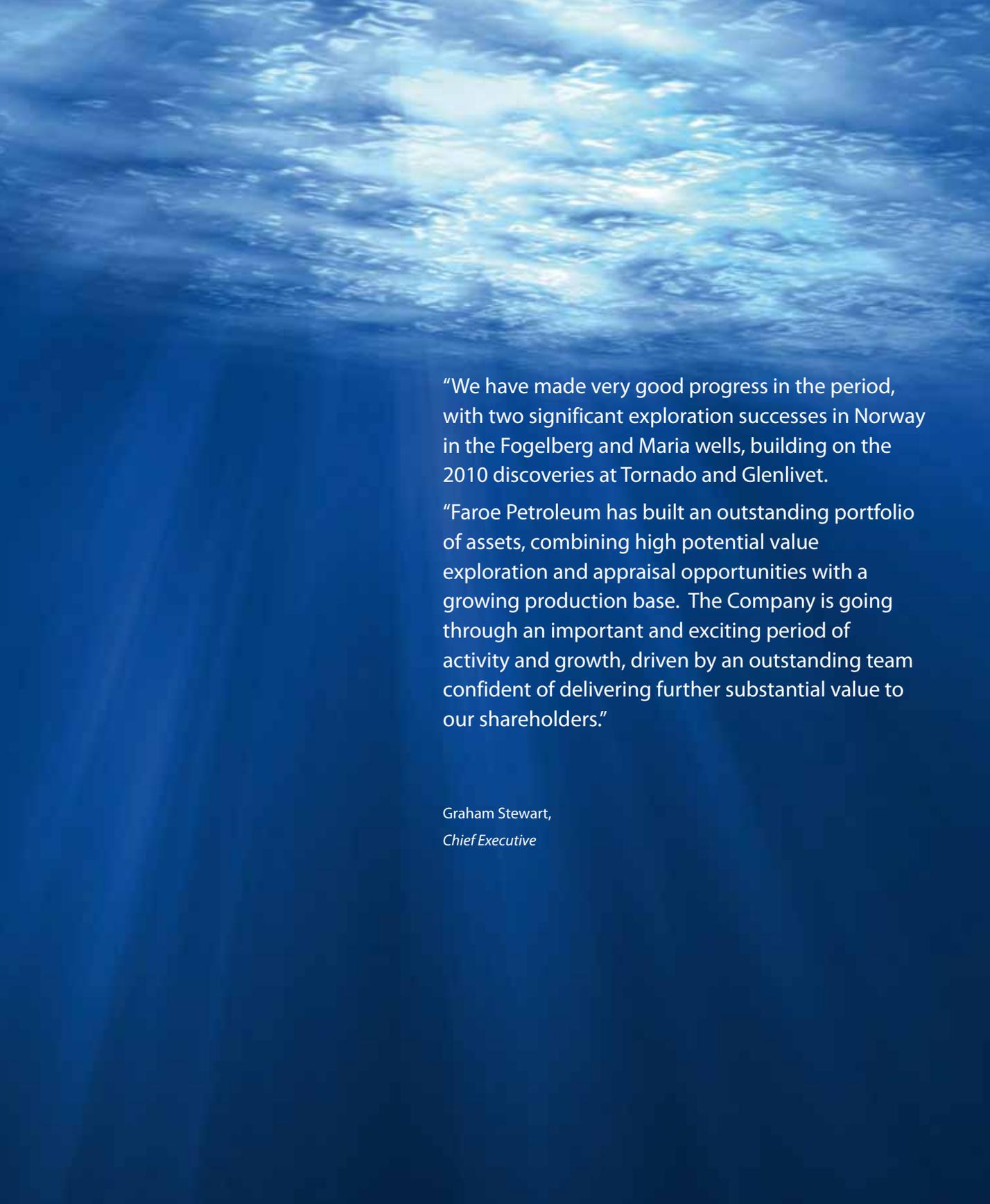




**Faroe Petroleum plc**

**Interim Report 2010**



“We have made very good progress in the period, with two significant exploration successes in Norway in the Fogelberg and Maria wells, building on the 2010 discoveries at Tornado and Glenlivet.

“Faroe Petroleum has built an outstanding portfolio of assets, combining high potential value exploration and appraisal opportunities with a growing production base. The Company is going through an important and exciting period of activity and growth, driven by an outstanding team confident of delivering further substantial value to our shareholders.”

Graham Stewart,  
*Chief Executive*

# Highlights

## Financial & Corporate

- Successful rights issue raising £65.2m (net of expenses) to fund forward drilling programme
- Cash of £80.6m at 30 June 2010 (31 December 2009 adjusted: £33.1m).
- Access to over £72.5m credit, comprising £50m for Norway exploration and £22.5m borrowing base facility
- Turnover of £9.3m (1H 2009: £2.9m)
- Loss before tax of £3.8m (1H 2009: £6.1m loss)
- Board further strengthened with appointment of Ms Hanne Harlem as Non-Executive Director

## Operations

- Significant gas and condensate discovery in the Fogelberg well in Norway (Faroe 15%) in April
- Significant oil discovery in the Maria well in Norway (Faroe 30%) in July
- Average oil and gas production of approximately 1,360 boepd
- Pre-qualified as operator in Norway

## Outlook

- Exciting drilling programme targeting 5 wells per year, with current 7 firm and 7 expected wells scheduled up to 2012, including 8 in Norway, 5 in the Atlantic Margin and 1 in UK North Sea
- Anne Marie and Lagavulin wells to be drilled in the Atlantic Margin in the second half of this year
- Well positioned to achieve significant programme expansion and growth in portfolio value

# Chairman's and Chief Executive's statement



*John Bentley, Chairman*



*Graham Stewart, Chief Executive*

We are pleased to announce the unaudited Interim Results for the six months ended 30 June 2010. This has been an excellent period for us with outstanding exploration success and completion of our well-supported rights issue in April raising £65.2 million net of expenses. At the time of the rights issue it was stated that the proceeds would be used to enhance our drilling programme, apply for new licences and grow production and we have made good progress in each of these areas.

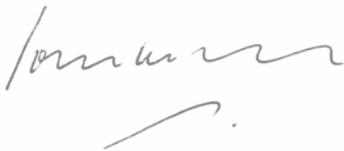
During the first half of 2010, the Company participated in two exploration wells in Norway, both of which were significant discoveries. The Fogelberg gas and condensate discovery (Faroe 15%) was announced in April 2010. In the significant Maria oil discovery announced in July, Faroe was the largest licensee with 30%. Both of these discoveries were prospects which the Faroe team identified, prepared licence applications for and won in the licence rounds. The Fogelberg and Maria discoveries are on the Halten Terrace in Mid-Norway and are close to infrastructure, significantly enhancing the potential for near-term development.

These successes build on our two West of Shetland discoveries (Glenlivet and Tornado) at the end of 2009, both of which are being progressed to development sanction stage. During the period approval to develop the Total-operated Laggan/Tormore gas and condensate fields was granted, and infrastructure is expected to be in place in 2014 to export West of Shetland gas to the UK mainland. This development decision will provide important new infrastructure to the region and significantly enhances the potential for near term development of our Glenlivet discovery.

In order to limit Faroe's financial exposure while maintaining material stakes in our drilling programme, we have put in place a number of farm-out agreements where a significant portion of Faroe's costs are carried by other partners, and also leveraged the Norwegian State tax rebate for exploration expenditure in Norway. This prudent and highly efficient financial management has made it possible for the Company to participate in 14 fully financed wells over the next two years, two of which, Anne Marie (Faroe 12.5%) and Lagavulin (Faroe 10%), are to be drilled in the Atlantic Margin during the second half of the year.

Together with our joint venture partners we have committed to drill the Clapton exploration well on licence PL440S in Norway. In addition, Faroe has increased its equity stake to 40% and assumed operatorship, subject to approval by the Ministry of Petroleum and Energy. Clapton is another prospect which our technical team has generated in-house, and in which we have considerable confidence. In January this year the Company pre-qualified as operator in Norway.

We have always placed great importance on winning new licences in order to have a portfolio adequate to support our plans to maintain a very active drilling programme. Since securing increased funding we have so far submitted licence applications in the UK 26th Round, Greenland's Baffin Bay Round, and most recently the Norwegian APA (Awards in Pre-defined Areas) Round. Further applications are expected to be submitted in the Norwegian 21st Licensing Round later this year.



John Bentley  
Chairman

Our producing assets delivered an average of 1,360 boepd in the half year. We now have interests in three producing gas fields in the UK and two producing oil fields in Norway. Additional production combined with increasing gas prices have resulted in revenue rising by more than 200% and the gross profit improving significantly. Faroe is actively seeking further production acquisitions to balance its portfolio, improve cash flow and utilise its UK tax losses of approximately £57 million.

We are very pleased to have further strengthened our Board with the appointment of Ms Hanne Harlem as an independent Non-Executive Director. A lawyer and politician by background, Hanne brings a wealth of experience from Norway and elsewhere, complementing the skills and experience of the other Board members.

#### Outlook

Faroe has enjoyed another successful period with continued exploration success, the raising of funds to strengthen our balance sheet, intense activity in licence applications and continuing active exploration drilling. With the further discovery of the Maria oil field in Norway, the second half has already begun well. We are confident that with our extensive firm and expected well programme, increased production and ongoing licence portfolio management, we will continue to grow the business and create further shareholder value.



Graham Stewart  
Chief Executive

# Review of activities

## Exploration – Norway

Since entering Norway in 2006, Faroe has built a significant portfolio which currently consists of 19 licence interests. As a result of the very favourable Norwegian tax rebate for oil and gas exploration, Faroe is able to hold large licence equity stakes in Norway.

A key aspect in building the portfolio is risk-diversification. Faroe now holds a variety of assets ranging from high impact exploration prospects, lower risk exploration prospects, follow-up exploration opportunities around the recent discoveries and appraisal assets. In addition we have production from the Glitne and Enoch oil fields, providing a very good and continuously improving risk-reward balance. Another key aspect of the portfolio is our focus on highly prospective areas where Faroe has been able to gain excellent positions, notably on the Halten Terrace in the Norwegian Sea and in the Southern Norwegian North Sea. Despite being non-operator in our Norway licences, most of the prospects on the 19 Norway licences were originated and mapped by Faroe's own exploration team, which continues to play a key role in the ongoing technical work programmes and value creation on the licences.

The main highlights in 2010 were the significant discoveries in the Fogelberg well in April, followed by the the Maria well in July, both located on the Halten Terrace in licences awarded to Faroe in APA licence rounds.

The gas and condensate discovery on Fogelberg (Faroe 15%) is located on PL433 in the Norwegian Sea. The gross size of the discovery has been estimated to be in a range between 105 and 530 billion cubic feet (between 19 and 95 million barrels of oil equivalent) of recoverable gas and condensate. The volumetric uncertainty remains relatively large at this stage due to the location of the Fogelberg well, which is high on the structure and without evidence of a gas-water contact. An appraisal well is likely to be needed to confirm the down-dip extent of the discovery. Fogelberg is located 18 kilometres north west of the producing Statoil-operated Åsgard complex, where large quantities of gas and condensate are being processed and transported to the European continent. The Fogelberg prospect was identified, successfully applied for and won by Faroe Petroleum's Norway team in 2007 and was the Company's first discovery in an APA licence.

The significant Maria oil discovery (Faroe 30%) is located on licence PL475BS in the Norwegian Sea. Preliminary analysis indicates gross in-place volumes (STOIP) of between 250 and 520 million barrels (mmbbl). Recoverable volumes are currently estimated at between 75 and 155 mmbbl of oil and associated gas. The reservoir quality is excellent, and the need for an appraisal well is currently being evaluated. Maria sits close to existing infrastructure and is located between the Trestakk discovery and the producing Smørbukk South oil and gas field.

In the period, the Group continued to progress the exploration work programmes and mature prospects to drilling decision stage. This has resulted in Faroe now having committed to four firm wells in Norway, scheduled for drilling in 2011 and 2012: PL431 T-Rex (Faroe 30%), PL414 Kalveklumpen (Faroe 20%), PL405 Butch (Faroe 15%) and PL440S Clapton (Faroe 40% - subject to approval by the Norwegian Ministry of Petroleum and Energy).

In January 2010 Faroe Petroleum achieved the important step of pre-qualifying as Operator in Norway. In August 2010, the Company announced the commitment to a well on the Clapton prospect on licence PL440S in the southern Norwegian North Sea. At the same time an additional 20% share in the licence was acquired from Det norske oljeselskap, doubling the Company's share in the licence. The deal, which is subject to the approval of the Ministry of Petroleum and Energy in Norway, also involves Faroe becoming the operator on the licence. The well is scheduled for drilling late in 2011 or early 2012. The licence was awarded in the APA 2006 Round and is another prospect identified and mapped by the Company's technical team.

Following the two successful wells on Fogelberg and Maria, the Company is now working to incorporate the drilling results into the subsurface interpretations required to make well commitment decisions on several of its licences in the Halten Terrace area. Key prospects which are subject to forthcoming drilling decisions are PL475 Santana, immediately to the east of Maria, PL478 Manilow, immediately to the north east of Fogelberg, PL477 Cooper, to the south of Fogelberg and PL510 Glinda, located south on Halten Terrace close to the recent Onyx discovery by Shell.

## Exploration – Atlantic Margin

The Atlantic Margin area between Shetland and the Faroe Islands is a core area for Faroe Petroleum, with proven resources and considerable upside potential. The Group currently has 13 exploration licences in this area, five in the Faroe Islands and eight in the UK, making the Group the third largest Atlantic Margin position holder after Statoil and DONG by gross licence area. Faroe has embarked upon a very active exploration programme in this area which involves the drilling of key wells and acquisition of critical new exploration data for de-risking future wells.

Following on from the success of the Glenlivet and Tornado wells in 2009 the active programme is continuing with the drilling of the Anne Marie and Lagavulin wells. On both of these wells, Faroe has secured a carry of a significant portion of costs through farm-out arrangements with Japanese companies Cieco and Idemitsu.

The Faroese Anne Marie exploration well (Faroe 12.5%) on licence 005 is currently being drilled by operator Eni with the state of the art, new West Phoenix drilling rig. Anne Marie is a significant oil prospect and the well is designed to test multiple objectives.

The Lagavulin exploration well (Faroe 10%) on UK licence P1196 is a significant sub-basalt opportunity situated in the deeper waters of the Corona Ridge, with very substantial upside. The well is scheduled to be drilled by operator Chevron using the Stena Carron drilling rig in late September 2010.

The North Uist/Cardhu licence P1192, operated by BP, has an exciting high-impact prospect, which contains multiple reservoir objectives and is located near Chevron's Rosebank discovery, also located on the Corona Ridge. The commitment well has been deferred to 2011.

## Review of activities *continued*

In addition to the committed exploration wells, good progress has been made in the other licences in the Atlantic Margin, with technical studies ongoing in order to mature prospects towards drilling. These include the Rannvá prospect (Faroe 100%) located on Faroese licences 012 and 017 and recently awarded UK licence P1740. A marine magnetotelluric (MMT) and electromagnetic (EM) survey will be carried out over this very significant prospect located on the Wyville-Thomson ridge, to the south west of the Faroe Islands, in order to further de-risk the prospects, ahead of a drilling decision to be taken in 2011.

### Exploration – Licence Rounds

In order to provide a continuing flow of high impact, high quality drilling opportunities, our team focuses on identifying new, promising oil and gas plays in our core areas leading to submission of licence applications in licence rounds, and subsequent potential awards.

The Company has applied for new licences in the UK 26th Licensing Round, the Greenland Baffin Bay Licensing Round, and, most recently, in the Norway 2010 APA round, with potential awards expected later in 2010. The Company is currently preparing to apply in the Norway 21st Licensing Round with potential awards expected in the spring of 2011.

In February 2010, the Company was awarded licence PL477B in Norway, in the APA 2009 Licensing Round. The licence is an extension to the existing PL477 Cooper licence, which contains the Zappa prospect and is located immediately to the south of the PL433 Fogelberg discovery. The work obligations are covered by the existing work programme within PL477, which are already well advanced.

In August 2010, UK licence P1740 (Faroe 100%) was awarded to the Company. Licence P1740 is adjacent to Faroese licences 012 and 017, also held by the Company, and contains part of the large Rannvá prospect. The Company applied for P1740 in the UK 25th Licensing Round in 2008 but the award was delayed by DECC to allow for the assessment of the environmental impact of the licence work programme.

### Discoveries & Appraisal Projects

Faroe has materially strengthened its portfolio over the last year through successful exploration drilling with two new significant discoveries in Norway in 2010 following on from the two discoveries West of Shetland announced late last year, totalling four new significant oil and gas discoveries in less than 12 months.

The West of Shetland Glenlivet gas discovery (Faroe 10%) on UK licence P1195 was made in the second half of 2009. Data from the discovery and two appraisal wellbores drilled on this sizeable gas accumulation are currently being evaluated. Initial results indicate an excellent quality multi-Darcy reservoir. The focus in the first half of 2010 has been on establishing the range of gas in place and identifying potential concepts for bringing the gas to market. With the sanction of the neighbouring Laggan-Tormore gas project during this period, a gas export pipeline is expected to be in place in 2014 to transport the substantial West of Shetland gas resources to market on the UK mainland.

The Company's second UK Atlantic Margin exploration success in 2009 was Tornado (Faroe 7.5%) on licence P1190. The route to development is expected to be similar to that of Glenlivet, with the data from the exploration and appraisal information undergoing thorough evaluation during 2010. Tornado is a sizeable gas discovery in an excellent reservoir which will require access to existing infrastructure to transport it to market. During the second half of 2010 the focus will be on defining the feasibility of a development, requiring the evaluation of a number of technical and commercial scenarios.

The recent Fogelberg and Maria discoveries in Norway are both being assessed by their respective operators. Several development scenarios have already been identified. Currently, work on both assets is focused on evaluating the need for further appraisal and establishing the development strategies.

## Producing Assets

Faroe's net production for the first half of 2010 was an average of 1,360boepd and was generated from five fields.

The Glitne oil field (Faroe 9.30%) in Norway was brought on stream by Statoil in 2001 and has been developed with sub-sea completed wells tied back to a leased Floating Production Storage and Offloading vessel (FPSO). The field has significantly outperformed expectations and the licence partners are supporting the plans for an infill well which is expected to be drilled in mid 2011 and the operator Statoil is currently in the process of securing a rig for the drilling operation.

The Enoch oil field (Faroe 1.86%, located in the Norway sector) is operated by Talisman and straddles the UK/ Norway median line in the Central North Sea. It has been developed with a single subsea well tied back to the Marathon-operated Brae A platform.

The Schooner gas field (Faroe 4.83%), operated by Tullow Oil, is located approximately 34 kilometres south east of the Murdoch Field, and has been on production since 1996. A total of 10 wells have been drilled from the un-manned Schooner platform with production in the mature decline phase.

The RWE-operated Topaz gas field (Faroe 7.5%) is located 14 kilometres south east of the Tullow operated Schooner field in the UK Southern North Sea. It has been developed with a single subsea production well tied back to the Schooner field.

The Wissey gas field (Faroe 18.75%) is located in the UK Southern North Sea, 10 kilometres east of the Horne & Wren field facility and 25 kilometres south east of the Thames platform. The field is operated by Tullow Oil and consists of a single sub-sea well tied back to the Horne & Wren platform.

# Finance review

The first half of 2010 was a period of considerable activity for the Group. The Group ended the half year in a strong cash position with £80.6 million of cash (31 December 2009 adjusted: £33.1 million) following the £65.2 million rights issue in April 2010.

## Income statement

Revenue was £9.3 million (1H 2009: £2.9 million). This represents a significant increase on last year, reflecting increased oil revenue following the acquisition of the Enoch and Glitne fields in Norway, higher production volumes from UK gas fields, and higher gas prices. In line with Group policy approximately 40% of UK gas sales were hedged on a swap basis at 38 pence/therm.

Cost of sales for the period was £8.0 million (1H 2009: £3.6 million) and the gross profit for the period was £1.3 million (1H 2009: £0.7 million loss). The improved margin is largely due to better commodity prices and a lower cost base following write-downs of producing assets in 2009.

Expensed exploration expenditure for the half year was £2.6 million (1H 2009: £3.1 million). This includes pre-award expenditure such as costs associated with licence rounds applications.

The Group's loss before tax was £3.8 million (1H 2009: £6.1 million). Post-tax losses were £3.6 million (1H 2009: £4.2 million).

## Taxation

The Group has a tax receivable at 30 June 2010 of £27.1 million (31 December 2009: £12.6 million) being 78% of exploration expenditure, net of production profits, in Norway for the last eighteen months. This will be repaid to Faroe in December 2010 and 2011. Of the tax rebate for 2010 expenditure, a credit of £0.2 million (2009: £1.9 million) has been recognised in the income statement, the balance being credited to deferred tax liabilities.

At June 2010 the Group had unrelieved UK tax losses of approximately £57.0 million (31 December 2009: £56.3 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. Provision was made in 2009 for £4.5 million capital gains tax on the disposal of the interest in the Breagh gas field – it is the Group's intention to reinvest the Breagh proceeds in order to avoid this tax charge.

## Balance sheet and cashflow

Exploration and evaluation investments of £21.2 million (1H 2009: £15.0 million), prior to tax rebate, were made in the half year. These mainly related to the Norwegian Fogelberg and Maria wells, both of which were discoveries.

The net assets of Faroe Petroleum increased during the period to £134.1 million (31 December 2009: £74.2 million), mainly reflecting the increase in cash following the rights issue. Closing cash was £80.6 million (31 December 2009 adjusted: £33.1 million).

The Group benefits significantly from a revolving credit facility of NOK 500 million (approximately £51 million) with Lloyds Banking Group for financing 75% of Norwegian exploration costs, such that no more than 25% of exploration expenditure in Norway is funded from equity sources. At 30 June 2010 £17.9 million was outstanding on the Norwegian exploration facility, which is drawn against the Norwegian tax rebate receivable in December 2011. The Company also has a secured, undrawn £22.5 million reserve based debt facility with Société Générale.

## Dividend

The Directors do not recommend payment of a dividend.

## Rights issue

The Group announced on 27 April 2010 that it had raised £69.8 million (£65.2 million net of expenses) by the issue of 69,823,124 new ordinary shares at 100 pence each. The Rights Issue allows the Company to fund fourteen firm and expected wells over the coming period from the existing portfolio, in line with the objective to drill five material exploration and appraisal wells per annum.

## Group income statement

	Unaudited Six months to 30 June 2010 £000	Unaudited Six months to 30 June 2009 £000	Audited Year to 31 December 2009 £000
<b>Revenue</b>	9,271	2,941	7,005
Cost of sales	(8,020)	(3,636)	(9,279)
Asset impairment	–	–	(3,647)
<b>Gross profit/(loss)</b>	1,251	(695)	(5,921)
Net gain on disposal of property, plant and equipment	–	–	17,696
Exploration and evaluation expenses	(2,595)	(3,122)	(18,282)
Administrative expenses	(2,438)	(1,620)	(4,405)
<b>Operating loss</b>	(3,782)	(5,437)	(10,912)
Finance revenue	911	592	1,135
Finance costs	(935)	(1,210)	(2,020)
<b>Loss on ordinary activities before tax</b>	(3,806)	(6,055)	(11,797)
Tax credit	157	1,868	4,885
<b>Loss for the period</b>	(3,649)	(4,187)	(6,912)
Basic and diluted loss per share (pence)	(3.0)	(4.0)	(6.6)

## Statement of other comprehensive income

	Unaudited Six months to 30 June 2010 £000	Unaudited Six months to 30 June 2009 £000	Audited Year to 31 December 2009 £000
Loss for the financial period	(3,649)	(4,187)	(6,912)
Cash flow hedges:			
– Loss on cash flow hedges taken to equity net of tax	(398)	(132)	(292)
Exchange differences on retranslation of foreign operations	(1,958)	(2,437)	915
<b>Total comprehensive loss for the period</b>	<b>(6,005)</b>	<b>(6,756)</b>	<b>(6,289)</b>

## Group balance sheet

	Unaudited 30 June 2010 £000	Unaudited 30 June 2009 £000	Audited 31 December 2009 £000
<b>Non-current assets</b>			
Intangible assets	83,437	77,368	65,036
Property, plant and equipment: development & production	11,510	18,317	13,498
Property, plant and equipment: other	204	154	208
Financial assets	13	13	14
	<b>95,164</b>	<b>95,852</b>	<b>78,756</b>
<b>Current assets</b>			
Inventories	475	–	497
Trade and other receivables	16,058	5,203	5,983
Current tax receivable	27,086	38,304	12,621
Financial assets	–	196	37
Cash and cash equivalents	80,631	11,468	43,583
	<b>124,250</b>	<b>55,171</b>	<b>62,721</b>
<b>Total assets</b>	<b>219,414</b>	<b>151,023</b>	<b>141,477</b>
<b>Current liabilities</b>			
Trade and other payables	(21,199)	(4,866)	(12,454)
Financial liabilities	(18,248)	(41,809)	(22,699)
	<b>(39,447)</b>	<b>(46,675)</b>	<b>(35,153)</b>
<b>Non-current liabilities</b>			
Deferred tax liabilities	(43,629)	(29,295)	(30,035)
Provisions	(1,955)	(1,784)	(1,820)
Defined benefit pension plan deficit	(305)	(226)	(275)
	<b>(45,889)</b>	<b>(31,305)</b>	<b>(32,130)</b>
<b>Total liabilities</b>	<b>(85,336)</b>	<b>(77,980)</b>	<b>(67,283)</b>
<b>Net assets</b>	<b>134,078</b>	<b>73,043</b>	<b>74,194</b>
<b>Equity attributable to equity holders</b>			
Equity share capital	17,456	10,475	10,475
Share premium account	149,800	91,573	91,573
Cash flow hedge	(360)	196	37
Cumulative translation reserve	3,772	2,377	5,728
Retained earnings	(36,590)	(31,578)	(33,619)
<b>Total equity</b>	<b>134,078</b>	<b>73,043</b>	<b>74,194</b>

## Group cash flow statement

	Unaudited Six months to 30 June 2010 £000	Unaudited Six months to 30 June 2009 £000	Audited Year to 31 December 2009 £000
<b>Operating activities</b>			
Cashflow from operations	(454)	(935)	(23,747)
Tax rebate	–	–	30,199
<b>Net cashflow from operating activities</b>	<b>(454)</b>	<b>(935)</b>	<b>6,452</b>
<b>Investing activities</b>			
Expenditure on intangible assets and tangible assets	(22,733)	(17,781)	(4,683)
Prepayment of expenditure on intangible assets	–	1,179	–
Proceeds from sale of intangible assets	–	–	37,551
Interest received	269	592	1,135
<b>Net cashflow from investing activities</b>	<b>(22,464)</b>	<b>(16,010)</b>	<b>34,003</b>
<b>Financing activities</b>			
Borrowing	(4,067)	10,979	(10,105)
Issue of ordinary share capital	69,823	–	–
Issue costs	(4,614)	–	–
Interest paid	(868)	(1,017)	(1,991)
<b>Net cashflow from financing activities</b>	<b>60,274</b>	<b>9,962</b>	<b>(12,096)</b>
Net increase/(decrease) in cash and cash equivalents	37,356	(6,983)	28,359
Cash and cash equivalents at the beginning of the year	43,583	16,706	16,706
Exchange differences	(308)	1,745	(1,482)
<b>Cash and cash equivalent at the end of the year</b>	<b>80,631</b>	<b>11,468</b>	<b>43,583</b>

## Group statement of changes in equity

	Unaudited Six months to 30 June 2010 £000	Unaudited Six months to 30 June 2009 £000	Audited Year to 31 December 2009 £000
Loss for the period	(3,649)	(4,187)	(6,912)
Other comprehensive (loss)/income	(2,356)	(2,569)	623
<b>Total comprehensive (loss)/income for period</b>	<b>(6,005)</b>	<b>(6,756)</b>	<b>(6,289)</b>
Share based payments	680	429	1,113
Share issue	65,209	–	–
<b>Net movement in shareholders' funds</b>	<b>(59,883)</b>	<b>(6,327)</b>	<b>(5,176)</b>
Opening shareholders' funds	74,194	79,370	79,370
<b>Closing shareholders' funds</b>	<b>134,078</b>	<b>73,043</b>	<b>74,194</b>

## Notes to the accounts

### 1. 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 2010 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 2009, as delivered to the Registrar.

### 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 122,876,027 (30 June and 31 December 2009: 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 2010.

### 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 2010 £'000	Unaudited Six months to 30 June 2009 £'000	Audited Year to 31 December 2009 £'000
Loss before tax	(3,806)	(6,055)	(11,797)
Unrealised hedging loss	–	(589)	–
Depreciation charges	2,675	3,694	7,485
Exploration asset write off	(18)	1,781	14,016
Gain on disposal of asset	–	–	(17,696)
Asset impairment	–	–	3,647
Exploration and evaluation	–	–	(23,053)
Fair value of share based payments	698	443	1,113
(Increase)/decrease in trade and other receivables	(10,773)	1,160	878
Decrease/(increase) in inventories	7	–	(111)
Increase/(decrease) in trade and other payables	9,523	(1,987)	944
Foreign exchange movements	642	194	(29)
Interest received	(269)	(592)	(1,135)
Interest paid	867	1,016	1,991
<b>Net cash flow from operating activities</b>	<b>(454)</b>	<b>(935)</b>	<b>(23,747)</b>

## 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 2010 which comprises the Consolidated Income Statement, Statement of Other Comprehensive Income, 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, Chairman's Letter, Chief Executive's Review, Review of Activities and Finance Review 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 (1), 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

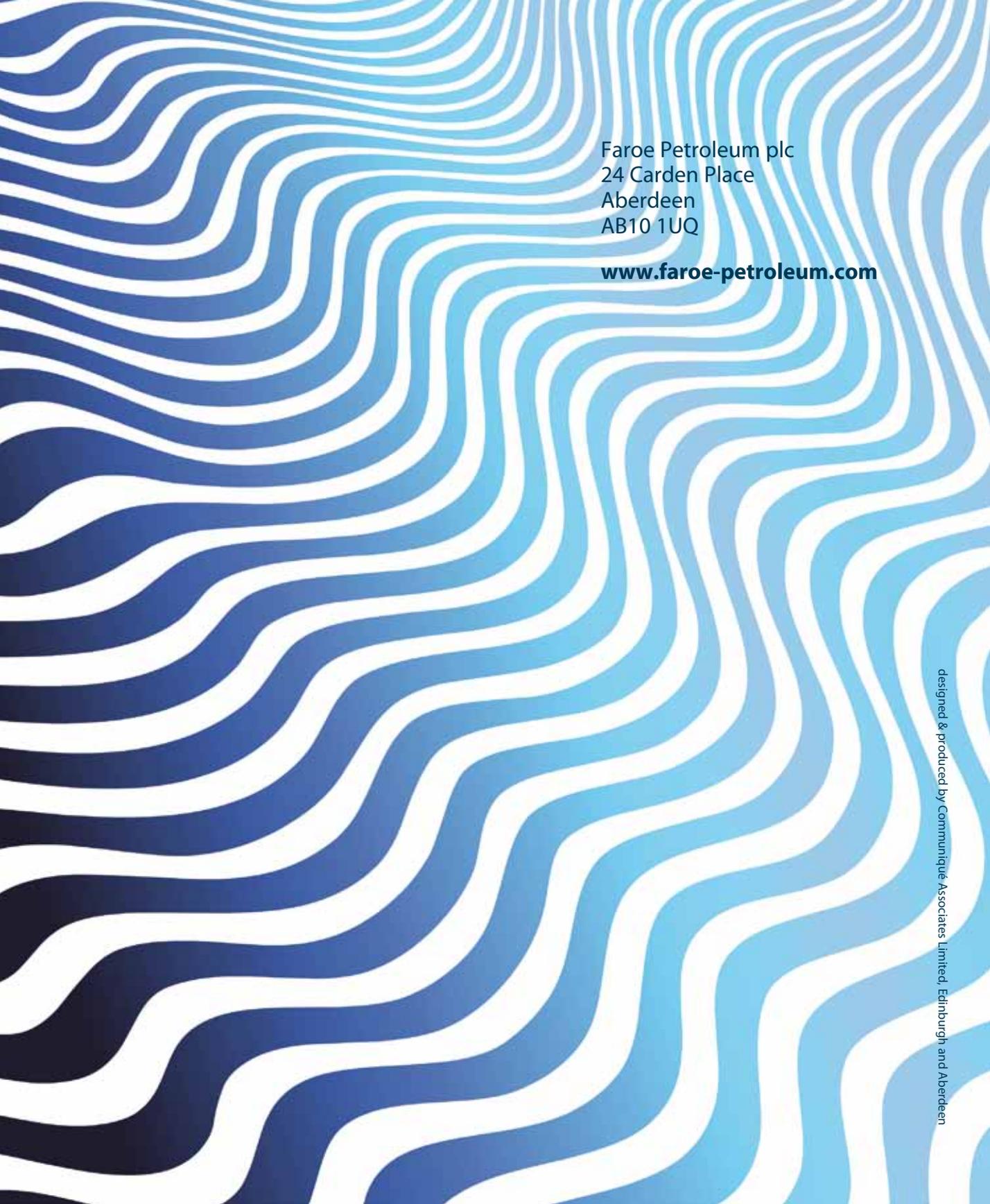
Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2010 is not prepared, in all material respects, in accordance with the accounting policies outlined in Note (1), which comply with IFRS's as adopted by the European Union and in accordance with the AIM Rules issued by the London Stock Exchange.

Ernst & Young LLP

*Aberdeen*

*21 September 2010*



The background of the entire page is a complex, abstract pattern of wavy, concentric lines. The lines are primarily in shades of blue, ranging from a deep navy blue to a light sky blue, with white spaces between them. The pattern flows across the page in a roughly horizontal but undulating direction, creating a sense of movement and depth.

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