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FAROE PETROLEUM PLC
(“Faroe,” “Faroe Petroleum” or the “Company”)
Preliminary Audited Results for the Year Ended 31 December 2007

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 2007.

Highlights

Financial
- Turnover of £1.0m from gas production from first producing field, Minke Main
- Loss of £1.7m (2006 restated: £2.4m), in line with expectation
- Successful institutional placing of £45m (£43m net of expenses) in November
- Revolving credit facility of NOK 120m secured with Bank of Scotland for exploration in Norway
- Secured £25m debt facility with Société Generale in April 2008 for financing production and field development
- Well programme fully financed, with cash of £63m (2006: £33m) – sufficient funds to meet current commitments

Strategy
- Strategic exploration positions in both Atlantic Margin and Norway
    - largest Atlantic Margin portfolio among independent oil companies
    - largest Norwegian licence portfolio of any AIM quoted oil and gas Company
- A partner of choice for Major oil companies - unique among small independents
- Balanced portfolio of 47 exploration, appraisal, development and production licence interests
- Fully funded for planned drilling programme of over 20 wells over the coming two years
- 78% of exploration costs in Norway funded by Norwegian State through annual tax rebate
- Successfully building attractive tax efficient production portfolio for near-term cash flow

Activity
- First Production from Minke Main gas well
- Successful drilling and testing of an appraisal well on significant UK Breagh gas field
- Atlantic Margin position enhanced by Chevron’s Rosebank appraisal and Total’s Tormore discovery
- Successful farm-outs of five Atlantic Margin exploration wells to Idemitsu and CIECO
- Successful farm-ins (completed in 2008) to two 2008 Norwegian exploration wells: Marsvin drilling in July and Yoda which commenced drilling in March 2008
- Successful awards of 17 new licences in strong partnerships: 12 in Norway and five in UK
- 12 of the Company’s block nominations accepted for Norway’s upcoming 20th Licensing Round
- Swap with E.ON Ruhrgas for interests in UK gas fields and Norwegian exploration licence
- Acquisition of interest in the UK Wissey gas field – due on stream in 2008
- Package transaction with Shell to acquire Norwegian exploration and field development interests
- Acquisition of 10% interest in South East Tor oil discovery in Norway in April 2008

Outlook
- Active drilling programme with over 20 wells targeted for 2008-9
- 2008 Licence Round applications being prepared together with strong bidding partners for: Norway’s APA 2008 Round, and 20th Round, UK 25th Round and Faroes 3rd Round
- Wissey gas field production expected to commence in second half 2008
- Topaz gas field development expected to commence in second half 2008
- Trym and Orca gas field developments expected to be submitted for approval by year end 2008
- Further commercial opportunities being pursued to enhance programme and portfolio value

John Bentley, Chairman of Faroe Petroleum, commented: "2007 was a milestone year for the Company, strengthening considerably its foundations and its ability to create substantial near term value for shareholders. We have started production, proved up a significant gas field in Breagh, concluded acquisitions involving several proven fields and exploration licences, won 17 new licences, arranged debt facilities for Norway and UK and raised £45m of new equity to ensure we are well financed for an exciting period ahead, with a very active drilling programme to look forward to."

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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 2007. This was a very active and successful year for the Company, combining work programme activity, portfolio growth and the strengthening of our finances to deliver an extensive drilling programme over the coming years.

Oil prices have remained high and relatively stable over the period, leading to continuing high rig utilisation, as well as increasing exploration costs and competition. Despite this, we continue to make excellent progress in further growing and balancing the portfolio in conjunction with significant strengthening of the Company's finances. This was achieved by securing new assets across the spectrum of exploration, appraisal and development, through licence applications, swap transactions and outright acquisitions, increasing the portfolio size from 33 to 47 licences.

As the Company's Atlantic Margin drilling programme now firms up, we are pleased to have successfully farmed out five deep water high impact wells to Japanese oil companies Idemitsu and CIECO. This achievement substantially reduces Faroe's cost exposure in these high cost wells, while retaining sufficient licence equity, given the substantial prospect sizes, to provide significant value creation on drilling success.

The Company's 2006 entry into Norway, designed to take advantage of under-explored opportunities and the attractive fiscal incentives, was rewarded with the announcement in early 2007 of seven new licence awards to Faroe Petroleum, making the Company the most successful new entrant in Norway's APA 2006 Licensing Round. The Company has since secured a further five licences in the APA 2007 Licensing Round, awarded in January 2008. As with the previous round, these were awarded to Faroe in a number of strong partnerships including again Centrica and Petro-Canada, as well as the independent Norwegian companies Revus and Concedo. Although the Company has not yet applied for approval as an operator in Norway, our highly experienced sub-surface team were again responsible for a large proportion of the technical work leading to the applications and subsequent awards. Faroe Petroleum has committed one firm well and a new 3D survey, along with the reprocessing of seismic surveys on these licences, on which work has already commenced. This success further strengthens Faroe's presence and standing in Norway with a substantial number of first-rate, high and medium impact exploration and appraisal licences to complement the Company's diversified portfolio in the Atlantic Margin and North Sea. This substantial progress in a relatively short time-frame demonstrates the value of the Company's opportune move in early 2006 to secure the highly experienced former Paladin Resources Norway team.

Significant steps forward have been made towards building a tax efficient production portfolio to enhance further the Company's risk-reward profile. The first revenues from this portfolio commenced within one year of acquisition, from the relatively small Minke Main gas field which came on stream in June, and from March 2008 Faroe Petroleum has added production from the Schooner gas field. A further five field developments in the portfolio are scheduled for development over the coming years. These additions to the portfolio were made through exclusive transactions with Shell, E.ON Ruhr Gas and First Oil, which involved, respectively, interests in the Trym Gas Field (Norway), the Schooner and Topaz Gas Fields (UK), and the Wissey Gas Field (UK). Wissey is scheduled to come on stream in late 2008, and Topaz development drilling to commence this summer. Following Shell's exit, the Trym Gas Field in Norway will soon have a new operator and a development decision is expected later in the year. Similarly, the Orca gas field, which was acquired in 2006 from ConocoPhillips in another exclusive transaction, is now progressing towards development, expected to be sanctioned in late 2008. Drilling and testing on the Breagh Gas Field (UK) was reported in November as successfully proving up the commerciality of a sizeable resource, which has been estimated by independent engineers appointed by the operator, to contain 330 billion cubic feet (bcf), for potential near term development. A drilling rig has been secured for drilling two further appraisal wells on Breagh in 2008 ahead of a potential development decision. This near-term, non-operated production activity, through a spread of fields, has been secured in order to provide tax efficient cash flow to underpin costs going forward, thereby enhancing the Company's ability to finance its exploration and appraisal programme. In addition, with this growing production portfolio the Company is now able to finance these developments to a large extent through bank debt.

Faroe Petroleum has built a strong strategic position in the Atlantic Margin (UK and Faroes) making it the third largest holder by gross acreage in this increasingly important area. This includes acreage held as a sole licence holder, and acreage held through a number of joint ventures with major oil companies (e.g. BP, Chevron, Eni, Shell and Statoil). In 2007 the Company successfully farmed out five high cost wells to two Japanese companies; four to Idemitsu in the UK West of Shetlands area and one to CIECO in the Faroes. These five farm-outs are significant in several ways: they reduce the Company's cost exposure to high-cost high-impact wells, while retaining a material equity participation in those wells; they provide a very attractive cost carry; and they bring new investment capital from Japan into an important exploration area.

In addition to the Company's exposure in the UK and the Faroes, Faroe Petroleum has now established itself firmly in Norway. 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. Approximately 1,100 exploration wells have been drilled in Norway, less than half the number drilled to date on the UKCS. Norway has also implemented a 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. Faroe has also arranged a revolving credit facility with Bank of Scotland to advance monies ahead of the rebate. The Directors believe that the Norwegian oil and gas market holds great potential for the Company to create significant additional shareholder value. Faroe Petroleum's drilling programme has recently been added to by farming-in to three 2008 wells, Marsvin, Yoda and South East Tor, to drill the Company's first two exploration and one appraisal wells respectively in Norway. Through a combination of successful licence applications and transactions, the Company now has by far the greatest number of licences at 20 in Norway, of any oil and gas company trading on the London Stock Exchange's Alternative Investment Market.

The Company has created the opportunity to participate in many more wells in the coming two years than ever before in its history. The finance necessary to allow this significant step up in activity has been secured through a combination of equity raising and senior bank debt; £45 million was raised in new equity in November and a £25 million debt facility has been arranged with Société Generale. Combined with still modest production revenues, the Company's finances are much stronger than ever before. This has allowed the Company to secure and firm up an exciting programme of drilling and development over the coming two years and beyond, which is expected to create considerable shareholder value.

Strategy

The Company's business strategy to create value for shareholders can be summarised as follows:

- to discover substantial hydrocarbon resources West of Shetlands, Faroes and Norway by drilling attractive high impact exploration wells with material equity stakes;

- to acquire and drill promising lower risk exploration and appraisal assets close to infrastructure in the wider North Sea and Norway in order to grow the underlying value of the Company; and

- to acquire and exploit development and production assets on sensible metrics to strengthen underlying portfolio value through tax efficient cash flow.

Faroe Petroleum therefore aims to mitigate risk, participate in a very active and material work programme, and create substantial shareholder value. The Company also seeks to be a licence operator, where appropriate, at the exploration stage in order to leverage its in-house technical skills, but to be a non-operator from appraisal onwards in order to limit human resource costs and benefit from experienced joint venture partners' management teams and economies of scale.

With the opportunity for significant step change in value largely dependent on the success of a targeted drilling campaign, the Company has prepared a very active drilling programme involving over 20 wells across its portfolio within the coming two years alone. As a portfolio, this programme is expected to deliver a successful result, with accompanying increase in the value of the business.

While continuing to prioritise the drilling programme, Faroe Petroleum has also been successfully building a portfolio of non-operated interests in producing and near producing gas fields in the North Sea and now Norway. Production achieves a number of objectives for the Company: cash flow to contribute towards running costs; and utilisation of accumulated tax losses from exploration activity, thereby effectively increasing the profitability of production, the ability to leverage debt finance and, in time, work programme costs. Importantly, Faroe Petroleum's gas field interests all benefit from upside in both reserves and gas prices and are managed by experienced operators (Tullow, Gaz de France and RWE).

Notwithstanding the Company is on track to build a strong Norwegian high impact portfolio, key assets for substantial value creation are in the Atlantic Margin, with a 13 licence portfolio, encompassing the UK West of Shetlands and the Faroe Islands. The Company holds material stakes in the majority of these licences in partnerships with mostly the Major oil companies which include BP, Chevron, DONG, Eni, Shell and Statoil. Prospects on these licences are world class, with vast resource potential, benefiting from nearby discoveries in several cases, increasing nearby production and export infrastructure, proximity to markets and political stability. Furthermore, Chevron's announcement in 2007 of the successful appraisal of its Rosebank/Lochnagar discovery has substantially reduced exploration risk on the Corona Ridge on which Faroe holds five licences, three of which are in joint ventures with Chevron as operator. In addition, the nearby giant Clair oil field is understood to be continuing to outperform expectations while the Laggan gas field is understood to be making good progress towards development. The considerable gas potential in this area has been further enhanced through a recent announcement by Total of a new gas condensate discovery, Tormore, some 15 kilometres from the Laggan field. The Company has now also made its mark as a front-runner in the specialised field of sub-basalt exploration. 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.

With 47 licences now in total in its portfolio the Group has an outstanding spread of excellent exploration, appraisal and development opportunities.

Board Appointments

Mr John Bentley was appointed to the Board as Non-executive Chairman, effective 1 September 2007, to replace Mr Joe Darby who retired after four years as the Company's Non-executive Chairman. Mr Bentley has over 35 years experience in the natural resources sector. In 1996 he was instrumental in spinning off Energy Africa from Engen and listing it on the Johannesburg and Luxembourg stock exchanges. As chief executive during its first five years he grew Energy Africa into one of the leading independent E&P companies in Africa. The Board extends its sincere gratitude to Mr Darby for his significant contribution to the Company's progress during his four years as Chairman, presiding over the business from a pre-IPO exploration company with two licences in the Faroes, to a well resourced and well positioned exploration and production company with considerable potential.

Mr Helge Hammer was appointed to the Board of the Company effective 13 March 2007 as an executive director. 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.

Mr Roger Witts was also appointed to the Board effective 29 June 2007 as Finance Director. Mr Witts is a Chartered Accountant with over 30 years oil industry experience including as Finance Director of Fina Exploration Ltd, Thomson North Sea plc and Seafield Resources plc. Mr Witts has considerable experience in financial disciplines including fund raising, strategic planning, risk management and financial reporting.

Results

The Group received production revenues during the period of £1.0 million from its first producing field, the Minke gas field,. Agreement was reached with the Bank of Scotland for a revolving credit facility in the amount of Norwegian Kroner 120 million (approximately £11 million) to finance the first phase of the Company's Norwegian exploration and appraisal programme. This facility is expected to be increased in the near term to accommodate increased drilling activity in the coming period. In Norway, exploration-focused companies such as Faroe Petroleum can recover 78% of exploration- and appraisal-related expenditure in the following tax year. Under the terms of the revolving credit facility 75% of all Faroe's exploration, appraisal and supporting expenditure in Norway will be financed by the Bank of Scotland. The Company has also secured a multi-currency borrowing base facility of £25 million arranged by Société Generale to finance its existing producing fields and future developments. This debt facility is targeted at maximising the debt capacity in Faroe Petroleum's anticipated field development projects.

In December 2007 Faroe Petroleum undertook an institutional equity-placing of 30,612,245 new ordinary shares at 147 pence per share to raise £45 million (£43 million net of expenses). The Group had cash reserves of £63.4 million at 31 December 2007 (2006: £33.0 million). 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.

2007 is the first year for the implementation of International Financial Reporting Standards ("IFRS"), comparative numbers have been adjusted to reflect this change. The Group Income Statement shows a post tax loss for the year of £1.7 million (2006: £2.4 million).

Capital expenditure during the year was £15.4 million (2006: £9.5 million). The Company has a tax receivable at the end of the year of £4.1 million (2006: £1.1m) being 78% of exploration expenditure in Norway in 2007 which will be paid to the Company within the year. The net assets of Faroe Petroleum increased during the period to £94.8 million (2006: £51.9 million). The Group has adequate funds to meet all its current obligations. The Board of Directors does not recommend the payment of a dividend.

John Bentley	Graham Stewart
Chairman	Chief Executive

REVIEW OF ACTIVITIES

Atlantic Margin Exploration

The Company has built a particularly strong strategic position in the Atlantic Margin, comprising 13 licences, most of which have significant equity positions, seven in the UK West of Shetlands and five in the Faroes. These are high impact opportunities the greater part of which are held in partnerships with Major oil companies including BP, Chevron, Eni, Shell and Statoil. Following Chevron's and Total's successes of, respectively, Rosebank/Lochhnagar and Tormore discoveries, prospects located on the Corona Ridge clearly offer great potential for substantial discoveries, and the Company holds five licences on this play alone. Faroe Petroleum's strategy of building a strong strategic Atlantic Margin portfolio of quality acreage, 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 will be drilled in the coming two years alone.

As demonstrated by Faroe Petroleum's recent farmouts of five deep water Atlantic Margin wells to two Japanese oil companies, the area is attracting growing oil company interest from around the world. In line with the Company's stated objectives to reduce cost exposure in high cost exploration wells to acceptable levels, farm-out agreements have been reached in the past months on five such wells in the Atlantic Margin. Agreement was reached in May 2007 with Idemitsu of Japan to farm-in to four of Faroe Petroleum's deep water wells in the UK West of Shetlands, namely on the Talisker (Faroe 12.5% post farm-out), Lagavulin (Faroe 10% post farm-out), Cardhu (Faroe 5% post farm-out) and Tornado (Faroe 10% post farm-out) prospects. This transaction was followed in November 2007 by a second agreement with CIECO from Japan to farm-in to a further high impact exploration well in the Atlantic Margin in the Faroes. CIECO has farmed into 12.5% of the Company's interest in ENI operated Licence 005 (Faroe 12.5% post farm out). Faroe has also granted CIECO an option to farm into 2.5% of the Shell operated P.1192 Cardhu Licence, West of Shetlands. Each of these farm-out agreements provides Faroe Petroleum with a significant cost carry.

The Atlantic Margin has seen continued success during 2007/8 with two new discoveries announced which have a positive impact on Faroe Petroleum's portfolio. The Laggan partnership, led by Total, announced the Tormore gas discovery (205/5a-1) which tested gas at 32 million standard cubic feet per day (mmscfd), and 2,400 barrels of condensate per day (bcpd). This discovery lies 15 kilometres south-west of Total's Laggan gas discovery. The discovery has significantly increased the likelihood of a commercial gas development for the region.

In February 2008, BP announced a new oil discovery well (204/23-2), which is located 11 kilometres south-west of the Foinaven Field. This oil discovery will now be evaluated and has the potential for a two well subsea development to the Foinaven FPSO (floating production, storage and offtake vessel). Faroe Petroleum's Tornado prospect in block 204/13 (Faroe 10%) contains a large Palaeocene prospect approximately 20 kilometres to the north of Foinaven, where it is anticipated that a drilling commitment will be entered into during 2008.

Chevron has followed up the significant 2004 Rosebank/Lochnagar oil discovery with a successful three-well appraisal programme. The second appraisal well, 205/1-1 tested 6,000 barrels of oil per day (bopd) of 37° API crude. The Rosebank/Lochnagar discovery is an analogue structure for a number of Faroe Petroleum's large prospects which lie on the same geological trend, the Corona Ridge. These prospects are known as Cardhu (Faroe 5%), Lagavulin (Faroe 10%) and Talisker (Faroe 12.5%) and share many geological similarities with the Rosebank/Lochnagar discovery. The drilling of the first of these prospects is now likely to commence in 2009.

Licence 005, Anne Marie (Faroe 12.5%), is an exciting exploration opportunity located in Faroese waters on a prominent structural trend offsetting the Corona Ridge, adjacent to the Rosebank/Lochnagar and Cambo (Amerada Hess operated) discoveries. Faroe Petroleum together with joint venture partners ENI and CIECO are committed to drill an exploration well by the summer of 2009, and a deep water drilling rig has been secured for this purpose.

The Company was awarded two new licences, Glenshee (Faroe 30% - Operated by Chevron) and Marjun (Faroe 100% and operator), in the West of Shetlands region in February 2007. Glenshee is located adjacent to the Tobermory gas discovery and lies on the highly prospective Corona Ridge. Marjun includes the 204/16-1 gas discovery with a 30 metre hydrocarbon column, on the same trend as the Marjun oil discovery drilled by Amerada Hess in 2001, which encountered a 160 metre hydrocarbon column.

Most recently, BP completed its drilling of the William deep water exploration well in the Faroes. This was a high risk sub-basalt prospect which Faroe Petroleum participated in as part of a cross-border swap transaction with Shell, through which the Company acquired interests in the Norwegian Granat exploration licence and the undeveloped Trym gas field. The William well did not discover hydrocarbons, but provides considerable valuable information which Faroe Petroleum will use in its ongoing exploration of the region. The Company's cost exposure was capped, as this cost formed part of the overall consideration paid to acquire the Norwegian interests.

Ahead of farming-out an appraisal well on Faroe's 100% owned and operated Freya discovery (P.1161 Faroe 100%), which lies adjacent to the BP operated Clair oil field, significant geological, reservoir and drilling planning work has been undertaken. If acceptable farm-out terms are reached, an appraisal well is hoped to be drilled on this potentially high value shallow water discovery.

Faroe Petroleum is also actively engaged with various companies in evaluating further prospects in the Atlantic Margin, through potential applications in the UK 25th Licensing Round.

UK North Sea Exploration

Faroe Petroleum has been constantly improving portfolio diversification and has built a portfolio of exploration and appraisal licences in the prolific Outer Moray Firth of the UK Central North Sea. Faroe Petroleum was awarded three new 24th Round licences in 2007 in this area and now holds four licences in the Outer Moray Firth with substantial licence equities.

Licences P.1457 and P.1498 are held with joint venture partner and licence operator Oilexco (Faroe 45%). The work programme in these licences consists of high technology seismic acquisition and geological studies in the first two years, designed to identify potential drilling locations prior to a drilling decision. This work programme is ongoing and new 2D seismic data is now being evaluated by the joint venture partnership.

Licence P.1404 (Block 13/25) in the Outer Moray Firth, contains a significant unappraised oil discovery in a Lower Cretaceous aged structure. The identified structure lies across two separate licences and Faroe Petroleum together with its joint venture partners, has now completed a cross assignment with Petro-Canada UK Limited and Reach Exploration (UK) Limited in adjacent licence P.1459 (Block 16/24d). In the process Faroe Petroleum will have a retained equity of 25% in the combined licence which Petro-Canada will operate, and has also granted First Oil an option to take up half of its interest (12.5%) as part of the Wissey transaction. Ahead of the work programme for the combined licence being agreed with DBERR, a high resolution 2D seismic survey has been acquired in advance of a drilling decision being made on this exciting and potentially high value appraisal opportunity.

The P.1456 Keira licence (Faroe 100%), contains a Jurassic oil discovery which, when drilled by Kerr McGee in 1981, recovered Beatrice crude oil with 38 degree API. Newly reprocessed seismic data is now available and engineering studies are being carried out on the existing discovery to determine whether this discovery merits appraisal.

UK Gas Assets

In the Southern Gas Basin, Faroe has focused on securing relatively small interests across a spread of low risk appraisal and development opportunities, with the potential for near term cash flow generation. As a result of a number of small acquisitions and cross border transactions, Wissey, Schooner and Topaz were added to the portfolio of gas fields, already consisting of Minke, Orca and Breagh.

The Wissey field (Faroe 18.75%) is located in the UK Southern North Sea block 53/4d, 10 kilometres east of the Horne & Wren field facility and 25 kilometres south east of the Thames field platform and was acquired from First Oil in September 2007. The Wissey production well has since been successfully drilled, tested and completed. Development of the Wissey field is ongoing with the project being operated by Tullow Oil UK Limited (62.5%). First gas is expected in the second half of 2008 at an initial rate of 60 mmscfd (11.25 mmscfd net to Faroe, which corresponds to 1,800 barrels of oil equivalent per day (boepd)). The net reserves attributable to Faroe Petroleum are estimated to be 5.9 billion cubic feet of gas (approximately 1 million barrels of oil equivalent) with the potential for further upside.

The Schooner field (Faroe 4.83%) also operated by Tullow Oil, is located in Block 44/26a extending into 43/30a, approximately 34 kilometres South East of the Murdoch Field. The Schooner field was acquired from E.ON in a swap transaction announced in November 2007. The field has been on production since 1996 and is expected to continue producing into 2019. Remaining gross reserves at 1 July 2007, assuming no field redevelopment, are estimated to be 64 billion cubic feet (3.1 bcf net to Faroe). To date 10 wells have been drilled from a 12 slot template from the Schooner platform. Current gross production from Schooner is approximately 24 mmscfd (net Faroe 1.16 mmscfd).

The Topaz gas field (Faroe 7.5% pre-unitised interest) is located 14 kilometres southeast of Schooner in Blocks 49/1a and 49/2a. The asset was acquired from E.ON Ruhrgas in the same transaction as Schooner. RWE Dea is the operator of the field and the planned development will be a single well tieback to Schooner and the CMS system. Gross field reserves are estimated to be 32 bcf, with net reserves attributable to Faroe estimated to be 2.4 bcf. The field development plan is expected to be submitted for approval in the near future and production is expected to commence late 2009 and continue until 2017. Development drilling is scheduled to commence this summer.

The Minke and Orca gas fields (both Faroe 5.89%) were acquired from ConocoPhillips in 2006. The Minke Main field development is operated by Gaz de France, and exports gas through the NGT pipeline into Holland via the D15 platform, also located in Holland. The field was put on production in June 2007 and whilst the initial rates from 44/24a-6Y were good at around 60 mmscfd, production performance has since decreased more quickly than predicted, most likely caused by mechanical problems in the well, and the field is at present producing 4 mmscfd. Options for a remedial programme are being considered by the field partners. The significantly larger Orca field, also operated by Gaz de France, straddles the border between the UK and Holland and the operator is in the process of finalising development plans with an estimated production start in 2010.

The West Breagh gas discovery (Faroe 10%) in block 42/13 acquired from Sterling Resources in 2006 is situated close to the northern limit of the Southern Gas Basin. The appraisal well, 42/13-3 was successfully drilled and tested dry gas at a maximum rate of 17.6 mmscfd in October 2007. The appraisal well showed good correlation with the earlier well and the revised interpretation, which has been reviewed by independent engineers appointed by the operator, indicates a structure with around 330 bcf gas initially in place (GIIP). The operator, Sterling Resources, intends to drill two appraisal/development wells on this potentially high value asset in 2008, to increase confidence in GIIP and prove up commerciality. To the east of West Breagh lies considerable undiscovered gas potential, in East Breagh. Potential in this area is expected to be greater than in West Breagh.

Norway Exploration and Appraisal

Faroe is now well established in Norway, having made a significant increase to the portfolio position with the number of licences almost trebling from seven to 20. The portfolio now contains a good spectrum of exploration, appraisal and development opportunities, with several wells scheduled for the coming period.

Faroe completed another successful licensing round, being award five new licences in the APA 2007 (Awards in Pre-defined Areas) Licensing Round from a total of five applications submitted. Notably, Faroe managed to secure a 30% interest in all of these awards. As in the previous APA Round, Faroe participated in a number of strong AMI groups, which included Centrica, Petro-Canada, Revus and Concedo. The emphasis was to focus only on blocks that have a high probability of maturing to a drilling decision. These awards build on Faroe’s existing acreage position in both Mid Norway and the southern part of the Norwegian North Sea.

In Mid Norway two of the newly awarded licences, Cooper and Manilow, are contiguous with the prospective Fogelberg licence. Both these licences contain a number of exciting prospects which will be covered with new high quality 3D seismic data during 2008/2009. Nearby to the south east, located between the Tyrihans and Trestakk fields, is the new Santana licence. This licence has a firm well, which will be drilled within three years and contains seven prospects, two of which are potential extensions of the Trestakk Field.

In the North Sea, the new Etta licences have extended the PL405 Butch Cassidy licence further to the west, towards the Ula Field. This new acreage contains a number of additional leads and prospects which will be incorporated into the current PL405 work programme.

The work programmes in the seven licences awarded to Faroe Petroleum in the APA 2006 Licensing Round are progressing well. The Company is therefore well-positioned to make drill-or-drop decisions during the latter half of 2008 on six of these licences. The West Alpha drilling rig has already been secured to drill the Fogelberg prospect and is due to spud by the end of 2009. In addition, CGG Veritas has been contracted to acquire a new 3D seismic survey during the summer of 2008 over this licence in order to optimise the drilling location.

Two multi-asset, cross-border deals were achieved in 2007, despite the continuing competition for oil and gas acquisitions. The first of these transactions with E.ON Ruhrgas included two UK gas fields, Schooner and Topaz, and a 10% interest in Norwegian Licence PL 376 containing the Grosso Prospect, which is due to be drilled at the end of 2008. The second, a cross-border swap transaction with Shell, included an obligation to farm into a 5% interest in Faroese Licence L007, containing the now drilled William Prospect, a 10% interest in Norwegian Licence PL147, which contains the pending Trym gas and condensate field development, and a 10% interest in Norwegian Licence PL381, which contains the Shell-operated Granat prospect.

In February, Faroe Petroleum announced the acquisition of a 14% interest in Norwegian Licence PL289 from Gaz de France Norge on a promoted basis. PL289 contains the substantial Marsvin prospect which is scheduled to be drilled in July 2008. The licence is located on the border with Denmark and in close proximity to Licence PL147, which contains the Trym field (Faroe 10%). As well as the Marsvin oil prospect, the licence contains two further attractive prospects.

Also in February, Faroe agreed to acquire a 15% interest in Norwegian Licences PL271 and PL302 from Norwegian oil company Noreco ASA. Licences PL271 and PL302 contain the Yoda Prospect, an Upper Jurassic oil prospect located in the Norwegian Southern North Sea. An exploration well to target the prospect has recently commenced drilling. The licences also contain two additional prospects, Vader and Agira. The joint venture partners in these Norwegian licences are StatoilHydro (40% and Operator), Talisman (30%) and Noreco (15% retained interest).

In April Faroe Petroleum agreed to acquire a 10% interest in Norwegian licences PL006C and PL006D from Noreco ASA. PL006C and PL006D contain the South East Tor discovery and the Hyme prospect. The discovery well was successfully tested with 43° API oil quality at 4,525 barrels of oil per day (bopd) from the Tor Formation and also 4,281 bopd from a separate test in the Ekofisk formation. The discovery has subsequently been appraised by two appraisal wells, and the field is located within tie-back distance of a number of potential production hosts. South East Tor contains contingent oil reserves, net to Faroe, of 1.9 million barrels (mmbbls) with further upside targeted. A well, scheduled for the end of 2008 by the Mærsk Gallant rig, will be drilled to appraise South East Tor; a side-track from this appraisal well will also be drilled to target the adjacent Hyme prospect. The Joint Venture Partners in both of these Norwegian licences are Lundin Petroleum (75% and Operator) and Noreco (15% retained interest).

Over the past two years, Faroe Petroleum has successfully built a very strong technical team in Stavanger to support and drive forward its growing work programme. 2008 will see Faroe participating in its first exploration wells in Norway, within two years of entering the country. This has been the result of a substantial effort by the team, both in terms of licensing round work and acquisitions. In addition, the Norwegian exploration team is currently evaluating opportunities relating to the two licensing rounds, the 2008 APA and the 20th Round. Significantly, as in previous APA Licence Rounds, Faroe Petroleum will continue to play a significant role in identifying drilling opportunities which form the basis of its licence applications.

Norway Gas Assets

In November Faroe acquired 10% of the undeveloped Trym gas and condensate field, following acquisition of a cross border package of Shell assets. The Trym field is located in Norway approximately seven kilometres from the Harald platform across the border in Denmark. Licence ownership is divided between Bayern Gas (50%) and DONG (40%), and following Shell's sale, the operatorship will be decided in the near future. The field was discovered in 1990 and tested gas and condensate from the Middle Jurassic reservoirs at rates of 29.6 million standard cubic feet per day (mmscfd) and 3,800 barrels per day (bcpd), respectively. The Jurassic Reservoir is composed of two distinct formations, the Lindesnes and Bryne. The base case gas reserves for the field are 120 billion cubic feet (bcf) (12 bcf net to Faroe) and condensate reserves of 4.7 million barrels (mmbbls) (0.47 mmbbls net to Faroe). The licence also benefits from several additional prospects offering considerable upside, with potential for tie-back for development. A field development plan involving a subsea tie-back to the Maersk-operated Harald East platform across the border in Denmark was approved by the previous owners and submitted to the Norwegian authorities. The field development plan did not achieve approval as the Norwegian Ministry viewed the tariffs offered by the Danish operators as unacceptably high. Discussions are ongoing regarding this export route and other possible export routes including a tie-in to the Hejre development, located 24 kilometres south west of Trym or a tie-in to the BP-operated Valhall Field. It is the partnership's intention to submit a revised field development plan by the end of 2008 in order to achieve production start up in 2010.

Outlook

Following the recent fund-raising the Company is now in a position to participate in a very active drilling and development programme over the coming two years and beyond. Faroe Petroleum has been extremely active in assembling an exciting programme involving more than 20 wells in the coming two years alone. This drilling schedule includes several high impact wells in both the Atlantic Margin and Norway as well as a number of appraisal and development wells in the UK and Norway. The development programme is planned to generate increasing production from at least four fields by the end of 2009.

In addition, the Company will continue to apply for more licences in Norway the UK and the Faroes. Exploration opportunities in Norway will continue to be financed in large part by the Norwegian State and, with the Company's revolving credit facility now in place, the Group is well positioned to participate in an increasingly active drilling programme going forward. Commercial opportunities will also continue to be a key focus as we seek out good, value enhancing additions to the portfolio.

Oil and gas prices look set to remain high and exploration and appraisal projects are top of the agenda for a growing number of oil companies. Faroe Petroleum has an excellent portfolio, over 20 wells planned for drilling over the next two years, strong finances, increasing production revenues with further developments scheduled, and we have an exceptionally strong and motivated team to deliver substantial shareholder value. With a more active programme than ever before, the period ahead will be exciting for Faroe Petroleum and its shareholders.

John Bentley	Graham Stewart
Chairman	Chief Executive

Group income statement
for the year ended 31 December 2007

	2007 £000	2006 £000
Revenue	964	-
Cost of sales	(719)	-
Gross profit	245	-
Exploration and evaluation expenses	(3,695)	(1,006)
Administrative expenses	(2,560)	(2,921)
Operating loss	(6,010)	(3,927)
Finance revenue	1,801	1,551
Finance costs	(180)	(800)
Loss on ordinary activities before tax	(4,389)	(3,176)
Tax credit	2,700	801
Loss for the year attributable to equity holders of the parent	(1,689)	(2,375)
Loss per share – basic and diluted (pence)	(2.3)	(3.5)

Consolidated balance sheet
at 31 December 2007

	2007 £000	2006 £000
Non-current assets		
Intangible assets	24,935	16,099
Property, plant and equipment: development & production	11,265	2,235
Property, plant and equipment: other	421	325
Financial assets	11	11
	36,632	18,670
Current assets		
Trade and other receivables	1,730	2,578
Current tax receivable	4,055	1,052
Cash and cash equivalents	63,388	33,016
	69,173	36,646
Total assets	105,805	55,316
Current liabilities		
Trade and other payables	(5,311)	(2,954)
Financial liabilities	(3,428)	-
	(8,739)	(2,954)
Non-current liabilities		
Deferred tax liabilities	(1,340)	(251)
Provisions	(784)	(115)
Defined benefit pension plan deficit	(115)	(86)
	(2,239)	(452)
Total liabilities	(10,978)	(3,406)
Net assets	94,827	51,910
Equity attributable to equity holders		
Equity share capital	10,475	7,382
Share premium account	91,631	51,813
Cumulative translation reserve	488	(263)
Retained earnings	(7,767)	(7,022)
Total equity	94,827	51,910

These financial statements were approved by the Board of directors on 21 April 2008 and were signed on its behalf by:

Graham Stewart
Director

Company balance sheet
at 31 December 2007

	2007 £000	2006 £000
Non-current assets		
Property, plant and equipment	46	92
Financial assets	40,240	23,829
Investments in subsidiary undertakings	2,654	2,654
	42,940	26,575
Current assets		
Trade and other receivables	564	254
Cash and cash equivalents	60,361	31,732
	60,925	31,986
Total assets	103,865	58,561
Current liabilities		
Trade and other payables	(620)	(542)
Total liabilities	(620)	(542)
Net assets	103,245	58,019
Equity attributable to equity holders		
Equity share capital	10,475	7,382
Share premium account	91,631	51,813
Retained earnings	1,139	(1,176)
Total equity	103,245	58,019

These financial statements were approved by the Board of directors on 21 April 2008 and were signed on its behalf by:

Graham Stewart
Director

Consolidated cash flow statement
for the year ended 31 December 2007

	2007 £000	2006 £000
Operating activities		
Cashflow from operations	(2,810)	(4,363)
Tax rebate	1,071	-
Net cashflow from operating activities	(1,739)	(4,363)
Investing activities		
Expenditure on intangible assets and plant, property and equipment	(15,443)	(9,525)
Interest received	1,815	1,394
Net cashflow from investing activities	(13,628)	(8,131)
Financing activities		
Short term borrowings	3,427	-
Issue of ordinary share capital	44,758	25,082
Issue costs	(2,278)	(1,518)
Interest paid	(180)	(18)
Net cashflow from financing activities	45,727	23,546
Exchange differences	12	(887)
Net increase in cash and cash equivalents	30,372	10,165
Cash and cash equivalents at the beginning of the year	33,016	22,851
Cash and cash equivalent at the end of the year	63,388	33,016

Company cash flow statement
for the year ended 31 December 2007

	2007 £000	2006 £000
Operating activities		
Cashflow from operations	(525)	(909)
Net cashflow from operating activities	(525)	(909)
Investing activities		
Expenditure on property, plant and equipment	(12)	(35)
Loans to subsidiary undertakings	(15,235)	(12,638)
Investments	-	(435)
Interest received	1,379	1,343
Net cashflow from investing activities	(13,868)	(11,765)
Financing activities		
Issue of ordinary share capital	44,758	25,082
Issue costs	(2,278)	(1,518)
Interest paid	-	(3)
Net cashflow from financing activities	42,480	23,561
Exchange differences	542	(735)
Net increase in cash and cash equivalents	28,629	10,152
Cash and cash equivalents at the beginning of the year	31,732	21,580
Cash and cash equivalent at the end of the year	60,361	31,732

Group statement of changes in equity
for the year ended 31 December 2007

	Share capital £000	Share premium account £000	Cumulative translation reserve £000	Retained earnings £000	Total £000
As at 1 January 2006	5,518	30,113	-	(5,061)	30,570
Exchange differences on retranslation of foreign operations	-	-	(263)	-	(263)
Total income recognised directly in equity	-	-	(263)	-	(263)
Loss for the period	-	-	-	(2,375)	(2,375)
Total recognised income for the period	-	-	(263)	(2,375)	(2,638)
New shares issued	1,864	23,218	-	-	25,082
Issue costs	-	(1,518)	-	-	(1,518)
Share based payments	-	-	-	414	414
As at 31 December 2006	**7,382**	**51,813**	**(263)**	**(7,022)**	**51,910**
Exchange differences on retranslation of foreign operations	-	-	1,068	-	1,068
Total income recognised directly in equity	-	-	1,068	-	1,068
Loss for the period	-	-	-	(1,689)	(1,689)
Total recognised income for the period	-	-	1,068	(1,689)	(621)
New shares issued	3,093	42,096	-	-	45,189
Issue costs	-	(2,278)	-	-	(2,278)
Share based payments	-	-	-	627	627
As at 31 December 2007	**10,475**	**91,631**	**805**	**(8,084)**	**94,827**

Share capital
The balance classified in share capital is the nominal value on issue of the Group's equity share capital, comprising 10p ordinary shares.

Share premium
The balance classified as share premium is the premium on issue of the Group's equity share capital, comprising 10p ordinary shares less any costs of issuing the shares.

Cumulative translation reserve
The cumulative translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries.

Company statement of changes in equity
for the year ended 31 December 2007

	Share capital £000	Share premium account £000	Retained earnings £000	Total £000
As at 1 January 2006	5,518	30,113	(960)	34,671
Loss for the period	-	-	(630)	(630)
Total recognised income for the period	-	-	(1,590)	(1,590)
New shares issued	1,864	23,218	-	25,082
Issue costs	-	(1,518)	-	(1,518)
Share based payments	-	-	414	414
As at 31 December 2006	**7,382**	**51,813**	**(1,176)**	**58,019**
Profit for the period	-	-	1,688	1,688
Total recognised income for the period	-	-	512	512
New shares issued	3,093	42,096	-	45,189
Issue costs	-	(2,278)	-	(2,278)
Share based payments	-	-	627	627
As at 31 December 2007	**10,475**	**91,631**	**1,139**	**103,245**

Share capital
The balance classified in share capital is the nominal value on issue of the Group's equity share capital, comprising 10p ordinary shares.

Share premium
The balance classified as share premium is the premium on issue of the Group's equity share capital, comprising 10p ordinary shares less any costs of issuing the shares.

Notes

1. The financial information set out above does not constitute the Company's financial statements for the years ended 31 December 2007 or 2006. The financial information is derived from the financial statements for 2007 prepared in accordance with IFRS. The auditors have reported on the 2007 financial statements and their report was unqualified. The financial statements are yet to 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 £1,689,000 at 31 December 2007 (2006: £2,375,000) and the weighted average number of ordinary shares outstanding of 74,123,000 (2006: 67,295,000). There is no difference between the diluted loss per share and the loss per share presented.

4. On 5 February 2008 Faroe Petroleum Norge AS ("FPN") entered into an agreement with Gaz de France Norge AS to acquire a 14% interest in Norwegian Licences PL289 containing the Marsvin prospect. The Marsvin prospect is scheduled to be drilled later in 2008 and FPN has agreed to carry GdF's share of the associated well cost obligations.

   On 8 February 2008 FPN was awarded five licences under the 2007 APA Round (Awards in Predefined Areas), three in the Norwegian Sea (PL475, PL477 and PL478) and two in the Norwegian North Sea (PL405 B and PL452). The work programmes vary but include the drilling of one firm well (on PL 475) and the acquisition of various 3D seismic surveys. FPN holds a 30% interest in all the awards and its joint venture partners include Centrica, Petro-Canada, Revus and Concedo.

   On 27 February 2008 FPN entered into an agreement with Noreco ASA to acquire a 15% interest in Norwegian Licences PL271 and PL302 containing the Yoda prospect. The Yoda well spudded on 25 March 2008 and FPN has agreed to carry Noreco's 15% share of well cost obligations in respect of the Yoda exploration well, in return for a 15% share in the licence. The transaction is subject to the consent of Norwegian Authorities and joint venture parties.

   On 26 March 2008 the Group completed the package transaction with E.ON Ruhrgas, entered into on 30 November 2007, whereby in the U.K. Faroe Petroleum (U.K.) Limited acquired a 4.83% interest in the Schooner gas field and a 7.5% interest in the Topaz development and in Norway FPN exchanged a 15% interest in the PL433 Fogelberg licence for a 10% interest in the PL 376 exploration prospect Grosso.

   On 14 April 2008 FPN entered into an agreement with Noreco ASA to acquire a 10% interest in Norwegian licences PL006C and PL006D which contain the South East Tor discovery and the Hyme prospect. A well to appraise South East Tor is planned for the last quarter of 2008/first quarter of 2009. At the same time, a side-track from this appraisal well will also be drilled to target the adjacent Hyme prospect. The Joint Venture Partners in both of these Norwegian licences are Lundin Petroleum (75% and Operator) and Noreco (15% retained interest). Faroe has agreed to carry part of Noreco's well cost obligations in respect of the combined South East Tor and Hyme well, in return for a 10% share in the licence.

   On 21 April 2008, Faroe Petroleum agreed to a multi-currency borrowing base facility of £25 million arranged by Societe Generale to finance its existing producing fields and future developments.

5. 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 650 920.