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FAROE PETROLEUM PLC
("Faroe Petroleum", "Faroe", the "Company" or the "Group")

Audited Preliminary Results for the Year Ended 31 December 2011

Faroe Petroleum, the independent oil and gas group focused on oil and gas exploration and production in the Atlantic Margin, Norway and the North Sea, announces its audited Preliminary Results for the year ended 31 December 2011.

HIGHLIGHTS

Activity

- Transformation into strong E&P Company with a high quality balanced portfolio of non-operated Norwegian and U.K. production, and an outstanding portfolio of world class exploration and appraisal opportunities
- More than five-fold increase in proven and probable (2P) reserves – Competent Person's Report estimates 2P reserves at 23.8 million boe as per 1 January 2012 (1 January 2011: 4.3 million boe)
- Completion of Maria swap and Blane acquisition – the Company now has a balanced production portfolio of four principal oil and gas fields and six secondary fields
    - Average production of approximately 2,500 boepd (economic production averaged approximately 10,100 boepd)
    - Completion of Maria swap netted settlement proceeds of £53.0m, and avoided approximately £250m of development expenditure
    - Blane acquisition scheduled to repay investment less than 12 months after deal completion
- Continued exploration successes
    - Discoveries on Butch in Norway and first UK operated well, Fulla
    - Award of 7 new licences (3 operated) in Norway 2011 APA Round

Financial

- Planned drilling programme fully funded from cash, cash flow and Norwegian tax rebates
- Cash of £111.6m (31 December 2010: £132.2m)
- Turnover increased more than five-fold to £80.2m (2010: £15.1m)
- EBITDA[1] increased significantly to £40.9m (2010: £6.0m)
- Profit before tax, increased to £14.3m (2010: £26.0m loss)
- Significant expansion of credit facilities completed in year – both facilities substantially undrawn at year end
    - $250m (approximately £156m) reserve based lending facility; and
    - NOK1bn (approximately £110m) Norwegian exploration facility
- 2012 UK budget provides incentive for development of small fields and deep water West of Shetland oil fields together with clarity on tax relief for decommissioning arrangements

1 EBITDA (earnings before interest, taxation, depreciation and amortisation) is gross profit plus depreciation on producing assets

Outlook

- 2012 capital expenditure of up to £180m, including up to £100m on exploration (pre-tax rebate in Norway) and up to £80m on developments and producing fields – all fully funded
    - Provides shareholders with multiple opportunities for step-change in value growth
    - Exciting multi-well exploration programme continues with five planned for 2012: three in Norway (Clapton, Cooper and Rodriguez South), and two in UK (North Uist and Spaniards)
    - Gearing up to drill Faroe's first operated well in Norway on Clapton prospect in Q2 2012
    - Production to consolidate through development of Hyme satellite field tied-back sub-sea to Njord, plus several planned in-fill wells on Njord, Brage, Ringhorne East, Glitne and Schooner
- Assessing opportunities to extend our exploration model in new areas

Graham Stewart, Chief Executive, commented:

"2011 has been a truly exceptional year of success for the Company, with a dramatic boost to production, proven reserves and cash flow, together with continuing success delivered from our high quality exploration portfolio. The acquisition of 18% of Blane was completed in May 2011 and the ground-breaking deal to monetise our significant 2010 Maria discovery by exchanging it for high quality, long life oil and gas production from four Norwegian fields was completed in December 2011. These transactions further demonstrate Faroe's ability to deliver solid value for shareholders both through the drill-bit and transactions. The considerable increase in cash flow from our substantially enlarged production base, combined with cash balances and available but undrawn debt facilities ensures we are well funded going forward."

''Our portfolio of exploration licences ensures Faroe has a very exciting drilling programme ahead, including around five high impact exploration and appraisal wells per annum and a very active long term programme of production in-fill wells. As we prepare to drill our first operated exploration well in Norway in the near future, targeting the Clapton prospect in the North Sea, we look forward to a very exciting period ahead."

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Chairman's letter

Dear shareholders,

2011 was a pivotal year for the global oil and gas industry in general and for Faroe Petroleum in particular.

Brent Oil was trading at around $95 per barrel at the start of 2011 and after a year which saw dramatic political changes spreading across North Africa and the Middle East, ended at around $107 per barrel – a rise of some 13%. Although high oil prices tend to have a negative impact on global economics and would usually lead to reduced demand for oil in the medium term, short term concerns over oil exports through the Strait of Hormuz have pushed the oil price up during the first few months of 2012 and it now stands at around $124 per barrel or £79 per barrel (i.e. close to record highs in Sterling terms).

These recent high oil prices have resulted in the eastern hemisphere and western hemisphere oil and gas companies competing intensely for upstream acreage in frontier areas such as the Arctic and further afield in areas such as East Africa and Iraqi Kurdistan. Fiercer competition for services has resulted in the costs to develop and produce oil and gas fields increasing during 2011.

Against this backdrop, during 2011 Faroe transformed its asset base with low cost exclusive acquisitions and swaps into a large portfolio of high quality non-operated U.K. and Norwegian oil and gas production. Faroe now has a very strong cash position, significantly increased debt facilities, greatly enhanced cash flows from its production (boosted by high oil prices) and access to Norway's unique and highly attractive exploration tax rebate system. Faroe can therefore confidently push ahead with its programme of high impact exploration and in-fill wells and pursue its aggressive growth plans in periods of both high or low oil prices.

Faroe has maintained a consistent strategy since inception, focused on exploration and this will continue. Through careful portfolio and financial management, the Company has ensured that it has the necessary funding in place to participate with material stakes in a multi-well exploration programme on a consistent and sustainable basis. Exploration targets are matured principally from gaining new acreage through participation in licence rounds and the subsequent drilling programme is designed to provide the potential for discovering substantial resources with the real prospect of transforming the value of the Company.

Faroe's strong reputation and technical excellence have allowed it to pursue and deliver an exciting programme of high quality exploration, appraisal and development wells in long term partnerships with some of the leading oil and gas companies in the world. This leads to enhanced access to new opportunities in some of the most sought after exploration plays.

In addition to our strong asset base, Faroe Petroleum has an outstanding team of professionals deeply committed to creating value and achieving success for shareholders. We intend to take full advantage of our world class exploration capability going forward and expect to add new and exciting high impact opportunities in existing and potentially new frontier areas where we have a solid technical and commercial advantage.

John Bentley

Chairman

Chief Executive's review

I am pleased to announce the audited results for the year ended 31 December 2011, the Company's most significant year of progress to date. Over a period of 12 years we have focused on building a balanced, world class portfolio of assets in the Atlantic Margin, the North Sea and Norway (Norwegian North Sea, Norwegian Sea and Barents Sea). In that time we have secured material interests in over 40 licences, building very sizeable positions in some of the most sought after frontier exploration provinces in the world, notably the West of Shetlands area and the Barents Sea. These licences together contain a multitude of exciting exploration prospects as well as many high potential value appraisal assets and an excellent portfolio of producing oil and gas fields.

Our core areas are all relatively under-explored, in particular the Atlantic Margin and Norway. Pursuing a portfolio exploration business model mitigates exploration risk by removing over-exposure to any single prospect or play. At the same time, the Company seeks to secure protection positions in nearby licences so that, should a well deliver success, there is follow-up potential. The Company's exploration portfolio, the vast majority of which have been won through licence rounds, is directed towards high impact wells in both near-field (close to existing infrastructure) and frontier positions. A continuous flow of new prospects is worked up and matured in order to deliver a sustainable and very active programme of high impact wells for many years into the future.

By leveraging our internal technical skills, Faroe has achieved a high discovery hit rate (six from our last 10 exploration wells). This has not only proved the corporate strategy, but also enabled successful execution of various asset deals where discoveries have been exchanged for cash and/or material, long-life production assets. This ability to monetise the exploration portfolio is key to the business model and, with multiple high-impact prospects planned to be drilled over the months and years ahead, we would fully expect to see further value-accretive deals completed.

The Company has been particularly active on the Norwegian Continental Shelf which is one of the largest and most successful exploration provinces in the world. In 2011 some giant new oil fields were discovered, most notably the Skrugard and Havis discoveries, which represents a breakthrough for exploration in the Barents Sea, and the Avaldsnes and Aldous discoveries on the Utsira High in the middle of what was otherwise considered to be mature Norwegian North Sea. The regulatory changes that were made by the Norwegian Government in 2003 and 2005, including the introduction of the tax refund system on exploration expenditures, have been very successful, as demonstrated by the considerable increase in exploration drilling activity in recent years and with many new oil and gas discoveries being made. Norway's unique tax refund system, which shields explorers from 78% of exploration costs, allows the Company to hold larger participations in wells than it would in the UK where for example in Norway the company held 30% in the Maria discovery and holds 40% in the forthcoming Clapton well.

A fundamental feature of our business model is the regular addition of new licences through licence rounds. 2011 was no exception, as we were awarded a further seven new licences in the 2011 Norwegian APA Licence Round, with Faroe Petroleum being granted operatorship of three, each with high equity levels. The majority of these were generated by our in-house team and the high number of awards in a very competitive round further demonstrates the level of confidence held in the Company by the Norwegian Authorities.

The Company's aim to deliver high value growth for shareholders across the exploration portfolio is focused largely on the delivery of around five material exploration and appraisal wells each year, exposing shareholders to multiple opportunities for a step-change growth in value. A steady flow of exploration drilling throughout the years ahead is in prospect, which, following the dramatic growth in our production base achieved during 2011, will be funded principally from the Company's resources of cash reserves, production revenues and Norwegian exploration tax rebates. With the dramatic growth in our production portfolio during 2011, we also now have the additional significant potential to add value in our producing fields through very active production in-fill drilling and near field exploration programmes. This therefore adds a very significant new and complementary route to value creation for the Company.

2011 was a very busy exploration drilling year for us with Lagavulin and Fulla being drilled West of Shetland, as well as Butch and T-Rex being drilled in Norway. Butch is a very exciting new discovery and a new play with significant appraisal and exploration follow up potential. The Fulla prospect, close to the Freya discovery, was the Company's first operated well and the appraisal programme is currently under evaluation. Unfortunately neither the Lagavulin nor the T-Rex wells delivered commercial reservoirs, however, both are making significant contributions to the de-risking of neighbouring prospects, the first beneficiary of which is expected to be a well on the giant Grouse prospect West of Shetlands (Faroe 37.5% and operator).

On 1 December 2011 Faroe completed the landmark swap transaction with Petoro of its entire 30% share in the significant Maria oil field discovery in Norway for interests in four producing oil and gas fields (Brage, Njord, Ringhorne East and Jotun). This deal, executed in April 2011 has been an outstanding success for the Company, realising significant value from the Maria discovery, made in July 2010. Over and above the material reserve and production uplifts, this deal also brings Faroe a number of important benefits including the avoidance of approximately £250 million of net capital expenditure on appraisal and development of the Maria field, the receipt of approximately £45 million of tax credits and the underwriting by Petoro of future field decommissioning costs up to approximately £65 million. With an effective date of 1 January 2011, Faroe received a completion cash settlement payment of £53 million in December 2011. In May 2011 Faroe completed its acquisition of 18% of the Blane oil field in the UK at a cost of £60 million and received £27.8 million of proceeds from sale of the pre-completion Blane inventory which, combined with post-completion revenue is scheduled to repay the Blane investment during the first half of 2012, some 12 months from completion. Blane is an excellent, high quality, asset with low operating costs and is well known to our team, a number of whom were responsible for its development during their time with Paladin Resources, the former operator of the field.

With the additions of these important, long-life interests, net economic production for the year advanced eight-fold from around 1,200 boepd (barrels of oil equivalent per day) to approximately 10,100 boepd (economic production). Overall, the increase in production gives the Group significantly greater cash flow than ever before, on a tax efficient basis due to carried forward tax losses in the UK and capital allowances acquired from Petoro, and free of any debt.

A recent Competent Person's Report (CPR) by independent reserve engineers Senergy, effective 1 January 2012, has confirmed a significant increase in proven and probable (2P) reserves. The CPR estimates 2P reserves at 23.8 million barrels of oil equivalent (boe) compared to the CPR on 1 January 2011 of 4.3 million boe (including Blane), an increase of some 19.5 million boe. This is a significant uplift in reserves, reflecting the transformational impact of the Petoro transaction in providing solid assets to underpin core asset value.

The Group is in a strong financial position with year-end cash of £111.6 million, a robust cash generating production base and significant debt capacity (Faroe has up to $250 million of reserve-based lending, and up to NOK 1 billion of Norwegian exploration facilities). In Norway, the Company benefits from a 78% exploration cost rebate, meaning that for every £1 spent the Norwegian Government will return 78 pence in the form of a rebate the following year. The Company can also borrow under its Norway exploration facility a significant portion of the 78 pence per £ rebate, thereby maximising equity leverage in Norwegian exploration wells and minimising the need to farm down to third parties. From an exploration and appraisal perspective, the Norwegian tax system therefore ensures a very cost effective fiscal environment in which to explore for hydrocarbons. Faroe also aims to utilise its UK tax loss position against its future UK production revenue to ensure that tax on profits is minimised and the value of existing and near-term production barrels is maximised. This position is enhanced by strong cash flows from production in the UK and Norway, supported by continuing strong commodity prices. The combination of cash, cash flows and available debt facilities are expected to fund the Group's planned exploration, appraisal and development programme while also providing headroom for growth.

As the Company has grown its portfolio and the number of operated licences, so has the team grown to ensure the portfolio is managed and run effectively and efficiently. A number of excellent new appointments have therefore been made during the period notably spanning disciplines of HSE, drilling, business development and asset management.

2011 has been a very important year for the Company. Having built a strong and balanced portfolio of production, Faroe Petroleum has progressively migrated from being a pure explorer to a medium-sized diversified production business with a broad and highly material exploration prospect inventory.

Outlook

We will continue to grow our portfolio of exploration and production assets with great energy and a clear focus. We aim to create significant value by managing our portfolio, maximising our capital efficiencies and balancing licence equity and cost exposure with risked upside potential. Further advances are planned in building our production portfolio and from our strong financial position we plan to mature many new prospects for future drilling and to win attractive new licences through which we will generate future prospects. Faroe will also continue to prioritise the monetisation of discoveries and seek to capitalise on attractive new growth opportunities both in its core areas and potentially in new geographic areas.

Specifically, 2012 capital expenditure plans are very significant at up to £180m in total, including up to £100m on exploration (pre-tax rebate in Norway) and up to £80m on producing fields – all of which is fully funded, from cash, cash flow and debt facilities. This programme will provide shareholders with multiple opportunities for step-change in value growth, through an exciting multi-well exploration programme with five planned for the remainder of 2012: three in Norway (Clapton, Cooper and Rodriguez South), and two in UK (North Uist and Spaniards). We are also gearing up to drill Faroe's first operated well in Norway on the Clapton prospect in Q2 2012. On our production portfolio, we aim to further enhance production through development of the Hyme satellite field tied-back sub-sea to Njord, plus the drilling of several planned in-fill wells on Njord, Brage, Ringhorne East, Glitne and Schooner.

In addition to our focus on near field exploration opportunities, we plan to apply our skills, knowledge and know-how to extend our foot-print in the Atlantic Margin and Northern Seas areas. This will be designed to ensure we capitalise on our progress to date and secure material opportunities, where we have a solid technical and commercial advantage, to participate on a long term basis in high impact frontier exploration. With a robust balance sheet and strong cash flows, we look forward with relish to the period ahead as we pursue active exploration, appraisal and in-fill drilling, as well as further value-accretive transactions.

Graham Stewart
Chief Executive

Review of activities

Exploration – Atlantic Margin

The Atlantic Margin between the west of Shetlands and the Faroe Islands has become an extremely important and competitive exploration province for major oil companies, and as one of the most established players in the region, it continues to be a key exploration area for Faroe Petroleum. Tax changes introduced in the UK 2012 Budget have further enhanced the attractiveness of the area through tax incentives for deep water oil and gas field developments. The region contains some of UK's largest remaining oil fields and new discoveries, such as Chevron's Rosebank field and Hess' Cambo field, which both were actively appraised in 2011. The installation of new gas export infrastructure is under way as part of Total's Laggan and Tormore developments and represents an important milestone for the area, which has now been opened up for gas exploration. Faroe Petroleum is already an active player and very well positioned for this exciting new activity.

In August 2011, following the discoveries of the Glenlivet and Tornado fields in 2009, Faroe announced the results of the Fulla well, its first operated well (Faroe 50%). The well was drilled 31 kilometres to the north east of the BP-operated Clair field platform and encountered oil in the Whiting and Clair formations. The Fulla crude oil was sampled and found to be of a related quality to the crude oil in Clair, where it is produced at commercial quantities. However, the oil volumes within the Fulla structure are less than the pre-drill estimates and the key remaining uncertainties are the crude quality in Freya and its structural definition. Work is ongoing to establish whether there is potential for a combined Fulla and Freya development. Freya is located immediately to the south of Fulla and both are contained entirely within Faroe's licence P1161.

In the first half of 2011, Faroe participated in the Chevron-operated Lagavulin well located in deep water on the northern part of the Corona Ridge. The frontier exploration well targeted sub-basalt reservoirs and confirmed the presence of hydrocarbons and a working petroleum system, but disappointingly did not encounter a workable reservoir. Lagavulin has significantly advanced Faroe's understanding of the geology in this area, and whilst the work to unlock the potential of the high impact sub-basalt play continues, Faroe has at this stage not committed to any further exploration wells on this play type.

Grouse in P1853 (Faroe 37.5%) is a very large structural prospect on the North Corona Ridge in an exciting new exploration play located above the basalt layers. As the licence operator, Faroe is actively maturing the prospect, which currently involves the planning of an electromagnetic survey to reduce the risks further ahead of a drilling decision.

Further south in a relatively unexplored play on the west side of the giant, BP-operated Clair field, Faroe is the operator of P1839 (Faroe 50%) which contains the Aileen prospect. The nearby Edradour discovery announced by Total in 2010 is in a similar geological play and has provided significant encouragement for Faroe to prioritise working up this opportunity to drillable status.

The drilling of the BP-operated North Uist deep water exploration well (Faroe 6.25%), targeting a large structure to the north of the Rosebank discovery has commenced. To manage the relatively high well costs in this region, Faroe has secured a financial carry of a portion of the well costs of most of the wells it has drilled in the area through farm-out arrangements, and this is also the case for the forthcoming North Uist well.

Exploration – Faroe Islands

In the Faroe Islands, the Company has been awarded a new Prospecting Licence to pursue a new exploration strategy for this area. Faroe Petroleum has been active in the Faroe Islands since the first licensing round in 2000, when it was awarded its first two licences together with Eni. In recent years the principal play has been large sub-basalt structures – a strategy which has not yet borne fruit, but which continues to be pursued by Statoil and ExxonMobil, who are scheduled to drill the deep water Brugdan Deep prospect in 2012. Faroe Petroleum has by virtue of its long presence and significant exploration activities in the Faroe Islands, built up its own unique and significant geological and geophysical data base and has now secured access to the database of Jarðfeingi, the Faroese Oil & Gas Authority. The work programme for Faroes's new Prospecting Licence has begun and will include extensive technical analysis and screening, with the objective of identifying new and attractive exploration prospects.

Exploration – Norway

Norway is widely considered to be one of the most exciting exploration provinces in the world. This has been further underlined by recent discoveries of major oil and gas fields across the Norwegian offshore, and ensures that activity levels will be extremely high and competitive for many years to come.

2011 was again a very active year in Norway for Faroe Petroleum. In October 2011, following the Fogelberg and Maria discoveries in 2010, the Company announced another successful oil discovery with the Butch exploration well.

Faroe has been successful in every licence round since entering Norway in 2006, and in the 2011 APA (Awards in Predefined Areas) Licensing Round announced in January 2012, Faroe was among the most successful companies. The Company now holds and maintains a large portfolio of licences which is being managed to generate an active exploration and appraisal drilling programme.

The Butch discovery in PL405 (Faroe 15%) is situated in 66 metres water depth in the southern part of the Norwegian North Sea, close to existing infrastructure, with the Ula field located approximately seven kilometres to the West, Tambar approximately 10 kilometres to the South West and Gyda approximately 20 kilometres to the South. The well encountered a light oil in excellent quality reservoir sands with a very high net to gross ratio. The net oil pay was measured at approximately 50 metres in the Upper Jurassic reservoir of the Ula formation.

Butch is a fault-bounded structure located on the north eastern side of a large salt dome. The well has opened up an exciting new oil play with several analogue prospects located adjacent to Butch around the salt dome, all entirely within Faroe's licence PL405. An initial side-track well was drilled successfully from the discovery well to appraise Butch, but a second exploration sidetrack well to reach another fault-bounded structure to the southwest of Butch failed to reach its target due to drilling difficulties. The partnership with Centrica as operator has already made the decision to revert to the Butch area for additional drilling and a rig is currently being sourced for this purpose.

The Kalvklumpen well in PL414 (Faroe 20%) was drilled during January and February 2012. The well targeted both Palaeocene and Jurassic sandstones and, whilst excellent reservoirs were confirmed in both targets, no hydrocarbons were encountered. The Company has gathered considerable new data which will be used to de-risk other prospects in this prospective area where the Company now holds several licences.

In March 2012, Faroe announced that oil had been discovered on the T-Rex and Bolan exploration prospects in PL431 in the Norwegian Sea (Faroe 30%), but that the well had not discovered hydrocarbons in commercial quantities. The well, which is the first to target a Cretaceous play in this area, encountered thinner than expected reservoir and was therefore not production tested. Fluid samples were successfully recovered indicating a good quality light oil and an extensive data gathering programme was performed which will allow further evaluation and de-risking of this exciting exploration play where Faroe is very well positioned on the Halten Terrace.

Licensing Rounds

In January 2011, Faroe announced that it had won three new licences in the 2010 Norwegian APA Licensing Round, all located in the Norwegian Sea. The Milagro prospect in PL590 (Faroe 30%) is located in the Grinda Graben to the north of Faroe's 2010 Maria discovery. PL592 (Faroe 50%) contains the Grayling prospect and is located to the north of Faroe's Fogelberg discovery. The third award was the Maria Extension licence, which Faroe subsequently agreed to swap out of as part of its transaction with Petoro (as described below).

In May 2011, Faroe was also awarded a new exploration licence PL611 (Faroe 40%) in the Barents Sea under the 21st Norwegian Licensing Round, which contains the giant Kvalross prospect. The licence is located to the east of the recent significant Statoil oil discoveries, Skrugard and Havis, and immediately adjacent to Faroe Petroleum's PL534 Licence containing the substantial Samson Dome prospect.

Furthermore, in January 2012 Faroe announced that it had been offered seven new prospective exploration licences in the 2011 Norwegian APA Licensing Round. The Novus prospect in PL645 (Faroe 50%) is located south west of the giant Heidrun Field on the Halten Terrace in the Norwegian Sea and was awarded to Faroe Petroleum as operator. Faroe invested significantly in maturing and de-risking this prospect before applying, which allowed the partnership to commit to a firm well on this licence, potentially drilling as early as 2013. The other award in the Norwegian Sea is PL644 (Faroe 20%) which contains the Aerosmith and Aerosmith Deep prospects.

The Company was awarded three licences in the northern Norwegian North Sea on the northern flank of the Utsira High. Licence PL 414B (Faroe 20%) was awarded as an extension to the PL414 licence and contains the Oksen prospect. Licence PL627 (Faroe 20%) consists of several prospects and leads, including the Shango prospect. The Darling Prospect is a simple 4-way dip closure located southeast of the Frigg Field in PL629 (Faroe 20%).

Faroe also made an entry to a new area in this APA round as the Company was awarded two licences as operator in the Egersund basin in the southern Norwegian North Sea: the Epsilon prospect in PL621 (Faroe 75%) and the Lola prospect in PL620 (Faroe 50%).

Currently, Faroe is preparing to apply for licences in the UK 27th Licensing Round which was announced by UK authorities in January 2012 and where Faroe has already identified a number of exciting new exploration opportunities.

Discoveries & Appraisal Projects

Faroe has added six discoveries to its portfolio in the last ten wells drilled since 2009. Butch and the operated Fulla discovery were announced in October and August 2011 respectively, and follow on from the Fogelberg and Maria discoveries in Norway in 2010 and the Tornado and Glenlivet discoveries west of Shetland in late 2009.

The partners in the Glenlivet discovery (Faroe 10%) are working actively to mature the project towards concept selection and Field Development Plan ("FDP") submission. The field could become a significant part of the planned new UK west of Shetland gas gathering system, which is being installed by Total as part of the Laggan and Tormore gas field development. Glenlivet is situated approximately 31 kilometres from the proposed Laggan and Tormore gas export pipeline to Sullom Voe in the Shetland Islands.

The Tornado discovery (Faroe 10%) contains significant gas resources and an oil rim in a high quality reservoir. Due to its location in deeper water and further offshore compared to Glenlivet, the timing of this development project is likely to coincide with the expected installation of new gas infrastructure in this area.

Fogelberg (Faroe 15%) is a significant gas and condensate discovery in the Norwegian Sea close to the Åsegard production and transportation system. The gas export capacity is currently at maximum levels and the timing of the Fogelberg project therefore remains uncertain. Several initiatives are ongoing by related oil industry groups to de-bottleneck the gas export system and thereby bring forward the new developments in the area.

In the UK Central North Sea the Perth oil field (Faroe 34%) is being matured towards field development by the operator Deo Petroleum with a draft field development plan lodged in September. Perth is located in 130 metres water depth with the main neighbouring infrastructure being the Tartan platform located seven kilometres to the North and the Scott platform 11 kilometres to the South East. Following the UK 2012 Budget changes, the Perth development economics have benefited from an increase in the small field allowances from £75million to £150million.

In December 2011 Faroe announced that it had completed the transaction with Petoro, the Norwegian state oil company, in which Faroe swapped its interest in the Maria discovery for interests in a number of Norwegian oil and gas production assets.

Producing Assets

Faroe added interests in five new producing oil and gas fields during the period, Blane, Jotun, Brage, Ringhorne East and Jotun. The additions have substantially transformed the production portfolio for the Company, creating a significant production base with a large number of producing wells and a very active ongoing investment programme, designed to extract maximum value from the fields.

For accounting purposes, Faroe produced a net average of approximately 2,500 boepd in 2011 including contributions from the Blane field from the completion date in May 2011 and from the interests acquired from Petoro from the completion date at the start of December 2011. However, Faroe received the financial benefit generated by net average production of approximately 10,100 boepd for the full calendar year (whilst the Company was entitled to receive the benefit of production from Blane and the Petoro assets from 1 January 2011, it can only account for such production from the respective dates of completion).

The Blane Oil Field (Faroe 18.0%) is located in the Central Graben on the border between the UK and the Norwegian sectors. Production commenced in September 2007 and has continued to perform above expectations, reflecting the high quality of its reservoir. This performance has continued through 2011 even though a slow increase in water production has been observed towards the end of the year.

In the UK, Faroe also produces gas from three fields in the Southern Gas Basin, Schooner (Faroe 6.9%), Wissey (Faroe 18.8%) and Topaz (Faroe 7.5%). Most significant is Schooner which produced a stable rate during 2011. An infill well is currently being planned for this field which is scheduled to be on production in early 2013. Also in the Southern Gas Basin the operator of the Orca Field (Faroe 3.2%) has submitted a FDP and first gas is expected in 2014.

The Njord field area (Faroe 7.5%) consists of the Njord field itself and the recently sanctioned Hyme development project. The field is located in the Norwegian Sea close to Faroe's exploration licences on the Halten Terrace and commenced production in 1997. The reservoir production performance has been very good in 2011 but the field has suffered from downtime of certain wells due to the need to replace risers. A programme for these replacements is underway. In addition an in-fill drilling programme in the main field, a development project on the North West Flank, as well as the Hyme satellite development project (Faroe 7.5%) are all progressing and will add new production capacity in the coming two years.

The Brage field (Faroe 14.25%) is located in the northern part of the Norwegian North Sea and came on stream in 1993. In 2011, the field performed well above expectations due to the excellent performance of the new infill wells. This drilling programme will continue in 2012 and is being supported by a new 4D seismic survey to firm up new in-fill well targets.

The Ringhorne East field (Faroe 7.8%) area consists of the Ringhorne East oil field and a small interest in the Jotun field (Faroe 3%). Ringhorne East is operated by ExxonMobil and is located in the middle of the Norwegian North Sea. The field commenced production in 2006 and, like Brage, performed very well in 2011. Two new in-fill wells are being planned to generate new production capacity in 2012 supported by a recent 4D seismic acquisition.

In Norway, Faroe also produces oil from the Glitne (Faroe 9.3%) and Enoch (Faroe 1.9%) fields. An infill well is planned for Glitne in early 2012.

Updated resource and reserves report

An updated Competent Person Report has been prepared by Senergy at 1 January 2012 to reflect the changes to the portfolio and provide an up to date independent view of the potential value of the assets. Over the year Net Faroe Reserves have increased from 4.3 million barrels of oil equivalent (boe) to 23.8 million barrels of oil equivalent (boe) following various additions and upgrades notably the producing assets acquired from Petoro.

The reserves and resources are reported in accordance with the joint reserves/resources definitions of the Society of Petroleum Engineers, the World Petroleum Congress and the American Association of Petroleum Geologists.

Finance review

Overview

2011 was a period of considerable activity for the Group, with an extensive and successful exploration programme, the winning of new licences, the acquisition of Blane and the swap of Maria for Norwegian production. The Group ended the year in a strong cash position with £111.6 million of cash (31 December 2010: £132.2 million).

Income statement

Revenue was £80.2 million (2010: £15.1 million). This is a significant increase on last year, reflecting acquisitions made during the year of the Blane field in the UK and the Brage, Njord, Ringhorne East and Jotun fields in Norway, and benefiting from continuing high oil prices. Only post-completion production and oil stocks acquired on completion and sold during the year are included as revenue. The Blane acquisition completed in May 2011 while the transaction with Petoro involving four producing fields completed on 1 December 2011. Cost of sales, including depreciation of producing assets, was £52.2 million (2010: £14.1 million), giving a gross profit for the year of £27.9 million (2010: £4.9 million gross loss) – a significant increase from previous years. EBITDA for the year was £40.9 million (2010: £6.0 million).

Net pre-tax gain on the disposal of Maria was £40.0 million.

Exploration expenditure for the year was £42.3 million (2010: £13.7 million). This expenditure includes pre-award exploration expenditure (£3.3 million) and write-offs of licence specific exploration and evaluation expenditure on previously capitalised licences where active exploration has now ceased (£39.0 million). The pre-award exploration expenditure included costs incurred in licence rounds. The licences which were relinquished and written off during the year included Lagavulin, Talisker, Anne-Marie, Rannva, Kúlubøkan and Marsvin, with other smaller write-offs over several exploration assets.

The Group's profit before tax was £14.3 million (2010: £26.0 million loss before tax). Profit after tax was £47.4 million (2010: £20.4 million loss).

Hedging

In line with Group policy approximately 43% of UK oil and gas sales in 2011 were hedged with hedging losses of £0.3 million (2010: £0.3 million hedging gains).

The Group has entered into hedging arrangements covering approximately 17% of 2012 total production, all in the UK. These are a combination of zero cost collars and put options with floors at $90 per barrel. The Group is considering further hedging for future periods, and possibly extending hedging for a portion of Norwegian production.

Taxation

The amount of tax payable at 31 December 2011 was £13.3 million (2010: £28.1 million receivable).

The tax credit in the Income Statement was £33.2 million (2010: £5.7 million). The 2011 tax credit mainly consists of an overseas tax credit of £40.4 million, offset by an increase in deferred tax liabilities of £12.1 million, and the reversal of a UK tax provision of £4.5 million, recognised in 2009 in relation to the disposal of the Breagh asset.

The overseas tax credit of £40.4 million represents a notional tax refund on exploration expenditure in Norway calculated by only including taxable profits generated by the assets acquired from Petoro in Norway from completion date (1 December 2011) of the transaction. As the Group is liable for tax from the profits generated from the Petoro assets from the effective date (1 January 2011) the Group ended the year with a tax liability in Norway of £13.3 million.

The 2010 overseas tax credit of £28.1 million represents a tax refund on exploration expenditure in Norway and was received on 21 December 2011.

At December 2011 the Group had unrelieved tax losses in the UK of £70.3 million (2010: £67.7 million). The unrelieved tax losses are available indefinitely for offset against future taxable profits, with the potential to materially enhance the Group's net results going forward.

The 2012 UK Budget has also given a boost to a number of areas in which the Company is active. For the Company's West of Shetland exploration programme there is the potential to benefit from a new £3 billion field allowance for deep water field developments (located in more than 1,000m water depth and with reserves in excess of 180 million barrels) and for smaller fields there is expected to be an increase both to the threshold, increased to 45 million barrels, and to the amount of the allowance, increased to £150 million. The Government also announced that it will introduce legislation in 2013 giving it the power to enter into contracts with companies operating in the UK North Sea to provide greater certainty over the level of tax relief that will be available for decommissioning expenditure. These measures will allow companies to move to post tax decommissioning guarantees, removing a major fiscal risk for operators in the UK North Sea which, in turn, will release funds for investment.

Balance sheet

Development and production investments of £107.2 million were made in the year. These mainly relates to the acquisitions of interests in Blane, Njord, Brage, Ringhorne East and Jotun.

Exploration and evaluation investments of £59.2 million were made in the year. These mainly related to drilling the Butch and T-Rex wells in Norway (reflecting costs before the 78% Norwegian tax rebates), and Fulla in the UK. After exploration write-offs in the year of £39.0 million (2010: £8.6 million), the intangible exploration and evaluation assets decreased by £3.1 million to £99.6 million (31 December 2010: £102.7 million). Net assets increased during the period to £230.8 million (31 December 2010: £181.1 million).

Cashflow

Closing cash was £111.6 million (2010: £132.2 million). The reduction is largely due to funding of the exploration programme and the investment in Blane, offset by the net settlement on the Maria swap (£53.0 million), sale of the Blane inventory (£27.8 million), receipt of the 2010 Norwegian tax refund and post-completion production cash flows.

The Norwegian fiscal regime is designed to encourage oil and gas exploration, and it repays 78% of eligible costs in the year following the expenditure. Faroe Petroleum benefits significantly from a revolving credit facility of NOK 1,000 million (of which one-half, approximately £52.6 million, is committed) for provision of 75% of its eligible net exploration costs on a cash flow basis, such that only 25% of eligible exploration expenditure in Norway is funded from Company equity going forward. This arrangement makes it possible to make greater investments in Norway exploration than would be possible elsewhere. This facility was utilised during 2011, but was repaid in full shortly before the year-end as the Petoro settlement of £53.0 million was received and the Group was in a tax paying position for 2011. In December 2011 a tax rebate of £28.1 million (December 2010: £12.4 million) was received in Norway.

The Group also has a secured, available but largely undrawn $125.0 million (approximately £78.0 million) reserve based debt facility. In addition there is a further $125 million of uncommitted (accordion) facility. The Group's facilities expire in 2014 and 2016 respectively.

With a combination of the current cash in the business, cash flow from producing assets and available headroom in the Group's bank facilities, the Group will be able to fund all the planned capital expenditure (exploration and development/production). This capital expenditure for 2012 is forecast to be up to £180 million.

Group income statement
for the year ended 31 December 2011

	2011 £000	2010 £000
Revenue	80,233	15,087
Cost of sales	(52,238)	(14,103)
Asset impairment	-	(5,896)
Gross profit/(loss)	27,995	(4,912)
Net gain on disposal of property, plant and equipment	39,956	-
Exploration and evaluation expenses	(42,337)	(13,702)
Administrative expenses	(9,853)	(6,571)
Operating profit/(loss)	15,761	(25,185)
Finance revenue	2,323	1,524
Finance costs	(3,834)	(2,379)
Profit/(loss) on ordinary activities before tax	14,250	(26,040)
Tax credit	33,157	5,690
Profit/(loss) for the year attributable to equity holders of the parent	47,407	(20,350)
Earnings/(loss) per share – basic (pence)	22.3	(13.3)
Earnings/(loss) per share – diluted (pence)	20.1	(13.3)

Group statement of other comprehensive income
for the year ended 31 December 2011

	2011 £000	2010 £000
Profit/(loss) for the year	47,407	(20,350)
Cash flow hedges:		
- Loss on cash flow hedges taken to equity net of tax	-	(37)
Net movement on cash flow hedges	-	(37)
Exchange differences on retranslation on foreign operations net of tax	(1,102)	685
Actuarial gains/(losses) on defined benefit pension plans net of tax	423	(140)
Total comprehensive gain/(loss) for the year	46,728	(19,842)

Company statement of other comprehensive income
for the year ended 31 December 2011

	2011 £000	2010 £000
Loss for the year	(7,091)	(1,713)
Total comprehensive loss for the year	(7,091)	(1,713)

Group balance sheet
at 31 December 2011

	2011 £000	2010 £000
Non-current assets		
Intangible assets	99,579	102,688
Property, plant and equipment: development & production	104,705	9,492
Property, plant and equipment: other	406	312
Financial assets	13	13
	204,703	112,505
Current assets		
Inventories	4,369	645
Trade and other receivables	59,852	7,514
Current tax receivable	-	28,070
Cash and cash equivalents	111,589	132,150
	175,810	168,379
Total assets	380,513	280,884
Current liabilities		
Trade and other payables	(36,772)	(20,941)
Financial liabilities	-	(17,575)
Current tax payable	(13,325)	-
	(50,097)	(38,516)
Non-current liabilities		
Deferred tax liabilities	(64,256)	(52,514)
Provisions	(35,038)	(8,334)
Defined benefit pension plan deficit	(308)	(383)
	(99,602)	(61,231)
Total liabilities	(149,699)	(99,747)
Net assets	230,814	181,137
Equity attributable to equity holders		
Equity share capital	21,239	21,235
Share premium account	205,971	205,935
Cumulative translation reserve	5,311	6,273
Retained earnings	(1,707)	(52,306)
Total equity	230,814	181,137

These financial statements were approved by the Board of directors on 26 March 2012 and were signed on its behalf by:

Iain M Lanaghan
Director

Company balance sheet
at 31 December 2011

	2011 £000	2010 £000
Non-current assets		
Property, plant and equipment	92	71
Financial assets	127,830	85,338
Investments in subsidiary undertakings	35,089	25,750
	163,011	111,159
Current assets		
Trade and other receivables	145	329
Cash and cash equivalents	68,124	124,524
	68,269	124,853
Total assets	231,280	236,012
Current liabilities		
Trade and other payables	(1,077)	(1,667)
Total liabilities	(1,077)	(1,667)
Net assets	230,203	234,345
Equity attributable to equity holders		
Equity share capital	21,239	21,235
Share premium account	205,971	205,935
Retained earnings	2,993	7,175
Total equity	230,203	234,345

These financial statements were approved by the Board of directors on 26 March 2012 and were signed on its behalf by:

Iain M Lanaghan
Director

Group cash flow statement

for the year ended 31 December 2011

	2011 £000	2010 £000
Operating activities		
Cashflow from operations	13,705	4,007
Tax rebate	28,070	12,440
Net cashflow from operating activities	41,775	16,447
Investing activities		
Expenditure on intangible assets and plant, property and equipment	(96,217)	(46,566)
Prepayment of expenditure on intangible assets	-	(644)
Proceeds from sale of intangible assets	53,103	-
Interest received	1,324	685
Net cashflow from investing activities	(41,790)	(46,525)
Financing activities		
Short term borrowings	(17,575)	(5,538)
Issue of ordinary share capital	40	132,008
Issue costs	-	(6,885)
Interest paid	(4,393)	(2,046)
Net cashflow from financing activities	(21,928)	117,539
Net increase in cash and cash equivalents	(21,943)	87,461
Cash and cash equivalents at the beginning of the year	132,150	43,583
Exchange differences	1,382	1,106
Cash and cash equivalent at the end of the year	111,589	132,150

Company cash flow statement

for the year ended 31 December 2011

	2011 £000	2010 £000
Operating activities		
Cashflow from operations	(5,599)	(343)
Net cashflow from operating activities	(5,599)	(343)
Investing activities		
Expenditure on property, plant and equipment	(44)	(19)
Loans to subsidiary undertakings	(52,185)	(12,773)
Interest received	641	408
Net cashflow from investing activities	(52,588)	(12,384)
Financing activities		
Issue of ordinary share capital	40	132,008
Issue costs	-	(6,886)
Net cashflow from financing activities	40	125,122
Net increase in cash and cash equivalents	(57,147)	112,395
Cash and cash equivalents at the beginning of the year	124,524	11,435
Exchange differences	747	694
Cash and cash equivalent at the end of the year	68,124	124,524

Notes

1. The financial information set out above does not constitute the Company's financial statements for the years ended 31 December 2011 or 2010. The financial information is derived from the financial statements for 2011 prepared in accordance with IFRS. The auditors have reported on the 2010 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 earnings per ordinary share is based on profit of £47,407,000 at 31 December 2011 (2010: loss £20,350,000) and the weighted average number of ordinary shares outstanding of 212,385,353 (2010: 212,350,278). The diluted earnings per share has been based on the same profile figure of £47,407,000 and the weighted average number of dilutive ordinary shares of 250,296,473 (2010: 212,350,278).

4. Post balance sheet events:

   End of Butch sidetrack: On 10 January 2012 following the Butch discovery and first side-track appraisal (Faroe 15%), the Company announced that due to hole instability problems the second side-track well, targeting additional oil volumes in an exploration prospect located to the south of Butch, had been brought to a close. Planning is underway to design a new appraisal and exploration campaign to test the additional resource potential.

   2011 Norwegian APA Licensing Round: On 18 January 2012 the Company announced that it had been granted seven new licences in the Norwegian Sea under the 2011 Norwegian APA Licence Round:
   - Licence PL645, Blocks 6507/7 and 10 – ‘Novus’ (Faroe 50% and operator)
   - Licence PL644, Blocks 6506/8, 10 and 11 – ‘Aerosmith‘ (Faroe 20%)
   - Licence PL414 B, Blocks 25/2, 3, 5 and 6 – ‘Oksen’ (Faroe 20%)
   - Licence PL627, Blocks 25/5, 6, 8 and 9 – ‘Shango’ (Faroe 20%)
   - Licence PL629, Blocks 25/1, 2, 4 and 5 – ‘Darling’ (Faroe 20%)
   - Licence PL621, Block 9/2 – ‘Epsilon’ (Faroe 75% and operator)
   - Licence PL620, Block 9/6 – ‘Lola’ (Faroe 50% and operator

   Completion of the Kalvklumpen well: On 13 February 2012 the Company announced that the 25/6-4 S Kalvklumpen well (Faroe 20%) which targeted sandstones of the Palaeocene Hermod Formation and the Jurassic Brent Group, had encountered excellent reservoirs in both targets but with no hydrocarbons. The Company has gathered considerable new data which is being used to de-risk other prospects where the Company owns several licences including the PL627 Shango, PL414B Oksen and PL507 Tetrao/Knorke licences.

   Results of the T-Rex and Bolan well: On 7 March 2012 the Company announced that the 6406/3-9 well (Faroe 30%) which targeted Lower Cretaceous sandstones of the Lange Formation (T-Rex) and Lysing Formation (Bolan), confirmed the presence of oil in both reservoirs but in thinner than expected reservoir intervals and as such were not commercial. Additional evaluation is required in order to delineate the areal extent of the oil bearing layers, before any decisions in terms of a further appraisal programme can be made.

   Commencement of drilling on North Uist: On 26 March 2012 the Company announced that drilling had commenced on the North Uist prospect on licence P1192 West of Shetland.

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, and will be available on the Company’s website www.fp.fo