Faroe Petroleum

Maximising our Potential

Faroe Petroleum plc
Interim Report 2013

"2013 is proving to be an extremely active year for Faroe. We have completed three exploration wells, and have recently commenced drilling on the first of six wells to be drilled over the coming period – all located close to existing producing fields and infrastructure. The year started on a high with a gas condensate discovery at Rodriguez in good quality reservoir and the follow-up Solberg appraisal well is already planned for January 2014. We are excited about the two back-to-back Butch wells (Faroe 15%) which will explore the south west and east sides of the large salt structure where we made the significant Butch main oil discovery in 2011, together with our operated Novus well on the Halten Terrace in Norway (Faroe 30%). Our focus on frontier exploration continues and we have further strengthened our strategic position in the Barents Sea with a licence award in the 22nd Norwegian round, in strong competition with many other companies. The licence, operated by Eni as one of the most successful explorers in the Barents Sea, has a firm well commitment on the Dazzler prospect, likely to be drilled in 2015, enhancing our high impact Norwegian drilling programme.

"We are pleased to have strengthened our production portfolio through the recent completion of the East Foinaven oil field acquisition (Faroe 10%) and by bringing the Hyme oil field (Faroe 7.5%) onstream in March 2013. The Orca gas field (Faroe 3.24%) is currently under development with first gas expected before the year end while infill drilling is ongoing on a number of our producing assets, including the Schooner gas field (Faroe 6.9%). The Group's significant tax capital allowances in Norway and large carried forward tax losses in the UK ensure our production provides tax-efficient cash flow to fully fund our active exploration programme.

"With excellent cashflow, existing cash balances and available debt facilities, Faroe is in a strong position to progress our multi-well drilling campaign and pursue further investment and acquisition opportunities designed to unlock the value of our current tax losses, generate further cash flow and create significant shareholder value."

Graham Stewart
Chief Executive

Highlights

Activity

Drilling

High impact exploration drilling programme continuing

- Rodriguez discovery (Norway) announced in January 2013 – Solberg follow up well expected to spud in January 2014
- Gas condensate discovery announced in April 2013 on the BP-operated North Uist exploration well West of Shetland – analysis of commercial potential ongoing
- Darwin well (Barents Sea, Norway), was announced as dry in April 2013

New licences

Exploration and appraisal portfolio extended

- 10 new licence awards – one frontier licence in Iceland, one frontier licence in the 22nd Norwegian Licence Round in the Barents Sea (with a firm well commitment, Dazzler, operated by Eni), and eight licences in the annual Norwegian APA Round (three of which are operated by Faroe)
- Acquired 25% of Pil prospect (Norway), with well expected for December 2013
- Acquired 50% of undeveloped Lowlander oil field, near undeveloped Perth oil field (UK)

Farm-outs

Exploration farm-outs – maintaining material equity whilst securing substantial carried well costs

- Faroe-operated Novus well farmed out for cost carry – new equity position 30%
- Solberg well farmed out for cost carry – new equity position 20%

Broadening portfolio

Broadening production and development portfolio

- Hyme oil field (Norway) brought onstream in March 2013
- East Foinaven oil field (UK) acquisition completed in August 2013
- Significant investment in development and production wells in existing producing assets
- Average economic production of 7,890 boepd[1] in the period (1H 2012: 8,581 boepd)

[1] Including East Foinaven. Completion of the East Foinaven acquisition was announced on 9 August 2013 while the effective date was 1 January 2012, thus Faroe receives the economic benefit of the production in 1H 2013. Excluding East Foinaven, average production was 7,477 boepd in 1H 2013.

Financial

£89.0 million
Revenue £89.0 million
(1H 2012: £90.6 million)

£56.9 million
EBITDAX £56.9 million
(1H 2012: £62.8 million)

£12.2 million
Profit after tax £12.2 million
(1H 2012: £3.7 million)

£13.6 million
Exploration write-offs £13.6m
(1H 2012: £51.3 million)

£66.5 million
Net cash £66.5 million
(31 December 2012: £65.5 million)

£55.2 million
Norwegian tax receivable of £55.2 million
(31 December 2012: £48.5 million, due in December 2013)

£74.7 million
Unrelieved UK tax losses of £74.7 million
(31 December 2012: £75.4 million)

$250 million
Reserve based lending facility of $250 million substantially available

Fully funded
Forward 2013/14 exploration programme fully funded from existing resources

Outlook

Exploration

Six exploration wells in Norway in the coming period:

- Snilehorn (spudded 17 September 2013)
- Novus (Faroe operated)
- Pil
- Solberg
- Butch East
- Butch South West

– targeting reserves in excess of 85 mmboe (unrisked) net to Faroe

Njord

Extended maintenance shut-in period on the Njord facility – expected onstream around year end

5,500-6,500 boepd

Revised production guidance for the full year 2013 is 5,500-6,500 boepd

Capital expenditure

Exploration and development capital expenditure for 2013 forecast at approximately £130 million, approximately £70 million after Norwegian tax rebate (2012: pre-tax £161 million, post-tax £83 million)

Acquisitions

Well positioned and funded to achieve significant growth through near term exploration drilling, field investments and potential asset acquisitions

Chairman’s and Chief Executive’s Statement

“Our portfolio management activities continue, where we seek to balance exploration cost exposure with reward. Two recent examples are our farm-out deals on Novus and Solberg announced in August 2013.”

“We are now preparing for our most active exploration and appraisal drilling campaign to date with six Norwegian exploration wells scheduled over the coming period.”

Dear shareholder,

We are pleased to announce the unaudited Interim Results for the six months ended 30 June 2013. The period has seen considerable exploration activity in both Norway and west of Shetland. 2013 began with the announcement of the Rodriguez/Solberg discovery in January and was followed by mixed results from the Darwin and North Uist frontier wells. We are now preparing for our most active exploration and appraisal drilling campaign to date with six Norwegian exploration wells scheduled over the coming period. Production has continued to provide substantial tax efficient cash flow which, together with our available bank facilities, puts Faroe in an excellent position to grow the business through both the drill bit and potential transactions.

Cash flow from our high quality and balanced portfolio of producing assets was strong despite a decline in average production to 7,477 boepd (1H 2012: 8,581 boepd), resulting from longer than expected shut-ins for maintenance and repair work together with natural decline. The decrease in production was offset by improved commodity prices and the revenue for the period was £89.0 million (1H 2012: £90.6 million). The realised price per boe was $100.7 (1H 2012: $91.9). Over 98% of production was generated by the Group’s five principal assets, namely Njord, Hyme, Brage and Ringhorne East in Norway and Blane in the UK. Our production portfolio has been strengthened in 2013 both organically and through acquisitions. In March 2013, first oil was achieved on the Hyme oil field in Norway and in August, the acquisition of East Foinaven was completed. The Orca gas field is currently under development and first gas is expected around the year end. In addition, infill drilling, which is expected to boost reserves, is ongoing on a number of our producing fields. However, as a result of the extended maintenance shut-in period on the Njord A facility, production guidance for the full year 2013 is revised down to 5,500-6,500 boepd. The operator Statoil has advised that resumption of production is expected around year end. With all fields onstream the Group’s production capacity remains in excess of 9,000 boepd, which will be further enhanced through the ongoing capital programme.

Our portfolio management activities continue, where we seek to balance exploration cost exposure with reward. Two recent examples are our farm-out deals on Novus and Solberg announced in August 2013. Spike Exploration and Concedo acquired respectively a 15% and 5% share of the Novus licence and Spike Exploration also acquired 10% of the Solberg/ Rodriguez licence. Faroe has maintained material equity stakes in both licences, 30% in Faroe-operated Novus and 20% in Wintershall-operated Solberg/ Rodriguez, and is substantially carried on both wells which are scheduled for drilling in the coming months.

After a generally disappointing year of exploration in 2012, the Company was pleased to announce a significant gas condensate discovery on the Rodriguez / Solberg well in January 2013. The licence is on the prolific Halten Terrace in the Norwegian Sea where the Group has built a significant portfolio and has had exploration successes on Fogelberg and Maria. Moveable hydrocarbons were discovered in the Lower Cretaceous interval in the Rodriquez well which penetrated the western flank of the reservoir and the Solberg appraisal well is planned to spud in Q1 2014, with the aim of establishing the lateral extent and size of the discovery. In April 2013 Faroe announced the results of the frontier North Uist exploration well in the west of Shetland region. After a lengthy period of drilling, the well encountered gas condensate in sandstone reservoirs in the target section and a full post-well analysis is ongoing including an assessment of the commercial potential of the discovery. To manage the typically higher well costs in the region, Faroe secured a financial carry of a portion of the costs.

In recent years Faroe has built a significant presence in the frontier Norwegian Barents Sea comprising four very large licences and in March this year the Company drilled its first well in the region. The Darwin wildcat exploration well was located on the Veslemøj High in the western part of the Barents Sea. Gas shows were recorded in the Palaeocene interval but no hydrocarbons were found in the targeted Cretaceous horizons and the well was declared dry. While it was disappointing that no hydrocarbons were present in the Cretaceous section, the existence of an active hydrocarbon system in the area provides encouragement for further potential on the licence. Our Barents Sea presence was further strengthened in June when the Company was awarded a new 22nd Norwegian Round licence together with Eni, one of the most successful operators in the Barents Sea. The Dazzler prospect in licence PL716, which has a firm well commitment likely to be drilled in 2015, is located 90 kilometres to the north west of the recent Statoil-operated oil discoveries of Skrugard and Havis in water depths of approximately 450 metres.

Chairman's and Chief Executive's Statement

Continued

> "The Company has established itself as an exploration-led, production-backed E&P company with a broad portfolio of attractive exploration, appraisal, development and production assets and we have ambitious targets to expand the business."

In January 2013 the Company was awarded eight new licences in the 2012 Norwegian APA Licence Round. The licences, three of which are operated by Faroe, are situated in the Norwegian Sea and the North Sea and are held in joint ventures which include companies such as Statoil, Petoro, Mærsk and Total. Operations to shoot new 3D seismic are already underway on a number of the new licences, most of which have a drill or drop decision deadline of two years. Applications have been submitted for further licences in the 2013 APA Round. As an extension of our northern seas focus, the Company was granted a new exploration licence on the Jan Mayen Ridge in Icelandic waters earlier in the year. Faroe operates the licence in partnership with Iceland Petroleum and the Norwegian State-owned oil company Petoro AS. This is the first time that Petoro has taken a licence position outside Norway. These new licences provide good quality feedstock for our continuing high impact frontier exploration programme.

With gas export capacity now secured for the Dong-operated Glenlivet gas discovery west of Shetland (Faroe 10%), development planning is being accelerated. In Norway the partnership is continuing to mature the Centrica-operated Fogelberg gas and condensate discovery (Faroe 15%), in close proximity to our recent Rodriguez discovery and gas offtake options are under active consideration. The significant Butch oil discovery (Faroe 15%) made in 2011 is making good progress, with work ongoing on the field development plan in parallel with the forthcoming drilling of two further back-to-back exploration wells , which have the potential of increasing significantly the scale of this project.

Net cash at 30 June 2013 was £66.5 million (31 December 2012: £65.5 million). Robust production, strong oil and gas prices and carried forward tax losses ensure good cash flows from production, which, together with our cash reserves, available credit facilities and Norwegian exploration tax rebates, provide funding for our exploration and targeted investment programme.

Board appointment

On 1 July 2013 Jonathan Cooper was appointed to the Board of Directors as Chief Financial Officer, replacing Iain Lanaghan. We are pleased to welcome Jon to the Board whose knowledge of the sector and business pedigree are first rate, and his appointment strengthens further the team as we move into an exciting new phase of growth. We would like to thank Iain for his diligence and hard work over the last four years, guiding the Company into a position of financial strength and sustainability and the Board wish him all the best for his future.

Outlook

We are currently preparing for our most active exploration and appraisal drilling campaign to date with six important, high impact exploration and appraisal wells to be drilled in Norway over the coming months. The wells will target reserves in excess of 85mmboe (unrisked) net to Faroe Petroleum, with a spread of risk and cost exposure, as well as substantial further upside. Our forward drilling programme is fully funded from our cash, cash flow and Norwegian exploration credit facility, exposing our shareholders to a potentially large value near term accretion through the drill bit. This near-term drilling programme focuses exclusively on opportunities close to existing infrastructure, with the real potential for early conversion to proven reserves through fast-track field development.

Faroe Petroleum continues to build relationships with major oil companies who have a proven track record of exploration success and we are pleased to have extended our cooperation with Eni, Statoil and Total in our recent licence awards. Our world class exploration team continues to deliver exciting opportunities and the stature of our partners is proof of our strong reputation in the industry. Our team has been particularly successful in winning many exciting new licences this year, providing future well opportunities or our continuous drilling programme, and we aim to continue this trend in the years to come.

The Company has established itself as an exploration-led, production-backed E&P company with a broad portfolio of attractive exploration, appraisal, development and production assets and we have ambitious targets to expand the business. Our clear and focused strategy ensures that we have a strong exploration portfolio, a very active drilling programme, solid finances and an excellent team, ensuring that Faroe Petroleum is well placed to deliver future growth.

John Bentley
Chairman

Graham Stewart
Chief Executive

Review of activities

"During 2013 we have continued active exporation on the prolific Halten Terrace area of the Norwegian Sea. An important highlight was achieved in January when the Company announced a significant gas condensate discovery in the Rodriguez exploration well."

Faroe Petroleum's focus is on the northern seas of the North Sea (UK and Norway), Norwegian Sea, Barents Sea (Norway), Atlantic margin (UK and Faroes), as well as new Arctic frontier regions which offers attractive high impact exploration opportunities. The Company has built considerable competence, expertise and knowledge in these important areas, which in combination provide a strong and well balanced portfolio of exploration, appraisal, development and production assets and we have the capacity to manage our continuing investment programme effectively and efficiently.

Norway – Exploration and appraisal

Faroe has been successful in every licence round since entering Norway in 2006 and has built a significant Norwegian exploration portfolio, which comprises 26 exploration licence areas. Norway is a highly attractive exploration province where very large new discoveries continue to be made on a regular basis, thus attracting increasing numbers of oil companies. Prospective acreage is made available to industry on a yearly basis in the Awards in Predefined Areas (APA) licensing rounds in addition to the numbered licensing rounds in frontier areas, which typically take place every second year – Faroe continues to be one of the top players in these rounds.

Norway also provides a substantial tax incentive for exploration activity based on an annual tax refund of 78% of exploration expenditures. This incentive has generated a very successful outcome for the Norwegian oil and gas industry both in terms of the number of exploration wells being drilled, which has increased significantly during the last few years, and in excellent exploration success rates being achieved. Among the most important new discoveries are the Skrugard and Havis fields in the Barents Sea, where Faroe already has a strategic position, and the Johan Sverdrup discovery, a giant oil discovery in the mature Norwegian North Sea.

Faroe has to date made four significant discoveries in Norway: Fogelberg, Maria and Rodriguez in the Norwegian Sea and Butch in the Norwegian North Sea. Fogelberg (Faroe 15%) is a gas condensate discovery and is expected to achieve first gas around 2020. The Maria oil discovery was swapped for interests in several producing fields with Petoro in 2011 in an outstanding, standard-setting deal. Our two latest discoveries, Rodriguez and Butch, both near to infrastructure, are both targets for further drilling in Faroe's near-term drilling programme.

Faroe has successfully grown its Norwegian exploration portfolio during 2013. In January, the Company was awarded eight new prospective licences from the 2012 APA Licensing Round, including three operatorships, and in June, the Company won an important new licence in the Barents Sea in the 22nd Norwegian Licensing Round.

Norwegian Sea

During 2013 Faroe Petroleum has continued its active exploration programme on the prolific Halten Terrace area of the Norwegian Sea. An important highlight was achieved in January when the Company announced a significant gas condensate discovery in the Lower Cretaceous interval in the Rodriguez exploration well in PL475 (6407/1-6S). The well encountered nine metres of net pay in the Lange formation, which was interpreted as being at the edge of the reservoir's lateral extent. Wintershall, the licence operator estimates the preliminary volumetric estimates of the size of the discovery at between 19 and 126 mmboe (net to Faroe between 6 and 38mmboe). The significance of the new discovery and the potential breakthrough in understanding the Lower Cretaceous in this area triggered the immediate planning of the Solberg appraisal well (Faroe 20%), to assess the extent of the discovery. The well is scheduled for Q1 2014.

In licence PL645 planning is on track for drilling of the Novus prospect (Faroe 30%) using the West Navigator drillship, which will be Faroe's next operated drilling operation. Further south in the Norwegian Sea, the Snilehorn prospect (Faroe 7.5%) spudded on 17 September 2013 and the Pil prospect (Faroe 25%) is in the final stages of drilling preparation and is expected to commence drilling in November. Both prospects are potential satellite developments which, if successful, could add important new reserves and early production through the Njord facilities. Faroe acquired its interest in PL586 Pil from licence operator VNG in February 2013.

Faroe recently announced that it had, in line with the Group's continuous portfolio management, farmed out the Novus and Solberg wells and as a result, the Company will realise significant cost savings while retaining material equity positions at 30% and 20% in Novus and Solberg respectively.

"The Company will realise significant cost savings while retaining material equity positions at 30% and 20% in Novus and Solberg respectively."

Also on the Halten Terrace, a new licence was added to the portfolio in the area close to Faroe's Fogelberg discovery where the Company was awarded PL691 Manilow (Faroe 30%) as one of the licences in the recent APA award.

Barents Sea

In the Barents Sea, Faroe Petroleum holds four large strategically placed licences with significant exploration potential. In licence PL531, the Company participated in March in the drilling of the Darwin wildcat exploration well (Faroe 12.5%), which was drilled in the frontier western part of the Barents Sea. Gas shows were recorded but no movable hydrocarbons were found and the well was declared dry. An extensive data set was collected which will allow further evaluation and de-risking of this extensive, emerging exploration area. The existence of an active hydrocarbon system in the area provides encouragement for further potential on the licence.

Faroe also won an important new licence in the Barents Sea in the 22nd Norwegian Licence Round in June 2013. Licence PL716 (Faroe 20%) contains the Dazzler prospect, a large horst structure, located 90 kilometres to the north west of Skrugard. The licence is operated by Eni, one of the most successful explorers in the Barents Sea, and involves a drilling commitment, which is targeted for 2015. In Norway's forthcoming 23rd Round it is expected that the East Barents Sea area will be the main focus, attracting significant interest and investment from the Majors.

Norwegian North Sea

Butch (Faroe 15%) was discovered in late 2011 and contains a light crude oil in an excellent quality reservoir. Since the discovery was made, Centrica as operator has acquired new high quality seismic data, which has been applied in the planning of two further exploration wells on the untested south-western and eastern sides of the large Butch salt structure. In parallel, the operator is working on a development plan for the Butch discovery to allow it to be fast-tracked, irrespective of the outcome of the two additional exploration wells. Should significant additional reserves be proved, it is likely that Butch will be developed as a stand-alone development.

Faroe is building a significant position in the Butch area; in January 2013 the Company was awarded four new licences in the APA licensing round: PL666 Percy (Faroe 30%), PL670 Betula (Faroe 25%), PL668 Etta (Faroe 30%) and PL665S Caramello (Faroe 40% and operator). These licences all hold exploration targets in the Ula Formation, which provide the prolific reservoir in Butch as well as the Ula, Tambar and Gyda oil fields.

In the same area, Faroe recently completed its first operated 3D seismic surveys using long-offset technology and a vessel from the ultra-modern Polarcus fleet. The surveys were shot over the prospective areas in the PL665S Caramello and the PL620 Lola licences.

Additional new licences in the Norwegian North Sea include PL660 which contains the Blackmore prospect (Faroe 35% and operator) located on the UK/Norway border. This prospect consists of a large structure with its primary reservoir target in the Triassic Skagerrak Formation. Further north the new awards comprise PL676S Firkløver (Faroe 40% and operator), which contains a structural closure with substantial stratigraphic upside, and PL055D Brage extension (Faroe 13.4%), which contains a possible extension to Faroe's producing Brage oil field.

Review of activities
Continued

UK – Exploration and appraisal
The Company is continuing its exploration programme in the UK where the portfolio comprises 16 exploration licence areas. Our core area in the UK is the Atlantic margin where most of our frontier activity has been focused to date. Faroe is also building an exciting group of licences around the Perth area in the Central North Sea and earlier in the year the Company acquired 50% in the undeveloped Lowlander oil discovery situated 16 kilometres from the undeveloped Perth oil field. Work is underway to assess the potential for a joint development of the two fields, which has the scope for very considerable value creation.

West of Shetland
Faroe has been an active player in the UK Atlantic margin since 2004. The Company has built a significant position in the area which currently includes 10 licences of which six are operated by Faroe. The Company is well positioned in several promising exploration plays which are being matured in parallel and are expected to generate an active programme of exploration drilling in the coming years. Since January 2009, the Group has drilled a number of exploration wells in the Atlantic margin, including the Faroe Islands, and has made three discoveries: the Glenlivet and Tornado gas discoveries and the recent North Uist gas condensate discovery.

The Glenlivet development project is being planned by the operator, Dong. Export capacity has been secured through the gas infrastructure in the west of Shetland area, which is currently being installed as part of the Laggan-Tormore project. Tornado is also being matured towards development and will require that new deep-water infrastructure is installed. Tax incentives, expected to assist in the development economics, have been established for certain deep water projects, such as Chevron's Rosebank project which is under development.

The result of the BP-operated North Uist exploration well (213/25c-1V) (Faroe 6.25%) was announced in April 2013 after several months of delay were experienced as a result of drilling related technical challenges. The well reached a total depth of 4,700 metres and encountered gas condensate in the main target sandstone reservoirs. An extensive data set was collected with preliminary results indicating varying reservoir quality. The shallower Cardhu secondary target was penetrated in a down-dip location where it encountered traces of hydrocarbons and the commercial potential of the discovery is being evaluated by the operator. To manage the typically higher well costs in this region, Faroe had secured in advance a financial carry of a portion of the well costs through farmout arrangements with a relatively low retained licence equity. Further north on the Corona Ridge, the Grouse prospect (Faroe 50% and operator) is a very large structural prospect located above the basalt layers. Work is ongoing to farm out this exploration licence ahead of a possible drilling commitment decision.

> "The Company has built a significant position in the west of Shetland area which currently includes 10 licences of which six are operated by Faroe."

On the southern and eastern flanks of the Faroe-Shetland Basin, the Cretaceous Edradour discovery by Total combined with the installation of new gas export infrastructure has triggered renewed exploration interest. Faroe holds four key licences in this area: P2010 Dunvegan (Faroe 50% and operator), P1839 Aileen (Faroe 50% and operator), P2010 Ribbon (Faroe 50%) and P2045 Glenfarclas (Faroe 33.34% and operator). A large seismic reprocessing project is currently underway across the licences to allow improved definition and high-grading.

UK North Sea
In the UK Central North Sea, the Perth oil field (Faroe 34%) is being matured towards field development. In parallel, the undeveloped Lowlander field was identified as an opportunity for creating a potentially larger and more robust combined Perth-Lowlander development project. Lowlander, which is already fully appraised, is located 16 kilometres from Perth and has similar sour crude oil characteristics. In February 2013, Faroe announced that it had acquired 50% of Lowlander and operatorship from Talisman Sinopec, and a joint Perth/Lowlander development study is now under way. This project has the potential to create very significant near term value. Faroe's position in the Perth area also includes licence P1933 (Birnam, Faroe 33.33%) which is being progressed towards a drilling decision.

Other licences in the UK North Sea which are being matured comprise P1948 Curlew South (Faroe 33.3%) operated by Endeavour and located on the southern margin of the Central Graben and P1975 Pinsent (Faroe 50%), operated by RWE and located on the western edge of the Northern North Sea Viking Graben.

Production and Development
During the first six months of 2013, Faroe produced a net average of 7,477 boepd with over 98% coming from the Njord, Hyme, Brage and Ringhorne East fields in Norway and the Blane field in the UK.

The Njord field (Faroe 7.5%) has produced at good rates in 1H 2013, demonstrating its considerable production potential and the Hyme field (Faroe 7.5%), which was brought onstream in March 2013 as a satellite to Njord has also produced at rates in excess of expectation. The Njord field has undergone significant upgrades, including further riser replacements and commissioning of the water injection system for the Hyme satellite development project. The operator Statoil has advised that resumption of production is expected around year end, following further maintenance. The Hyme field is also impacted by the Njord shut-in period.

Brage has delivered good production performance in 1H 2013, while the handover of operatorship from Statoil to Wintershall has been progressing to plan. Drilling of the long reach in-fill well A-23 targeting the Sognefjord has experienced technical difficulties and the delivery of new production from this reservoir has been delayed. To simplify the administration of Brage, the parties agreed to harmonise the equity interests across the Brage Unit (Faroe 14.26%) and the Brage Sognefjord formation (Faroe previously 13.4%). This process resulted in Faroe acquiring an additional 0.85% equity in Brage Sognefjord on favourable terms.

The Ringhorne East field (Faroe 7.8%) continued its excellent production performance during the first half of 2013 with all four production wells delivering at stable rates.

The Blane field (Faroe 18.0%) produced at good rates 1H 2013 until the field was shut down in the summer for planned maintenance on the Ula host platform. Shortly after bringing production back onstream, production came to an unplanned halt caused by a compressor failure on the Ula host platform. The compressor has recently been replaced, however the unplanned shut-in will result in lower average production levels from Blane in the second half of the year.

In the Schooner field (Faroe 6.9%) drilling is ongoing on the Schooner in-fill well 44/26a-SAM, which is expected to add new production in the final quarter of 2013. Also, the Orca gas field in the UK Southern Gas basin is under development with first gas expected in 2014.

Finally, in August 2013 the Company reached completion on the previously announced acquisition of a 10% non-operated interest in the BP-operated East Foinaven oil field. When adding the production from East Foinaven, which had an effective date of 1 January 2012, Faroe's total average economic production for the six months to 30 June 2013 was approximately 7,890 boepd.

Helge Hammer
Chief Operating Officer

Finance review

"The first half of 2013 was a period of considerable activity for the Group, reflecting production from a broad portfolio of producing assets in the UK and Norway, and the drilling of three exploration wells. Faroe ended the half year with a good net cash position of £66.5 million (31 December 2012: £65.5 million)."

Income statement

Revenue was £89.0 million (1H 2012: £90.6 million). While production was down by 13% compared to 1H 2012, commodity prices have been higher, resulting in revenue being only marginally lower than 1H 2012. Over 98% of revenue was generated by the Company's five main assets: Njord, Hyme, Brage and Ringhorne East in Norway and Blane in the UK.

Cost of sales for the period was £47.5 million (1H 2012: £49.0 million) resulting in a gross profit for the period of £41.5 million (1H 2012: £41.7 million).

Pre-tax expensed exploration costs for the half year were £16.5 million (1H 2012: £53.2 million) and include write-offs of the Kalvklumpen, Grayling and Tetrao licences in Norway, and Balblair, Ardbeg and Temple licences in the UK. Expensed exploration costs also include pre-award expenditure such as costs associated with licence round applications.

The Group's profit before tax was £17.6 million (1H 2012 loss: £15.9 million), reflecting significantly lower exploration write-offs than in 1H 2012. The non-cash tax charge for the period was £5.4 million (1H 2012 tax credit: £19.6 million) largely reflecting the fact that exploration write-offs of Norwegian licences were significantly lower compared to 1H 2012. The post-tax profit was £12.2 million (1H 2012: £3.7 million).

Taxation

The Group had a tax receivable at 30 June 2013 of £55.2 million (31 December 2012: £48.5 million) mainly consisting of 78% of exploration expenditure, net of production profits in Norway for the half year. The Company is expecting receipt of the 2012 tax rebate in December 2013. Despite a rebate at the end of the period, there is a non-cash tax charge to the Income Statement of £5.4 million, owing to the fact that most of the exploration expenditure in Norway was capitalised and the related tax credit recognised in the Balance Sheet as deferred tax.

At June 2013 the Group had unrelieved UK tax losses of approximately £74.7 million (31 December 2012: £75.4 million). The unrelieved tax losses are available indefinitely for offset against future taxable profits in the UK, with the potential to materially enhance the Group's net results in the event it acquires or develops additional UK production.

Balance sheet and cashflow

Expenditure of £67.1 million (1H 2012: £91.4 million) on intangible and tangible assets, prior to tax rebate, was made in the half year. Of this £49.6 million related to pre-tax exploration expenditure, primarily on the Rodriguez, North Uist and Darwin wells. Of this £17.1 million related to development expenditure, principally reflecting in-fill wells on the Njord and Brage fields, and the Hyme tie-back which came onstream in March 2013.

The net assets of Faroe Petroleum increased during the period to £242.4 million (31 December 2012: £231.7 million) which essentially reflects the profit after tax in the period. Closing cash was £66.5 million (31 December 2012: £72.9 million). Closing net cash was £66.5 million (31 December 2012: £65.5 million).

Hedging

The Group operates a policy to hedge a proportion of its production. Hedged volumes, on a post-tax basis, are 43% of total estimated production in 2H 2013 and 29% of estimated production up to October 2014. The hedging instruments in place are a combination of zero cost collars and put options with floors predominantly at $90 per barrel. Hedging is mainly focussed on UK oil production, but the Group also hedged a proportion of its Norwegian oil production during the period.

Open hedge contracts are marked to market at the end of each period with unrealised gains or losses taken to the Income Statement. Hedge premiums are amortised over the life of the contract. Hedging losses (including hedging premium) were £0.8 million for the period (1H 2012: £0.2 million). There were no unrealised gains or losses during the period (1H 2012: £nil).

Dividend

The directors do not recommend payment of a dividend.

Jonathan Cooper
Chief Financial Officer

Group income statement

for the period ended 30 June 2013

	Unaudited Six months to 30 Jun 2013 £'000	Unaudited Six months to 30 Jun 2012 £'000	Audited Year to 31 Dec 2012 £'000
Revenue	89,035	90,616	158,792
Cost of sales	(47,524)	(48,958)	(97,008)
Asset impairment	–	–	–
Gross profit	**41,511**	**41,658**	**61,784**
Net gain on disposal	77	1,593	1,657
Exploration and evaluation expenses	(16,510)	(53,226)	(79,742)
Administrative expenses	(4,518)	(5,439)	(9,282)
Operating profit/(loss)	**20,560**	**(15,414)**	**(25,583)**
Finance revenue	1,721	2,013	2,672
Finance costs	(4,684)	(2,469)	(6,080)
Profit/(loss) on ordinary activities before tax	**17,597**	**(15,870)**	**(28,991)**
Tax (charge)/credit	(5,365)	19,615	23,813
Profit/(loss) for the period	**12,232**	**3,745**	**(5,178)**
Earnings/(loss) per share – basic (pence)	5.76	1.76	(2.4)
Earnings/(loss) per share – diluted (pence)	5.14	1.57	(2.4)

Statement of other comprehensive income

for the period ended 30 June 2013

	Unaudited Six months to 30 Jun 2013 £'000	Unaudited Six months to 30 Jun 2012 £'000	Audited Year to 31 Dec 2012 £'000
Profit/(loss) for the financial period	12,232	3,745	(5,178)
Exchange differences on retranslation foreign operations net of tax	(2,977)	(829)	2,758
Actuarial losses on defined benefit pension plans net of tax	–	–	(84)
Total comprehensive gain/(loss) for the period	**9,255**	**2,916**	**(2,504)**

Group balance sheet

at 30 June 2013

	Unaudited 30 Jun 2013 £'000	Unaudited 30 Jun 2012 £'000	Audited 31 Dec 2012 £'000
Non-current assets			
Intangible assets	177,090	110,899	145,104
Property, plant and equipment: development & production	132,686	115,367	133,359
Property, plant and equipment: other	909	508	768
Financial assets	13	12	13
	310,698	226,786	279,244
Current assets			
Inventories	5,102	4,689	4,887
Trade and other receivables	52,916	61,503	55,392
Current tax receivable	55,216	22,555	48,473
Cash and cash equivalents	66,463	103,192	72,891
	179,697	191,939	181,643
Total assets	490,395	418,725	460,887
Current liabilities			
Trade and other payables	(46,520)	(66,157)	(41,944)
Financial liabilities	(55,706)	(16,007)	(51,249)
	(102,226)	(82,164)	(93,193)
Non-current liabilities			
Deferred tax liabilities	(98,231)	(64,698)	(87,021)
Provisions	(47,369)	(35,889)	(48,586)
Defined benefit pension plan deficit	(178)	(251)	(391)
	(145,778)	(100,838)	(135,998)
Total liabilities	(248,004)	(183,002)	(229,191)
Net assets	242,391	235,723	231,696
Equity attributable to equity holders			
Equity share capital	21,239	21,239	21,239
Share premium account	205,971	205,971	205,971
Cumulative translation reserve	4,137	4,462	8,069
Retained earnings	11,044	4,051	(3,583)
Total equity	242,391	235,723	231,696

Condensed Group cash flow statement

for the period ended 30 June 2013

	Unaudited Six months to 30 Jun 2013 £'000	Unaudited Six months to 30 Jun 2012 £'000	Audited Year to 31 Dec 2012 £'000
Profit/(loss) before tax	17,597	(15,870)	(28,991)
Depreciation, depletion and amortisation	15,549	21,265	34,494
Exploration asset write off	13,580	51,264	71,081
Gain on disposal of asset	(77)	(1,593)	(1,657)
Fair value of share based payments	1,440	2,011	3,386
(Increase)/decrease in trade and other receivables	(4,651)	(6,023)	4,460
Decrease/(increase) in inventories	6,820	4,050	(518)
Increase in trade and other payables	4,364	29,329	5,172
Currency translation adjustments	(1,249)	(1,611)	(1,977)
Investment revenue	(473)	(402)	(695)
Interest and financing fees paid	4,684	2,469	6,080
Tax payment	–	(18,820)	(13,671)
Net cash generated in operating activities	57,584	66,069	77,164
Investing activities			
Purchases of intangible and tangible assets	(67,089)	(91,408)	(162,052)
Proceeds from sale of intangible assets	77	1,593	1,657
Investment revenue	473	402	695
Net cash used in investing activities	(66,539)	(89,413)	(159,700)
Financing activities			
Net proceeds from borrowings	5,718	16,007	50,607
Interest and financing fees paid	(2,307)	(961)	(3,742)
Net cash provided from financing activities	3,411	15,046	46,865
Net decrease in cash and cash equivalents	(5,544)	(8,298)	(35,671)
Cash and cash equivalents at the beginning of period/year	72,891	111,589	111,589
Effect of foreign exchange rate changes	(884)	(99)	(3,027)
Cash and cash equivalents at end of period/year	66,463	103,192	72,891

Group statement of changes in equity

for the period ended 30 June 2013

	Unaudited Six months to 30 Jun 2013 £'000	Unaudited Six months to 30 Jun 2012 £'000	Audited Year to 31 Dec 2012 £'000
Profit/(loss) for the period	12,232	3,745	(5,178)
Other comprehensive (loss)/income	(2,977)	(829)	2,674
Total comprehensive gain/(loss) for period/year	**9,255**	**2,916**	**(2,504)**
Share based payments	1,440	1,993	3,386
Net movement in shareholders' funds	**10,695**	**4,909**	**882**
Opening shareholders' funds	231,696	230,814	230,814
Closing shareholders' funds	**242,391**	**235,723**	**231,696**

Notes

(i) Basis of preparation

The financial information contained in this announcement does not constitute statutory financial statements within the meaning of Section 435 of the Companies Act 2006.

The financial information for the six months ended 30 June 2013 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 2012, as delivered to the Registrar.

(ii) Earnings per share

The calculation of earnings per share is based upon the weighted average number of ordinary shares in issue during the period of 212,385,353 (30 June 2012: 212,385,353 and 31 December 2012: 212,385,353).

The difference between the diluted earnings per share and the earnings per share presented represent all dilutive share options currently in issue, including any expected additional share issues under the Company's Incentive Plans. Total shares in issue as at 30 June 2013 amounted to 212,385,353 with potential for an additional 24,622,594 contingently issuable shares under the Company Share Option and Company Incentive Plan schemes.

(iii) Dividend

The directors do not recommend payment of a dividend.

(iv) Foreign currencies

The assets and liabilities of foreign operations are translated into sterling at the rate of exchange ruling at the balance sheet date. 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.

(v) Tax on profit on ordinary activities for the period ended 30 June 2013

	Unaudited Six months to 30 Jun 2013 £'000	Unaudited Six months to 30 Jun 2012 £'000	Audited Year to 31 Dec 2012 £'000
Current tax			
Overseas tax credit	7,897	20,256	48,473
Amounts underprovided in previous period/year	–	–	(165)
Total current tax credit	**7,897**	**20,256**	**48,308**
Deferred tax			
Origination of temporary differences	(13,243)	(2,937)	(23,986)
Prior period/year adjustment	–	1,962	–
Total deferred tax charge	**(13,243)**	**(975)**	**(23,986)**
Foreign exchange differences			
Differences arising from the use of period end and average exchange rates	(19)	334	(509)
Total foreign exchange differences	**(19)**	**334**	**(509)**
Total tax (charge)/credit in the Income Statement	**(5,365)**	**19,615**	**23,813**

Glossary

boe	barrels of oil equivalent
boepd	barrels of oil equivalent per day
EBITDAX	earnings before interest, taxation, depreciation, amortisation and exploration expenditure (gross profit plus depreciation on producing assets)
mmboe	million barrels of oil equivalent
net cash	cash and cash equivalents less financial liabilities excluding the balance of the Exploration Financing Facility which is directly linked to the Norway tax rebate (disclosed as tax receivable in the balance sheet)

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