Faroe Petroleum plc

Interim Report 2008

Our balanced portfolio

"The Company remains financially strong and focused on its clear strategy of participating in a sustainable multi-well programme balancing risk and reward to deliver substantial shareholder value."

Graham Stewart
Chief Executive

Highlights

Financial progress

- Turnover of £0.7 million (30 June 2007: £0.1 million) from gas production
- Loss of £0.3 million (30 June 2007: £0.6 million)
- Cash of £41.9 million (30 June 2007: £29.7 million)
- Revolving credit facility increased to NOK £250m to fund Norway exploration
- Secured £25m debt facility for financing field development
- Programme of more than 20 wells fully financed

Value enhancing strategy

- Create a diversified portfolio of exploration, appraisal, development and production assets across the Atlantic Margin, North Sea and Norway
- Participate in an active and material portfolio drilling programme to maximise the probability of success (fully funded drilling programme of over 20 wells)
- Balance the Company's financial exposure in any well relative to its upside potential
- Develop portfolio of tax efficient production assets for near-term cash flow

Very active period

- First exploration wells on William and Yoda unsuccessful, but prospectivity remains on licences
- Appraisal drilling underway on Topaz, and exploration on East Breagh and Marsvin
- First production from Wissey gas field commenced in August – on prognosis
- New, independently evaluated, resource estimates published
- Cross assignment with Petro-Canada for interest in Fat Cat prospect, UK North Sea
- Acquisition of interest in South East Tor oil discovery and Hyme exploration in Norway
- Swap with DONG of interests in Glenshee for Glenlivet, West of Shetlands
- Successful awards of 5 new licences in Norway in strong partnerships
- Farm-in to UK North Sea Fulmar L prospect for 10% stake with drilling underway

Outlook

- Rolling drilling programme for next two years, including 8 further wells through to the year end
- Licence Round awards UK, Norway and Faroes scheduled for Q4 2008 and Q1 2009
- Trym and Orca gas field developments expected to be approved by authorities this year
- Number of further opportunities being pursued to enhance programme and portfolio value

Chairman's and Chief Executive's review

We are pleased to announce the unaudited Interim Results for the six months ended 30 June 2008 for Faroe Petroleum. Substantial progress was made during the first half of 2008 firming up the drilling programme on the Company's strong exploration and appraisal portfolio and continuing to diversify risk through investment in field developments to generate cash flow.

Oil and gas prices have remained high, leading to continuing high rig utilisation, but with associated high exploration costs and competition for services and assets. The drilling programme is progressing very well despite these challenges.

The portfolio now comprises a carefully selected group of 48 licences, most of which are non-operated, and Faroe Petroleum has partnerships with a large number of high quality joint venture partners and licence operators. Faroe's strategy is to limit its financial exposure in any well to an acceptable level, determined by balancing that investment relative to the project's risked monetary value.

With a clearly defined portfolio strategy, Faroe Petroleum's objective is to participate in a very active drilling programme in order to maximise the probability of creating substantial shareholder value. The portfolio spans a number of discrete geological play types throughout the North Sea area (UK, Faroe and Norway) in which the Company has considerable technical competence. Faroe Petroleum's portfolio is designed to generate near continuous drilling activity and is composed of high impact exploration assets, medium risk exploration and appraisal assets and lower risk development and production assets. This composition provides the risk and reward balance appropriate to the Company's business model.

As the third largest position holder by gross acreage in the Atlantic Margin, Faroe Petroleum's strong strategic position in this increasingly important area continues to make solid advances. In partnership with major oil companies (e.g. BP, Chevron, Eni, Shell and StatoilHydro), our Atlantic Margin drilling programme is building momentum with participation in at least three deep water, high impact wells to be drilled in 2009, and many more wells scheduled to be drilled in the following years. The Atlantic Margin area continues to attract significant oil company interest due to the high potential resources identified, as demonstrated by the discoveries of fields of a very material size, including Schiehallion, Foinaven, Clair, Rosebank, Cambo and several others. The Company has been active in this area for many years and has built its portfolio mainly through licence rounds at low entry cost.

Complementing the Company's Atlantic Margin position, Faroe Petroleum has also established itself firmly in Norway. Norway's significant untapped potential combined with an attractive tax regime fit well with Faroe's exploration and appraisal portfolio model. Under the Norwegian tax regime there is potential to drill wells on better terms than in any other country, by benefiting from recovery of 78% of exploration costs on an annual basis. Faroe makes full use of the ability to leverage this opportunity through bank debt to maximise its drilling potential in the country. Since entering Norway in 2006 the Company has progressively built up its portfolio and drilling programme through successful licensing round applications and commercial activity, providing Faroe Petroleum with the largest portfolio in Norway of any AIM listed oil and gas company, currently comprising 20 licences. Faroe prides itself on its ability to partner alongside very large and successful oil and gas companies in the Atlantic Margin, and this trend has continued in the Norwegian portfolio, including new partnerships in 2008 with Shell, StatoilHydro, ConocoPhillips, Petro-Canada, Centrica, DONG, Lundin Petroleum, Bayern Gas and Talisman. With an accelerating drilling programme in Norway, Faroe Petroleum expects to participate in several wells in the remainder of 2008 alone, including wells on Marsvin, South East Tor, Hyme and Grosso, which have the potential to add material resources. In order to strengthen its capability in Norway, Faroe Petroleum has applied to become a licence operator in Norway; it already holds this status in the UK and the Faroe Islands.

Gas production revenues in 2008 were generated from two gas fields, Minke and Schooner. Revenues were lower than expected due to a mechanical problem in the Minke well, where a remedial plan of action is expected to be announced in the coming months. Also, revenues exclude Schooner production prior to 27 March 2008, when the deal to acquire Schooner from E.ON completed. A further five gas fields held by the Company are expected to be brought on stream, and in late August 2008 the Wissey gas field commenced production with significant revenues projected to be generated to Faroe's account over the coming years. The UK Southern Gas Basin field Breagh was successfully appraised on its west side in 2007, and the east side is currently being drilled to potentially prove significant additional gas resource. The Company's Trym gas field in Norway, located on the border with Denmark, now has a new operator, DONG, and a field development decision is expected later in the year. Similarly, the Orca gas field, located on the border between UK and Holland, is progressing towards development, for which sanction is expected in late 2008. The Company's near-term, non-operated production activity, through a number of independent fields, will provide tax efficient income to support work programme costs. The combination of existing cash resources, farm-in finance from third parties, bank debt and gas sales revenues ensure Faroe Petroleum is well financed to undertake its committed drilling and development programme.

Results

The Group's Income Statement shows a loss after tax of £0.3 million (30 June 2007: £0.6 million). Revenue from gas and condensate at £0.7 million (30 June 2007: £0.1 million), a significant increase on last year, includes revenues from two gas fields, Schooner, acquired in late March 2008, and Minke.

Under International Financial Reporting Standards (IFRS) Faroe Petroleum is required to write off accumulated costs of Exploration and Evaluation when active exploration ceases on an asset. Additionally, costs incurred in applying for licences must also be expensed. The Income Statement shows an expense of £2.3 million (30 June 2007: £1.5 million) for these items. The Group had interest income of £1.6 million (30 June 2007: £0.8m) which reflects the high cash balance in the period following the fund raising of £43 million (net of expenses) in December 2007. The tax credit, related to the 78% tax rebate provided in Norway, for the 6 months to 30 June 2008, was £1.7 million (30 June 2007: £0.9 million).

The Group has invested £25.4 million during the first half of 2008 in tangible and intangible assets. Despite this investment the group balance sheet shows cash resources of £41.9 million at 30 June 2008, sufficient cash resources to fund our extensive, committed exploration programme.

On 21 April 2008 we were pleased to report that the Group signed a £25 million borrowing base facility arranged by Société Générale to fund field development activity. This is in addition to the facility to bridge Norwegian tax credits arranged by the Bank of Scotland, recently increased to NOK 250 million, of which NOK 93.3 million was drawn down as at 30 June 2008.

The Board of Directors does not recommend the payment of a dividend at this time.

Review of Activities

Atlantic Margin – UK and Faroe Islands

The Atlantic Margin province has seen continued success in 2008 and Faroe Petroleum is actively maturing its portfolio of 13 exploration and appraisal licences in this area towards a significant drilling campaign in 2009 and beyond.

In 2007, Faroe Petroleum successfully reduced its well cost exposure by farming out to Idemitsu four deep water, high impact wells: Talisker, Lagavulin, Cardhu and Tornado licences. It is anticipated that the first of these to be drilled will be Tornado, which is an attractive exploration prospect located adjacent to the Suilven field.

In the Faroese sector, Faroe Petroleum has a 12.5% retained stake in the Anne Marie prospect in exploration Licence 005 after successfully farming out this licence to Cieco in 2007. Anne Marie is a large and exciting exploration prospect in a similar geological setting to that of Chevron's Rosebank oil discovery. This prospect is scheduled to be drilled by operator ENI during mid-2009.

In May 2008, Faroe Petroleum announced an agreement with DONG to swap 10% of the Glenlivet prospect (Block 214/30) for 10% of Faroe's Glenshee licence (Blocks 217/21,22,26 and 216/30). The Glenlivet prospect is a large gas prospect situated approximately 15 kilometres from the proposed Laggan gas export pipeline to Sullom Voe in the Shetland Islands. The Glenlivet prospect is an analogue to other undeveloped gas discoveries in the vicinity. A discovery at Glenlivet could become a significant part of the planned new UK gas gathering system for West of Shetland for which Laggan is the focal point. The Glenlivet Prospect is scheduled to be drilled by DONG in Q3 2009 using the contracted Transocean Rather drilling rig.

Faroe Petroleum has continued to mature its self-operated Freya appraisal opportunity with significant steps forward in the technical and commercial evaluation of this project. Freya is an independent discovery situated adjacent to BP's Clair oil field and shares a similar geological framework. The forward work programme includes an appraisal well to be drilled subject to suitable farm out arrangements being concluded.

In addition to its Faroese drilling activity, Faroe Petroleum and joint venture partners StatoilHydro, DONG and Shell have acquired 250 square kilometres of high resolution 3D seismic data in Licence 009, targeting the 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.

Faroe Petroleum has also been actively involved in evaluating and applying for selected UK 25th Licence Round opportunities where awards are expected to be made in late 2008 and also in preparing for the Faroese 3rd Licence Round this year. Good progress has been made in progressing Faroe's Atlantic Margin licences, in order to mature prospects towards drilling.

UK North Sea

The Company continues to add exploration and appraisal interests on a selective basis in prospective areas in the UK North Sea. One such area, the Moray Firth, is a prospective, yet under-explored, Central North Sea region which benefits from a shallow water location and significant oil and gas infrastructure to allow early field development of discoveries. In this area, which has generated several very large fields including the producing Piper and Claymore oil fields, Faroe now holds five licences with substantial licence equity ahead of drilling activity. Three of these are held in partnership with Oilexco. The ongoing exploration work programme is progressing towards drilling decisions in these licences.

In the same area east of the Blake Field, the Fat Cat appraisal campaign (Faroe 25%) is gathering pace after completing the cross-assignment of P.1459 (Block 13/24d) and P.1404 (Block 13/25a). The work programme for the combined licence is targeting a large Lower Cretaceous prospect, and includes the acquisition of high resolution, high density 2D seismic data completed in late 2007, and the drilling of a contingent appraisal well prior to December 2009, as agreed with BERR. Interpretation of this data, in addition to the completion of various technical studies, will determine the technical and commercial viability of drilling a well to test the prospect.

In a recent transaction, Faroe Petroleum entered a new play on the flanks of the Central Graben, where good quality sands have been deposited from the neighboring high areas. In this area, Faroe has agreed to farm in to 10% from Bow Valley of the 22/11b, the "Fulmar L" prospect, an attractive Upper Jurassic Fulmar sand prospect. Similar developments of good quality Fulmar reservoir sands have recently been encountered in the Wood (Block 22/18), Howe (Block 22/12) and most recently in the Huntington (Block 22/14) discovery. Bow Valley is the operator of the well which is already drilling with the "Transocean Prospect" rig.

UK Southern Gas Basin

In the UK Southern Gas Basin, Faroe is building a portfolio of lower risk appraisal opportunities and developments. The portfolio currently consists of the Breagh discovery, the Wissey field, the Schooner and Topaz fields and the Minke and Orca fields.

An appraisal campaign is ongoing on the Breagh gas discovery with Sterling Resources as operator and Faroe holding a 10% share. Drilling has already started on the first well: a vertical exploration well on the East Breagh prospect, which is designed to confirm reservoir extent and potentially significant upside to the already proven West Breagh discovery. Following the East Breagh well, a high angle / horizontal appraisal well is planned for West Breagh to further evaluate this part of the field. These wells will provide key data towards assessing the economic viability of developing the Breagh gas field in terms of hydrocarbon resource base and well performance and will also provide better understanding of further hydrocarbon potential in the Breagh area.

The Wissey field (Faroe 18.75%) was put on production safely and according to plan on 22 August 2008 with initial flow rates at 70 mmscfd. The Wissey gas field is situated east of the Tullow operated Horne and Wren platform. The development consists of a single well subsea tie-back to the Horne and Wren platform, via a newly laid 10 kilometre pipeline. Gas is transported onwards to the Thames host facility for separation and compression and from there on to the Bacton Gas Terminal in the UK. Faroe Petroleum has entered into a gas sales agreement with E.ON Energy Trading to sell the gas in the market on behalf of Faroe Petroleum.

The Schooner field (Faroe 4.83%) operated by Tullow Oil, is located in Block 44/26a extending into 43/30a, approximately 34 kilometres south east of the Murdoch Field. Ten wells have been drilled to date on the field which is producing at a stable gross rate of between 20 and 25 mmscfd.

The Topaz well is being drilled through the reservoir and at present is being prepared for production testing. The Topaz field (Faroe 7.5%) is located 14 kilometres south east of Schooner in Blocks 49/1a and 49/2a. RWE Dea is the operator of the field, which, subject to production testing, is planned to come on stream in 2009.

The Minke gas field (Faroe 5.89%) operated by GDF Suez exports gas through the NGT pipeline into Holland. The field was put on production in June 2007 but production performance has decreased more quickly than predicted, most likely caused by mechanical problems in the well. A remedial development programme is underway by the field operator, which we expect to be in place in the near future.

The significantly larger Orca field (Faroe 5.89%), also operated by GDF Suez, straddles the border between the UK and Holland. The field operator is working on a unitisation agreement and subsequently plans to submit a field development plan with the intention to start production in 2010.

Norway

Since establishing the office in Stavanger in 2006, Faroe has rapidly built a position of 20 exploration licences in Norway. The Company has drilled one exploration well so far this year and has a programme to participate in three further exploration wells and one appraisal well before the year end. Work is ongoing to expand the Norwegian portfolio further with applications planned in the autumn in the 20th Norwegian Licensing Round and the 2008 APA (Awards in Predefined Areas) Round as well as ongoing commercial activity.

In February, Faroe Petroleum was awarded five Norwegian licences under the 2007 APA Round:

- In the Norwegian Sea, the Company was awarded 30% of PL475 (part blocks 6406/3 and 6407/1) containing the Santana and Carlos prospects. The work programme includes the drilling of one firm well within three years and the operator, Revus, has already secured the West Alpha drilling rig for drilling this well in 2010.

- Faroe has been awarded a 30% participating interest in PL477 (part block 6506/11) and PL478 (part blocks 6507/7 and 10), which are located near to the Smørbukk and Morvin Fields (Norwegian Sea), together with Centrica (operator) and Petro-Canada. This is the result of a continuing cooperation between these companies established for the APA 2006 Round. The licences contain the Middle Jurassic Cooper Prospect, a Lower Cretaceous gas discovery and the Manilow Prospect. New 3D seismic data over the prospective area was acquired in August and a drill-or-drop decision is required within three years.

- In the North Sea, Faroe was awarded a 30% share in both PL452 (part block 7/12), which contains the Upper Jurassic Etta Prospect and a further lead, and PL405B (part block 7/12), which contains an extension to the Butch Cassidy Prospect and the Bank Prospect.

Early in the year, Faroe acquired a 14% interest in Norwegian Licence PL289 from Gaz de France Norge. This licence contains the substantial Marsvin prospect located on the border with Denmark and is in close proximity to PL147, in which Faroe previously acquired a 10% interest from Shell and which contains the undeveloped Trym gas / condensate field. Marsvin is a large Upper Jurassic oil prospect, located on the south west flank of the Søgne Graben. Drilling commenced at the beginning of September on this prospect with DONG as operator.

In April Faroe also acquired a 10% interest in licences PL006C and PL006D from Noreco. This asset contains contingent oil reserves estimated at approximately 19 million barrels (mmbbls) (1.9 mmbbl net to Faroe) with further upside being the target of two forthcoming wells: the South East Tor appraisal well and the Hyme exploration well. South East Tor is an oil discovery within the Upper Cretaceous Tor and Ekofisk chalk formations. The Hyme prospect is a stratigraphic trap located on the western flank of South East Tor. Later this year the operator, Lundin Petroleum, plans to first drill the Hyme exploration well, and subsequently, and from the same location, drill the South East Tor appraisal well.

Following its farm-in with E.ON in 2007, Faroe holds a 10% interest in PL376 (block 35/6 and part block 35/9) located on the north east flank of the North Viking Graben immediately north of the Gjøa Field and south of the undeveloped Agat gas discovery. StatoilHydro is the operator of this licence and plans to drill the large Cretaceous Grosso prospect, towards the end of the year, with the Ocean Vanguard drilling rig.

In April, Faroe completed the Yoda exploration well in PL271 (Faroe 10%), having farmed into this licence in a transaction with Noreco. The well was drilled with StatoilHydro as operator but did not encounter hydrocarbons. Although Yoda did not yield a positive result, there is further remaining prospectivity on the licence in the Agira prospect and in a number of Triassic prospects. This potential was not affected by the outcome on Yoda and is being evaluated further in order to confirm possible drilling targets.

The Trym field (Faroe 10%) is located approximately seven kilometres from the Harald platform in Denmark. The base case reserves for the field are 156 billion cubic feet (bcf) and condensate reserves of 10 mmbbls. The licence also benefits from several additional prospects offering considerable upside, with potential for tie-back for development. DONG was awarded operatorship for Trym in mid-2008 and is at present working on updating the original field development plan for submission to the authorities by year end 2008. To that end, the operator is currently in negotiation to secure a jack-up rig for drilling the production wells.

Finally, Faroe Petroleum has initiated the process of pre-qualifying as Licence Operator on the Norwegian Continental Shelf. As licence operator, the Company may expect to retain higher percentage working interests and to have increased control of licence work programmes and the timing of activities. With a highly qualified team of nearly 20 employees based in Stavanger covering all the competencies required of an operating oil company, the additional cost and human resource implications for Faroe in connection with pre-qualification are expected to be minimal.

Competent Persons Report

In connection with the Company's debt facility with Société Générale, an independent Competent Persons Report was commissioned from Senergy. In order to provide the directors and shareholders with an up to date view of the potential value of the portfolio, the scope of the independent engineer's report was extended beyond the original requirements to cover the Company's entire asset portfolio. This report assessed the near term resource potential (defined as that tested by the 20 wells to be drilled within the Company's current two year programme) to be 162 million barrels of oil equivalent (mmboe) risked, and 1,214 mmboe un-risked; the economic valuation placed upon the Company's long term asset portfolio (defined as near term potential plus that from drilling an additional 13 wells expected to be drilled) was assessed by Senergy to be £418 million risked and £2,495 million un-risked.

Outlook

The period ahead is the most active in Faroe Petroleum's history, with some eight wells expected to be drilled in the second half of 2008 alone and many more to follow in the period beyond as prospects mature for drilling and further well participations are secured. In addition to the dynamic drilling programme, the Company will also be continuing to replenish its portfolio organically on a continuing basis, and in the near term through participation in three licensing rounds in 2008, with awards scheduled for Q4 2008 and Q1 2009. We also anticipate increased activity with respect to further field development for the year ahead with near term development opportunities anticipated in respect of Trym and Orca. The Topaz gas field is currently being tested to further evaluate a potential near term field development.

Faroe Petroleum's business model is founded on the principle of portfolio drilling in high quality projects with reputable partners. Faroe has carefully built an excellent portfolio with many significant drilling opportunities, has ensured the Company is well financed, and is now benefiting from increasing production revenues from its three producing gas fields with further developments to follow. Faroe Petroleum has a highly competent team focused on delivering substantial returns for shareholders.

John Bentley
Chairman

Graham Stewart
Chief Executive

Group income statement

	Unaudited Six months to 30 June 2008 £000	Unaudited Six months to 30 June 2007 £000	Audited Year to 31 December 2007 £000
Revenue	**687**	49	964
Cost of sales	**(518)**	(8)	(719)
Gross profit	**169**	41	245
Exploration and evaluation expenses	**(2,331)**	(1,541)	(3,695)
Administrative expenses	**(1,098)**	(758)	(2,560)
Operating loss	**(3,260)**	(2,258)	(6,010)
Finance revenue	**1,630**	847	1,801
Finance costs	**(428)**	(41)	(180)
Loss on ordinary activities before tax	**(2,058)**	(1,452)	(4,389)
Tax credit	**1,722**	869	2,700
Loss for the period	**(336)**	(583)	(1,689)
Basic and diluted loss per share (pence)	**(0.3)**	(0.8)	(2.3)

Group balance sheet

	Unaudited 30 June 2008 £000	Unaudited 30 June 2007 £000	Audited 31 December 2007 £000
Non–current assets			
Intangible assets	**39,376**	17,831	24,935
Property, plant and equipment: development & production	**24,967**	3,923	11,265
Property, plant and equipment: other	**363**	487	421
Financial assets	**12**	11	11
	64,718	22,252	36,632
Current assets			
Trade and other receivables	**2,917**	1,620	1,730
Current tax receivable	**10,319**	2,295	4,055
Cash and cash equivalents	**41,888**	29,679	63,388
	55,124	33,594	69,173
Total assets	**119,842**	55,846	105,805
Current liabilities			
Trade and other payables	**(7,028)**	(2,114)	(5,311)
Bank loan	**(9,261)**	(1,418)	(3,428)
Income tax payable	**–**	(53)	–
	(16,289)	(2,167)	(8,739)
Non-current liabilities			
Bank loan	**(502)**	–	–
Deferred tax liabilities	**(5,687)**	(550)	(1,340)
Provisions	**(1,405)**	(115)	(784)
Defined benefit pension plan deficit	**(190)**	(45)	(115)
	(7,784)	(2,128)	(2,239)
Total liabilities	**(24,073)**	(4,295)	(10,978)
Net assets	**95,769**	51,551	94,827
Equity attributable to equity holders			
Equity share capital	**10,475**	7,382	10,475
Share premium account	**91,573**	51,813	91,631
Cumulative translation reserve	**1,732**	1,086	488
Retained earnings	**(8,011)**	(8,730)	(7,767)
Total equity	**95,769**	51,551	94,827

These interim results were approved by the Board of directors on 10 September 2008 and were signed on its behalf by:

G Stewart

Graham D Stewart
Director

Group cash flow statement

	Unaudited Six months to 30 June 2008 £000	Unaudited Six months to 30 June 2007 £000	Audited Year to 31 December 2007 £000
Operating activities			
Cashflow from operations	**(3,448)**	193	(2,810)
Tax rebate	**–**	–	1,071
Net cashflow from operating activities	**(3,448)**	193	(1,739)
Investing activities			
Expenditure on intangible and tangible assets	**(25,446)**	(5,893)	(15,443)
Interest received	**1,373**	958	1,815
Net cashflow from investing activities	**(24,073)**	(4,935)	(13,628)
Financing activities			
Borrowing	**6,333**	1,418	3,427
Issue of ordinary share capital	**–**	–	44,758
Issue costs	**(57)**	–	(2,278)
Interest paid	**(197)**	(18)	(180)
Net cashflow from financing activities	**6,079**	1,400	45,727
Exchange differences	**(58)**	5	12
Net (decrease)/ increase in cash and cash equivalents	**(21,500)**	(3,337)	30,372
Cash and cash equivalents at the beginning of the year	**63,388**	33,016	33,016
Cash and cash equivalents at the end of the year	**41,888**	29,679	63,388

Group statement of changes in equity

	Unaudited Six months to 30 June 2008 £000	Unaudited Six months to 30 June 2007 £000	Audited Year to 31 December 2007 £000
Loss for the period	(336)	(583)	(1,689)
Exchange differences on retranslation of foreign operations	927	(64)	1,068
Share based payments	408	288	627
New shares issued	–	–	45,189
Issue costs	(57)	(359)	(2,278)
Net movement in shareholders' funds	942	–	42,917
Opening shareholders' funds	94,827	51,910	51,910
Closing shareholders' funds	95,769	51,551	94,827

Notes

1 Basis of preparation

The financial information contained in this announcement does not constitute statutory financial statements within the meaning of Section 240 of the Companies Act 1985.

The financial information for the six months ended 30 June 2008 is unaudited. In the opinion of the Directors the financial information for this period fairly presents the financial position, results of operations and cash flows for the period in compliance with IFRS.

An unqualified audit opinion was expressed for the year ended 31 December 2007, as delivered to the Registrar.

The accounting policies adopted in the preparation of the financial information are consistent with those followed in the preparation of the Group's financial statements for the year ended 31 December 2007, except for the adoption of the following new policies:

Finance costs and debt

Finance costs of debt are allocated to periods over the term of the related debt at a constant rate on the carrying amount. Arrangement fees and issue costs less directly attributable transaction costs are amortised and charged to the income statement as finance costs over the term of the debt.

All other borrowing costs are recognised in the income statement in the period in which they are incurred.

Derivative financial instruments and hedging

The Group's activities expose it primarily to the financial risks of changes in commodity prices. The Group uses swap contracts and other derivative contracts to hedge these exposures. The Group does not use derivative financial instruments for speculative purposes.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into, and are subsequently re-measured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument and, if so, the nature of the item being hedged. The Group designates derivatives as hedges of highly probable forecast transactions (cash flow hedge).

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges, are recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement. Amounts accumulated in equity are recycled in the income statement in the periods when the hedged item will affect profit or loss (for example, when the forecast sale that is hedged takes place). When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity, and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

Certain derivative instruments do not qualify for hedge accounting. Such derivatives are classified as at fair value through profit or loss, and changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in the income statement.

2 Loss per share

The calculation of loss per share is based on the weighted average number of ordinary shares in issue during the period of 104,745,161 (30 June 2007: 73,817,916; 31 December 2007: 104,745,161). All of the potential ordinary shares are anti-dilutive and as a result the diluted earnings per share is equal to the basic earnings per share for 2008.

3 Dividend

The Directors do not recommend payment of a dividend.

4 Foreign currencies

The assets and liabilities of foreign operations are translated into sterling at the rate of exchange ruling at the balance sheet date. Income and expenses are translated at weighted average exchange rates for the year. The resulting exchange differences are taken directly to a separate component of equity. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

5 Reconciliation of loss on ordinary activities to net cashflow from operating activities

	Unaudited Six months to 30 June 2008 £000	Unaudited Six months to 30 June 2007 £000	Audited Year to 31 December 2007 £000
Loss before tax	**(2,058)**	(1,447)	(4,388)
Unrealised hedging loss	**94**	–	–
Depreciation charges	**407**	90	768
Exploration asset write off	**448**	1,541	345
Share option charges	**408**	288	627
Decrease/(increase) in trade and other receivables	**(987)**	749	1,090
(Decrease)/increase in trade and other payables	**(331)**	(98)	370
Foreign exchange movements	**(123)**	(124)	(139)
Interest received	**(1,503)**	(825)	(1,663)
Interest paid	**197**	18	180
Net cash flow from operating activities	**(3,348)**	193	(2,810)

Independent review report to Faroe Petroleum plc

Introduction

We have been engaged by the Company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2008 which comprises the Consolidated Income Statement, Consolidated Balance Sheet, Consolidated Cash Flow Statement, Consolidated Changes in Equity and the related notes (i) to (v). We have read the other information contained in the half-yearly financial report, comprising the Highlights Summary, Chairman's and Chief Executive's Review and Review of Activities, and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the Company in accordance with guidance contained in ISRE 2410 (UK and Ireland) "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company, for our work, for this report, or for the conclusions we have formed.

Directors' Responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the Interim Report in accordance with the AIM Rules issued by the London Stock Exchange which require that it is presented and prepared in a form consistent with that which will be adopted in the Company's annual accounts having regard to the accounting standards applicable to such annual accounts.

As disclosed in Note (i), the annual financial statements of the Group are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with the AIM Rules issued by the London Stock Exchange.

Our Responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2008 is not prepared, in all material respects, in accordance with the accounting policies outlined in Note (i), which comply with IFRSs as adopted by the European Union and in accordance with the AIM Rules issued by the London Stock Exchange.

Ernst & Young LLP
Aberdeen
10 September 2008

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Mr N S Sørensen
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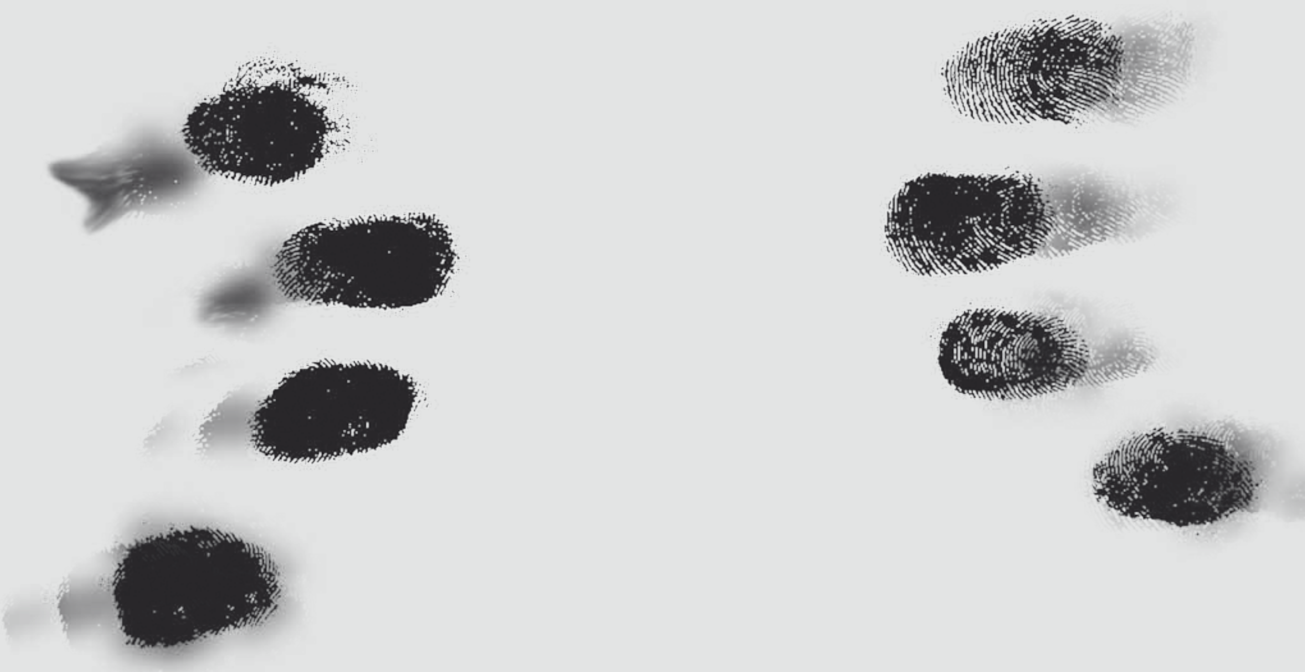

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