



# ANNUAL REPORT AND ACCOUNTS

# 08



## **2008 ANNUAL REPORT & ACCOUNTS**

FORUM ENERGY PLC IS A UK INCORPORATED MAJORITY FILIPINO HELD OIL & GAS EXPLORATION  
AND PRODUCTION COMPANY WITH A FOCUS ON THE PHILIPPINES.

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The Company's principal asset is a 70% interest in GSEC101, an offshore petroleum licence situated west of Palawan Island in the South China Sea. In 2006, results from a 248-square kilometre 3D seismic survey over the licence area indicated 3.4TCF gas-in-place (GIP).

During 2008 Philex Mining Corporation, a company listed on the Philippine Stock Exchange, acquired an effective 61.44% controlling stake (held directly and indirectly) in the Company through a tender offer for all shares at 48 pence per share, which expired in September 2008.

The Company's shares are traded on the Alternative Investment Market (AIM)  
of the London Stock Exchange under the symbol FEP.

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## HIGHLIGHTS

### OPERATIONAL HIGHLIGHTS

- Agreed Work Programme with the Philippine Department of Energy (DOE) for GSEC101, Forum's principal asset, and continued to finalise conversion of this licence to a full Service Contract
- Finalised farm-out of a 30% interest in GSEC101 to a local partner Monte Oro Resources & Energy, Inc. (Monte Oro) in which Forum benefited from an immediate cash payment of US\$1.7million, securing Monte Oro's involvement and thereby qualifying the Joint Venture for the Filipino Participation Incentive Allowance (FPIA) which entitles the Company to 7.5% of gross revenues, prior to sharing revenues with the government
- Galoc production commencement
- Closing of the sale of Central Cebu Coal Operating Contract 132 (COC132) for \$3.5million
- Initiated Work Programme on Coal Operating Contract 131 (COC131) to further define reserves and enable conversion to full production licence
- Signed Gas Sale and Purchase Agreement (GSPA) on the development of the Libertad Gas Field in Cebu; and
- Initiated programme to review multiple international opportunities in view of Company's enhanced status through Philex Mining Corporation's investment

### FINANCIAL AND CORPORATE HIGHLIGHTS

- Working capital of US\$3.9 million as of 31 December 2008 (US\$6.4 million – 2007)
- Shareholders' equity of US\$45 million as of 31 December 2008 (US\$49 million – 2007)
- Revenues of US\$0.7 million in 2008 (US\$0.9 million – 2007)
- Board re-structured and enhanced with appointment of Walter Brown as CEO; and
- Fixed overhead costs substantially reduced going forward

### ASSET SUMMARY

#### GSEC101

The block has expected reserves of 3.4TCF GIP (previously independently assessed by PGS Reservoir Consultants (UK) Ltd at 2.7TCF GIP). Additionally the evaluation indicated upside to 20TCF. Additional leads were also identified further adding to the prospectivity of the licence area. In 2008 a Joint Venture was formed with Monte Oro Resources and Energy, Inc. (MORE) which qualified the JV for the Filipino Participation Incentive Allowance (FPIA). Through a 30% farm-out to MORE, the JV will receive 7.5% of any gross revenues, prior to sharing revenues with the government.

#### NW PALAWAN

Forum's main interest in this block is in the Galoc Field (2.27% participating interest). Galoc initially commenced production in Q4 2008 however due to technical problems it was suspended and re-started in Q1 2009. Net revenues to Forum over a 24-month period, are expected to be in excess of US\$1million, but could be substantially in excess of this figure given the current comparatively low price of oil. In addition Phase two of this development will increase potential earnings from the block. Forum also has nominal production from the SC6/14 Nido and Matinloc fields also contained within this block.

#### SC40

The SC40 block contains numerous onshore prospects and leads and significant offshore potential. In addition the Libertad Gas Field contained within the block is now currently being developed with DESCO and production is anticipated within 2009. Further ventures to produce across this significant acreage are underway. The Company's Hycalog drilling rig is also located on this block.

#### COC131

This highly prospective coal block located in Cebu is currently the subject of a JORC compliant drilling programme. It is anticipated that the programme will be concluded within H1 2009. The Company will either sell the reserves or develop them, depending on the outcome of the programme.

## CHIEF EXECUTIVE'S STATEMENT

### Dear Shareholder,

Forum Energy made significant progress in 2008 and has been strengthened by the majority shareholding of Philex Mining Corporation which holds 61.44% (directly and indirectly) of the shares in Forum Energy and which brings significant Filipino involvement to the Company as well as the security of a large balance sheet which is available to assist Forum Energy in the development of its projects.

### GSEC101

It is considered that the interest of Philex in Forum, signifies the importance of GSEC101, which is possibly the most prospective hydrocarbon exploration / development prospect in the Philippines at this current point in time. Whilst the licence is still in an exploration phase. Philex and Forum remain committed to its conversion to a full Service Contract and in this respect are pleased that the future Work Programme and structure of the project has now been agreed with the DOE.

The GSEC101 Joint Venture now involves Monte Oro (subject to final DOE approval). Monte Oro holds a 30% interest which qualifies the JV to the Filipino participation incentive allowance (FPIA) equating to 7.5% of any gross revenue prior to sharing revenues with the government. Forum received an additional \$1.7million in June 2008 in recognition of partial back costs.

Forum looks forward to disclosing further updates on GSEC101s development throughout 2009.

### Coal

Your company also received DOE approval on the Central Cebu sale which resulted in a \$3.5million cash injection into Forum Cebu Coal Corporation in Q4 2008. In addition the Company, commenced a thorough exploration programme of the highly promising COC131 project in Southern Cebu which the Company will either monetize or develop, depending on the results of the Work Programme.

### Galoc

Production from the Galoc development in which Forum has a nominal working interest (2.27%) commenced last year but had been temporarily halted between 16th December 2008 and 25th February 2009 due to technical problems. Production is now back online and Forum will therefore anticipate receiving revenues from the project by H2 2009 assuming no further delays. A second phase of development which would provide substantial upside especially when oil prices recover from their recent lows, is set to move forward this year. We remain committed to supporting this additional development.

### SC40

We have already made significant progress on this block with a development arrangement with DESCO, a well established drilling company in the Philippines, to develop the Libertad Gas Field in Cebu. Under the arrangement we anticipate power production from this proven resource to begin within the year. We also look forward to further developments on other assets located within this proven block before the end of the year.

### Financial Results and Key Financial Indicators

Revenue has declined from \$876,000 in 2007 to \$706,000 in the current year largely as a result of the decrease in oil prices which the industry as a whole has been affected by. However despite the decrease in world wide oil prices your Board considers the performance of the Group's producing assets to be inline with their expectations. The Board will continue to seek to maximize the Revenue streams for the Group.

Forum recorded a gross loss of US\$0.3 million for the 12 months ended 31 December 2008 compared to US\$0.1 million for the previous year; due to the decrease in oil prices during 2008. Total administrative expenses increased to US\$4.4 million compared to US\$3.1 million in the previous year. The increase was primarily attributable to direct costs in relation to the mandatory offer and changes in key management during the year. The Board will continue to monitor the Group's expenses in order to ensure value for money is always obtained for services provided by the Group.

Financial income of US\$0.3 million shows an increase from US\$0.1 million in the previous year due to unrealised gains on a Philippines peso-based long term creditor, compared to a loss of \$0.6 million in 2007. The unrealised loss on the Philippines based long term creditor in 2007 is the reason behind financial expenses decreasing to nil from US\$0.6 million in 2007.

There were no significant tax charges or provisions for the period due to the emphasis upon investment activities during 2008, generating a loss after tax of US\$4.3m (2007: US\$3.9m). Overall there have been a significant number of changes in the year which have resulted in a loss after minority interest of US\$0.152 per share (2007: US\$0.122).

#### **Cash Flow and Capital Expenditure**

The Company's working capital has decreased to US\$3.9 million from US\$6.4 million. This is primarily due to increase in cash based administrative expenses in relation to the mandatory offer and changes in key management during the year. The additional cash based administrative costs were partially offset by the cash inflow of US\$1.7 million from the 30% disposal of a participating interest in GSEC101 and the US\$0.5 million issue of equity during the year.

#### **Balance Sheet and Financing**

The Group has no long-term debt, with the exception of a liability it has recognised to FEI, which will become payable as and when the cost recovery commences from production in SC40.

The minority interest represents the minority shareholder in FEI (33.33%) and reflects its net share in the recognised losses or profits for the period.

#### **Outlook for 2009**

Through the involvement of Philex Mining Corporation, we believe Forum is much better positioned to take the fullest advantage of both its own portfolio as well as to capitalise on additional opportunities in the sector both within the Philippines and Internationally. In 2009, we expect to see positive developments on all assets and I will ensure shareholders are kept informed as we move forward.

#### **Summary**

We take this opportunity to thank our shareholders, our staff and the board of directors, employees and consultants for their valuable assistance in our endeavors to add value to your investment in our Company.

You have our commitment to continue to exert our best efforts not only to safeguard your investment but to enhance its value.



**Walter W. Brown**  
*Chief Executive Officer*

9 March 2009

## BOARD OF DIRECTORS, SENIOR MANAGEMENT & ADVISERS

### **Alan Brodie Henderson** (aged 75)

*Non-Executive Chairman and Independent Director*

Alan Henderson has over 30 years' experience in the oil and gas industry during a career spanning over 40 years. He is Chairman of Aberdeen New Dawn Investment Trust plc and a Director of Global Energy Development plc and Public Service Properties Investments Limited. He has held several non-executive directorships, including Ranger Oil Ltd between 1972 and 1992, and ADT Limited between 1992 and 1997. He was an Executive Director of Ranger Oil (UK) Ltd between 1991 and 2000, and Chairman between 1995 and 2000.

### **Walter W. Brown** (aged 69)

*Chief Executive Officer*

Since January 2004, Walter Brown has been Chairman and Chief Executive Officer of Philex Mining Corporation, a company that, through its subsidiaries Philex Petroleum Corporation and FEC Resources, Inc, has an interest in 18,483,511 ordinary shares of Forum Energy, representing 61.44% of the issued share capital of the Company.

Walter Brown is also Chairman of A Brown Company, Inc., Chairman & President of Monte Oro Resources Energy Inc., (which holds a 30% interest in GSEC101) Monte Oro Grid Resources Corporation, President & Chief Executive Officer of National Grid Corporation of the Philippines, Director of FEC Resources, Inc., Philippine Realty and Holdings Corp., Philodrill Corporation, Petroenergy Resources Corporation and ISM Communications Corporation.

He received two undergraduate degrees B.S. Physical Science (1959), B.S. Geology (1960), from the University of the Philippines, Manila, post graduate degrees from Stanford University, M.S. Economic Geology (1963), Ph. D in Geology, Major in Geochemistry (1965). He was also a candidate in Master of Business Economics (1980) from the University of Asia & Pacific (formerly Centre for Research & Communications).

He was formerly associated with the following listed Philippine companies either as Director or President: Dominion Asia Equities, Inc. (Belle Corp), Palawan Oil & Gas Exploration (Vantage Equities), 7 Seas Oil Company, Inc. (Abacus), Universal Petroleum (Universal Rightfield), Sinophil Corp., Asian Petroleum Corporation, Acoje Mining Corp. Semirara Coal Corp., Surigao Consolidated Mining Inc., (Suricon), Vulcan Industrial and Mining Corp., San Jose Oil., Seafont Petroleum, and Basic Petroleum. He was also Technical Director of Dragon Oil Plc, a company listed on the London Stock Exchange.

### **Andrew J Mullins** (aged 28)

*Executive Director*

Andrew Mullins was previously Vice President of NASDAQ-listed Tracer Petroleum Corporation and subsequently Forum Energy Corporation. He was a key figure in the reorganisation of shares of Forum and admission of the Company to AIM in 2005. In 2006 Andrew was appointed Company Secretary of Forum Energy and in 2008 as an Executive Director of the Company. He holds a B.Eng (Hons) in Mechanical Engineering from University College London and is also a Director and Chief Executive Officer of PhiGold Plc and PhiGold Mining Limited.

### **Barry Stansfield** (aged 58)

*Non-Executive Director*

Barry Stansfield is an independent Director with broad experience of business spanning over 30 years. He was co-owner and Managing Director of Stansfield Lake, a London-based marketing company until the Company was acquired by Communicator Plc. Currently, he is Chairman of FEC Resources Inc, and has been an independent Director with them since April 2003. He is also a partner in a private property investment company based in southern England.

### **Senior Management**

#### **Jose Raymund Apostol** (aged 44)

*President, Forum Energy Philippines Corporation*

Ray has been a petroleum exploration geophysicist and geologist for over 20 years, and has handled several petroleum projects in the past while working for local and international companies that include Kirkland Resources, Dragon Oil Plc and Sterling Energy Plc. Ray started as a coal exploration and mining geologist for Semirara Coal Corporation before embarking on a career in Petroleum Exploration and Production. Ray received extensive training overseas relating to various technical aspects of petroleum exploration and production. Ray holds a Bachelor of Science Degree in Geology from the University of the Philippines. He is also a graduate of the Advanced Military Command and Tactics Course at the University of the Philippines Department of Military Science.

<i>Secretary</i>	<b>Andrew J Mullins</b>
<i>Registered office</i>	120 Bridge Road Chertsey Surrey KT16 8LA
<i>Principal place of business</i>	14F Pearlbank Centre 146 Valero Street Salcedo Village Makati City Metro Manila The Philippines
<i>Company number</i>	05411224, (England and Wales)
<i>Auditors</i>	<b>BDO Stoy Hayward LLP</b> 55 Baker Street London W1U 7EU
<i>Brokers &amp; Financial Advisers</i>	<b>Noble &amp; Company Limited</b> 76 George Street Edinburgh EH2 3BU
<i>Registrars</i>	<b>Share Registrars Ltd</b> Craven House West Street Farnham Surrey GU9 7EN
<i>Solicitors</i>	<b>Osborne Clarke</b> 2 Temple Back East Temple Quay Bristol BS1 6EG

## REPORT OF THE DIRECTORS

The Directors present their report together with the audited financial statements for the year ended 31 December 2008.

### Results and Dividends

The Consolidated Income Statement is set out on page 12 and shows the loss for the period.

The Directors do not recommend the payment of a dividend (2007: nil).

### Principal Activities and Business Review

The Company's principal activity is to pursue the exploration for, development of, and production from oil, gas and coal assets with a focus on the Philippines.

The information that fulfils the requirements of the Business Review can be found in the Chief Executive's Review which are incorporated into this report on pages 2 and 3.

### Financial Instruments

Details of the use of financial instruments by the Company and its subsidiaries are contained in Note 26 of the Financial Statements.

### Employment Practices

The Group and Company are equal opportunity employers, with recruitment, remuneration and career progression not influenced by race, gender, marital status or disability. The Group and Company promote workforce diversity and have a business unit in the Philippines which is staffed by regional employees.

### Health, Safety and Environment

The Group and Company are committed to effective Health, Safety and Environmental practices, which benefit its employees, contractors and the community which the Group conducts its operations.

### Principal Risks and Uncertainties

The Group's revenue is dependant on production rates and international oil prices and also to the success of its future exploration and development activities. The Group's operations are subject to environmental and health and safety obligations and insured risks that are typical of the industry and nature of the activities being carried out. The Group's operations are also subject to political regulatory changes in the country of operation.

### Key Performance Indicators

The Group's key financial performance indicators are the maximization of revenue and minimization of expenses (discussed in the Chief Executive's Review – Financial Results and Key Financial Indicators on pages 2 and 3).

Its key non-financial performance indicators are the optimum deployment of its existing resources (discussed in the Chief Executive's Review – Summary and Outlook for 2009 on page 3).

### Substantial Shareholdings

Shareholdings in the Company as at 21 February 2008, where 3% or greater of number of shares issued were held, were as follows:

Number of shares in issue: 30,084,121. Total shares under option: 2,567,000.

Shareholder	Number of Shares Held	%
<i>Philex Petroleum Corporation*</i>	9,933,311	33.02
<i>FEC Resources Inc*</i>	8,550,200	28.42
<i>Wellington Asset Management Ltd</i>	7,804,778	25.94
<i>Basic Petroleum Corporation</i>	933,759	3.10
<b>TOTAL</b>	<b>27,222,048</b>	<b>90.48</b>

\* Both subsidiaries of Philex Mining Corporation, Forum Energy's Parent Company

### Charitable and Political Donations

No charitable or political donations were made during the year (2007: nil).

### Directors

The Directors of the Company during the period and their interests in the common share capital of the Company were:

	<i>Number of ordinary shares 31 December 2008</i>	<i>Number of ordinary shares 1 January 2008</i>
Alan Henderson <sup>(1)(2)</sup>	–	5,000
Barry Stansfield <sup>(1)(2)</sup>	–	–
Graeme Thomson (resigned 20/08/08)	–	10,000
Henry Wilson (resigned 20/08/08)	–	50,000
Russell Harvey (resigned 23/06/08)	–	81,500
Andrew Mullins (appointed 20/08/08)	–	–
Walter W. Brown (appointed 14/11/08)	–	–
	<i>Number of options over ordinary shares 31 December 2008</i>	<i>Number of options over ordinary shares 1 January 2008</i>
Alan Henderson (1)(2)	272,000	272,000
Barry Stansfield (1)(2)	200,000	109,000
Graeme Thomson (resigned 20/08/08)	–	79,000
Henry Wilson (resigned 20/08/08)	–	50,000
Russell Harvey (resigned 23/06/08)	–	800,000
Andrew Mullins (appointed 20/08/08)	500,000	350,000
Walter W. Brown (appointed 14/11/08)	1,000,000	–

<sup>(1)</sup> Member of the Remuneration and Nomination Committee.

<sup>(2)</sup> Member of the Audit Committee.

### Indemnity Provision

All of the current Directors benefited from qualifying third party indemnity provisions in place during the year ended 31 December 2008 and at 9 March 2009.

### Statement of Directors' Responsibilities

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group, for safeguarding the assets, for taking reasonable steps for the prevention and detection of fraud and other irregularities and for the preparation of the Directors' Report.

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with the Companies Act 1985. The Directors are required to prepare financial statements for the Group in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. 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'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 International Financial Reporting Standards.

A fair presentation also requires the Directors to:

- Select suitable accounting policies and apply them consistently;
- Present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Provide additional disclosures when compliance with specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, and any other events and conditions on the entity's financial position and financial performance; and
- Prepare the accounts on a going concern basis unless it is inappropriate to presume that the Group will continue in business.

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.

It should be noted that legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

#### **Going Concern**

After making enquiries, the Directors have a reasonable expectation that the Company and the Group as a whole have adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

#### **Auditors**

BDO Stoy Hayward LLP have expressed their willingness to continue in office and a resolution to reappoint them will be proposed at the AGM.

#### **DIRECTORS' STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITORS**

The Directors who were members of the Board at the time of approving the Directors' report are listed on page 4. Having made enquiries of fellow Directors and of the Company's auditors, each of these Directors confirms that:

- To the best of each Director's knowledge and belief, there is no information relevant to the preparation of their report of which the Company's auditors are unaware; and
- Each Director has taken all the steps a Director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the Company's auditors are aware of that information.

On behalf of the Board



**Andrew Mullins**  
*Director*

9 March 2009

## CORPORATE GOVERNANCE STATEMENT

The Directors voluntarily follow the Revised Combined Code on Corporate Governance in so far as it is practically possible given the Company's size and has established the following corporate governance provisions:

1. A Non-Executive Chairman of the Board, Mr. A Henderson who serves as the company's independent Director, together with one non-executive Director and two Executive Directors; and
2. An Audit Committee comprising of two Non-Executive Directors, having documented terms of reference and chaired by Mr. B. Stansfield, a Non-Executive Director.
3. A Remuneration and Nomination Committee comprising two Non-Executive Directors having documented terms of reference and chaired by an independent (for purposes of the defined code) Non-Executive Director, Mr. A Henderson.

The Board met 12 times in 2008. Board meeting attendance is detailed below:

	2008
<b>Executive Directors</b>	
Walter W. Brown <sup>(1)</sup>	1
Andrew Mullins <sup>(2)</sup>	4
Russell Harvey <sup>(3)</sup>	4
<b>Non-Executive Directors</b>	
Alan Henderson	12
Barry Stansfield	12
Henry Wilson <sup>(4)</sup>	7
Graeme Thomson <sup>(4)</sup>	6

<sup>(1)</sup> Appointed 14 November 2008

<sup>(2)</sup> Appointed 20 August 2008

<sup>(3)</sup> Resigned 23 June 2008

<sup>(4)</sup> Resigned 20 August 2008

All necessary information is supplied to the Directors on a timely basis to enable them to discharge their duties effectively, and all Directors have access to independent professional advice, at the Company's expense, as and when required. The Articles of Association requires that at least one third of the Directors retire and may submit themselves for re-election at the AGM each year.

### Committees

Each of the Audit and Remuneration and Nomination Committees has its own terms of reference.

#### Audit Committee

The Audit Committee comprises of Barry Stansfield (Chairman) and Alan Henderson. The Audit Committee is responsible for monitoring the integrity of the financial statements of the Group, assessing the effectiveness of the Group's internal controls and risk management systems, and reviewing the scope and effectiveness of the external audit function. The Committee met twice during 2008 to review the interim financial statements and the Group's auditors and audited financial statements. The Audit Committee meetings were attended by all Committee members for review purposes on the interim financial statements and audited financial statements.

The current Auditors (BDO Stoy Hayward LLP) have unrestricted access to the Chairman of the Audit Committee.

#### Remuneration and Nominations Committee

The Remuneration and Nominations Committee comprises of Alan Henderson (Chairman) and Barry Stansfield. The Remuneration and Nominations Committee is responsible for making recommendations to the Board on the Company's remuneration policy and for determining remuneration of the Executive Directors and senior employees. The Remuneration and Nominations Committee is responsible for the composition of the Board and makes recommendations on the appointment of new Directors as well as making recommendations to the Board on succession planning. The Remuneration and Nomination Committee met twice during the year and the meetings were attended by all Committee members.

**Shareholder Relations**

Communications with shareholders is undertaken through face-to-face meetings, general presentations at the time of the release of interim and full year results, and news releases. The Group's website ([www.forumenergyplc.com](http://www.forumenergyplc.com)) facilitates the publication of results and the posting of news regarding the Group and its developments.

The Chairman is available to meet with institutional shareholders to discuss any issues and concerns regarding the Group's governance. Non-Executive Directors can also attend meetings with major shareholders if requested. The participation of both private and institutional investors at the AGM is welcomed by the Board.

**Internal Controls**

The Directors acknowledge their responsibility for the Company's and the Group's systems of internal control, which are designed to safeguard the assets of the Group and ensure the reliability of financial information for both internal use and external publication. The Group's internal control procedures include Board, technical and financial approval for all significant projects. All major expenditures require senior management approval at the appropriate stages of each transaction. Overall control is ensured by a regular detailed reporting system covering both technical progress of a project and the state of the Group's financial affairs. The Board has put in place procedures for identifying, evaluating and managing any significant risks that face the Group.

Any systems of internal control can provide only reasonable, and not absolute assurance that material financial irregularities will be detected or that the risk of failure to achieve business objectives is eliminated. The Directors having reviewed the effectiveness of the system of internal financial, operational and compliance controls and risk management, consider that the system of internal control operated effectively throughout the financial period and up to the date the financial statements were signed.

## INDEPENDENT AUDITORS REPORT TO THE SHAREHOLDERS OF FORUM ENERGY PLC

We have audited the Group and parent company financial statements (the "financial statements") of Forum Energy Plc for the year ended 31 December 2008 which comprise the consolidated income statement, the consolidated and company balance sheets, the consolidated and company cash flow statements, 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 financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are 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 Companies Act 1985 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 the directors' report and consider the implications for our report if we become aware of any apparent misstatements within it. We read other information contained in the annual report, and consider whether it is consistent with the audited financial statements. This other information comprises only the directors report, the highlights and the chief executive's 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 has been prepared pursuant to the requirements of the Companies Act 1985 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 Companies Act 1985 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 Group's and 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 IFRSs as adopted by the European Union, of the state of the Group's affairs as at 31 December 2008 and of its loss for the year then ended;
- the parent company financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 1985, of the state of the parent company's affairs as at 31 December 2008;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the directors' report is consistent with the financial statements.

### BDO Stoy Hayward LLP

*Chartered Accountants and Registered Auditors*

London

Date: 9 March 2009

## CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 DEC 2008

	Note	Year ended 31 December 2008 US\$'000	Year ended 31 December 2007 US\$'000
<b>Continuing operations</b>			
<b>Revenue</b>		706	876
Cost of sales		(1,017)	(1,013)
<b>Gross loss</b>		(311)	(137)
Other administrative expenses		(4,030)	(2,135)
Impairment of deferred and abortive project costs		–	(84)
Share-based payments expense		(334)	(843)
Total administrative expenses	3	(4,364)	(3,062)
<b>Loss from operations</b>		(4,675)	(3,199)
Financial income	5	306	137
Financial expense	6	–	(609)
<b>Loss on ordinary activities before taxation</b>		(4,369)	(3,671)
Tax expense	7	(68)	(39)
<b>Loss from continued operations</b>		(4,437)	(3,710)
<b>Discontinued operations</b>			
Profit/(loss) on discontinued operations (net of tax)	8	90	(180)
<b>Loss for the year</b>		(4,347)	(3,890)
<b>Attributable to:</b>			
Equity holders of the parent	22	(4,425)	(3,503)
Minority interest	22	78	(387)
		(4,347)	(3,890)
<b>Loss per ordinary share (US\$) attributable to equity holders of the parent</b>			
Basic and diluted	9	(0.152)	(0.122)
<b>Loss per ordinary share (US\$) on continued operations</b>			
Basic and diluted	9	(0.155)	(0.116)

## STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DEC 2008

Group	Share capital US\$'000	Share premium US\$'000	Share option reserve US\$'000	Retained earnings US\$'000	Total attributable to equity holders of parent US\$'000	Minority interest US\$'000	Total US\$'000
Balance as at 1 Jan 2007	5,182	48,597	824	(4,624)	49,979	1,872	51,851
Loss for the year	–	–	–	(3,503)	(3,503)	(387)	(3,890)
Total recognised income and expense for the year	–	–	–	(3,503)	(3,503)	(387)	(3,890)
Share-based payment	–	–	843	–	843	–	843
Issue of Shares	15	99	–	–	114	–	114
<b>Balance as at 1 Jan 2008</b>	<b>5,197</b>	<b>48,696</b>	<b>1,667</b>	<b>(8,127)</b>	<b>47,433</b>	<b>1,485</b>	<b>48,918</b>
Loss for the year	–	–	–	(4,425)	(4,425)	78	(4,347)
Total recognised income and expense for the year	–	–	–	(4,425)	(4,425)	78	(4,347)
Share-based payment	–	–	334	–	334	–	334
Transfer to retained reserves	–	–	(1,844)	1,844	–	–	–
Issue of shares	246	242	–	–	488	–	488
<b>Balance as at 31 Dec 2008</b>	<b>5,443</b>	<b>48,938</b>	<b>157</b>	<b>(10,708)</b>	<b>43,830</b>	<b>1,563</b>	<b>45,393</b>

Company	Share capital US\$'000	Share premium US\$'000	Share option reserve US\$'000	Retained earnings US\$'000	Total US\$'000
Balance as at 1 Jan 2007	5,182	48,597	795	(2,568)	52,006
Loss for the year	–	–	–	(2,278)	(2,278)
Total recognised income and expense for the year	–	–	–	(2,278)	(2,278)
Share-based payment	–	–	872	–	872
Issue of shares	15	99	–	–	114
<b>Balance as at 1 Jan 2008</b>	<b>5,197</b>	<b>48,696</b>	<b>1,667</b>	<b>(4,846)</b>	<b>50,714</b>
Loss for the year	–	–	–	(4,070)	(4,070)
Total recognised income and expense for the year	–	–	–	(4,070)	(4,070)
Share-based payment	–	–	334	–	334
Transfer to retained reserves	–	–	(1,844)	1,844	–
Issue of shares	246	242	–	–	488
<b>Balance as at 31 Dec 2008</b>	<b>5,443</b>	<b>48,938</b>	<b>157</b>	<b>(7,072)</b>	<b>47,466</b>

## CONSOLIDATED BALANCE SHEET AT 31 DEC 2008

	Note	2008 US\$'000	2007 US\$'000
<b>Non-current assets</b>			
Intangible assets	11	40,606	41,900
Property, plant and equipment	12	3,784	4,101
Other financial assets	13	8	25
<b>Total non-current assets</b>		44,398	46,026
<b>Current assets</b>			
Inventories	16	77	117
Trade and other receivables	17	275	364
Advances to associate companies	17	3,165	3,848
Cash and cash equivalents		2,574	2,319
<b>Total current assets</b>		6,091	6,648
<b>Non-current assets held for sale</b>	19	991	901
<b>Total assets</b>		51,480	53,575
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables	20	235	283
Advances from associate companies	20	2,011	–
<b>Total current liabilities</b>		2,246	283
<b>Non-current liabilities</b>			
Other payables	20	3,841	4,374
<b>Total liabilities</b>		(6,087)	(4,657)
<b>Total net assets</b>		45,393	48,918
Capital and reserves attributable to equity holders of the Company			
Called up share capital	21	5,443	5,197
Share premium account	21	48,938	48,696
Share option reserve		157	1,667
Retained losses		(10,708)	(8,127)
		43,830	47,433
Minority interest	22	1,563	1,485
<b>Total equity</b>		45,393	48,918

The financial statements were approved and authorised for issue by the Board on 9 March 2009.



**Andrew Mullins**  
Director

## COMPANY BALANCE SHEET AT 31 DEC 2008

	Note	2008 US\$'000	2007 US\$'000
<b>Non-current assets</b>			
Property, plant and equipment	12	11	13
Other financial assets	13	32,891	32,891
<b>Total non-current assets</b>		<b>32,902</b>	<b>32,904</b>
<b>Current assets</b>			
Trade and other receivables	17	32	63
Other financial assets	18	12,067	15,692
Cash and cash equivalents		2,533	2,237
<b>Total current assets</b>		<b>14,632</b>	<b>17,992</b>
<b>Total assets</b>		<b>47,534</b>	<b>50,896</b>
<b>Liabilities</b>			
Current liabilities			
Trade and other payables	20	68	182
<b>Total current liabilities</b>		<b>(68)</b>	<b>(182)</b>
<b>Total net assets</b>		<b>47,466</b>	<b>50,714</b>
<b>Capital and reserves attributable to equity holders of the Company</b>			
Called up share capital	21	5,443	5,197
Share premium account	21	48,938	48,696
Share option reserve		157	1,667
Retained losses		(7,072)	(4,846)
<b>Total equity</b>	22	<b>47,466</b>	<b>50,714</b>

The financial statements were approved and authorised for issue by the Board 9 March 2009.



**Andrew Mullins**  
Director

## CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DEC 2008

	Year ended 31 December 2008 US\$'000	Year ended 31 December 2007 US\$'000
	Note	
<b>Cash flows from operating activities</b>		
<b>Loss before taxation</b>	(4,279)	(3,851)
<b>Adjustments for:</b>		
Depreciation	458	645
Impairment	–	84
Loss on sale of property plant and equipment	–	2
Share-based payment expense	334	843
Exchange (gain)/loss	(285)	609
Loss on financial assets	17	15
Interest income	(21)	(137)
Share of operating (profit)/loss of associate	(90)	180
	413	2,241
<b>Cash flows from operating activities before changes in working capital and provisions</b>		
	(3,866)	(1,610)
Decrease/(increase) in trade and other receivables	22	(88)
Decrease in inventories	40	37
Decrease in trade and other payables	(33)	(617)
	29	(668)
<b>Cash generated from operations</b>		
	(3,837)	(2,278)
Income taxes paid	(2)	(37)
<b>Net cashflows from operating activities</b>		
	(3,839)	(2,315)
<b>Investing activities</b>		
Interest received	21	137
Purchase of property, plant and equipment	(141)	(109)
Sale of property, plant and equipment	–	45
Purchase of intangible assets	(406)	(489)
Disposal of intangible assets	1,700	–
Repaid/(advanced) from/to associated companies	2,694	(689)
<b>Net cash from/(used in) investing activities</b>		
	3,868	(1,105)
<b>Financing activities</b>		
Issue of ordinary share capital	488	–
<b>Net cash from financing activities</b>		
	488	–
<b>Net increase/(decrease) in cash and cash equivalents</b>		
	517	(3,420)
Cash and cash equivalents at beginning of the year	2,319	5,739
Foreign exchange movements on cash and cash equivalents	(262)	–
<b>Cash and cash equivalents at end of the year</b>	25	2,319

## COMPANY CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DEC 2008

<i>Note</i>	<i>Year ended 31 December 2008 US\$'000</i>	<i>Year ended 31 December 2007 US\$'000</i>
<b>Cash flows from operating activities</b>		
<b>Loss before taxation</b>	(4,070)	(2,278)
<b>Adjustments for:</b>		
Depreciation	11	8
Share-based payment expense	334	872
Exchange loss/(gain)	158	(24)
Interest income	(21)	(83)
	482	773
<b>Cash flows from operating activities before changes in working capital and provisions</b>		
	(3,588)	(1,505)
Decrease/(increase) in trade and other receivables	31	(2)
Decrease in trade and other payables	(114)	(628)
	(83)	(630)
<b>Cash generated from operations</b>		
	(3,671)	(2,135)
<b>Investing activities</b>		
Interest received	21	83
Purchase of property, plant and equipment	(9)	(13)
Repayment of subsidiary undertaking loans	3,625	1,893
<b>Net cash from/(used in) investing activities</b>		
	3,637	1,963
<b>Financing activities</b>		
Issue of ordinary share capital	488	–
<b>Net cash from/(used in) financing activities</b>		
	488	–
<b>Net increase/(decrease) in cash and cash equivalents</b>		
	454	(172)
Cash and cash equivalents at beginning of the year	2,237	2,385
Foreign exchange movements on cash and cash equivalents	(158)	24
<b>Cash and cash equivalents at end of the year</b>	25	2,533
	2,533	2,237

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DEC 2008

### 1. Accounting policies

#### 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. Both the parent company financial statements and the Group financial statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards IFRS's and IFRIC interpretations, issued by the International Accounting Standards Board (IASB) as endorsed for use in the EU ("Endorsed IFRSs") and those parts of the Companies Act 1985 that are applicable to companies that prepare their financial statements under IFRS.

**New IFRS issued by the IASB effective from 1 Jan 2007 and applied in these financial statements are as follows:**

<i>Standard</i>	<i>Change to accounting policy</i>	<i>Date to adoption</i>	<i>Impact on initial application</i>
IFRS7 "Financial Instruments: Disclosures" and amendments to IAS32 'Financial Instruments: Disclosure and preparation"	No changes to current accounting policy	1 Jan 2007	This standard requires additional disclosure regarding financial instruments
Amendment to IAS1 "Presentation of Financial Statements – Capital Disclosures"	No changes to current accounting policy	1 Jan 2007	This standard requires additional disclosure concerning an entity's capital

**The following standards, interpretations and amendments issued by the IASB are effective in 2008 but not relevant or have no impact on the Group:**

IFRIC 11, IFRS2, "Group and Treasury Share Transactions" (effective 1 March 2007). This amendment provides guidance as to whether certain share-based payment transactions should be classified as "equity settled" or "cash settled".

IFRIC 12, "Service Concession Arrangements". (effective 1 January 2008) This amendment interprets 14 IFRSs that refer to a public sector entity that awards the concession as the grantor and the private sector entity that provides the services as the operator.

IFRIC 14, IAS19, "The Limit on Defined Benefit Asset Minimum Funding Requirements and their Interaction" (effective 1 January 2008). This amendment clarifies how any asset in a defined benefit pension scheme should be determined, in particular where a minimum funding requirement exists.

IFRIC 13, "Customer Loyalty Programmes" (effective 1 July 2008). This interprets accounting by entities that grant loyalty awards credits.

IAS 39 AND IFRS 7, "Reclassification of Financial Instruments" (effective 1 July 2008). This amendment provides guidance on reclassification of non- derivative financial assets.

IFRIC 16, "Hedges of a Net Investment in a foreign operation" (effective 1 October 2008). This clarifies accounting treatment of changes in foreign exchange rates in respect of hedged items.

No other IFRS's issued and adopted but not yet effective are expected to have an impact on the Group's financial statements.

Standards, amendments and interpretations that are not yet effective include:

IAS1, Amendment , "Presentation of financial statements: a revised presentation" (revised, effective 1 January 2009);

IFRS1 and IAS 27, Amendment, "Cost of a investment in a subsidiary, joint-controlled entity or associate" (effective 1 January 2009);

IFRS2, Amendment , "Share based payments: vesting conditions and cancellations" (effective 1 January 2009);

IFRS8, "Operating Segments" (effective from 1 January 2009);

IFRIC15, "Agreements for the Construction of Real Estate" (effective 1 January 2009);

IAS23, "Borrowing Costs" (revised, effective from 1 January 2009);

IAS32 and (IAS 1), Amendment, "Puttable financial instruments and obligations arising on liquidation" (effective from 1 January 2009);

IFRS3, "Business Combinations" (revised, effective from 1 July 2009);

IFRIC 17, "Distribution of Non-cash Assets to Owners" (effective from 1 July 2009);

IFRIC 18, "Transfer of Assets from Customers" (effective from 1 July 2009);

IAS27, Amendment, "Consolidation and separate financial presentation" (effective from 1 July 2009);

IAS39, Amendment, "Financial Instruments: Recognition and Measurement: Eligible Hedged Items" (effective from 1 July 2009).

#### **Basis of consolidation**

The consolidated financial statements present the results of the Company and its subsidiaries ("the Group") as if they formed a single entity. Intercompany transactions and balances between Group companies are therefore eliminated in full.

#### **Revenue**

Revenue is derived from sales of oil to third party customers. Sales of oil are recognised at the time of delivery of the product to the purchaser. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates and other sales tax or duty.

#### **Business combinations**

The consolidated financial statements incorporate the results of the business combinations using the acquisition method of accounting. In the consolidated balance sheet, the acquiree's identifiable assets, liabilities and contingent liabilities are initially recognised at their fair values at the acquisition date. The results of acquired operations are included in the consolidated income statement from the date on which control is obtained.

#### **Subsidiaries**

In the parent company's accounts the subsidiaries are carried at cost less amounts provided for impairment.

#### **Minority Interest**

The Minority shareholders are unrelated and the Group consolidates the total activity and accounts separately for minority interest.

#### **Associates**

When the Group has the power to participate in (but not control) the financial and operating policy decisions of another entity, it is classified as an associate. Associates are initially recognised in the consolidated balance sheet at cost. The Group's share of post-acquisition profit and losses is recognised in the consolidated income statement, except that the losses in excess of the Group's investment in the associate are not recognised unless there is an obligation to make good those losses.

Profits and losses arising on transactions between the Group and its associates are recognised only to the extent of unrelated investors' interests in the associate. The investor's share in the associate's profit and losses resulting from these transactions is eliminated against the carrying value of the associate.

**Foreign currency**

Transactions entered into by Group entities in a currency other than the currency of the primary economic environment in which it operates (the 'functional currency') are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the balance sheet date. Exchange differences arising on the retranslation of unsettled monetary assets and liabilities are similarly recognised immediately in the income statement.

**Financial Instruments**

Financial assets and financial liabilities are recognised when the company becomes party to the contractual provisions of the instrument. Financial assets are de-recognised when the contractual right to the cash flow expires or when substantially all the risk and rewards of ownership are transferred. Financial liabilities are de-recognised when the obligations specified in the contract are either discharged or cancelled.

**Financial Assets**

The Group classifies its financial assets into one of the following categories, depending on the purpose for which the asset was acquired. The Group's accounting policy for each category is as follows:

**Trade and other receivables** – These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers, but also incorporate other types of contractual monetary asset such as advances made to affiliated entities. They are initially recognised at fair value plus transaction costs and subsequently carried at amortised cost, using the effective interest method, less any provision for impairment. If the need for impairment of a receivable arises, the value of the provision, representing the expected loss from not being able to recover such receivables, is recognised as a cost of sale.

For investments carried at amortised cost, gains and losses are recognised in the income statement when the investments are de-recognised or impaired, as well as through the amortisation process.

**Available for sale** – Non-derivative financial assets not included in the above category are classified as available for sale and comprise the Group's investments in entities not qualifying as subsidiaries or associates. They are carried at fair value with changes in fair value recognised directly in equity. Where a decline in the fair value of an available for sale financial asset constitutes objective evidence of impairment, the amount of the loss is removed from equity and recognised in the income statement.

**Cash and cash equivalents** – Cash comprises bank and cash deposits at variable interest rates. Any interest earned is accrued monthly and classified as interest income. Cash equivalents comprise short-term, highly liquid investments with original maturities of three months or less at the date acquired, that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. For the purposes of IAS 39 these amounts are classified as loans and receivables where appropriate.

**Financial Liabilities**

**Trade payables and other short-term monetary liabilities** – These are initially measured at fair value and subsequently recognised at amortised cost using effective interest rate method.

**Share-based payments**

Where share options are awarded to employees, the fair value of the options at the date of grant is charged to the income statement over the vesting period.

Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each balance sheet date so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of options that eventually vest. Market vesting conditions are factored into the fair value of the options granted. As long as all other vesting conditions are satisfied, a charge is made irrespective of whether the market vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition.

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 income statement over the remaining vesting period.

Where equity instruments are granted to persons other than employees, the income statement is charged with the fair value of goods and services received.

### **Tax**

Income tax on the profit or loss from ordinary activities includes current and deferred tax.

Current tax is based on the profit or loss from ordinary activities adjusted for items that are non-assessable or disallowed and is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Income tax is charged or credited to the income statement, except when the tax relates to items credited or charged directly to equity, in which case the tax is also dealt with in equity.

### **Unevaluated oil, gas and mining properties**

The Group applies the full cost method of accounting, having regard to the requirements of IFRS 6 'Exploration for and Evaluation of Mineral Resources'. Under the full cost method of accounting, all costs associated with exploration for and evaluation of mining and oil and gas properties are capitalised in geographical pools pending determination of the feasibility of each project. Such cost pools are based on geographic areas and are not larger than a segment. The Group currently has one pool, the Philippines.

Costs which are capitalised include costs of licence acquisition, technical services and studies, exploration drilling and testing and appropriate technical and administrative expenses but do not include general overheads or costs incurred prior to having obtained the legal rights to explore an area, which are expensed directly to the income statement as they occur.

When the technical and commercial feasibility of a mining or oil or gas project has been determined, the related expenditures will be transferred to property, plant and equipment as proved properties. Where a licence is relinquished, or a project is abandoned, or is considered to be of no further commercial value to the Company, the related costs will be written off to the income statement.

Unevaluated mining and oil and gas costs are assessed at each period end and where there are indications of impairment. Any amount by which carrying costs exceed recoverable amounts will be written off. The recoverability of unevaluated oil, gas and mining costs is dependent upon the discovery of economically recoverable reserves, the ability of the Group to obtain necessary financing to complete the development of reserves and future profitable production or proceeds from the disposition of recoverable reserves.

### **Property, plant and equipment**

Depletion and amortisation of proved oil and gas mining properties is provided over the estimated commercial life of each property and computed using the units of production method based on proved reserves as determined annually by management. Depletion, depreciation and amortisation are included within operating expenses within the income statement.

Items of property, plant and equipment are initially recognised at cost. As well as the purchase price, cost includes directly attributable costs and the estimated present value of any future costs of dismantling and removing items. The corresponding liability is recognised within provisions.

Depreciation is provided on all items of property and equipment to write off the carrying value of items over their expected useful economic lives. It is applied at the following rates:

Drilling equipment	20% per annum straight line
Transport and motor equipment	20% per annum straight line
Furniture, fixtures and fittings	20% per annum straight line
Tools and other equipment	33% per annum straight line

**Impairment of property, plant and equipment**

Property, plant and equipment are subject to impairment tests whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Where the carrying value of an asset exceeds its recoverable amount (i.e. the higher of value in use and fair value less costs to sell), the asset is written down accordingly. Where it is not possible to estimate the recoverable amount of an individual asset, the impairment test is carried out on the asset's cash-generating unit (i.e. the lowest group of assets in which the asset belongs for which there are separately identifiable cash flows).

Any impairment charge is included in the administrative expenses line item in the income statement, except to the extent they reverse gains previously recognised in the statement of recognised income and expense.

**Inventories**

Inventories are initially recognised at cost, and subsequently at the lower of cost and net realisable value. Cost comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Weighted average cost is used to determine the cost of ordinarily interchangeable items.

**Non-current assets held for sale.**

Non-current assets are classified as held for sale when:

- they are available for immediate sale;
- management is committed to a plan to sell;
- it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn;
- an active programme to locate a buyer has been initiated;
- the asset is being marketed at a reasonable price in relation to its fair value; and
- a sale is expected to complete within 12 months from date of classification.

Non-current assets held for sale are measured at the lower of:

- their carrying amount immediately prior to being classified as held for sale in accordance with the Group's accounting policy; and
- fair value less costs to sell.

Following their classification as held for sale, non-current assets are not depreciated.

The results of operations during the year are included in the consolidated income statement up to the date of disposal.

Discontinued operations are presented in the income statement (including the comparative period) as a single line which comprises the post tax loss of the discontinued operation.

**Provision for abandonment costs**

Provision for abandonment costs is recognised at the commencement of production. The amount recognised is the present value of the estimated future expenditure determined in accordance with local conditions and requirements. A corresponding tangible fixed asset of an amount equivalent to the provision is also created. This is subsequently depreciated as part of the capital costs of production. Any change in the present value of the estimated expenditure is reflected as an adjustment to the provision and the fixed assets.

**Deferred taxation**

Deferred tax assets and liabilities are recognised where the carrying amount of an asset or liability in the balance sheet differs from its tax base, except for differences arising on the initial recognition of goodwill for which amortisation is not tax deductible, 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 on 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.

Recognition of deferred tax assets is restricted to those instances where it is probable that taxable profit will be available against which the difference can be utilised. The amount of the asset or liability is determined using tax rates that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the deferred tax liabilities/(assets) are settled/(recovered). Deferred tax balances are not discounted.

Deferred tax assets and liabilities are offset when the Group has a legally enforceable right to offset current tax assets and liabilities and the deferred tax assets and liabilities relate to taxes levied by the same tax authority on

either the same taxable Group company or different Group entities, which intend either to settle current tax assets and liabilities on a net basis or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax assets or liabilities are expected to be settled or recovered.

#### **Leased assets**

Where assets are financed by leasing agreements that do not give rights approximating ownership, these are treated as operating leases. The annual rentals are charged to the income statement on a straight line basis over the term of the lease.

#### **Listed Investments**

Listed investments are held at current market value

#### **Critical Accounting Judgements and key sources of estimation uncertainty**

In the process of applying the Group's accounting policies, which are described in note 1, management has made the following judgements that have the most significant effect on the amounts recognised in the financial statements.

**Recoverability of exploration and evaluation costs** – Under the full cost accounting method of accounting for exploration costs, such costs are capitalised as intangible assets and assessed for impairment on a cost pool basis when circumstances suggest that the carrying amount off the costs pool may exceed its recoverable value and, therefore, there is a potential risk of an impairment adjustment. This assessment involves judgement as to; the likely future commerciality of the asset and when such commerciality should be determined: future revenue and costs pertaining to any concession based on proved plus probable, prospective and contingent resources and the discount rate to be applied to such revenues and cost for the purpose of deriving a recoverable value.

**Depreciation** – Percentages are applied by the management to the Group's net book value of depletable assets based on future levels of production.

**Share options** – Provisions for share-based payment costs requires the selection of an appropriate valuation model, consideration as to the inputs necessary for the valuation model chosen and the estimation of the number of awards that will ultimately vest, inputs for which arise from judgements relating to the continuing participation of employees see note 21.

**Fair value of exploration and appraisal assets** – The fair value of exploration and appraisal assets is based on internal and third party reports, further discounted to reflect future risks such as higher interest rates, smaller than expected reserves and variation to other critical assumptions.

#### **Impairment review**

While conducting an impairment review of its assets, the Group makes certain judgements in making assumptions about the future prices, reserve levels, and future development and production costs. Changes in the estimates used can result in significant charges to the income statement. This is performed solely for the purposes of considering the carrying value of the Group's assets.

#### **Legal proceedings and commercial disputes**

In accordance with IFRS, the Group only recognises a provision where there is a present obligation from a past event, a transfer of economic benefit is probable and the amount of cost of the transfer can be estimated reliably. In instances where the criteria are not met, a contingent liability may be disclosed in the notes to the financial statements. Realisation of any contingent liabilities not currently recognised or disclosed in the financial statements could have a material effect on the Group's financial position. Application of this accounting principle requires the management to make determinations about various factual and legal matters beyond their control. Among the factors considered in making decisions on provisions are the nature of the disputes and litigations, the progress of the cases, the opinions of legal advisers, experience of similar cases and any decision of the Group's management as to how it will respond to any such claim or litigation.

## 2. Segment analysis

The Group operates in one business segment, the exploration for and production of oil and gas. The Group has interests in one geographical segment being the Philippines.

## 3. Expenses by nature

	Year ended 31 December 2008 US\$'000	Year ended 31 December 2007 US\$'000
Fees payable to the Company's Auditor for the audit of the Company's annual accounts	44	70
Fees payable to the Company's Auditor and its associates for other services:		
Fees payable to the Company's Auditor's overseas associate for the audit of the Company's subsidiaries, pursuant to legislation	15	15
Fees payable to the Company's Auditor for tax and consultancy services	197	128
Directors' remuneration	1,334	559
Permanent impairment of deferred charges and abortive costs	–	84
Employee salaries and other benefits	657	426
Share-based payments, cash settled	119	–
Share-based payments, equity settled	215	843
Depreciation and amortisation	50	58
Operating lease rentals	84	94
Other individually immaterial items	1,649	785
	4,364	3,062

## 4. Salaries

	Group Year ended 31 December 2008	Group Year ended 31 December 2007	Company Year ended 31 December 2008	Company Year ended 31 December 2007
Average number of employees (including Directors) are as follows:				
Administration and finance	17	21	5	6
Technical	4	7	–	–
	21	28	5	6

	Group Year ended 31 December 2008 US\$'000	Group Year ended 31 December 2007 US\$'000	Company Year ended 31 December 2008 US\$'000	Company Year ended 31 December 2007 US\$'000
Gross salaries (including Directors)	1,603	694	1,398	439
Fees (including Directors)	143	234	143	234
Employee benefits and social security costs	245	57	242	53
Share-based payments	334	843	334	788
	2,325	1,828	2,117	1,514

Directors' emoluments				Year ended	Year ended
	Salary	Bonuses	Fees	31 December	31 December
	US\$'000	US\$'000	US\$'000	2008	2007
				Total	Total
				US\$'000	US\$'000
Alan Henderson	144	–	27	171	102
Henry Wilson (resigned 20 August 2008)	24	–	11	35	41
Graeme Thomson (resigned 20 August 2008)	40	–	–	40	47
Barry Stansfield	60	–	53	113	44
Russell Harvey (resigned 23 June 2008)	435	170	–	605	325
Andrew Mullins (appointed 20 August 2008)	58	260	–	318	–
Walter Brown (appointed 14 November 2008)	–	–	52	52	–
	<b>761</b>	<b>430</b>	<b>143</b>	<b>1,334</b>	<b>559</b>

All Directors' remuneration is paid in cash in accordance with their contracts. In addition all Directors have received options to purchase Ordinary Shares of the Company at exercise prices ranging from £0.31 to £1.12 per share (see Note 21). The highest paid Director was paid US\$605,000 (2007: US\$325,000) in the year.

The Company provides limited Directors & Officers Liability Insurance, at a cost of approximately US\$41,583 (2007: US\$39,936). This cost is not included in the above table.

Out of the share-based payment charge (see Note 3), US\$225,666 (2007: US\$583,833) relates to share-based payments to Directors and US\$107,980 (2007: US\$259,612) relates to share-based payments to employees. Gains made on exercise of options during the year were US\$503,318 by Directors and US\$50,242 by staff.

Directors are considered to be the key management.

## 5. Financial income

	Group	Group
	Year ended	Year ended
	31 December	31 December
	2008	2007
	US\$'000	US\$'000
Interest from bank deposit	21	137
Foreign exchange gains	285	–
	<b>306</b>	<b>137</b>

## 6. Financial expenses

	Group	Group
	Year ended	Year ended
	31 December	31 December
	2008	2007
	US\$'000	US\$'000
Foreign exchange losses	–	609

**7. Taxation on loss from ordinary activities**

	Group Year ended 31 December 2008 US\$'000	Group Year ended 31 December 2007 US\$'000
Overseas tax	68	39
Loss on ordinary activities	(4,369)	(3,671)
Loss on ordinary activities at the standard rate of corporation tax in the UK of 28%	(1,124)	(1,101)
Expenses disallowed for tax	8	217
Tax losses carried forward	1,151	326
Different tax rates applied to overseas jurisdictions	–	18
Movements in deferred taxation	33	579
Tax charge for the period	68	39

**Factors that may affect future tax charges**

At 31 December 2008, the Group had UK tax losses of approximately US\$2,671,000 (2007: US\$1,682,000) carried forward. These losses are subject to agreement by HRMC. At 31 December 2008 the Group had Philippines tax losses US\$491,000 (2007: US\$483,000) which can be carried forward and applied against future profits when they are realised. Philippines' basic corporation tax rate is 30%.

**8. Profit/(loss) from discontinued operations**

Profit/(Loss) from discontinued operations is the Group's share of operating profit or loss of associates. See note 25 for the disclosure of the effect of the discontinued operations on the consolidated cash flow.

**9. Loss per share**

Earnings per Ordinary Share have been calculated using the weighted average number of shares in issue during the relevant financial periods. The weighted average number of equity shares in issue for the period is 29,167,761 (2007: 28,703,695).

Losses for the Group attributable to the equity holders of the Company for the year are US\$4,425,000 (2007: US\$3,503,000).

Losses for the Group attributable to the equity holders of the Company for the year on continued operations are US\$4,515,000 (2007: US\$3,683,000).

Profits for the Group attributable to the equity holders of the Company for the year on discontinued operations are US\$90,000 (2007: US\$180,000 loss) and therefore the earnings / loss per share on discontinued operations is US\$0.003 per share (2007: US\$0.006 loss per share).

The effect of the share options in issue under the Share Option Plan is anti-dilutive. See Note 21 for further details of share options in issue.

**10 Loss for the financial year**

The Company has taken advantage of the exemption allowed under section 230 of the Companies Act 1985 and has not presented its own income statement in these financial statements. The Group loss for the year includes a loss after tax of US\$4.070million (2007: US\$2.278 million) which is dealt with in the financial statements of the parent Company.

**11. Intangible assets**

	<i>Group Unevaluated Oil, Gas and Mining Costs US\$'000 2008</i>	<i>Group Unevaluated Oil, Gas and Mining Costs US\$'000 2007</i>
<hr/>		
Cost		
At 1 January	41,900	43,264
Additions	406	603
Disposals	(1,700)	–
Permanent impairment	–	(84)
Transferred to tangible fixed assets	–	(1,883)
<hr/>		
At 31 December	40,606	41,900
<hr/>		
Amortisation		
At 1 January	–	–
Provided for the year	–	–
<hr/>		
At 31 December	–	–
<hr/>		
Net book value		
At 31 December	40,606	41,900
<hr/>		

The unevaluated oil, gas and mining costs relate to the acquisition of the Group's assets in the Philippines.

## 12. Property, plant and equipment

	<i>Drilling Equipment &amp; Pre Development Costs US\$'000</i>	<i>Transport &amp; Motor Equipment US\$'000</i>	<i>Group Furniture Fixtures &amp; Fittings US\$'000</i>	<i>Tools &amp; Other Equipment US\$'000</i>	<i>Total US\$'000</i>	<i>Company Furniture Fixtures &amp; Fittings US\$'000</i>
<b>Cost</b>						
At 1 January 2008	4,776	21	163	116	5,076	25
Additions	76	53	12	–	141	9
At 31 December 2008	4,852	74	175	116	5,217	34
<b>Depreciation</b>						
At 1 January 2008	792	6	118	59	975	12
Charge for the year	376	5	54	23	458	11
At 31 December 2008	1,168	11	172	82	1,433	23
<b>Cost</b>						
At 1 January 2007	2,702	50	151	116	3,019	12
Additions	65	32	12	–	109	13
Transfer from Intangible Assets	1,883	–	–	–	1,883	–
Decommissioning provisions	126	–	–	–	126	–
Disposals	–	(61)	–	–	(61)	–
At 31 December 2007	4,776	21	163	116	5,076	25
<b>Depreciation</b>						
At 1 January 2007	231	11	66	36	344	4
Charge for the year	561	9	52	23	645	8
Disposals	–	(14)	–	–	(14)	–
At 31 December 2007	792	6	118	59	975	12
<b>Net book value</b>						
At 31 December 2008	3,684	63	3	34	3,784	11
At 31 December 2007	3,984	15	45	57	4,101	13

### 13. Financial assets

	Group 2008 US\$'000	Group 2007 US\$'000	Company 2008 US\$'000	Company 2007 US\$'000
Cost				
At 1 January 2008	25	40	32,891	32,891
Revaluation	(17)	(15)	–	–
At 31 December 2008	8	25	32,891	32,891

Group investments are shares held in FEC Resources Inc, a listed company at fair value on 31 December 2008.

The Company's investments relate to shares in subsidiary undertakings.

The principal subsidiaries of the Group, all of which have been included in these consolidated financial statements and are engaged in the exploration for and development of oil, gas and coal assets, are as follows:

Name	Country Incorporation	Proportion of ownership interest and ordinary share capital held	
		2008	2007
Forum Philippine Holdings Limited	Jersey	100%	100%
Forum (FEI) Limited	Jersey	100%	100%
Forum (GSEC101) Limited <sup>(1)</sup>	Jersey	100%	100%
Forum (Nido Matinloc) Limited	Jersey	100%	100%
Forum Exploration Inc.	Philippines	66.67%	66.67%
Forum Energy Philippines Corporation	Philippines	100%	100%

<sup>(1)</sup> Forum (GSEC101) Limited has established a registered branch office in the Philippines.

### 14. Investments in Associated companies

	Group 2008 US\$'000	Group 2007 US\$'000	Company 2008 US\$'000	Company 2007 US\$'000
At 1 January 2008	–	1,081	–	–
Share of operating loss of associate	–	(180)	–	–
Reclassification	–	(901)	–	–
At 31 December 2008	–	–	–	–

The Group sold the Central Cebu Coal operating contract 132 during the year and intends to sell its remaining operating contract 131. These assets were reclassified as 'non-current assets held for sale' in 2007.

Associated companies investments are valued at the lower of book costs and net realisable value.

**14. Investments in Associated companies - Continued**

At year end the Group had interests in the following:

Name	Country of Incorporation	Proportion of ownership Interest and ordinary share capital held	
		2008	2007
Forum Cebu Coal Corporation	Philippines	40%	40%
Forum Coal Cebu Holdings Inc	Philippines	40%	40%

Summary of financial information on associates:

	Assets US\$'000	Liabilities US\$'000	Equity US\$'000	Profit / (Loss) US\$'000
<b>2008</b>				
Forum Cebu Coal Corporation	5,630	6,030	(400)	682
Forum Coal Cebu Holdings Inc	3,458	3,194	264	(468)
<b>2007</b>				
Forum Cebu Coal Corporation	3,426	4,519	(1,083)	(840)
Forum Coal Cebu Holdings Inc	3,924	3,331	593	390

**15. Advances to associated companies – non-current assets**

	Group 2008 US\$'000	Group 2007 US\$'000	Company 2008 US\$'000	Company 2007 US\$'000
At 1 January 2008	–	3,159	–	–
Additions	–	689	–	–
Reclassified	–	(3,848)	–	–
At 31 December 2008	–	–	–	–

The Group sold the Central Cebu Coal operating contract 132 during the year and intends to sell its remaining operating contract 131. These assets were reclassified as current in 2007.

## 16. Inventories

	Group 2008 US\$'000	Group 2007 US\$'000	Company 2008 US\$'000	Company 2007 US\$'000
Materials and supplies	77	117	–	–

There have been inventory write downs of US\$32,000 (2007 – Nil) during the year. Cost of inventory expensed in the year totalled US\$117,000 (2007 – US\$154,000).

There is no material difference between the carrying values of inventories and their fair value less costs to sell.

## 17. Receivables

	Group 2008 US\$'000	Group 2007 US\$'000	Company 2008 US\$'000	Company 2007 US\$'000
Prepayments	13	34	17	19
Other receivables	262	330	15	44
	275	364	32	63
<b>Advances</b>				
Advances to associated companies	3,165	3,848	–	–
Total receivables	3,440	4,212	32	63

The Group advances to associate companies are interest-free.

Included within other receivables are amounts relating to recoverable VAT and amounts in respect of expenditure on future projects.

There were US\$ Nil (2007 – US\$ Nil) amounts past due date or impaired.

All amounts shown under receivables fall due for payment within one year.

## 18. Financial assets

Amounts due from subsidiary undertakings:

	Group 2008 US\$'000	Group 2007 US\$'000	Company 2008 US\$'000	Company 2007 US\$'000
At 1 January 2008	–	–	15,692	17,471
Additions	–	–	356	1,007
Repayment	–	–	(3,981)	(2,786)
At 31 December 2008	–	–	12,067	15,692

Amounts due from subsidiary undertakings are repayable on demand. Further detail of the subsidiaries are provided in Note 13.

**19. Non-current assets held for sale**

	Group 2008 US\$'000	Group 2007 US\$'000	Company 2008 US\$'000	Company 2007 US\$'000
At 1 January 2008	901	–	–	–
Share of operating profit of associate	90	–	–	–
Reclassification from investments in associate companies	–	901	–	–
At 31 December 2008	991	901	–	–

The Group has sold Central Cebu Coal operating contract 132 and remains committed to its plan to sell its remaining operating contract 131. These assets were reclassified as 'non-current assets held for sale' in 2007.

Associated companies investments are valued at the lower of book costs and net realisable value.

Details of the principal subsidiaries of the Group are detailed in note 13.

**20. Liabilities**

	Group 2008 US\$'000	Group 2007 US\$'000	Company 2008 US\$'000	Company 2007 US\$'000
<b>Current</b>				
Trade payables	19	34	19	34
Other payables	120	186	49	119
Employee benefits	71	24	–	–
Tax payable	25	39	–	29
	235	283	68	182
<b>Advances</b>				
Advances from associate companies	2,011	–	–	–
	2,246	283	68	182
The Group advances from associate companies are interest free.				
All amounts fall due for payment within one year.				
<b>Non-current liabilities</b>				
Other payables	3,613	4,158	–	–
Deferred tax liabilities	102	90	–	–
Decommissioning liabilities	126	126	–	–
	3,841	4,374	–	–

Under the share purchase agreement for Forum Exploration Inc dated 11 March 2003, amounts of up to US\$3.613 million (2007 – US\$4.158 million) are due to the vendor out of the Group's share of future net revenues generated from licence SC40. The timing and extent of such payments is dependent upon future field production performance and cannot be accurately determined at this stage.

Deferred tax liabilities relate to temporary differences arising on the future timing of settlement and set-off of local minimum and revenue based Philippine taxation.

## 21. Share capital

### Allotted, called up and fully paid

<i>Group and Company</i>	<i>2008 Number</i>	<i>2008 US\$'000</i>	<i>2007 Number</i>	<i>2007 US\$'000</i>
At 1 January 2008	28,711,709	5,197	28,636,709	5,182
Additions	1,372,412	246	75,000	15
At 31 December 2008	30,084,121	5,443	28,711,709	5,197

<i>Group and Company</i>	<i>Authorised Number of 10p each</i>	<i>Number</i>	<i>Allotted, Share called up and fully paid US\$</i>	<i>Premium US\$</i>
At 1 January 2008	100,000,000	28,711,709	5,196,884	48,695,846
28 August 2008 <sup>(1)</sup>	–	303,663 <sup>(1)</sup>	56,703	–
1 September 2008 <sup>(2)</sup>	–	418,749 <sup>(2)</sup>	74,403	–
4 September 2008 <sup>(3)</sup>	–	590,000 <sup>(3)</sup>	104,831	220,146
8 September 2008 <sup>(4)</sup>	–	60,000 <sup>(4)</sup>	10,661	22,388
At 31 December 2008	100,000,000	30,084,121	5,443,482	48,938,380

<sup>(1)</sup> On 28 August 2008 the company issued 303,663 Ordinary Shares of 10p each under the Long Term Incentive plan at par value

<sup>(2)</sup> On 1 September 2008 the company issued 418,749 Ordinary Shares of 10p each under the Long Term Incentive plan at par value

<sup>(3)</sup> On 4 September 2008 the company issued 590,000 Ordinary Shares of 10p each under the share option plan for 31p per share

<sup>(4)</sup> On 8 September 2008 the company issued 60,000 Ordinary Shares of 10p each under the share option plan for 31p per share.

### Share-based payments

The Company previously operated two equity-settled, share-based remuneration schemes: a share option scheme and a Long Term Incentive Plan; following the vesting and exercise of all outstanding shares in issued under the LTIP in 2008, the Company will not be issuing further awards under the Long Term Incentive Plan and now only currently operates a share option scheme.

### Share option scheme

On 1 August 2005, the Company implemented a Share Option Plan ('the Plan') with three sub-plans ('the sub-plan'). Under the terms of the Plan the Company can issue up to 16% of the outstanding issued stock of the Company.

**21. Share capital** - Continued

At 31 December 2008, the following share options were outstanding in respect of the Ordinary Shares:

Exercise price	Number of Options						
	Outstanding as at 1 Jan 2008	Granted during the year	Surrendered during the year	Cancelled during the Year	Exercised during the year	Outstanding As at 31/12/2008	Final expiry dates
£0.31 (US\$0.45)*	650,000	2,567,000	–	–	650,000	2,567,000	Dec 2018
£0.735 (US\$1.06)*	681,000	–	410,000	–	–	271,000	Feb 2009
£0.935 (US\$1.35)*	500,000	–	–	500,000	–	–	Dec 2008
£1.12 (US\$1.62)*	524,207	–	308,207	–	–	216,000	Feb 2009
£1.21 (US\$1.75)*	24,793	–	24,793	–	–	–	Feb 2009
	<b>2,380,000</b>	<b>2,567,000</b>	<b>743,000</b>	<b>500,000</b>	<b>650,000</b>	<b>3,054,000</b>	

\* Exchange rates at 31 December 2008 have been used to calculate the US\$ value of options, these are for indicative purposes only.

The weighted average exercise price of share options was US\$0.59 at 31 December 2008 and US\$1.47 at 31 December 2007. The weighted average remaining contractual life of options outstanding at the end of the year was nine years (2007: nine years).

As a consequence of the Philex Petroleum Corporation mandatory offer to Forum Energy's shareholders which became wholly unconditional on 19/08/2008 all options in issue at that date vested and were exercisable per the terms of the Forum Energy Share Option Plan. Further to the rules of the plan the expiry date of these options reverted to 6 months from the 19/08/2008.

On 19/12/2008 the company Board agreed to certain Directors, Employees and Consultants to surrender vested options due to expire on 19/02/2009 as a result of the mandatory offer. The options which were surrendered, with a higher exercise prices, were exchanged in favour of an equal number of options that were vested and exercisable at the date of grant with a share price of £0.31p.

A total of 743,000 options were surrendered and re-issued. In addition 1,824,000 options with a 1 year vesting period were also issued. As at 01/03/2009, there are 2,567,000 options in issue representing 54% of the total permissible options in issue per the terms of the option plan.

The weighted average fair value of each option granted during the year was US\$0.20 (2007: US\$0.22).

There were 699,000 share options cancelled during the period ended 31 December 2007.

**Fair value of options****Inputs to the valuation model**

The fair values of awards granted under the Share Option Plan have been calculated using the Black Scholes pricing model that takes into account factors specific to share incentive plans such as the vesting periods of the Plan, the expected dividend yield on the Company's shares and expected early exercise of share options.

Grant date	1 Aug 2005	15 Aug 2005	25 May 2006	6 Dec 2006	27 Nov 2007	19 Dec 2008
Share price at date of grant	£1.12 (US\$2.19)	£1.21 (US\$2.30)	£0.93 (US\$1.77)	£0.73 (US\$1.39)	£0.28 (US\$0.56)	£0.25 (US\$0.38)
Exercise price	£1.12 (US\$2.19)	£1.21 (US\$2.30)	£0.93 (US\$1.77)	£0.73 (US\$1.39)	£0.31 (US\$0.61)	£0.31 (US\$0.46)
Volatility	25%	25%	40%	40%	40%	40%
Option life	10 years	10 years	5 years	5 years	10 years	10 years
Dividend yield	–	–	–	–	–	–
Risk-free investment rate	4.5%	4.5%	5%	5%	5%	4%
Employee turnover	–	–	–	–	–	–

Volatility has been based on the following:

- (i) The annualised volatility of the Company's shares since its floatation on the AIM market.
- (ii) The volatility of comparable listed companies in the mining, oil and gas sector, based on historical share price information from the London Business School for a ten-year period dating back to 1995.

Based on the above assumptions, the fair values of the options granted are estimated to be:

Grant date	1 Aug 2005	15 Aug 2008	25 May 2006	6 Dec 2006	27 Nov 2007	19 Dec 2008
Fair value	£0.35 (US\$0.51)	£0.37 (US\$0.54)	£0.32 (US\$0.46)	£0.31 (US\$0.45)	£0.11 (US\$0.16)	£0.13 (US\$0.20)

### Expense arising from share-based payments

Based on the above fair values and prior year awards and the Company's expectations of employee turnover, the 2008 expense arising from equity-settled share options and share awards made to employees was US\$393,810 (2007 – US\$538,230) excluding LTIP shares. There were no other share-based payment transactions.

### Long term incentive plan

On 14 September 2006, the Company granted options to acquire Ordinary Shares of 10p (US\$0.2) each for nil consideration to the trustees of the Forum Energy plc Employee Benefit Trust ('EBT') with an exercise price of 10p (US\$0.2) per share ('the A Options'). At the same time, options to acquire Ordinary Shares were granted for nil consideration by the trustees of the EBT to Russell Harvey with an exercise price of 10p (US\$0.2) per share ('the B Options').

The maximum number of A and B Options under option for each tranche are such number that will deliver the inherent value of the tranche as at the date of grant and this will be determined by dividing the inherent value of each tranche by the higher of the market value of an Ordinary Share at the date of exercise and the average market value (measured over 2 days) of an Ordinary Share at the date that a tranche becomes exercisable. The inherent value at the date of grant was the prevailing share price.

Number of shares under the LTIP as at 01/01/2008		
Tranche	Event and performance hurdle	Shares under option
	(i) Forum share price or market capitalisation target surpassed prior to 15 May 2011:	
1	£0.47	275,000
2	£1.25	220,000
3	£1.75 or £60m market capitalisation	240,000
4	£2.25	240,000
5	£2.75 or £90m market capitalisation	240,000
6	£3.25	240,000
7	£3.75	240,000
8	(ii) Coal revenues for 2006 and 2007 achieve or exceed coal budget, as approved by the Board on 27 June 2006	150,000
9	(iii) Coal revenues for 2008 achieve or exceed coal budget, as approved by the Board on 27 June 2006	150,000

On 23 June 2008 1,300,000 of these shares under option lapsed following the resignation of Russell Harvey, the principal participant of the Forum LTIP. On 28 August 2008, 303,663 shares which remained under option to Russell Harvey as a consequence of his settlement under tranches one and two were vested and were delivered to Russell Harvey. On 18/08/08 following the change of control of Forum Energy Plc, 418,749 shares under tranches 1 through 7 were vested and delivered to Andrew Mullins on 4 September 2008 following which there were no further shares under option under the LTIP nor were there any further participants.

**21. Share capital** - *Continued***Number of shares under the LTIP as at 31/12/08**

Tranche	Event and performance hurdle	Shares under option
	(i) Forum share price or market capitalisation target surpassed prior to 15 May 2011:	
1	£0.47	0
2	£1.25	0
3	£1.75 or £60m market capitalisation	0
4	£2.25	0
5	£2.75 or £90m market capitalisation	0
6	£3.25	0
7	£3.75	0
8	(ii) Coal revenues for 2006 and 2007 achieve or exceed coal budget, as approved by the Board on 27 June 2006	0
9	(iii) Coal revenues for 2008 achieve or exceed coal budget, as approved by the Board on 27 June 2006	0

All shares issued under the LTIP have now either vested or lapsed. The company no longer uses the LTIP as a consequence of the high costs relative to the size of the Company and has no plans to re-adopt the plan in future.

**Fair value of LTIP****Inputs to the valuation model**

The fair values of the awards granted under the LTIP have been calculated using the a Binominal pricing model that takes into account factors specific to share incentive plans such as the vesting periods, the expected dividend yield on the Company's shares and expected early exercise of share options and an assessment of the likelihood of the shares vesting.

Grant date	20 December 2007
Share price at date of grant	£0.285
Exercise price	As above
Volatility	40%
Option life	10 years
Dividend yield	-
Risk-free investment rate	5%
Employee turnover	-

Volatility has been based on the same criteria as for the option plans.

Based on the above assumptions, the fair values of the various tranches of the LTIP granted in 2006 are estimated to be:

Tranche	Event and performance hurdle	£	US\$
	(iv) Forum share price or market capitalisation target surpassed prior to 15 May 2011:		
1	£0.47	0.1998	0.3956
2	£1.25	0.5042	0.9580
3	£1.75 or £60m market capitalisation	0.3668	0.6969
4	£2.25	0.2691	0.5113
5	£2.75 or £90m market capitalisation	0.1997	0.3794
6	£3.25	0.1513	0.2875
7	£3.75	0.1162	0.2208
8	(v) Coal revenues for 2006 and 2007 achieve or exceed coal budget, as approved by the Board on 27 June 2006	0.6950	1.321
9	(vi) Coal revenues for 2008 achieve or exceed coal budget, as approved by the Board on 27 June 2006	0.6590	1.321

### Expense arising from share-based payments

Based on the above fair values and prior year awards and the Company's expectations of employee turnover, the 2008 expense for the LTIP shares is a credit of US\$60,163 (2007: charge US\$305,215). There were no other share-based payment transactions.

## 22. Movement in reserves

	2008 US\$'000	2007 US\$'000
<b>Group attributable to the equity holders of the parent</b>		
At 1 January 2008	47,433	49,979
Loss for the year	(4,425)	(3,503)
Share option charge	334	843
Issue of shares	488	114
<b>At 31 December 2008</b>	<b>43,830</b>	<b>47,433</b>
<b>Minority interest</b>		
At 1 January 2008	1,485	1,872
Minority share of net loss for the period	78	(387)
<b>At 31 December 2008</b>	<b>1,563</b>	<b>1,485</b>
<b>Company</b>		
At 1 January 2008	50,714	52,006
Loss for the period	(4,070)	(2,278)
Share option expense	334	872
Issue of shares	488	114
<b>At 31 December 2008</b>	<b>47,466</b>	<b>50,714</b>

The share premium account holds the balance of consideration received in excess of the par value of the shares. The share premium account can be used to pay any unpaid subscriptions.

The share option reserve relates to the cumulative fair value of options charged to the income statement adjusted for transfer on exercise, cancellation or expiry.

The retained earnings reserve is the cumulative net gains and losses recognised in the income statement adjusted for transfer on exercise, cancellation or expiry of options from the share option reserve.

## 23. Commitments

At 31 December 2008, the Group and Company had no commitments in operational and exploration expenditure.

## 24. Financial Commitments

### Group and Company

Future commitments under non-cancellable operating leases are as follows:

	<i>Land and Buildings 2008 US\$'000</i>	<i>Land and Buildings 2007 US\$'000</i>
Operating leases with an option to terminate within 1 year	32	28

## 25. Cash flow notes

	<i>Group 2008 US\$'000</i>	<i>Group 2007 US\$'000</i>	<i>Company 2008 US\$'000</i>	<i>Company 2007 US\$'000</i>
Cash and cash equivalents comprise:				
Cash available on demand	42	278	42	196
Short-term deposits	2,532	2,041	2,491	2,041
	2,574	2,319	2,533	2,237
Significant non-cash transactions				
Investing activities				
Equity consideration for termination of service agreement	–	113	–	–

### DISCONTINUED CASH FLOW MOVEMENTS

	<i>Group 2008 US\$'000</i>	<i>Group 2007 US\$'000</i>	<i>Company 2008 US\$'000</i>	<i>Company 2007 US\$'000</i>
Cash flows from discontinued operations:				
Profit/(loss) before taxation	90	(180)	–	–
Adjustments for:				
Share of operating (profit)/loss of associate	(90)	180	–	–
Net cash from operating activities	–	–	–	–
Investing activities				
Repaid/(advanced) from/to associated companies	2,694	(689)	–	–
Net increase/(decrease) in cash from discontinued operations	2,694	(689)	–	–

## 26. Financial instruments

### Significant accounting policies

Details of the significant account policies in respect of financial instruments are disclosed in Note 1 to the financial statements.

### Financial risk management

The Board seeks to minimise its exposure to financial risk by reviewing and agreeing policies for managing each financial risk and monitoring them on a regular basis. No formal policies have been put in place in order to hedge

the Group and Company's activities to the exposure to currency risk or interest risk, however as the Group enters commercial production this may be considered. No derivatives or hedges were entered into during the year.

The Group and Company is exposed through its operations to the following financial risks:

- Cash flow interest rate risk
- Foreign currency risk
- Liquidity risk
- Credit risk
- Price risk

The policy for each of the above risks is described in more detail below.

The principal instruments used by the Group and Company, from which financial instruments risk arises are as follow:

- Trade and other receivables
- Cash and cash equivalents
- Trade and other payables
- Advances to associate companies

The fair value of all the Group and Company financial assets and liabilities is approximate to their carrying values.

#### Cash flow interest rate risk

The Group and Company ('the Group') manage the interest rate risk associated with the Group cash assets by ensuring that interest rates are as favourable as possible, through the use of bank treasury deposits, whilst managing the access the Group requires to the funds for working capital purposes.

At the year end the Group had a cash balance of US\$2,574,000 (2007: US\$2,319,000) which was made up as follows:

	2008 US\$'000	2007 US\$'000
British pounds sterling	666	195
US dollars	1,905	2,091
Philippine peso	3	33

Included above are amounts of US\$2,532,000 (2007 US\$2,041,000) held within fixed rate deposit accounts. Interest rates are 0.5% to 1% based on bank interest rates.

The Group received interest for the year as follows:

	2008 US\$'000	2007 US\$'000
Interest from bank deposits	21	137

The Company received interest for the year as follows

	2008 US\$'000	2007 US\$'000
Interest from bank deposits	21	83

The Group and Company had no interest bearing debts at year end.

**26. Financial instruments - *Continued*****Foreign currency risk**

The Group has six overseas subsidiaries, two of which operate in the Philippines and whose expenses are mainly denominated in US dollars. The other overseas subsidiaries transactions are also mainly denominated in US dollars. Foreign exchange risk is inherent in the Group's activities and is accepted as such. The Group keeps small balances in Philippine peso to operate the local payroll and office expenses.

At 31 December 2008 and 2007, the currency exposure of the Group was as follows:

	<i>US Dollar</i> US\$'000	<i>UK Sterling</i> US\$'000	<i>Philippine</i> <i>Peso</i> US\$'000	<i>2008</i> US\$'000
<b>At 31 December 2008</b>				
Cash and cash equivalents	1,905	666	3	2,574
Trade and other receivables	178	32	65	275
Advances to associate companies	3,165	–	–	3,165
Trade and other payables	–	(69)	(166)	(235)
Advances from associate companies	(2,011)	–	–	(2,011)
<b>Net asset/(liabilities)</b>	<b>3,237</b>	<b>629</b>	<b>(98)</b>	<b>3,768</b>
<b>At 31 December 2007</b>				
Cash and cash equivalents	2,091	195	33	2,319
Trade and other receivables	276	64	24	364
Advances to associate companies	3,848	–	–	3,848
Trade and other payables	(34)	(183)	(66)	(283)
<b>Net asset/(liabilities)</b>	<b>6,181</b>	<b>76</b>	<b>(9)</b>	<b>6,248</b>

The effect of a 10% strengthening of the US dollar against sterling at the balance sheet date on the sterling denominated balances would, all other variables held constant, have resulted in a loss increasing post tax losses by US\$62,900 (2007 – loss of US\$7,600). Conversely the effect of a 10% weakening of the US dollar against sterling at the balance sheet date would, on the same basis, have resulted in a gain decreasing post tax losses by US\$62,900 (2007 – gain of US\$7,600).

The effect of a 10% strengthening of the US dollar against the Philippine peso at the balance sheet date on the Philippine peso denominated balances would, all other variables held constant, have resulted in a gain decreasing post tax losses by US\$9,800 (2007 – gain of US\$900). Conversely the effect of a 10% weakening of the US dollar against Philippine peso at the balance sheet date would, on the same basis, have resulted in a loss increasing post tax losses by US\$9,800 (2007 – loss of US\$900).

At 31 December 2008 and 2007, the currency exposure of the Company was as follows:

	<i>UK Sterling</i> US\$'000	<i>US Dollar</i> US\$'000	<i>2008</i> US\$'000
<b>At 31 December 2008</b>			
Cash and cash equivalents	666	1,867	2,533
Trade and other receivables	32	–	32
Trade and other payables	(69)	–	(69)
<b>Net asset</b>	<b>629</b>	<b>1,867</b>	<b>2,496</b>
<b>At 31 December 2007</b>			
Cash and cash equivalents	196	2,041	2,237
Trade and other receivables	63	–	63
Trade and other payables	(182)	–	(182)
<b>Net assets</b>	<b>77</b>	<b>2,041</b>	<b>2,118</b>

The effect of a 10% strengthening of the US dollar against sterling at the balance sheet date on the sterling denominated balances would, all other variables held constant, have resulted in a loss increasing post tax losses of the Company by US\$62,900 (2007 – loss of US\$7,700). Conversely the effect of a 10% weakening of the US dollar against sterling at the balance sheet date would, on the same basis, have resulted in a gain decreasing post tax losses of the Company by US\$62,900 (2007 – gain of US\$7,700).

### Liquidity risk

Liquidity risk arises from the Company's management of working capital.

The Group's policy is to ensure that it will always have sufficient cash to allow it to meet its liabilities when they become due. To achieve this aim, it seeks to maintain readily available cash balances to meet expected requirements.

The liquidity risk of each Group entity is managed centrally by the Group treasury function. The investment budgets and work plans are set locally and agreed by the Board annually in advance, enabling the Group's cash requirements to be anticipated.

The contractual undiscounted amounts of financial liabilities are repayable as follows:

	<i>Group</i> 2008 US\$'000	<i>Group</i> 2007 US\$'000	<i>Company</i> 2008 US\$'000	<i>Company</i> 2007 US\$'000
1 month	77	132	25	83
2/3 months	43	99	43	99
4/6 months	115	52	–	–
6/12 months	2,011	–	–	–
	<hr/> 2,246	<hr/> 283	<hr/> 68	<hr/> 182

Financial liabilities of 6 to 12 months are advances from associate companies, these will not be paid until advances to associate companies of \$3.165 million are repaid to the Group.

### Credit risk

Credit risk is the risk of financial loss to the Group if a customer or a counter party of a financial instrument fails to meet its contractual obligations. The Group is mainly exposed to credit risk from credit sales, all of the Groups current sales are conducted through a Philippine based oil company which deducts costs prior to payment of the Groups share, therefore any losses would be limited.

Credit risk arises from cash and cash equivalents and deposits with banks and financial institutions. The majority of the Group and Company's deposits are held within the UK with an international bank in which the UK government holds a majority shareholding; which the board considers gives a high level of security.

The Group has net outstanding advances of US\$1.154million (2007 – US\$3.848 million) made to associated companies during the year. The risk is considered to be low as \$0.5million has been repaid since 31 December 2008 and the Group's share of the associated companies is greater than the balance outstanding

**26. Financial instruments - *Continued*****Maximum exposure to credit risk**

The Group's maximum exposure to credit risk by class of financial instrument is shown in the table below:

	<i>2008</i> <i>Carrying</i> <i>value</i> <i>US\$'000</i>	<i>2008</i> <i>Maximum</i> <i>exposure</i> <i>US\$'000</i>	<i>2007</i> <i>Carrying</i> <i>value</i> <i>US\$'000</i>	<i>2007</i> <i>Maximum</i> <i>exposure</i> <i>US\$'000</i>
Cash and cash equivalents	2,574	2,574	2,319	2,319
Trade and other receivables	275	275	364	364
Advances to associate companies	3,165	3,165	3,848	3,848
	<u>6,014</u>	<u>6,014</u>	<u>6,531</u>	<u>6,531</u>

The company's maximum exposure to credit risk by class of financial instrument is shown in the table below:

	<i>2008</i> <i>Carrying</i> <i>value</i> <i>US\$'000</i>	<i>2008</i> <i>Maximum</i> <i>exposure</i> <i>US\$'000</i>	<i>2007</i> <i>Carrying</i> <i>value</i> <i>US\$'000</i>	<i>2007</i> <i>Maximum</i> <i>exposure</i> <i>US\$'000</i>
Cash and cash equivalents	2,533	2,533	2,237	2,237
Trade and other receivables	32	32	63	63
	<u>2,565</u>	<u>2,565</u>	<u>2,300</u>	<u>2,300</u>

**Price risk**

The Groups oil and gas sale revenue is subject to energy market price risk. The Group does not intend to hedge the oil price risk in the short term.

**Capital**

The objective of the directors is to maximise shareholder returns and minimise risks by keeping a reasonable balance between debt and equity. To date the Group has minimised risk by being purely equity financed. The capital employed by the Group is comprised of equity attributable to shareholders.

**27. Related party transactions**

During the year the following related party transaction occurred within the Group and Company:

Expenses paid on behalf of Forum Energy Plc by Forum Philippine Holdings Limited US\$205,193 (2007 - US\$67,123).

Advances to associated company's are disclosed in note 15 and 17.

Investments in associated company's are disclosed in note 14 and 19.

**28. Contingent liabilities**

The Company has a potential additional consideration of up to US\$12 million payable on the acquisition of Basic Petroleum & Minerals Inc. Payments will depend upon future field developments and production levels from the acquired oil and gas assets. The Directors consider that the maximum of any potential payments will not materialise, due to acquired field performances development plans and current oil prices. The timing of any payment is therefore uncertain.

## 29. Post balance sheet events

On 22 January 2009 the Company announced an exploration drilling program to be carried out on COC 131 in southern Cebu. Under the terms of the drilling contract, 12 holes for a total 2,000 meters will be completed in the first half of 2009 using up to 3 drill rigs. The objective will be to block out coal reserves that will be subject to a mining plan relative to the conversion of COC 131 from an Exploration COC to a Development and Production COC. Whilst the intention is to ultimately divest the COC131 asset, a formal decision will be taken once results of the drilling programme and updated reserve estimate has been completed.

On 29 January 2009 Forum signed a Gas Sale and Purchase Agreement (GSPA) with Desco, Inc., a leading provider of petroleum and geothermal products and services in the Philippines, for the development of the Libertad gas field for power generation. Under the GSPA Desco will install within 2009, 1.0 to 1.5 MW power generating units in Bogu, northern Cebu using GE Jenbacher gas engines. Forum will sell the gas to Desco at an agreed rate of US\$1.50 per million BTU (British Thermal Units) for the first 0.70 billion cubic feet of gas (BCF) extracted and utilized, and US\$1.60 per million BTU for any gas produced beyond 0.70 BCF.

Production from the Galoc field recommenced on 25 February 2009 following operational difficulties which suspended production on 16 December 2008.

**THIS NOTICE OF MEETING IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

If you are in any doubt as to the contents of this document and/or the action you should take, you are recommended to seek personal financial advice from your bank manager, stockbroker, solicitor, accountant or other independent financial adviser authorised under the Financial Services and Markets Act 2000.

If you have sold or transferred all of your shares in the Company, please send this document and all accompanying documents to the purchaser or transferee, or to the stockbroker, bank or other agent through or to whom the transfer was effected so that they can be passed on to the person who now owns the shares.

# FORUM ENERGY PLC

REGISTERED IN ENGLAND AND WALES WITH COMPANY NUMBER 5411224

## NOTICE OF ANNUAL GENERAL MEETING

To be valid the Form of Proxy for use in connection with the Meeting should be completed, signed and returned to reach the Company's registrars, Share Registrars Ltd, Craven House, West Street, Farnham, Surrey GU9 7EN by not later than 10.00 a.m. UK time on 14 April 2009.

The completion and return of the Form of Proxy will not preclude you from attending and voting in person at the Meeting should you wish. For full details on proxy appointments, see the notes to the Notice of Annual General Meeting and the Form of Proxy.

### FORUM ENERGY PLC

#### Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting (the "AGM") of Forum Energy plc (the "Company") will be held at 12th Floor, Net Cube Center, corner 30th Street and 3rd Avenue, E-Square Zone, Bonifacio Global City, Taguig City, and by video conference link from the offices of Osborne Clarke, One London Wall, London EC2Y 5EB on 16 April 2009 at 5.00 p.m. in Manila and 10.00 a.m. in London for the following purposes.

#### Ordinary Business

To consider and, if thought fit, pass the following resolutions which will be proposed as ordinary resolutions:

#### Report and accounts

1. To receive the audited financial statements of the Company for the year ended 31 December 2008, together with the directors' report and the auditor's report on those financial statements.

#### Re-election of retiring director

2. To re-elect Alan Henderson, who retires by rotation in accordance with the Company's articles of association.

#### Election of directors

3. To elect Walter W. Brown as a director who, having been appointed since the last Annual General Meeting, offers himself for re-election in accordance with the Company's articles of association.
4. To elect Andrew Mullins as a director who, having been appointed since the last Annual General Meeting, offers himself for re-election in accordance with the Company's articles of association.

#### Re-appointment of auditors

5. To re-appoint BDO Stoy Hayward LLP as auditors of the Company to hold office from the conclusion of this Annual General Meeting until the conclusion of the next general meeting at which accounts are laid before the Company.

#### Auditors' remuneration

6. To authorise the directors to determine the remuneration of the auditors.

**Special Business**

To consider and, if thought fit, pass the following resolutions of which Resolution 7 will be proposed as an ordinary resolution and Resolution 8 will be proposed as a special resolution.

**Directors' authority to allot shares**

7. That the directors be and they are hereby generally and unconditionally authorised pursuant to section 80, Companies Act 1985 (the "Act") to exercise all powers of the Company to allot relevant securities (as defined in section 80(2) of the Act) provided that this authority shall be limited to relevant securities up to an aggregate nominal amount of £1,002,804 provided that such authority shall be in addition to any existing authority and unless previously revoked, varied or extended, this authority shall expire at the conclusion of the next Annual General Meeting of the Company, except that the Company may at any time before such expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the Directors may allot relevant securities in pursuance of such an offer or agreement as if this authority had not expired.

**Disapplication of pre-emption rights**

8. That the directors be and they are hereby empowered pursuant to section 95(1) of the Act to allot equity securities (as defined in section 94(2) of the Act) of the Company wholly for cash where such allotment is either pursuant to the authority of the Directors under section 80 of the Act conferred by Resolution 7 above, or by virtue of section 94(3A) of the Act, in either case as if section 89(1) of the Act did not apply to such allotment provided that the power conferred by this resolution shall be limited to:
- the allotment of equity securities in connection with an offer of equity securities to the holders of ordinary shares in the capital of the Company in proportion as nearly as practicable to their respective holdings of such shares, but subject to such exclusions or other arrangements as the directors may deem necessary or expedient in relation to fractional entitlements or legal or practical problems under the laws or requirements of any regulatory body or any stock exchange; and
  - the allotment, otherwise than pursuant to sub-paragraph (a) above, of equity securities up to an aggregate nominal value equal to £300,841,
- and unless previously revoked, varied or extended, this power shall expire at the conclusion of the next Annual General Meeting of the Company, except that the Company may before the expiry of this power make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of such an offer or agreement as if this power had not expired.

16 March 2009

By order of the Board



**Andrew Mullins**  
*Company Secretary*

Registered Office: 120 Bridge Road, Chertsey, Surrey KT16 8LA

**Notes**

1. A member who is entitled to attend, speak and vote may appoint a proxy to attend, speak and vote instead of him. A proxy need not also be a member of the Company but must attend the AGM in order to represent you. A member may appoint more than one proxy provided each proxy is appointed to exercise rights attached to different shares (so a member must have more than one share to be able to appoint more than one proxy). A form of proxy is enclosed. The notes to the form of proxy include instructions on how to appoint the Chairman of the AGM or another person as proxy. To be effective the form must reach the Company's registrars, Share Registrars Ltd of Craven House, West Street, Farnham, Surrey GU9 7EN, by no later than 10.00 a.m. UK time on 14 April 2009.
2. Copies of the executive directors' service contracts with the Company and any of its subsidiary undertakings and letters of appointment of the non-executive directors are available for inspection at the registered office of the Company during the usual business hours on any weekday (Saturday, Sunday or public holidays excluded) from the date of this notice until the conclusion of the AGM.
3. Please note that communications regarding the matters set out in this notice of Annual General Meeting will not be accepted in electronic form.
4. The Company pursuant to regulation 41 of the Uncertificated Securities Regulations 2001, specifies that only those shareholders registered in the register of members of the Company at 10.00 a.m. UK time on 14 April 2009 (or if the AGM is adjourned, 2 working days before the time fixed for the adjourned AGM) shall be entitled to attend and vote at the AGM in respect of the number of shares registered in their name at that time. Any changes to the register of members after such time shall be disregarded in determining the rights of any person to attend or vote at the AGM.

**Explanatory notes**

As the majority of the Company's shares are held by shareholders based in the Philippines, the board of directors has decided that the principal venue for this year's Annual General Meeting will be 17th Floor, Net One Center, 26th Street cor. 3rd Avenue, Crescent P3k West, Bonifacio Global City, Taguig City, Philippines. However, in order that the Company's UK shareholders have an adequate opportunity to speak and vote at the Meeting, the Company has arranged for shareholders to be able to attend the Meeting by video conference link from the offices of the Company's UK solicitors, Osborne Clarke, One London Wall, London EC2Y 5EB.

This year, eight Resolutions are proposed at the Meeting and the purpose of each of the Resolutions is as follows:

**Ordinary Business**

Resolution 1: The Accounts and Reports

The directors will present their report and the audited financial statements for the year ended 31 December 2008, together with the auditors' report thereon.

***Resolution 2: Re-appointment of Director***

The Articles of Association of the Company require that a proportion of the directors are to retire at each annual general meeting. In addition, the Combined Code issued by the UK Listing Authority recommends that directors should submit themselves for re-election at least once every three years. One of the current directors, Alan Henderson, is required to retire, which he does, and offers himself for reappointment. Biographical details relating to Alan Henderson and a summary of the terms of his letter of appointment can be found in the directors' report accompanying the audited financial statements for the year ended 31 December 2008.

***Resolutions 3 and 4: Election of directors***

These resolutions concern the election of Walter W. Brown and Andrew Mullins as directors of the Company. Walter Brown was appointed by the board on 14 November 2008 as an executive director and Andrew Mullins was appointed by the board on 20 August 2008 as an executive director. Both Walter W. Brown and Andrew Mullins are required by the Company's articles of association to offer themselves for re-election at the annual general meeting following their appointment. The biographies of Walter W. Brown and Andrew Mullins are set out on page 4 of the report and accounts for the year ended 31 December 2008.

***Resolution 5: Appointment of Auditors***

The Company is required to appoint auditors at each annual general meeting at which accounts are laid before shareholders, to hold office until the next such meeting. The Resolution proposes that BDO Stoy Haywood be re-appointed as auditors for the current year.

***Resolution 6: Auditors remuneration***

This resolution authorises the directors to fix the auditor's remuneration.

## Special Business

### ***Resolution 7: Directors' power to allot securities***

Section 80 of the Companies Act 1985 stipulates that directors cannot allot relevant securities in the Company (other than the shares allotted in accordance with an employee share scheme) unless they are authorised to do so by the shareholders in general meeting. The directors' general authority to allot shares was granted on 23 June 2008 and is due to expire at the conclusion of the Meeting. Resolution 7 seeks a new general authority from shareholders (to renew the previous general authority granted on 23 June 2008) for the directors to allot relevant securities up to an aggregate nominal value of £1,002,804, representing approximately one third of the nominal value of the issued ordinary share capital of the Company as shown in the latest audited accounts of the Company. This general authority is in addition to the existing allotment authority granted to the directors' on 23 July 2007 in respect of allotment of shares pursuant to the Company share option arrangements. The directors do not have any present intention of exercising this authority, but they consider it desirable that the specified amount of authorised but unissued share capital is available for issue so that they can more readily take advantage of possible opportunities. Unless renewed, revoked, varied or extended, this authority will expire at the conclusion of the next Annual General Meeting of the Company.

### ***Resolution 8: Disapplication of pre-emption rights***

If the directors wish to allot any of the unissued shares of the Company for cash in accordance with the authority proposed in Resolution 7, the Companies Act 1985 requires that new shares must generally be offered first to shareholders in proportion to their existing holdings. These are the pre-emption rights of shareholders. In certain circumstances, it may be in the interests of the Company for the directors to be able to allot some shares for cash without having to offer them first to existing shareholders.

In line with common practice, Resolution 8 therefore seeks approval to renew the current authority to empower the directors to allot equity shares for cash other than in accordance with the statutory pre-emption rights, in connection with a rights issue and other pre-emptive offers and otherwise up to a maximum nominal amount of £300,841, representing approximately 10 per cent. of the nominal value of the issued share capital of the Company.

In addition, there are legal, regulatory and practical reasons why it may not always be possible to issue new shares under a rights issue to some shareholders, particularly those resident overseas. To cater for this, the Resolution also permits the directors to make appropriate exclusions or arrangements to deal with such difficulties.

Unless renewed, revoked, varied or extended, this authority will expire at the conclusion of the next Annual General Meeting of the Company.

### ***Recommendation***

The directors believe that the proposals in Resolutions 1 to 8 are in the best interests of the Company and its shareholders as a whole. Accordingly, the directors recommend that shareholders vote in favour of each Resolution as they intend to do so in respect of their own beneficial shareholdings.



## FORUM ENERGY PLC FORM OF PROXY

Form of proxy for use at the annual general meeting of Forum Energy plc (the “**Company**”) to be held at 12th Floor, Net Cube Center, corner 30th Street and 3rd Avenue, E-Square Zone, Bonifacio Global City, Taguig City and by video conference link from the offices of Osborne Clarke, One London Wall, London EC2Y 5EB on 16 April 2009 at 5.00p.m. in Manila and 10.00 a.m. in London (“**AGM**” or “**Meeting**”).

I/We \_\_\_\_\_

of \_\_\_\_\_

being a member/members of the Company entitled to receive notice, attend and vote at general meetings of the Company, hereby appoint the Chairman of the Meeting (*Note 1*).

\_\_\_\_\_ as my/our proxy to attend, speak and vote for me/us and on my/our behalf at the AGM and at any adjournment thereof in relation to the resolutions specified in the notice of AGM dated 16 March 2009 (the “Resolutions”) and any other business (including adjournments and amendments to the Resolutions) which may properly come before the Meeting or any adjournment thereof.

I/We direct my/our proxy to vote as follows in respect of the Resolutions (*Note 2*):

<b>ORDINARY BUSINESS</b>	<i>For</i>	<i>Against</i>	<i>Vote withheld (Note 2)</i>
1. To receive the directors' report and audited financial statements for the year ended 31 December 2008 (ordinary resolution)			
2. To re-elect Alan Henderson as a director (ordinary resolution)			
3. To elect Walter W. Brown as a director (ordinary resolution)			
4. To elect Andrew Mullins as a director (ordinary resolution)			
5. To re-appoint BDO Stoy Hayward LLP as auditors (ordinary resolution)			
6. To authorise the directors to fix the remuneration of the auditors (ordinary resolution)			

<b>SPECIAL BUSINESS</b>	<i>For</i>	<i>Against</i>	<i>Vote withheld (Note 2)</i>
7. To authorise the directors to allot relevant securities (ordinary resolution)			
8. To enable the directors to allot shares for cash without first offering them to existing shareholders (special resolution)			

### **SPECIAL BUSINESS**

(*Note 3*)

Number of shares \_\_\_\_\_

Class of shares \_\_\_\_\_

This proxy appointment is one of a multiple proxy appointment (*Note 4*)

Signed \_\_\_\_\_

Dated \_\_\_\_\_ 2009

## NOTES

1. A member who is entitled to attend, speak and vote may appoint a proxy to attend, speak and vote instead of him. A proxy need not also be a member of the Company but must attend the AGM in order to represent you. A member wishing to appoint someone other than the Chairman of the Meeting as his or her proxy should insert that person's name in the space provided in substitution for the reference to "the Chairman of the Meeting" (and delete that reference) and initial the alteration
2. Please indicate by inserting an "X" in the appropriate box how you wish your vote to be cast on the Resolutions. If you mark the box "vote withheld" it will mean that your proxy will abstain from voting and, accordingly, your vote will not be counted either for or against the relevant resolution. If you fail to select any of the given options, the proxy can vote as he or she chooses or can decide not to vote at all.
3. If the proxy is being appointed for less than your full entitlement, please indicate above your signature the number and class of shares in relation to which that person is authorised to act as your proxy. If left blank, your proxy will be deemed to be authorised in respect of your full voting entitlement or, if this proxy form has been issued in respect of a designated account for a shareholder, the full voting entitlement for that designated account.
4. A member may appoint more than one proxy provided each proxy is appointed to exercise rights attached to different shares (so a member must have more than one share to be able to appoint more than one proxy). A separate form of proxy must be deposited for each proxy appointed. Further copies of this form may be obtained from the Company Secretary or you may photocopy this form. If you appoint multiple proxies, please indicate above your signature, the number and class of shares in relation to which the person named on this form is authorised to act as your proxy. Please also indicate by ticking the box provided if the proxy instruction is one of multiple instructions being given. All forms must be signed and returned to the Company Secretary in the same envelope. Where multiple proxies are appointed, failure to specify the number of shares to which this proxy appointment relates or specifying a number which exceeds the number held by the member when totalled with the number specified on other proxy appointments by the same member, will render all the appointments invalid.
5. **To be valid, this form of proxy together with any power of attorney or other authority under which it is signed or a notarially certified copy of such power or authority must be received by post or (during normal business hours only) by hand at the offices of the Company's registrars, Share Registrars Ltd of Craven House, West Street, Farnham, Surrey GU9 7EN, by no later than 10.00 a.m. UK time on 14 April 2009.**
6. The appointment of a proxy will not preclude a member from attending the Meeting and voting in person but if he or she does so this proxy appointment will terminate automatically.
7. An individual member or his attorney must sign this form. If the member is a company, this form of proxy must be executed under the common seal or signed on its behalf by an officer or attorney of the company.
8. In the case of joint holders, the proxy appointment of the most senior holder will be accepted to the exclusion of any appointments by the other joint holders. For this purpose, seniority is determined by the order in which the names are stated in the register of members of the Company in respect of the joint holding.
9. A member wishing to change his or her proxy instructions should submit a new proxy appointment using the methods set out, and by the time limit specified, in note 5. Any changes to proxy instructions received after that time will be disregarded. A member who requires another form should contact the Company Secretary. Subject to note 4, if a member submits more than one valid proxy appointment, the appointment received last before the time limit in note 5 will take precedence.
10. A member wishing to revoke his or her proxy appointment should do so by sending a notice to that effect to the Company's registrars as set out in note 5. The revocation notice must be received by the Company's registrars by the time limit set out in note 5. Any revocation notice received after this time will not have effect.
11. Please note that communications regarding the matters set out in this form of proxy will not be accepted in electronic form.

120 BRIDGE ROAD, CHERTSEY, SURREY KT16 8LA, UNITED KINGDOM

