

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2008

Commission File Number: 000-25386

FX ENERGY, INC.

(Exact name of registrant as specified in its charter)

Nevada

(State or other jurisdiction of incorporation or organization)

87-0504461

(I.R.S. Employer Identification No.)

3006 Highland Drive, Suite 206, Salt Lake City, Utah

(Address of principal executive offices)

84106

(Zip Code)

Registrant's telephone number, including area code:

Telephone (801) 486-5555

Facsimile (801) 486-5575

Securities registered pursuant to Section 12(b) of the Act:

Title of each class

Common Stock, Par Value \$0.001

Name of each exchange on which registered

NASDAQ Global Market

Securities registered pursuant to Section 12(g) of the Act:

None

(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act.

Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant's most recently completed second fiscal quarter. **As of June 30, 2008, the aggregate market value of the voting and nonvoting common equity held by nonaffiliates of the registrant was \$205,436,000.**

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date. **As of March 10, 2009, FX Energy had outstanding 42,451,978 shares of its common stock, par value \$0.001.**

DOCUMENTS INCORPORATED BY REFERENCE. **FX Energy's definitive Proxy Statement in connection with the 2009 Annual Meeting of Stockholders is incorporated by reference in response to Part II, Item 5, and Part III of this Annual Report.**

FX ENERGY, INC.
Form 10-K for the fiscal year ended December 31, 2008

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SPECIAL NOTE ON FORWARD-LOOKING STATEMENTS

This report contains statements about the future, sometimes referred to as “forward-looking” statements. Forward-looking statements are typically identified by the use of the words “believe,” “may,” “could,” “should,” “expect,” “anticipate,” “estimate,” “project,” “propose,” “plan,” “intend,” and similar words and expressions. Statements that describe our future strategic plans, goals, or objectives are also forward-looking statements. We intend that the forward-looking statements will be covered by the safe harbor provisions for forward-looking statements contained in Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934.

Readers of this report are cautioned that any forward-looking statements, including those regarding us or our management’s current beliefs, expectations, anticipations, estimations, projections, strategies, proposals, plans, or intentions, are not guarantees of future performance or results of events and involve risks and uncertainties, such as:

- whether we will be able to discover and produce gas or oil in commercial quantities from any exploration prospect;
- whether we will be able to borrow funds to develop our gas and oil discoveries in Poland from the Royal Bank of Scotland, our current principal lender, or from any other commercial lender, even if we increase substantially the quantity and value of our reserves that we may be willing to encumber to secure repayment of such borrowings;
- whether the quantities of gas or oil we discover will be as large as our initial estimate of an exploration target area’s gross unrisks potential;
- whether the estimated proved quantities of gas and oil reserves that we report using deterministic methods currently mandated by the Securities and Exchange Commission will be as large as the estimated quantities of proved or probable gas and oil reserves that we otherwise publicly announce may be present using probabilistic methods;
- whether actual exploration risks, schedules, and sequences will be consistent with our plans and forecasts;
- the future results of drilling or producing individual wells and other exploration and development activities;
- the prices at which we may be able to sell gas or oil;
- foreign currency exchange rate fluctuations;
- the financial and operating viability and stability of third parties with which we conduct business and on which we rely to supply goods and services and to purchase our gas and oil production;
- exploration and development priorities and the financial and technical resources of the Polish Oil and Gas Company, our principal joint venture and strategic partner in Poland or other future partners;
- uncertainties inherent in estimating quantities of proved reserves and actual production rates and associated costs;
- the cost and availability of additional capital that we may require and possible related restrictions on our future operating or financing flexibility;
- our future ability to attract industry or financial participants to share the costs of exploration, exploitation, development, and acquisition activities;
- uncertainties of certain terms to be determined in the future relating to our gas and oil interests, including exploitation fees, royalty rates, and other matters;
- uncertainties regarding future political, economic, regulatory, fiscal, taxation, and other policies in Poland and the European Union; and
- other factors that are not listed above.

The forward-looking information is based on present circumstances and on our predictions respecting events that have not occurred, that may not occur, or that may occur with different consequences from those now assumed or anticipated. Actual events or results may differ materially from those discussed in the forward-looking statements. The forward-looking statements included in this report are made only as of the date of this report.

PART I

ITEM 1. BUSINESS

Introduction

We are an independent gas and oil exploration and production company with principal production, reserves, and exploration activities in Poland, although we have modest oil production and oilfield service activities in the United States. We believe Poland is a unique international exploration opportunity. Relatively little gas has been discovered in Poland's sector of the North European Permian Basin, compared to the discoveries in the UK, Dutch, and German sectors. For most of the 20th century, Poland was closed to exploration by foreign gas and oil companies. Consequently, we think the Polish Permian Basin is underexplored and underexploited, and therefore has high potential for discovering significant amounts of gas and oil.

Acting on this thesis, we have acquired a large land position and we are conducting a focused exploration program. Independent engineers estimated our total proved gas and oil reserves at 45.9 billion cubic feet of natural gas equivalent, or Bcfe, at year-end 2008. The PV-10 Value of these reserves at year-end 2008 was approximately \$118 million, which is equal to approximately \$2.79 per share of stock outstanding at year-end. Our gas and oil reserve volumes in Poland have increased at a compound annual growth rate of 34% since 2003 and by 46% in just the last year. Our production volume has increased at an annual rate of 52% from 2005 to 2008. These increases are attributable to our exploration in Poland. With a view to future growth in reserves and production, we now hold 5.4 million gross acres (4.9 million net acres) in Poland.

We are acutely aware of the global economic crisis and we are mindful of the need to stay alert and act reasonably. We believe our business strategy is sound and that our resources and opportunities, carefully managed, will allow us to continue growing through the next several years. See "Adapting to the Global Economic Crisis" below.

References to us in this report include FX Energy, Inc., our subsidiaries, and the entities or enterprises organized under Polish law in which we have an interest and through which we conduct our activities in that country. Our headquarters are in Salt Lake City, Utah, and we have operations offices in Warsaw, Poland, and Oilmont, Montana. See "Gas and Oil Terms" at the end of this item for definitions of certain industry terms.

Corporate Strategy

Our general strategy is to focus our resources on Poland. More specifically, we plan to direct the bulk of our available funds and management and technical resources to our core Fences concession area in Poland. We currently are concentrating our drilling activities in our core area in an effort to lower drilling risk, shorten the time to first production from successful wells, and optimize opportunities for robust revenue growth. At the same time, we do plan to acquire, hold, and explore acreage outside our core area, where we believe we have the opportunity to find significant gas and oil reserves. We currently hold substantial acreage in areas of Poland that we consider underexplored and underdeveloped and, therefore, subject to greater exploration risk than our core area. In order to diversify risk, we plan to allocate a relatively small portion of available funds to carry out preliminary exploration work on this non-core acreage. We plan to rely on industry farmouts for the bulk of early-stage drilling. To the extent our strategy of focusing on our core area results in substantial revenue growth, we plan to cautiously increase our funding of exploration projects over a wider area in Poland.

Current Activities and Assets in Poland

Our strategy focuses on Poland because we believe Poland has substantial undiscovered hydrocarbon potential. We think the Polish portion of the Permian Basin is underexplored and underdeveloped today because the country was closed to competition and capital from foreign gas and oil companies for many decades. The continuous advances in exploration technology around the world were not immediately applied in Poland during the period it was behind the "Iron Curtain."

We concentrate our exploration efforts in Poland primarily on the Rotliegend sandstones of the Permian Basin. We were attracted to the Rotliegend sandstones in Poland by two observations:

(1) Since the 1960s, dozens of western exploration companies working in the North Sea and onshore Europe portions of the North European Permian Basin have identified approximately 200 trillion cubic feet, or Tcf, of Rotliegend gas. While the Permian Basin extends well into Poland, only 5 Tcf of Rotliegend gas has been discovered in Poland. We believe political and capital restraints impaired POGC's ability to explore and develop the Polish portion of the Basin.

(2) In the last 20 years, very little exploration focused on the Rotliegend has been conducted in Poland.

We have identified a core area consisting of approximately 852,000 gross acres surrounding the Radlin Field. This 390 billion cubic feet, or Bcf, Rotliegend gas field was discovered in the 1980s by our joint venture partner, the Polish Oil and Gas Company, or POGC, which owns and produces gas from it. We have emphasized improved seismic data acquisition and processing in our exploration, using technology developed for Rotliegend exploration in the Southern North Sea.

From 2004 through 2008, in the course of our Polish exploration with this approach, we have made commercially successful discoveries in five of the seven wells we have drilled on Rotliegend structural trap targets. In the aggregate, these five discoveries found gross estimated proved reserves of 107 Bcf of gas. Based on these discoveries and associated technical work, we have identified a subset of our core area acreage, the Sroda area, as having significant natural gas potential and low drilling risk compared to the balance of our core area. Within the Sroda area and along trend immediately to the southeast, we have acquired three-dimensional, or 3-D, seismic data over several hundred square kilometers. Using this data, we have identified a number of possible structural traps. We believe the 3-D seismic data gives us better definition of the targets and might further reduce our drilling risk, although we expect that we will continue to drill wells that do not establish production or reserves. We plan to direct the bulk of our available funds to carry out a multi-year exploration, appraisal, and development drilling program in our core area. These operations focus on the first element of our general strategy – to increase production and reserves in our core area.

While maintaining our focus on the Rotliegend structural trap exploration model in our core Fences area, we are also carrying out exploration work on other potential exploration models. These include non-Rotliegend prospects in our core area and various exploration opportunities on our 4.5 million net acres outside our core area. We have accumulated this large land position in known productive regions or geologic trends and in selected “rank wildcat” areas in Poland. We have assembled a sophisticated technical team experienced with using modern exploration tools and generated a number of attractive gas and oil prospects. We are inviting industry participation in the early-stage drilling of these prospects. To the extent our overall strategy results in substantial revenue growth, we plan to direct more of our own funds toward exploration outside our core area. However, the Rotliegend structural trap gas prospects in our core area will continue to receive the greatest portion of our efforts and capital resources over the next several years.

Some of our Polish operations are conducted in partnership with POGC. POGC is a fully integrated gas and oil company, which is largely owned by the Treasury of the Republic of Poland. POGC is Poland's principal domestic gas and oil exploration, production, transportation, and distribution entity. Under our existing agreements, POGC has provided us with access to exploration opportunities, previously collected exploration data, and technical and operational support. We also use geophysical and drilling services provided by POGC and sell our gas production to POGC.

Key Personnel for Poland

Our chief technical advisor is Richard Hardman, CBE. He also serves on our board of directors. Mr. Hardman has built a career in international exploration over the past 40 years in the upstream gas and oil industry as a geologist in Libya, Kuwait, Colombia, and Norway. In the United Kingdom, his career encompasses almost the whole of the exploration history of the North Sea – 1969 to the present. With Amerada Hess from 1983 to 2002 as Exploration Director and later Vice President of Exploration, he was responsible for key Amerada North Sea and international discoveries, including the Valhall, Scott and South Arne fields. Mr. Hardman was made Commander of the British Empire in the New Year Honours, 1998, and has served as the Chairman of the Petroleum Society of

Great Britain, President of the Geological Society of London, and President of the European Region of American Association of Petroleum Geologists Europe. Mr. Hardman was appointed to our board of directors in October 2003 and is Chairman of our Technical and Advisory Panel.

Jerzy Maciolek is a director of the Company and heads our exploration team as Vice President of International Exploration. He joined the Company in 1995 specifically to lead it into Poland where he had identified the exploration opportunity that today is our core asset. Mr. Maciolek has over 25 years of experience as a geophysicist with POGC, Gulf Oil Research, and as an independent consultant. He received an M.S. in exploration geophysics from the Mining and Metallurgical Academy in Krakow, Poland.

Our Country Manager in Poland is Zbigniew Tatys, the former General Director of POGC's Upstream Exploration and Production Division. During his 20-year career with POGC, he rose through the ranks as a production engineer and was serving as Vice Chairman of POGC at the time of his retirement. Mr. Tatys has unique qualifications to lead us through our transition from a pure exploration company to a natural gas and oil producer in Poland.

Our U.S. Presence

Unlike our position in Poland, the U.S. operation does not have substantial exploration potential. It is fairly mature. It provides a modest amount of cash flow and is not capital intensive. It consists mostly of shallow, oil-producing wells in the CutBank Oil Field of Montana. As of December 31, 2008, our U.S. reserves were estimated at 45,000 barrels of crude oil with a PV-10 Value of approximately \$318,000. Our oil wells produce approximately 180 barrels of oil per day, net to our interest. From our field office in Montana, we also provide oilfield services, which provided approximately \$4.3 million in revenue during 2008.

Adapting to the Global Economic Crisis

The impact on the gas and oil industry of the current global economic crisis has been sudden, dramatic, and wide-ranging. As with most companies in this industry, we are not immune from many of the negative effects of this crisis. In Item 1A. Risk Factors and Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations, we identify and discuss some of the following areas of concern, and provide some discussion as to our plans to protect and exploit our assets and continue to methodically increase our shareholder value.

- Global oil prices have dropped rapidly from unprecedented mid-2008 highs to significantly lower prices at year-end. In Poland, all of our gas production is sold to POGC and is tied to published tariffs for gas sold to wholesale consumers that in turn are based in large part on the historical cost of Russian imported gas. With the recent drop in oil prices, there is a possibility that the cost of imported gas may decline, which in turn may cause the Polish regulator to decrease the cost of gas sold by POGC and thereby reduce the price POGC pays to us.
- We see a greater impact on our revenues and reserves from the declines in oil prices than from changes in gas prices. Year-end 2007 prices in Montana averaged approximately \$94 per barrel and reached a monthly high of approximately \$120 per barrel in June 2008. At year-end, our average price in Montana was approximately \$25 per barrel, and our year-end price in Poland was approximately \$37 per barrel.
- The decline in oil prices has the following principal adverse effects:
 - The reduction in oil revenues will impact our ability to execute a robust capital program during 2009.
 - Price declines also reduce both the value and the economic volumes of our proved oil reserves in the United States and led to impairment charges at existing wells, where the estimated year-end 2008 reserve values, calculated at year-end prices, are no longer sufficient to cover the existing capitalized costs.
- We do not know what impact the distress in the banking industry in general, and on the Royal Bank of Scotland, or RBS, in particular, will have on us. Despite the fact that we believe we have reserve volumes and values that would warrant a sizable increase in this facility in normal economic times, there is no guarantee that RBS will, in fact, increase the amount of funds available to us, which may, in turn, restrict the amount of capital we are able to apply in our development programs in Poland.

- Our stock price has declined more than 70% from its 2008 peak and, as of early March 2009, 46% over the preceding 12 months, which may restrict the amount of capital we will be able to apply in our development programs in Poland.
- Because of the circumstances discussed above, we are acutely aware of the need to preserve and be judicious in our use of existing capital and are adjusting our capital and operating budgets. We are not initiating new capital projects in 2009 until the commencement of production at our Roszkow well in Poland, and we are reducing cash overhead costs by approximately 10% from 2008 levels, primarily by reducing compensation and other controllable costs.
- The drop in oil prices and the adjusted timing of our capital budget caused us to record property impairment charges during 2008 of \$11.0 million related to two of our recent drilling projects in Poland due to adjustments in the timing of our capital plans and \$3.8 million related to our producing oil wells in the United States due to lower reserve values.
- During the past 12 months, the Polish zloty has fluctuated between a low of 2.02 zlotys per U.S. dollar in August of 2008 to a high of 3.88 zlotys per dollar in late February of 2009. As the U.S. dollar strengthens, the U.S. dollar denominated amount of revenue paid in zlotys declines; conversely, when the U.S. dollar weakens, the U.S. dollar denominated amount of revenues paid in zlotys increases. Should exchange rates in effect during early 2009 continue throughout the year, we expect the exchange rates to have a negative impact on our U.S. dollar denominated revenues, but a corresponding positive impact on the U.S. dollar cost of our capital expenditures in Poland.
- During October 2008, we drew down the remaining \$14 million available under our Senior Credit Facility and purchased approximately \$14.7 million in Polish zloty forward contracts at a rate which, at the time, was a 52-week low for the zloty. The amount of these forward contracts was matched to our committed capital expenditures in Poland. Further, in connection with contracts maturing in the first quarter of 2009, we recorded an additional loss of approximately \$888,000 when we marked them to market at December 31, 2008, at which time the exchange rate was 2.9 zlotys per U.S. dollar.

Exploration, Development and Production Activities

Polish Exploration Rights

As of December 31, 2008, we held gas and oil exploration rights in Poland in nine separately designated project areas encompassing approximately 5.4 million gross acres. We are currently the operator in all areas except our core area, the 852,000 gross acres Fences project area in which we hold a 49% working interest and in which POGC is the operator. We own a 100% working interest in approximately 4.3 million gross acres. Of the remaining approximately 1.1 million gross acres, we hold approximately 0.6 million net acres.

As we build revenues in our core area and further explore and evaluate our acreage in Poland, we expect to increasingly focus our operational and financial efforts on areas with larger potential reserves. As we do so, we may add new concessions that we believe have high potential and relinquish acreage that we believe has lower potential. See “Wells and Acreage” below for further information.

Exploratory Activities in Poland

Our ongoing activities in Poland are conducted in nine project areas: Fences, Block 255, Block 287, Northwest, Kutno, Warsaw South, Edge, Block 229, and Block 246. Our drilling activities are currently focused primarily on the core Fences area, where the gas-bearing Rotliegend sandstone reservoir rock is a direct analog to the Southern North Sea gas basin offshore the United Kingdom. We are focused on this core area because substantial gas reserves have already been discovered and developed by POGC, we have made five commercial gas discoveries, together with POGC, containing proved gas reserves of over 100 Bcf gross (43 Bcf net to our interest), and we have concluded that there is likely to be substantial additional natural gas in the same geologic horizon. We are selling gas from wells located in the Fences area and Block 255, and expect to be selling gas in early 2009 from a well in Block 287. We are developing longer-term exploration prospects in the remaining six areas.

Fences Area

The Fences concession area is 852,000 gross acres (3,450 sq. km.) in western Poland's Permian Basin surrounding POGC's Radlin gas field. The Radlin field and several other POGC gas fields located in the Fences area are "fenced off" or excluded from our exploration acreage. These fields, discovered by POGC between 1974 and 1982, produce from structural traps in the Rotliegend sandstone. We hold a 49% interest in approximately 807,000 acres and a 24.5% interest in the remaining 45,000 acres in the Fences area.

The Rotliegend is the primary target horizon throughout most of the Fences concession area, at depths from approximately 2,500 to 4,000 meters. There are two types of Rotliegend traps in the region: structural traps and stratigraphic ("pinch-out") traps. Both of these trap types are known to produce gas in the region. In addition, we have identified what appear to be carbonates in the Zechstein formation, a third type of trap that is known to produce both gas and oil in the region.

Fences Area: Structural Traps

Based on our drilling experience since 2000 in the Fences area, we have emphasized the use of seismic acquisition, processing, and interpretation techniques that have been used successfully in the Rotliegend gas fields of the United Kingdom's offshore Southern Gas Basin. With Rotliegend structures as our target, and utilizing improved seismic data processing and acquisition techniques, we have drilled seven wells targeting Rotliegend structures through the end of 2008. Five of these wells are commercial, with aggregate proved gas reserves of over 100 Bcf gross (43 Bcf net to our interest).

In September 2008, we completed the Kromolice-1 well as a commercial success (with production anticipated to begin during 2010). Kromolice-1 is located some five kilometers northwest and on the same fault trend as our 2005 Sroda-4 discovery well. The 2008 natural gas discovery at the Kromolice-1 well contributed the greatest portion of our year-over-year increase in proved reserves. At year-end, gross proved reserves for the well were estimated at approximately 20 Bcf of gas (9.8 Bcf net to our 49% interest). Sroda-4 well reserves also increased as the Sroda-4 to Kromolice-1 trend was determined to be part of a single accumulation.

In November 2008, we suspended drilling operations at the Sroda-6 well. Despite the fact that the well drilled 30 meters of good quality Rotliegend reservoir rock, removing one of the major uncertainties of the Sroda City structure, the well came in significantly structurally low to prognosis and on a drill stem test recovered only gas cut brine. Analysis of the geophysical data from this well, along with existing 3-D seismic data, suggests structural development slightly to the northwest of the Sroda-6 well location. A pre-stack depth migration study, which was underway in early 2009, is being carried out at both Sroda-6 and regionally to determine the highest point on the Sroda-6 structure and to determine whether a higher structural position can be reached by deviating the current well and thereby testing the closure in an optimal location.

As part of our focus on that part of the Fences area that is prone to Rotliegend structural traps, we have acquired several hundred square kilometers of 3-D seismic data in the area where the Kromolice-1 and -2, Sroda-4, and -5, and Winna Gora wells are located and along the trend to the southeast. Processing on this block of seismic data is complete, and the data is being evaluated. We also acquired approximately 167 kilometers of two-dimensional, or 2-D, seismic data over a lead, Taczanow, that lies on the trend southeast from the Zaniemysl and Roszkow wells, our two biggest discoveries to date. Final interpretation of this seismic data is due in 2009.

Finally, in the northernmost part of our Fences concession and lying within the area covered by our recent 3-D seismic data, we have identified a very large upthrown block, or horst, of Rotliegend sandstone that encompasses approximately 50 square kilometers, or 12,000 acres, within our Fences concession and continues into the area north of our concession. One well, the 1984 Plawce-1, was drilled by POGC on this Rotliegend block within what is now our Fences concession. Five other wells have been drilled by others (4 of these more than 20 years ago) in this horst block north of our concession boundary. All six of these wells had substantial gas columns, and all but the most recent well were plugged due to relatively tight reservoir rocks. The one new well, Trzek-1, located about six kilometers north of our concession, was drilled in 2007 and reportedly tested gas at rates between 2.5 and 7.5 million cubic feet of natural gas per day, or MMcfD, after high-pressure, hydraulic fracturing.

We are continuing to evaluate our data and are working with POGC on a plan to appraise and explore the gas resource in the Plawce area. We acquired 45 square kilometers of 3-D seismic data in 2008 that will enhance the quality of our existing 3-D seismic and appraisal data in the Plawce area, once the data is interpreted during 2009.

Fences Area: Stratigraphic Traps

In the southwestern portion of the Fences concession there is potential for stratigraphic trapping, or pinch-outs, in the Rotliegend. Based on data from the Rusocin-1 and the Lugi-1 wells we drilled in 2005, and based on the presence of wells that produce from stratigraphic traps further to the west from our concession, we believe it is necessary to acquire 3-D seismic data that will help us determine the next steps in exploring the pinch-out area. It is unlikely that we will pursue this play during 2009.

Fences Area: Carbonate (Reef) Traps

In the northeastern portion of the Fences concession we have identified carbonate (reef) targets in the Zechstein (Ca2) horizon of the lower Permian, just above the Rotliegend. In February 2008, we began drilling the Grundy-1 well to test a possible Ca2 reef build-up identified on 2-D seismic. The Grundy-1 is located approximately 30 kilometers east of our Sroda area. The nearest significant Ca2 producing fields, the BMB and Miedzychód-Lubiatow-Grotów gas and oil fields owned by POGC, are located approximately 60 to 80 kilometers northwest of the Grundy well and reportedly contain approximately 125 million barrels of oil and 500 Bcf of gas.

In September 2008, an open hole DST of the Grundy-2 well was completed, testing the Rotliegend interval from a depth of 4,240 meters to 5,001 meters. During the test, gas shows were recorded without any produced water, but the gas-bearing zone appeared to be too tight (low porosity or permeability) for commercial production without stimulation. The well has been shut-in since that time to allow detailed analysis of drilling, logging, core and DST data, which will take a number of months. Following this analysis, the well may be re-entered with a workover rig to conduct high-pressure, hydraulic fracturing of the Rotliegend intervals with the best reservoir properties.

Block 255 Concession Area

The Block 255/Wilga concession area in east central Poland consists of an 82% working interest in approximately 236,000 gross acres (957 sq. km.). We have one producing well, Wilga-2 in Block 255, the result of an exploration project conducted several years ago by us and Apache Corporation. As of December 31, 2008, the Wilga well had remaining gross proved reserves of approximately 2.3 Bcf of gas and 58,000 barrels of light crude oil (1.9 Bcf and 47,000 barrels, net to our interest). In January 2009, we successfully hung a coiled tubing string in the 2 7/8" tubing to lift fluids from the well, without a break in production. We anticipate connecting the Wilga well to a medium pressure pipeline during the first quarter of 2009, which will enable us to extend the productive life of the well.

Block 287 Concession Area

The Block 287 concession area is 213,000 acres (863 sq. km.) located approximately 25 miles south of the Fences concession area. We own 100% of the exploration rights. Block 287 was part of a larger concession area that we relinquished in 2007 based on our technical evaluation and on a dry hole that we drilled in 2006.

Within Block 287 there are three Rotliegend gas wells known as the Grabowka wells. Originally drilled by POGC in 1983-85, these three wells tested gas but never produced commercially. In early 2007, we entered into a joint venture agreement with an unrelated party, PL Energia S.A., headquartered in Krzywoploty, Poland, under which all costs of re-entering and completing the three Grabowka wells and building production facilities will be paid by our joint venture partner in exchange for discounted pricing on gas.

In June 2008, we successfully re-entered the first well, Grabowka-12. Since that time, production facilities have been constructed, and we expect to see first production from this field in the first half of 2009. We plan to monitor the performance of the first well before attempting to recomplete either of the remaining two wells. We did not have any proved reserves assigned to the Grabowka field at year-end 2008.

Northwest Concession Area

In 2006, we acquired a 100% interest in a concession in west-central Poland covering 1.6 million acres. The concession is in Poland's Permian Basin directly north of POGC's BMB and Miedzzychód-Lubiatow-Grotów gas and oil fields. As in our Fences concession, the Northwest concession has three separate possible exploration models: Rotliegend sands trapping gas in structural closures; Rotliegend sands trapping gas in stratigraphic traps or pinchouts; and Zechstein Ca2 dolomitic sands, reefs, and talus trapping gas and oil.

During 2007 we reviewed the existing sparse, 20-year-old geological and geophysical data from the area. In an area of 1.6 million acres, there were only about 2,500 kilometers of 2-D seismic data and only three wells drilled to target depths. As a result of this review, we elected to relinquish approximately 500,000 acres from the northeast corner of this concession, retaining 1.1 million acres. During 2008, we acquired portions of two additional blocks, increasing our acreage to 1.4 million acres. We also acquired 245 kilometers of new 2-D seismic data over several of the leads we had identified previously.

In early 2009, we announced that we had reached a preliminary agreement with POGC to explore a portion of the Northwest concession area. Plans include drilling one well in 2009. Definitive agreements are expected to be completed in early 2009, with the well commencing shortly thereafter.

We are seeking industry participation on the remaining blocks, while continuing to carry out early-stage exploration work on our own.

Kutno Concession Area

In 2007, we acquired a 100% interest in a concession in central Poland covering 284,000 acres; in 2008, we added additional blocks bringing the total to 706,000 acres (2,856 sq. km.). The area encompasses a Rotliegend mega-structure ("Kutno") with projected four-way dip closure. Depth of the structure is estimated at approximately 6,000 meters (19,200 feet). In view of the depth and cost, we are seeking industry participation to drill Kutno.

Warsaw South Concession Area

In 2007, we acquired a 100% interest in several concession blocks in east central Poland; in 2008, we dropped two of the blocks, leaving a total of 638,000 acres (2,581 sq. km.). The Warsaw South concession has several possible exploration opportunities, including carboniferous sands with structural or truncation trapping and Zechstein reefs trapped by overlying evaporates and salt. Our technical group has reviewed the geological and geophysical data from the area and identified a dozen carboniferous leads and two possible Zechstein reef targets. We are seeking industry participation while continuing to carry out early-stage exploration work on our own.

Edge Concession Area

In 2008, we acquired a 100% interest in four concessions in north central Poland covering approximately 881,000 acres (3,567 sq. km.). Having reprocessed existing 2-D seismic data, we identified a number of leads including several Permian age Ca2 reefs and a large Devonian structure. We are soliciting industry support to shoot additional seismic and drill two or more exploratory wells to confirm the plays.

Block 246 Concession Area

In 2008, we acquired a 100% interest in a concession in west central Poland covering approximately 241,000 acres (975 sq. km.). Block 246 is contiguous with the southwest corner of the Fences concession and appears to have Rotliegend potential. We are reprocessing existing 2-D seismic data to identify possible leads.

Block 229 Concession Area

In 2008, we acquired a 100% interest in a concession east of our Fences project area covering approximately 233,000 acres (941 sq. km.). We have identified a number of possible Ca2 reef build-ups on 2-D seismic in Block 229. We plan to seek industry participation while continuing to carry out early-stage exploration work on our own.

Additional Concession Acreage

We may apply for more concession blocks in Poland in 2009. We will allocate modest technical and financial resources to these areas during 2009, primarily in the form of data collection and seismic reprocessing, with a view to ascertaining relative hydrocarbon potential and exploration risk.

Activities and Assets in the United States

Nevada

During 2008, we drilled one shallow dry hole in Nevada. We may drill one well in 2009 on land that is near our existing producing properties.

Montana

During 2008, we drilled two shallow exploratory wells using our own drilling rig. Both wells were plugged and abandoned. We have no plans for further drilling in Montana during 2009.

Segment Information

Further information concerning our financial and geographic segments can be found in the footnotes to the consolidated financial statements.

Available Information

We make available, free of charge, either on our website (www.fxenergy.com) or by contacting our main office in Salt Lake City, Utah at (801) 486-5555, our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 as soon as reasonably practicable as we file such material with, or furnish it to, the Securities and Exchange Commission.

ITEM 1A. RISK FACTORS

Risk Factors

Our business is subject to a number of material risks, including, but not limited to, the following factors related directly and indirectly to our business activities in the United States and Poland.

Risks Relating to our Business

Our success depends largely on our discovery of economic quantities of gas or oil in Poland.

We currently have a limited amount of production in Poland and the United States. Our production volumes vary significantly because the limited number of producing wells in Poland makes our total production sensitive to individual well performance, as evidenced by the production volume declines during 2008 in Poland, where production from our Wilga well declined substantially below previous levels. We anticipate that our production will increase in 2009 as previously drilled wells are placed into production and that we will generate revenues in excess of direct lease operating costs. However, these revenues are not expected to be sufficient to cover all of our exploration and development costs. Accordingly, we will continue to rely on existing working capital, including borrowings under our Senior Credit Facility with RBS, and additional funds obtained from external sources, including industry partners, to cover these costs.

Our development efforts in Poland may be limited by the unavailability of additional borrowings.

We have drawn the entire \$25.0 million available under our Senior Credit Facility with RBS. This credit facility is based on RBS's evaluation of our reserves in Poland as of November 2006 when we established the facility. Our reserves have increased substantially since establishing the credit facility with RBS, and we expect our reserve values to continue to increase if we make additional discoveries and as we place other wells into production. We believe a sizeable increase in our credit facility would be warranted but for the current global economic crisis. Due to extreme shortages of capital and liquidity, RBS, which had a market capitalization of over \$105.0 billion two years ago, now has a market capitalization of less than \$10.0 billion. After equity infusions aggregating about \$45.0 billion during the last year, RBS will now be between 70% and 95% owned by the United Kingdom government and is undergoing substantial management and staff reorganization. Accordingly, we cannot predict how RBS will respond to requests for increased borrowings, notwithstanding our compliance with the terms of our credit facility agreement and substantial increases in reserve quantities and values.

In view of the current global banking and economic crisis, there is a severe shortage of available capital for project financing in general, and we have no other established borrowing relationships with banks or other sources of project financing. Therefore, we cannot assure that we can obtain borrowings from other sources to supplement or replace our current credit facility with RBS. Our inability to expand our borrowings would restrict the amount of capital we are able to apply in our development programs in Poland.

The over 70% decline in our stock price from its 2008 high and the prevailing condition in the equity markets make additional equity financing currently unlikely.

Our stock price has declined more than 70% from its 2008 peak and, as of early March 2009, 46% over the preceding 12 months. These price declines are typical throughout the equity markets generally and in the gas and oil segment specifically. In these market conditions we cannot assure that the equity markets will be accessible or that we would be willing to sell equity at the prices that may be required in order to attract capital.

The recent sharp decline in global oil prices below mid-2008 unprecedented highs could have a future negative impact on the price we receive for gas in Poland.

Global oil prices have dropped rapidly from unprecedented mid-2008 highs to lower prices at year-end, and gas prices in the United States have also decreased significantly. The decline in world oil prices may, in the future, depress the prices at which we sell gas in Poland to POGC pursuant to published tariffs for gas sold to wholesale consumers. Such tariffs are determined in part by reference to the cost of Russian imported gas, which in turn is priced based on trailing, historical oil prices. The trailing impact of such lower prices may influence tariff price reductions and so may reduce the price that we may receive for our gas from POGC.

Declining oil prices have a direct impact on our domestic revenues. The fall in oil prices means our oil revenues will decline until such time as prices recover. Declining oil prices resulted in property impairments of \$3.8 million related to our domestic producing properties during 2008, and further impairments of the remaining \$0.3 million would be likely in the event of further price declines.

We may incur additional losses due to exchange rate fluctuations.

Continuing fluctuations in the rates at which U.S. dollars are exchanged into Polish zlotys may result in exchange rate losses in addition to the approximately \$888,000 in losses related to open Polish forward contracts that we recognized at December 31, 2008. Increases in the exchange rate above the rate of 2.9 zlotys per dollar at December 31, 2008, would result in additional losses during the current quarter. We could also suffer additional future losses if we purchase new forward contracts in an effort to protect against further exchange rate fluctuations. We are subject to exchange rate fluctuations as we transfer dollar denominated funds from the United States to Poland for exploration and development and receive payment for the gas we sell in Poland in zlotys. We record receivables and payables in U.S. dollars and recognize a gain or loss when the receivables or payables are subsequently settled at different exchange rates. As the U.S. dollar strengthens, our U.S. dollar denominated revenue received in Polish zlotys declines; conversely, when the U.S. dollar weakens, our U.S. dollar denominated revenue received in Polish zlotys increases. Should exchange rates in effect during early 2009 continue throughout the year, we expect the exchange rates to have a negative impact on our U.S. dollar denominated revenues, but a corresponding positive impact on the U.S. dollar cost of our capital expenditures in Poland.

We have limited control over our exploration and development activities in Poland.

Our partner, POGC, holds the majority interest and is operator of our Fences project area and has a minority interest in our Wilga project area. As a paying partner, we rely to a significant extent on the financial capabilities of POGC. If POGC were to fail to perform its obligations under contracts with us, it would most likely have a material adverse effect on us. In particular, we have prepared our exploration budget through 2009 and beyond based on the participation of and funding to be provided by POGC. Although we have rights to participate in exploration and development activities on some POGC-controlled acreage, we have limited rights to initiate such activities. Further, we have no direct interest in some of the underlying agreements, licenses, and grants from the Polish agencies governing the exploration, exploitation, development, or production of acreage controlled by POGC. Thus, our program in Poland involving POGC-controlled acreage would be adversely affected if POGC should elect not to pursue activities on such acreage, if the relationship between us and POGC should deteriorate or terminate, or if POGC or the governmental agencies should fail to fulfill the requirements of, or elect to terminate, such agreements, licenses, or grants.

We cannot assure the exploration models we are using in Poland will lead to finding gas or oil in Poland.

We cannot assure the exploration models we and POGC have developed will provide a useful or effective guide for selecting exploration prospects and drilling targets. We will have to revise or replace these exploration models as a guide to further exploration if ongoing drilling results do not confirm their validity. These exploration models may be based on incomplete or unconfirmed data and theories that have not been fully tested. The seismic data, other technologies, and the study of producing fields in the area do not enable us to know conclusively prior to drilling that gas or oil will be present in commercial quantities. The fact that some prospects may appear to have similar geological or geophysical subsurface features or may be located in proximity to previous wells cannot assure that such prospects are in fact similar or that drilling results will be comparable. Every prospect must be evaluated individually. We cannot assure that the analogies that we draw from available data from other wells, more fully explored prospects, or producing fields will be applicable to our drilling prospects.

We use various methods to evaluate various categories of potential gas or oil accumulations.

This report contains estimates of quantities and values of proved reserves as estimated in accordance with deterministic methods and criteria established by the Securities and Exchange Commission. We also use probabilistic methods commonly used in Europe and other parts of the world for estimating the quantity and value of gas and oil accumulations for various purposes, including determining the amount that we may borrow under our Senior Credit Facility with RBS. For purposes of management decisions and risk analysis, we use other geological and geophysical techniques to determine gross, unrisks resource potential. These various methods are important in making many kinds of management decisions at various stages during the exploration, development, and production process, but the quantities and values arrived at through these various methods are not comparable and should not be compared. We cannot assure that any gas or oil quantities or values that we estimate using probabilistic methods will ever be converted through additional exploration and production into PV-10 Values estimated in accordance with deterministic methods required by the Securities and Exchange Commission.

We cannot accurately predict the size of exploration targets or foresee all related risks.

Notwithstanding the accumulation and study of 2-D and 3-D seismic data, drilling logs, production information from established fields, and other data, we cannot predict accurately the gas or oil potential of individual prospects and drilling targets or the related risks. We sometimes predict the gross potential gas or oil in a particular area as part of our evaluation of the exploration potential and related risks. Our predictions are only rough, preliminary geological estimates of the forecasted volume and characteristics of possible reservoirs and the calculated potential gas or oil that could be contained if present and are unqualified by any risk evaluation. Such forecasts are not an assurance that our exploration will be successful or that we will be able to establish reserves equal to such forecasts. In some cases, our estimates may be based on a review of data from other exploration or producing fields in the area that ultimately may be found not to be similar to our exploration prospects. We may require several test wells and long-term analysis of test data and history of production to determine the gas or oil potential of individual prospects.

We have had limited exploratory success in Poland.

Since 1995, we have participated in drilling 28 exploratory wells in Poland, including seven commercial discoveries (the Wilga 2, Kleka 11, Zaniemysl-3, Sroda-4, Winna Gora-1, Roszkow-1, and Kromolice-1), and 21 noncommercial wells. Of our seven commercial successes in Poland, we were producing gas at our Wilga 2, Zaniemysl-3, and Kleka 11 wells as of December 31, 2008.

We may not achieve the results anticipated in placing our current or future discoveries into production.

We may encounter delays in commencing the production and the sale of gas in Poland, including our recent gas discoveries and other possible future discoveries. The possible delays may arise in obtaining rights-of-way to connect to the POGC pipeline system, obtaining construction permits, availability of materials and contractors, the signing of gas or oil purchase/sales contracts, and other factors. Such delays would correspondingly delay the commencement of cash flow and may require us to obtain additional short-term financing pending commencement of production. Further, we may design proposed surface and pipeline facilities based on possible estimated results of additional drilling. We cannot assure that additional drilling will establish additional reserves or production that will provide an economic return for planned expenditures for facilities. We may have to change our anticipated expenditures if costs of placing a particular discovery into production are higher, if the project is smaller, or if the commencement of production takes longer than expected.

Privatization/Nationalization of POGC could affect our relationship and future opportunities in Poland.

Our activities in Poland have benefited from our relationship with POGC, which has provided us with exploration acreage, seismic data, and production data under our agreements. The Polish government commenced the privatization of POGC by selling POGC's refining assets in the mid-90s and by successfully completing an initial public offering of approximately 15% of its stock. Complete privatization or a re-nationalization of POGC may result in new policies, strategies, or ownership that could adversely affect our existing relationship and agreements, as well as the availability of opportunities with POGC in the future.

We have a history of operating losses and may require additional capital in the future to fund our operations.

From our inception in January 1989 through December 31, 2008, we have incurred cumulative net losses of approximately \$160 million. We expect that our exploration and production activities may continue to result in net losses through 2009 and possibly beyond, depending on whether our activities in Poland and the United States result in sufficient revenues to cover related operating expenses.

Until sufficient cash flow from operations can be obtained, we expect we will need additional capital to fully fund our ongoing planned exploration, appraisal, development, and property acquisition programs in Poland. We may seek required funds from the issuance of additional debt, equity or hybrid securities, project financing, strategic alliances, or other arrangements. Obtaining additional financing may dilute the interest of our existing stockholders or our interest in the specific project being financed. We cannot assure that additional funds could be obtained or, if obtained, would be on terms favorable to us. In addition to planned activities in Poland, we may require additional funds for general corporate purposes.

The loss of key personnel could have an adverse impact on our operations.

We rely on our officers, key employees, and consultants and their expertise, particularly David N. Pierce, President and Chief Executive Officer; Thomas B. Lovejoy, Chairman of the Board and Executive Vice President; Andrew W. Pierce, Vice President-Operations; Jerzy B. Maciolek, Vice President-Exploration; Zbigniew Tatus, Poland Country Manager; and Richard Hardman, Director and Chairman of our Technical and Advisory Panel. The loss of the services of any of these individuals may materially and adversely affect us. We have entered into employment agreements with our key executives. We do not maintain key-man insurance on any of our employees.

Substantially all of the gas and oil currently produced in Poland is sold to a single customer or its affiliates.

We currently sell substantially all of the gas and oil produced in Poland to POGC or one of its affiliates. If POGC were to fail to perform its obligations under contracts with us, it would most likely have a material adverse effect on us. As discussed previously, the market for the sale of gas in Poland is open to competition, but there are not yet many participants. While our contracts provide us with the ability to market gas to other purchasers, including those outside of Poland, it may take a considerable amount of time to replace POGC as our primary customer.

Gas and oil price decreases and volatility could adversely affect our operations and our ability to obtain financing.

Gas and oil prices have been and are likely to continue to be volatile and subject to wide fluctuations in response to the following factors:

- the market and price structure in local markets;
- changes in the supply of and demand for gas and oil;
- market uncertainty;
- political conditions in international gas and oil producing regions;
- the extent of production and importation of gas and oil into existing or potential markets;
- the level of consumer demand;
- weather conditions affecting production, transportation, and consumption;
- the competitive position of gas or oil as a source of energy, as compared with coal, nuclear energy, hydroelectric power, and other energy sources;
- the availability, proximity, and capacity of gathering systems, pipelines, and processing facilities;
- the refining and processing capacity of prospective gas or oil purchasers;
- the effect of governmental regulation on the production, transportation, and sale of gas and oil; and
- other factors beyond our control.

We have not entered into any agreements to protect us from price fluctuations and may or may not do so in the future.

Our industry is subject to numerous operating risks. Insurance may not be adequate to protect us against all these risks.

Our gas and oil drilling and production operations are subject to hazards incidental to the industry. These hazards include blowouts, cratering, explosions, uncontrollable flows of oil, gas or well fluids, fires, pollution, releases of toxic gas, and other environmental hazards and risks. These hazards can cause personal injury and loss of life, severe damage to and destruction of property and equipment, pollution or environmental damage, and suspension of operations. To lessen the effects of these hazards, we maintain insurance of various types to cover our domestic and international operations. We cannot assure that the insurance policies carried by us or by POGC, as operator of the Fences area, can continue to be obtained on reasonable terms. While we do carry limited third-party liability and all-risk insurance in Poland, we do not plan to purchase well control insurance on wells we drill in the Fences project area and may elect not to purchase such insurance on wells drilled in other areas in Poland as well. The current level of insurance does not cover all of the risks involved in gas and oil exploration, drilling, and production. Where additional insurance coverage does exist, the amount of coverage may not be sufficient to pay

the full amount of such liabilities. We may not be insured against all losses or liabilities that may arise from all hazards because such insurance is unavailable at economic rates, because of limitations on existing insurance coverage, or other factors. For example, we do not maintain insurance against risks related to violations of environmental laws. We would be adversely affected by a significant adverse event that is not fully covered by insurance. Further, we cannot assure that we will be able to maintain adequate insurance in the future at rates we consider reasonable.

Risks Relating to Conducting Business in Poland

Polish laws, regulations, and policies may be changed in ways that could adversely impact our business.

Our gas and oil exploration, development, and production activities in Poland are and will continue to be subject to ongoing uncertainties and risks, including:

- possible changes in government personnel, the development of new administrative policies, and practices and political conditions in Poland that may affect the administration of agreements with governmental agencies or enterprises;
- possible changes to the laws, regulations, and policies applicable to us and our partners or the gas and oil industry in Poland in general;
- uncertainties as to whether the laws and regulations will be applicable in any particular circumstance;
- uncertainties as to whether we will be able to enforce our rights in Poland;
- uncertainty as to whether we will be able to demonstrate, to the satisfaction of the Polish authorities, our and POGC's compliance with governmental requirements respecting exploration expenditures, results of exploration, environmental protection matters, and other factors;
- the inability to recover previous payments to the Polish government made under the exploration rights or any other costs incurred respecting those rights if we were to lose or cancel our exploration and exploitation rights at any time;
- political instability and possible changes in government;
- export and transportation tariffs;
- local and national tax requirements;
- expropriation or nationalization of private enterprises and other risks arising out of foreign government sovereignty over our acreage in Poland; and
- possible significant delays in obtaining opinions of local authorities or satisfying other governmental requirements in connection with a grant of permits to conduct exploration and production activities.

Poland has a developing regulatory regime, regulatory policies, and interpretations.

Poland has a regulatory regime governing exploration and development, production, marketing, transportation, and storage of gas and oil. These provisions were promulgated during the past two decades and are relatively untested. Therefore, there is little or no administrative or enforcement history or established practice that can aid us in evaluating how the regulatory regime will affect our operations. It is possible those governmental policies will change or that new laws and regulations, administrative practices or policies, or interpretations of existing laws and regulations will materially and adversely affect our activities in Poland. For example, Poland's laws, policies, and procedures were changed to conform to the requirements that had to be met before Poland was admitted as a full member of the European Union.

Our gas and oil operations are subject to changing environmental laws and regulations that could have a negative impact on our operations.

Operations on our project areas are subject to environmental laws and regulations in Poland that provide for restrictions and prohibitions on spills, releases, or emissions of various substances produced in association with gas and oil exploration and development. Additionally, if significant quantities of gas are produced with oil, regulations prohibiting the flaring of gas may inhibit oil production. In such circumstances, the absence of a gas gathering and delivering system may restrict production or may require significant expenditures to develop such a system prior to producing gas and oil. We are required to prepare and obtain approval of environmental impact assessments by governmental authorities in Poland prior to commencing gas or oil production, transportation, and processing functions. We are also subject to the requirements of Natura 2000, which is an ecological network in the territory of the European Union. In May 1992, governments of the European Union adopted legislation designed to protect the most seriously threatened habitats and species across Europe.

We and our partners cannot assure that we have complied with all applicable laws and regulations in drilling wells, acquiring seismic data, or completing other activities in Poland to date. The Polish government may adopt more restrictive regulations or administrative policies or practices. The cost of compliance with current regulations or any changes in environmental regulations could require significant expenditures. Further, breaches of such regulations may result in the imposition of fines and penalties, any of which may be material. These environmental costs could have an adverse effect on our financial condition, results of operations, or cash flows in the future.

Certain risks of loss arise from our need to conduct transactions in foreign currency.

The amounts in our agreements relating to our activities in Poland are sometimes expressed and payable in U.S. dollars and sometimes in Polish zlotys. Conversions between U.S. dollars and Polish zlotys are typically made on the date amounts are paid or received. In the future, our financial results and cash flows in Poland may be affected by fluctuations in exchange rates between the Polish zloty and the U.S. dollar. Currencies used by us may not be convertible at satisfactory rates. In addition, the official conversion rates between United States and Polish currencies may not accurately reflect the relative value of goods and services available or required in Poland. Further, inflation may lead to the devaluation of the Polish zloty.

The interests that we hold in concessions and usufructs owned in the name of POGC may be jeopardized or lost, without compensation to us, in the event of POGC's bankruptcy, persistent breaches of laws such as environmental requirements, winding up, or other circumstances.

The Poland Ministry of the Environment, which administers the Geologic and Mining Law, has the authority to terminate concessions and usufructs in the name of POGC and in which we have a fractional undivided interest if POGC is declared bankrupt, persistently violates environmental regulations or other laws, is wound up, rescinds the concession, or otherwise breaches material usufruct or concession terms. There can be no assurance that POGC's current 85% government ownership will continue or that the Poland government will in any circumstance intervene to prevent POGC's insolvency or bankruptcy. We may not be able to implement effective measures to preserve and protect our property interests by curing any concession or usufruct default by POGC, assuring fair compensation in the event of any such loss, or implementing new legal strategies that would insulate our interests from loss due to POGC's actions or condition.

Risks Related to an Investment in our Common Stock

Our stockholder rights plan and bylaws discourage unsolicited takeover proposals and could prevent our stockholders from realizing a premium on our common stock.

We have a stockholder rights plan that may have the effect of discouraging unsolicited takeover proposals. The rights issued under the stockholder rights plan would cause substantial dilution to a person or group that attempts to acquire us on terms not approved in advance by our board of directors. In addition, our articles of incorporation and bylaws contain provisions that may discourage unsolicited takeover proposals that our stockholders may consider to be in their best interests that include:

- provisions that members of the board of directors are elected and retire in rotation; and
- the ability of the board of directors to designate the terms of, and to issue new series of, preferred shares.

Together, these provisions and our stockholder rights plan may discourage transactions that otherwise could involve payment to our stockholders of a premium over prevailing market prices for our common shares.

Our common stock price has been and may continue to be extremely volatile.

Our common stock has traded as low as \$2.05 and as high as \$8.66 during intraday trading between January 1, 2008, and the date of this report. Some of the factors leading to this volatility include:

- the outcome of individual wells or the timing of exploration efforts in Poland;
- the potential sale by us of newly issued common stock to raise capital or by existing stockholders of restricted securities;
- price and volume fluctuations in the general securities markets that are unrelated to our results of operations;
- the investment community's view of companies with assets and operations outside the United States in general and in Poland in particular;
- actions or announcements by POGC that may affect us;
- turmoil in the financial sector which may impact our revolving credit facility;
- prevailing world prices for gas and oil;
- the potential of our current and planned activities in Poland; and
- changes in stock market analysts' recommendations regarding us, other gas and oil companies, or the gas and oil industry in general.

Exploration failures in Poland may adversely affect the trading prices for our common stock.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Proved Reserves

Proved reserves are the estimated quantities of crude oil and natural gas that geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reserves under existing economic and operating conditions. Our proved gas and oil reserve quantities and values are based on estimates prepared by independent reserve engineers in accordance with guidelines established by the Securities and Exchange Commission, or SEC. Operating costs, production taxes, and development costs were deducted in determining the quantity and value information. Such costs were estimated based on current costs and were not adjusted to anticipate increases due to inflation or other factors. No price escalations were assumed, and no amounts were deducted for general overhead, depreciation, depletion and amortization, and interest expense. The proved reserve quantity and value information is based on the weighted average price on December 31, 2008, of \$36.56 per barrel of oil, or Bbl, and \$5.29 per thousand cubic feet, or Mcf, of gas in Poland and \$24.58 per Bbl for oil in the United States. The determination of gas and oil reserves is based on estimates and is highly complex and interpretive, as there are numerous uncertainties inherent in estimating quantities and values of proved reserves, projecting future rates of production, and the timing and amount of development expenditures. The estimated present value, discounted at 10% per annum, of the future net cash flows, the Standardized Measure of Future Net Cash Flows (“SMOG”), or PV-10 Value, was determined in accordance with Statement of Financial Accounting Standards (“SFAS”) No. 69, “Disclosure About Oil and Gas Activities,” and SEC guidelines. Our proved reserve estimates are subject to continuing revisions as additional information becomes available or assumptions change.

Estimates of our proved Polish gas reserves were prepared by RPS Energy, an independent engineering firm in the United Kingdom. Estimates of our proved United States oil reserves were prepared by Larry Krause Consulting, an independent engineering firm in Billings, Montana. No estimates of our proved reserves were filed with or included in any report to any other federal agency during 2008.

The following summary of proved reserve information as of December 31, 2008, represents discounted, after tax estimates net to us only, and should not be construed as exact:

	Poland			United States		Total PV-10 Value (In thousands)
	Oil	Gas	PV-10 Value (In thousands)	Oil	PV-10 Value (In thousands)	
	(MBbls)	(MMcf)	(In thousands)	(MBbls)	(In thousands)	
Proved reserves	47	45,312	\$117,250	45	\$318	\$117,568

Drilling Activities

The following table sets forth the exploratory wells that we drilled during the years ended December 31, 2008, 2007, and 2006:

	Years Ended December 31,					
	2008		2007		2006	
	Gross	Net	Gross	Net	Gross	Net
Exploratory productive wells:						
Poland	1.0	0.5	2.0	1.0	--	--
United States	--	--	--	--	--	--
Total	1.0	0.5	2.0	1.0	--	--
Exploratory dry holes:						
Poland	2.0	1.0	--	--	1.0	1.0
United States	3.0	1.5	--	--	2.0	1.5
Total	5.0	2.5	--	--	3.0	2.5
Total wells drilled	6.0	3.0	2.0	1.0	3.0	2.5

Wells and Acreage

As of December 31, 2008, our producing gross and net well count consisted of the following:

	Number of Wells	
	Gross	Net
Well count:		
Poland ⁽¹⁾	3.0	1.6
United States ⁽²⁾	134.0	127.0
Total	<u>137.0</u>	<u>128.6</u>

(1) As of December 31, 2008, we had four wells in Poland awaiting the construction of production facilities.

(2) All of our producing United States wells are oil wells. We have no gas production in the United States.

The following table sets forth our gross and net acres of developed and undeveloped gas and oil acreage as of December 31, 2008:

	Developed		Undeveloped	
	Gross	Net	Gross	Net
Poland: ⁽¹⁾				
Fences project area.....	225	110	852,000	406,000
Wilga project area	543	441	250,000	205,000
Northwest project area	--	--	1,362,000	1,362,000
Kutno project area.....	--	--	706,000	706,000
Warsaw South project area			638,000	638,000
Block 287 project area	--	--	213,000	213,000
Edge project area	--	--	881,000	881,000
Block 246 project area			241,000	241,000
Block 229 project area			233,000	233,000
Total Polish acreage	<u>768</u>	<u>551</u>	<u>5,376,000</u>	<u>4,885,000</u>
United States:				
Montana	10,732	10,418	4,510	4,417
Nevada	400	128	9,332	6,351
Total	<u>11,132</u>	<u>10,546</u>	<u>13,482</u>	<u>10,768</u>
Total Acreage	<u>11,900</u>	<u>11,097</u>	<u>5,389,482</u>	<u>4,895,768</u>

(1) All gross and net undeveloped Polish acreage is rounded to the nearest 1,000 acres.

Polish Properties

Producing Properties

A summary of our average daily production, average working interest, and net revenue interest for our Poland producing properties during 2008 follows:

	Average Daily Production (Mcf)		Average Working Interest	Average Net Revenue Interest
	Gross	Net		
Fences project area	2,717	2,690	37%	37%
Block 255/Wilga	771	763	82%	82%
	<u>3,488</u>	<u>3,453</u>		

Production, Transportation and Marketing

We did not place any new discoveries into production in Poland during 2008, and production from our Wilga well declined sharply, which resulted in an overall decline in production during 2008. We expect production will increase as we place four previous discoveries into production in 2009 and 2010.

The following table sets forth our net daily gas and oil production, average sales price, and average production costs associated with our Polish production during 2008, 2007, and 2006:

	<u>2008</u>		<u>2007</u>		<u>2006</u>
Average daily net gas production (Mcf) ⁽¹⁾	3,428		5,039		837
Average sales price per Mcf	\$ 5.92	\$	4.95	\$	3.88
Average daily net oil production (Bbls) ⁽¹⁾	10		69		106
Average sales price per Bbl	\$ 107.68	\$	58.68	\$	56.58
Average daily net Mcfe production ⁽¹⁾	3,488		5,453		1,473
Average production costs per Mcfe ⁽²⁾	\$ 0.70	\$	0.58	\$	0.56

(1) Average daily net production amounts shown are calculated based on days of actual production.

(2) Production costs include lifting costs (electricity, fuel, water, disposal, repairs, maintenance, transportation, and similar items), and contract operator fees. Production costs do not include such items as general and administrative costs; depreciation, depletion and amortization; or Polish income taxes.

Poland has a network of gas pipelines and crude oil pipelines traversing the country serving major metropolitan, commercial, industrial, and gas production areas, including significant portions of our acreage. Poland has a well-developed infrastructure of hard-surfaced roads and railways over which oil produced can be transported for sale. There are refineries in Gdansk and Plock in Poland and one in Germany near the western Polish border that we believe could process crude oil produced in Poland. Should we choose to export any gas or oil we produce, we will be required to obtain prior governmental approval.

We are currently selling substantially all of our gas and oil production in Poland to POGC or one of its affiliates. Gas is sold pursuant to long-term sales contracts, typically for the life of each well, which obligate POGC to purchase all gas produced. Individual oil sales are negotiated with POGC-affiliated entities and are not subject to sales contracts.

United States Properties

Producing Properties

In the United States, we currently produce oil in Montana and Nevada. All of our producing properties, except for the Rattlers Butte field (an exploratory discovery during 1997), were purchased during 1994. A summary of our average daily production, average working interest, and net revenue interest for our United States producing properties during 2008 follows:

	<u>Average Daily Production (Bbls)</u>		<u>Average Working Interest</u>	<u>Average Net Revenue Interest</u>
	<u>Gross</u>	<u>Net</u>		
Montana.....	201	167	98%	85%
Nevada.....	51	13	31%	29%
Total United States producing properties.....	<u>252</u>	<u>180</u>		

In Montana, we operate the Cut Bank and Bears Den fields and have an interest in the Rattlers Butte field, which is operated by an industry partner. Production in the Cut Bank field, producing since the 1940s from an average depth of approximately 2,900 feet, is from a waterflood program with 120 producing oil wells, 30 active injection wells, and one active water supply well. The Bears Den field, under waterflood since 1990, is producing oil from five wells at a depth of approximately 2,430 feet, with one active water injection well. In the Rattlers Butte field, we own a 6.3% working interest in two oil wells producing at a depth of approximately 5,800 feet and one active water injection well.

In Nevada, we operate the Trap Springs and Munson Ranch fields and have an interest in the Bacon Flat field, which is operated by an industry partner. In the Trap Springs field, discovered in 1976, we produce oil from a depth of approximately 3,700 feet from one well. In the Munson Ranch field, discovered in 1988, we produce oil at an average depth of 3,800 feet from five wells. In the Bacon Flat field, discovered in 1981, we produce oil from one well at a depth of approximately 5,000 feet.

Production, Transportation and Marketing

The following table sets forth our average net daily oil production, average sales price, and average production costs associated with our United States oil production during 2008, 2007, and 2006:

	Years Ended December 31,		
	2008	2007	2006
United States producing property data:			
Average daily net oil production (Bbls)	181	192	209
Average sales price per Bbl	\$86.91	\$61.75	\$56.07
Average production costs per Bbl ⁽¹⁾	\$38.89	\$34.12	\$27.65

(1) Production costs include lifting costs (electricity, fuel, water, disposal, repairs, maintenance, pumper, transportation, and similar items) and production taxes. Production costs do not include such items as general and administrative costs; depreciation, depletion and amortization; state income taxes, or federal income taxes.

We sell oil at posted field prices to one of several purchasers in each of our production areas. We sell all of our Montana production, which represents over 93% of our total oil sales, to CENEX, a regional refiner and marketer. Posted prices are generally competitive among crude oil purchasers. Our crude oil sales contracts may be terminated by either party upon 30 days' notice.

Oilfield Services – Drilling Rig and Well-Servicing Equipment

In Montana, we perform, through our drilling subsidiary, FX Drilling Company, Inc., a variety of third-party contract oilfield services, including drilling, workovers, location work, cementing, and acidizing. We currently have a drilling rig capable of drilling to a vertical depth of 6,000 feet, a workover rig, two service rigs, cementing equipment, acidizing equipment, and other associated oilfield servicing equipment.

The Republic of Poland

The Republic of Poland is located in central Europe, has a population of approximately 39 million people, and covers an area comparable in size to New Mexico. During 1989, Poland peacefully asserted its independence and became a parliamentary democracy. Since 1989, Poland has enacted comprehensive economic reform programs and stabilization measures that have enabled it to form a free-market economy and turn its economic ties from the east to the west, with most of its current international trade with the countries of the European Union and the United States. The economy has undergone extensive restructuring in the post-communist era. The Polish government credits foreign investment as a forceful growth factor in successfully creating a stable, free-market economy.

Since its transition to a free-market economy and a parliamentary democracy, Poland has experienced significant economic growth and political change. Poland has developed and is refining legal, tax, and regulatory systems characteristic of parliamentary democracies with interpretation and procedural safeguards. The Polish government has taken steps to harmonize Polish legislation with that of the European Union, which it joined in May of 2004.

Poland has created an attractive legal framework and fiscal regime for gas and oil exploration by actively encouraging investment by foreign companies. In July 1995, Poland's Council of Ministers approved a program to restructure and privatize the Polish petroleum sector. So far under this plan, a refinery located in Plock has been privatized as a publicly held company with its stock trading on the London and Warsaw stock exchanges. In September of 2005, POGC sold 15% of its stock in an initial public offering on the Warsaw Stock Exchange, raising a total of 2.7 billion Polish zlotys (approximately US\$900 million).

Prior to becoming a parliamentary democracy during 1989, the exploration and development of Poland's gas and oil resources were hindered by a combination of foreign influence, a centrally controlled economy, limited financial resources, and a lack of modern exploration technology. As a result of these and other factors, Poland is currently a net energy importer. Oil is imported primarily from countries of the former Soviet Union and the Middle East, and gas is imported primarily from Russia.

Legal Framework

General Usufruct and Concession Terms

All of our rights in Poland have been awarded to us or to POGC pursuant to the Geological and Mining Law, which specifies the process for obtaining domestic exploration and exploitation rights. Under the Geological and Mining Law, the concession authority enters into mining usufruct (lease) agreements that grant the holder the exclusive right to explore for gas and oil in a designated area or to exploit the designated oil and/or gas field for a specified period under prescribed terms and conditions. The holder of the mining usufruct covering exploration must also acquire an exploration concession by applying to the concession authority and providing the opportunity for comment by local governmental authorities. The usufruct agreements include provisions that give the usufruct holder a claim for an extension of the usufruct (and the underlying concession), subject to having fulfilled all obligations under the usufruct and/or concession agreements.

Under current law, the concession authority requires that concessions and related usufructs be owned by a single entity, without recognizing any minority record ownership such as would reflect our interest in those areas in which we previously have been granted a minority ownership. As such, our ownership is subject to continued compliance with applicable law, the usufruct and concession terms, and, with regards to the Fences area, the solvency of POGC as the record owner.

The concession authority has granted POGC gas and oil exploration rights on the Fences project area, and has granted us gas and oil exploration rights on all other project areas in which we have an interest. The agreements divide these areas into blocks, containing up to 300,000 acres.

If commercially viable gas or oil is discovered, the concession owner may produce it for two years based on the exploration concession, then apply for an exploitation concession, as provided by the usufructs, generally with a term of 25 to 30 years or as long as commercial production continues. Upon the grant of the exploitation concession, the concession owner may become obligated to pay a fee, to be negotiated, but expected to be less than 1% of the market value of the estimated recoverable reserves in place. The concession owner would also be required to pay a royalty on any production, the amount of which will be set by the Council of Ministers, within a range established by legislation for the mineral being extracted. The royalty rate for high-methane gas is currently less than \$0.05 per Mcf. Local governments will receive 60% of any royalties paid on production. The holder of the exploitation concession must also acquire rights to use the land from the surface owner and could be subject to significant delays in obtaining the consents of local authorities or satisfying other governmental requirements prior to obtaining an exploitation concession.

We believe all material concession terms have been satisfied to date.

Existing Project Areas

Fences Project Area

The Fences project area consists of four gas and oil exploration concessions controlled by POGC. Three producing fields (Radlin, Kleka, and Kaleje) lie within the concession boundary, but are excluded from the Fences concessions. The concessions have expiration dates ranging from July 2009 to July 2014. The total remaining work commitment includes: acquiring 100 kilometers of 2-D seismic data, 180 square kilometers of 3-D seismic data, and drilling three wells. POGC has filed an application for an extension for the concession expiring in 2009, which we expect to be granted.

Wilga/Block 255 Project Area

The Wilga project area consists of a single gas and oil exploration concession held by us that expires in August 2009. The remaining period carries a work commitment of 80 kilometers of 2-D seismic data. We plan to file an application for extension for this concession in 2009, which we expect to be granted.

Block 287 Project Area

The Block 287 project area consists of a single gas and oil exploration concession held by us. Several producing fields also lie within this concession's boundaries, but are excluded from the Block 287 project area. The concession is for a period of six years ending in December 2009. Work commitments included acquiring 100 kilometers of new 2-D seismic data or drilling one well, which was satisfied by the drilling of the Drozdowice-1 well, and analysis and interpretation of existing well data. Beginning in the fourth year, there was a drilling requirement of a second well that will be satisfied by re-entering and producing the Grabowka gas field in 2009. We plan to file an application for extension for this concession in 2009, which we expect to be granted.

Northwest Project Area

The Northwest project area consists of seven gas and oil exploration concessions granted at various times in 2006, 2007 and 2008, with expiration dates ranging from October 2012 through September 2014. The total work commitment for three of the blocks was outlined in three phases: Phase I - one year: reprocessing and reinterpretation of existing data; Phase II - two years: acquiring 800 kilometers of new 2-D seismic data; Phase III - three years: drilling three wells. The total work commitment for the remaining four blocks is outlined in two phases: Phase I - either two or three years: reprocessing and reinterpretation of existing data and acquiring 210 kilometers of 2-D seismic data; Phase II - three years: drilling four wells.

Kutno Project Area

The Kutno project area consists of three gas and oil exploration concessions. The first concession was granted in 2007 for a period of six years, and two new concessions were added in 2008 for a period of three years. The total work commitment for the initial concession is outlined in three phases: Phase I - one and one half years: reprocessing and reinterpretation of existing data; Phase II - two years: drilling one well or acquiring 100 kilometers of 2-D seismic; Phase III - two and a half years: drilling one well. The work commitments for the 2008 concessions are outlined in two phases: Phase I - one year: reprocessing and reinterpretation of existing data; Phase II - two years: acquiring 200 kilometers of 2-D seismic data.

Warsaw South Project Area

This project area is adjacent to Block 255 and consists of four exploration concessions with expiration dates ranging from September 2012 to July 2013. The total work commitment for the four concessions is outlined in three phases: Phase I - one year: reprocessing and reinterpretation of existing data; Phase II - two years: acquiring 450 kilometers of new 2-D seismic data; Phase III - three years: drilling four wells.

As of December 31, 2008, all required usufruct/concession payments had been made for each of the above project areas.

Project Areas added in 2008

Edge Project Area

The Edge project area consists of four gas and oil exploration concessions granted for the period of five years. The total work commitment is outlined in three phases: Phase I - one year: reprocessing and reinterpretation of existing data; Phase II - two years: acquiring 350 kilometers of 2-D seismic data; Phase III - two years: drilling four wells.

Block 246 Project Area

The Block 246 project area is adjacent to the Fences project area in the south and consists of a single concession granted for six years. The work commitment is outlined in three phases: Phase I – one year: reprocessing and reinterpretation of existing data; Phase II – two years: acquiring 120 kilometers of 2-D seismic data; Phase III – three years: drilling one well.

Block 229 Project Area

The Block 229 project area is adjacent to the Fences project area and consists of two explorations concessions granted for the period of six years. The total work commitment is outlined in three phases: Phase I – one year: reprocessing and reinterpretation of existing data; Phase II – two years: acquiring 300 kilometers of 2-D seismic data; Phase III – three years: drilling two wells.

Government Regulation

Poland

Our activities in Poland are subject to political, economic, and other uncertainties, including the adoption of new laws, regulations, or administrative policies that may adversely affect us or the terms of our exploration or production rights; political instability and changes in government or public or administrative policies; export and transportation tariffs and local and national taxes; foreign exchange and currency restrictions and fluctuations; repatriation limitations; inflation; environmental regulations; and other matters. These operations in Poland are subject to the Geological and Mining Law dated as of September 4, 1994 (as amended), and the Protection and Management of the Environment Act dated as of January 31, 1980 (as amended), which are the current primary statutes governing environmental protection. Agreements with the government of Poland respecting our exploration and production areas create certain standards to be met regarding environmental protection. Participants in gas and oil exploration, development, and production activities generally are required to: (1) adhere to good international petroleum industry practices, including practices relating to the protection of the environment; and (2) prepare and submit geological work plans, with specific attention to environmental matters, to the appropriate agency of state geological administration for its approval prior to engaging in field operations such as seismic data acquisition, exploratory drilling, and field-wide development. Poland's regulatory framework respecting environmental protection is not as fully developed and detailed as that which exists in the United States. We intend to conduct our operations in Poland in accordance with good international petroleum industry practices and, as they continue to develop, Polish requirements.

United States

State and Local Regulation of Drilling and Production

Our exploration and production operations are subject to various types of regulation at the federal, state, and local levels. Such regulation includes requiring permits for the drilling of wells, maintaining bonding requirements in order to drill or operate wells and regulating the location of wells, the method of drilling and casing wells, the surface use and restoration of properties upon which wells are drilled, and the plugging and abandoning of wells. Our operations are also subject to various conservation laws and regulations. These include the regulation of the size of drilling and spacing units or proration units and the density of wells that may be drilled and the unitization or pooling of gas and oil properties. In this regard, some states allow the forced pooling or integration of tracts to facilitate exploration while other states rely on voluntary pooling of lands and leases. In addition, state conservation laws establish maximum rates of production from gas and oil wells, generally prohibit the venting or flaring of gas, and impose certain requirements regarding the ratability of production.

Our oil production is affected to some degree by state regulations. States in which we operate have statutory provisions regulating the production and sale of gas and oil, including provisions regarding deliverability. Such statutes and related regulations are generally intended to prevent waste of gas and oil and to protect correlative rights to produce gas and oil between owners of a common reservoir. Certain state regulatory authorities also regulate the amount of gas and oil produced by assigning allowable rates of production to each well or proration unit.

Environmental Regulations

The federal government and various state and local governments have adopted laws and regulations regarding the control of contamination of the environment. These laws and regulations may require the acquisition of a permit by operators before drilling commences; restrict the types, quantities, and concentration of various substances that can be released into the environment in connection with drilling and production activities; limit or prohibit drilling activities on certain lands lying within wilderness, wetlands, and other protected areas; and impose substantial liabilities for pollution resulting from our operations. These laws and regulations may also increase the costs of drilling and operating wells. We may also be held liable for the costs of removal and damages arising out of a pollution incident to the extent set forth in the Federal Water Pollution Control Act, as amended by the Oil Pollution Act of 1990, or OPA '90. In addition, we may be subject to other civil claims arising out of any such incident. As with any owner of property, we are also subject to clean-up costs and liability for hazardous materials, asbestos, or any other toxic or hazardous substance that may exist on or under any of our properties. We believe that we are in compliance in all material respects with such laws, rules, and regulations and that continued compliance will not have a material adverse effect on our operations or financial condition. Furthermore, we do not believe that we are affected in a significantly different manner by these laws and regulations than our competitors in the gas and oil industry.

The Comprehensive Environmental Response, Compensation and Liability Act, or CERCLA, also known as the "Superfund" law, imposes liability, without regard to fault or the legality of the original conduct, on certain classes of persons that are considered to be responsible for the release of a "hazardous substance" into the environment. These persons include the owner or operator of the disposal site or sites where the release occurred and companies that disposed or arranged for the disposal of the hazardous substances. Under CERCLA, such persons may be subject to joint and several liability for the costs of cleaning up the hazardous substances that have been released into the environment, for damages to natural resources, and for the costs of certain health studies. Furthermore, it is not uncommon for neighboring landowners and other third parties to file claims for personal injury and property damage allegedly caused by hazardous substances or other pollutants released into the environment.

The Resource Conservation and Recovery Act, or RCRA, and regulations promulgated thereunder govern the generation, storage, transfer, and disposal of hazardous wastes. RCRA, however, excludes from the definition of hazardous wastes "drilling fluids, produced waters, and other wastes associated with the exploration, development, or production of crude oil, gas, or geothermal energy." Because of this exclusion, many of our operations are exempt from RCRA regulation. Nevertheless, we must comply with RCRA regulations for any of our operations that do not fall within the RCRA exclusion.

The OPA '90 and related regulations impose a variety of regulations on responsible parties related to the prevention of oil spills and liability for damages resulting from such spills. OPA '90 establishes strict liability for owners of facilities that are the site of a release of oil into "waters of the United States." While OPA '90 liability more typically applies to facilities near substantial bodies of water, at least one district court has held that OPA '90 liability can attach if the contamination could enter waters that may flow into navigable waters.

Stricter standards in environmental legislation may be imposed on the gas and oil industry in the future, such as proposals made in Congress and at the state level from time to time, that would reclassify certain gas and oil exploration and production wastes as "hazardous wastes" and make the reclassified wastes subject to more stringent and costly handling, disposal, and clean-up requirements. The impact of any such changes, however, would not likely be any more burdensome to us than to any other similarly situated company involved in gas and oil exploration and production.

Federal and Indian Leases

A substantial part of our producing properties in Montana consists of gas and oil leases issued by the Bureau of Land Management or by the Blackfeet Tribe under the supervision of the Bureau of Indian Affairs. Our activities on these properties must comply with rules and orders that regulate aspects of the gas and oil industry, including drilling and operating on leased land and the calculation and payment of royalties to the federal government or the governing Indian nation. Our operations on Indian lands must also comply with applicable requirements of the governing body of the tribe involved including, in some instances, the employment of tribal members. We believe we are currently in full compliance with all material provisions of such regulations.

Safety and Health Regulations

We must also conduct our operations in accordance with various laws and regulations concerning occupational safety and health. Currently, we do not foresee expending material amounts to comply with these occupational safety and health laws and regulations. However, since such laws and regulations are frequently changed, we are unable to predict the future effect of these laws and regulations.

Title to Properties

We rely on sovereign ownership of exploration rights and mineral interests by the Polish government in connection with our activities in Poland and have not conducted and do not plan to conduct any independent title examination. We regularly consult with our Polish legal counsel when doing business in Poland.

Nearly all of our United States working interests are held under leases from third parties. We typically obtain a title opinion concerning such properties prior to the commencement of drilling operations. We have obtained such title opinions or other third-party review on all of our producing properties, and we believe that we have satisfactory title to all such properties sufficient to meet standards generally accepted in the gas and oil industry. Our United States properties are subject to typical burdens, including customary royalty interests and liens for current taxes, but we have concluded that such burdens do not materially interfere with the use of such properties. Further, we believe the economic effects of such burdens have been appropriately reflected in our acquisition cost of such properties and reserve estimates. Title investigation before the acquisition of undeveloped properties is less thorough than that conducted prior to drilling, as is standard practice in the industry.

Employees and Consultants

As of December 31, 2008, we had 47 employees, consisting of nine in Salt Lake City, Utah; 22 in Oilmont, Montana; one in Greenwich, Connecticut; three in Houston, Texas; and twelve in Poland. Our employees are not represented by a collective bargaining organization. We consider our relationship with our employees to be satisfactory. We also regularly engage technical consultants to provide specific geological, geophysical, and other professional services. Our executive officers and other management employees regularly travel to Poland to supervise activities conducted by our staff and others under contract on our behalf.

Offices and Facilities

Our corporate offices, located at 3006 Highland Drive, Salt Lake City, Utah, contain approximately 3,500 square feet and are rented at \$3,400 per month under a month-to-month agreement. In Montana, we own a 16,160 square foot building located at the corner of Central and Main in Oilmont. We also have an office in Warsaw, Poland, located at Ul. Chalubinskiego 8, which we rent for approximately \$4,300 per month.

Gas and Oil Terms

The following terms have the indicated meaning when used in this report:

“Appraisal well” means a well drilled following a successful exploratory well used to determine the physical extent, reserves and likely production rate of a field.

“Bbl” means oilfield barrel.

“Bcf” means billion cubic feet of natural gas.

“Bcfe” means billion cubic feet of natural gas equivalent using a ratio of one barrel of oil to 6,000 cubic feet of natural gas.

“Ca1” and “Ca2” refer to specific geological formations.

“Development well” means a well drilled within the proved area of a gas or oil reservoir to the depth of a stratigraphic horizon known to be productive.

“Exploratory well” means a well drilled to find and produce gas or oil in an unproved area, to find a new reservoir in a field previously found to be productive of gas or oil in another reservoir, or to extend a known reservoir.

“Field” means an area consisting of a single reservoir or multiple reservoirs all grouped on or related to the same individual geological structural feature and/or stratigraphic conditions.

“Gross” acres and “gross” wells mean the total number of acres or wells, as the case may be, in which an interest is owned, either directly or through a subsidiary or other Polish enterprise in which we have an interest.

“Horizon” means an underground geological formation that is the portion of the larger formation that has sufficient porosity and permeability to constitute a reservoir.

“MBbls” means thousand oilfield barrels.

“Mcf” means thousand cubic feet of natural gas.

“Mcf_e” means thousand cubic feet of natural gas equivalent using a ratio of one barrel of oil to 6,000 cubic feet of natural gas.

“MMcf” means million cubic feet of natural gas.

“MMcfD” means million cubic feet of natural gas per day.

“Net” means, when referring to wells or acres, the fractional ownership working interests held by us, either directly or through a subsidiary or other Polish enterprise in which we have an interest, multiplied by the gross wells or acres.

“Proved reserves” means the estimated quantities of crude oil, gas and gas liquids that geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions, *i.e.*, prices and costs as of the date the estimate is made. “Proved reserves” may be developed or undeveloped.

“PV-10 Value” means the estimated future net revenue to be generated from the production of proved reserves discounted to present value using an annual discount rate of 10.0%, the Standardized Measure of Future Net Cash Flows (“SMOG”). These amounts are calculated net of estimated production costs, future development costs and future income taxes, using prices and costs in effect as of a certain date, without escalation and without giving effect to non property-related expenses, such general and administrative costs, debt service, and depreciation, depletion and amortization.

“Reservoir” means a porous and permeable underground formation containing a natural accumulation of producible oil and/or gas that is confined by impermeable rock or water barriers and that is distinct and separate from other reservoirs.

“Tcf” means trillion cubic feet of natural gas.

“Usufruct” means the Polish equivalent of a U.S. gas and oil lease.

ITEM 3. LEGAL PROCEEDINGS

We are not a party to any material legal proceedings, and no material legal proceedings have been threatened by us or, to the best of our knowledge, against us, except as follows:

In November and December 2007, three actions were filed in the United States District Court for the District of Utah against us and officers or directors David N. Pierce, Clay Newton, Thomas B. Lovejoy, Andrew W. Pierce, and Richard Hardman, by three separate plaintiffs, each seeking class certification to proceed on behalf of all others similarly situated and alleging violations by the defendants of the antifraud provisions of the federal securities laws set forth in Section 10(b) of the Securities Exchange Act of 1934 and Rule 10b-5 promulgated thereunder relating to our public statements about our oil and gas activities and prospects in Poland between March 2004 and January 2006. The complaints seek damages to be determined at trial, interest, and costs, together with such other relief as the court may deem appropriate. The three actions have now been consolidated into a single matter, *In re FX Energy, Inc., Securities Litigation*, US District Court, District of Utah, case no. 2:07-cv-00874, and the lead plaintiffs and counsel have been specified. The consolidated actions have not been certified to proceed as a class action.

A consolidated complaint has been filed by the lead plaintiff that alleges that the defendants violated the antifraud provisions of Section 10(b) of the Securities Exchange Act of 1934 and Rule 10b-5 thereunder by making material misrepresentations and omissions regarding our Sroda-5 and Lugi-1 projects between January 20, 2005, and January 5, 2006. The consolidated complaint seeks damages to be determined at trial, interest, costs and such other relief as the court may deem appropriate. On June 20, 2008, we filed a motion to dismiss, with a supporting memorandum, for failure to state a claim upon which relief can be granted. Plaintiffs filed an opposition to the defendants' motion on August 19, 2008, to which defendants filed a reply on October 3, 2008. Following a hearing on February 23, 2009, on defendants' motion to dismiss, the matter is under advisement by the court. We intend to defend vigorously this consolidated action on behalf of all defendants.

Another pending action filed in the United States District Court for the District of Utah entitled *Leilani York, derivatively on behalf of nominal defendant FX Energy, Inc., plaintiff, v. David N. Pierce, Dennis B. Goldstein, Arnold S. Grundvig, Jr., Richard Hardman, Tom Lovejoy, Jerzy Maciolek, Clay Newton, Andrew W. Pierce, and David Worrell, defendants, and FX Energy, Inc., nominal defendant*, case no. 2:08-cv-00143, asserts derivative claims on our behalf against certain of current and former our directors and certain of our current and former executive officers, arising out of the same set of facts, has been stayed pending final resolution of the *In re FX Energy, Inc., Securities Litigation*.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matter was submitted to a vote of our security holders during the fourth quarter of the fiscal year ended December 31, 2008.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Price Range of Common Stock and Dividend Policy

The following table sets forth, for the periods indicated, the high and low closing prices for our common stock as quoted under the symbol "FXEN" on the NASDAQ Global Market, or its predecessor, Nasdaq National Market:

	<u>Low</u>	<u>High</u>
2009:		
First Quarter (through March 10, 2009).....	\$ 2.13	\$ 3.54
2008:		
Fourth Quarter.....	2.05	7.20
Third Quarter	4.95	8.66
Second Quarter.....	4.44	5.81
First Quarter.....	3.98	5.94
2007:		
Fourth Quarter.....	5.68	8.19
Third Quarter	6.03	9.29
Second Quarter.....	7.79	10.39
First Quarter.....	5.83	7.88

We have never paid cash dividends on our common stock and do not anticipate that we will pay dividends in the foreseeable future. We intend to reinvest any future earnings to further expand our business. We estimate that, as of March 10, 2009, we had approximately 10,500 stockholders.

Equity Compensation Plans

The information from the definitive proxy statement for the 2009 annual meeting of stockholders under the caption "Equity Compensation Plans" is incorporated herein by reference.

Recent Sales of Unregistered Securities

None.

ITEM 6. SELECTED FINANCIAL DATA

The following selected financial data for the five years ended December 31, 2008, are derived from our audited consolidated financial statements and notes thereto, certain of which are included in this report. The selected financial data should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements and the notes thereto included elsewhere in this report:

	Years Ended December 31,				
	2008	2007 ⁽⁵⁾	2006 ⁽⁵⁾	2005 ⁽⁵⁾	2004 ⁽⁵⁾
	(In thousands, except per share amounts)				
Statement of Operations Data:					
Revenues:					
Gas and oil sales.....	\$ 13,494	\$ 14,903	\$ 6,533	\$ 3,805	\$ 3,096
Oilfield services.....	4,347	3,093	1,696	2,132	710
Total revenues.....	<u>17,841</u>	<u>17,996</u>	<u>8,229</u>	<u>5,937</u>	<u>3,806</u>
Operating costs and expenses:					
Lease operating expenses ⁽¹⁾	3,441	3,538	2,647	2,462	1,946
Exploration costs ⁽²⁾	15,389	10,624	5,608	8,369	3,013
Recovery of previously expensed					
Input VAT.....	--	--	--	(2,121)	--
Impairment of gas and oil properties ⁽³⁾	14,746	2,299	3,583	--	--
Oilfield services costs.....	2,751	1,998	1,245	1,689	551
Depreciation, depletion and					
amortization.....	1,720	2,064	1,290	903	636
Accretion expense.....	84	78	53	45	41
Amortization of deferred					
compensation.....	2,367	2,604	2,759	125	--
Stock compensation ⁽⁴⁾	--	--	--	76	5,859
Bad debt expense.....	460	--	--	--	--
General and administrative (G&A).....	7,030	7,061	5,728	6,420	4,649
Total operating costs and expenses.....	<u>47,988</u>	<u>30,266</u>	<u>22,913</u>	<u>17,968</u>	<u>16,695</u>
Operating loss	<u>(30,147)</u>	<u>(12,270)</u>	<u>(14,684)</u>	<u>(12,031)</u>	<u>(12,889)</u>
Other income (expense):					
Interest and other income (expense).....	394	818	795	780	529
Foreign exchange gain (loss).....	(24,279)	146	122	(172)	(260)
Interest expense.....	(672)	(385)	--	--	--
Total other income (expense).....	<u>(24,557)</u>	<u>579</u>	<u>917</u>	<u>608</u>	<u>269</u>
Net loss	<u>\$ (54,704)</u>	<u>\$ (11,691)</u>	<u>\$ (13,767)</u>	<u>\$ (11,423)</u>	<u>\$ (12,620)</u>

– Continued –

	Years Ended December 31,				
	2008	2007	2006	2005	2004
	(In thousands, except per share amounts)				
Basic and diluted net loss per common share	\$ (1.35)	\$ (0.32)	\$ (0.39)	\$ (0.33)	\$ (0.41)
Basic and diluted weighted average shares outstanding	40,420	36,694	35,163	34,733	30,691
Cash Flow Statement Data:					
Net cash used in operating activities	\$(14,248)	\$(1,581)	\$(5,303)	\$(10,105)	\$ (5,886)
Net cash provided by (used in) investing activities	(11,772)	(13,152)	8,135	4,656	(41,492)
Net cash (used in) provided by financing activities	40,121	14,351	(578)	4,055	33,791
Balance Sheet Data:					
Working capital	\$ 13,965	\$ 15,374	\$ 11,967	\$ 27,715	\$ 33,777
Total assets	54,802	46,369	39,167	48,271	52,962
Long-term debt	25,000	--	--	--	--
Stockholders' equity	15,154	37,542	31,965	42,280	48,556

- (1) Includes lease operating expenses and production taxes.
- (2) Includes geophysical and geological costs, exploratory dry hole costs, and nonproducing leasehold impairments.
- (3) Includes proved and unproved property write-downs relating to our properties in the United States and Poland.
- (4) Includes noncash compensation charge of \$5.8 million associated with the cashless exercise of certain employee stock options in 2004.
- (5) Certain amounts have been reclassified to conform to 2008 presentation. There was no impact on total assets, net income or cash flows.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion of our historical financial condition and results of operations should be read in conjunction with Item 6, Selected Financial Data, and our consolidated financial statements and related notes contained in this report.

Introduction

As a result of the very different characteristics of our two major operating areas (Poland and United States), our financial results show a distinct dichotomy. Our Polish operations are still early in their development and growth phase, while our U.S. operations are relatively mature. Beginning in 2006, our results began to show substantial changes and improvement as we began gas and oil production in Poland. See "Results of Operations by Business Segment" below.

Through 2006, most of our gas and oil production, revenues, and lease operating expenses were attributable to our U.S. operations. Our oilfield service revenues and costs have been and will continue to be exclusively from the United States. Our U.S. operations have historically been the source of essentially all of our operating cash flow. These operations are relatively stable, with only modest growth or decline on an annual basis.

Most of our exploration costs during the past several years have been attributable to our efforts in Poland. We expect our Polish operations will continue to represent the bulk of our exploration costs, reflecting the nature of our exploration efforts there.

We are acutely aware of the global economic crisis and we are mindful of the need to stay alert and act reasonably. We believe our business strategy is sound and that our resources and opportunities, carefully managed, will allow us to continue growing through the next several years.

Following is a brief discussion concerning certain significant operational and capital events that occurred during 2008 and the first quarter of 2009, as well as discussion concerning the impact of the current world economic situation on us.

Gas and Oil Reserves

As a result of our ongoing drilling and production successes in Poland, 2008 was the fifth consecutive year that we reported record year-end proved reserve values. The following table highlights year-end reserve volumes and values, and shows the change from 2007 to 2008:

	2008	2007	Change
	(In thousands)		
Proved Reserve Volumes:			
Gas Reserves (Mcf).....	45,312	31,116	+46%
Oil Reserves (Bbls).....	92	496	-81%
Total Reserves (Mcf).....	45,864	34,092	+35%
Proved Reserve Values:			
Reserves PV-10 Value.....	\$117,568	\$102,968	+14%

The 2008 natural gas discovery at the Kromolice-1 well contributed the greatest portion of our year-over-year increase in proved reserves. At year-end, gross proved reserves for the well were estimated at approximately 20 Bcf of gas (9.8 Bcf net to our 49% interest). The Sroda-4 well proved reserves also increased by 1.3 Bcf as the Sroda-4 to Kromolice-1 trend was determined to be part of a single accumulation. A 30% increase in Zaniemysl proved reserves of 1.9 Bcf following a 2008 reservoir test was also a positive development.

In early 2009, we announced the successful drilling of the Kromolice-2 well, located two kilometers southwest of the Kromolice-1 well. The well flowed gas on a successful DST and is being completed for production. Reserves from the Kromolice-2 well will be included in our 2009 reserve report, and will likely enable us to report record reserve values for a sixth consecutive year.

Adapting to the Global Economic Crisis

The impact on the gas and oil industry of the current global economic crisis has been sudden, dramatic, and wide-ranging. As with the bulk of companies in this industry, we are not immune from many of the negative effects. In the following paragraphs, we identify some of the areas of concern, and provide some discussion as to our plans to protect and exploit our assets and continue to methodically increase our shareholder value.

Gas and Oil Prices. Global oil prices have dropped rapidly from unprecedented highs in mid-2008 to significantly lower prices at year-end. Gas prices in the United States have also decreased significantly. The European gas market, however, operates quite differently than the domestic market. In Poland, all of our gas production is sold to POGC and is tied to published tariffs set by the public utility regulator from time to time for gas sold to wholesale consumers. During 2008, the Polish regulator granted two price increases, the first in April and the second in October. Since that time, gas prices have remained constant. A major component of the tariff calculation is the cost of Russian imported gas, which in turn is priced based on trailing, historical oil prices. With the recent drop in oil prices, there is a possibility that the cost of imported gas may decline, which in turn may cause the Polish regulator to decrease the cost of gas sold by POGC and thereby reduce the price we receive. The other major component of the tariff calculation is the cost of gas provided by POGC itself. Historically, this cost has been low, reflecting the relatively low cost of finding and producing domestic gas. Natural gas prices in Poland are, and for years have been, below European Union average prices for both households and industry, because the prices have been subsidized by the government. European Union rules require Poland to abandon market subsidies and bring Poland gas prices to free-market levels. This may act as a cushion against possible declines in prices. As of year-end 2008, gas prices in Poland remained firm and were higher than those of an equivalent BTU content in the United States. There was no significant price impact on the value and volumes of our gas reserves in Poland from 2007 to 2008.

We see a greater impact on our revenues and reserves from the declines in oil prices than from changes in gas prices. Year-end 2007 prices in Montana averaged approximately \$94 per barrel and reached a monthly high of approximately \$120 per barrel in June 2008. At year-end 2008, our average price in Montana was approximately \$25 per barrel, and our year-end price in Poland was approximately \$37 per barrel. The fall in oil prices creates two primary issues:

- First, oil revenues will decrease significantly until such time as prices recover. In our case, more than 50% of our 2008 gas and oil revenues were from our gas wells in Poland, so the impact of lower oil prices on 2009 revenues, while measurable, will be lessened somewhat by our production mix and expected increases in 2009 gas production in Poland. The reduction in oil revenues will, however, impact our ability to execute a robust capital program during 2009. See “Capital and Operating Budgets” below for more discussion.
- Second, the price decline reduces both the value and volumes of our proved oil reserves in the United States. This, in turn, leads to impairment charges at existing wells, where the estimated year-end 2008 reserve values, calculated at year-end prices, are now less than the existing capitalized costs. See “Property Impairments” below for more discussion. We expect this type of charge to be commonplace among most gas and oil companies this year. In our case, domestic oil properties accounted for only 11% of our total reserve value at year-end 2007. Again, the impact on reserve volumes and values, while measurable, is lessened somewhat by our reserve weighting towards natural gas in Poland.

Credit Markets. We have a \$25 million Senior Facility Agreement with the Royal Bank of Scotland, or RBS, in London, England. In October of last year, partly in response to the turmoil in the banking industry and to guarantee that we would have the cash on hand necessary to fund our 2009 commitments, we drew down the entire balance of the Facility. Since that time, through various bail-out initiatives, RBS has become majority owned by the government of the United Kingdom.

At present, we do not know what impact the distress in the banking industry in general, and on RBS in particular, will have on us. We are in compliance with all of the terms of the Facility and are in active discussions with RBS to extend and expand the terms and size of the Facility. Despite the fact that we believe we have reserve volumes and values that would command a sizable increase in the Facility in normal times, there is no guarantee that RBS will, in fact, increase the amount of funds available to us. This may, in turn, restrict the amount of capital we are able to apply in our development programs in Poland.

Equity Markets. Virtually every gas and oil company worldwide has seen its market capitalization value decline precipitously over the past six months. We are no exception. Our stock price has declined more than 60% from its 2008 peak and, as of late January, 42% over the preceding 12 months.

We have traditionally funded our exploration programs, both in Poland and in the United States, through the issuance of equity. While we believe that the equity markets remain accessible, we may be unwilling to issue new equity at current depressed stock prices to fund our capital expansion. Again, this may restrict the amount of capital we are able to apply in our development programs in Poland.

Capital and Operating Budgets. Because of the circumstances discussed above, we are acutely aware of the need to preserve and be judicious in the use of our existing capital. We are making adjustments to our capital and operating budgets as follows.

Other than for capital projects that were committed and in process at year-end 2008, we have determined, in consultation with our partner, POGC, to not initiate new capital projects in 2009 until the commencement of production at our Roszkow well in Poland. We currently expect production to commence sometime during the latter part of the second quarter. This means that any new seismic and drilling projects will not begin until the second half of 2009. Despite these changes in timing, however, we expect cash flow from the Roszkow well to help us to resume drilling in our core area in the second half of 2009.

We have also taken steps to reduce our operating budget. For the year 2008, we reduced our cash overhead costs by approximately 10% from budgeted 2008 levels, primarily by reducing compensation costs. We currently expect to reduce 2009 cash overhead costs by an additional 10%, again by reducing compensation and other controllable costs.

Property Impairments. The drop in oil prices and the adjusted timing of our capital budget caused us to record property impairment charges during the fourth quarter of 2008. In the United States, we have impaired the cost of most of our producing oil wells due to lower reserve volumes and values. In Poland, we have impaired the cost of two of our recent drilling projects due to the adjusted timing of our capital plans. These impairments are noncash charges, and do not mean that we have abandoned or stopped production at any of the properties involved.

In the United States, we recorded an impairment charge at year-end 2008 of approximately \$3.8 million related to our oil properties. This is the amount by which the year-end net book value of our producing properties exceeded the estimated discounted future cash flows, as determined using year-end oil prices from those properties. In each case, the wells continue to produce, and we continue to carefully monitor both oil prices and operating costs to ensure that we are producing the wells efficiently and economically.

In Poland, we have impaired the costs of two wells; the Grundy-1 well and the Sroda-6 well. According to the provisions of FASB Statement No. 19, "Financial Accounting and Reporting by Oil and Gas Companies," capitalized costs of exploratory wells are required to be expensed if reserves cannot be classified as proved after one year following the completion of drilling. Accordingly, we have recorded an impairment charge of \$7.2 million associated with the Grundy-1 well and \$3.8 million associated with the Sroda-6 well in 2008.

Foreign Currency Volatility. We enter into various agreements in Poland denominated in the Polish zloty. The Polish zloty is subject to exchange rate fluctuations that are beyond our control. During the past 12 months, the zloty has fluctuated between a low of 2.02 zlotys per U.S. dollar in August of 2008 to a high of 3.88 zlotys per dollar in late February of 2009. We have historically used the U.S. dollar as our functional currency for U.S. financial reporting purposes. We record receivables and payables at fixed amounts in U.S. dollars on their respective transaction dates; when the receivables and payables are subsequently settled at different exchange rates, we recognize foreign currency gains or losses in our statements of operations. In addition, variations in exchange rates also affect the U.S. dollar denominated amount of revenue we receive in Polish zlotys. As the U.S. dollar strengthens, our U.S. dollar denominated revenue received in Polish zlotys declines; conversely, when the U.S. dollar weakens, our U.S. dollar denominated revenue received in Polish zlotys increase. Should exchange rates in effect during early 2009 continue throughout the year, we expect the exchange rates to have a negative impact on our U.S. dollar denominated revenues.

At the same time, however, our U.S. denominated costs of conducting business in Poland, which includes drilling, geological and geophysical, and overhead costs, will also decline at the same rate. We are also generating revenues in Poland in Polish zlotys, and we keep those zlotys in Poland and use them to pay zloty-based invoices.

Our policy is to reduce currency risk by, under ordinary circumstances, transferring dollars to zlotys, or fixing the exchange rate for future transfers of dollars to zlotys, on or about the occasion of making any significant commitment payable in Polish currency, taking into consideration the future timing and amounts of committed costs and the estimated timing and amounts of zloty-based revenues.

During October 2008, we drew down the remaining \$14 million of availability under our Senior Credit Facility to ensure that we had the necessary capital on hand to meet existing commitments. At the same time, we purchased approximately \$14.7 million in Polish zloty forward contracts. These contracts matured at the end of each month, beginning in October 2008 and concluding in March, 2009. The rate for each of the contracts was 2.50 zlotys per U.S. dollar, which, at the time, was a 52 week low for the zloty. Due to rapidly deteriorating exchange rates during the final two months of the year, these contracts, coupled with other transaction losses, caused us to record foreign exchange transaction losses during the year of \$2.5 million. As of year-end 2008, we had three outstanding contracts denominated in U.S. dollars as follows: \$2.5 million that matured January 30, 2009; \$2.1 million that matured February 27, 2009; \$1.1 million that matures March 31, 2009. In connection with these outstanding contracts, we recorded an additional loss of approximately \$888,000 when we marked them to market at December 31, 2008, when the exchange rate was 2.96 zlotys per U.S. dollar.

Effective October 1, 2008, we changed the functional currency of our Polish subsidiary from the U.S. dollar to the Polish zloty. During the fourth quarter of 2008, for the first time, we entered into forward zloty purchase contracts. In early 2009, we entered into construction and revenue agreements that would recognize the results of increasingly significant levels of production and corresponding revenues in Polish zloty. In recognition of these economic events combined with the resulting increases in future zloty revenues and expenditures of the Polish entity, we determined that it was appropriate to change the functional currency of FX Energy Poland to the Polish zloty.

SFAS No. 52, "Foreign Currency Translation," requires the assets, liabilities, and results of operations of a foreign operation to be measured using the functional currency of that foreign operation. Because FX Energy Poland's functional currency is now the Polish zloty, translation adjustments will result from the process of translating its financial statements into the U.S. dollar reporting currency. Translation adjustments will not be included in determining net income but shall be reported separately and accumulated in other comprehensive income. The accounting basis of the assets and liabilities affected by the change are adjusted to reflect the difference between the exchange rate when the asset or liability arose and the exchange rate on the date of the change. Upon the change in functional currency, we recorded a cumulative translation adjustment ("CTA") of approximately \$3.3 million, which is shown in the consolidated statement of stockholders' equity (deficit). Because of the change in exchange rates between reporting periods and changes in certain account balances, the CTA will change from period to period. At December 31, 2008, the CTA was approximately \$17.1 million reflecting the impact of exchange rate fluctuations.

The change in functional currency will also affect the amounts we report for our Polish assets, liabilities, revenues, and expenses from those that would be reported had we maintained the U.S. dollar as the functional currency for our Polish operations. The differences will depend on changes in period-average and period-end exchange rates. During the fourth quarter of 2008, we recorded foreign currency transaction losses of approximately \$24.3 million, principally attributable to increases in the amount of Polish zlotys necessary to satisfy outstanding intercompany dollar-denominated loans and unpaid interest to FX Energy, Inc. Future transaction gains or losses may be significant given the amount of intercompany loans and the volatility of the exchange rate.

The change in functional currency will have no impact on our actual zloty-based revenues and expenditures in Poland.

Oil and Gas Revenues and Pricing

Revenues and Production. As we expected and forecasted in our 2007 Form 10-K, production at our Wilga well in Poland declined sharply in 2008 from its 2007 production levels. Production at our Wilga well declined from 764 Mcfe to 248 Mcfe in 2008, a decline of 68%. However, higher prices for both gas and oil, coupled with an increase in our drilling services revenues, mostly offset our production volume declines. The following table highlights revenues and production volumes and shows the change from 2007 to 2008:

	<u>2008</u>	<u>2007</u>	<u>Change</u>
	(In thousands)		
Revenues:			
Oil & Gas Sales	\$ 13,494	\$ 14,903	-9%
Total Revenues	\$ 17,841	\$ 17,996	-1%
Production:			
Gas Production (Mcf)	1,251	1,840	-32%
Oil Production (Bbls)	69	95	-27%
Total Production (Mcfe)	1,666	2,412	-31%

We expect to see an upward trend in production during 2009 as we anticipate bringing the Roszkow well in Poland into production.

Results of Operations by Business Segment

We operate within two segments of the gas and oil industry: the exploration and production, or E&P, segment in Poland and the United States, and the oilfield services segment in the United States. Direct revenues and costs, including depreciation, depletion and amortization costs, or DD&A, general and administrative costs, or G&A, and other income directly associated with their respective segments are detailed within the following discussion. DD&A, G&A, amortization of deferred compensation, interest income, other income, interest expense, and other costs, which are not allocated to individual operating segments for management or segment reporting purposes, are discussed in their entirety following the segment discussion. The following table summarizes the results of operations by segment for the years ended December 31, 2008, 2007, and 2006 (in thousands). See Footnote 12 to the consolidated financial statements for additional detail concerning our segment results.

	Reportable Segments				Non-Segmented	Total
	Exploration & Production		Oilfield Services			
	Poland	U.S.				
Year ended December 31, 2008:						
Revenues	\$ 7,798	\$ 5,695	\$ 4,348	\$ --	\$ 17,841	
Net income (loss) ⁽¹⁾	(19,548)	(1,847)	726	(34,035)	(54,704)	
Year ended December 31, 2007:						
Revenues	\$ 10,567	\$ 4,336	\$ 3,093	\$ --	\$ 17,996	
Net income (loss) ⁽²⁾	(4,415)	1,102	828	(9,206)	(11,691)	
Year ended December 31, 2006:						
Revenues	\$ 2,273	\$ 4,260	\$ 1,696	\$ --	\$ 8,229	
Net income (loss) ⁽³⁾	(6,779)	463	296	(7,747)	(13,767)	

- (1) Nonsegmented reconciling items for 2008 include \$7,030 of general and administrative costs, \$2,367 of noncash stock compensation expense, \$24,279 of foreign exchange losses, \$278 of other expense, and \$81 of corporate DD&A.
- (2) Nonsegmented reconciling items for 2007 include \$7,061 of general and administrative costs, \$2,604 of noncash stock compensation expense, \$146 of foreign exchange gains, \$433 of other income, and \$120 of corporate DD&A.
- (3) Nonsegmented reconciling items for 2006 include \$5,728 of general and administrative costs, \$2,759 of noncash stock compensation expense, \$122 of foreign exchange gains, \$795 of other income, and \$177 of corporate DD&A.

Exploration and Production Segment

Gas Revenues. Revenues from gas sales were \$7.4 million during 2008, compared to \$9.1 million and \$1.8 million in 2007 and 2006, respectively. As we expected, production in 2008 at our Wilga well declined sharply from 2007 levels. Consequently, Company-wide gas production for 2008 was 32% lower than 2007 production. Conversely, two price increases, the first effective May 1 and the second effective November 1, 2008, coupled with favorable exchange rates for the zloty against the U.S. dollar for much of the year, resulted in higher effective gas prices, which increased 20% from 2007 to 2008. Gas revenues in 2008 increased from 2007 levels by approximately \$1.2 million due to higher gas prices, offset by approximately \$2.9 million related to production declines. Gas revenues in 2007 increased from 2006 levels by approximately \$2.0 million due to higher gas prices, coupled with approximately \$5.3 million related to higher production.

A summary of the amount and percentage change, as compared to their respective prior-year period, for gas revenues, average gas prices, gas production volumes, and lifting costs per Mcf for the years ended December 31, 2008, 2007, and 2006, is set forth in the following table:

	For the year ended December 31,		
	2008	2007	2006
Revenues.....	\$7,404,000	\$9,098,000	\$1,790,000
Percent change versus prior year	-19%	+408%	NA
Average price (per Mcf)	\$5.92	\$4.95	\$3.88
Percent change versus prior year	+20%	+28%	NA
Production volumes (Mcf).....	1,251,129	1,839,504	461,303
Percent change versus prior year	-32%	+299%	NA
Lifting costs per Mcf ⁽¹⁾	\$0.65	\$0.63	\$0.54
Percent change versus prior year	+3%	+17%	NA

(1) Lifting costs per Mcf are computed by dividing the related lease operating expenses by the total volume of gas produced.

Oil Revenues. Oil revenues were \$6.1 million, \$5.8 million, and \$4.7 million for the years ended December 31, 2008, 2007, and 2006, respectively. As with our gas production, oil production at Wilga declined 86% from 2007 to 2008, which contributed significantly to the overall production decrease of 27%. Production from our U.S. properties also declined by 7%, due to normal production declines and decreased workovers and maintenance. These production declines, however, were more than offset by higher oil prices. Our average oil price during 2008 was \$88.01 per barrel, a 45% increase over \$60.86 per barrel received during 2007.

Included in oil revenues were approximately \$394,000, \$1.5 million, and \$484,000 related to the sale of oil at the Wilga well for the years ended December 31, 2008, 2007, and 2006, respectively. All other oil revenues during the three years were derived from our producing properties in the United States. U.S. oil revenues in 2008 increased from 2007 levels by approximately \$1.5 million due to higher oil prices, offset by approximately \$300,000 related to production declines. U.S. oil revenues in 2007 increased from 2006 levels by approximately \$398,000 due to higher oil prices, offset by approximately \$322,000 related to production declines.

A summary of the amount and percentage change, as compared to their respective prior-year period, for oil revenues, average oil prices, oil production volumes, and lifting costs per barrel for the years ended December 31, 2008, 2007, and 2006, is set forth in the following table (in thousands, except for prices and percentages):

	For the year ended December 31,		
	2008	2007	2006
Revenues.....	\$6,090,000	\$5,804,000	\$4,744,000
Percent change versus prior year	+5%	+22%	+25%
Average price (per Bbl)	\$88.01	\$60.86	\$56.13
Percent change versus prior year	+45%	+8%	+16%
Production volumes (Bbl).....	69,192	95,242	84,520
Percent change versus prior year	-27%	+13%	+78%
Lifting costs per Bbl ⁽¹⁾	\$38.07	\$27.04	\$25.23
Percent change versus prior year	+41%	+7%	-6%

(1) Lifting costs per barrel are computed by dividing the related lease operating expenses by the total barrels of oil produced. Light crude oil lifting costs in Poland are based on an allocation of total costs based on relative revenues between gas and oil. Lifting costs include production taxes incurred in the United States.

Lease Operating Costs. Lease operating costs were \$3.4 million in 2008, \$3.5 million in 2007, and \$2.6 million in 2006. Operating costs decreased slightly in 2008 as we negotiated lower indirect costs at our non-operated properties in Poland. The higher costs in 2007 compared to 2006 were reflective of the first full year's production in Poland. Poland operating costs rose from \$289,000 in 2006 to \$1.1 million in 2007.

Exploration Costs. Our exploration efforts are focused in Poland, and the expenses consist of geological and geophysical costs as well as the costs of exploratory dry holes. Exploration costs were \$15.4 million, \$10.6 million, and \$5.6 million for the years ended December 31, 2008, 2007, and 2006, respectively.

Geological and geophysical costs, or G&G costs, were \$15.0 million, \$10.6 million, and \$4.0 million for the years ended December 31, 2008, 2007, and 2006, respectively. During all three years, most of our G&G costs were spent on acquiring, processing, and interpreting new 3-D and 2-D seismic data in the Fences areas.

Exploratory dry-hole costs were \$0.4 million, \$0, and \$1.6 million for the years ended December 31, 2008, 2007, and 2006, respectively. During 2008, we drilled three shallow dry holes, two in Montana and one in Nevada. During 2007, all wells drilled during the year were determined to be commercial, and were completed for future production. Our 2006 exploration costs included approximately \$800,000 associated with the Drozdowice-1 well in our Fences III concession area in Poland, along with additional amounts for two dry holes in Montana and Nevada.

Impairment Costs. Impairments of gas and oil properties were \$14.7 million, \$2.3 million, and \$3.6 for the years ended December 31, 2008, 2007, and 2006, respectively. As discussed previously, during 2008 we impaired \$7.2 million and \$3.8 million related to our Grundy and Sroda-6 wells in Poland, respectively, and an additional \$3.8 million related to our producing properties in Montana. During 2007 we impaired \$2.3 million related to our Wilga well, and in 2006 we impaired the entire amount of capitalized costs associated with our Rusocin-1 well.

DD&A Expense - Producing Operations. DD&A expense for producing properties was \$1.2 million, \$1.7 million, and \$957,000 for the years ended December 31, 2008, 2007, and 2006, respectively. The 29% decrease from 2007 to 2008 resulted primarily from the \$2.3 million impairment in 2007 for our Wilga well, as those costs were removed from our depletion base. The 78% increase from 2006 to 2007 was a reflection of a full-year's worth of production in Poland, discussed earlier. DD&A expense in Poland was \$935,000 in 2007. The remaining increase is due to capital cost additions in 2006 at our Montana producing properties.

Future DD&A costs are expected to generally, but not completely, follow future production trends. However, future DD&A rates can be very different depending upon future capitalized costs.

Oilfield Services Segment

Oilfield Services Revenues. Oilfield services revenues were \$4.3 million, \$3.1 million, and \$1.7 million for the years ended December 31, 2008, 2007, and 2006, respectively. We drilled 23 wells for third parties during 2008, along with additional well service work, compared to 16 wells and 12 wells during 2007 and 2006, respectively. Oilfield services revenues will continue to fluctuate from period to period based on market demand, weather, the number of wells drilled, downtime for equipment repairs, the degree of emphasis on using our oilfield services equipment on our own properties, and other factors. We cannot accurately predict future oilfield services revenues.

Oilfield Services Costs. Oilfield services costs were \$2.8 million, \$2.0 million, and \$1.2 million for the years ended December 31, 2008, 2007, and 2006, respectively, or 63%, 65%, and 73% of oilfield servicing revenues, respectively. The year-to-year increases in costs were primarily due to increased drilling activity. In general, oilfield servicing costs are directly associated with oilfield services revenues. As such, oilfield services costs will continue to fluctuate period to period based on the number of wells drilled, revenues generated, weather, downtime for equipment repairs, the degree of emphasis on using our oilfield services equipment on our own properties, and other factors.

DD&A Expense - Oilfield Services. DD&A expense for oilfield services was \$411,000, \$267,000, and \$155,000 for the years ended December 31, 2008, 2007, and 2006, respectively. We spent \$1,008,000, \$911,000, and \$295,000 on upgrading our oilfield servicing equipment during 2008, 2007, and 2006 respectively. These capital additions resulted in higher DD&A expenses for this segment during 2007 and 2008.

Bad Debt Expense - Oilfield Services. Bad debt expense was \$460,000, \$0, and \$0 for the years ended December 31, 2008, 2007, and 2006, respectively. During 2008, we wrote off as uncollectable \$460,000 related to revenue recognized during 2007 for third-party drilling services. This was the first bad debt charged to expense in our history. We do not expect to incur future bad debt charges.

Nonsegmented Items

G&A Costs - Corporate. G&A costs were \$7.0 million, \$7.1 million, and \$5.7 million for the years ended December 31, 2008, 2007, and 2006, respectively. Lower employee compensation costs in 2008 were offset by increases in accounting, insurance, and consulting costs. In addition, legal fees associated with our ongoing litigation increased by approximately \$90,000 over 2007 levels. See Item 3, Legal Proceedings, for additional information. Higher employee compensation costs in 2007, associated in part with an expansion of our Poland operations office, coupled with higher legal, insurance, and software maintenance costs, resulted in an increase in 2007 G&A of \$1.3 million over 2006 levels.

Stock Compensation. We adopted the provisions of SFAS No. 123R, "Share-Based Payments" ("SFAS No. 123R"), on January 1, 2006, using the modified prospective method. Stock compensation expense recorded for 2008 represents \$2.3 million of amortization related to restricted stock granted in 2008, 2007, and 2006. Stock compensation expense recorded for 2007 represents \$1.8 million of amortization related to restricted stock granted in 2007, 2006, and 2005 and \$842,000 of amortization of unvested stock options granted prior to 2005, using the compensation cost calculated for pro forma disclosure purposes under SFAS No. 123, "Accounting for Stock-Based Compensation" ("SFAS No. 123"). Stock compensation expense recorded for 2006 represents \$1.1 million of amortization related to restricted stock granted in 2006 and 2005 and \$1.7 million of amortization of unvested stock options granted prior to 2005, using the compensation cost calculated for pro forma disclosure purposes under SFAS No. 123.

Interest and Other Income (Expense) - Corporate. Interest and other income (expense) was (\$278,000), \$433,000, and \$795,000 for the years ended December 31, 2008, 2007, and 2006, respectively. During 2008, we amortized \$210,000 related to fees incurred in securing our Senior Credit Facility to interest expense and paid \$111,000 in commitment fees for the facility. We also paid \$351,000 in interest on outstanding borrowings. These interest-related costs were offset by interest income of \$394,000. During 2007, amortized fees and semiannual commitment fees for the facility totaled \$385,000 in interest-related charges. These charges offset interest income of \$818,000, an increase over 2006 levels due to higher cash balances available for investment.

Foreign Exchange. As discussed previously, we incurred foreign exchange losses of \$24.3 million, and foreign exchange gains of \$146,000 and \$122,000 for the years ended December 31, 2008, 2007, and 2006, respectively. Included in the 2008 losses was \$888,000 related to mark-to-market adjustments to outstanding year-end Polish zloty forward contracts.

Income Taxes. We incurred net losses of \$36.5 million, \$11.7 million, and \$13.8 million for the years ended December 31, 2008, 2007, and 2006, respectively. SFAS No. 109, "Accounting for Income Taxes," requires that a valuation allowance be provided if it is more likely than not that some portion or all of a deferred tax asset will not be realized. Our ability to realize the benefit of our deferred tax asset will depend on the generation of future taxable income through profitable operations and the expansion of our exploration and development activities. The market and capital risks associated with achieving the above requirement are considerable, resulting in our conclusion that a full valuation allowance be provided. Accordingly, we did not recognize any income tax benefit in our consolidated statement of operations for these years.

Liquidity and Capital Resources

Throughout our history, we have financed our operations principally through the sale of equity securities, issuance of debt securities, and agreements with industry participants that funded our share of costs in certain exploratory activities in return for an interest in our properties. With the establishment of proved reserves in Poland, in November 2006, we established a \$25.0 million Senior Credit Facility with the Royal Bank of Scotland to fund infrastructure and development costs in Poland. As of December 31, 2008, we had drawn down the full \$25.0 million available under this facility. In addition, cash flow from our production operations has been providing a portion of our capital expenditures for the past 24 months. As of December 31, 2008, we have classified approximately \$4.1 million of auction-rate securities as Level 3 financial assets. See Note 7 to these financial statements for additional information concerning fair value accounting for our investments. We believe we will be able to convert all remaining auction-rate securities to cash within our normal operating cycle.

The recent strengthening of the U.S. dollar will, if it continues, have a negative impact on our 2009 revenue and operating profit; conversely, our U.S. dollar denominated capital costs in Poland will decrease at the same rate. We expect our exploration and development programs will continue in spite of the economic downturn, although at a slower pace than in previous years. As we discussed previously, other than for capital projects that were committed and in process at year-end 2008, we have determined, in consultation with our partner, POGC, to not initiate new capital projects in 2009 until after the commencement of production at our Roszkow well in Poland. This will enable us to conserve cash until the expected increases in revenue occurs. Our expected operating cash flow combined with our cash resources and marketable securities as of December 31, 2008, should more than enable us to meet our capital needs in the United States and Poland for the next 12 months, without accessing the capital or debt markets for additional funding.

We may seek to obtain additional funds for future capital investments from the sale of additional securities, project financing to help finance the completion of successful wells, sale of partial property interests, or other arrangements, all of which may dilute the interest of our existing stockholders or our interest in the specific project financed. As our reserves increase above the amounts estimated when we established our \$25.0 million Senior Credit Facility with the Royal Bank of Scotland, we may seek to expand our borrowings from it or other lenders. As discussed elsewhere in this report, in view of the current global economic and credit crises and the particular impact on the Royal Bank of Scotland, we cannot assure that our efforts to increase borrowings will be successful.

We will allocate our existing capital as well as funds we may obtain in the future among our various projects at our discretion. We may change the allocation of capital among the categories of anticipated expenditures depending upon future events. For example, we may change the allocation of our expenditures based on the actual results and costs of future exploration, appraisal, development, production, property acquisition, and other activities. In addition, we may have to change our anticipated expenditures if costs of placing any particular discovery into production are higher, if the field is smaller, or if the commencement of production takes longer than expected.

Working Capital (current assets less current liabilities). Our working capital was \$14.0 million as of December 31, 2008, a decrease of \$1.4 million from December 31, 2007. Amounts borrowed under our Senior Credit Facility, coupled with proceeds from the exercise of warrants, were used to fund a record level of drilling and seismic activities during 2008.

Operating Activities. We used net cash of \$14.2 million, \$1.6 million, and \$5.3 million in our operating activities during 2008, 2007, and 2006, respectively, primarily as a result of the net losses, excluding noncash charges, incurred in those years. Revenues from gas and oil sales in Poland, which commenced in late 2006, helped us reduce the amount of cash used in operations in all three years. Our current assets at year-end 2008 included approximately \$1.1 million in accrued gas and oil sales from both the United States and Poland, \$1.2 million in receivables related to our oilfield services segment, and \$2.5 million in refundable Input VAT that we expect to receive during the first six months of 2009. Our current liabilities at year-end included approximately \$6.3 million in costs related to our exploration activities in Poland that were paid in early 2009.

Investing Activities. We used net cash in investing activities of \$11.8 million and \$13.1 million in 2008 and 2007, respectively, and received net cash from investing activities of \$8.1 million in 2006. In 2008 we received \$11.3 million from the maturities of marketable securities. We invested \$186,000 in marketable securities. We spent \$21.8 million for gas and oil property additions, \$20.0 million of which was related to our Polish drilling activities, with the remainder being spent on our domestic properties. We also spent \$169,000 upgrading our office equipment and \$1.0 million adding to our oilfield services equipment.

In 2007 we received \$4.9 million from the maturities of marketable securities. We invested \$9.6 million in marketable securities. We spent \$7.5 million for gas and oil property additions, \$7.0 million of which was related to our Polish drilling activities, with the remainder being spent on our domestic properties. We also spent \$73,000 upgrading our office equipment and \$893,000 adding to our oilfield services equipment.

In 2006 we received \$16.8 million from the maturities of marketable securities. We invested \$782,000 in marketable securities. We spent \$7.5 million for gas and oil property additions, \$6.9 million of which was related to our Polish drilling activities, with the remainder being spent on our domestic properties. We also spent \$67,000 upgrading our office equipment and \$295,000 adding to our oilfield services equipment.

Financing Activities. We received net cash from financing activities of \$40.1 million and \$14.4 million in 2008 and 2007, respectively, and used net cash in financing activities of \$578,000 in 2006. During 2008, we borrowed \$25 million under our Senior Credit Facility with RBS and \$3.4 million as a loan from UBS related to auction-rate securities, of which \$546,000 was repaid by December 31, 2008. In addition, 3,648,369 options and warrants were exercised, resulting in proceeds to us of \$12.3 million.

During 2007, we sold 1.5 million shares of stock in a registered direct offering, resulting in net proceeds to us of \$12.4 million. In addition, 672,165 options and warrants were exercised during the year, resulting in proceeds to us of an additional \$1.9 million.

All the cash used in financing activities in 2006 was used to pay the loan origination fees and associated legal costs related to our \$25 million Senior Credit Facility.

Contractual Obligations and Contingent Liabilities and Commitments

Contractual Obligations. At December 31, 2008, the aggregate amounts of our contractually obligated payment commitments for the next five years are as follows:

	Total	2009	2010	2011	2012	2013
	(In thousands)					
Senior credit facility	\$25,000	\$ --	\$5,000	\$10,000	\$10,000	\$ --
Interest payments on long-term debt.....	2,132	718	718	487	209	--

We had no other significant contractual obligations or commitments as of December 31, 2008. We are subject to certain work commitments with respect to our exploration concessions that must be satisfied in order to maintain our interest in those concessions. These work commitments are optional on our part; however, they must be satisfied in order to maintain our interest in those concessions.

Our gas and oil drilling and production operations are subject to hazards incidental to the industry that can cause severe damage to and destruction of property and equipment, pollution or environmental damage and suspension of operations, personal injury, and loss of life. To lessen the effects of these hazards, we maintain insurance of various types to cover our United States and Poland operations and also rely on the insurance or financial capabilities of our exploration partners in Poland. These measures do not cover risks related to violations of environmental laws or all other risks involved in gas and oil exploration, drilling, and production. We would be adversely affected by a significant event that is not fully covered by insurance or by our inability to maintain adequate insurance in the future at rates we consider reasonable.

Asset Retirement Obligation. We also have liabilities of \$1.9 million related to asset retirement obligations on our Consolidated Balance Sheet at December 31, 2008, excluded from the table above. Due to the nature of these obligations, we cannot determine precisely when the payments will be made to settle these obligations.

New Accounting Pronouncements

In December 2007, the FASB issued SFAS No. 160, “Non-controlling Interests in Consolidated Financial Statements – an amendment of ARB No. 51” (“SFAS No. 160”). This statement improves the relevance, comparability, and transparency of the financial information that a reporting entity provides in its consolidated financial statements. SFAS No. 160 affects those entities that have an outstanding non-controlling interest in one or more subsidiaries or that deconsolidate a subsidiary. SFAS No. 160 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. Early adoption is prohibited. The adoption of this statement is not expected to have any effect on our financial statements.

In March 2008, the FASB issued SFAS No. 161, “Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133” (“SFAS No. 161”). This statement is intended to improve transparency in financial reporting by requiring enhanced disclosures of an entity’s derivative instruments and hedging activities and their effects on the entity’s financial position, financial performance, and cash flows. SFAS No. 161 applies to all derivative instruments within the scope of SFAS No. 133, “Accounting for Derivative Instruments and Hedging Activities” (“SFAS No. 133”) as well as related hedged items, bifurcated derivatives, and non-derivative instruments that are designated and qualify as hedging instruments. SFAS No. 161 is effective prospectively for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. The adoption of this statement is not expected to have a material effect on our financial statements.

In October 2008, FASB issued FSP FAS 157-3, “Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active,” to clarify guidance on determining the fair value of a financial asset under SFAS No. 157, “Fair Value Measurements,” in a market that is not active. FSP FAS 157-3 was effective upon issuance, including prior periods for which financial statements had not been issued. The adoption of this statement was effective October 1, 2008, and did not have a material impact on our financial position or results of operations.

In December 2008, the SEC issued a final rule, Modernization of Oil and Gas Reporting which is effective January 1, 2010 for reporting 2009 reserve information. The new disclosure requirements permit the use of new technologies to determine proved reserves if those technologies have been demonstrated empirically to lead to reliable conclusions about reserve volumes. The new disclosure requirements also require companies to include nontraditional resources such as oil sands, shale, coalbeds or other nonrenewable natural resources in reserves if they are intended to be upgraded to synthetic oil and gas. Currently the SEC requires that reserve volumes are determined using prices on the last day of the reporting period; however, the new disclosure requirements provide for reporting oil and gas reserves using an average price based upon the prior twelve month period rather than year-end prices. The new requirements also will allow companies to disclose their probable and possible reserves to investors. The new disclosure requirements also require companies to report the independence and qualifications of a reserves preparer or auditor. We will adopt the provisions of the final rule in connection with our December 31, 2009 Form 10-K filing. We are currently evaluating the impact of the final rule.

We have reviewed all recently issued, but not yet adopted, accounting standards in order to determine their effects, if any, on our results of operations or financial position. Based on that review, we believe that none of these pronouncements will have a significant effect on our current or future financial position or results of operations.

Critical Accounting Policies

Gas and Oil Activities

We follow the successful efforts method of accounting for our gas and oil properties. Under this method of accounting, all property acquisition costs and costs of exploratory and development wells are capitalized when incurred, pending determination of whether the well has found proved reserves. If an exploratory well has not found proved reserves, these costs plus the costs of drilling the well are expensed. The costs of development wells are capitalized, whether productive or nonproductive. Geological and geophysical costs on exploratory prospects and the costs of carrying and retaining unproved properties are expensed as incurred. An impairment allowance is provided to the extent that net capitalized costs of unproved properties, on a property-by-property basis, are not considered to be realizable. An impairment loss is recorded if the net capitalized costs of proved gas and oil properties exceed the aggregate undiscounted future net cash flows determined on a property-by-property basis. The impairment loss recognized equals the excess of net capitalized costs over the related fair value, determined on a property-by-property basis. Gains and losses are recognized on sales of entire interests in proved and unproved properties. Sales of partial interests are generally treated as a recovery of costs and any resulting gain or loss is recorded as other income. Revenues associated with gas and oil sales are recorded when title passes, which is upon delivery to the pipeline or purchaser, and are net of royalties. Oilfield service revenues are recognized when the related service is performed. As a result of the foregoing, our results of operations for any particular period may not be indicative of the results that could be expected over longer periods.

Gas and Oil Reserves

Engineering estimates of our gas and oil reserves are inherently imprecise and represent only approximate amounts because of the subjective judgments involved in developing such information. There are authoritative guidelines regarding the engineering criteria that have to be met before estimated gas and oil reserves can be designated as “proved.” Proved reserve estimates are updated at least annually and take into account recent production and technical information about each field. In addition, as prices and cost levels change from year to year, the estimate of proved reserves also changes. This change is considered a change in estimate for accounting purposes and is reflected on a prospective basis in related depreciation, depletion and amortization (“DD&A”) rates.

Despite the inherent imprecision in these engineering estimates, these estimates are used in determining DD&A expense and impairment expense and in disclosing the supplemental standardized measure of discounted future net cash flows relating to proved gas and oil properties. DD&A rates are determined based on estimated proved reserve quantities (the denominator) and capitalized costs of producing properties (the numerator). Producing properties’ capitalized costs are amortized based on the units of gas or oil produced. Therefore, assuming all other variables are held constant, an increase in estimated proved reserves decreases our DD&A expense. Also, estimated reserves are used to calculate future cash flows from our gas and oil operations, which serve as an indicator of fair value in determining whether a property is impaired or not. The larger the estimated reserves, the less likely the property is impaired.

Stock-based Compensation

Effective January 1, 2006, we adopted the provisions of SFAS No. 123R. Under SFAS No. 123R, share-based compensation cost is measured at the grant date, based on the estimated fair value of the award, and is recognized as expense over the employee’s requisite service period. We adopted SFAS No. 123R using the modified prospective transition method. Under this method, prior periods are not revised for comparative purposes. The provisions of SFAS No. 123R apply to new awards and to awards that are outstanding on the effective date that are subsequently modified or cancelled. Compensation expense for unvested awards at the effective date will be recognized over the remaining requisite service period using the compensation cost calculated for pro forma disclosure purposes under SFAS No. 123.

See notes 1 and 10 in the notes to the consolidated financial statements for information on the adoption of SFAS No. 123R, “Share-Based Payment.”

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Price Risk

Realized pricing for our oil production in the United States and Poland is primarily driven by the prevailing worldwide price of oil, subject to gravity and other adjustments for the actual oil sold. Historically, oil prices have been volatile and unpredictable. Price volatility relating to our oil production is expected to continue in the foreseeable future.

Substantially all of our gas in Poland is sold to POGC or its subsidiaries under contracts that extend for the life of each field. Prices are determined contractually and, in the case of our Wilga, Zaniemysl, and Kleka wells, are tied to published tariffs. The tariffs are set from time to time by the public utility regulator in Poland. Although we are not directly subject to such tariffs, we have elected to link our price to these tariffs in our contracts with POGC. We expect that the prices we receive in the short term for gas we produce will be lower than would be the case in an unregulated setting and may be lower than prevailing western European prices. We believe it is more likely than not that, over time, the end user gas price in Poland will converge with the average price in Europe.

We currently do not engage in any hedging activities to protect ourselves against market risks associated with gas and oil price fluctuations, although we may elect to do in the future.

Foreign Currency Risk

We enter into various agreements in Poland denominated in the Polish zloty. The Polish zloty is subject to exchange rate fluctuations that are beyond our control. Our policy is to reduce currency risk by, under ordinary circumstances, transferring dollars to zlotys, or fixing the exchange rate for future transfers of dollars to zlotys, on or about the occasion of making any significant commitment payable in Polish currency, taking into consideration the future timing and amounts of committed costs and the estimated timing and amounts of zloty-based revenues.

During the past 12 months, the zloty has fluctuated between a low of 2.02 zlotys per U.S. dollar in August of 2008 to a high of 3.88 zlotys per dollar in late February of 2009. We have historically used the U.S. dollar as our functional currency for U.S. financial reporting purposes. We record receivables and payables at fixed amounts in U.S. dollars on their respective transaction dates; when the receivables and payables are subsequently settled at different exchange rates, we recognize foreign currency gains or losses in our statements of operations. In addition, variations in exchange rates also affect the U.S. dollar denominated amount of revenue we receive in Polish zlotys. As the U.S. dollar strengthens, our U.S. dollar denominated revenue received in Polish zlotys declines; conversely, when the U.S. dollar weakens, our U.S. dollar denominated revenue received in Polish zlotys increases. Should exchange rates in effect during early 2009 continue throughout the year, we expect the exchange rates to have a negative impact on our U.S. dollar denominated revenues.

At the same time, however, our U.S. denominated costs of conducting business in Poland, which includes drilling, geological and geophysical, and overhead costs, will also decline at the same rate. We are also generating revenues in Poland in Polish zlotys, and we keep those zlotys in Poland and use them to pay zloty-based invoices. In terms of actual zloty purchasing power, our gas prices are in fact 25% higher today than they were earlier this year, due to the two price increases discussed earlier.

During October 2008, we drew down the remaining \$14 million available under our Senior Credit Facility to ensure that we had the necessary capital on hand to meet existing commitments. At the same time, we purchased approximately \$14.7 million in Polish zloty forward contracts. These contracts matured at the end of each month, beginning in October 2008 and concluding in March 2009. The rate of the contract was 2.5 zlotys per U.S. dollar, which, at the time, was a 52-week low for the zloty. As of year-end 2008, we had three outstanding contracts denominated in U.S. dollars as follows: \$2.5 million that matured January 30, 2009; \$2.1 million that matured February 27, 2009; \$1.1 million that matures March 31, 2009. In connection with these outstanding contracts, we recorded an additional loss of \$888,000 when we marked them to market at December 31, 2008, when the exchange rate was 2.9 zlotys per U.S. dollar.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Our consolidated financial statements, including the independent registered public accounting firm's report on our consolidated financial statements, are included beginning at page F-2 immediately following the signature page of this report.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

During the year ended December 31, 2008, we have not disagreed with our independent registered public accounting firm on any items of accounting treatment or financial disclosure.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed by us in the reports that we file or submit to the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized, and reported within the periods specified by the Securities and Exchange Commission's rules and forms, and that information is accumulated and communicated to our management, including our principal executive and principal financial officers (whom we refer to in this periodic report as our Certifying Officers), as appropriate to allow timely decisions regarding required disclosure. Our management evaluated, with the participation of our Certifying Officers, the effectiveness of our disclosure controls and procedures as of December 31, 2008, pursuant to Rule 13a-15(b) under the Securities Exchange Act. Based upon that evaluation, our Certifying Officers concluded that, as of December 31, 2008, our disclosure controls and procedures were effective.

Internal Control over Financial Reporting

Pursuant to Section 404 of the Sarbanes-Oxley Act of 2002, management's report on internal control over financial reporting and the report of PricewaterhouseCoopers LLP, our independent registered public accounting firm, on the effectiveness of internal control over financial reporting are included on pages F-1 and F-2 of this report and are incorporated in this Item 9A by reference.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during our most recently completed fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information from the definitive proxy statement for the 2009 annual meeting of stockholders under the captions “Corporate Governance,” “Proposal 1. Election of Directors,” and “Section 16(a) Beneficial Ownership Reporting Compliance” is incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION

The information from the definitive proxy statement for the 2009 annual meeting of stockholders under the caption “Executive Compensation” is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information from the definitive proxy statement for the 2009 annual meeting of stockholders under the caption “Principal Stockholders” is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information from the definitive proxy statement for the 2009 annual meeting of stockholders under the captions “Certain Relationships and Related Party Transactions” and “Director Independence” is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information from the definitive proxy statement for the 2009 annual meeting of stockholders under the caption “Relationship with Independent Auditors” is incorporated herein by reference.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a) The following documents are filed as part of this report or incorporated herein by reference.

1. Financial Statements. See the following beginning at page F-1:

	<u>Page</u>
Management's Report on Internal Control over Financial Reporting.....	F-1
Report of Independent Registered Public Accounting Firm	F-2
Consolidated Balance Sheets as of December 31, 2008 and 2007.....	F-4
Consolidated Statements of Operations for the Years Ended December 31, 2008, 2007 and 2006	F-6
Consolidated Statements of Comprehensive Loss for the Years Ended December 31, 2008, 2007 and 2006	F-7
Consolidated Statements of Cash Flows for the Years Ended December 31, 2008, 2007 and 2006	F-8
Consolidated Statement of Stockholders' Equity (Deficit) for the Years Ended December 31, 2008, 2007 and 2006	F-9
Notes to the Consolidated Financial Statements.....	F-10

2. Supplemental Schedules. The supplemental schedules have been omitted because they are not applicable or the required information is otherwise included in the accompanying consolidated financial statements and the notes thereto.

3. Exhibits. The following exhibits are included as part of this report:

<u>Exhibit Number*</u>	<u>Title of Document</u>	<u>Location</u>
Item 3		
Articles of Incorporation and Bylaws		
3.01	Restated and Amended Articles of Incorporation	Incorporated by reference from the quarterly report on Form 10-Q for the quarter ended September 30, 2000, filed November 7, 2000.
3.02	Bylaws, as amended January 2, 2008	Incorporated by reference from the annual report on Form 10-K for the period ended December 31, 2007, filed March 10, 2008.
3.03	Articles of Amendment to the Restated Articles of Incorporation of FX Energy, Inc.	Incorporated by reference from the annual report on Form 10-K for the period ended December 31, 2005, filed March 14, 2006.
3.04	Amendment to Articles of Incorporation Revising and Restating Designation of Rights, Privileges, and Preferences of Series A Preferred Stock	Incorporated by reference from the quarterly report on Form 10-Q for the period ended June 30, 2007, filed August 8, 2007.

Exhibit Number*	Title of Document	Location
Item 4 Instruments Defining the Rights of Security Holders		
4.01	Specimen Stock Certificate	Incorporated by reference from the annual report on Form 10-K for the period ended December 31, 2006, filed March 13, 2007.
4.04	Rights Agreement dated as of April 4, 2007, between FX Energy, Inc. and Fidelity Transfer Corp.	Incorporated by reference from the quarterly report on Form 10-Q for the period ended June 30, 2007, filed August 8, 2007.
Item 10 Material Contracts		
10.26	Frontier Oil Exploration Company 1995 Stock Option and Award Plan**	Incorporated by reference from the annual report on Form 10-K for the period ended December 31, 2003, filed March 15, 2004.
10.27	FX Energy, Inc. 1996 Stock Option and Award Plan**	Incorporated by reference from the annual report on Form 10-K for the period ended December 31, 2003, filed March 15, 2004.
10.28	FX Energy, Inc. 1997 Stock Option and Award Plan**	Incorporated by reference from the annual report on Form 10-K for the period ended December 31, 2003, filed March 15, 2004.
10.29	FX Energy, Inc. 1998 Stock Option and Award Plan**	Incorporated by reference from the annual report on Form 10-K for the period ended December 31, 2003, filed March 15, 2004.
10.52	Form of Indemnification Agreement between FX Energy, Inc. and certain directors, with related schedule**	Incorporated by reference from the annual report on Form 10-K for the period ended December 31, 2003, filed March 15, 2004.
10.53	Agreement on Cooperation in Exploration of Hydrocarbons on Foresudetic Monocline dated April 11, 2000, between Polskie Gornictwo Naftowe i Gazownictwo S.A. (POGC) and FX Energy Poland, Sp. z o.o. relating to Fences I project area	Incorporated by reference from the current report on Form 8-K filed May 2, 2000.
10.59	Sales / Purchase Agreement Special Provisions between Plains Marketing Canada, L.P. and FX Drilling Company Inc. agreed April 29, 2002	Incorporated by reference from the annual report on Form 10-K for the period ended December 31, 2002, filed March 27, 2003.
10.60	Form of Non-Qualified Stock Option awarded August 14, 2002, with related schedule**	Incorporated by reference from the annual report on Form 10-K for the period ended December 31, 2002, filed March 27, 2003.
10.62	Agreement Regarding Cooperation within the Poznan Area (Fences II) entered into January 8, 2003, by and between Polskie Gornictwo Naftowe i Gazownictwo S.A. and FX Energy Poland Sp. z o.o.	Incorporated by reference from the annual report on Form 10-K for the period ended December 31, 2002, filed March 27, 2003.

Exhibit Number*	Title of Document	Location
10.63	Settlement Agreement Regarding the Fences I Area entered into January 8, 2003, by and between Polskie Gornictwo Naftowe i Gazownictwo S.A. and FX Energy Poland Sp. z o.o.	Incorporated by reference from the annual report on Form 10-K for the period ended December 31, 2002, filed March 27, 2003.
10.64	Farmout Agreement Entered into by and between FX Energy Poland Sp. z o.o. and CalEnergy Power (Polska) Sp. z o.o. Covering the "Fences Area" in the Foresudetic Monocline made as of January 9, 2003	Incorporated by reference from the annual report on Form 10-K for the period ended December 31, 2002, filed March 27, 2003.
10.67	FX Energy, Inc. 1999 Stock Option and Award Plan**	Incorporated by reference from the annual report on Form 10-K for the period ended December 31, 2003, filed March 15, 2004.
10.68	FX Energy, Inc. 2000 Stock Option and Award Plan**	Incorporated by reference from the annual report on Form 10-K for the period ended December 31, 2003, filed March 15, 2004.
10.69	FX Energy, Inc. 2001 Stock Option and Award Plan**	Incorporated by reference from the annual report on Form 10-K for the period ended December 31, 2003, filed March 15, 2004.
10.70	FX Energy, Inc. 2003 Long-Term Incentive Plan	Incorporated by reference from the annual report on Form 10-K for the period ended December 31, 2003, filed March 15, 2004.
10.74	Greater Zaniemysl Area Agreement made as of March 12, 2004, among FX Energy Poland Sp. z o.o. and CalEnergy Resources Poland Sp. z o.o.	Incorporated by reference from the quarterly report on Form 10-Q for the period ended March 31, 2004, filed May 11, 2004.
10.75	Form of Indemnification Agreement between FX Energy, Inc. and directors and officers with related schedule**	This filing.
10.76	Supplemental Indemnification Agreement between FX Energy, Inc. and Dennis B. Goldstein**	Incorporated by reference from the annual report on Form 10-K for the period ended December 31, 2004, filed March 15, 2005.
10.77	Description of compensation arrangement with executive officers and directors**	This filing.
10.78	Form of Employment Agreement with related schedule**	Incorporated by reference from the annual report on Form 10-K for the period ended December 31, 2006, filed March 13, 2007.

Exhibit Number*	Title of Document	Location
10.79	Change in Control Compensation Agreement with related schedule**	Incorporated by reference from the annual report on Form 10-K for the period ended December 31, 2006, filed March 13, 2007.
10.81	FX Energy, Inc. 2004 Long-Term Incentive Plan**	Incorporated by reference from the annual report on Form 10-K for the period ended December 31, 2004, filed March 15, 2005.
10.82	Letter of Engagement, H. Allen Turner, dated February 14, 2007	Incorporated by reference from the current report on Form 8-K filed February 20, 2007.
10.83	US\$25,000,000 Senior Facility Agreement among FX Poland Sp. z o.o., FX Energy, Inc., FX Energy Netherlands Partnership CV., FX Energy Netherlands BV., and The Royal Bank of Scotland PLC, dated November 17, 2006	Incorporated by reference from the annual report on Form 10-K for the period ended December 31, 2006, filed March 13, 2007.
10.84	Common Stock Purchase Warrant dated November 17, 2006	Incorporated by reference from the annual report on Form 10-K for the period ended December 31, 2006, filed March 13, 2007.
10.85	Agreement for Pledges over Shares in FX Energy Poland Sp. z o.o., dated December 18, 2006	Incorporated by reference from the annual report on Form 10-K for the period ended December 31, 2006, filed March 13, 2007.
10.86	Subordination Deed dated December 21, 2006	Incorporated by reference from the annual report on Form 10-K for the period ended December 31, 2006, filed March 13, 2007.
10.87	Restated FX Energy, Inc. 401(k) Stock Bonus Plan dated January 25, 2007**	Incorporated by reference from the annual report on Form 10-K for the period ended December 31, 2006, filed March 13, 2007.
10.88	Agreement for the Sale of Natural Gas between FX Energy Poland Sp. z o.o. and Mazowiecka Spółka Gazownictwa Sp. z o.o., dated December 29, 2005	Incorporated by reference from the annual report on Form 10-K for the period ended December 31, 2006, filed March 13, 2007.
10.89	Agreement No. PL/012216736/05-0030/DH/HB for the Sale of Natural Gas between FX Energy Poland Sp. z o.o. and Polskie Górnictwo Naftowe I Gazownictwo S.A., dated December 8, 2005	Incorporated by reference from the annual report on Form 10-K for the period ended December 31, 2006, filed March 13, 2007.
10.90	Agreement for the Sale of Wellhead Natural Gas between FX Energy Poland Sp. z o.o. and PL Energia S.A., dated January 26, 2007	Incorporated by reference from the annual report on Form 10-K for the period ended December 31, 2006, filed March 13, 2007.
10.91	Form of Stock Purchase Agreement	Incorporated by reference from the current report on Form 8-K filed July 5, 2007.

10.92	Exhibit 10.92, Amendment and Reconfirmation of Supplemental Indemnification Agreement between FX Energy, Inc. and Dennis B. Goldstein	This filing.
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Item 21	Subsidiaries of the Registrant	
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21.01	Schedule of Subsidiaries	Incorporated by reference from the annual report on Form 10-K for the period ended December 31, 2007, filed March 10, 2008.
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Item 23	Consents of Experts and Counsel	
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23.01	Consent of PricewaterhouseCoopers LLP, independent registered public accounting firm	This filing.
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23.02	Consent of Larry D. Krause, Petroleum Engineer	This filing.
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23.03	Consent of RPS Energy, Petroleum Engineers	This filing.
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Item 31	Rule 13a-14(a)/15d-14(a) Certifications	
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31.01	Certification of Chief Executive Officer Pursuant to Rule 13a-14	This filing.
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31.02	Certification of Chief Financial Officer Pursuant to Rule 13a-14	This filing.
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Item 32	Section 1350 Certifications	
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32.01	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	This filing.
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32.02	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	This filing.
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* All exhibits are numbered with the number preceding the decimal indicating the applicable SEC reference number in Item 601, and the number following the decimal indicating the sequence of the particular document. Omitted numbers in the sequence refer to documents previously filed as an exhibit, but no longer required.

** Identifies each management contract or compensatory plan or arrangement required to be filed as an exhibit, as required by Item 15(a)(3) of Form 10-K.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

FX ENERGY, INC. (Registrant)

Dated: March 13, 2009

By: /s/ David N. Pierce
David N. Pierce
President and Chief Executive Officer

Dated: March 13, 2009

By: /s/ Clay Newton
Clay Newton
Principal Financial Officer

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: March 13, 2009 /s/ Thomas B. Lovejoy
Thomas B. Lovejoy, Director

Dated: March 13, 2009 /s/ David N. Pierce
David N. Pierce, Director

Dated: March 13, 2009 /s/ Dennis B. Goldstein
Dennis B. Goldstein, Director

Dated: March 13, 2009 /s/ Arnold S. Grundvig, Jr.
Arnold S. Grundvig, Jr., Director

Dated: March 13, 2009 /s/ Jerzy B. Maciolek
Jerzy B. Maciolek, Director

Dated: March 13, 2009 /s/ Richard Hardman
Richard Hardman, Director

Dated: March 13, 2009 /s/ H. Allen Turner
H. Allen Turner, Director