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FAROE PETROLEUM PLC
(“Faroe”, “Faroe Petroleum” or the “Company”)
Preliminary Audited Results for the Year Ended 31 December 2008

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 2008.

Highlights

Activity

- Successfully drilled and tested two wells on Breagh gas field, proving up significant reserves and commercial flow rates
- Topaz field development approved in February 2009 – development well was successfully drilled
- Production from 3 gas fields, Schooner, Minke and Wissey (on stream in August 2008), with four more, Topaz, Orca, Trym and Breagh progressing towards development
- Awards of 11 new licences: 8 in Norway, 2 in the Faroes and 1 in the UK, all in strong partnerships
- Cross assignment with Petro-Canada for interest in Fat Cat discovery, UK North Sea
- Acquisition of interest in South East Tor oil discovery in Norway
- Swap of stake in Glenshee with DONG for stake in 2009 Glenlivet well, both West of Shetlands

Financial

- Turnover of £2.3m (2007: £1.0 million) from UK gas production, expected to increase significantly in 2009
- Loss after tax of £20.6m (2007: £1.7m), after exploration expenses of £20.0m (2007: £3.7m) including write-offs of unsuccessful exploration wells previously announced
- Cash of £16.7m (2007: £63.4m) – reflecting significant capital investments made in 2008, including the acquisition and development of Wissey and Topaz and the drilling and completion of 8 exploration, appraisal and development wells
- Secured £25m reserve base debt facility with Société Générale – largely undrawn
- Increased credit facility for exploration in Norway to NOK 500m with HBOS and Barclays

Strategy

- Diversified portfolio of exploration, appraisal, development and production assets across the Atlantic Margin, North Sea and Norway
- Pursuing sustainable portfolio drilling programme with carefully controlled investment in each well balanced relative to its risked value potential
- Continuing to add to exploration portfolio through new licence rounds in Norway with very low entry cost and tax advantages
- Actively building tax efficient production portfolio for cash flow generation

Outlook

- Active drilling programme with at least 7 firm wells scheduled for 2009/10, including 2 in Norway and 5 in the Atlantic margin – all to be funded from existing resources and cash flow
- Topaz gas field expected to come on stream in summer
- Trym field development plan expected to be approved in first half of 2009
- Orca field development plan expected to be submitted this year
- Further commercial transactions being pursued to enhance programme and portfolio value
- Progress towards development of the substantial Breagh gas field expected in summer

John Bentley, Chairman of Faroe Petroleum, commented:

"2008 was Faroe Petroleum's busiest year to date, demonstrating the benefits of our strategy notably through successes of the significant Breagh gas field appraisal, and commissioning of the Wissey gas field. Faroe Petroleum has firmly established itself as a leading independent explorer in the Atlantic margin and also has the largest exposure to Norwegian exploration among all AIM quoted oil and gas companies. We have an excellent team, a strong balance sheet, an exciting drilling programme, and a growing production base. These strong features stand the Company in good stead to grow significantly in value and achieve our goal of becoming one of the leading independent E&P companies in the North Sea."

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Chairman’s Letter

Dear shareholders

During the last twelve months, the global economy has undergone unprecedented changes which have also affected the oil and gas industry. Oil price swings of more than $100 per barrel and the recent pressure on gas prices have resulted in significant changes to the budgets and work programmes of most energy companies. The retrenchment of the credit and equity markets has led to the delaying, and in some cases cancelling, of the development of assets by companies as they seek to preserve funds. In some circumstances small and medium sized exploration and production companies are now finding themselves without capital to continue to operate and we have already witnessed some of these companies being forced into takeovers or even administration by stakeholders in their businesses.

It is in this environment that the whole sector has been marked down by the investment community, and Faroe Petroleum has not escaped this downgrading. However, for those companies which are well managed and well funded, these circumstances represent an opportunity to grow. Oil prices appear to have settled in a trading range between $40 and $60 per barrel as a restriction in supply aims to counter-balance the drop in demand. Companies which are short of cash reserves are looking to sell down interests in their core assets to realise funds and larger companies are selling off groups of assets as they rationalise their portfolios. With a positive belief in the medium to long term outlook in commodity prices, this period of depressed asset values represents a good time to secure interests in quality projects on attractive terms.

Costs, such as for drilling rigs and steel, remain high and have yet to realign with the low commodity prices, and this is causing great difficulty for marginal producers as well as those smaller companies involved in large field development projects. However, there are clear signs that costs of oil industry services and supply are starting to fall, and major oil companies have not cut their capital programmes significantly, on expectation of an energy supply crunch in the coming years.

Faroe Petroleum has always prided itself on its culture of strong cost awareness and financial discipline, and responded naturally and quickly to the global downturn through a combination of decisive cost reduction measures across the portfolio and operations. Faroe has a strong management team, underpinned by vital technical and commercial expertise, and a sustainable business model which should position us well to take advantage of these adverse market conditions. We have a clear strategy, a unique balanced portfolio and a continuing active drilling programme in which we partner with some of the best oil companies in the world in a range of exciting and promising oil and gas prospects. Relative to many AIM quoted exploration and production companies we are also well funded to continue with our work programme, with a good cash balance, growing revenues and access to a largely un-drawn debt facility.

We intend to meet the challenges of 2009 head on and, where possible, we will turn them to our advantage. The period ahead for Faroe Petroleum is an exciting one, and we look forward to delivering substantial value to our shareholders as we drive the Company forward.

John Bentley
Chairman

Chief Executive's Review

We are pleased to announce the audited results for Faroe Petroleum plc for the year 2008. This was a busy and productive year for the Company, combining high levels of work programme activity, portfolio growth and the strengthening of our finances and asset base to deliver increased shareholder value. As a result of the global financial crisis we have suffered a significant decline in our share price, as have the vast majority of companies across all industry sectors. Despite this, substantial progress was made during the year in advancing the drilling programme while continuing to diversify risk through investment in field developments and production to generate cash flow.

The Company's carefully selected portfolio comprises a substantial group of licences, the majority of which are non-operated. Faroe Petroleum holds most of these licences in partnerships with many high quality joint venture partners and licence operators. Through good portfolio management involving a combination of farm-ins, farm-outs and swaps, Faroe seeks always to limit its financial exposure in any well to an acceptable level, determined by balancing that investment relative to the project's risked value.

Faroe Petroleum continues to focus on participating in a high quality, active drilling programme aimed at maximising the probability of creating substantial shareholder value over a period of time. The portfolio is clearly focused on the Atlantic Margin, the Faroe Islands, the North Sea and Norway in which areas the Company has considerable technical and commercial competence and experience. Faroe Petroleum's business model provides excellent scope for value creation through both its ongoing drilling programme across the risk/reward spectrum as well as through commercial transactions.

The Atlantic margin area continues to attract significant oil company interest due to its high resource potential, as has been proven by the giant producing oilfields of Schiehallion, Foinaven and Clair, as well as several other major oil and gas fields pending development, such as the recently discovered Rosebank, Laggan and Cambo fields The Company has been active in this area since its formation in 1998, and has built its substantial portfolio principally through licence rounds and hence at low entry cost. As one of the leading participants in the Atlantic margin, Faroe Petroleum continues to grow and mature its portfolio, and currently has five firm deep water, high impact Atlantic margin wells including Tornado and Glenlivet in the West of Shetlands and Anne Marie in the Faroes. Operators for these five wells are the highly successful and experienced BP, Chevron, Eni, DONG and OMV. In line with the Company's business model, Faroe has successfully farmed out its costs across the majority of these wells to a level commensurate with the Company's available capital and risk appetite, always ensuring that the equity held in each prospect remains of a material size.

Norway's significant untapped potential, combined with a strong State-funded tax incentive for exploration activity, offer significant and very attractive opportunities to the Company. Under the Norwegian tax regime the State pays 78% of direct and indirect exploration costs by way of an annual cost refund. Faroe makes full use of this mechanism and draws bank debt in the form of a rolling credit facility to fund the State repayment element, thereby substantially increasing the capital available for participating in exploration in Norway. Faroe has secured a NOK500 million (approximately £50million) revolving credit facility for this purpose with Bank of Scotland and Barclays. The Company now has a significant portfolio of 20 licences and is pursuing a drilling programme together with its partners, which include Statoil and Shell. This Norwegian portfolio is by far the largest held by any AIM quoted oil and gas company.

Faroe enjoys an enviable position as a partner of choice for many major oil companies, such as Chevron and Statoil. The Company has continued to build upon its relationships as it has progressed in Norway through additional new joint venture partnerships with companies such as ConocoPhillips, Petro-Canada, Centrica, DONG, Lundin Petroleum, Bayern Gas and Talisman. Faroe Petroleum fully expects to continue participating in an active State-supported drilling programme in Norway over the years to come, with focus principally on good quality exploration and appraisal opportunities. To date

Faroe has drilled four high impact exploration wells in Norway, namely Yoda, Marsvin, Grosso and Hyme yielding mixed results but no commercial success so far. However, as a result of State funding support, the actual net cost to the Company in participation in these wells has been very modest compared to similar wells in the UK. Faroe Petroleum therefore intends to continue to participate in good quality drilling opportunities with blue chip partners, in order to unlock the value potential across its portfolio. With a view to further strengthening its capability in Norway, the Company has applied to become a licence operator; it already holds this status in the UK and the Faroe Islands.

Initial gas production revenues in 2008 were generated from three UK Southern Gas Basin fields, Minke, Schooner and the new Wissey field, which came on stream in August. Revenues for the period were modest reflecting the nine months of eligible Schooner production and the gas replacement arrangements on Wissey, whereby Wissey gas revenues are not attributed to Faroe until early 2009, due to agreed commercial arrangements for replacing gas backed-out by Wissey as it enters the Horne and Wren field export system. The Company holds interests in a further four undeveloped gas fields, namely Topaz, Trym, Breagh and Orca.

Faroe's significant undeveloped Breagh gas field was successfully drilled by two further probes, proving up significant additional reserves and testing at commercial flow rates. Breagh was successfully drilled on its west side in 2007, and these two more recent wells were designed to prove additional gas resource and communication between east and west flanks. This was achieved and the partners are now considering the best routes forward to maximise value from the field.

The Company's Trym gas field in Norway, located on the border with Denmark, now has a new operator, DONG, and a field development plan (FDP) decision is anticipated to be granted in 2009. The FDP, expected to lead to first gas in 2011, involves a sub-sea tie-back to the Harald platform in Denmark, and is currently awaiting approval by the relevant authorities. Similarly, the Orca gas field, located on the border between the UK and Holland, is progressing towards development, for which sanction is expected in 2009. The Company also acquired an interest in the undeveloped Topaz gas field in 2007, on which an appraisal well was successfully drilled in 2008, leading to the submission of an FDP which was granted approval in February 2009, with first gas expected in summer 2009. Topaz is the only UK field to which Faroe is currently committed for development, and the majority of capital expenditure on this project has already been incurred. The Company's production revenues will provide tax efficient income to contribute towards ongoing work programme and running costs. The combination of existing cash resources, farm-in finance from third parties, bank debt and production revenues ensure Faroe Petroleum is well financed to undertake its committed drilling and development programme.

Strategy

The Company continues to pursue its business strategy of value creation for shareholders as summarised below:

- discover substantial hydrocarbon resources in the Atlantic margin and Norway by drilling attractive high impact exploration wells with material equity stakes;

- 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

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

Faroe has built a particularly talented and experienced technical team who are very knowledgeable of the geology, infrastructure and market in the Company's core areas. These skills and experience are deployed in preparing and submitting applications for new licences, working together with licence operators to advance the maturing of prospects, as well as in optimising farm-out and farm-in opportunities. In order to maximise the degree of success from our exploration portfolio, considerable effort is applied to maintaining a continuing drilling programme of the highest possible quality.

Great importance is placed upon achievement of the so called “portfolio effect” in our exploration activities. This requires participation in a large number of wells. Given the inherent relatively high risk nature of exploration, when many promising wells are drilled as a portfolio over a number of years, it is reasonable to expect to achieve both discoveries and appraisal successes which in turn will lead to substantial added value for Faroe Petroleum shareholders.

The Company sets relatively modest budget capital limits for each project in order to minimise the risk of any single project putting at risk the overall capital programme. The potential high headline cost of portfolio drilling is therefore always reduced to an acceptable level, and this is achieved through the application of sound financial and commercial discipline. This involves a variety of approaches including submission of ground floor licence applications, as well as putting considerable effort into farming out or swapping out of wells at an optimal time. A prime example of the success of this approach is illustrated by the farm-outs achieved in 2007 of five exploration licences to two Japanese companies, Idemitsu and CIECO, both of which, through these farm-outs, became new entrants to the Atlantic margin arena. This achievement has resulted in Faroe achieving a significant cost carry across all of these five prospects of which wells on four have so far been committed. It is important to note that in Norway there is considerably less need to focus on farming out well costs as the Norwegian State finances 78% of all exploration costs.

The success of this disciplined approach to well cost management can be appreciated in observing that the average net cost per well across the Company’s coming drilling programme is estimated to be approximately £1.75 million, while retaining an average of some 12.5% equity across these wells. This includes wells in which the Company’s net pre-farmout cost exposure was in excess of £10 million. This methodology permits Faroe Petroleum to plan ahead its financial participation in a very active and material work programme, with the objective of creating substantial shareholder value.

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 more recently 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, hence, contribute to work programme costs. Faroe Petroleum therefore continues to seek out suitable producing or near producing assets to add to the portfolio, through acquisition or swap transactions. This requires the commitment of considerable effort to the process of identifying and screening attractive commercial opportunities, and draws upon the Company’s highly experienced in-house technical and commercial resources.

Board Appointments

Following the period end, Mr Tim Read was appointed to the Board as a Non-Executive Director (as senior independent director), effective 2 March 2009. Mr Read has over 40 years experience in the natural resources sector first as an investment analyst and then as an investment banker, and more recently as a corporate executive and director. He has extensive experience of all aspects of corporate finance, particularly mergers and acquisitions and equity capital markets. Between 1999 and 2006, he was the chief executive of Adastra Minerals Inc, and since then has acted as non executive director for several natural resource companies, including: Cumerio SA (acquired by Nordeutsche Affinerie in April 2008) and Nevoro Inc. Mr Read is currently executive chairman of Kopane Diamond Exploration Developments Plc. Mr Read has a BA (Economics) from the University of Strathclyde in Glasgow, Scotland and is a Fellow of the Securities and Investment Institute.

Iain Lanaghan (53) has been appointed to the Board as the full-time Group Finance Director with effect from 4 May 2009. He has a broad range of experience gained in the energy, transport and service sectors. His positions have included Group Finance Director of FirstGroup plc, Finance Director of Powergen International and Group Finance Director of the oil and gas services business Atlantic Power Limited (see also note 6). More recently he has concentrated on the private equity sector, including founding a German transport group, Abellio. In addition to a traditional financial background he has extensive experience of financings and mergers, acquisitions and disposals. His international work has included periods in Germany and Spain. He is a Chartered Accountant having qualified with KPMG in London and has a MA in Economics and Accounting from the University of Edinburgh.

Roger Witts who has been the part-time Group Finance Director since June 2007 will be appointed to the board as non executive director where his very considerable financial and commercial knowledge in the oil and gas sector and generally, will continue to be drawn upon by the Group.

Having completed his second three-year term as a non-executive director, Meinhard Jacobsen will be standing down as a non-executive director at the Company's forthcoming Annual General Meeting. Meinhard has served as a director of the Company since the Company's admission to AIM in 2003, and has helped considerably in the expansion of the Group from its original two licences in the Faroe Islands to its holding of nearly 50 licences in three countries and we thank him for all of his hard work. Nils Sørensen will replace Meinhard as the Company's fourth non-executive director, alongside John Bentley, Tim Read and Roger Witts, where he will continue to provide his expertise whilst continuing his role as managing director of the Group's important Faroese operations.

Results

Following a year of considerable investment activity, encompassing exploration, appraisal, development and acquisition, the Group made a net loss after tax in 2008 of £20.6 million (2007: £1.7 million). Exploration and evaluation expenses of £20.0 million (2007: £3.7 million) were incurred in the year. These expenses include pre-award exploration expenditure and licence specific exploration and evaluation expenditure associated with a number of unsuccessful exploration wells being written off in the year. The results of these exploration wells have already been announced. Considerable investments were made during 2008 in exploration and evaluation assets and in field developments, increasing intangible assets to £66.5 million (2007: £24.9 million) and development and production assets to £20.9 million (2007: £11.3 million). The net assets of Faroe Petroleum decreased during the period to £79.4 million (2007: £94.8 million).

Revenue for the year increased from £1.0 million in 2007 to £2.3 million in 2008. The Company had three producing fields at the end of 2008 contributing to the increased revenue, although Schooner production contributed from March, and the new Wissey field, which came on stream in August, only made a small contribution to revenues during 2008, as planned, due to commercial arrangements between Wissey owners and Horne & Wren (the host facility) owners. Production attributed to Wissey owners for the period from first gas to December 2008 is in fact significantly less than the actual production from the field. In future periods, the difference will be reversed, with Horne & Wren repaying the gas "borrowed" from Wissey. A significant portion of near term gas production has been hedged against a material drop in the gas price in the form of forward sales and put options. The Company made hedging gains of £0.1 million in 2008 (2007: £nil). Unrealised hedging gains of £0.3 million have not been recognised in the income statement.

Cost of sales for the year was £5.7m (2007: £0.7 million). The main reason for cost of sales being out of line with revenue is due to Wissey revenue being based on "attributed" production and Wissey cost of sales being based on "actual" production.

The Directors have considered it prudent to write off the carrying value of the Minke asset in full at £3.4 million. The Minke development was completed in 2007 but it became evident that the single production well was not producing according to the development plan. The joint venture partners have been working on remedial plans but the economics of such remedial action have been adversely affected by continuing high rig rates and a fall in gas prices. No remedial action has been planned for 2009 and consequently a full provision has been made. The position will be reviewed by the Board if a decision to undertake remedial work is made with the potential for some value to be written back.

The Company has a tax receivable at the end of the year of £30.5 million (2007: £4.1 million) being 78% of exploration expenditure in Norway in 2008 which will be paid to the Company within the current year. Of this tax rebate, a credit of £8.2 million (2007: £2.7 million) has been recognised in the income statement, the balance being credited to deferred tax liabilities.

The Company remains well funded with £16.7 million in cash at the year end, production revenues from three, soon to be four, gas fields, and a committed and largely undrawn seven year reserve based debt facility with Société Générale. In addition, the facility to fund exploration costs financed by the State repayment of Norwegian tax credits was successfully increased from NOK250 million to NOK500 million during the year, with Barclays joining Bank of Scotland as lender in the facility. Thus, the Group has adequate funds to meet all its current obligations. The Board of Directors does not recommend the payment of a dividend.

Graham Stewart
Chief Executive

REVIEW OF ACTIVITIES

Faroe Petroleum has been actively and successfully building a portfolio of oil and gas assets across its focus areas of the Atlantic margin (the Faroe Islands and west of Shetlands area), UK North Sea and Norway. These now form a substantial portfolio which includes a large number of exciting drilling targets, as well as several pending field developments and three, soon to be four, producing gas fields.

The Company has focused on areas over which it has a strong technical understanding, and on partnering with highly reputable oil and gas companies who possess excellent exploration records and experience as well as strong balance sheets. The Company's technical team, many of whom joined in 2006 from the highly successful Paladin Resources, all have substantial experience of working in the geographic areas targeted by Faroe.

Atlantic Margin

Since formation in 1998, the Atlantic margin has been a key element of the Company's portfolio, and one on which a significant portion of Faroe's upside potential lies. The Company currently has a very active Atlantic margin portfolio of 14 exploration licences, six in the Faroese sector and eight in the UK sector, making Faroe the third largest Atlantic margin position holder, by gross licence area. The province has seen continued success in 2008 and Faroe Petroleum is actively maturing its portfolio as it prepares for a significant scheduled drilling campaign in 2009 and 2010. In addition, the Group participated successfully in the Faroese 3rd Round resulting in two new awards in the area during 2008.

Exploration success continued in the west of Shetland region in 2008 which has a positive impact on Faroe Petroleum's exploration portfolio. These results include: Amerada Hess' Amos Palaeocene oil discovery south of the Schiehallion oil field; BP South West Foinaven, 204/23-2 exploration wellbore, Chrysaor's appraisal of the undeveloped Solan oil field; and finally, Chevron's assimilation of the results of the three well appraisal programme of Rosebank / Lochnagar and commencement of the 213/27-3 Rosebank North exploration well. These accomplishments bode well for significant development activity and investment together with the installation of important new oil and gas production and export infrastructure in the area.

Faroe Petroleum has developed, rationalised and financed a high quality portfolio of assets in this region and along with its co-venturers, has committed to drill five high impact exploration wells. Four of these exploration wells will be in the UK sector and one in Faroese waters. Further wells are likely to be committed to as several licences are matured to drill decisions. Importantly in 2007, Faroe Petroleum successfully reduced its cost exposure to these high cost / high potential value wells. Firstly an agreement with Idemitsu to farm into four deep water prospects on the Chevron-operated Talisker (Faroe 12.5% post farm out), Chevron-operated Lagavulin (Faroe 10% post farm out), BP-operated Cardhu (Faroe 6.25% post Idemitsu and CIECO farm out) and OMV-operated Tornado (Faroe 10% post farm out) was signed. This was followed with an agreement with CIECO to farm down the Faroese ENI-operated Anne Marie exploration well (Faroe 12.5% post farm out) and the Cardhu prospect. These farm-outs ensure that Faroe's costs associated with the wells are kept within an acceptable limit whilst maintaining material stakes in each of these substantial prospects.

The Company's Atlantic margin drilling campaign is particularly exciting as the majority of the prospects are situated along the Corona Ridge area, which has proved to be the most prolific geological setting for discoveries to date. Subject to the usual uncertainties over rig scheduling and weather restrictions caused by the hostile Atlantic margin environment, an exploration well is scheduled to be drilled by operator OMV, using the contracted Leiv Eiriksson drilling rig on the Tornado exploration prospect (Faroe 10%). Tornado is a substantial oil prospect, located adjacent to the BP-operated Suilven field in block 204/13.

The second exploration well scheduled to be drilled is the Faroese Anne Marie exploration well in Licence 005 (Faroe 12.5%). This significant oil prospect is scheduled to be drilled by operator ENI using the contracted West Phoenix drilling rig. The Anne Marie exploration well is designed to test multiple objectives. This target is particularly exciting as it shares a similar geological setting to that of Chevron's significant Rosebank oil discovery, and, like Rosebank, is potentially a very large structure.

The third exploration well, scheduled for 2009, follows an Atlantic margin licence swap agreement made in May 2008 with DONG E&P (UK) to swap 10% of DONG's Glenlivet prospect in block 214/30 for 10% of Faroe's Glenshee licence, in blocks 217/21, 22, 26 and 216/30. The Glenlivet prospect is a low risk, large gas prospect situated close to Total's significant Laggan gas field, which is under development, and which will lead to the installation of important new gas processing and export infrastructure. The Glenlivet prospect is scheduled to be drilled by DONG in Q3 2009, with the contracted Transocean Rather rig.

Significant progress has taken place in licences PL1192 (Cardhu) and PL1196 (Lagavulin). Both of these licence groups have committed to drill exploration wells, and both are located on the highly prospective Corona Ridge. The Cardhu licence, operated by BP, has an exciting high-impact prospect, which contains multiple reservoir objectives and is located near Chevron's Rosebank discovery, the drilling of which is subject to a rig contract being entered into. Faroe Petroleum has 6.25% equity and sees considerable promise in this prospect. The Lagavulin exploration well is a significant sub-basalt opportunity situated in the deeper waters of the Corona Ridge with very substantial upside. The exploration well will be drilled by operator Chevron in 2010 and Faroe Petroleum has 10% equity.

In addition to the committed exploration wells, good progress has been made in all other Faroe Petroleum licences in the Atlantic margin, with technical studies ongoing in order to mature prospects towards drilling. These include Faroese Licence 009 in which joint venture partners led by operator Statoil, have acquired 250 square kilometres of high resolution 3D seismic data, targeting the significant sub-basalt Sildrekin prospect. Faroe Petroleum has 10% equity and the results of the seismic survey will be used to make a drilling decision on this substantial prospect.

To complement and further develop the existing licence portfolio, Faroe Petroleum has been active in winning new acreage in the region and was successfully awarded two licences in the 2008 3rd Faroese licence round. The first, L016 (Kúlubøkan), operated by StatoilHydro is the largest Faroese licence ever awarded and covers 5,300 square kilometres (33 full and part blocks in quads 6201, 6202 & 6203). Faroe Petroleum has 10% equity and the work programme consists of a 2D seismic programme to identify possible drilling targets. The second, Licence 017 (Rannvá Extension) covers 1,200 square kilometres (9 full and partial blocks in quads 6007 & 6008) and has been awarded 100% to the Company as Operator and is located adjacent to Faroe's existing Rannvá licence (Faroe 100%) which contains the very substantial Rannvá "A" lead on the crest of the Wyville-Thomson Ridge. A low cost seismic reprocessing programme will be undertaken to further delineate the structure.

Norway

Since entering Norway in 2006, the Company has built one of the most experienced technical teams in the region and focused on building a strong portfolio of exploration and appraisal interests in key areas near to infrastructure and where there is considerable prospectivity. Faroe now has the largest portfolio of interests in Norway held by any AIM quoted oil and gas company, with a total of 20 licenses. The portfolio contains a good spectrum of exploration, appraisal and development opportunities, with several wells scheduled to be drilled in the coming period. The portfolio therefore holds a variety of opportunities with differing risk reward profiles, and includes some very large exploration prospects. In general, Faroe's licence equity stakes in wells in Norway tend to be larger than outside Norway, as the Norwegian State funds 78% of all exploration costs. This reduces significantly the requirement on the Company to farm out costs to third parties to reduce cost exposure.

In February 2008, Faroe was awarded five new Norwegian licences from five applications in the APA (Awards in Pre-defined Areas) 2007 Licence Round.

In the Norwegian Sea, Faroe was awarded 30% of licence PL 475 (part blocks 6403/3 and 6407/1), which contains the Carlos and Santana prospects, as well as a number of other promising prospects. This license is located between the Trestakk and Tyrihans fields on the Halten Terrace. The work programme includes the drilling of one firm well and the operator Revus (now Wintershall) has secured the West Alpha rig for drilling this well in 2010.

In an area adjacent to the Company's Fogelberg licence, Faroe was awarded a 30% participating interest in two licences. PL 477 (part block 6506/11) contains the Cooper Prospect, which is located between the Morvin and Smørbukk fields. PL 478 (part blocks 6507/7 and 10) contains the Manilow Prospect and is located to the north east of the Smørbukk Field. Both licenses were awarded with a firm 3D acquisition work commitment and a drill-or-drop decision within three years, with partners Centrica (operator) and Petro-Canada.

In the North Sea, Faroe was awarded two licences, PL 405B and PL 452, which contain a possible extension of the Company's Butch Cassidy Prospect on PL 405, as well as the Etta Prospect.

In April, Faroe agreed to farm in to a 10% interest in licences PL 006C and PL 006D from Noreco. PL 006C contains the South East Tor oil discovery with contingent oil reserves estimated at approximately 19 million barrels (mmbbls) (1.9 mmbbls net to Faroe) and with further upside being targeted. The first of these was the Hyme exploration well which tested a high risk stratigraphic trap on the western flank of South East Tor. The well did not prove up hydrocarbons in the main Chalk target, but found good indications of oil in Paleocene sandstone reservoirs. While disappointing from the point of view of proving up more reserves in the Chalk, Hyme discovered a new Paleocene play which has the potential to add significant further resources to the expected South East Tor development. An appraisal well was planned to be drilled on the northern part of the South East Tor discovery from the same location as Hyme and back to back with the exploration well. The operator, Lundin decided not to proceed directly to drill the South East Tor appraisal well. This deferral will facilitate a review of the new data and provide an opportunity to choose an optimal new well trajectory to test both the Chalk and the newly discovered Paleocene The Joint Venture Partners in both of these Norwegian licences are Lundin Petroleum (75% and Operator) and Noreco (15% interest).

In April, the Yoda exploration well (7/1-2S) was completed by the Maersk Giant drilling rig. Detailed petrophysical analysis indicated that the well encountered a thin oil column within the main reservoir, the Upper Jurassic Ula Formation. However, following the post-well analysis, the joint venture partners concluded there was insufficient commercial potential and agreed to relinquish the licence.

In August, Faroe successfully completed a large high resolution 3D seismic survey, acquired by CGG Veritas, over licences PL 433 Fogelberg, PL 477 Cooper and PL 478 Manilow. The survey was completed ahead of timetable and under budget, with the data processing scheduled to be completed in early 2009. This survey will be used to help locate the well on the Fogelberg Prospect, due to spud in early 2010, as well as maturing the Cooper and Manilow prospects towards a drill-or-drop decision.

In October, Faroe announced the completion of the 3/7-7 well drilled by the Maersk Giant on the Marsvin Prospect in licence PL 289. The purpose of the exploration well was to find hydrocarbons in Late Jurassic rocks, on the south west flank of the Søgne Graben, straddling the border between Norway and Denmark. The well found good reservoir rocks, but unfortunately did not encounter movable hydrocarbons. However, the licence still contains a number of additional promising prospects, all of which are located adjacent to the Trym Field, and which can be reached as possible low costs exploration sidetracks in connection with the forthcoming Trym development drilling.

The Company continued its success in the Norwegian licensing rounds and in December 2008 the authorities announced that Faroe had won three new licences as part of the APA 2008 awards. These three awards were the result of three applications, submitted by the Company earlier in the year and building on Faroe's existing acreage position in both mid Norway and the Norwegian North Sea. As in the previous APA Round, the Company participated in a number of strong bidding groups, which included Centrica, Revus, Spring and Concedo. The emphasis was to continue the Company's focus on blocks that have a high probability of maturing to a drilling decision.

In the North Sea, in an area covering over 300 square kilometres, Faroe applied for and was awarded a 30% interest in licence PL 507 (part blocks 25/2, 25/3, 30/11, 30/12, 31/10), which is located to the north of the Frigg Field. This new acreage contains a number of additional leads and prospects, including the Tetrao Prospect. The recent 30/11-7 gas condensate discovery in a licence immediately adjacent to the new licence represent important new data and positive news for the exploration area.

In mid Norway, Faroe continued to build in its core area around the Åsgard development, with two additional licences, a 20% interest in both PL 510 (part blocks 6406/5 and 6) and a 30% interest in PL 475 BS (part blocks 6406/3 and 6407/1). Both licences are located adjacent to the Company's prospective PL 475 Santana licence and contain a number of prospects, including the exciting Maria appraisal opportunity, located just to the north of the Trestakk field.

In the latter part of 2008, Faroe submitted a number of applications in the Norwegian 20th Licencing Round. This frontier round was very competitive, with a total of 46 companies applying for licences, which is approximately twice the number of participants as the previous 19^{th} Round. The awards are expected to be made during the first half of 2009.

In October, Faroe and its joint venture partners DONG (operator) and Bayerngas submitted the Trym field development plan (FDP) to the Norwegian Authorities. Trym is situated in the Norwegian part of the North Sea, immediately north of the Danish/Norwegian border and will be connected to the Danish DUC Production platform Harald, via a six kilometre long cross border pipeline. The development will involve a subsea installation with two horizontal wells which will be connected to and controlled from the Harald platform. Gas from Trym will be transported onwards from Harald by pipeline to the Tyra platform in Denmark and thereafter landed in either Nybro in Denmark or Den Helder in Holland. Oil and condensate will be transported by pipeline from Harald via the Gorm Field to Fredericia in Denmark.

UK North Sea

Faroe's UK North Sea portfolio is composed mainly of minority interests in a number of gas fields at various stages of development and production. In addition the Company has secured interests in a small number of high potential Central North Sea exploration and appraisal licences.

On the Halibut horst in the outer Moray Firth area, Faroe Petroleum has an interest in the Fat Cat discovery operated by Petro-Canada. Faroe entered into a licence cross-assignment agreement with Petro-Canada in 2008, which gave Faroe a 25% interest in Fat Cat. The operator is considering drilling a well on this potentially substantial discovery later in 2009.

The Company also farmed into Bow Valley's Fulmar high potential exploration well in the Central North Sea for a 10% stake at a modest cost. Operated by Bow Valley the well found hydrocarbons in good reservoir, but these were subsequently assessed to be of a sub-commercial volume.

In the UK Southern Gas Basin, Faroe has focused on securing interests across a spread of low risk appraisal, development and production assets, with the potential for increasing near term cash flow generation. The UK portfolio consists of six fields of which three are on stream (Wissey, Schooner and Minke), one is under development (Topaz) and two are pending development decisions (Orca and Breagh).

The Wissey field 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. The field is operated by Tullow Oil UK Limited (62.5%) and consists of a single sub-sea well tied back to the

Horne and Wren platform. The sub-sea well was completed and tested in January 2008 and put on production in August 2008 as planned.

The field came on stream at an initial production rate of 70 million standard cubic feet per day (mmscfd). Due to increased water production in the well, and in order to reduce the risk of hydrates formation, the well flow rate has been reduced to the current stable production level of between 30 and 40 mmscfd. Over the coming months, as more production data is collected, a revised reservoir model and production profile will be established. Provisional estimates indicate a reduced revised base case ultimate recovery of 21.5 billion cubic feet of gas (bcf) (net 4.1 bcf to Faroe Petroleum as against an original estimate of net 5.9 bcf).

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 Ruhrgas 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, conservatively assuming no further development drilling, are estimated to be 64 billion cubic feet (3.1 bcf net to Faroe). To date 10 wells have been drilled from the Schooner platform, and current gross production from Schooner is 17-22 mmscfd.

The Topaz gas field (Faroe 7.5%) is located 14 kilometres south east of Schooner in Blocks 49/1a and 49/2a. The asset was acquired from E.ON Ruhrgas in the same transaction as Schooner. A single sub sea production well was drilled and tested by the Nobel Al White rig in September 2008. During 2008 an FDP was submitted to the UK Department of Energy and Climate Change (DECC) by the operator, RWE Dea. The FDP consists of a tie-back to Schooner and the CMS system by a 15 kilometre, 8 inch pipeline and modifications at Schooner to accommodate Topaz gas production. Modifications will commence this summer with production start expected in Q3 2009. Gross field reserves are estimated at 19.8 bcf, with net reserves attributable to Faroe estimated to be 1.5 bcf.

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 Suez, 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 60 mmscfd, production performance has since decreased much more rapidly than predicted, most likely caused by mechanical problems in the well, and the field is at present producing only a nominal quantity of gas. A number of technical explanations have been put forward to explain this, and the joint venture partners, Gaz de France Suez (operator), E.ON and RWE have together been working on a remedial plan, which is expected to involve either working over the existing well or drilling another production well, from the two-slot template, designed for such an eventuality. Such remedial action would be designed to recover the full potential of the field. However due to continuing high rig rates, such remedial action is considered too costly, and is unlikely to take place before 2010 when rig rates are expected to be lower.

The significantly larger Orca Field, also operated by Gaz de France Suez, straddles the border between the UK and Holland. In late 2008, the partners agreed on a unitization of 55/45 UK/Ned split and the FDP to develop the field by installing a two wellhead platform producing gas through a pipeline to the D15 platform on the Dutch side is currently in progress and expected to be submitted for approval in 2009.

One of Faroe’s most important successes to date, the significant Breagh gas field (Faroe 10%) in block 42/13, acquired from Sterling Resources in 2006, is situated close to the northern limit of the Southern Gas Basin and is one of the largest discoveries in this area in the last 10 years. During 2008 the partnership successfully drilled and tested two further wells in the same block proving up significant additional reserves and testing both wells at commercial flow rates. These wells were designed to prove additional gas resource and communication between east and west flanks. These objectives were achieved and the partners are now considering the best routes forward to maximise value from the field.

Outlook

Despite the global economic downturn, Faroe Petroleum is well positioned to continue with its strategy, and progress its significant work programme of drilling and field development. The period ahead will be very active with some seven wells scheduled, including five in the Atlantic margin and at least two in Norway, all of which will be funded from existing resources and cash flow from producing assets. The Company will continue to apply for good quality new acreage, and carefully manage its portfolio and related work programme in order to ensure an active drilling programme going forward. We also look forward to the field development approvals of the Trym, Breagh and Orca fields thereby firmly establishing their reserves and value.

Production is expected to increase during 2009 once the Topaz gas field is brought on stream as the Company's fourth producing field. Significantly, we also see considerable opportunity in the market for Faroe Petroleum to secure interests in further good quality assets by acquisition, farm-in and licence swap. As companies sell down interests in core assets to realise funds or to rationalise their portfolios, Faroe is well placed to take advantage of the opportunity to secure interests in good quality assets on attractive terms. The Company has a substantial un-drawn reserve base debt facility, cash reserves and licence positions which can be employed in the context of pursuing a modest programme of attractive value-adding commercial transactions to complement Faroe's existing portfolio.

Faroe Petroleum has firmly established itself as a leading independent oil and gas company with strategic positions in the Atlantic margin and Norway, an excellent team, a strong balance sheet, a very exciting drilling programme and a growing production base. We are confident these strong features will ensure the Company grows significantly in value to become one of the leading independent E&P companies in the North Sea.

Group income statement
for the year ended 31 December 2008

	2008 £000	2007 £000
Revenue	2,283	964
Cost of sales	(5,656)	(719)
Asset impairment	(3,356)	-
Gross (loss)/profit	(6,729)	245
Exploration and evaluation expenses	(19,971)	(3,695)
Administrative expenses	(3,122)	(2,560)
Operating loss	(29,822)	(6,010)
Finance revenue	2,789	1,801
Finance costs	(1,727)	(180)
Loss on ordinary activities before tax	(28,760)	(4,389)
Tax credit	8,151	2,700
Loss for the year attributable to equity holders of the parent	(20,609)	(1,689)
Loss per share – basic and diluted (pence)	(19.7)	(2.3)

Group balance sheet
at 31 December 2008

	2008 £000	2007 £000
Non-current assets		
Intangible assets	66,513	24,935
Property, plant and equipment: development & production	20,855	11,265
Property, plant and equipment: other	273	421
Financial assets	15	11
	87,656	36,632
Current assets		
Trade and other receivables	6,954	1,730
Current tax receivable	30,454	4,055
Financial assets	329	-
Cash and cash equivalents	16,706	63,388
	54,443	69,173
Total assets	142,099	105,805
Current liabilities		
Trade and other payables	(6,902)	(5,311)
Financial liabilities	(30,830)	(3,428)
	(37,732)	(8,739)
Non-current liabilities		
Deferred tax liabilities	(23,083)	(1,340)
Provisions	(1,736)	(784)
Defined benefit pension plan deficit	(178)	(115)
	(24,997)	(2,239)
Total liabilities	(62,729)	(10,978)
Net assets	79,370	94,827
Equity attributable to equity holders		
Equity share capital	10,475	10,475
Share premium account	91,573	91,631
Cash flow hedge	329	-
Cumulative translation reserve	4,813	805
Retained earnings	(27,820)	(8,084)
Total equity	79,370	94,827

These financial statements were approved by the Board of directors on 20 April 2009 and were signed on its behalf by:

Graham Stewart
Director

Company balance sheet
at 31 December 2008

	2008 £000	2007 £000
Non-current assets		
Property, plant and equipment	28	46
Financial assets	100,956	40,240
Investments in subsidiary undertakings	2,654	2,654
	103,638	42,940
Current assets		
Trade and other receivables	223	564
Cash and cash equivalents	7,006	60,361
	7,229	60,925
Total assets	110,867	103,865
Current liabilities		
Trade and other payables	(311)	(620)
Total liabilities	(311)	(620)
Net assets	110,556	103,245
Equity attributable to equity holders		
Equity share capital	10,475	10,475
Share premium account	91,573	91,631
Retained earnings	8,508	1,139
Total equity	110,556	103,245

These financial statements were approved by the Board of directors on 20 April 2009 and were signed on its behalf by:

Graham Stewart
Director

Group cash flow statement
for the year ended 31 December 2008

	2008 £000	2007 £000
Operating activities		
Cashflow from operations	(4,384)	(2,212)
Tax rebate	4,301	1,071
Net cashflow from operating activities	(83)	(1,141)
Investing activities		
Expenditure on intangible assets and plant, property and equipment	(75,539)	(15,443)
Prepayment of expenditure on intangible assets	(770)	(598)
Interest received	2,418	1,815
Net cashflow from investing activities	(73,891)	(14,226)
Financing activities		
Short term borrowings	27,403	3,427
Issue of ordinary share capital	432	44,758
Issue costs	(58)	(2,278)
Interest paid	(1,164)	(180)
Net cashflow from financing activities	26,613	45,727
Net (decrease)/ increase in cash and cash equivalents	(47,361)	30,360
Cash and cash equivalents at the beginning of the year	63,388	33,016
Exchange differences	679	12
Cash and cash equivalent at the end of the year	16,706	63,388

Company cash flow statement
for the year ended 31 December 2008

	2008 £000	2007 £000
Operating activities		
Cashflow from operations	(1,526)	(525)
Net cashflow from operating activities	(1,526)	(525)
Investing activities		
Expenditure on property, plant and equipment	(21)	(12)
Loans to subsidiary undertakings	(55,271)	(15,235)
Investments	-	-
Interest received	1,774	1,379
Net cashflow from investing activities	(53,518)	(13,868)
Financing activities		
Issue of ordinary share capital	432	44,758
Issue costs	(58)	(2,278)
Interest paid	-	-
Net cashflow from financing activities	374	42,480
Net (decrease)/increase in cash and cash equivalents	(54,670)	28,087
Cash and cash equivalents at the beginning of the year	60,361	31,732
Exchange differences	1,315	542
Cash and cash equivalent at the end of the year	7,006	60,361

Group statement of changes in equity

for the year ended 31 December 2008

	Share capital £000	Share premium account £000	Cash flow hedge £000	Cumulative translation reserve £000	Retained earnings £000	Total £000
As at 1 January 2007	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**
Exchange differences on retranslation of foreign operations	-	-	-	4,008	-	4,008
Gains on cash flow hedges taken to equity	-	-	329	-	-	329
Total income recognised directly in equity	-	-	329	4,008	-	4,337
Loss for the period	-	-	-	-	(20,609)	(20,609)
Total recognised income for the period	-	-	329	4,008	(20,609)	(16,272)
Issue costs	-	(58)	-	-	-	(58)
Share based payments	-	-	-	-	873	873
As at 31 December 2008	**10,475**	**91,573**	**329**	**4,813**	**(27,820)**	**79,370**

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.

Cash flow hedges

This reserve records the portion of the gain or loss on a hedging instrument in a cash flow hedge that is determined to be an effective hedge. When the hedged transaction occurs, the gain or loss on the hedging instrument is transferred out of equity to either profit or loss or the carrying value of assets, as appropriate. If the forecast transaction is no longer expected to occur the gain or loss recognized in equity is transferred to the income statement within the cost of sales.

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 2008

	Share capital £000	Share premium account £000	Retained earnings £000	Total £000
As at 1 January 2007	**7,382**	**51,813**	**(1,176)**	**58,019**
Loss 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**
Profit for the period	-	-	6,496	6,496
Total recognised income for the period	10,475	91,631	7,635	109,741
New shares issued	-	-	-	-
Issue costs	-	(58)	-	(58)
Share based payments	-	-	873	873
As at 31 December 2008	**10,475**	**91,573**	**8,508**	**110,556**

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

Share premium
The balance classified as share premium is the premium on issue of the Company'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 2008 or 2007. The financial information is derived from the financial statements for 2008 prepared in accordance with IFRS. The auditors have reported on the 2008 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 £20,609,000 at 31 December 2008 (2007: £1,689,000) and the weighted average number of ordinary shares outstanding of 104,745,000 (2007: 74,123,000). There is no difference between the diluted loss per share and the loss per share presented.

4. On 22 January 2009 the Group announced the successful testing of the 42/13-5 and 42/13-5z wells on the Breagh gas field, located in the UK Southern North Sea Gas basin (Faroe 10%). The well tested dry gas at a maximum rate of 26 million standard cubic feet per day (mmscfd) from a number of perforations at various intervals along a horizontal sand section of 1,200 feet and confirmed the economic benefits of utilising conventional horizontal wells in the development of the field.

On 5 March 2009 the Group announced that it had entered into a farm-down agreement withSpring Energy for a 15% share in Norwegian licences PL405 and PL405B. Faroe Petroleum Norge AS ("FPN") retain 15% equity in both licences.

On 27 March 2009 the Group announced that the well drilled on Norwegian Licence PL376 Grosso exploration prospect (FPN 10%) found good reservoir rocks, but did not encounter movable hydrocarbons.

On 2 April 2009 the Group announced that the well on the Norwegian Licence PL006C Hyme exploration prospect (FPN 10%) had been completed with mixed results. The main objective Chalk reservoir at the Hyme location encountered indications of hydrocarbons but lower than expected porosity but the well penetrated a number of better developed Paleocene sandstones, which showed good indications of hydrocarbons.

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.

6. Director appointment – disclosure required under(g) of Schedule 2 of the AIM Rules,

Existing directorships of Mr Iain Lanaghan: *None*
Previous directorships of Mr Iain Lanaghan in the last 5 years: *Abellio GmbH (& subsidiary companies);First Group plc (& subsidiary companies)*

Save for the above, there is no further information required to be disclosed under paragraph (g) of Schedule 2 of the AIM Rules, with respect to the appointment of Mr Lanaghan