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FAROE PETROLEUM PLC
("Faroe Petroleum" or the "Company")
Preliminary Unaudited Results for the Year Ended 31 December 2006

Faroe Petroleum, the independent oil and gas group focusing on exploration, development and production opportunities in the Atlantic Margin, the North Sea and Norway, announces its full year results for the 12 months ended 31 December 2006.

Highlights

Financial
- Loss of £1.6m (2005 restated: £0.5m), in line with expectation
- Successful institutional placing of £25.0m (£23.5m net of expenses) in April
- Well financed with cash of £33.0m (2005: £22.9m) – sufficient funds to meet current commitments

Strategy
- Robust portfolio strategy to explore, appraise and develop the material stakes held in various oil and gas assets in the Atlantic Margin, the North Sea and Norway
- Very strong strategic position in the Atlantic Margin with potential for very significant resources
- Pursuing diversification to enhance risk / reward balance and drilling programme
- Entry to Norway secured, with pre-qualification achieved in April, ahead of licence awards
- Added interests in gas fields in the UK Southern Gas Basin for near-term cash flow
- Leveraging strong relationships with oil Majors established in the Atlantic Margin to enhance and de-risk our portfolio in the North Sea and Norway
- Highly experienced team in place to drive programme and growth going forward

Portfolio activity
- Outstanding portfolio growth with 120% increase to 33 licences as at March 2007 (2005: 15 licences)
- Significant Licence Round success with six licences in Norway and five licences in UK (applied for in 2006, awarded in 2007)
- Well participations
    - UK North Sea Halibut wildcat well - farmed out 80% of cost - traces of hydrocarbons encountered, but not in commercial quantities
    - Faroes Brugdan wildcat well - with much reduced cost share - traces of hydrocarbons encountered, but not in commercial quantities
- Acquired first UK Southern Gas Basin appraisal and development interests
- Participated in several seismic, electromagnetic and site surveys
- Good technical progress being made on all licences to de-risk and mature for drilling

Outlook
- Drilling programme maturing for several wells over coming years
- Minke Main gas field expected on stream Q2 2007
- Development decisions anticipated on Orca and Minke Graben gas field developments
- Breagh gas field appraisal well scheduled for 2007
- Farm out of near-term Atlantic Margin and North Sea wells

Joe Darby, Chairman of Faroe Petroleum, commented: "2006 was a significant year for Faroe Petroleum as we rapidly build and diversify the portfolio and strengthen the Company. Significant achievements included: doubling the number of licences, securing our first near-term production assets, raising finance for our portfolio programme and a timely and successful entry into Norway. We did not strike commercial oil with our two wells, however, we have a substantial portfolio drilling programme ahead, with many exciting prospects."

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Chairman's and Chief Executive's Review

Introduction

We are pleased to announce the results for Faroe Petroleum plc for the year 2006. The Company had a very active year combining exploration activity and portfolio growth. Two wildcat exploration wells were drilled and although no discoveries were made the wells provided valuable new information, data and experience which will enhance significantly Faroe Petroleum's potential in both the Faroes and the Outer Moray Firth of the North Sea.

Excellent progress was made in securing new assets across the spectrum of exploration, appraisal and development, with a total of 18 new licences, eleven secured through licence round applications in 2006 (awarded 2007) and seven acquisitions, increasing the portfolio size from 15 to 33, an increase of 120% on the year.

In line with our objective of diversifying, de-risking and strengthening the portfolio, we are very pleased to have secured our entry into Norway. Norway was highlighted some years ago as a highly attractive oil and gas region, with its favourable tax regime, offering an excellent strategic fit for Faroe Petroleum. The Company's entry was achieved by appointing the successful former Paladin Resources Norway team in Stavanger, following the sale of Paladin Resources to Talisman in late 2005. In April 2006 the Company satisfied the stringent pre-qualification process demanded by the Norwegian authorities to become an approved licensee in Norway. This allowed the Company to participate in the 2006 APA (Awards in Predefined Areas) Licensing Round, which offered licences near to existing infrastructure for exploration and appraisal. Faroe Petroleum was rewarded in January 2007 with six new licences in a number of strong partnerships with the large oil companies ConocoPhillips, Centrica and Petro-Canada, as well as the independent Norwegian companies Noreco, Revus and Pertra. Faroe Petroleum has committed one appraisal well and a number of new and reprocessed seismic surveys on these licences, and work has already commenced. This licensing success puts the Company in an excellent position to build a new and diversified portfolio complementing existing licences in the Atlantic Margin and North Sea.

In the 2006 UK 24th Licensing Round, Faroe Petroleum was awarded five new licences through awards in 2007, further consolidating its positions. In the West of Shetlands the Company was awarded two licences, each benefiting from nearby discoveries and where it now holds a total of eight licences. In the Moray Firth area it was awarded three prospective licences, totalling seven licences in the area, one with a discovery. The Company has also commenced building a position in the Southern Gas Basin, through acquisitions of interests in four gas discoveries, with good scope for near term development. Acquisitions were undertaken during the year of interests in the Breagh, Orca and Minke fields, acquired from Sterling Resources and ConocoPhillips respectively. These projects benefit from active work programmes within acceptable investment levels for the Company, and are expected to see the Company participate in 2007 in one appraisal well on Breagh and a single well sub-sea tie-back development of the Minke Main Field. If successful, the Breagh gas discovery provides a low risk opportunity for a near-term gas field development. Once the Minke Main field has been developed, with first gas expected in Q2 2007, it is anticipated that development focus will move to the nearby Minke Graben and significantly larger Orca gas fields, which together complete the package acquired from ConocoPhillips in 2006. These new near-term, lower cost exploration and appraisal opportunities provide scope for early development via existing infrastructure, and cash flow. This enhanced portfolio offers scope for a more active drilling programme with a good spread of risk and reward.

To enhance its portfolio further, the Company created a new exclusive strategic joint venture with a subsidiary of the US insurer, Liberty Mutual Group, in order to acquire and exploit proven undeveloped discoveries in the UK North Sea. Liberty has a successful track record in upstream oil and gas investments in North America, and intends to expand its operations into the UK North Sea. This innovative investment model is designed to benefit both parties and to improve their competitiveness in securing acquisition opportunities.

The financial position of the Company was further strengthened through a successful fund-raising, in order to put the Company in a strong position to meet its existing commitments and initiate further development of the business. The work obligations under the new licences are relatively modest, and the Company is well financed going forward.

Strategy

Faroe Petroleum's primary objective is to create substantial shareholder value through the commercial exploitation of exploration, appraisal and development interests in the Atlantic Margin, the UK North Sea and Norway. Portfolio exploration and appraisal drilling continues to be the main driver for value creation in the Company. Faroe Petroleum also plans to continue the broadening of its interests through acquisition of appraisal and development opportunities to provide a better overall risk/reward balance. Faroe Petroleum aims to retain significant equity participations in an active drilling programme, targeting material opportunities, and it will where appropriate farm-out well costs to ensure its investment exposure is within acceptable project investment levels. Faroe Petroleum is also focused upon improving balance in its portfolio as regards risk-reward and drilling timetable. This objective is making good progress through the introduction of new core areas with good strategic fit, namely the North Sea and Norway.

The Company's portfolio therefore spans three main regions: the Atlantic Margin; the North Sea; and Norway. In broad terms, the Atlantic Margin and Norway offer materiality with many very large prospects and leads, while the North Sea offers the attraction of smaller and lower cost opportunities in close proximity to infrastructure with greater potential for generating near-term cash flow. Such cash flow will in turn provide a tax efficient means of underpinning the financing of the exploration and appraisal programme going forward. With its highly experienced team managing the portfolio in this way, the Company aims to mitigate risk, participate in an active and material drilling and work programme, access a broad group of potential farminees (oil company investors in wells) and create substantial shareholder value.

Overview

Atlantic Margin
In their continuous search for new reserves, oil and gas companies are increasingly attracted to the potential of the Atlantic Margin of Europe. An established core area for Faroe Petroleum, this region is known for its high impact opportunities which have led to the developments of Foinaven, Schiehallion and Clair, which collectively produce some 200,000 barrels of oil per day. The region also holds lower risk / lower reward opportunities, many of which have relatively small discoveries, and several of these are attractive in the present oil price environment. Recent activity in the area has centred around the extensions of the Foinaven and Schiehallion oil fields (BP), the development and further appraisal of the Clair oil field (BP), the pre-development activities relating to the Laggan gas field (Total), appraisal of the Rosebank / Lochnagar oil field (Chevron) and Cambo oil field (Hess), and exploration of sub-basalt prospects including the Brugdan wildcat prospect in the Faroes (Statoil). This momentum continues to build, and considerable industry attention is being paid in particular to the ongoing appraisal of Chevron's Rosebank / Lochnagar discovery, which, if successful, is expected to lead to rapid development and an accompanying significant increase in exploration activity on the Corona Ridge in particular.

The Company has built a strong strategic position in the Atlantic Margin, which would be virtually impossible to replicate today. Faroe Petroleum now holds 13 licences here with significant equity positions; eight in the UK West of Shetlands and five in the Faroes. The Company holds most of its high risk / high reward licences in partnerships with such companies as BP, Chevron, Eni, Shell and Statoil. Prospects on the Corona Ridge, targeted by Chevron, show significant promise for substantial discoveries, and Faroe Petroleum holds five licences on this play. Faroe Petroleum's strategy of building a strong strategic Atlantic Margin portfolio of quality acreage, with material stakes and in partnership with some of the most successful major oil companies in the world, puts the Company in an excellent position to benefit from the substantial exploration investment being made in this area. The Company's Atlantic Margin portfolio is now maturing to the point where several high impact exploration wells are being prepared for drilling over the coming years.

North Sea

In order to provide upcoming, lower cost exploration and appraisal opportunities with scope for near-term development via existing infrastructure, the Company commenced building its position in the North Sea in 2005 through the acquisition from ExxonMobil and Shell of the North Halibut licence in the Outer Moray Firth. Since then, several licences in this prospective area have been won through licence rounds, and Faroe Petroleum is now a significant player here, with seven licences extending over some 2,250 square kilometres, having consolidated its position through the 24th UK Licensing Round. The Company's licences in this area hold many significant leads and prospects in shallow water near to existing infrastructure, the latter including the Claymore, Piper and Blake oil fields. The licences are a combination of Promote and Traditional, and as they already benefit from considerable well, seismic and other data, have the advantage of a low cost work programme with no firm well obligations, thereby affording good opportunity for farm-out from a high equity position. The Company's move into the Southern Gas Basin in 2006 followed an extensive lower risk appraisal and development project screening exercise. This yielded interests in a number of exciting yet low risk gas appraisal and development projects in the Southern Gas Basin, known as Breagh, Orca and Minke, which, if successful, will add reserves and generate tax efficient revenues, to help underpin the Company's ongoing activity.

Norway

As a new strategic area of focus to complement the Company's Atlantic Margin and North Sea portfolios, it was decided in 2005 to build a position in Norway. The attractiveness of Norway relates principally to its vast untapped resource potential, its relatively high exploration success rate and the fact that it remains very much an under-explored province. Norway ranks as the world's third largest exporter of oil and gas with oil and gas production of approximately 2.8 million barrels per day and 3.1 trillion cubic feet per year respectively in 2006. The first exploration well was drilled in 1966 and only approximately 1,100 exploration wells have been drilled (less than half the number drilled to date on the UKCS), proving 50 billion barrels of oil equivalent of recoverable resources.

Norway recently implemented a favourable tax structure designed to encourage exploration. Under this scheme, exploration-focused companies such as Faroe Petroleum can recover 78% of exploration related expenditure in the following tax year. The tax rebate for expenditure in Norway in 2006 is expected to be £1,052,000 and will be paid to the Company by the end of 2007. In February 2006 the Company recruited the highly respected former Paladin Resources Norway team. This team has worked together for several years on the Norwegian Continental Shelf generating an outstanding track record and reputation spanning exploration, development and production with several oil companies in Norway, including Paladin, Enterprise, Shell and Statoil.

In April 2006, the Company pre-qualified as a licensee, by meeting stringent requirements regarding resources, competence and systems. This achievement allowed Faroe Petroleum to participate in the highly competitive 2006 APA Licensing Round. The Company played a lead role in forming bidding groups with ConocoPhillips, Centrica, Petro-Canada, Noreco and Pertra, and in preparing several of the 2006 APA applications, drawing on the considerable knowledge and expertise of its in-house sub-surface team. These submissions were rewarded in January 2007 with six licences on a variety of prospective plays in both the Norwegian North Sea and the Norwegian Sea, spanning low risk appraisal to high risk / high reward exploration with equity interests between 20% and 30%. The work programme commits Faroe Petroleum and its licence partners to drill one well, acquire one new 3D survey and reprocess five existing seismic surveys.

This early accomplishment in Norway puts the Company in an excellent position to progress its objectives of diversifying and balancing the portfolio and its work programme. Work is underway both on these new licences and in pursuit of further suitable opportunities. Faroe Petroleum is currently in the process of putting in place a credit facility with a major oil and gas lending bank to finance the portion of expenditure to be reimbursed by the Norwegian Government under the new tax regime. This financing will further increase the attractiveness of exploring in Norway.

Technological Edge

The Company has now also made its mark as a front-runner in the specialised field of sub-basalt exploration, which is becoming an increasingly important aspect of deeper water exploration, requiring the use of new and highly specialised technologies to identify and test prospects beneath this challenging rock type. Faroe Petroleum has, together with its joint venture partners, pioneered the application of long-offset, “over-under” seismic, electromagnetic (EM) survey techniques and most recently sub-basalt drilling. Such skills and experience will be beneficial in exploiting the Company’s Atlantic Margin portfolio.

Board Appointments

Mr Helge Hammer has been appointed to the board of the Company effective today as an executive director, and this appointment will be subject to a shareholder resolution at the forthcoming Annual General Meeting. Mr Hammer is the Managing Director of the Company’s subsidiary Faroe Petroleum Norge AS, based in Stavanger. He joined Faroe Petroleum from Paladin Resources Norway where he was Deputy Managing Director, after a very successful international career with Shell.

Results

In April the Company undertook an institutional equity-placing of 18,382,353 new ordinary shares at 136 pence per share to raise £25.0 million (£23.5 million net of expenses). The Group had cash reserves of £33.0 million at 31 December 2006 (2005: £22.9 million) in addition to £2.1m, held in escrow, classified as debtors in respect of development activities on the Minke Main gas field. The Company has adequate funds to meet all firm work programme commitments. These funds are expected to give Faroe Petroleum sufficient capital to invest in its first phase of drilling over the coming years.

The Group made a small loss of £1.6 million in the period (2005 restated: £0.5 million) reflecting increased activity and unrealised foreign exchange losses of £0.8 million (2005: £nil). Capital expenditure during the year was £9.5 million (2005: £2.7 million). The Company has a tax receivable at the end of the year of £1.1 million (2005: £nil) being 78% of exploration expenditure in Norway in 2006 which will be paid to the Company within the year. The net assets of Faroe Petroleum increased during the period to £57.7 million (2005: £33.6 million). The Group has adequate funds to meet all its current obligations. The Board of Directors does not recommend the payment of a dividend.

Joe Darby	Graham D Stewart
Chairman	*Chief Executive*

Review of activities

Overview

Faroe Petroleum has built a substantial acreage position of scale in three key areas, the Atlantic Margin, the North Sea and Norway, now holding a total of 33 licences, covering some 13,550 square kilometres. The work programmes undertaken during 2006 included the drilling of two exploration wells, the acquisition of one new Faroe Petroleum operated seismic survey and one electromagnetic (EM) survey, together with considerable geological and geophysical work. The Company participated in two high risk / high reward wildcat exploration wells during the year, and made significant advances in preparing for drilling decisions on several other licences. The year was particularly active and very successful in securing new opportunities through license rounds and acquisitions. This activity put significant demands on the technical teams which, in addition to progressing existing operated licences and screening new opportunities, also undertook a substantial amount of original licence application work. This was carried out both on behalf of Faroe Petroleum as operator in two licences and also on behalf of several joint bidding groups, in both the UK and Norway, where the Company played a leading role in several successful applications.

Atlantic Margin - Faroes

Licence 002 (Faroe 100%) – Operator Føroya Kolvetni p/f
Licence 002 is located close to the major producing Foinaven and Schiehallion oil fields as well as the undeveloped Suilven discovery. In addition to the potential extension of the Marjun discovery from the adjacent Licence 001, Licence 002 contains a promising structural lead, Orodruin, with significant reserve potential. The licence benefits from both 2D and 3D seismic coverage as well as considerable data generated from the 2003 Marimas well. The Company has until August 2008 to re-process the 3D seismic and undertake a full technical review with the intention of maturing a prospect for drilling.

Licence 005 (Faroe 25%) – Operator Eni Denmark BV
This undrilled licence, located close to the Faroes/UK territorial boundary offers considerable potential, and is a direct analogue to the Cambo (Amerada Hess - 2002) and the Rosebank Lochnagar (Chevron - 2004) oil discoveries. Located 10 kilometres to the east is Cambo which encountered up to 50 metres of gross oil column in the prospective Paleocene Rosebank interval, was successfully appraised in 2004 by the Lindisfarne well. It is believed that there are plans for further appraisal in 2008 prior to a possible development decision. Licence 005 also lies some 45 kilometres south west of the significant Chevron-operated Rosebank Lochnagar discovery which is being appraised at present by three wells scheduled to complete in Q2 2007. Ann Marie is the most mature of several large structural prospects on Licence 005, located in a prominent structural trend offsetting the Corona Ridge, and in the former “white zone” area. The work programme during 2006 focused on the final mapping and interpretation of all available data, which confirmed the presence of a Rosebank Lochnagar analogue structure with giant potential. The joint venture subsequently committed to a firm well on Licence 005 to drill the Ann Marie prospect before August 2009.

Licence 006 Brugdan (Faroe 4%) - Operator Statoil Færøyene AS
The Company acquired Petro-Canada's 4% working interest in Licence 006 on attractive terms and participated in the key sub-basalt Brugdan well drilled by Statoil in the summer of 2006, testing a very large high risk / high reward prospect. This well did not encounter commercial hydrocarbons, but the gas shows and other geological data obtained are invaluable for continuing sub-basalt exploration in the area. This is the first sub-basalt well to be drilled in a province noted for widespread presence of basalt, which due to its physical properties has made seismic interpretation particularly challenging. The well data is consequently very important to future Faroes exploration and to enhance understanding of the sub-basalt geology in neighbouring Licence 009 and un-tested prospects on Licence 006.

Licence 009 Sildrekin (Faroe 10%) - Operator Statoil Færøyene AS
This licence contains a very large lead in 250 metres of water and is situated in an attractive new exploration province on the western edge of the Faroe Platform. The 2006 work programme, consisting of new seismic and other data acquisition and processing has been executed. Geological and geophysical interpretation of these new data incorporating the Brugdan well results is being undertaken.

Licence 012 Rannvá (Faroe 100%) - Operator Føroya Kolvetni p/f
This licence, which is located in 500 metres water depth some 170 kilometres west of the BP-operated Schiehallion oil field, contains a very large lead along the axis of the Wyville-Thomson Ridge - the largest un-drilled anticline in north west Europe. The work programme of processing the new seismic data acquired in 2005 was successfully undertaken in 2006 by Faroe Petroleum. The high quality seismic is being evaluated and discussions are being held with several potential partners with a view to farming out a joint work programme to further de-risk the prospect, prior to a well commitment being made.

Atlantic Margin - United Kingdom

Freya (Faroe 100%) – Operator Faroe Petroleum (U.K.) Limited
This Frontier licence, awarded in 2004, and located in 140 metres of water includes the discovery made in 1980 by Mobil. The work programme of high technology seismic acquisition and processing was successfully undertaken in 2006 by Faroe Petroleum. The Company wishes to proceed with an appraisal well and drill stem test to determine commerciality of the discovery. To that end, a farm-out is being progressed with a view to securing a drilling rig and drilling as early as possible.

Seonaid (Faroe 100%) – Operator Faroe Petroleum (U.K.) Limited
This Frontier Licence, awarded in 2004, and located in 140 metres of water has an oil discovery made in 1974 by Elf and a number of promising structural leads. Existing seismic data has been reprocessed to high-grade and re-map the prospects, and a farm down process has commenced to attract potential joint venture partners in order to secure a commitment before end 2007 to drill a well on the licence.

Tornado (Faroe 20%) – Operator OMV (U.K.) Limited
This Traditional Licence, awarded in 2004 in a location between the undeveloped Suilven discovery and Faroese Licence 002, contains the Tornado prospect within tie-back distance of Schiehallion. The work programme, consisting of the acquisition, processing and interpretation of seismic and electromagnetic (EM) surveys was completed in 2006, and the licence is currently being marketed for farm out with a view to attracting a joint venture partner to share in Faroe Petroleum's cost prior to a well commitment decision, expected in 2007.

Lagavulin (Faroe 20%) and Talisker (Faroe 25%) – Operator Chevron North Sea Limited
Awarded in 2004, these licences have very substantial prospectivity and are located on a northern extension of the Corona Ridge. The operator Chevron successfully undertook the processing and interpretation of an extensive state of the art, over-under long-offset 2D seismic survey acquired in 2005, and this new data is now being evaluated to identify optimal drilling locations, in advance of drill or drop decisions in 2008 and 2010 respectively.

Cardhu (Faroe 10%) – Operator Shell U.K. Limited
This licence, awarded in 2004, has substantial prospectivity and is located on the prospective Corona Ridge trend, some 50 kilometres north east of Chevron's analogous Rosebank Lochnagar discovery made in the same year. The operator has completed the reprocessing of 2,000 square kilometres of 3D seismic data as well as the geological and geophysical interpretation, to prepare a potential drilling location in advance of a drill or drop decision in 2008.

Glenshee (Blocks 217/21, 22, 26 & 216/30) (Faroe 30%) - Operator Chevron North Sea Limited
The Company has continued its long term deep water exploration relationship with Chevron in securing the Glenshee licence in the UK 24th Licensing Round announced in January 2007. This Traditional Licence covers 800 square kilometres on the highly prospective Corona Ridge trend currently being appraised by three Rosebank Lochnagar wells, and is immediately adjacent to the Tobermory gas discovery made by Mobil in 1998. With very significant resource potential, the licence work programme consists of a high technology EM survey and seismic re processing, to re-map the Glenshee lead, and de-risking prior to making a drill or drop decision by the end of 2010.

Marjun UK (Blocks 204/16, 17, 21, 22) (Faroe 100%) – Operator Faroe Petroleum (U.K.) Limited
This 280 square kilometre Promote Licence was awarded 100% to Faroe Petroleum in the UK 24th Licensing Round, and contains the 204/16-1 gas discovery with 30 metres of hydrocarbon column, and is on the same trend as the Marjun oil discovery drilled by Amerada Hess in 2001, which encountered 160 metres of hydrocarbon column. The work programme consists of 3D seismic re-processing to re-map the extent of the hydrocarbon column, and geological studies to understand the reservoir potential, in order to identify a possible appraisal drilling location in advance of a drill or drop decision by the beginning of 2009.

North Sea

North Halibut (Blocks 14/21a, 22a) (Faroe 45%) – Operated by Oilexco (U.K.) Limited
Acquired from Shell and ExxonMobil in 2005, this licence is located in shallow water near to the giant producing Piper and Claymore oil fields. Following successful farm-out in January 2006, Oilexco drilled the Halibut play's first exploration well (14/21a-1) in 2006, meeting 80% of the cost. The well encountered gas shows and significant reservoir, but no commercial hydrocarbons. With the benefit of the 14/21a-1 well data, the joint venture has since re-mapped the area, and an attractive prospect has been identified in contiguous block 14/22a, which is a potential candidate for drilling in 2008.

East Halibut (Faroe 100%) & West Halibut (Faroe 50%), Olivia (Faroe 100%) – Operator Faroe Petroleum (U.K.) Limited
Awarded under the UK 23rd Licensing Round, these three Promote Licences contain several attractive large structures with significant potential. They each lie in shallow water within tie-back distance of several platforms. The work programmes to acquire 3D and 2D seismic data, carry out reprocessing and undertake geological modeling to identify suitable drilling locations, are now complete. Ahead of drill or drop decisions at the end of 2007, the Company is pursuing farm-outs to attract funds for drilling.

Lead A - Blocks 14/16, 17, 13/20 and 14/21b,22b (Faroe 45%) - Operator Oilexco North Sea Ltd
Awarded in the UK 24th Licensing Round in February 2007, following a regional study of the Halibut play, the joint venture applied for this 600 square kilometre Traditional Licence which contains an attractive prospect to be surveyed with new 2D seismic in 2007. This prospect is a potential candidate for joint venture partner Oilexco's drilling programme in 2008, for which it has a drilling rig on long term contract. Lead A lies adjacent to the Wytch Ground Graben oil source kitchen, is a four-way dip structure at Jurassic levels and has significant oil resource potential.

Blocks 13/14,15 (Faroe 45%) – Operator Oilexco North Sea Ltd
Awarded in the UK 24th Licensing Round in February 2007, this 400 square kilometre Promote Licence contains several promising exploration leads which will be analysed and the seismic data over the leads reprocessed in 2007, prior to a drill or drop decision by the beginning of 2009.

Keira 12/29 (Faroe 100%) - Operator Faroe Petroleum (U.K.) Limited
This Traditional Licence, awarded in the UK 24th Licensing Round in February 2007, and located immediately North of the Olivia Licence (Blocks 18/3, 4), covers approximately 200 square kilometres and contains the 12/29-1 oil discovery, which tested 38 degree API oil (Beatrice type) from the Jurassic reservoir. In addition, there are attractive exploration prospects up-dip from this discovery well, and an appraisal well will be planned up-dip from the discovery to test both the Jurassic oil column and the exploration potential in the deeper Devonian reservoirs. The work programme consists of high technology seismic acquisition, and geological studies in the first two years to identify a drilling location and to screen the entire area for prospectivity in advance of a drill or drop decision.

Breagh (Faroe 10%) – Operator Sterling Resources (UK) Limited
In June 2006 the Company acquired a 10.0% equity stake in Blocks 42/13 and 42/12 (operated by Sterling), which contain the Breagh gas discovery as well as un-drilled leads with good upside potential. This is a very attractive project, with an appraisal well planned to be drilled adjacent to the discovery well 43/13-2, in order to establish commercial reserves which if successful would lead to early development.

Orca and Minke (Faroe 5.9%) – Operator GDF Britain Ltd
In August 2006 Faroe Petroleum acquired from ConocoPhillips an equity stake in a package of three undeveloped gas field discoveries: Minke Main field, which is under development, together with the nearby Minke Graben and Orca gas fields upon which development decisions are anticipated. Minke Main is scheduled to come on production during Q2 2007. The assets are situated in UK Blocks 44/24a, 29b and 30, approximately 25 kilometres east of the producing Caister-Murdoch gas fields and 13 kilometres south west of the D15 platform in the Dutch sector. Exploration potential also exists within Dutch Block D18a (Faroe 2.5%).

Norway

The following licences were awarded in January 2007:

Halten Terrace Area
The Company was awarded two licences in the prolific Halten Terrace hydrocarbon province of the Norwegian Sea. These licences offer excellent exploration and appraisal opportunities in an area which is in active development.

Fogelberg, Halten Terrace Area Part blocks 6506/9&12 (Faroe 30%) – Operator Centrica Resources Norge AS
This licence covers approximately 80 square kilometres and contains a very appealing prospect some eight kilometres to the north of the producing Smorbukk oil field. The structure is similar to the recent Morvin oil and gas discovery made 10 kilometres to the south west, which was successfully appraised in 2006. Additional 3D seismic data will be acquired over the structure to define a location for the committed exploration well to be drilled on the prospect within the next four years. Licence partners are Centrica (operator) and Petro-Canada Norge AS.

Halten Terrace Area Part blocks 6506/12, 6406/2&3 (Faroe 30%) – Operator Centrica Resources Norge AS
This licence covers approximately 240 square kilometres and represents an excellent opportunity to appraise an existing discovery in the Lower Cretaceous. The discovery lies between the Smørbukk and Smørbukk Sor fields and already has proven hydrocarbons in two wells. The work programme involves the reprocessing of existing 3D seismic data to better define the distribution of the potential reserves, prior to a decision being taken within two years on whether to drill an appraisal well. Licence partners are Centrica (operator) and Petro-Canada.

Marulk Basin Area Part blocks 33/2,3&6, 34/1&4 (Faroe 20%) – Operator Norske ConocoPhillips Norge AS
This licence in the Marulk Basin Area, lies within a prolific oil-source kitchen area located just to the north of the Tampen Spur hydrocarbon province which includes the Snorre Field. The licence offers an excellent exploration opportunity in an area which is under-explored. Spanning approximately 700 square kilometers, in terms of structural and depositional setting, the prospects identified in the license are analogous to some of the largest fields found in the North Sea. The resource potential of this licence is significant and will be clarified by the forward work programme, which involves obtaining and reprocessing 3D seismic data and a drill or drop decision within two years. Partners are ConocoPhillips (operator), Revus and Petro-Canada.

Utsira High - Part blocks 25/3,5&6 (Faroe 20%) – Operator Pertra ASA
Located to the east of the Frigg Field, this licence is in a mature oil and gas province, with discoveries and production from many stratigraphic levels. The licence covers approximately 570 square kilometres, and comprises several prospects at Jurassic and Paleocene levels. The Jurassic structures are adjacent and analogous to the abandoned Frøy Field, which the operator (Pertra) is planning to redevelop. The work programme includes reprocessing of existing 3D seismic data prior to a decision being taken to drill an exploration well within two years. Partners are Pertra (operator), Noreco and PA Resources.

East of Ula Part blocks 7/9&12, 8/7,8,10&11 (Faroe 30%) – Operator Centrica Resources Norge AS
This licence is located on the flank of the prolific Central Graben, approximately 15 kilometres east of the Ula and Gyda Jurassic oil fields, and offers an excellent exploration opportunity in an area which is under-explored. The licence covers approximately 650 square kilometres, and the identified prospectivity is located adjacent to an untested salt diapir which has many analogues in the Central Graben. The work programme involves reprocessing of existing 2D and 3D seismic data, with a drill or drop decision within two years. Partners are Centrica (operator) and Petro-Canada.

35/8 Area Part block 35/8 (Faroe 30%) – Operator Petro-Canada Norge AS
This licence is located in the vicinity of the Fram/Gjoa fields, in the northern part of the Norwegian North Sea. The licence covers approximately 175 square kilometres, is located in the Sogn Graben, eight kilometres to the northeast of the 35/8-1 Vega discovery, and contains a number of interesting leads in more unconventional plays. There are a number of prospective levels in the licence and existing 3D seismic data will be reprocessed and evaluated prior to a drill or drop decision within two years. Partners are Petro-Canada (operator) and Centrica.

Forward Drilling Programme

The Company has been very active in moving forward its pre-drilling work programmes to the point where several significant wells are expected to be drilled over the coming years. The Company has assembled a very promising portfolio of projects with a good balance of risk and reward and material equity stakes and has raised finance during the period to support its drilling programme. The Company has also secured a participation in the Breagh gas appraisal well planned for drilling in 2007. Coupled with the execution of successful acquisitions in the Southern Gas Basin, which has secured an active new programme of field appraisal and development, drilling and seismic acquisition activity will build pace over the coming years.

Outlook

In addition to advancing the exploration and appraisal drilling programme, the Company is focusing on commercial opportunities to strengthen the Company further, and Faroe Petroleum's ability to create substantial value for shareholders. In line with the Company's objective to improve portfolio balance in respect of risk / reward and drilling timetable, Faroe Petroleum is looking to identify further lower risk, and nearer term opportunities to complement the high risk / high reward activities in the Atlantic Margin.

Notably all new licences from the UK and Norway Rounds were secured with relatively low work programme commitments, thus providing the Company with considerable flexibility as regards financing and timing. Further, due to Norway's very attractive fiscal regime, emphasis will be given to participation in drilling opportunities in Norway which can be financed in part through a credit facility currently under negotiation, substantially reducing the equity contributions needed. Progress is expected to be reported through the year regarding an active farm-out process to secure financing partners for a number of wells in the drilling programme.

The outlook for the Company is bright. Oil and gas prices have remained high throughout 2006 and look set to continue to be strong for the foreseeable future. We have an excellent portfolio with many high potential drilling opportunities being advanced, we are well financed, we have near-term expectation of revenues from the Minke Main development, and we have an outstanding and motivated team.

Joe Darby	Graham Stewart
Chairman	Chief Executive

Consolidated profit and loss account

for the year ended 31 December 2006

	2006 £000	Restated 2005 £000
Administrative expenses	(3,140)	(1,354)
Group operating loss	(3,140)	(1,354)
Other interest receivable and similar income	1,551	907
Interest payable and similar charges	(800)	(17)
Loss on ordinary activities before taxation	(2,389)	(464)
Tax on profit on ordinary activities	801	-
Net loss	(1,558)	(464)
Basic and diluted loss per share (p)	(2.4)	(0.9)

All amounts relate to continuing operations.

There is no difference between the historical cost profits and losses and the profits and losses as presented in the profit and loss account above.

Consolidated balance sheet

at 31 December 2006

	2006 £000	Restated 2005 £000
Fixed assets		
Intangible assets	19,647	12,298
Tangible assets	2,734	110
Investments	11	11
	22,392	12,419
Current assets		
Debtors	2,578	398
Current tax receivable	1,052	-
Cash at bank and in hand	33,016	22,851
	36,646	23,249
Creditors: amounts falling due within one year	(2,954)	(2,048)
Net current assets	33,692	21,201
Total assets less current liabilities	56,084	33,620
Provision for liabilities	(251)	-
Net assets (excluding pension liability)	55,833	33,620
Pension liability	(86)	-
Net assets (including pension liabilities)	55,747	33,620
Capital and reserves		
Called up share capital	7,382	5,518
Share premium account	51,813	30,113
Merger reserve	1,086	1,086
Profit and loss account	(4,534)	(3,097)
Shareholders' funds	55,747	33,620

Consolidated cash flow statement

for the year ended 31 December 2006

	2006 £000	2005 £000
Net cash outflow from operating activities	(4,362)	(567)
Returns on investments and servicing of finance	1,375	907
Capital expenditure	(9,525)	(2,683)
Cash outflow before management of liquid resources and financing	(12,512)	(2,343)
Financing		
Issue of shares	25,082	13,400
Issue costs	(1,518)	(819)
Increase in cash in the period	11,052	10,238

Consolidated statement of total recognised gains and losses

for the year ended 31 December 2006

	2006 £000	Restated 2005 £000
Loss for the financial year	(1,588)	(464)
Net exchange losses on foreign currency net investments	(263)	(273)
Total recognised losses relating to the financial year	(1,851)	(737)

Consolidated reconciliation of movements in shareholders' funds

for the year ended 31 December 2006

	£000	Restated £000
Loss for the financial year	(1,588)	(464)
Exchange losses on foreign currency net investments	(263)	(273)
Fair value of share options	414	178
New share capital issued	23,564	12,581
Net movement in shareholders' funds	22,127	12,022
Opening shareholders' funds	33,620	21,598
Closing shareholders' funds	55,747	33,620

Notes

1. The financial information set out above does not constitute the Company's statutory accounts for the years ended 31 December 2006 or 2005. The financial information for 2005 is derived from the statutory accounts for 2005 which have been delivered to the Registrar of Companies but have been restated following the adoption of FRS 20 (see note 5). The auditors have reported on the 2005 accounts; their report was unqualified and did not contain a statement under section 237(2) or (3) of the Companies Act 1985. The statutory accounts for 2006 will be finalised on the basis of the financial information presented by the Directors in this preliminary announcement and will be delivered to the Registrar of Companies.

2. No dividend is proposed.

3. The calculation of loss per ordinary share is based on losses of £1,588,000 at 31 December 2006 (2005 restated: £464,000) and the weighted average number of ordinary shares outstanding of 67,295,447 (2005: 51,571,080). There is no difference between the diluted loss per share and the loss per share presented.

4. Notes on the cash flow statement:

Reconciliation of operating loss to net cashflow from operating activities	**2006 £000**	**Restated 2005 £000**
Operating loss	(3,140)	(1,354)
Depreciation charges	124	37
Fair value of share options	414	178
Increase in debtors	(2,021)	(270)
Increase in creditors	261	842
Net cash outflow from operating activities	(4,362)	(567)

Capital expenditure analysis	**2006 £000**	**Restated 2005 £000**
Additions to fixed assets	8,606	3,734
Amounts paid and received in respect of licence interests	919	(1,051)
Net cash outflow from capital expenditure	9,525	2,683

5. Effective 1 January 2006 the Group has adopted FRS 20 *Share Based Payments* for accounting for share based payments. Under FRS 20, an expense is recognised in the profit and loss account for all share-based payments based on the fair value at the date of grant using the Black-Scholes and Monte Carlo pricing models. Compliance with FRS 20 has reduced 31 December 2005 shareholders' funds by £nil and increased the 2005 loss by £178,000. The net loss for 31 December 2006 has been increased by £414,000.

6. In connection with the setup of Faroe Petroleum Norge AS, the Company has established a defined benefits scheme which is accounted for in accordance with FRS 17 'Retirement Benefits'. Accordingly a liability of £87,000 has been recognised in respect of future benefits payments.

Notes *(continued)*

7. As described on page 5 the Company will receive £1,052,000 as a tax refund on exploration expenditure in Norway, £801,000 of which has been credited to the profit and loss account and £251,000 recognised as a deferred tax liability relating to exploration expenditure capitalised at 31 December 2006. The deferred tax liability will be released as the capitalised exploration costs are recognised in the profit and loss account by way of a depletion charge.

8. Faroe Petroleum will adopt International Financial Reporting Standards (IFRS) with effect from 1 January 2007. The first results to be prepared under this basis will be the 2007 interim results later this year. The exercise to restate the 2006 figures is ongoing and a full re-statement of the 2006 UK GAAP figures, together with a reconciliation of the adjustments from UK GAAP to IFRS, will be presented in the 2007 interim results. On the basis of our current understanding, the standard with the main impact on the Group figures will relate to the application of IFRS 6 "Exploration for and evaluation of mineral resources".

9. On 30 January 2007 the Company announced the award of six Norwegian exploration licences made under the Norwegian APA Round, details of which are contained in the Review of Activities on page 7 to 12.

   On 1 February 2007 the Company announced the award of five licences, two West of Shetland and three in the North Sea, under the UK 24th Licensing Round details of which are contained in the Review of Activities on page 7 to 12.

10. Copies of the full accounts will be posted to all shareholders. Further copies will be available from the Company's head office at 24 Carden Place, Aberdeen AB10 1UQ, from the date of posting. Telephone +44 (0)1224 652810.