

11 April 2010

Faroe Petroleum plc (“Faroe”, the “Company”)

Asset swap transaction – Maria discovery swapped for Norwegian production assets

Faroe Petroleum, the independent oil and gas company focusing principally on exploration, appraisal and production opportunities in the Atlantic margin, the North Sea and Norway, is pleased to announce that it has signed an agreement with Petoro AS (“Petoro”), to swap its interest in the Maria discovery for interests in a number of oil and gas production assets in Norway.

Highlights

- Maria discovery swapped with Petoro for interests in the Njord, Brage and Ringhorne East production assets
- Pure asset swap - no cash consideration
- Effective date 1 January 2011
- Adds over 7,300 boepd to Faroe’s estimated 2011 average production, with good upside potential
- Including Blane, Faroe’s estimated 2011 average production now expected at 9,200 boepd
- Adds over 14 mboe of 2P reserves to Faroe
- Petoro to retain projected abandonment and decommissioning liability of approximately NOK600m (£67m)
- Proves business model of monetising exploration success – within nine months of Maria discovery
- Meets Faroe’s stated strategy of efficiently and cost-effectively building production and revenues
- Transaction transfers to Petoro Faroe’s estimated £280m net capital investment requirement for Maria development
- Significantly increases cash flow and debt capacity to fund further exploration and other growth

Details of the Transaction

Petoro manages the Norwegian State’s direct financial interests in oil and gas assets on the Norwegian Continental Shelf. Under the terms of this transaction, Faroe will exchange its entire 30% interest in the Maria discovery in PL475BS and PL475CS, for the following assets, (together the “Petoro Assets”):

- **Njord field area**
 - a 7.5% interest in the Njord field and Njord Unit (excluding the Noatun discovery); and
 - a 7.5% interest in production licence PL348 and PL348B near Njord containing the Gygrid development project and an exploration prospect.
- **Brage field area**
 - a 14.2% interest in the Brage field and Brage Unit; and
 - a 13.4% share in the Brage Sognefjord field.
- **Ringhorne East field area**
 - a 7.8% interest in the Ringhorne East field;
 - a 7.8% interest in the Ringhorne East Unit; and
 - a 3.0% interest in the Jotun field and Jotun Unit.



The independent reserve engineering firm Senergy (GB) Limited has reviewed the acquired Petoro Assets, and estimates that at 1 January 2011, being the effective date of the transaction, the Petoro Assets contain 2P reserves (net to Faroe) of 14 mmboe in the producing fields and 1.2 mmboe of contingent resource in the undeveloped Gygrid field. Senergy has also confirmed further upside potential in the producing fields.

The Petoro Assets are expected to generate average production over 2011 of 7,300 boepd (operator's forecasts), with net January 2011 production of 11,962 boepd. Although no 2010 turnover or profits data are available for the Petoro Assets, Faroe has estimated that, based on its own assumptions, they may have generated turnover of £158.9m and profits before tax of £98.3m (the tax rate in Norway is 78%).

Njord and Gygrid (Blocks 6407/7 and 6407/10)

The Njord field, operated by Statoil (20%) (Faroe Petroleum (7.5%), E.ON Ruhrgas Norge (30%), GDF SUEZ E&P Norge (20%), ExxonMobil E&P Norway (20%) and VNG Norge (2.5%)), has been developed with a floating production facility, is located in the Norwegian Sea close to Faroe's exploration licences on the Halten Terrace, having commenced production in 1997. Oil is transported by tankers and the gas is exported in the Norwegian gas infrastructure to the European Continent. Petoro has agreed to transfer necessary gas transportation capacity to Faroe to allow Faroe to export its equity gas without paying a premium. Additional in-fill potential has been recognised in the field. In addition, new production will be generated by the North West Flank Development, which has already been approved, and by the Gygrid development project, for which a field development plan (FDP) submission is planned for 2011. Faroe's share of funding for these developments will be met from field cash flow. The Snilehorn exploration prospect is being matured to a drilling decision.

Brage (Blocks 30/6, 31/4 and 31/7)

The Brage oil field, operated by Statoil (32.70%) (Faroe Petroleum (14.25%), Spring Energy Norway (2.50%), VNG Norge (4.44%), Noreco (12.25%) and Talisman Energy Norge (33.84%)), is located in the northern part of the Norwegian North Sea and commenced production in 1993. Brage has been developed with a production facility on a steel jacket. Oil is transported by pipeline to the Sture onshore terminal. Associated gas is exported via Statpipe to the market. A new 4D seismic survey will be undertaken in 2011 focusing on firming up new infill targets. The Arran exploration well, included in the Petoro Assets, is currently being drilled.

Ringhorne East and Jotun (Block 25/8)

The Ringhorne East oil field, operated by ExxonMobil (77.38%) (Faroe (7.80%) and Statoil (14.82%)), is located in the middle of the Norwegian North Sea, and commenced production in 2006. The field has been developed by three production wells drilled from the Ringhorne facility on the Balder field. The production from Ringhorne East is transported to the Balder and Jotun facilities for processing, storage and export. Two in-fill wells are in the planning phase for drilling and production in 2011/2012 following a recent 4D seismic acquisition.

The Jotun field is located close to Ringhorne. The field has been developed with an FPSO, and commenced production in 1999. The field is now in the tail-end phase of production.

Petoro will retain the principal abandonment and decommissioning liabilities for the Petoro Assets, including Njord, Brage, and Jotun fields, capped at approximately NOK600m (£67m) pre-tax.



Maria

The significant Maria discovery (Faroe 30%) was announced in July 2010. The operator, Wintershall (25%), is currently carrying out concept screening studies and is working towards FDP submission in 2012/2013. An appraisal well in the northern part of Maria is planned in late 2011. Faroe has to date invested £5.0m (net of the Norwegian tax rebate) in the Maria work programme.

The transaction remains subject to final approval by the Norwegian Authorities.

Graham Stewart, Chief Executive of Faroe, commented:

“We are very pleased to announce this transformational transaction, which is a significant achievement for Faroe at a number of levels: it demonstrates clearly the value of the Maria discovery - a high quality, undeveloped oil field with strategic importance; it proves Faroe’s portfolio business model of realising significant value for exploration success, and within nine months of the Maria discovery; it swaps on a fair value basis undeveloped resources for producing reserves.

“Significantly it secures, on an exclusive basis, a substantial, high quality production portfolio, without the requirement on Faroe to either pay a consideration or make the substantial investments needed for Maria’s development; it also increases considerably the Company’s cash flows and debt capacity, thereby freeing up funding for other value creating purposes; and it minimises exposure to future field abandonment costs.

“The transaction is in line with Faroe’s strategy to optimise project value and to grow and strengthen its production base to fund the ongoing exploration programme. These new assets also represent an opportunity for our Norway team to make use of its considerable experience in identifying new in-fill drilling targets, which have the potential to increase production and create new value.

“I congratulate our technical and commercial team for crystallising such value to the benefit of our shareholders, since we secured the Maria licence in the APA 2008 licensing round. Of the 17 wells in the Company’s exciting, fully funded 2011 to 2013 drilling programme, 13 are planned to be drilled in Norway, clearly demonstrating Faroe’s continuing commitment to create further value in Norway.”

- Ends -

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Ida Veland, the Norwegian Business Development Manager of Faroe Petroleum Norge AS and an M. Sc in Petroleum Engineering from Norwegian University of Science and Technology, has read and approved the technical disclosure in this regulatory announcement.

Notes to Editors

The Company is actively building a balanced portfolio of exploration, appraisal and production opportunities, with significant stakes and a fully funded, dynamic work programme. Faroe Petroleum has, through successive licence applications and acquisitions, built a substantial portfolio of exploration, appraisal, development and production assets across the Atlantic Margin, the UK and Norwegian North Sea and the Norwegian Sea.

The licence portfolio provides considerable spread of risk and reward, encompassing more than 40 licences located in the West of Shetlands, offshore the Faroe Islands, the UK North Sea and Norway. In addition the Company has interests in five producing oil and gas fields in the UK and Norway. Faroe Petroleum has extensive experience working with major oil companies and its joint venture partners include BP, Chevron, DONG, ENI, E.ON Ruhrgas, GDF, OMV, RWE Dea, Statoil and Wintershall. The Company has proprietary technical teams at the leading edge of seismic and geological interpretation, reservoir engineering and field development.

Faroe Petroleum is quoted on the AIM Market of London Stock Exchange plc with offices in Aberdeen, Stavanger and Torshavn. The Company has a highly experienced team of professionals focused on creating exceptional value for its shareholders.



