Faroe Petroleum

International Financial Reporting Standards

First Time Adoption

Contents

1. Introduction

Faroe Petroleum plc in common with other AIM listed companies is required to adopt International Financial Reporting Standards (IFRS) for accounting periods beginning on or after 1 January 2007. Accordingly the first period to be reported using these Standards will be the six month period ending 30 June 2007. In order to fully understand the impact of these changes and provide a comparative for the new statements it is necessary to re-state the previously reported Balance Sheets at 31 December 2005, 30 June 2006 and at 31 December 2006 and the Income Statements for the six months to 30 June 2006 and the year to 31 December 2006.

This document sets out how the adoption has affected previously reported results. The document has been prepared using IFRS accounting policies and has been agreed with the Group’s auditors, whose independent report and review are set out in Section 6.

A summary of the impact on the Income Statement, Earnings Per Share and Balance Sheet is set out in Section 2 and a more detailed reconciliation to the previously reported numbers, which were prepared in accordance with UK GAAP, is set out in Section 5 and this includes an explanation of the significant changes. The Group’s new accounting policies are set out in Section 4.

2. Summary of changes under IFRS

Changes to the Group's reported financial information for the year ended 31 December 2006 as a result of adopting IFRS are summarised as follows:

	UK GAAP Restated £000	IFRS Adjustments £000	IFRS £000
Income statement			
Operating loss	(3,140)	(787)	(3,927)
Loss after tax	(1,588)	(787)	(2,375)
Earnings per share (basic and diluted)	(2.4)	(1.2)	(3.5)
Balance sheet			
Net assets	55,747	(3,837)	51,910

The adjustments arise principally due to the adoption of IFRS 6 – "Exploration for and evaluation of mineral resources". Under UK GAAP, Faroe Petroleum had adopted the full cost accounting method as permitted in the provisions of the UK Oil Industry Accounting Committee's Statement of Recommended Practice (SORP) "Accounting for Oil and Gas Exploration, Development, Production and Decommissioning Activities". The IFRS accounting policy for oil and gas expenditures is set out in detail in Section 4.

The main impact of IFRS 6 on the Group's financial statements is that costs which are incurred prior to the award of licences, are required to be expensed in the Income Statement. These costs were quite significant for Faroe Petroleum and included not only technical staff costs but also seismic surveys. Without such costs the Group could not have built its exploration portfolio, particularly in the Atlantic Margin.

The implementation of IAS 12 – "Income Taxes" has not resulted in changes to the primary statements of the Group but has resulted in a change in the Group's unrecognised deferred tax assets which are principally generated by historic trading and pre-trading losses.

Impact on Cash Flow Statement

IAS 7 – "Cash flow statements" has had no impact on the net movement in cash and cash equivalents and therefore a cash flow reconciliation is not presented in this statement. Some presentational differences exist between cash flow statements presented under UK GAAP and IFRS.

3. First time adoption of IFRS

IFRS 1 "First-time adoption of International Financial Reporting Standards" establishes the transitional requirements for the preparation of financial statements upon first time adoption of IFRS. IFRS 1 generally requires an entity to comply with IFRS effective at the reporting date and to apply these retrospectively to the opening balance sheet, the comparative period and the reporting period. The standard allows certain optional exemptions from full retrospective application, and other elections on transition; the exemptions which the Group has applied are as follows:

- IFRS 2 "Share-based payments" has not been applied to share-based awards granted before 7 November 2002 or vested before 1 January 2006;
- IFRS 3 "Business combinations" has not been applied retrospectively to business combinations prior to 1 January 2006; and
- IAS 21 "The effects of changes in foreign exchange rates" has not been applied for cumulative translation differences up to 1 January 2006 which have been set to zero.

Estimates applied under IFRS are based on information known at the relevant reporting date and are consistent with those that were also applied under UK GAAP.

It should be noted that the preliminary IFRS financial statements presented in this document may require adjustment before constituting the final IFRS financial statements of the Group. This is primarily because when the Group prepares full IFRS financial statements for the year-ended 31 December 2007, the voluntary or mandatory implemetation of IFRIC interpretations and / or additional IFRS standards may require such adjustments.

4. Significant accounting policies

Basis of accounting

The Group financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union as they apply to the financial statements of the Group and applied in accordance with the Companies Act 1985. The reporting currency of the group is pounds sterling.

Accounting estimates

The Group's accounting policies make use of estimates and judgements in the following areas; Impairment, Depreciation, Decommissioning and Share based payments. These are described in more detail in the relevant accounting policies.

Basis of consolidation

The Group financial statements include the financial statements of the Company and its subsidiary undertakings. The acquisition method of accounting is adopted; under this method the fair value of subsidiary undertakings acquired or sold in the year are included from the date of acquisition or up to the date of disposal.

Foreign currencies

The functional currency for the UK entities is pounds sterling and the functional currencies for Faroe Petroleum Norge AS and Føroya Kolvetni P/F are Norwegian Krona and Danish Krona respectively.

Transactions in foreign currencies during the year are recorded in the functional currency at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities are translated at the rate ruling on the balance sheet date and any gains and losses on translation are reflected in the Income Statement.

The assets and liabilities of foreign operations are translated into sterling at the rate of exchange ruling at the balance sheet date. Income and expenses are translated at weighted average exchange rates for the year. The resulting exchange differences are taken directly to a separate component of equity. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

Joint ventures

The Group is engaged in oil and gas exploration, development and production through unincorporated joint ventures and production sharing contracts ("Joint Ventures"). The Group accounts for its share of the results and net assets of these Joint Ventures as jointly controlled assets based on its percentage ownership of these Joint Ventures. In addition, where Faroe Petroleum acts as operator to the Joint Venture the gross liabilities and receivables (including amounts due to and from non-operating partners) of the Joint Venture are included in the Group Balance Sheet.

4. Significant accounting policies *(continued)*

Oil and gas expenditure – exploration and evaluation assets

Capitalisation

Pre-acquisition costs on oil and gas assets are recognised in the Income Statement when incurred. Costs incurred after rights to explore have been obtained, such as geological and geophysical surveys, drilling and commercial appraisal costs and other directly attributable costs of exploration and appraisal including technical and administrative costs are capitalised as intangible exploration and evaluation ("E&E") assets. The assessment of what constitutes an individual E&E asset is based on technical criteria but essentially either a single licence area or contiguous licence areas with consistent geological features are designated as individual E&E assets.

E&E costs are not amortised prior to the conclusion of appraisal activities. Once active exploration is completed the asset is assessed for impairment. If commercial reserves are discovered then the carrying value of the E&E asset is reclassified as a development and production ("D&P") asset, following development sanction but only after the carrying value is assessed for impairment and where appropriate its carrying value adjusted. If commercial reserves are not discovered the E&E asset is written off to the Income Statement.

Impairment

The Group's oil and gas assets are analysed into cash generating units ("CGU") for impairment review purposes, with E&E asset impairment testing being performed at a grouped CGU level. E&E assets are reviewed for impairment when circumstances arise which indicate that the carrying value of an E&E asset exceeds the recoverable amount. When reviewing E&E assets for impairment, the combined carrying value of the grouped CGU is compared with the grouped CGU's recoverable amount. The recoverable amount of a grouped CGU is determined as the higher of its fair value less costs to sell and value in use. Impairment losses resulting from an impairment review are written off to the Income Statement.

Oil and gas expenditure – development and production assets

Capitalisation

Costs of bringing a field into production, including the cost of facilities, wells and sub-sea equipment together with E&E assets reclassified in accordance with the above policy, are capitalised as a D&P asset. Normally each individual field development will form an individual D&P asset but there may be cases, such as phased developments, or multiple fields around a single production facility when fields are grouped together to form a single D&P asset.

Depreciation

All costs relating to a development are accumulated and not depreciated until the commencement of production. Depreciation is calculated on a unit of production basis based on the proven and probable reserves of the asset. Any re-assessment of reserves affects the depreciation rate prospectively. Significant items of plant and equipment will normally be fully depreciated over the life of the field. However these items are assessed to consider if their useful lives differ from the expected life of the D&P asset and should this occur a different depreciation rate would be charged.

Impairment

A review is carried out at each reporting period for any indication that the carrying value of the Group's D&P assets may be impaired. The impairment review of D&P assets is carried out on an asset by asset basis and involves comparing the carrying value with the recoverable value of an asset. The recoverable amount of an asset is determined as the higher of its fair value less costs to sell and value in use. The value in use is determined from estimated future net cash flows. Any additional depreciation resulting from the impairment testing is charged to the Income Statement.

Decommissioning

The Group recognises the full discounted cost of decommissioning when the obligation to rectify environmental damage arises. The amount recognised is the present value of the estimated future expenditure determined by local conditions and requirements. A corresponding fixed asset of an amount equal to the provision is created unless the associated activity resulted in an Income Statement write-off. This asset is subsequently depreciated as part of the capital cost on a unit of production basis. Any change to the present value of the estimated decommissioning cost is reflected as an adjustment to the provision and the fixed asset. The unwinding of the discount on the decommissioning provision is included as an interest expense.

4. Significant accounting policies *(continued)*

Other tangible assets

Property, plant and equipment other than oil and gas assets are stated in the Balance Sheet at cost less accumulated depreciation. Depreciation is provided to write off the cost less the estimated residual value of the tangible fixed asset on a straight-line basis over their estimated useful lives as follows:

- IT equipment 3 to 4 years
- Other equipment 5 years

Taxation

The Income Statement tax charge comprises both current and deferred tax. Tax is charged or credited in the Income Statement except on items related directly to equity, in which case it is recognised in equity.

Current and deferred tax liabilities are payable on income for the year and are based on rates of tax enacted or substantively enacted at the balance sheet date.

Deferred income tax is provided in full on temporary differences between the carrying value of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes, with the following exemptions:

- where the temporary differences arise on initial recognition of an asset or liability in a transaction (other than a business combination), that at the time of the transaction affects neither accounting nor taxable profit or loss;
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future; and
- deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences, carried forward tax credits or tax losses can be utilised.

Pensions

The Group operates a defined benefit pension plan for certain Norwegian employees, which requires contributions to be made to a separately administered fund. The cost of providing benefits under the defined benefit plan is determined using the projected unit credit actuarial valuation method. Actuarial gains and losses are recognised directly in equity, and reported in the statement of recognised income and expenses.

The defined benefit asset or liability comprises the present value of the defined benefit obligation less past service cost not yet recognised and less the fair value of plan assets out of which the obligations are to be settled directly.

Other group employees receive contributions to personal pension plans, which are charged to the Income Statement on an accruals basis.

Trade and other receivables

Trade and other receivables are shown at face value less any provision for unrecoverable debt.

Cash and cash equivalents

Cash and cash equivalents includes cash in hand and deposits held at call with banks.

4. Significant accounting policies *(continued)*

Share based payments

Employees (including senior executives) of the Group receive remuneration in the form of share-based payment transactions which are equity settled. The cost of equity-settled transactions with employees, for awards granted after 7 November 2002, is measured by reference to the fair value at the date on which they are granted. The fair value is determined by an external valuer using an appropriate pricing model.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (”the vesting date”). The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The Income Statement charge or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

Where the terms of an equity-settled award are modified, the minimum expense recognised is the expense if the terms had not been modified. An additional expense is recognised for any modification, which increases the total fair value of the share based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

5a. Reconciliation of UK GAAP and IFRS – year ended 31 December 2006

Consolidated Income Statement *for the year ended 31 December 2006*	**UK GAAP**	**IFRS 6**	**IFRS**
	£000	£000 *Note 2*	£000
Exploration and evaluation expenses	(219)	(787)	(1,006)
Administrative expenses	(2,921)	-	(2,921)
Operating loss	(3,140)	(787)	(3,927)
Interest income	1,551	-	1,551
Finance costs	(800)	-	(800)
Loss on ordinary activities before tax	(2,389)	(787)	(3,176)
Tax on loss on ordinary activities	801	-	801
Loss for the year	(1,588)	(787)	(2,375)
Basic and diluted loss per share (pence)	(2.4)		(3.5)

5a. Reconciliation of UK GAAP and IFRS – year ended 31 December 2006 *(continued)*

Consolidated Balance Sheet *at 31 December 2006*	**UK GAAP Original**	**UK GAAP Adjustment**	**UK GAAP Restated**	**IFRS 6**	**IFRS**
	£000	£000 *Note 1*	£000	£000 *Note 2*	£000
Non-current assets					
Intangible assets	19,647	-	19,647	(3,548)	16,099
Property, plant and machinery	2,734	115	2,849	(289)	2,560
Investments	11	-	11	-	11
	22,392	115	22,507	(3,837)	18,670
Current assets					
Trade and other receivables	2,578	-	2,578	-	2,578
Current tax receivable	1,052	-	1,052	-	1,052
Cash and cash equivalents	33,016	-	33,016	-	33,016
	36,646	-	36,646	-	36,646
Total assets	59,038	115	59,153	(3,837)	55,316
Current liabilities					
Trade and other payables	(2,954)	-	(2,954)	-	(2,954)
	(2,954)	-	(2,954)	-	(2,954)
Non-current liabilities					
Provision for deferred tax	(251)	-	(251)	-	(251)
Provision for liabilities and charges	-	(115)	(115)	-	(115)
Defined benefit pension plan deficit	(86)	-	(86)	-	(86)
	(337)	(115)	(452)	-	(452)
Total liabilities	(3,291)	(115)	(3,406)	-	(3,406)
Net assets	55,747	-	55,747	(3,837)	51,910
Equity attributable to equity holders					
Called up share capital	7,382	-	7,382	-	7,382
Share premium account	51,813	-	51,813	-	51,813
Other reserves	1,086	-	1,086	-	1,086
Profit and loss account	(4,534)	-	(4,534)	(3,837)	(8,371)
Total equity	55,747	-	55,747	(3,837)	51,910

5a. Reconciliation of UK GAAP and IFRS – year ended 31 December 2006 *(continued)*

Explanatory Notes

1. UK GAAP restatement

The following restatement is required to correct errors in previously reported UK GAAP financial statements:

Decommissioning provision
In the 2006 financial statements under UK GAAP the Group had not booked a provision for the decommissioning liability relating to the Minke Main field which was under development at the end of 2006. A provision of £115,000 for the decommissioning liability has now been booked to adjust the UK GAAP position.

2. IFRS 6 "Exploration for and evaluation of mineral resources"

The main impact of IFRS 6 on the Group's financial statements is that pre-award costs capitalised under UK GAAP are written off to the income statement. The decrease in intangible E&E assets following the write-off of pre-award costs is £3,017,000 at 31 December 2006, of which £689,000 was incurred in 2006 and on conversion is charged to the Income Statement. In addition, seismic costs of £819,000 not related to specific licences has been written off, of which £98,000 were incurred in 2006 and on conversion is charged to the Income Statement.

E&E expenditure of £289,000 included in tangible D&P assets under UK GAAP has been reclassified to intangible E&E assets on conversion to IFRS. This adjustment has no impact on the Income Statement.

3. IAS 12 "Income taxes"

The implementation of IAS 12 has resulted in the unrecognised deferred tax assets of the Group increasing from £959,000 to £1,891,000 as at 31 December 2006.

5b. Reconciliation of UK GAAP and IFRS – period ended 30 June 2006

Consolidated Income Statement *for the year ended 30 June 2006*	**UK GAAP Original**	**UK GAAP Adjustment**	**UK GAAP Restated**	**IFRS 6**	**IFRS**
	£000	£000 *Note 1*	£000	£000 *Note 2*	£000
Exploration and evaluation expenses	-	-	-	(622)	(622)
Administrative expenses	(1,172)	(43)	(1,215)	-	(1,215)
Operating loss	(1,172)	(43)	(1,215)	(622)	(1,837)
Interest income	617	-	617	-	617
Finance costs	(493)	-	(493)	-	(493)
Loss on ordinary activities before tax	(1,048)	(43)	(1,091)	(622)	(1,713)
Tax on loss on ordinary activities	-	220	220	-	220
Loss for the period	(1,048)	177	(871)	(622)	(1,493)
Basic and diluted loss per share (pence)	(1.7)		(1.4)		(2.5)

5b. Reconciliation of UK GAAP and IFRS – period ended 30 June 2006 *(continued)*

Consolidated Balance Sheet *at 30 June 2006*	**UK GAAP Original**	**UK GAAP Adjustment**	**UK GAAP Restated**	**IFRS 6**	**IFRS**
	£000	£000 *Note 1*	£000	£000 *Note 2*	£000
Non-current assets					
Intangible assets	15,660	-	15,660	(3,673)	11,987
Property, plant and machinery	529	-	529	-	529
Investments	11	-	11	-	11
	16,200	-	16,200	(3,673)	12,527
Current assets					
Trade and other receivables	396	-	396	-	396
Current tax receivable	-	289	289	-	289
Cash and cash equivalents	42,435	-	42,435	-	42,435
	42,831	289	43,120	-	43,120
Total assets	59,031	289	59,320	(3,673)	55,647
Current liabilities					
Trade and other payables	(2,527)	-	(2,527)	-	(2,527)
	(2,527)	-	(2,527)	-	(2,527)
Non-current liabilities					
Provision for deferred tax	-	(69)	(69)	-	(69)
Defined benefit pension plan deficit	-	(43)	(43)	-	(43)
	-	(112)	(112)	-	(112)
Total liabilities	(2,527)	(112)	(2,639)	-	(2,639)
Net assets	56,504	177	56,681	(3,673)	53,008
Equity attributable to equity holders					
Called up share capital	7,382	-	7,382	-	7,382
Share premium account	51,816	-	51,816	-	51,816
Other reserves	1,086	-	1,086	-	1,086
Profit and loss account	(3,780)	177	(3,603)	(3,673)	(7,276)
Total equity	56,504	177	56,681	(3,673)	53,008

5b. Reconciliation of UK GAAP and IFRS – period ended 30 June 2006 *(continued)*

Explanatory Notes

1. UK GAAP Restatement

The following restatements are required to correct errors in previously reported UK GAAP financial statements:

Employee benefits
A valuation of the pension liability of the defined benefits scheme was not carried out as at 30 June 2006 and no pension accrual was made in the 2006 interim statement. The UK GAAP numbers have now been restated to take account of the pension liability using the 31 December 2006 valuation as a basis for an estimate of the liability at 30 June 2006. This resulted in a pension accrual of £43,000.

Income taxes
Faroe Petroleum is due a tax rebate for exploration expenditure incurred in Norway. The tax rebate results in a credit to the Income Statement and a deferred tax liability. The tax rebate was not recognised in the 2006 interim statement and the UK GAAP numbers have now been restated to reflect the rebate due as at 30 June 2006. The rebate as at 30 June 2006 is £289,000 and the credit to the Income Statement is £220,000.

2. IFRS 6 "Exploration for and evaluation of mineral resources"

The main impact of IFRS 6 on the Group's financial statements is that pre-award costs capitalised under UK GAAP are written off to the Income Statement. The decrease in intangible E&E assets following write-off of pre-award costs is £2,951,000 at 30 June 2006, of which £622,000 was incurred in the 6 month period to 30 June 2006 and on conversion is charged to the Income Statement. In addition, seismic costs of £722,000 not related to specific licences has been written off, none of which was incurred in the 6 month period to 30 June 2006.

3. IAS 12 "Income taxes"

The implementation of IAS 12 has resulted in the unrecognised deferred tax assets of the Group increasing from £895,000 to £1,738,000 as at 30 June 2006.

5c. Reconciliation of UK GAAP and IFRS – balance sheet as at 1 January 2006

Consolidated Balance Sheet *at 1 January 2006*	**UK GAAP**	**IFRS 6**	**IFRS**
	£000	£000 *Note1*	£000
Non-current assets			
Intangible assets	12,298	(3,050)	9,248
Property, plant and machinery	110	-	110
Investments	11	-	11
	12,419	(3,050)	9,369
Current assets			
Trade and other receivables	399	-	399
Cash and cash equivalents	22,850	-	22,850
	23,249	-	23,249
Total assets	35,668	(3,050)	33,618
Current liabilities			
Trade and other payables	(2,047)	-	(2,047)
	(2,047)	-	(2,047)
Net assets	33,621	(3,050)	30,571
Equity attributable to equity holders			
Called up share capital	5,518	-	5,518
Share premium account	30,113	-	30,113
Other reserves	1,086	-	1,086
Profit and loss account	(3,096)	(3,050)	(6,146)
Total equity	33,621	(3,050)	30,571

5c. Reconciliation of UK GAAP and IFRS – balance sheet as at 1 January 2006 *(continued)*

Explanatory Notes

1. IFRS 6 “Exploration for and evaluation of mineral resources”

The impact of IFRS 6 on the Group’s opening balance sheet is that pre-award costs capitalised under UK GAAP are written off to the Income Statement. The decrease in intangible E&E assets following write-off of pre-award costs is £2,328,000 at 1 January 2006. In addition, seismic costs of £722,000 not related to specific licences have been written off.

2. IAS 12 “Income taxes”

The implementation of IAS 12 has resulted in the unrecognised deferred tax assets of the Group increasing from £799,000 to £1,522,000 as at 1 January 2006.

6a. Independent auditors' report to Faroe Petroleum plc on the preliminary IFRS financial statements for the year ended 31 December 2006

We have audited the accompanying preliminary International Financial Reporting Standards ("IFRS") financial statements of the Company for the year ended 31 December 2006 which comprise the Group opening IFRS Balance Sheet as at 1 January 2006, the Group Income Statement for the year ended 31 December 2006 and the Group Balance Sheet as at 31 December 2006, together with the related accounting policies note set out on pages 5 to 8.

This report is made solely to the Company in accordance with our engagement letter dated 15 June 2007. Our audit work has been undertaken so that we might state to the Company those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility or liability to anyone other than the Company for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

These preliminary IFRS financial statements are the responsibility of the Company's directors and have been prepared as part of the Company's conversion to IFRS. They have been prepared in accordance with the basis set out in Sections 3 and 4, which describe how IFRS have been applied under IFRS 1, including the assumptions management has made about the standards and interpretations expected to be effective, and the policies expected to be adopted, when management prepares its first complete set of IFRS financial statements as at 31 December 2007.

Our responsibility is to express an independent opinion on the preliminary IFRS financial statements based on our audit. We read the other information accompanying the preliminary IFRS financial statements and consider whether it is consistent with the preliminary IFRS financial statements. This other information comprises the description of significant changes in accounting polices on pages 5 to 8. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the preliminary IFRS financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the preliminary IFRS financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the preliminary IFRS financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the preliminary IFRS financial statements. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, the preliminary IFRS financial statements for the year ended 31December 2006 have been prepared, in all material respects, in accordance with the basis set out in Sections 3 and 4, which describes how IFRS have been applied under IFRS 1, and the policies expected to be adopted, when management prepares its first complete set of IFRS financial statements as at 31 December 2007.

Emphasis of matter

Without qualifying our opinion, we draw attention to the fact that, under IFRSs only a complete set of financial statements with comparative financial information and explanatory notes can provide a fair presentation of the Company's financial position, results of operations and cash flows in accordance with IFRSs.

ERNST & YOUNG LLP
28th August 2007
Aberdeen

6b. Independent review report to Faroe Petroleum plc on the preliminary IFRS interim financial information for the six months ended 30 June 2006

Introduction

We have been instructed by the company to review the preliminary International Financial Reporting Standards ("IFRS") interim financial information for the six months ended 30 June 2006 which comprises the Group Income Statement for the six months ended 30 June 2006 and the Group Balance Sheet as at 30 June 2006. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the preliminary IFRS interim financial information.

This report is made solely to the company in accordance with guidance contained in Bulletin 1999/4 'Review of interim financial information' issued by the Auditing Practices Board. To the fullest extent permitted by the law, we do not accept or assume responsibility to anyone other than the company for our work, for this report, or for the conclusions we have formed.

Directors' responsibilities

The preliminary IFRS interim financial information is the responsibility of, and has been approved by, the directors. As disclosed in section 1, the next annual financial statements of the group will be prepared in accordance with those IFRSs adopted for use in the European Union. This preliminary interim financial information and has been prepared as part of the company's conversion to IFRS and in accordance with the requirements of IFRS 1 "First Time Adoption of International Financial Reporting Standards" relevant to interim reports. The accounting policies are consistent with those that the directors intend to use in the next financial statements.

Review work performed

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

Review conclusion

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

ERNST & YOUNG LLP
28th August 2007
Aberdeen