, in our opinion, the disclosure of related party transactions is not adequate.

We read the directors' report and consider the implications for our report if we become aware of any apparent misstatements within it.

## Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the UK 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 judgements 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:

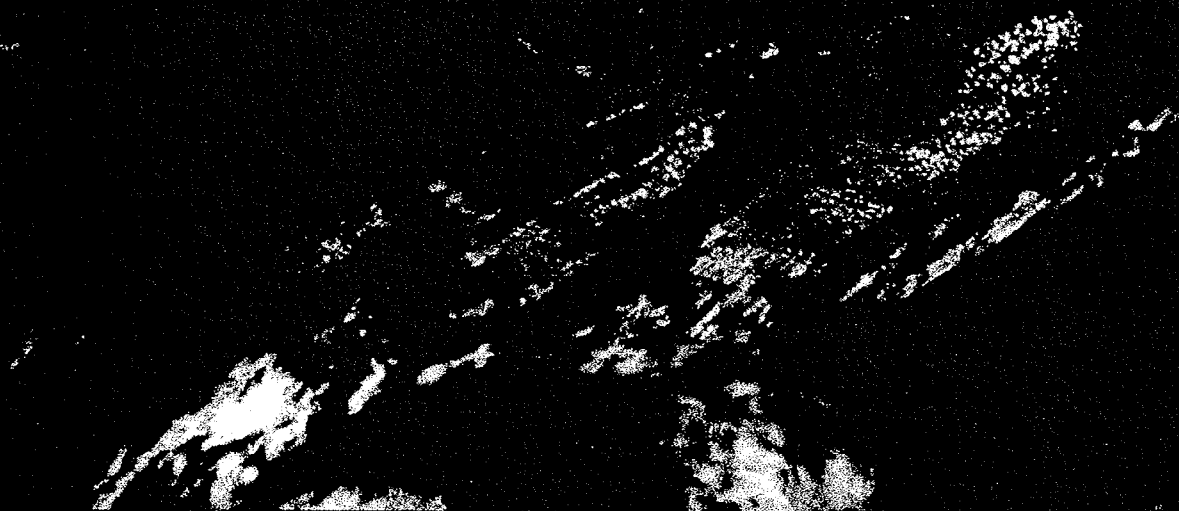
- the financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the Company's affairs as at 30 September 2006 and of its loss for the year then ended;
- we obtained all the information and explanations we required for our audit;
- proper books of account have been kept by the Company;
- proper returns have been received from branches not visited by us; and
- the Company's balance sheet and profit and loss account are in agreement with the books of account and returns.

**KPMG Audit Plc**

Chartered Accountants

5 December 2006

[www.fgml.co.uk](http://www.fgml.co.uk)



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