

# **REJECT** **DNO's Offer**

**Your Company is worth substantially  
more than 152p per share**

**An Independent Expert's valuation of  
Faroe's assets highlights the  
inadequacy of DNO's opportunistic  
Offer**

**TO REJECT THIS OPPORTUNISTIC,  
UNSOLICITED AND INADEQUATE OFFER,**

**TAKE NO ACTION**

**DO NOT COMPLETE ANY FORM OF ACCEPTANCE**

# DISCLAIMER

## THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt about the contents of this document or the action you should take, you should seek your own independent financial advice immediately from your stockbroker, bank manager, solicitor, accountant or other independent financial adviser authorised under the Financial Services and Markets Act 2000 if you are in the United Kingdom or, if you are in a territory outside the United Kingdom, from an appropriately authorised independent financial adviser. The release, publication or distribution of this document in or into, jurisdictions other than the United Kingdom may be restricted by law and therefore persons into whose possession this document comes who are not resident in the United Kingdom should inform themselves about, and observe, any applicable restrictions. Shareholders who are in any doubt regarding such matters should consult an appropriate independent adviser in the relevant jurisdiction without delay. Any failure to comply with such restrictions may constitute a violation of the securities laws of any such jurisdiction. This document has been prepared for the purposes of complying with English law and the UK Takeover Code and the information disclosed may not be the same as that which would have been disclosed if this document had been prepared in accordance with the laws of jurisdictions outside the United Kingdom. The statements contained in this document are not to be construed as legal, business, financial or tax advice.

If you have sold or otherwise transferred all of your shares in Faroe, please forward this document as soon as possible to the purchaser or transferee, or to the stockbroker, bank or other agent through whom the sale or transfer was effected. If you have sold or otherwise transferred only part of your Shares, you should retain this document and consult the stockbroker, bank or other agent through whom the sale or transfer was effected.

This document is not for release, publication or distribution in, into or from any jurisdiction where such release, publication or distribution would constitute a violation of the securities laws of such jurisdiction. Rothschild & Co, which is authorised and regulated in the United Kingdom by the Financial Conduct Authority, is acting exclusively for Faroe and no one else in connection with the Offer and will not be responsible to anyone other than Faroe for providing the protections offered to clients of Rothschild & Co nor for providing advice in relation to the subject matter of this document or any other matters referred to herein.

This document contains certain statements which are, or may be deemed to be, “forward-looking statements” which are prospective in nature. The words “believe”, “anticipate”, “expect”, “intend”, “aim”, “plan”, “predict”, “continue”, “assume”, “positioned”, “may”, “will”, “should”, “shall”, “risk” and other similar expressions that are predictions of or indicate future events and future trends identify forward-looking statements. These forward-looking statements include all matters that are not current or historical facts. By their nature, forward-looking statements involve risks and uncertainties because such statements relate to events and depend on circumstances that may or may not occur in the future. Forward-looking statements are not indicative of future performance and Faroe's actual results of operations, financial condition and liquidity, and the development of the industry in which Faroe operates, may differ materially from those made in or suggested by the forward-looking statements contained in this announcement. The cautionary statements set out above should be considered in connection with any subsequent written or oral forward-looking statements that Faroe, or persons acting on its behalf, may issue.

A copy of this document is, and will continue to be, available free of charge on Faroe's website at [www.fp.fo](http://www.fp.fo) until the end of the Offer Period. Save as referred to herein, the content of Faroe's website is not incorporated by reference into, and does not form part of, this document.

### Disclosure requirements of the Takeover Code

Under Rule 8.3(a) of the Takeover Code, any person who is interested in 1 per cent. or more of any class of relevant securities of an offeree company or of any securities exchange offeror (being any offeror other than an offeror in respect of which it has been announced that its offer is, or is likely to be, solely in cash) must make an Opening Position Disclosure following the commencement of the offer period and, if later, following the announcement in which any securities exchange offeror is first identified. An Opening Position Disclosure must contain details of the person's interests and short positions in, and rights to subscribe for, any relevant securities of each of (i) the offeree company and (ii) any securities exchange offeror(s). An Opening Position Disclosure by a person to whom Rule 8.3(a) applies must be made by no later than 3.30 pm (London time) on the 10th Business Day following the commencement of the offer period and, if appropriate, by no later than 3.30 pm (London time) on the 10th Business Day following the announcement in which any securities exchange offeror is first identified. Relevant persons who deal in the relevant securities of the offeree company or of a securities exchange offeror prior to the deadline for making an Opening Position Disclosure must instead make a Dealing Disclosure. Under Rule 8.3(b) of the Takeover Code, any person who is, or becomes, interested in 1 per cent. or more of any class of relevant securities of the offeree company or of any securities exchange offeror must make a Dealing Disclosure if the person deals in any relevant securities of the offeree company or of any securities exchange offeror. A Dealing Disclosure must contain details of the dealing concerned and of the person's interests and short positions in, and rights to subscribe for, any relevant securities of each of (i) the offeree company and (ii) any securities exchange offeror(s), save to the extent that these details have previously been disclosed under Rule 8. A Dealing Disclosure by a person to whom Rule 8.3(b) applies must be made by no later than 3.30 pm (London time) on the Business Day following the date of the relevant dealing. If two or more persons act together pursuant to an agreement or understanding, whether formal or informal, to acquire or control an interest in relevant securities of an offeree company or a securities exchange offeror, they will be deemed to be a single person for the purpose of Rule 8.3. Opening Position Disclosures must also be made by the offeree company and by any offeror and Dealing Disclosures must also be made by the offeree company, by any offeror and by any persons acting in concert with any of them (see Rules 8.1, 8.2 and 8.4). Details of the offeree and offeror companies in respect of whose relevant securities Opening Position Disclosures and Dealing Disclosures must be made can be found in the Disclosure Table on the Panel's website at [www.thetakeoverpanel.org.uk](http://www.thetakeoverpanel.org.uk), including details of the number of relevant securities in issue, when the offer period commenced and when any offeror was first identified. You should contact the Panel's Market Surveillance Unit on +44 (0)20 7638 0129 if you are in any doubt as to whether you are required to make an Opening Position Disclosure or a Dealing Disclosure.

### Copies of this document

If you have received this document in electronic form or by it being published on Faroe's website, you may request a copy of this document in hard copy form if so entitled in accordance with Rule 30.3 of the Takeover Code. Hard copies will be sent only where valid requests are received from such persons. Requests for hard copies are to be submitted to the Registrars, Link Asset Services on 0871 664 0300 (or if calling from outside the UK +44 (0) 371 664 0300). Calls are charged at the standard geographic rate and will vary by provider. Calls made from outside the United Kingdom will be charged at the applicable international rate. A hard copy of this document and any other document referred to in this document will not be sent to you unless so requested. You may also request that all future documents, announcements and information to be sent to you in relation to the Offer should be in hard copy form.

Please be aware that addresses, electronic addresses and certain other information provided by Shareholder and persons with information rights and other relevant persons for the receipt of communications from Faroe may be provided to DNO during the offer period as required by the Takeover Code.

## Your Company is worth substantially more than 152p per share

- 1 **We have published an Independent Expert's valuation of Faroe's assets – included in full in this document**
- 2 **The Independent Expert's asset valuation implies a value for Faroe in the range of 186p to 225p per share<sup>1</sup> (even in the currently depressed oil price environment)**
- 3 **This represents a 22% to 48% premium to DNO's Offer price highlighting the inadequacy of DNO's Offer**

**Do not allow DNO to take control of your Company without paying an appropriate premium**

*Note 1: The implied valuation for Faroe in the range of 186p to 225p per share is based on Gaffney, Cline & Associates' ("GCA") valuation range of Faroe's oil and gas assets of US\$879m to US\$1,076m, converted assuming a USD:GBP exchange rate of 1.27 as at 31 December 2018, adjusted for Faroe's net cash balance of £49.6m as at 30 September 2018 (unaudited management estimate) and assumes a fully diluted number of shares outstanding of 398.3m*

# Letter from your Chairman

## Dear Shareholder,

Thank you for taking the time to read this document carefully.

I wrote to you on 20 December 2018 setting out the reasons why you should reject DNO's Offer. In summary, I said that DNO's Offer of 152p per share in cash:

- Substantially undervalues Faroe's high quality, full cycle and diversified North Sea business
- Ignores Faroe management's proven track record and its exciting independent future
- Ignores the significant financial benefits created by the Equinor asset swap

On 2 January 2019, we published an Independent Expert's valuation of Faroe's assets. Gaffney, Cline & Associates ("GCA"), a leading, global, independent oil and gas industry consultancy has prepared this independent valuation as at an effective date of 30 September 2018, in accordance with Rule 29 of the UK Takeover Code.

GCA has updated its analysis to reflect the current oil price environment and latest drilling results, including for Brasse. GCA concludes that "the value of Faroe's oil and gas assets more reflective of current (late December 2018) market oil pricing is in the range of **US\$879 million – US\$1,076 million**."

This implies a valuation for Faroe in the range of **186p to 225p** per share<sup>1</sup>, on a fully diluted basis adjusting for net cash as at 30 September 2018, representing a **22% to 48%** premium to DNO's Offer price.

A full copy of the GCA valuation report is included in this document.

**The Board believes that GCA's report provides a robust independent view on the value of Faroe's assets and further reinforces the Board's view that DNO's Offer is opportunistic and substantially undervalues Faroe.**

DNO announced on 3 January 2019 that it has extended its Offer until 1.00pm London time on 18 January 2019 and has triggered a mandatory cash offer at the same Offer price of 152p per share through further market purchases. These actions clearly suggest that DNO has every intention to pursue its unsolicited Offer despite its earlier statements raising the prospect that the Offer may lapse if sufficient acceptances were not received by the first closing date of 2 January 2019.

Faroe would provide DNO with a high quality, full cycle and diversified North Sea asset base with one of the best exploration track records on the NCS and a transformational production growth profile – which stand in stark contrast to DNO's existing business. Indeed, DNO's statement that it is "not going away" and its further share purchases demonstrate the attractiveness of Faroe to DNO. As such, Faroe would solve DNO's strategic challenges and we feel strongly that shareholders should receive an appropriate premium for this, which is not currently reflected in DNO's Offer.

1. The implied valuation for Faroe in the range of 186p to 225p per share is based on GCA's valuation range of Faroe's oil and gas assets of US\$879m to US\$1,076m, converted assuming a USD:GBP exchange rate of 1.27 as at 31 December 2018, adjusted for Faroe's net cash balance of £49.6m as at 30 September 2018 (unaudited management estimate) and assumes a fully diluted number of shares of 398.3m

**The Board continues to believe that DNO's criticisms of Faroe are unfounded and purely a tactic to distract from the simple fact that its Offer substantially undervalues the Company.**

In addition, we would like to make the following observations in relation to the Offer timetable, as established by the UK Takeover Code:

- DNO has until 27 January 2019 to improve or otherwise change its Offer, should it wish to do so
- DNO has until 10 February 2019 to achieve sufficient acceptances for its Offer to become unconditional
- If the Offer at any time becomes or is declared unconditional, DNO must keep it open for acceptance for at least another 14 days

Your Board, which has been so advised by Rothschild & Co as to the financial terms of the Offer, unanimously recommends that you should reject the Offer. In providing advice to the Board, Rothschild & Co has taken into account the Board's commercial assessment. Your Directors do not intend to accept DNO's Offer in respect of their own beneficial shareholdings.

**Shareholders are encouraged not to take any action in relation to the Offer and not to sell their shares in the market. Shareholders who sell their shares in the market or to DNO would not receive any increase in the Offer consideration should DNO revise its Offer.**

John Bentley  
Chairman

**TO REJECT DNO'S OPPORTUNISTIC, UNSOLICITED AND INADEQUATE OFFER, TAKE NO ACTION AND DO NOT SIGN ANY DOCUMENT DNO OR THEIR ADVISERS SEND TO YOU**



# INDEPENDENT EXPERT'S ASSET VALUATION IMPLIES A VALUE FOR FAROE IN THE RANGE OF 186P TO 225P PER SHARE (EVEN IN THE CURRENTLY DEPRESSED OIL PRICE ENVIRONMENT)

- Gaffney, Cline & Associates ("GCA") has been engaged to conduct an independent asset valuation of Faroe in accordance with Rule 29 of the UK Takeover Code
- GCA is a leading, global, independent oil and gas industry consultancy
- The Independent Expert's Cover Letter and Report are set out in full in Appendix 1 of this document
- GCA prepared an independent valuation of Faroe's oil and gas assets as at an effective date of 30 September 2018, which concluded:

*"that the value of Faroe's oil and gas assets as at 30 September 2018 is in the range of US\$1,007 million – US\$1,219 million"*

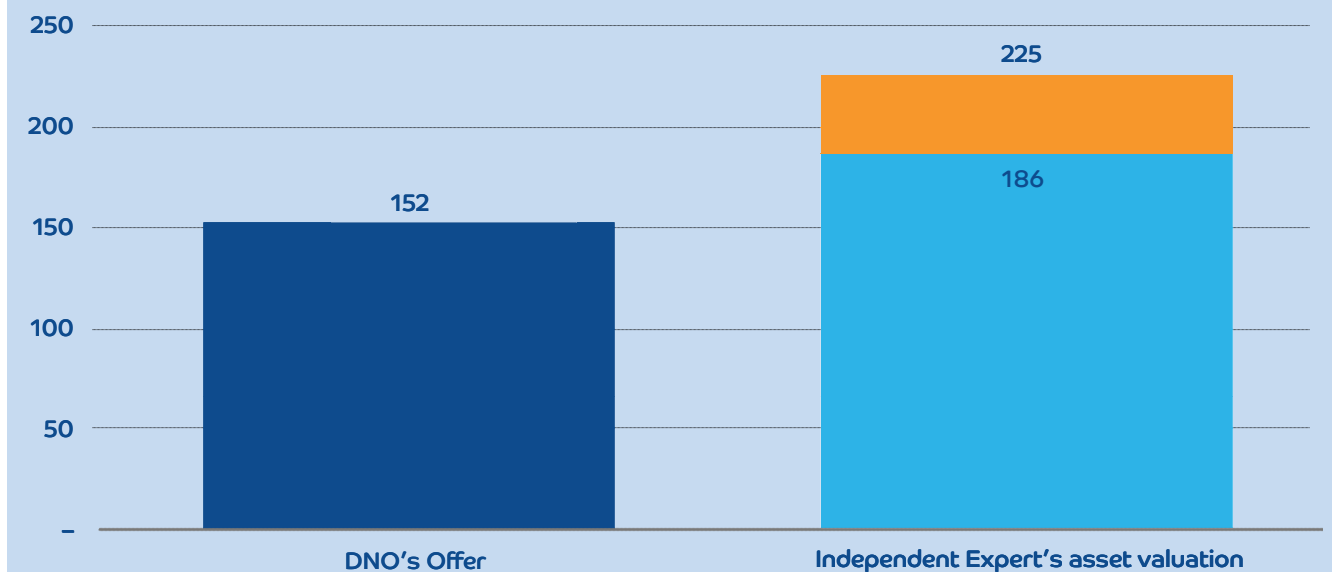
- GCA updated their independent valuation on the basis of an oil price outlook which is more reflective of GCA's view of current conditions (end December 2018) and to also reflect the latest drilling results, including for Brasse, which concluded:

*"that the value of Faroe's oil and gas assets as at 30 September 2018 is in the range of US\$879 million – US\$1,076 million"*

- This implies a valuation for Faroe in the range of 186p to 225p per share on a fully diluted basis adjusting for net cash as at 30 September 2018

Therefore in spite of the currently depressed oil price environment, the GCA independent valuation still implies a value which represents a 22% to 48% premium to DNO's opportunistic Offer price of 152p per share

## DNO's Offer vs. Independent Expert's asset valuation (p/sh)

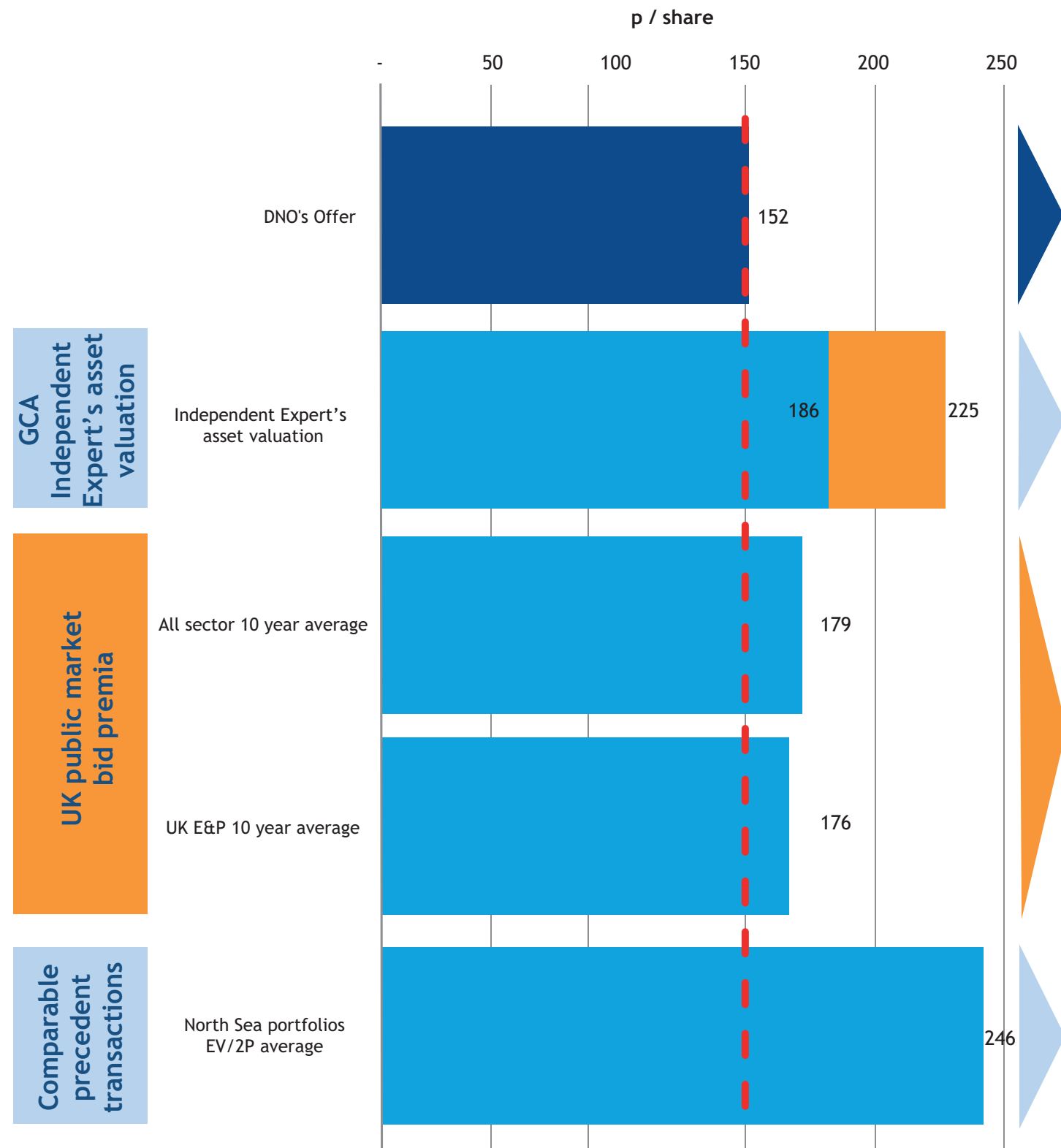


### GCA's valuation does not account for:

- The Equinor asset swap on the basis that this has not completed yet and consequently does not reflect the tax synergies we expect to realise through the accelerated utilisation of our Norwegian tax loss position from this transaction
- Faroe's scarcity value in the current tight upstream M&A market, especially on the Norwegian Continental Shelf (as described by Wood Mackenzie in their "Norway's M&A Market" October 2018 report)
- Faroe's going concern value of its management's proven track record, in particular in exploration (as validated by Wittemann E&P Consulting in their "NCS exploration performance analysis" 1 October 2018 report)
- The strategic benefits that Faroe would bring to DNO whose business stands in stark contrast to Faroe's high quality, full cycle and diversified North Sea business

**INDEPENDENT EXPERT'S ASSET VALUATION REPRESENTS A PREMIUM OF 22% to 48% TO DNO'S OFFER PRICE**

# DNO'S OPPORTUNISTIC OFFER OF 152P PER SHARE SUBSTANTIALLY UNDERVALUES FAROE



Note: Implied Faroe share price of 246p from comparable precedent transactions has been updated (since the Response Circular published on 20 December 2018) to reflect Faroe's net cash balance of £49.6m as at 30 September 2018 (unaudited management estimate)

- DNO has timed its Offer to coincide with a c.30% fall in the oil price from its recent peak to near a 12 month low

*"Given the falling oil prices, DNO clearly thought it could swoop in and secure itself a bargain"*

Statement by Cavendish Asset Management, as published by Reuters (26 Nov 2018)

*"The timing and level [of DNO's Offer] are quite opportunistic, taking advantage of lower share prices across the E&P sector as oil prices have fallen"*

Arden Partners (26 Nov 2018)

- GCA's Independent Expert's current valuation of Faroe's oil and gas assets is in the range of US\$879 million – US\$1,076 million
- This valuation range implies a value per share for Faroe in the range of 186p to 225p representing a 22% to 48% premium to DNO's Offer price of 152p per share

- DNO's Offer represents a premium of only 1% to the undisturbed three month volume weighted average share price (VWAP)
- DNO's 21% Offer premium based on the closing share price prior to its Offer announcement is substantially below the average premium for:
  - All UK takeovers across all sectors over the last 10 years of 43%
  - All UK takeovers in the E&P space over the last 10 years of 40%
- The premium DNO has stated is based on the closing share price on 3 April 2018 which fails to recognise the significant achievements the Company has delivered since then:
  - Iris/Hades discovery – one of the largest global discoveries in 2018
  - Agar discovery – high value discovery following recent farm-in
  - Equinor asset swap – accelerating growth, rebalancing reserves, materially increasing near-term cash flow, unlocking tax synergies and adding new near-term activity/catalysts

- DNO's Offer price is equivalent to US\$7.2 per barrel of 2P reserves which is substantially below the average price paid recently for comparable North Sea portfolios (in particular, NCS) of US\$12.1 per barrel of 2P reserves

*"Our view, publicly stated throughout 2018, is that the Norwegian upstream market is becoming tight – there are many potential buyers and few sellers – and this competition will put upward pressure on valuations again"*

Wood Mackenzie report (October 2018)

**DO NOT ALLOW DNO TO TAKE CONTROL OF YOUR COMPANY WITHOUT PAYING AN APPROPRIATE PREMIUM**

## Appendix 1: Independent Expert's Asset Valuation

### Your Company is worth substantially more than 152p per share

- 1** We have published an Independent Expert's valuation of Faroe's assets – included in full in this document
- 2** The Independent Expert's asset valuation implies a value for Faroe in the range of 186p to 225p per share<sup>1</sup> (even in the currently depressed oil price environment)
- 3** This represents a 22% to 48% premium to DNO's Offer price highlighting the inadequacy of DNO's Offer

**Do not allow DNO to take control of your Company without paying an appropriate premium**



**Independent  
Expert's Asset  
Valuation**

Note 1: The implied valuation for Faroe in the range of 186p to 225p per share is based on Gaffney, Cline & Associates' ("GCA") valuation range of Faroe's oil and gas assets of US\$879m to US\$1,076m, converted assuming a USD:GBP exchange rate of 1.27 as at 31 December 2018, adjusted for Faroe's net cash balance of £49.6m as at 30 September 2018 (unaudited management estimate) and assumes a fully diluted number of shares outstanding of 398.3m



The Directors  
**Faroe Petroleum plc**  
55 The Strand  
London, WC2N 5LS  
United Kingdom

Dear Directors,

### Valuation of the Oil and Gas Assets of Faroe Petroleum plc

GCA recently completed an independent valuation of the oil and gas assets held by Faroe Petroleum plc (Faroe) as at an Effective Date of 30<sup>th</sup> September 2018, in accordance with Rule 29 of the UK Takeover Code. GCA's findings are described in its report "Independent Expert's Report on the Oil and Gas Assets of Faroe Petroleum plc" dated 12<sup>th</sup> December 2018 ("the GCA Report").

The valuation presented in the GCA Report is based on economic conditions prevailing at the Effective Date. For the discounted cash flow analysis that formed the primary basis of the valuation, GCA's in-house Brent crude oil price scenario applicable at the Effective Date was used as the reference oil price.

However, since 30<sup>th</sup> September 2018, a material change has occurred in oil prices. The price of Brent crude has fallen from more than US\$80/Bbl to less than US\$60, though how long this new level will last remains to be seen. GCA normally updates its in-house oil price scenario on a quarterly basis, with the next update due at the beginning of 2019. In light of the current volatility in the markets, GCA has run a sensitivity using the following alternative Brent crude oil price scenario, which is more reflective of current conditions and those likely to apply to our 1<sup>st</sup> quarter 2019 oil price scenario.

Year	Price (US\$/Bbl)
4Q 2018	67.76
2019	53.89
2020	62.50
2021	70.00
2022+	+2.0% p.a.

GCA has re-run its discounted cash flow analysis under this oil price scenario, keeping all other assumptions (including production and cost forecasts and tax positions/depreciation balances as at 30<sup>th</sup> September 2018) as described in the GCA Report. GCA concludes that the value of Faroe's oil and gas assets more reflective of current (late December 2018) market oil pricing is in the range of **US\$879 MM – US\$1,076 MM**.

In addition, GCA has briefly reviewed the results available as of December 31, 2018 of the recent 31/7-3S Brasse appraisal well, and preliminary LWD analysis from its subsequent sidetrack 31/7-3A. Although there remains some uncertainty over details of reservoir distribution and hydrocarbon phase, GCA believes that no material change to the original Brasse profiles is required at this time.

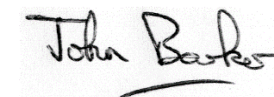
This conclusion is subject to the same assumptions and caveats as the GCA Report and must be read in conjunction with the GCA Report. The values stated are a view of Faroe's upstream assets and do not include costs or income associated with corporate administration and overhead or financing activities nor any calculations to account for working capital changes/expectations. No adjustments have been made for cash balances, inventories, indebtedness or other balance sheet effects.

While no account has been taken of the recent Agar discovery or the recently announced asset swap with Equinor, which has an effective date of 1<sup>st</sup> January 2019, after the date of this report, and remains subject to approval by the Norwegian authorities, we consider the above stated valuation to be "current" for the purposes of Rule 29 of the UK Takeover Code.

Other than those noted, GCA is not aware of any other material event that would significantly affect the conclusions of the GCA Report.

Yours sincerely,

**Gaffney, Cline & Associates**



Project Manager  
John Barker, Technical Director



Reviewed by  
Bill Cline, Senior Advisor

**Independent Expert's Report  
on the Oil and Gas Assets  
of Faroe Petroleum plc**

Prepared for

**Faroe Petroleum plc**

**12th December 2018**



## Table of Contents

<b>Introduction.....</b>	<b>1</b>
<b>Summary .....</b>	<b>2</b>
<b>Discussion.....</b>	<b>3</b>
<b>1 Portfolio Overview .....</b>	<b>3</b>
1.1 Summary.....	3
1.2 Norway Assets: .....	5
1.2.1 Brasse .....	5
1.2.2 Brage .....	5
1.2.3 Ula, Oda, Tambar, Tambar East and Oselvar.....	6
1.2.4 Njord, Hyme, Bauge, Fenja, Bue and Boomerang.....	6
1.2.5 Ringhorne East.....	7
1.2.6 Fogelberg, Hades & Iris.....	7
1.2.7 Other Fields and Discoveries .....	8
1.2.8 Exploration Prospects .....	8
1.3 UK Assets .....	9
1.4 Ireland Assets .....	9
<b>2 Economic Assessment.....</b>	<b>10</b>
2.1 Valuation Methodology .....	10
2.2 Discounted Cash Flow Analysis .....	10
2.2.1 Methodology .....	10
2.2.2 Determination of a Range of DCF Outcomes .....	10
2.2.3 Determination of Discount Rates.....	11
2.2.4 Oil and Gas Pricing Scenario .....	12
2.2.5 Fiscal Terms .....	12
2.2.6 Technical Input .....	13
2.2.7 DCF Results .....	14
2.2.8 Sensitivity Analysis .....	15
2.3 Comparable Transactions and Companies .....	15
<b>Basis of Opinion .....</b>	<b>16</b>
<b>Qualifications .....</b>	<b>18</b>

## List of Figures

Figure 1: Faroe Licence Areas.....	4
Figure 2: Sensitivity to Discount Rate, Commodity Prices and Costs .....	15

## List of Tables

Table 1: Summary of Reserves, Net to Faroe, as at 30 <sup>th</sup> September 2018.....	3
Table 2: Summary of Contingent Resources (Development Pending), Net to Faroe, as at 30 <sup>th</sup> September 2018.....	3
Table 3: Brent Crude Oil Price Scenario .....	12

Table 4: Tax Losses and Depreciation Balances as at 30 <sup>th</sup> September 2018.....	13
Table 5: DCF Analysis Results (US\$ MM).....	14

## Appendices

Appendix I:	Abbreviated Form of PRMS
Appendix II:	Glossary of Abbreviations
Appendix III:	Summary of Licences
Appendix IV:	Summary of Reserves
Appendix V:	Summary of Contingent Resources
Appendix VI:	Summary of Prospective Resources

The Directors  
**Faroe Petroleum plc**  
55 The Strand  
London, WC2N 5LS  
United Kingdom

Dear Directors,

## Introduction

At the request of Faroe Petroleum plc (Faroe), Gaffney, Cline & Associates (GCA) has performed an independent valuation, as of 30<sup>th</sup> September 2018, of the oil and gas assets held by Faroe at that date, in accordance with Rule 29 of the UK Takeover Code. These assets comprise producing oil and gas fields, fields under development, discoveries subject to further appraisal, and exploration prospects and leads. The assets are all offshore, located mainly in Norwegian waters, but with some in the UK and Ireland.

This report has been prepared by GCA for inclusion in any document to be published by Faroe pursuant to Rule 25 of the UK Takeover Code in response to an offer to purchase Faroe, and must only be used for that purpose. GCA has granted and not withdrawn its consent for inclusion of this report in any such document.

In the preparation of this report, GCA has used definitions contained within the updated version of the Petroleum Resources Management System (PRMS) published by the Society of Petroleum Engineers, the World Petroleum Council, the American Association of Petroleum Geologists, and the Society of Petroleum Evaluation Engineers in March 2007 (Appendix I).

A glossary of abbreviations used in this report is contained in Appendix II.

This report relates specifically and solely to the subject matter as defined in the scope of work, as set out herein, and is conditional upon the specified assumptions. It must be considered in its entirety.

## Summary

Early in 2018, GCA performed an independent audit of the oil and gas Reserves, Contingent Resources and Prospective Resources in Faroe's assets as of 31<sup>st</sup> December 2017. The audit was conducted on the basis of a data set of technical information made available to GCA by Faroe, including details of licence interests, geological and geophysical data, interpretations and technical reports, engineering data, cost and commercial data, and development plans as they existed at the time. GCA's work included such cross checks and calculations as were considered necessary. All questions that arose during the course of the audit process were resolved to GCA's satisfaction.

For the purposes of the current valuation, which has an effective date of 30<sup>th</sup> September 2018, GCA has made use of the Reserves, Contingent Resources and Prospective Resources volumes as of 31<sup>st</sup> December 2017 and the associated production and cost forecasts that it audited previously. Adjustments have been made only for material events that have occurred since that date, such as the Hades/Iris discovery and the Fenja farm-down (but excluding the recent Agar discovery). With some minor exceptions, production and OPEX in 4Q 2018 are assumed to equal one-quarter of the forecasts for the whole of 2018 made as at 31<sup>st</sup> December 2017; CAPEX forecasts for 4Q 2018 and 2019 have been adjusted to reflect Faroe's latest estimates for those fields with significant 2018 CAPEX.

GCA's valuation has been arrived at primarily on the basis of discounted cash flow (DCF) analysis, but other sources of information such as comparable transactions and market trading multiples have been considered to corroborate the DCF results. For the DCF, GCA's in-house Brent crude oil price scenario has been used as the reference oil price. While each asset has initially been evaluated on a stand-alone basis, a corporate roll-up has been performed for each country (Norway and UK) to capture the benefit of out-standing tax synergies at the corporate level.

The values stated are a view of Faroe's upstream assets and do not include costs or income associated with corporate administration and overhead or financing activities nor any calculations to account for working capital changes/expectations. No adjustments have been made for cash balances, inventories, indebtedness or other balance sheet effects.

The conclusion of GCA's assessment is that the value of Faroe's oil and gas assets as at 30<sup>th</sup> September 2018 is in the range of **US\$1,007 MM – US\$1,219 MM**.

## Discussion

### 1 Portfolio Overview

#### 1.1 Summary

The licences held by Faroe and Faroe's working interest (WI) in each, as represented by Faroe, are listed in Appendix III and shown in Figure 1. All are offshore licences in Norway, the UK and Ireland.

A summary of the Reserves attributed to Faroe's assets is shown in Table 1; a breakdown by field is given in Appendix IV. A summary of the Contingent Resources (Development Pending) attributed to Faroe's assets is shown in Table 2; a breakdown by field is given in Appendix V. A summary of the Prospective Resources attributed to Faroe's exploration activities is given in Appendix VI.

Table 1: Summary of Reserves, Net to Faroe, as at 30<sup>th</sup> September 2018

	Proved	Proved plus Probable	Proved plus Probable plus Possible
Oil (MMBbl)	43.2	71.4	108.9
NGL (MMBbl)	5.5	10.4	21.3
Gas (Bscf)	63.6	118.5	235.8

Table 2: Summary of Contingent Resources (Development Pending), Net to Faroe, as at 30<sup>th</sup> September 2018

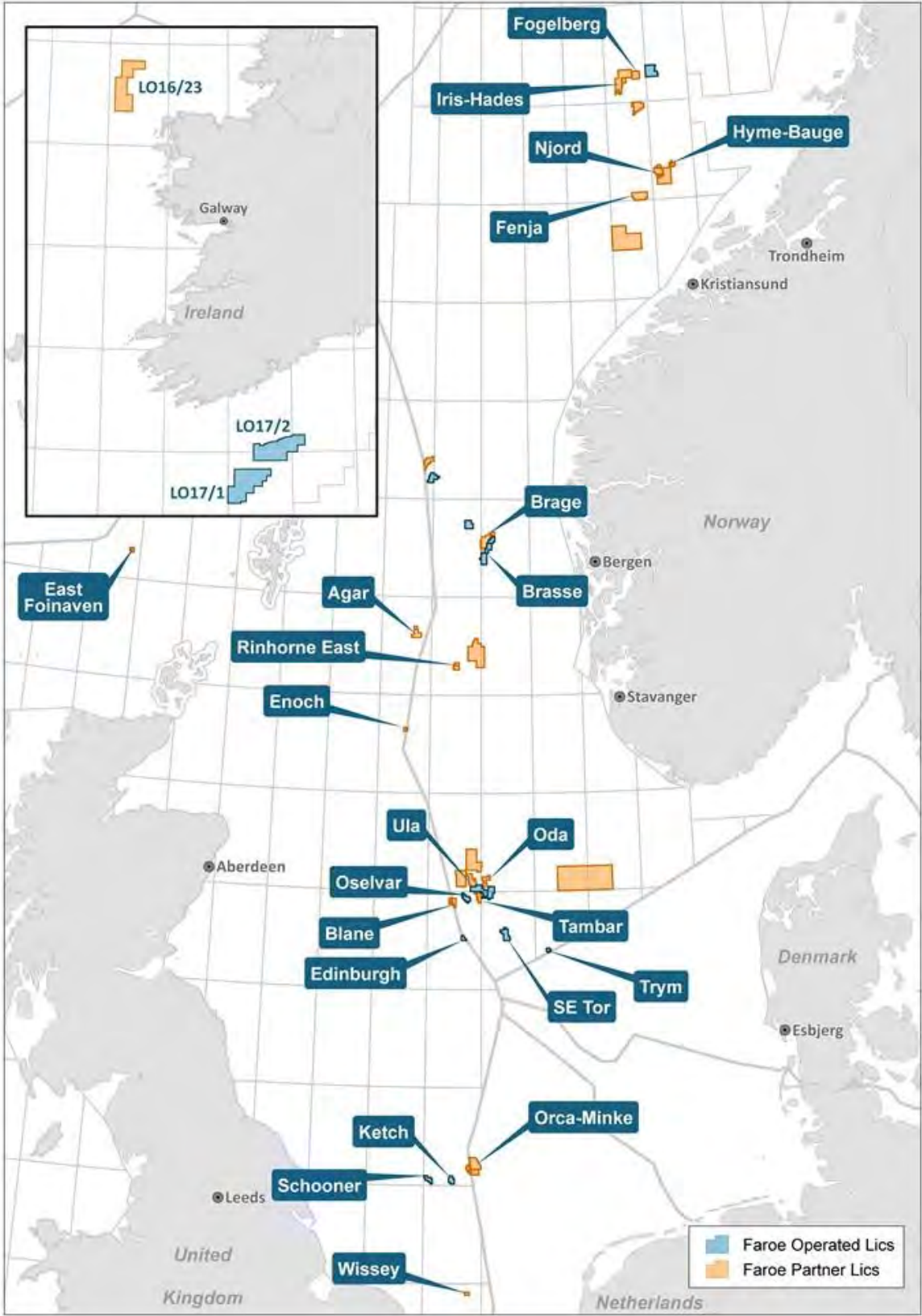
	1C	2C	3C
Oil (MMBbl)	13.5	45.9	78.7
NGL (MMBbl)	1.1	2.1	3.1
Gas (Bscf)	98.6	277.0	449.8

**Notes:**

1. The Contingent Resources volumes reported here are "unrisked" in the sense that no adjustment has been made for the risk that the projects may not be developed in the form envisaged or may not be developed at all (i.e. no "Chance of Development" factor has been applied).
2. Contingent Resources should not be aggregated with Reserves because of the different levels of risk involved.
3. No economic cut-off has been applied to the Contingent Resources volumes.

Faroe's most significant assets are in Norway, where Reserves are attributed to six producing fields, four discoveries under development and two fields under redevelopment. The most significant producing fields in terms of Proved plus Probable (2P) Reserves net to Faroe are Ula, Tambar, Brage and Ringhorne East (RHE). Significant 2P Reserves net to Faroe are also attributed to the four discoveries under development, i.e. Brasse (first oil expected in 2021), Oda (2019), Bauge (2020) and Fenja (2021), and to the redevelopment of the Njord field and its satellite Hyme, which are expected to be back on stream in 2020.

Figure 1: Faroe Licence Areas



Source: Faroe



Development plans for five other discoveries in Norway are less mature and potentially recoverable volumes are classified as Contingent Resources (Development Pending). Contingent Resources are also attributed to a number of potential incremental projects in the producing fields, mainly comprising infill wells, some of which are considered Development Pending and others Development Unclassified. There is also significant exploration potential, with a total of 23 Prospects identified within Faroe's Norwegian licences (excluding licences acquired in 2018), seven of which are regarded as "Near-Term" by Faroe and are likely to be tested by exploration wells in the next 2-3 years.

In the UK, following the recent cessation of production at Schooner and Ketch, Faroe's producing assets comprise interests in three relatively small, mature fields which together account for less than 4% of Faroe's 2P Reserves. GCA has not reviewed the recently announced Agar discovery in the UK in which Faroe holds a 25% interest, or the Edinburgh prospect which lies in recently acquired acreage.

In Ireland, Faroe holds interests in exploration acreage in which one gas Prospect and a number of Leads have been identified, but there are no plans for exploration drilling in the near term.

## 1.2 Norway Assets:

### 1.2.1 Brasse

Faroe operates the Brasse oil and gas discovery, located on the east flank of the North Viking Graben in the northern North Sea, just east of the giant Oseberg field and immediately south of the Brage field, in which Faroe also holds an interest. The water depth is around 120 m. The field was discovered by Faroe in 2016 and appraised in 2017 with further drilling anticipated in late-2018. It may extend northwards into the Brage unit area operated by Wintershall.

Light oil (35.5°API) and a gas cap are present within moderate quality deltaic sandstones of the Sognefjord Formation (Jurassic). The structure is predominantly dip-closed with a stratigraphic pinch-out combined with a series of extensional faults providing separation from Brage to the north, though the exact northern limit of the field is uncertain.

The development plan envisaged is a conventional subsea tie-back to the Brage or Oseberg platform, both around 13 km away, probably with four horizontal production wells and one water injector. First oil is planned for 3Q 2021.

### 1.2.2 Brage

Brage contains stacked oil and gas pay in several reservoir intervals of Jurassic age, including the Statfjord, Fensfjord, Brent and Sognefjord Formations. It has been in production since 1993 with both water and gas injection. Oil and gas are both being exported. The field is now mature and production is in decline, with many producers shut in due to high water cut. Scale, sand production and well integrity are challenges to production. However, efforts to increase field recovery are ongoing: an infill drilling and well intervention programme started in 2014 continues, with 6 wells scheduled to come on stream in 2018; eight further wells are under consideration, gas blow-down may eventually take place, though this requires further study, and EOR projects are also being studied.

### 1.2.3 Ula, Oda, Tambar, Tambar East and Oselvar

Ula is a large oil field located in the Central Graben in the central North Sea in 70 m of water. It has been in production since 1986, under water and water-alternating-gas (WAG) injection. The productive reservoirs are sandstones in the Ula (Jurassic/Lower Cretaceous) and Skaggerak (Triassic) Formations. The development consists of three conventional steel platforms for production, drilling and accommodation, connected by bridges. Oil is exported through a 20-inch pipeline via Ekofisk to Teesside in the UK, while all produced gas is re-injected into the reservoir to enhance oil recovery.

The field is now mature, with only five producers and four WAG injectors remaining active, but field life is expected to continue until 2034, possibly longer, and several infill drilling projects are under active consideration, as well as development of the small Ula North discovery (made in 1981) as a tie-back to the Ula platform. Other less well defined projects include an expanded development of the Triassic reservoir, gas blowdown at end of field life, expanded WAG injection, and EOR projects.

Ula also acts or will act as a hub for production from other fields including four in which Faroe holds an interest:

- Oda, where light oil (38.5 °API) was discovered in the Ula Formation in 2011, development is underway and first oil is expected in 2019. The field will be developed as a subsea tie-in to Ula platform where processing will be performed. Two production wells and one water injector are planned, and a peak rate of 35,000 bopd is expected.
- Tambar, a mature oil field producing from the Ula Formation under natural depletion since 2001. Of the original three wells, only one remains on continuous production, but two new wells are being drilled in 2018 and a gas lift system is also being installed that should allow all five wells to flow continuously.
- Tambar East, a small oil accumulation adjacent to Tambar but of poorer reservoir quality that has been on production since 2007 through a single well that is currently shut-in to allow reservoir pressure to build up again.
- Blane in the UK sector (see Section 1.3).

A fifth satellite is Oselvar, operated by Faroe, which ceased production in 2018 to create ullage on the Ula platform. Two wells remain active, and a restart of production in the future may be possible, but no Reserves are attributed to Oselvar at present.

### 1.2.4 Njord, Hyme, Bauge, Fenja, Bue and Boomerang

Njord is a large oil and gas field located in the Haltenbanken area of the Norwegian Sea in approximately 330 m of water, operated by Equinor. It has been in production since 1997 but was shut down in 2016 to address structural integrity issues with the semi-submersible drilling, accommodation and production facility; production is expected to recommence in 2020. The productive reservoirs are sandstones in the Tilje, Ile and Åre Formations (Jurassic). The field is heavily faulted and consequently divided into a series of separate fault blocks. A separate accumulation on the NW Flank contains gas with condensate and will be developed as part of the redevelopment. When production ceased in mid-2016 there were eight active production wells and two injectors.



As part of the Operator's "Njord Future Project", which includes the repairs to the production facility, ten new wells and two recompletions are firmly planned. Development of further fault blocks on the north and north-western side of the field is also under active consideration, while additional drilling beyond 2025 and other developments are also possible, but less well defined.

Njord also acts or will act as a hub for production from other fields including five in which Faroe holds an interest:

- Hyme, which has been producing oil and gas since 2013 through one dual-lateral production well and a water injection well connected to a subsea template tied back 19 km to Njord; water cut had reached 62% at the time Njord was shut-in. An additional well is under active consideration.
- Bauge, 3 km west of Hyme, was discovered in 2013 and approved for development in 2017. The development envisages two gas-lifted production wells to be drilled in 2019-2020 and a subsea tie-back to Njord via a new production flowline. A water injector will be added in 2024.
- Fenja, a significant oil and gas discovery made in 2014 some 35 km southwest of Njord. The reservoir is a sandstone in the Melke Formation (Jurassic). A two-phase development is planned, initially with two production wells and one water injector, later with a production well, a water injector and an attic gas injector being added. Drilling is scheduled to start in mid-2020 and production in early 2021.
- Bue and Boomerang are smaller discoveries immediately adjacent to Fenja, in the Spekk Formation (Jurassic/Lower Cretaceous). Appraisal may be required before any development decisions are taken, but these accumulations will probably form further phases of the Fenja development.

### 1.2.5 Ringhorne East

Ringhorne East (RHE) is an oil field located in the South Viking Graben of the central North Sea, in water depth of 130 m, which has been in production since 2006 through four production wells drilled from the Ringhorne platform. The productive reservoir is the Statfjord Formation sandstone. Oil is exported via the nearby Balder FPSO. The reservoir has strong aquifer support so water injection is not required. Up to six additional wells are planned.

### 1.2.6 Fogelberg, Hades & Iris

Fogelberg is a gas condensate discovery just to the north of the Asgard/Smorbukk development in the Haltenbanken area of the Norwegian Sea, in 280 m water depth. The discovery was made in 2010 in the Garn and Ile Formations (Jurassic) and further appraised and tested during 1H 2018. Development as a tie-back to the Asgard B platform is envisaged, with three production wells. First production could be as early as 2021, but no final decision on development has yet been taken.

Hades & Iris lie some 10 km west of Fogelberg in 370 m of water. Gas condensate was discovered in the Lower Cretaceous sandstones of the Blåånge Formation (Hades) and Middle Jurassic sandstones of the Garn Formation (Iris) by a single well drilled in April 2018. At least one appraisal well is planned for 2019. Faroe has proposed an indicative field development plan assuming between three and eight sub-sea gas production wells tied back to the Kristin FPU to the south.

### 1.2.7 Other Fields and Discoveries

The only other producing field in Norway in which Faroe holds an interest is Trym, a small gas condensate field in the Central Graben of the central North Sea, near the border with Denmark, in 65 m of water. It has been in production since 2011 via two sub-sea horizontal wells tied back to the Maersk-operated Harald platform in the Danish sector. A 3-year shut-down starting in 2019 is expected. Just south of Trym is Trym South, which may potentially be developed with a single well tied into Trym once production restarts in 2022.

SE Tor, operated by Faroe, is a light oil discovery made in 1971 in the Central Graben of the North Sea. Oil is contained in the chalks of the Hod, Tor and Ekofisk Formations (Upper Cretaceous to Palaeocene). Two appraisal wells penetrate the structure in addition to the discovery well. Development as a tie-back to a host platform such as Tor is envisaged, with three horizontal production wells and one injection well. First oil is currently envisaged to be in 2024.

### 1.2.8 Exploration Prospects

Faroe holds interest in seven Near-Term Prospects, all likely to be drilled in the next 2-3 years:

- Gomez: adjacent to SE Tor in the Central Graben, targeting the Paleocene sandstones of the Ty and Heimdal Formations and Borr member of the Våle Formation, which are at shallower depth than the chalk reservoirs of the surrounding fields.
- Katie: targeting the Ula Formation to the east of Tambar and south of Oda in the Central Graben. A stratigraphic trap is postulated, making this a higher risk target.
- Cassidy: also targeting the Ula Formation, just to the north of Oda. A structural trap on the southern flank of a salt-induced dome. Drilling is planned for 2019.
- Pabow: the most promising of a set of five gas-condensate Prospects in the Central North Sea. Targets a structural trap in the Statfjord Formation. If successful, a stand-alone platform development would probably be required. Drilling is planned for 2019.
- BrasseX: targets a potential extension of the Brasse discovery to the north-east, separated from Brasse itself by one or more faults.
- Bergknapp (formerly Yoshi): located in the Norwegian Sea, a horst block lying between the Smorbukk and Smorbukk South segments of the Åsgard Field to the west and the Trestakk Field to the east, in approximately 250 m water depth. The main targets are the Tilje and Ile Formations that are productive in the surrounding fields. Drilling is planned for 2019.
- Canela A&B: two of five fault blocks sequentially downthrown towards the west by a series of extensional fault splays which form the western boundary of the horst block containing the Heidrun Field, north-west of Smorbukk in the Norwegian Sea. The primary reservoir targets are the Ile and Garn Formations.

Most of these Prospects are assessed by GCA as having a fair chance of success (in the order of 40%), the exceptions being Katie and Pabow, and to a lesser extent Cassidy, which are assessed as more risky.

In addition, there are seven Mid-Term and nine Long-Term Prospects, and three Leads, all of which offer additional upside potential (see Appendix VI).

### 1.3 UK Assets

Faroe's most significant interest in the UK is its 44.5% stake in the Blane oil field, which accounts for more than 50% of Faroe's 2P Reserves in the UK. It is located in the East Central Graben of the North Sea in 72 m water depth, straddling the UK and Norwegian median line and has been developed as a subsea tie-back (34 km) to the Ula platform, with two production wells and one water injector. The field has been in production from Forties Formation (Palaeocene) sandstones since 2007; water injection commenced in 2009. Current production rate is approximately 3,000 bopd at 50% water cut. A third production well is under consideration by the Operator (Repsol), but is not definite.

The other fields in the UK in which Faroe holds an interest are:

- Enoch, an oil and gas field located in the central North Sea developed in 2007 as a single-well tie-back to the Brae A platform; and
- East Foinaven, an oil field in the West of Shetland, developed in 2001 as a sub-sea tie-back to the Foinaven FPSO, currently producing from two wells with two active water injectors.

Due to its recent announcement, GCA has not reviewed the recently announced Agar discovery in the UK (Faroe 25%), which penetrated a 20 m gross reservoir section in the Upper Frigg Formation. The initial petrophysical assessment indicates a high net to gross reservoir section with average porosity of around 30%.

Schooner and Ketch, two gas fields in the southern North Sea, both ceased production in mid-2018.

### 1.4 Ireland Assets

Faroe's only significant interest in Ireland is the Edge Prospect, located in the CNOOC-operated LO 16/23 licence off the northwest coast (Figure 1) some 18 km from the Corrib gas field that started production in 2015. The Prospect is partly covered by 3D seismic. The target reservoir is the Sherwood Sandstone (Triassic), as at Corrib, but at a much shallower depth. The Prospect is considered Long-Term, with a chance of success of about 15%.

Other oil and gas Leads have been identified in the LO 16/23 licence and in the Faroe-operated LO 17/1 and 17/2 blocks off the south coast (Figure 1), not far from the producing Kinsale Head (gas) and Seven Heads (oil) fields, but further work is needed to firm up any potential drilling targets.

## 2 Economic Assessment

### 2.1 Valuation Methodology

Firstly, it should be noted that the valuation herein is an opinion of the current market value of Faroe's oil and gas assets and does not contemplate items such as financing payments or impacts, corporate overhead costs, working capital impacts, intangible company growth potential/strategy or other items of this nature.

GCA's assessments have been based upon GCA's understanding of the fiscal and contractual terms governing these assets, and the various economic and commercial assumptions described herein.

GCA's valuation has been arrived at primarily on the basis of discounted cash flow (DCF) analysis, but other sources of information such as comparable transactions and market trading multiples have been considered to corroborate the DCF results.

### 2.2 Discounted Cash Flow Analysis

#### 2.2.1 Methodology

A DCF analysis assesses the value of assets based on the present value of an estimate of the future income to be derived from those assets. In the absence of a direct indicator of value (such as a recent sales transaction for the asset, or a very close analogue), it is the most widely used and preferred method for valuing oil and gas interests. A DCF analysis involves forecasting the quantum and timing of the future costs for which the interest holder will be liable, and future revenues to which the interest holder will be entitled. Each future year's cash flow is reduced by a discount factor to account for the time value of money and certain categories of risk. The sum of these discounted annual cash flows over the life of the asset or project is called the net present value ("NPV").

Additional risk factors are then typically applied for Contingent Resources and Prospective Resources. Contingent Resources are risked by multiplying the NPV by the estimated Chance of Development ( $P_d$ ) to obtain a risked NPV. For Prospective Resources, an Expected Monetary Value (EMV) is calculated, taking into account the estimated Geological Chance of Success ( $P_g$ ) as well as  $P_d$  and the losses that would arise if the exploration program is unsuccessful (Risk Capital or RC):

$$EMV = P_g \times P_d \times NPV - (1 - P_g \times P_d) \times RC$$

It should be recognised that estimation of these risk factors can be very subjective. The overall value of the assets given by the DCF analysis is then the sum of the NPVs of the Reserves, the risked NPVs of the Contingent Resources, and the EMVs of the Prospective Resources.

#### 2.2.2 Determination of a Range of DCF Outcomes

In the present evaluation, GCA has performed DCF analysis for the Reserves, for projects to which Contingent Resources (Development Pending) have been assigned, and for the Near-Term Prospects. All of these classes of project are reasonably well defined; low, base and high production and cost forecasts for them exist and have been audited by GCA.

A range of DCF outcomes has been derived by considering the following two cases:

1. The Base case, i.e. the 2P Reserves, 2C Contingent Resources and Best estimate of Prospective Resources; and
2. The “Mean” case, in which Swanson’s Rule is used to estimate the mean NPV as a weighted average of the Low (30% weight), Base (40%) and High (30%) NPVs, where the Low estimate is based on the Proved (1P) Reserves, 1C Contingent Resources and Low estimate of Prospective Resources and the High estimate is based on the Proved plus Probable plus Possible (3P) Reserves, 3C Contingent Resources and High estimate of Prospective Resources.

The Mean case gives a higher value compared to the Base case for assets that have greater upside than downside (compared to the Base case), which is typically the case for opportunities with greater uncertainty, i.e. Contingent and Prospective Resources.

Subsequently, an additional value component has been added to the upper end of the range to account for the Mid- and Long-Term Prospects. Development plans for these Prospects are not well defined and detailed production and cost forecasts (assuming the exploration wells are successful) are not available. NPVs for these Prospects have therefore been determined using US\$/boe multiples based on the NPVs estimated for the Near Term Prospects, with an additional two years of discounting applied. EMVs have then been calculated using the estimated  $P_g$ ,  $P_d$  and RC for each Prospect.

### 2.2.3 Determination of Discount Rates

Within the international oil and gas industry, there is no universally accepted methodology for determining discount rates and selecting the appropriate rates is a matter of judgement. Factors that are often considered include the location of the assets (political and country risk), the company’s Weighted Average Cost of Capital (WACC), and the level of certainty in the forecast production volumes.

For this evaluation, GCA has applied the same annual discount rate to cash-flows from all classes of resources (i.e. Reserves, Contingent Resources and Prospective Resources). This methodology is extensively used in equity markets when valuing a company’s future cash flows. Such an assumption is appropriate when there is an expectation for the company to maintain and grow operations indefinitely, requiring the identification, pursuit and materialization of new opportunities. The assumption is that the company will continue to hold a combination of existing and potential assets that will continue to generate a return in line with the company’s WACC for the foreseeable future, supporting the use of a single discount rate for all of the expected future cash flows.

The annual discount rate applied is 10%. This choice is in line with Faroe’s estimated WACC and can be supported by GCA experience, industry practice, papers from subject matter authorities, precedents in similar evaluation documents and a review of equity analyst assumptions.

GCA also considered an alternative methodology where different discount rates are applied to cash-flows from Reserves (8%), Contingent Resources (12%) and Prospective Resources (15%), to account for the different degrees of risk and uncertainty associated with these different classes of resources. Such an approach is not uncommon in the industry and reflects the higher trading multiples observed in asset transactions for Reserves compared to Resources.

### 2.2.4 Oil and Gas Pricing Scenario

GCA’s Brent Crude oil price scenario for 4Q 2018, shown in Table 3, has been used as the reference oil price. This scenario follows the ICE Brent Futures strip in the short term, thereafter following a long term price estimated based on a combination of numerous industry sources and sentiment.

Costs estimated in 2018 real terms have been escalated at 2% p.a. from 2019 onwards.

Based on the information provided by Faroe, it is assumed that: (i) all crude from Faroe’s assets is sold at par with Brent; (ii) the realized NGL price equates to 60% of the Brent price; and (iii) the realized gas price in US\$/Mscf equates to 9.4% of the Brent price in US\$/Bbl unless otherwise specified in a sales contract.

**Table 3: Brent Crude Oil Price Scenario**

Year	Price (US\$/Bbl)
4Q 2018	82.73
2019	80.33
2020	75.88
2021	72.50
2022+	+2.0% p.a.

### 2.2.5 Fiscal Terms

All assets for which DCF analysis has been performed are governed by either the United Kingdom or Norwegian oil and gas taxation systems.

The Norwegian fiscal regime consists of a Corporate Income Tax (CIT) and a Special Petroleum Tax (SPT) totalling a 78% tax on the income of the field. CAPEX is assumed to be depreciated on a straight line basis over 6 years and is entitled to an additional capital allowance of 21.6% over 4 years for SPT. Based on GCA’s understanding of the timing of tax payments, half of the Norwegian tax liability is assumed to be paid the year it is incurred and half is paid in the subsequent year.

The United Kingdom fiscal regime consists of CIT and a Supplementary Charge (SC) totalling 40%. CAPEX is assumed to be depreciated immediately.

Table 4 shows the carried tax losses and depreciation balances as at 30<sup>th</sup> September 2018 that have been incorporated into the analysis based on information provided by Faroe.

For both countries, tax losses at the end of the production life due to abandonment activities are entitled to a refund up to the tax value of such losses at the time a company ceases its upstream activities.



**Table 4: Tax Losses and Depreciation Balances as at 30<sup>th</sup> September 2018**

Outstanding Balance	Tax Deductions (US\$MM)
Norwegian CIT Carried Losses	29.5
Norwegian SPT Carried Losses	94.6
Norwegian Asset Outstanding CIT Depreciation	214.0
Norwegian Asset Outstanding SPT Deductions	35.0
UK CIT Tax Losses	57.1
UK SC Losses	47.7

No DCF analysis was applied to the Irish assets, but the Irish fiscal regime consists of CIT at 25% and Petroleum Production Tax, which is deductible for income tax purposes and effectively charged at a rate of 5%-40% based on field profitability. Costs, including CAPEX, are understood to be deductible immediately for tax purposes.

## 2.2.6 Technical Input

For the purposes of the current valuation, which has an effective date of 30<sup>th</sup> September 2018, GCA has made use of the Reserves, Contingent Resources and Prospective Resources volumes as of 31<sup>st</sup> December 2017 and the associated production and cost forecasts, which GCA audited previously. Adjustments have been made only for material events that have occurred since that date, such as the Hades/Iris discovery and the Fenja farm-down (but excluding the recent Agar discovery). With some minor exceptions, production and OPEX in 4Q 2018 are assumed to equal one-quarter of the forecasts for the whole of 2018 made as at 31<sup>st</sup> December 2017; CAPEX forecasts for 4Q 2018 and 2019 have been adjusted to reflect Faroe's latest estimates for those fields with significant 2018 CAPEX. Economic limits for Reserves have been recalculated using the current oil price assumption. The resulting Reserves, Contingent Resources and Prospective Resources as at 30<sup>th</sup> September 2018 are shown in Appendices IV, V and VI respectively.

Additionally, based on GCA's review, technical feasibility and Faroe's history of bringing similar projects online in Norway, the Contingent Resources for which DCF has been applied (i.e. those in Development Pending) have been ascribed a Chance of Development ( $P_d$ ) of 80% unless the 1C (low) estimate is found to return a negative NPV, in which case the  $P_d$  is assumed to be 60%. An exception has been made for Bue and for some Ula infill wells, where  $P_d$  of 80% has been used despite a negative 1C NPV, due to the advanced stage of development planning. A  $P_d$  of 80% has been applied for all Prospects, in addition to the individual  $P_g$  estimated for each Prospect (shown in Appendix VI).

The Risk Capital (RC) used in the EMV calculation for Prospects is Faroe's share of the dry hole cost of an exploration well. Potential appraisal costs that might be incurred after making a discovery and before deciding whether or not to go ahead with a development have been neglected. Since the Norwegian fiscal regime allows for reimbursement of the tax value of the costs associated with an unsuccessful exploration campaign, the RC is effectively reduced by 78%.

## 2.2.7 DCF Results

Table 5 shows the results of the DCF analysis for the range of production forecasts. The split by country is not shown, but Norway accounts for more than 95% of the value in all cases.

The Low Case consists of the 1P Reserves, 1C Contingent Resources and Low estimate Prospective Resources for all assets, while the Base/High Cases consist of the 2P/3P Reserves, 2C/3C Contingent Resources and Best/High estimate Prospective Resources respectively. It is highly unlikely that the low or high estimate will materialize consistently across all the assets (the "portfolio effect"), so the full ranges shown in the table are unrealistically large, but are shown for illustrative purposes and to draw attention to the uncertainty in the volume estimates. The Mean case is also shown and, as discussed in Section 2.2.2, an additional value component has been added to that case to account for the Mid- and Long-Term Prospects.

**Table 5: DCF Analysis Results (US\$ MM)**

Resource Type	Low	Base	Mean	High
Reserves (by Field)	308	681	703	1,127
Tax Losses/Consolidation	63	82	73	71
Contingent Resources	24	165	219	478
Near Term Prospects	-36	79	157	454
Other Prospects <sup>1</sup>	-	-	67	-
<b>Total</b>	<b>359</b>	<b>1,007</b>	<b>1,219</b>	<b>2,130</b>

### Notes:

- Cash flows have not been run for the Mid- and Long-Term Prospects as development plans are too immature for this to be meaningful; as discussed in Section 2.2.2, an additional value component has been added to the Mean case using US\$/boe multiples.

Faroe's Reserves constitute the majority of the value ascribed to Faroe's oil and gas interests. Approximately 30% of this value comes from a single field, Brasse, while the next largest contributions come from the Tambar, Oda and Njord fields. In addition to the value of the cash flow ascribed to Reserves for each field, there is an incremental value impact of incorporating tax losses and consolidating taxable deductions, which is broken out in the table.

As shown in Table 5, the Contingent Resources were found to add US\$165 MM – US\$219 MM in the Base-Mean cases. Over 50% of this value comes from the recent Hades & Iris discovery and nearly 80% of the value comes from 3 assets: Hades & Iris, Brage and SE Tor.

The Near-Term Prospects add US\$79 MM – US\$157 MM in the Base-Mean cases. The contribution by Prospect varies significantly between Base and Mean cases, but notable value contributors are the Canela, Gomez and BrasseX Prospects.

Any Contingent Resources or Prospects that returned a negative NPV or EMV in the Base case were excluded from the results.

The conclusion of GCA's assessment is that the value of Faroe's oil and gas assets as of 30<sup>th</sup> September 2018 is in the range of US\$1,007 MM – US\$1,219 MM based on the range between the Base and Mean cases.



## 2.2.8 Sensitivity Analysis

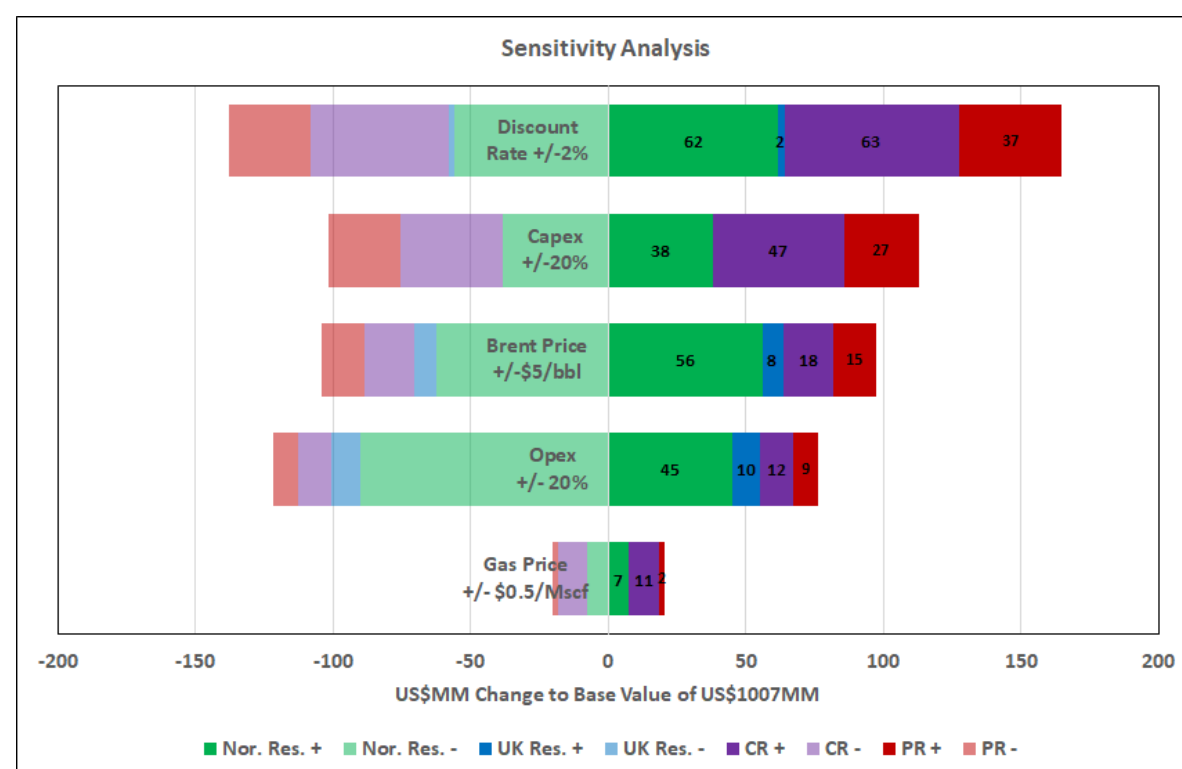
GCA has considered sensitivities to the alternative discount rate methodology mentioned in Section 2.2.3, and to assumptions on commodity price, discount rate and costs.

The alternative discount rate methodology gives less weight to the contribution from Contingent Resources and Prospective Resources compared to that from Reserves, and results in a reduction of the value range by approximately US\$100 MM.

Figure 2 shows the sensitivity of the results of the DCF analysis to varying the commodity price, discount rate and cost assumptions. Among the evaluated sensitivities, a 2% change in discount rates had the largest impact across the whole portfolio, followed by a 20% change in the CAPEX estimates. However, for the Reserves alone, the largest impact is from a 20% increase in OPEX followed by a US\$5.00/Bbl change to the Brent Price scenario.

The value range for Faroe determined in this document is based on assumptions that GCA believes to be reasonable at the time of this report. The sensitivities are presented to show the quantum impact of taking a varying view on those underlying assumptions, but do not directly impact GCA's assessment of the value range.

**Figure 2: Sensitivity to Discount Rate, Commodity Prices and Costs**



## 2.3 Comparable Transactions and Companies

Comparable transactions and companies have been analysed in order to verify the reasonableness of the DCF results. The primarily relied upon metric for companies and asset transactions comparable to Faroe are dollar per 2P Reserves (US\$/2P) and dollar per 2P Reserves plus 2C Contingent Resources (US\$/(2P+2C)) on a barrels of oil equivalent (boe)

basis. Other traditional multiples such as price to book and various price to earnings ratios were reviewed but the historical results for the peer companies and Faroe were found to be highly variable.

Using a conversion factor of 6.0 Mscf/boe for gas, the valuation range of US\$1,007 MM – US\$1,219 MM obtained from the Base-Mean DCF analysis corresponds to the following:

$$\text{US}\$/2\text{P} = \text{US}\$9.9 - \text{US}\$12.0 / \text{boe}$$

$$\text{US}\$/(2\text{P} + 2\text{C}) = \text{US}\$5.1 - \text{US}\$6.2 / \text{boe}$$

An analysis of Norwegian and UK transactions involving assets comparable to Faroe's holdings resulted in a range of approximately:

$$\text{US}\$/2\text{P} = \text{US}\$8.0 - \text{US}\$13.5 / \text{boe}$$

$$\text{US}\$/(2\text{P} + 2\text{C}) = \text{US}\$4.5 - \text{US}\$6.6 / \text{boe}$$

An analysis of the Enterprise Value of various publicly traded companies that hold assets comparable to Faroe's found them to normally trade in the range of:

$$\text{US}\$/2\text{P} = \text{US}\$4.0 - \text{US}\$15.0 / \text{boe}$$

$$\text{US}\$/(2\text{P} + 2\text{C}) = \text{US}\$3.0 - \text{US}\$10.0 / \text{boe}$$

This analysis suggests that the valuation range calculated for Faroe is reasonably supported by industry comps.

## Basis of Opinion

This document reflects GCA's informed professional judgment based on accepted standards of professional investigation and, as applicable, the data and information provided by Faroe ("the Client") and/or obtained from other sources (e.g., public domain), the limited scope of engagement, and the time permitted to conduct the evaluation.

In line with those accepted standards, this document does not in any way constitute or make a guarantee or prediction of results, and no warranty is implied or expressed that actual outcomes will conform to the outcomes presented herein. GCA has not independently verified any information provided by, or at the direction of, the Client and/or obtained from other sources, and has accepted the accuracy and completeness of this data. GCA has no reason to believe that any material facts have been withheld, but does not warrant that its inquiries have revealed all of the matters that a more extensive examination might otherwise disclose.

The opinions expressed herein are subject to and fully qualified by the generally accepted uncertainties associated with the interpretation of geoscience and engineering data and do not reflect the totality of circumstances, scenarios and information that could potentially affect decisions made by the report's recipients and/or actual results. The opinions and statements contained in this report are made in good faith and in the belief that such opinions and statements are representative of prevailing physical and economic circumstances.

There are numerous uncertainties inherent in estimating reserves and resources, and in projecting future production, development expenditures, operating expenses and cash flows. Oil and gas resources assessments must be recognized as a subjective process of estimating subsurface accumulations of oil and gas that cannot be measured in an exact way. Estimates of oil and gas resources prepared by other parties may differ, perhaps materially, from those contained within this report.

The accuracy of any resource estimate is a function of the quality of the available data and of engineering and geological interpretation. Results of drilling, testing and production that post-date the preparation of the estimates may justify revisions, some or all of which may be material. Accordingly, resource estimates are often different from the quantities of oil and gas that are ultimately recovered, and the timing and cost of those volumes that are recovered may vary from that assumed.

Oil and condensate reserves and resources volumes are reported in millions ( $10^6$ ) of barrels at stock tank conditions (MMBbl). Natural gas volumes have been quoted in billions ( $10^9$ ) of standard cubic feet (Bscf) and are volumes of sales gas, after an allocation has been made for fuel and process shrinkage losses. Standard conditions are defined as 14.7 psia and 60°F.

GCA has not undertaken a site visit to any of Faroe's assets. As such, GCA is not in a position to comment on the operations or facilities in place, their appropriateness and condition, or whether they are in compliance with the regulations pertaining to such operations. Further, GCA is not in a position to comment on any aspect of health, safety, or environment of such operations.

This report has been prepared based on GCA's understanding of the effects of petroleum legislation and other regulations that currently apply to these properties. However, GCA is not in a position to attest to property title or rights, conditions of these rights (including environmental and abandonment obligations), or any necessary licenses and consents (including planning permission, financial interest relationships, or encumbrances thereon for any part of the appraised properties).

#### Definition of Reserves and Resources

Reserves are those quantities of petroleum that are anticipated to be commercially recoverable by application of development projects to known accumulations from a given date forward under defined conditions. Reserves must further satisfy four criteria, based on the development project(s) applied: discovered, recoverable, commercial and remaining (as of the evaluation date).

Reserves are further categorized in accordance with the level of certainty associated with the estimates and may be sub-classified based on project maturity and/or characterized by development and production status. All categories of reserves volumes quoted herein have been derived within the context of an economic limit test assessment (pre-tax and exclusive of accumulated depreciation amounts) prior to any net present value analysis.

Contingent Resources are those quantities of petroleum estimated, as of a given date, to be potentially recoverable from known accumulations, but the applied project(s) are not yet considered mature enough for commercial development because of one or more contingencies. Contingent Resources may include, for example, projects for which there are currently no evident viable markets, or where commercial recovery is dependent on technology under development, or where evaluation of the accumulation is insufficient to clearly assess commerciality. Contingent Resources are further categorized in accordance with the level of certainty associated with the estimates and may be sub-classified based on project maturity and/or characterized by their economic status.

It must be appreciated that the Contingent Resources reported herein are unrisks in terms of economic uncertainty and commerciality. There is no certainty that it will be commercially viable to produce any portion of the Contingent Resources. Once discovered, the chance that the accumulation will be commercially developed is referred to as the "chance of development" (per PRMS).

Prospective Resources are those quantities of petroleum that are estimated, as of a given date, to be potentially recoverable from undiscovered accumulations by application of future development projects. Prospective Resources have both an associated "chance of discovery" (referred to herein as the Geological Chance of Success ( $P_g$ )) and a "chance of development". Prospective Resources are further subdivided in accordance with the level of certainty associated with recoverable estimates, assuming their discovery and development, and may be sub-classified based on project maturity.

There is no certainty that any portion of the Prospective Resources will be discovered. If discovered, there is no certainty that it will be commercially viable to produce any portion of the resources. Prospective Resource volumes are presented as unrisks (that is, on the pre-drill estimates of size, if discovered).

#### Use of Net Present Values

It should be clearly understood that the NPVs contained herein do not in themselves represent a GCA opinion as to the market value of the subject properties, nor any interest in them.

#### Qualifications

GCA is an independent international energy advisory group of more than 50 years' standing, whose expertise includes petroleum reservoir evaluation and economic analysis.

In performing this study, GCA is not aware that any conflict of interest has existed. As an independent consultancy, GCA is providing impartial technical, commercial, and strategic advice within the energy sector. GCA's remuneration was not in any way contingent on the contents of this report.

In the preparation of this document, GCA has maintained, and continues to maintain, a strict independent consultant-client relationship with Faroe. Furthermore, the management and employees of GCA have no interest in any of the assets evaluated or related with the analysis performed as part of this report.

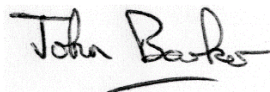
Staff members who prepared this report are professionally qualified with appropriate educational qualifications and levels of experience and expertise to perform the work.

The team was led by Dr John Barker, Technical Director, Reservoir Engineering, who has 33 years of industry experience. He holds an M.A. in Mathematics from the University of Cambridge and a Ph.D. in Applied Mathematics from the California Institute of Technology. He is a member of the Society of Petroleum Engineers and of the Society of Petroleum Evaluation Engineers.

The report has been reviewed by Mr. Bill Cline, the Senior Advisor within GCA. He has over 30 years' experience in the international oil and gas industry and has managed a large number of GCA's engagements with national oil companies, governments and ministries worldwide, particularly with respect to property valuations for transactional or dispute resolution purposes. He graduated from the Edmund A. Walsh School of Foreign Service at Georgetown University in Washington D.C. with a BSc. degree in International Economics and completed his MBA at Southern Methodist University's Edwin L. Cox School of Business in Dallas. He is a member of the Society of Petroleum Engineers and member and President Elect of the Association of International Petroleum Negotiators.

Yours sincerely,

Gaffney, Cline & Associates



Project Manager  
John Barker, Technical Director



Reviewed by  
Bill Cline, Senior Advisor

Appendix I  
Abbreviated Form of PRMS

## Appendix II

### Glossary of Abbreviations

#### GLOSSARY

API	American Petroleum Institute
°API	Degrees API (a measure of oil density)
B	Billion (10 <sup>9</sup> )
Bbl	Barrels
boe	Barrels of oil equivalent
bopd	Barrels of oil per day
Bscf	Billion standard cubic feet
CAPEX	Capital expenditure
CIT	Corporate Income Tax
DCF	Discounted cash flow
EMV	Expected Monetary Value
EOR	Enhanced Oil Recovery
°F	Degrees Fahrenheit
FPSO	Floating Production, Storage and Offloading vessel
FPU	Floating Production Unit
ICE	Inter-Continental Exchange
km	Kilometres
m	Metres
M	Thousand
MM	Million
MMBbl	Million barrels
Mscf	Thousand standard cubic feet
NGL	Natural gas liquids
NPV	Net Present Value
OPEX	Operating Expenditure
p.a.	Per annum
P <sub>d</sub>	Chance of development
P <sub>g</sub>	Geological chance of success
psi	Pounds per square inch
psia	Pounds per square inch (absolute)
RC	Risk Capital
SC	Supplementary Charge
scf	Standard cubic feet
SPT	Special Petroleum Tax
US\$	Water-Alternating-Gas injection
WACC	Weighted Average Cost of Capital
WAG	Working Interest
WI	Working Interest
1C	Low estimate of Contingent Resources
2C	Best estimate of Contingent Resources
3C	High estimate of Contingent Resources
3D	Three-dimensional
1P	Proved Reserves
2P	Proved plus Probable Reserves
3P	Proved plus Probable plus Possible Reserves
3Q	Third quarter (of year)
4Q	Fourth quarter (of year)



The development and production licences held by Faroe and Faroe's working interest (WI) in each, as represented by Faroe, are summarized in Table AIII.1, and the exploration licences in Table AIII.2.

**Table AIII.1: Development and Production Licenses as at 30<sup>th</sup> September 2018**

Country	Production License	Blocks	Field(s)	Operator	Faroe WI (%)	Status
UK	P516	44/26a, 43/30a	Schooner	Faroe	60.00	Production
	P453	44/28b	Ketch	Faroe	60.00	Production
	P111	30/3a U, 30/3d	Blane	Repsol Sinopec	44.49 <sup>1</sup>	Production
	P219	16/13a	Enoch	Repsol Sinopec	13.86 <sup>2</sup>	Production
	P558	204/24a	East Foinaven	BP	10.00	Production
	P803	204/25b	East Foinaven	BP	10.00	Production
Norway	PL048 D	15/5f	Enoch	Equinor <sup>6</sup>	13.86 <sup>3</sup>	Production
	PL147	3/7a	Trym & Trym South	Faroe	50.00	Production
	PL006 C&E	2/5, 2/5c	SE Tor	Faroe	85.00	Appraisal
	PL065	1/3	Tambar & Tambar East	Aker BP	45.00	Production
	PL300	2/1	Tambar East	Aker BP	37.80 <sup>4</sup>	Production
	PL405	8/10	Oda	Spirit Energy	15.00	Development
	PL274	1/3	Oselvar	Faroe	55.00	Production
	PL274 CS	1/2	Oselvar	Faroe	55.00	Production
	PL019	7/12	Ula & Ula North	Aker BP	20.00	Production
	PL019 E	7/12	Ula North	Aker BP	20.00	Production
	PL169 E	25/8	Ringhorne East	Equinor	7.80 <sup>5</sup>	Production
	PL740	31/7 & 30/9	Brasse	Faroe	50.00	Development
	PL740 B	31/4, 31/7	Brasse	Faroe	50.00	Development
	PL185	31/7	Brage	Wintershall	14.26	Production
	PL053 B	30/6	Brage	Wintershall	14.26	Production
	PL055	31/4	Brage	Wintershall	14.26	Production
	PL055 B&D	31/4	Brage	Wintershall	14.26	Production
	PL586	6406/12	Fenja, Bue & Boomerang	VNG	7.50	Development
	PL348	6407/8	Hyme	Equinor	7.50	Re-Development
	PL348	6407/8	Bauge	Equinor	7.50	Development
	PL107	6407/7	Njord, Njord NF & Njord NWF	Equinor	7.50	Re-Development
	PL132	6407/10	Njord	Equinor	7.50	Re-Development
	PL433	6506/9c, 6506/12b	Fogelberg	Spirit Energy	15.00	Appraisal

**Notes:**

- Faroe holds a 54.27% WI in P111. The quoted WI is for the unitized Blane Field.
- Faroe holds a 15.00% WI in P219. The quoted WI is for the unitized Enoch Field.
- Faroe holds a 9.30% WI in PL048 D. The quoted WI is for the unitized Enoch Field.
- Faroe holds a 45.00% WI in PL300. The quoted WI is for the unitized Tambar East Field.
- Faroe holds a 30.00% WI in PL169 E. The quoted WI is for the unitized Ringhorne East Field.
- PL048 D is operated by Equinor, however the Enoch Field is operated by Repsol Sinopec.

## Appendix III Summary of Licences

Table AIII.2: Exploration Licenses as at 30<sup>th</sup> September 2018

## (a) Norway

Country	License	Blocks	Prospects and Leads	Operator	Faroe WI (%)	Status	Expiry Date
Norway	PL006C	2/5	Gomez	Faroe	85.0	Appraisal & Exploration	31/12/2028
	PL006E	2/5	SE Tor	Faroe	85.00	Appraisal & Exploration	31/12/2028
	PL107C	6407/7	Njord NF	Equinor	7.5	Exploration	23/01/2019
	PL810	2/1, 7/12 & 8/10	Katie	Faroe	40.0	Exploration	05/02/2023
	PL405	8/10	Cassidy	Spirit Energy	15.0	Development & Exploration	01/12/2036
	PL811	7/9, 7/12 & 8/7	Kid & Gullaxy	Spirit Energy	20.0	Exploration	05/02/2024
	PL870	25/6, 25/9 & 26/7	Rumow North, Rumow South, Pabow, Glitterind & Fonno	Equinor	20.0	Exploration	10/02/2023
	PL740B&C	31/4 & 31/7	Brasse Extension	Faroe	50.0	Exploration	07/02/2020
	PL825	30/3 & 30/6	Rungne, Mjød	Faroe	40.0	Exploration	05/02/2023
	PL881	33/9	Skink, Nelumbo	Wellesley Petroleum	30.0	Exploration	10/02/2022
	PL586	6406/11 & 6406/12	Tommeltott, Vidsyn & Blink	VNG	25.0	Development, Appraisal & Exploration	04/02/2019
	PL793	6407/7, 6407/8, 6407/10 & 6407/11	Portstewart	Shell	20.0	Exploration	06/02/2022
	PL836 S	6406/2 & 6406/3	Bergknapp (Yoshi)	Wintershall	30.0	Exploration	05/02/2023
	PL644	6506/8, 6506/10 & 6506/11	Hades & Iris	OMV	20.0	Exploration	03/02/2020
	PL644B	6506/11	Hades & Iris	OMV	20.0	Exploration	03/02/2020
	PL888	6507/7	Canela, Manilow	Faroe	40.0	Exploration	10/02/2024
	PL845	6609/6, 6610/4, 6610/5 & 6610/6	Edelgran, Gjedde, Hardhaus & Myrsildre	Conoco-Phillips	20.0	Exploration	05/02/2025
	PL906	7/11, 7/12	Skræmetindan	AkerBP	20.0	Exploration	02/03/2025
	PL908	9/11, 9/12, 10/10, 10/11	Aarhus	Equinor	30.0	Exploration	02/03/2025
	PL926	33/9, 33/12, 34/10	Blue Libelle	Faroe	40.0	Exploration	02/03/2025

## (b) UK and Ireland

Country	License	Blocks	Prospects and Leads	Operator	Faroe WI (%)	Status	Expiry Date
UK	P1763	9/9d, 9/14a	Agar	Apache	12.5 <sup>1</sup>	Appraisal	
	P2401	30/14b	Edinburgh (part)	Faroe	100.0	Exploration	30/09/2020
Ireland	LO16/23	Corrib East	Edge, Clayton, Downey, Lynott & McGowan	CNOOC	20.0	Exploration	July, 2019
	LO17/1	48/28, 48/29, 48/30, 49/26, 57/3, 57/4 & 57/5	Lead A, Lead B, Lead C & Lead D	Faroe	100.0	Exploration	December, 2018
	LO17/2	57/6, 57/7, 57/8, 57/9, 57/11 & 57/12	Lead E/F & Lead G/H/I	Faroe	100.0	Exploration	December, 2018

## Notes:

- Faroe holds a 12.5% WI in P1763 but a 25% WI in the Sole Risk Area incorporating the Agar discovery.

The oil, NGL and gas Reserves attributed to the assets in which Faroe holds an interest, as at 30<sup>th</sup> September 2018, are shown in Tables AIV.1, AIV.2 and AIV.3 respectively. Both Gross (100%) Field Reserves and Reserves Net to Faroe's working interest are shown for each field.

**Table AIV.1: Oil Reserves as at 30<sup>th</sup> September 2018**

Country	Field	Gross Field (MMBbl)			Faroe WI (%)	Net to Faroe (MMBbl)		
		Proved	Proved plus Probable	Proved plus Probable plus Possible		Proved	Proved plus Probable	Proved plus Probable plus Possible
Norway	Bauge	33.51	48.63	64.25	7.50	2.51	3.65	4.82
	Brage	19.17	21.34	23.56	14.26	2.73	3.04	3.36
	Brasse	29.54	61.22	119.04	50.00 <sup>3</sup>	12.73	24.18	41.66
	Fenja	54.39	67.83	80.53	7.50	4.08	5.09	6.04
	Hyme	4.30	8.03	12.15	7.50	0.32	0.60	0.91
	Njord	20.53	30.46	40.80	7.50	1.54	2.28	3.06
	Oda	26.63	45.75	66.67	15.00	3.99	6.86	10.00
	RHE	26.67	31.36	36.73	7.80	2.08	2.45	2.86
	Tambar	8.77	18.67	32.43	45.00	3.95	8.40	14.59
	Tambar East	0.00	0.45	0.72	37.80	0.00	0.17	0.27
	Trym	0.90	1.06	1.37	50.00	0.45	0.53	0.68
	Ula	30.11	52.33	80.56	20.00	6.02	10.47	16.11
	<b>Sub-Total</b>	<b>254.50</b>	<b>387.14</b>	<b>558.79</b>		<b>40.41</b>	<b>67.72</b>	<b>104.38</b>
UK	Blane	5.01	5.66	6.46	44.49	2.23	2.52	2.87
	East Foinavan	2.15	6.06	9.11	10.00	0.21	0.61	0.91
	Enoch	2.24	3.97	5.35	13.86	0.31	0.55	0.74
	<b>Sub-Total</b>	<b>9.40</b>	<b>15.69</b>	<b>20.92</b>		<b>2.75</b>	<b>3.67</b>	<b>4.53</b>
<b>Total</b>		<b>263.90</b>	<b>402.83</b>	<b>579.72</b>		<b>43.16</b>	<b>71.40</b>	<b>108.90</b>

**Notes:**

1. Gross Field Reserves are 100% of the volumes estimated to be commercially recoverable from the field.
2. Reserves Net to Faroe are Faroe's working interest fraction of the Gross Field Reserves.
3. Part of Brasse field extends into the Brage unit area where Faroe's WI is only 14.26%.
4. Oil volumes shown in this table include some condensate.
5. Totals may not exactly equal the sum of the individual entries due to rounding.

## Appendix IV Summary of Reserves

Table AIV.2: NGL Reserves as at 30<sup>th</sup> September 2018

Country	Field	Gross Field (MMBbl)			Faroe WI (%)	Net to Faroe (MMBbl)		
		Proved	Proved plus Probable	Proved plus Probable plus Possible		Proved	Proved plus Probable	Proved plus Probable plus Possible
Norway	Bauge	7.43	10.43	13.63	7.50	0.56	0.78	1.02
	Brage	2.36	3.66	4.86	14.26	0.34	0.52	0.69
	Brasse	3.56	11.08	36.66	50.00 <sup>3</sup>	1.54	4.38	12.83
	Fenja	0.92	3.74	6.47	7.50	0.07	0.28	0.49
	Hyme	1.24	2.36	3.57	7.50	0.09	0.18	0.27
	Njord	33.33	47.57	62.65	7.50	2.50	3.57	4.70
	Tambar	0.41	0.88	1.69	45.00	0.18	0.39	0.76
	Tambar East	0.00	0.03	0.04	37.80	0.00	0.01	0.02
	Ula	0.95	1.66	2.55	20.00	0.19	0.33	0.51
	<b>Total</b>	<b>50.21</b>	<b>81.40</b>	<b>132.13</b>		<b>5.47</b>	<b>10.44</b>	<b>21.28</b>

**Notes:**

1. Gross Field Reserves are 100% of the volumes estimated to be commercially recoverable from the field.
2. Reserves Net to Faroe are Faroe's working interest fraction of the Gross Field Reserves.
3. Part of Brasse field extends into the Brage unit area where Faroe's WI is only 14.26%.
4. Totals may not exactly equal the sum of the individual entries due to rounding.

Table AIV.3: Gas Reserves as at 30<sup>th</sup> September 2018

Country	Field	Gross Field (Bscf)			Faroe WI (%)	Net to Faroe (Bscf)		
		Proved	Proved plus Probable	Proved plus Probable plus Possible		Proved	Proved plus Probable	Proved plus Probable plus Possible
Norway	Bauge	46.4	65.2	85.2	7.50	3.5	4.9	6.4
	Brage	22.5	34.6	46.1	14.26	3.2	4.9	6.6
	Brasse	35.3	109.7	363.1	50.00 <sup>3</sup>	15.2	43.3	127.1
	Fenja	14.6	59.2	102.5	7.50	1.1	4.4	7.7
	Hyme	10.3	19.7	29.7	7.50	0.8	1.5	2.2
	Njord	333.3	475.7	626.5	7.50	25.0	35.7	47.0
	Oda	7.1	12.2	18.8	15.00	1.1	1.8	2.8
	Tambar	12.4	26.6	51.3	45.00	5.6	12.0	23.1
	Tambar East	0.0	0.2	0.3	37.80	0.0	0.1	0.1
	Trym	16.3	19.9	25.6	50.00	8.2	9.9	12.8
	<b>Total</b>	<b>498.3</b>	<b>822.8</b>	<b>1,349.2</b>		<b>63.6</b>	<b>118.5</b>	<b>235.8</b>

**Notes:**

1. Gross Field Reserves are 100% of the volumes estimated to be commercially recoverable from the field.
2. Reserves Net to Faroe are Faroe's working interest fraction of the Gross Field Reserves.
3. Part of Brasse field extends into the Brage unit area where Faroe's WI is only 14.26%.
4. Totals may not exactly equal the sum of the individual entries due to rounding.



## Appendix V

### Summary of Contingent Resources

The oil, NGL and gas Contingent Resources (Development Pending) attributed to the assets in which Faroe holds an interest, as at 30<sup>th</sup> September 2018, are shown in Tables AV.1, AV.2 and AV.3 respectively. Contingent Resources (Development Unclassified) are shown in Tables AV.4, AV.5 and AV.6

**Table AV.1: Oil Contingent Resources (Development Pending)  
as at 30<sup>th</sup> September 2018**

Country	Asset/Project	Gross Field (MMBbl)			Faroe WI (%)	Net to Faroe (MMBbl)		
		1C	2C	3C		1C	2C	3C
Norway	Bue	0.00	14.00	25.58	7.50	0.00	1.05	1.92
	Boomerang	11.87	18.55	27.79	7.50	0.89	1.39	2.08
	Brage Infills	13.11	18.57	23.79	14.26	1.87	2.65	3.39
	Hyme Infill	0.46	0.79	1.06	7.50	0.03	0.06	0.08
	Fogelberg	3.65	8.75	13.38	15.00	0.55	1.31	2.01
	Hades	2.00	5.40	9.20	20.00	0.40	1.08	1.84
	Iris	12.10	40.10	56.70	20.00	2.40	8.00	11.30
	Njord NWF B	1.45	3.95	5.89	7.50	0.11	0.30	0.44
	Njord NF 2-3	2.00	2.37	2.72	7.50	0.15	0.18	0.20
	SE Tor	6.49	29.46	55.78	85.00	5.52	25.04	47.42
	Trym South	0.26	0.35	0.48	50.00	0.13	0.18	0.24
	Ula Infill1	0.00	3.76	4.84	20.00	0.00	0.75	0.97
	Ula Infill2	2.98	4.39	5.60	20.00	0.60	0.88	1.12
	Ula N	2.55	4.63	10.17	20.00	0.51	0.93	2.03
	Ula Triassic	1.86	3.16	4.51	20.00	0.37	0.63	0.90
	Ula Tail	0.00	7.36	13.64	20.00	0.00	1.47	2.73
<b>Total</b>		<b>60.78</b>	<b>165.59</b>	<b>231.12</b>		<b>13.53</b>	<b>45.90</b>	<b>78.67</b>

**Notes:**

1. Gross Field Contingent Resources are 100% of the volumes estimated to be recoverable from the project or asset in the event that it is developed.
2. The volumes reported here are "unrisked" in the sense that no adjustment has been made for the risk that the project/asset may not be developed in the form envisaged or may not be developed at all (i.e. no "Chance of Development" factor has been applied).
3. Contingent Resources should not be aggregated with Reserves because of the different levels of risk involved.
4. No economic cut-off has been applied to the Contingent Resources volumes in the Table.
5. Economic analysis indicates that development is uneconomic for the 1C case for Fogelberg, Njord NWF, Njord NF 2-3, Hyme Infill and SE Tor.
6. Oil volumes shown in this table include some condensate.
7. Only Contingent Resources in the Development Pending sub-class are shown in this Table.
8. Totals may not exactly equal the sum of the individual entries due to rounding.

**Table AV.2: NGL Contingent Resources (Development Pending)  
as at 30<sup>th</sup> September 2018**

Country	Asset/Project	Gross Field (MMBbl)			Faroe WI (%)	Net to Faroe (MMBbl)		
		1C	2C	3C		1C	2C	3C
Norway	Brage Infills	3.30	4.39	5.22	14.26	0.47	0.63	0.74
	Hyme Infill	0.17	0.30	0.40	7.50	0.01	0.02	0.03
	Fogelberg	3.66	8.94	14.52	15.00	0.55	1.34	2.18
	Ula Infill1	0.00	0.12	0.15	20.00	0.00	0.02	0.03
	Ula Infill2	0.09	0.14	0.18	20.00	0.02	0.03	0.04
	Ula Triassic	0.06	0.10	0.14	20.00	0.01	0.02	0.03
	Ula Tail	0.00	0.23	0.43	20.00	0.00	0.05	0.09
<b>Total</b>		<b>7.29</b>	<b>14.22</b>	<b>21.04</b>		<b>1.06</b>	<b>2.11</b>	<b>3.14</b>

**Notes:**

1. Gross Field Contingent Resources are 100% of the volumes estimated to be recoverable from the project or asset in the event that it is developed.
2. The volumes reported here are "unrisked" in the sense that no adjustment has been made for the risk that the project/asset may not be developed in the form envisaged or may not be developed at all (i.e. no "Chance of Development" factor has been applied).
3. Contingent Resources should not be aggregated with Reserves because of the different levels of risk involved.
4. No economic cut-off has been applied to the Contingent Resources volumes in the Table.
5. Economic analysis indicates that development is uneconomic for the 1C case for Fogelberg, Njord NWF, Njord NF 2-3, Hyme Infill and SE Tor.
6. Only Contingent Resources in the Development Pending sub-class are shown in this Table.
7. Totals may not exactly equal the sum of the individual entries due to rounding.

**Table AV.3: Gas Contingent Resources (Development Pending)  
as at 30<sup>th</sup> September 2018**

Country	Asset/Project	Gross Field (Bscf)			Faroe WI (%)	Net to Faroe (Bscf)		
		1C	2C	3C		1C	2C	3C
Norway	Bue	0.0	7.8	14.3	7.50	0.0	0.6	1.1
	Boomerang	11.1	17.4	26.0	7.50	0.8	1.3	2.0
	Brage Infills	31.5	41.8	49.7	14.26	4.5	6.0	7.1
	Hyme Infill	2.6	4.5	6.1	7.50	0.2	0.3	0.5
	Fogelberg	107.6	263.0	427.1	15.00	16.1	39.4	64.1
	Hades	134.3	366.2	661.6	20.00	26.9	73.2	132.3
	Iris	151.1	501.9	711.4	20.00	30.2	100.4	142.3
	Njord NWF B	17.6	48.1	71.7	7.50	1.3	3.6	5.4
	Njord NF 2-3	44.2	55.0	65.7	7.50	3.3	4.1	4.9
	SE Tor	10.5	46.6	88.1	85.00	8.9	39.6	74.9
	Trym South	12.5	16.9	30.7	50.00	6.3	8.5	15.4
<b>Total</b>		<b>522.9</b>	<b>1,369.1</b>	<b>2,152.4</b>		<b>98.6</b>	<b>277.0</b>	<b>449.8</b>

**Notes:**

1. Gross Field Contingent Resources are 100% of the volumes estimated to be recoverable from the asset in the event that it is developed.
2. The volumes reported here are "unrisked" in the sense that no adjustment has been made for the risk that the project/asset may not be developed in the form envisaged or may not be developed at all (i.e. no "Chance of Development" factor has been applied).
3. Contingent Resources should not be aggregated with Reserves because of the different levels of risk involved.
4. No economic cut-off has been applied to the Contingent Resources volumes in the Table.
5. Economic analysis indicates that development is uneconomic in the 1C case for Fogelberg, Njord NWF, Njord NF 2-3, Hyme Infill and SE Tor.
6. Only Contingent Resources in the Development Pending sub-class are shown in this Table.
7. Totals may not exactly equal the sum of the individual entries due to rounding.

**Table AV.4: Oil Contingent Resources (Development Unclarified)  
as at 30<sup>th</sup> September 2018**

Country	Asset/Project	Gross Field 2C	WI (%)	Net to Faroe 2C
UK	Blane Infill	3.70	44.49	1.65
Norway	Njord Drilling Post 2025	15.20	7.50	1.14
	Njord EP-P1 Upside	0.60	7.50	0.05
	Fenja-M4.1	4.10	7.50	0.31
	Oselvar Redevelopment	5.61	55.00	3.09
	Tambar NW Infill	5.20	45.00	2.34
	Tambar East Rejuvenation	2.40	45.00	1.08
	Ula Blowdown	13.80	20.00	2.76
	Ula XWAG	25.00	20.00	5.00
	Ula Triassic	3.10	20.00	0.62
	Ula Bright Water/Foam	14.30	20.00	2.86

**Notes:**

1. Gross Field Contingent Resources are 100% of the volumes estimated to be recoverable from the project or asset in the event that it is developed.
2. The volumes reported here are “unrisked” in the sense that no adjustment has been made for the risk that the project/asset may not be developed in the form envisaged or may not be developed at all (i.e. no “Chance of Development” factor has been applied).
3. Contingent Resources should not be aggregated with Reserves because of the different levels of risk involved.
4. No economic cut-off has been applied to the Contingent Resources volumes in the Table.
5. Oil volumes shown in this table include some condensate.
6. Only Contingent Resources in the Development Unclarified sub-class are shown in this Table.

**Table AV.5: NGL Contingent Resources (Development Unclarified)  
as at 30<sup>th</sup> September 2018**

Country	Asset/Project	Gross Field 2C	WI (%)	Net to Faroe 2C
Norway	Njord Drilling Post 2025	7.40	7.50	0.56
	Njord EP-P1 Upside	2.90	7.50	0.22
	Tambar NW Infill	0.05	45.00	0.02
	Tambar East Rejuvenation	0.13	45.00	0.06
	Ula Blowdown	0.70	20.00	0.14
	Ula XWAG	1.40	20.00	0.28
	Ula Triassic	0.15	20.00	0.03

**Notes:**

1. Gross Field Contingent Resources are 100% of the volumes estimated to be recoverable from the project or asset in the event that it is developed.
2. The volumes reported here are “unrisked” in the sense that no adjustment has been made for the risk that the project/asset may not be developed in the form envisaged or may not be developed at all (i.e. no “Chance of Development” factor has been applied).
3. Contingent Resources should not be aggregated with Reserves because of the different levels of risk involved.
4. No economic cut-off has been applied to the Contingent Resources volumes in the Table.
5. Only Contingent Resources in the Development Unclarified sub-class are shown in this Table.

**Table AV.6: Best Estimate (2C) Gas Contingent Resources (Development Unclarified)  
as at 30<sup>th</sup> September 2018**

Country	Asset/Project	Gross Field (Bscf)	WI (%)	Net to Faroe (Bscf)
Norway	Brage Blowdown	6.71	14.26	0.96
	Njord Drilling Post 2025	69.10	7.50	5.18
	Njord EP-P1 Upside	29.30	7.50	2.20
	Fenja-M4.1	9.20	7.50	0.69
	Oselvar Redevelopment	21.29	55.00	11.71
	Tambar NW Infill	8.50	45.00	3.83
	Tambar East Rejuvenation	1.20	45.00	0.54
	Ula Blowdown	127.50	20.00	25.50
	Ula Triassic	52.97	20.00	10.59

**Notes:**

1. Gross Field Contingent Resources are 100% of the volumes estimated to be recoverable from the project or asset in the event that it is developed.
2. The volumes reported here are “unrisked” in the sense that no adjustment has been made for the risk that the project/asset may not be developed in the form envisaged or may not be developed at all (i.e. no “Chance of Development” factor has been applied).
3. Contingent Resources should not be aggregated with Reserves because of the different levels of risk involved.
4. No economic cut-off has been applied to the Contingent Resources volumes in the Table.
5. Only Contingent Resources in the Development Unclarified sub-class are shown in this Table.

**Appendix VI**  
**Summary of Prospective Resources**



Potential exploration targets identified in Faroe's assets have been divided four groups:

- Near-Term Prospects (NTP), which are anticipated to be drilled within the next two years;
- Medium-Term Prospects (MTP), which are anticipated to be drilled between two to five years from now;
- Long-Term Prospects (LTP), which are anticipated to be drilled more than five years from now; and
- Leads, which are less well defined and need further study to determine whether they can be considered as viable drilling targets.

The Prospective Resources as at 30<sup>th</sup> September 2018 attributed to the NTP are summarized in Table AVI.1, those for the MTP and LTP in Table AVI.2 and those for Leads in Table AVI.3. The Prospective Resources are shown both Gross (100%) and Net to Faroe's working interest for each Prospect and Lead, along with the estimated Geological Chance of Success (P<sub>g</sub>).

**Table AVI.1 Prospective Resources (NTP) as at 30<sup>th</sup> September 2018**

**(a) Oil**

Country	Prospect	Gross (MMBbl)			WI (%)	Net to Faroe (MMBbl)			P <sub>g</sub> (%)
		Low	Best	High		Low	Best	High	
Norway	Gomez	1.5	14.4	42.3	85	1.2	12.3	35.9	38
	Katie	2.5	53.2	153.6	40	1.0	21.3	61.4	17
	Cassidy	2.0	17.5	99.5	15	0.3	2.6	14.9	31/22
	Pabow	5.8	23.1	59.2	20	1.2	4.6	11.8	15
	BrasseX	6.8	39.8	103.4	50	3.4	19.9	51.7	42
	Bergknapp	4.6	14.8	34.0	30	1.4	4.4	10.2	44
	Canela A&B	14.0	55.3	113.8	40	5.6	22.1	45.5	38

**(b) Gas**

Country	Prospect	Gross (Bscf)			WI (%)	Net to Faroe (Bscf)			P <sub>g</sub> (%)
		Low	Best	High		Low	Best	High	
Norway	Gomez	1.6	16.1	47.5	85	1.36	13.69	40.38	38
	Katie	1.0	28.1	103.5	40	0.4	11.2	41.4	17
	Cassidy	2.3	19.7	111.7	15	0.3	2.9	1.8	31 / 22
	Pabow	109.1	436.5	1,120.3	20	21.8	87.3	224.1	15
	BrasseX	5.0	33.5	92.9	50	2.5	16.8	46.4	42
	Bergknapp	5.2	30.4	95.4	30	1.6	9.1	28.6	44
	Canela A&B	8.7	54.2	153.4	40	3.5	21.7	61.3	38

**Notes:**

1. Gross Prospective Resources are 100% of the volumes estimated to be recoverable from the Prospect, from within the Block in which Faroe holds an interest, in the event that a discovery is made and subsequently developed.
2. Faroe Net Prospective Resources in this table are Faroe's Working Interest fraction of the Gross Prospective Resources.
3. The P<sub>g</sub> reported here represents an estimate of the probability that drilling this Prospect would result in a discovery. This does not include any assessment of the risk that a discovery, if made, may not be developed.
4. The volumes reported here are "unrisked" in the sense that no adjustment has been made for the risk that no discovery will be made or that any discovery would not be developed.
5. Identification of Prospective Resources associated with a Prospect is not indicative of any certainty that the Prospect will be drilled, or will be drilled in a timely manner.
6. Prospective Resources should not be aggregated with each other, or with Reserves or Contingent Resources, because of the different levels of risk involved.
7. Oil includes condensate.

Table AVI.2: Prospective Resources (MTP and LTP) as at 30<sup>th</sup> September 2018

## (a) Oil

Country	Prospect	Type	Gross (MMBbl)			WI (%)	Net to Faroe (MMBbl)			P <sub>g</sub> (%)
			Low	Best	High		Low	Best	High	
Norway	Kid	MTP	2.0	15.4	86.0	20	0.4	3.1	17.2	35
	Gullaxy	LTP	4.0	32.2	155.3	20	0.8	6.4	31.1	23
	Fonno	MTP	17.0	64.2	157.6	20	3.4	12.8	31.5	8
	Mjød	LTP	5.1	17.1	42.7	40	2.1	6.8	17.1	24
	Skink	MTP	3.9	11.2	25.9	30	1.2	3.4	7.8	20
	Nelumbo	LTP	0.0	30.9	102.1	30	0.0	9.3	30.6	22
	Vidsyn	LTP	22.1	56.4	96.5	7.5	1.7	4.2	7.2	23
	Blink	LTP	1.3	7.3	24.2	7.5	0.1	0.5	1.8	32
	Portstewart	MTP	0.9	18.9	122.6	20	0.2	3.8	24.5	10
	Canela (G+D+E)	MTP	12.0	24.9	42.3	40	4.8	10.0	16.9	29
	Edelgran	MTP	12.6	211.5	1,169.6	20	2.5	42.3	233.9	19
	Tommeltott	MTP	3.1	13.3	41.5	7.5	0.2	1.0	3.1	30

## (b) Gas

Country	Prospect	Type	Gross (Bscf)			WI (%)	Net to Faroe (Bscf)			P <sub>g</sub> (%)
			Low	Best	High		Low	Best	High	
Norway	Kid	MTP	1.2	11.2	69.1	20	0.2	2.2	13.8	35
	Fonno	MTP	9.9	46.7	126.7	20	2.0	9.3	25.3	8
	Skink	MTP	2.3	8.1	20.8	30	0.7	2.4	6.2	20
	Portstewart	MTP	0.6	13.7	98.5	20	0.1	2.7	19.7	10
	Canela (G+D+E)	MTP	7.0	18.1	34.0	40	2.8	7.3	13.6	29
	Edelgran	MTP	7.4	154.0	940.4	20	1.5	30.8	188.1	19
	Rumow N	LTP	13.1	99.0	260.1	20	2.6	19.8	52.0	14
	Rumow S	LTP	27.7	133.1	543.4	20	5.5	26.6	108.7	14
	Glittertind	LTP	42.2	202.4	826.3	20	8.4	40.5	165.3	7
	Tommeltott	MTP	59.0	250.7	784.5	7.5	4.4	18.8	58.8	30
Ireland	Manilow	LTP	54.0	194.2	864.5	40	21.6	77.7	345.8	19
	Edge	LTP	26.6	247.0	2,524.2	20	5.3	49.4	504.8	13

## Notes:

1. Gross Prospective Resources are 100% of the volumes estimated to be recoverable from the Prospect, from within the Block in which Faroe holds an interest, in the event that a discovery is made and subsequently developed.
2. Faroe Net Prospective Resources in this table are Faroe's Working Interest fraction of the Gross Prospective Resources.
3. The P<sub>g</sub> reported here represents an estimate of the probability that drilling this Prospect would result in a discovery. This does not include any assessment of the risk that a discovery, if made, may not be developed.
4. The volumes reported here are "unrisked" in the sense that no adjustment has been made for the risk that no discovery will be made or that any discovery would not be developed.
5. Identification of Prospective Resources associated with a Prospect is not indicative of any certainty that the Prospect will be drilled, or will be drilled in a timely manner.
6. Prospective Resources should not be aggregated with each other, or with Reserves or Contingent Resources, because of the different levels of risk involved.

Table AVI.3: Best Estimate Oil Prospective Resources (Leads) as at 30<sup>th</sup> September 2018

Country	Lead	Gross (MMBbl)	WI (%)	Net to Faroe (MMBbl)	P <sub>g</sub> (%)
Norway	Gjedde	159	20	31	9
	Hardhaus	255	20	51	10
	Myrsildre	83	20	17	10
Ireland	Clayton	66	20	13	6
	Downey	30	20	6	5
	Lynott	121	20	24	4
	McGowan	73	20	15	5
	A	202	100	202	10
	B (Sherwood)	30	100	30	10
	B (U. Wealden)	21	100	21	9
	C	55	100	55	9
	D	107	100	107	10
	E/F	14	100	14	10
	G/H/I	103	100	103	10

## Notes:

1. Gross Prospective Resources are 100% of the volumes estimated to be recoverable from the Lead, from within the Block in which Faroe holds an interest, in the event that a discovery is made and subsequently developed.
2. Faroe Net Prospective Resources in this table are Faroe's Working Interest fraction of the Gross Prospective Resources.
3. The P<sub>g</sub> reported here represents an estimate of the probability that drilling this Lead would result in a discovery. This does not include any assessment of the risk that a discovery, if made, may not be developed.
4. The volumes reported here are "unrisked" in the sense that no adjustment has been made for the risk that no discovery will be made or that any discovery would not be developed.
5. Prospective Resources should not be aggregated with each other, or with Reserves or Contingent Resources, because of the different levels of risk involved.

# ADDITIONAL INFORMATION

1. First Circular

This document should be read in conjunction with the Company's Response Circular dated 20 December 2018 (the "First Circular") which is available on the Company's website at [www.fp.fo](http://www.fp.fo).

Save as disclosed in this document, as at 2 January 2019 (being the latest practicable date prior to the publication of this document), for the purposes of Rule 27.2(a) of the Takeover Code, there have been no material changes to: (i) any of the information contained in the First Circular which is material in the context of the First Circular; or (ii) the matters listed in Rule 27.2(c) of the Takeover Code since the publication of the First Circular, being:

- (A) the Directors' opinion on the Offer and the other matters referred to in Rule 25.2(a) of the Takeover Code;
- (B) the substance of the independent financial adviser's advice to the Directors in connection with the Offer;
- (C) the financial or trading position of the Company since 30 June 2018, the date to which the interim results for the Company for the six month period ended 30 June 2018 were published;
- (D) any interests and dealings in relevant securities;
- (E) the service contracts of the Directors;
- (F) any arrangements of the kind referred to in Note 11 on the definition of acting in concert in the Takeover Code;
- (G) material contracts;
- (H) irrevocable commitments and letters of intent;
- (I) post-offer undertakings and post-offer intention statements;
- (J) profit forecasts and quantified financial benefits statements; and
- (K) any fees and expenses (to the extent required under Rule 25.8 of the Takeover Code).

2. Responsibility

The Company and the Directors, whose names appear in paragraph 3, accept responsibility for the information contained in this document. Having taken all reasonable care to ensure that such is the case, the information contained in this document is, to the best of the knowledge of the Company and the Directors, in accordance with the facts and contains no omission likely to affect its import.

3. Directors

The Directors of the Company are as follows:

Name	Position
John William Sharp Bentley	Non-Executive Chairman
Graham Duncan Stewart	Chief Executive Officer
Jonathan Robert Cooper	Chief Financial Officer
Helge Ansgar Hammer	Chief Operating Officer
Brent Cheshire	Senior Independent Non-Executive Director
Roger Charles Witts	Independent Non-Executive Director
Jorunn Johanne Saetre	Independent Non-Executive Director
Katherine Louise Margiad Ward (nee Roe)	Independent Non-Executive Director

The business address of each of the Directors is 24 Carden Place, Aberdeen, AB10 1UQ.

4. Background to the Offer

- 4.1 On 4 April 2018, DNO announced that it had agreed to acquire 15.37 per cent. of the issued share capital of Faroe but that,

pursuant to Rule 2.8 of the Takeover Code, it did not intend to make an offer for Faroe.

- 4.2 On 26 November 2018, DNO announced a firm intention to make a formal cash offer for the issued and to be issued share capital of the Company at 152p per share (the "Voluntary Offer"). DNO did not engage with the Company before making the announcement of the Voluntary Offer. On the same day, the Company advised Shareholders to take no action in respect of the Voluntary Offer.
- 4.3 DNO subsequently published its formal Offer Document in relation to the Voluntary Offer on 12 December 2018. The Company released an announcement on the same day advising Shareholders to take no action before the Company published its detailed response.
- 4.4 On 20 December 2018, the Company published its First Circular, which set out its reasons for advising Shareholders to take no action. On the same day, DNO announced that it had acquired 6,246,152 shares in the Company, bringing its total shareholding to 111,494,018 shares, representing 29.90 per cent. of the Company's share capital.
- 4.5 DNO published four questions for Shareholders on 27 December 2018. The Company responded by repeating its advice to Shareholders to take no action and announced its intention to publish an independent valuation of the Company's assets.
- 4.6 DNO announced on 3 January 2019 that it had acquired a further 372,890 shares in the Company, bringing its total shareholding to 111,866,908 shares, representing 30 per cent. of the Company's share capital. As such, DNO was required to revise the terms and conditions of the Voluntary Offer in accordance with Rule 9 of the Takeover Code and announced a mandatory offer for the whole of the issued and to be issued share capital of Faroe not already held by DNO at a price of 152p per share.

5. Quantified Financial Benefits Statements

- 5.1 The Directors confirm that the Quantified Financial Benefits Statement contained in the First Circular remains valid and properly compiled on the basis of the assumptions contained in the First Circular.
- 5.2 As required by Rule 28.1(a)(i) of the UK Takeover Code, BDO LLP ("BDO"), as reporting accountants to Faroe, has provided a report stating that, in its opinion, the Quantified Financial Benefits Statement has been properly compiled on the basis stated.
- 5.3 N M Rothschild & Sons Limited ("Rothschild & Co"), as financial advisers to Faroe, has provided a report for the purposes of Rule 28.1(a)(ii) of the UK Takeover Code stating that, in its opinion and subject to the terms of the report, the Quantified Financial Benefits Statement has been prepared with due care and consideration.
- 5.4 Copies of these reports are included in Parts B and C of Appendix 1 to the First Circular. Both BDO and Rothschild & Co have also confirmed to Faroe that the reports that they previously produced in connection with the Quantified Financial Benefits Statement continue to apply.

6. Consents

- 6.1 Rothschild & Co has given and not withdrawn its written consent to the inclusion in this document of its name and the references to it in the form and context in which they are included.
- 6.2 BDO has given and not withdrawn its written consent to the inclusion in this document of its name and the references to it in the form and context in which they are included.

- 6.3 GCA has given and not withdrawn its written consent to the inclusion in this document of its independent expert valuation set out in Appendix 1 of this document and of its name, and the references thereto, in the form and context in which they are included.

7. Documents Available on the Company's Website

Copies of the following documents are available free of charge on the Company's website at [www.fp.fo](http://www.fp.fo) until the end of the Offer. The contents of that website are not incorporated into, and do not form part of, this document:

- (a) the Articles of the Company;
- (b) the audited consolidated financial information for the Group for the last two financial years;
- (c) the audited consolidated financial information of DNO for the last two financial years;
- (d) the written consents referred to in paragraphs 6.1, 6.2 and 6.3 above;
- (e) this document;
- (f) the First Circular;
- (g) the Wittemann E&P consulting report;
- (h) the Wood Mackenzie report;
- (i) GCA's independent expert valuation of Faroe's assets; and
- (j) the confirmations referred to in paragraph 5.4 (above).

8. Copies of this Document

If you have received this document in electronic form or by it being published on Faroe's website, you may request a copy of this document in hard copy form if so entitled in accordance with Rule 30.3 of the Takeover Code. Hard copies will be sent only where valid requests are received from such persons. Requests for hard copies are to be submitted to the Registrars, Link Asset Services on 0871 664 0300 (or if calling from outside the UK +44 (0) 371 664 0300). Calls are charged at the standard geographic rate and will vary by provider. Calls made from outside the United Kingdom will be charged at the applicable international rate.

A hard copy of this document and any other document referred to in this document will not be sent to you unless so requested. You may also request that all future documents, announcements and information to be sent to you in relation to the Offer should be in hard copy form.

Please be aware that addresses, electronic addresses and certain other information provided by Shareholder and persons with information rights and other relevant persons for the receipt of communications from Faroe may be provided to DNO during the offer period as required by the Takeover Code.

# SOURCES AND BASES OF INFORMATION

## 1. Third party sources

Values in this document have been rounded and accordingly may not add up to 100%. As a result of this rounding, the totals of data presented in this document may vary slightly from the actual arithmetic totals of such data.

## 2. Presentation of information

Unless otherwise stated:

- i. Information regarding the Offer is sourced from the Offer Document and other material made publicly available by DNO or any other person mentioned in the Offer Document
- ii. Information regarding Faroe and Faroe's operations is sourced from Faroe Company Information and is subject to change

## 3. Sources and bases

The relevant sources of information and bases of calculation are provided below in the order in which such information appears in this document and by reference to page numbers of this document. Where such information is repeated in this document, the underlying sources and bases are not repeated. Information referred to in the Chairman's letter (on page 4) is referenced elsewhere in this document and sourced and based accordingly.

All references to Faroe's 2P reserves of 98mmboe are based on Management's estimates as at 1 January 2018 adjusted for the Fenja divestment but not the Equinor asset swap, which is due to complete in Q1 2019 and has been agreed on a reserves neutral basis. This has been prepared in accordance with Petroleum Resource Management System guidelines endorsed by the Society of Petroleum Engineers and World Petroleum Congress.

### Page 3

- i. The reference to the Independent Expert's asset valuation range of 186 pence to 225 pence per share is based on:
  - GCA's current asset valuation range of US\$879m to US\$1,076m
  - A £:US\$ FX rate of 1.27 as sourced from Factset as at 31 December 2018
  - Faroe's net cash balance of £49.6m as at 30 September 2018 (unaudited management estimate)
  - Faroe's fully diluted share capital of 398.3m shares

### Pages 8-9

- i. The reference to the valuation of 179 pence per share based on the all sector 10 year average UK public market bid premium is based on:
  - An average pre-bid speculation premium of 43% achieved in UK public market takeovers in the ten years to 20 November 2018. This data is exported from M&A Monitor (criteria: a) Target Nation: UK; b) Deal Status: Announced or Completed; c) Deal Type: Public Offers (all categories except partial, minority and squeeze-out offers)). The export was then adjusted to exclude deals categorised as "Public Transaction (partial offer)" under the "Type of deal" category
  - Faroe's closing share price of 126 pence prior to the Offer announcement
- ii. The reference to the valuation of 176 pence per share based on the E&P 10 year average UK public market bid premium is based on:

- An average pre-bid speculation premium of 40% achieved in UK E&P public market takeovers in the ten years to 20 November 2018. This data is exported from M&A Monitor (criteria: a) Target Nation: UK; b) Deal Status: Announced or Completed; c) Deal Type: Public Offers (all categories except partial, minority and squeeze-out offers)). The export was then filtered for 'Oil & Gas' under the 'Industrial Sector' category
  - Faroe's closing share price of 126 pence prior to the Offer announcement
- iii. The reference to the North Sea portfolios average EV / 2P valuation of 246 pence per share is based on:
    - The average price paid recently for comparable UK and Norway deals over US\$300m on a per barrel of 2P reserves basis of US\$12.1 per 2P boe. This has been sourced from a Wood Mackenzie report commissioned by the Board to consider historical upstream mergers and acquisitions and determine an appropriate benchmark against which to value Faroe. The Wood Mackenzie Report can be viewed on the Company's website at [www.fp.fo](http://www.fp.fo). Transaction multiples are based on relevant UK and Norway deals as outlined in the Wood Mackenzie report
    - A £:US\$ FX rate of 1.27 as sourced from Factset as at 31 December 2018
    - Faroe's net cash balance of £49.6m as at 30 September 2018 (unaudited management estimate)
    - Faroe's fully diluted share capital of 398.3m shares
    - Faroe's 2P reserves of 98mmboe

- iv. The statement from Cavendish Asset Management is sourced from a Reuters article published on 26 November 2018 and titled 'Faroe Petroleum shares soar after DNO makes hostile bid'. The full quote is "Given the falling oil prices, DNO clearly thought it could swoop in and secure itself a bargain. However, both the current and historical market price show that this bid wildly undervalues the company."
- v. The quote from Arden Partners is sourced from Analyst Research published on 26 November 2018. The full quote is "We believe that, while DNO is likely to have been considering a bid since early this year (it took its existing 28% stake in March at 125 pence), the timing and level are quite opportunistic, taking advantage of lower share prices across the E&P sector as oil prices have fallen. We believe that 152 pence undervalues Faroe and would recommend that shareholders reject the offer."
- vi. The reference to DNO's Offer representing a premium of only 1% to the three month VWAP is based on:
  - The three month Volume Weighted Average Price of 151 pence per share
  - DNO's cash Offer of 152 pence per share
- vii. The reference to DNO's Offer representing a premium of only 21% to the closing share price on the business day prior to the Offer being launched is based on:
  - The closing share price on 23 November 2018 of 126 pence per share
  - DNO's cash Offer of 152 pence per share

- viii. The reference to DNO's Offer premium of only 21% representing about half of the of the average premium paid on all UK takeovers over the last 10 years is based on:

- An average pre-bid speculation premium of 43% achieved in UK public market takeovers in the ten years to 20 November 2018. This data is exported from M&A Monitor (criteria: a) Target Nation: UK; b) Deal Status: Announced or Completed; c) Deal Type: Public Offers (all categories except partial, minority and squeeze-out offers)). The export was then adjusted to exclude deals categorised as "Public Transaction (partial offer)" under the "Type of deal" category
  - An average pre-bid speculation premium of 40% achieved in UK E&P public market takeovers in the ten years to 20 November 2018. This data is exported from M&A Monitor (criteria: a) Target Nation: UK; b) Deal Status: Announced or Completed; c) Deal Type: Public Offers (all categories except partial, minority and squeeze-out offers)). The export was then filtered for 'Oil & Gas' under the 'Industrial Sector' category
- ix. The reference to Iris/Hades being one of the largest global discoveries in 2018 is based on information included in a presentation produced by Wood Mackenzie titled 'Wildcats to watch 2018 – Update' and dated July 2018. In the report, Iris / Hades is detailed as being the 6th largest global discovery in H1 2018
  - x. The reference to the Equinor asset swap unlocking tax synergies is based on accelerating the utilisation of Faroe's Norwegian tax loss position
  - xi. The reference to DNO's Offer price being equivalent to US\$7.2 per barrel of 2P reserves is based upon:
    - DNO's cash Offer of 152 pence per share
    - A £:US\$ FX rate of 1.27 as sourced from Factset as at 31 December 2018
    - Faroe's net cash balance of £49.6m as at 30 September 2018 (unaudited management estimate)
    - Faroe's fully diluted share capital of 398.3m shares
    - Faroe's 2P reserves of 98mmboe
  - xii. The quote from Wood Mackenzie is sourced from a Wood Mackenzie report commissioned by the Board to consider historical upstream mergers and acquisitions and determine an appropriate benchmark against which to value Faroe. The Wood Mackenzie Report can be viewed on the Company's website at [www.fp.fo](http://www.fp.fo)



# GLOSSARY OF TERMS

2C	Best estimate contingent resources	Takeover Code	the City Code on Takeovers and Mergers, as amended from time to time
2P	Proved and probable reserves		
bbl	barrels	VWAP	Volume Weighted Average share Price
Board	the board of directors of Faroe		
boe	barrel of oil equivalent		
Directors	the directors of the Company		
DNO	DNO ASA, a public limited company incorporated, registered and located in Norway at Dokkveien 1, 0250 Oslo, Norway		
E&P	Exploration and Production		
Equinor	Equinor Energy AS		
EV	Enterprise Value		
Faroe/the Company	Faroe Petroleum plc, incorporated in England and Wales with registered number 04622251 and registered address 30 Crown Place, London, UK, EC2A 4ES		
First Circular	means the circular sent to the Company's shareholders dated 20 December 2018 in response to DNO's Offer Document		
FX	foreign exchange		
GCA	Gaffney, Cline & Associates		
Independent Expert	Gaffney, Cline & Associates		
M&A	Mergers & Acquisitions		
mmboe	millions of barrels of oil equivalent		
NCS	Norwegian Continental Shelf		
Offer	the cash offer made by DNO to acquire the issued and to be issued share capital of Faroe at 152p per share, pursuant to the terms set out in DNO's Offer Document, as revised by the terms of DNO's mandatory offer announced on 3 January 2019		
Offer Document	the offer document published by DNO on 12 December 2018 in connection with the Offer		
Ordinary Shares	the ordinary shares of the Company		
p.a.	per annum		
p/sh	per share		
Shareholders	the holders of Faroe shares		

# **REJECT** **DNO's Offer**

**Your Company is worth substantially  
more than 152p per share**

**An Independent Expert's valuation of  
Faroe's assets highlights the  
inadequacy of DNO's opportunistic  
Offer**

**TO REJECT THIS OPPORTUNISTIC,  
UNSOLICITED AND INADEQUATE OFFER,  
TAKE NO ACTION**

**DO NOT COMPLETE ANY FORM OF ACCEPTANCE**