



Interim Report

# 2006





**FORUM ENERGY PLC IS A UK-BASED OIL,  
GAS AND COAL E&P COMPANY WITH A  
PORTFOLIO OF PROJECTS IN THE PHILIPPINES.**

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## HIGHLIGHTS

### OPERATIONAL

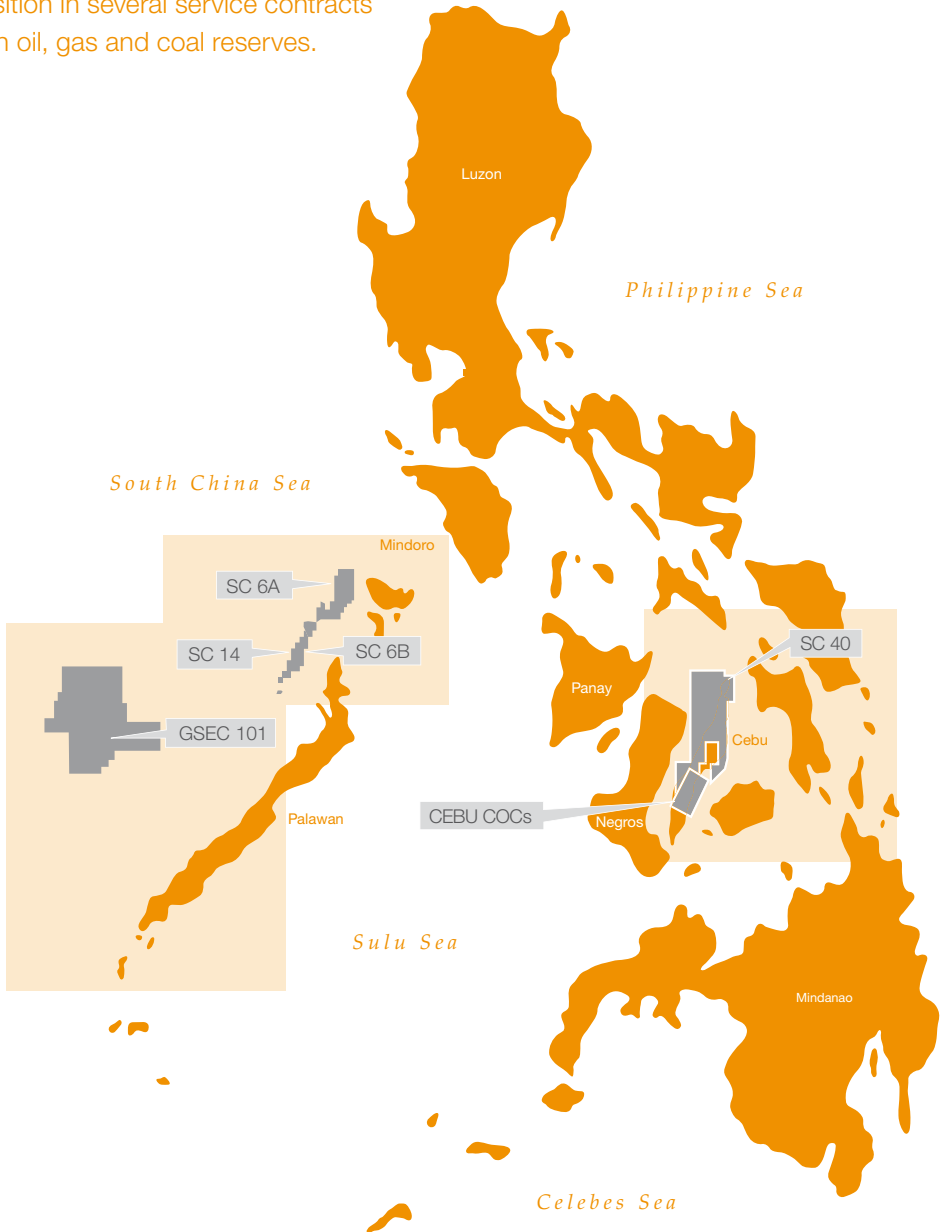
- Formed in April 2005 and acquired portfolio of oil, gas and coal assets in the Philippines
- Admitted to AIM on 2 August 2005
- Completed a 310km 2D seismic survey offshore, SC40
- Declared the Libertad Gas Field commercial
- Completed the acquisition of Basic Petroleum
- Achieved first coal production from Central Cebu; operations expanded to target peak production of 300,000 tonnes per year by 2008
- Completed a 248km<sup>2</sup> 3D seismic survey over Sampaguita Gas Discovery, GSEC101
- Confirmed proven Gas In Place at Sampaguita, of 3.4TCF with upside to 20TCF

### FINANCIAL

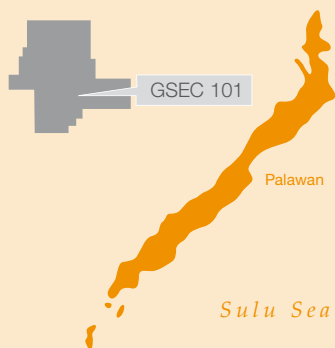
- Raised £14.4m (pre-expenses) in pre-IPO and IPO placements in 2005
- Loss of US\$339,000 (US\$1,069,000 for 1 April 2005 to 31 December 2005) for the interim period ended 30 June 2006
- Revenues of US\$132,000 for the interim period ended 30 June 2006, attributable to oil production from assets acquired from Basic Petroleum
- Working capital of US\$9.8million as of 30 June 2006

## ASSET LOCATIONS

Forum has a substantial acreage position in several service contracts with oil, gas and coal reserves.

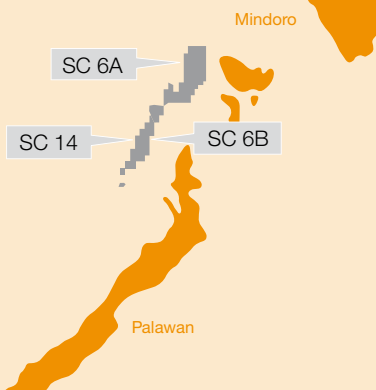


## A CLOSER LOOK



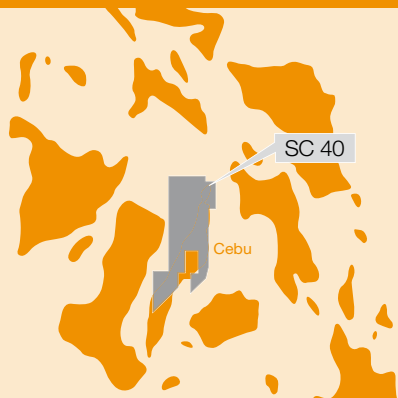
### GSEC101

GSEC101 is an area which requires further evaluation with the drill-bit. It contains a gas discovery, and following the acquisition and interpretation of 3D seismic data, the Company will be moving to accelerate the pace of activity to further the reserves and potential.



### NW PALAWAN

NW Palawan is a prolific oil producing area. Forum's acquisition of Basic Petroleum & Mineral Inc. (BPMI) gives a foothold to re-evaluate and build in this area. The area also has considerable potential for both exploration and the tie-back and production of, as yet, undeveloped accumulations which were previously uneconomic in a low oil price environment, but now require reassessment.



### SC40

SC40 is an area with multiple prospectivity. 2D has been shot over a number of possible prospects, with interpretation to be completed in the fourth quarter 2006. The contract also contains the Libertad gas discovery, currently under development, and an onshore discovery in the Maya area which will be tested in 2007.

# CHAIRMAN'S & CHIEF EXECUTIVE'S STATEMENT

Dear Shareholder

## Financial Report

Forum recorded a loss of US\$339,000 (US\$1,069,000 for 1 April 2005 to 31 December 2005) for the interim period ended 30 June 2006. This loss was primarily attributed to administrative overheads which were in part offset by exchange gains due to a stronger UK sterling.

Revenues for the period were US\$132,000 attributable to oil production from the Basic Petroleum & Minerals Inc. ("BPMI") assets acquired in April 2006.

Forum's working capital position as of 30 June 2006 was US\$9.8 million (US\$14.0 million for 1 April 2005 to 31 December 2005).

## General Survey and Exploration Contract 101 (GSEC101)

In August 2005, Forum completed a key 3D seismic survey across the Sampaguita Gas Field within block GSEC101, offshore the Philippines. The seismic was interpreted in the UK, with encouraging results received. In place gas reserves were confirmed at 3.4 TCF with upside reserves of approximately 10 TCF in the tested horizons alone. Additional untested but gas-bearing sands have the potential to double this upside figure. The block also contains eight leads which have the potential to add substantially to the reserves.

This license will now be converted to a service contract and the Company will actively seek a partner to progress this discovery to commerciality through the drilling of a number of wells. Given the potential size of the accumulation the Company views the Sampaguita Gas Field as a possible candidate

for Liquefied Natural Gas ("LNG") production, subject to reaching the necessary reserve threshold with further drilling.

Forum holds 100% of GSEC101, which covers 10,630 square kilometres in water depths of between 8 and 80 metres and lies 250 kilometres south-west of the Malampaya Gas Field, where Shell, the operator, has installed extensive production facilities and pipeline infrastructure that supply gas to three Philippine power plants.

## BPMI

During the first half of 2006 the acquisition of BPMI was completed. This brought an interest in several North-West Palawan fields, a small amount of current production and more importantly a seat at the table to capitalise on any upside in the area. A number of studies were commissioned by PGS Reservoir Consultants (UK) Limited ("PGS") to quantify this potential and we are still considering the options open to Forum. The acquisition also gave a number of carried interests, one of which, the Galoc field, is forecast to provide revenues in 2008. Similar developments are under discussion for two other discoveries within the portfolio.

## Service Contract 40 (SC40)

Progress was also made on the evaluation of SC40 and the seismic acquired in 2005. Structures have been identified within the area covered by this survey, the final results of which are expected in the fourth quarter of 2006, and the Company has already been approached by a number of potential farm-in partners to help fund the exploration. Upon review of the data the Directors will determine the appropriate course of action to maximise the return.

Development of the Libertad Gas Field has been deferred to 2007/08 in order to satisfy the Government of the Philippines Department of Energy (“DOE”) prescribed commercial requirements regarding gas pricing and to help ensure an adequate return. First gas production from this project is now forecast for 2008/09.

The workover of the Forum 2X well at Maya was also deferred to allow the Company to concentrate on the near-term cash flow of the coal development. This workover will be recommenced in 2007, thus allowing more economic operation during the dry season.

### **Coal Operating Contracts**

Development of Forum’s 66.7% owned coal operating contracts (“COCs”) in Central and Southern Cebu, COC 131 and COC 132, moved forward in the first half of 2006, with Central Cebu (Naga) commencing coal production in July 2006.

Recognising the market’s demand, and to take advantage of economies of scale, the operation was expanded to target a peak production of 300,000 tonnes per year by late 2008. Application has also been made for additional leases adjacent to the Company’s Naga mine to maintain the targeted peak production and increase the reserve base in an area that demonstrates geological continuity, as evidenced by shallow small-scale mining already in the area.

Once the Company’s operation in Naga is fully underway with five shafts in progress and systems proved, the Company will commence the development of its leases in Southern Cebu, where a peak rate of 300,000 tonnes per year will also be targeted.

### **Other Events**

In June 2005, Forum loaned \$600,000 to MG Mining and Energy Corporation (“MG”) in the Philippines as part of an option agreement to potentially acquire some or all of MG’s coal mining assets in the country. The Company is pleased to report that \$660,000, representing the loan amount plus interest, was received from MG in August 2006.

### **Outlook**

Forum has made solid progress in the first half of 2006. The Company has moved forward and has generated first revenues from oil production in North-West Palawan, commenced coal production (with revenues forecast in the second half of 2006), and has made significant progress on GSEC101 following the positive results of the interpretation of 3D seismic over the Sampaguita Gas Field, which the Directors believe is potentially a world-class discovery.

In the second half of 2006 the Company expects to further build and develop its portfolio, positioning itself to exploit opportunities when they arise and introducing partners, as appropriate, to help fund the program.

Yours sincerely

**Alan Henderson**  
Chairman

**Russell Harvey**  
Chief Executive

25 September 2006

## Introduction

We have been instructed by the Company to review the financial information for the six months ended 30 June 2006 on pages 7 to 13. We have read the other information contained in the Interim Report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

Our report has been prepared in accordance with the terms of our engagement to assist the Company in meeting the requirements of the rules of the London Stock Exchange for companies trading securities on the Alternative Investment Market, 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, our terms of engagement, 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.

## Directors' responsibilities

The Interim Report, including the financial information contained therein, is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the Interim Report in accordance with the rules of the London Stock Exchange for companies trading securities on the Alternative Investment Market, which require that the half-yearly report be presented and prepared in a form consistent with that which will be adopted in the Company's annual accounts, having regard to the accounting standards applicable to such annual accounts.

## Review work performed

We conducted our review in accordance with guidance contained in Bulletin 1999/4 issued by the Auditing Practices Board for use in the United Kingdom by auditors of fully listed companies. A review consists principally of making enquiries of management and applying analytical procedures to the financial information and underlying financial data and based thereon, assessing whether the accounting policies and presentation have been consistently applied, unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit performed in accordance with International Standards on Auditing and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the financial information.

## Review conclusion

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 30 June 2006.

BDO STOY HAYWARD LLP  
Chartered Accountants  
8 Baker Street  
London W1U 3LL

25 September 2006

**CONSOLIDATED STATEMENT OF LOSS**  
FOR THE PERIOD 1 JANUARY 2006 TO 30 JUNE 2006

|  | 1 Jan 06 to<br>30 Jun 06<br>US\$000's<br>Unaudited | 1 Apr 05 to<br>30 Sep 05<br>US\$000's<br>Unaudited | 1 Apr 05 to<br>31 Dec 05<br>US\$000's<br>Audited |
|--|--|--|--|
| Revenues   | 132  | –  | –  |
| Less operating costs   | (107)  | (57)   | –  |
| Gross profit   | 25   | (57)   | –  |
| Administrative expenses                                      | (956)  | (569)  | (1,315)  |
| <b>Loss from operations</b>                                  | <b>(931)</b>                                       | (626)  | (1,315)  |
| Financial income   | 593  | 125  | 260  |
| Financial expense  | (1)  | (70)   | (14)   |
| <b>Loss on ordinary activities before and after taxation</b> | <b>(339)</b>                                       | (571)  | (1,069)  |
| Attributable to:   |  |  |  |
| Equitable holders of the parent                              | (300)  | (571)  | (867)  |
| Minority interest  | (39)   | –  | (202)  |
|  | <b>(339)</b>                                       | (571)  | (1,069)  |
| <b>Loss per ordinary share (US\$)</b>                        |  |  |  |
| Basic and diluted  | <b>(0.011)</b>                                     | <b>(0.040)</b>                                     | <b>(0.044)</b>                                   |

All amounts relate to continuing operations

## CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSE

FOR THE PERIOD 1 JANUARY 2006 TO 30 JUNE 2006

|  | 1 Jan 06 to<br>30 Jun 06<br>US\$000's<br>Unaudited | 1 Apr 05 to<br>30 Sep 05<br>US\$000's<br>Unaudited | 1 Apr 05 to<br>31 Dec 05<br>US\$000's<br>Audited |
|--|--|--|--|
| <b>Loss for the period</b>   | <b>(300)</b>                                       | (571)  | (867)  |
| Exchange differences arising on the<br>translation of foreign subsidiaries | 162  | –  | (499)  |
| Total recognised expense for the period                                    | <b>(138)</b>                                       | (571)  | (1,366)  |
| Attributable to:   |  |  |  |
| Equitable holders of the parent  | (99)   | –  | (1,164)  |
| Minority interest  | (39)   | –  | (202)  |
|  | <b>(138)</b>                                       | <b>(571)</b>                                       | <b>(1,366)</b>                                   |

## CONSOLIDATED BALANCE SHEET

AT 30 JUNE 2006

|   | 1 Jan 06 to<br>30 Jun 06<br>US\$000's<br>Unaudited | 1 Apr 05 to<br>30 Sep 05<br>US\$000's<br>Unaudited | 1 Apr 05 to<br>31 Dec 05<br>US\$000's<br>Audited |
|---|--|--|--|
| <b>Non-current assets</b>   |  |  |  |
| Intangible assets   | 47,452   | 32,889   | 39,220   |
| Tangible assets   | 578  | 305  | 355  |
| <b>Total non-current assets</b>   | <b>48,030</b>                                      | <b>33,194</b>                                      | <b>39,575</b>                                    |
| <b>Current Assets</b>   |  |  |  |
| Inventory   | 101  | 113  | 105  |
| Trade and other receivables   | 386  | 1,233  | 836  |
| Advances  | 657  | –  | 720  |
| Other financial assets  | 663  | 79   | 215  |
| Cash and cash equivalents   | 9,501  | 15,360   | 12,635   |
| <b>Total current assets</b>   | <b>11,308</b>                                      | <b>16,785</b>                                      | <b>14,511</b>                                    |
| <b>Total assets</b>   | <b>59,338</b>                                      | <b>49,979</b>                                      | <b>54,086</b>                                    |
| <b>Liabilities:</b>   |  |  |  |
| <b>Current liabilities</b>  |  |  |  |
| Trade payables  | 1,548  | 373  | 420  |
| Other payables  | –  | –  | 40   |
| <b>Total current liabilities</b>  | <b>1,548</b>                                       | <b>373</b>   | <b>460</b>                                       |
| <b>Non-current liabilities</b>  |  |  |  |
| Other payables  | 3,294  | 17   | 1,238  |
| <b>Total liabilities</b>  | <b>4,842</b>                                       | <b>390</b>   | <b>1,698</b>                                     |
| <b>Total net assets</b>   | <b>54,496</b>                                      | <b>49,589</b>                                      | <b>52,388</b>                                    |
| <b>Capital and reserves attributable to equity holders of the Company</b> |  |  |  |
| Called up share capital   | 5,166  | 4,886  | 4,932  |
| Share premium account   | 48,603   | 43,871   | 46,714   |
| Share option reserves   | 89   | –  | 51   |
| Foreign exchange reserves   | (337)  | 222  | (499)  |
| Retained losses   | (1,167)  | (571)  | (867)  |
|   | <b>52,354</b>                                      | <b>48,408</b>                                      | <b>50,331</b>                                    |
| Minority interest   | 2,142  | 1,181  | 2,057  |
| <b>Total equity</b>   | <b>54,496</b>                                      | <b>49,589</b>                                      | <b>52,388</b>                                    |

## CONSOLIDATED CASH FLOW STATEMENT

FOR THE PERIOD 1 JANUARY 2006 TO 30 JUNE 2006

|   | 1 Jan 06 to<br>30 Jun 06<br>US\$000's<br>Unaudited | 1 Apr 05 to<br>30 Sep 05<br>US\$000's<br>Unaudited | 1 Apr 05 to<br>31 Dec 05<br>US\$000's<br>Audited |
|---|--|--|--|
| <b>Operating activities</b>                                   |  |  |  |
| <b>Net loss from ordinary activities</b>                      | <b>(339)</b>                                       | (571)  | (1,069)  |
| <b>Adjustments for:</b>                                       |  |  |  |
| Depreciation  | 28   | –  | 215  |
| Share options expense   | 38   | –  | 51   |
| Exchange (gains)/losses                                       | (355)  | –  | 28   |
| Financial expense   | 1  | –  | 14   |
| Financial income  | (238)  | –  | (260)  |
| Minority interest   | (39)   | –  | (202)  |
|   | <b>(565)</b>                                       | –  | (154)  |
| <b>Operating losses before changes in<br/>working capital</b> | <b>(904)</b>                                       | (571)  | (1,223)  |
| (Increase)/decrease in trade and other receivables            | 450  | –  | (1,997)  |
| Decrease/(increase) in inventories                            | 4  | –  | (105)  |
| Increase in trade and other payables                          | 1,112  | –  | 1,698  |
|   | <b>1,566</b>                                       | –  | (404)  |
| <b>Cash outflows from operating activities</b>                | <b>662</b>   | (571)  | (1,627)  |
| <b>Investing activities</b>                                   |  |  |  |
| Interest income   | 238  | 125  | 260  |
| Sale of tangible fixed assets                                 | –  | –  | 69   |
| Cash portion on acquisition of BPMI                           | (2,200)  | –  | –  |
| Purchase of tangible fixed assets                             | (571)  | (362)  | (382)  |
| Acquisition of intangible assets                              | (1,665)  | (8,810)  | (8,720)  |
| Loan note received/repaid                                     | 63   | (600)  | –  |
| Investment in subsidiary undertakings                         | –  | (80)   | –  |
| <b>Cash flows from investing activities</b>                   | <b>(4,135)</b>                                     | (9,727)  | (8,773)  |

**CONSOLIDATED CASH FLOW STATEMENT** (CONTINUED)  
 FOR THE PERIOD 1 JANUARY 2006 TO 30 JUNE 2006

|   | 1 Jan 06 to<br>30 Jun 06<br>US\$000's<br>Unaudited | 1 Apr 05 to<br>30 Sep 05<br>US\$000's<br>Unaudited | 1 Apr 05 to<br>31 Dec 05<br>US\$000's<br>Audited |
|---|--|--|--|
| <b>Financing activities</b>                               |  |  |  |
| Financial expense   | 1  | –  | (14)   |
| Issue of ordinary share capital (net of issue costs)      | –  | 25,595   | 22,823   |
| <b>Cash flows from financing activities</b>               | <b>1</b>   | <b>25,595</b>                                      | <b>22,809</b>                                    |
| <b>Increase/(decrease) in cash</b>                        | <b>(3,472)</b>                                     | <b>15,297</b>                                      | <b>12,409</b>                                    |
| Cash and equivalents at the beginning of the period       | 12,635   | –  | –  |
| Foreign exchange movements                                | 338  | 64   | 226  |
| <b>Cash and cash equivalents at the end of the period</b> | <b>9,501</b>                                       | <b>15,361</b>                                      | <b>12,635</b>                                    |

# **UNAUDITED NOTES FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS**

FOR THE PERIOD 1 JANUARY 2006 TO 30 JUNE 2006

## **1. BASIS OF PREPARATION**

The interim financial information has been prepared in accordance with International Financial Reporting Standards (IFRS and IFRIC interpretations) issued by the International Accounting Standards Board (IASB) and with those parts of the Companies Act 1985 applicable to companies preparing their accounts under IFRS. These accounts have not been audited but reviewed by the auditors of Forum Energy plc and its subsidiaries (the "Group") as if they formed a single entity. The interim financial information has been prepared using the accounting policies as applied in the Group's statutory financial statements for the year ended 31 December 2005.

Where the Company has the power, either directly or indirectly, to govern the financial and operating policies of another entity or business so as to obtain benefits from its activities, it is classified as a subsidiary. The consolidated financial statements present the results of the Group. Intercompany transactions and balances between Group Companies are therefore eliminated in full.

On 3 April 2006 the Company acquired Basic Petroleum and Minerals Inc. from Basic Consolidated Inc. for a total consideration of US\$5,000,000, being comprised of 1,333,759 shares of the Company and cash of US\$2,200,000, paid in installments over a one year period. This was completed in the first half of 2006 and has been accounted for using the acquisition method of accounting. In the consolidated balance sheet, the acquiree's identifiable assets and liabilities are 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.

## **2. FINANCIAL REPORTING PERIOD**

The financial information for the period 1 January 2006 to 30 June 2006 is unaudited. In the opinion of the Directors the financial information for the period presents fairly the financial position, and results from operations and cash flows for the period are in conformity with generally accepted accounting principles consistently applied. The accounts incorporate comparative figures for the initial interim period 1 April 2005 to 30 September 2005 and the first audited financial period from 1 April 2005 to 31 December 2005.

The Directors approved the Interim Statement on 25 September 2006. This interim financial statement does not constitute statutory accounts within the meaning of Section 240 of the Companies Act 1985. The audited financial statements for the period ended 31 December 2005 received an unqualified audit report and have been delivered to the Registrar of Companies.

## **3. CONSOLIDATED STATEMENT OF LOSS**

The Financial Income includes an amount of US\$354,787 as recognised exchange gains resulting from a stronger UK sterling. Additional unrealised exchange gains for the period amount to US\$161,541 included in the Foreign Exchange Reserve of the Consolidated Balance Sheet.

# UNAUDITED NOTES FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE PERIOD 1 JANUARY 2006 TO 30 JUNE 2006

## 4. LOSS PER SHARE

The calculation of basic and diluted loss per share has been based on the loss for the period of US\$300,035 (2005: US\$867,261) and the weighted average number of shares being 27,847,841 ordinary shares issued for the period ended 30 June 2006 (2005: 19,890,483). In addition 1,544,000 share options are outstanding to employees, directors and key personnel and have various exercise dates commencing 1 August 2006 up to and including 1 August 2015, with exercise prices ranging from £0.935 to £1.21 per share. These instruments could potentially dilute basic earnings per share but have not been included in the calculation of diluted earnings per share because they are anti-dilutive for the periods presented.

## 5. MINORITY INTEREST

Recognises the Minority party interest in Forum Exploration Inc., which is 66 <sup>2</sup>/<sub>3</sub> owned by the Group. The Minority party share in the profits and losses of the activities of Forum Exploration Inc., as well as their percentage interest in the net assets.

## 6. FUNCTIONAL CURRENCY

All accounts have been prepared in US dollars, this being the functional currency of the Group.

## 7. Additional Information

Further copies of the Interim Statement are available from the Company Secretary, Forum Energy plc, 120 Bridge Road, Chertsey, Surrey KT16 8LA, United Kingdom, Tel: +44 (0)1932 445 344, Fax: +44 (0)1932 445 345, info@forumenergyplc.com or downloaded from the website: www.forumenergyplc.com.

## SHAREHOLDER INFORMATION

### Directors

Alan Henderson (Chairman)  
Barry Stansfield  
Ian Baron  
Graeme Thomson  
Henry Wilson  
Russell Harvey (CEO)  
Oscar de Venecia

### Secretary

Andrew Mullins

### Registered office

120 Bridge Road  
Chertsey  
Surrey KT16 8LA

### Principal place of business

14F Pearlbank Centre  
146 Valero Street  
Salcedo Village  
Makati City  
Metro Manila  
The Philippines

### Company number

05411224  
(England and Wales)

### Auditors

BDO Stoy Hayward LLP  
8 Baker Street  
London W1U 3LL

### Bankers

Royal Bank of Scotland PLC  
Natural Resources  
8th Floor  
135 Bishopsgate  
London EC2M 3UR

### Brokers & Financial Advisers

Noble & Company Limited  
76 George Street  
Edinburgh EH2 3BU

### Registrars

Park Circus Registrars Limited  
James Sellars House  
144-146 West George Street  
Glasgow G2 2HG

### Public Relations

Pelham  
No 1 Cornhill  
London EC3V 3ND

### Solicitors

Osborne Clarke  
2 Temple Back East  
Temple Quay  
Bristol BS1 6EG

**UK Office**

120 Bridge Road, Chertsey,  
Surrey KT16 8LA

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F: +44 (0) 1932 445 345

**Manila Office**

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