Registered number 04622251

Faroe Petroleum plc
Annual Report &
Group Financial Statements

31 December 2018

Contents

Strategic Report	3
A. Operational report	3
B. Finance review	6
C. Key Performance Indicators	8
D. Principal risks and uncertainties	9
Directors' report	18
INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF FAROE PETROLEUM PLC	21
Group Income Statement	31
Group statement of other comprehensive income	32
Company statement of other comprehensive income	32
Group Balance Sheet	33
Company Balance Sheet	35
Group cash flow statement	36
Company cash flow statement	37
Group statement of changes in equity	38
Company statement of changes in equity	39
Notes	40

STRATEGIC REPORT

Faroe Petroleum plc's ("Faroe" or the "Company") strategy has been to grow value from reserves and resources through monetising exploration and appraisal successes, participating in selective development projects and pursuing value accretive asset transactions. The strategic drivers have been to:

- Win licences: leverage our technical expertise; replenish exploration prospects; secure material equity stakes;
- Drill and discover: drill up to five material wells per year; spread risk and cost optimally; partner with strong aligned companies;
- Monetise assets: exploit drilling success; trade assets across value cycle; maximise trade value; and
- Generate revenue and create value for stakeholders: fund wells from cash flows; continue to build balanced production portfolio; achieve tax efficiency.

On 11 January 2019, DNO ASA ("DNO") obtained control of Faroe and subsequently de-listed the Company from AIM on 14 February 2019. New directors were appointed on the 28 January 2019 to manage the Company. DNO is currently undergoing a process of integrating Faroe into DNO and aligning the strategies of the companies.

A. Operational report

Exploration and Appraisal

In 2018, Faroe participated in six wells of which the Iris Hades exploration well, the Fogelberg appraisal well and the Agar Plantain appraisal well were discoveries and the Rungne, Cassidy and Brasse East wells were dry. In 2019, the drilling programme continues with the Pabow, Bergknapp (formerly Yoshi), Canela, Snadd outer outer exploration wells and the Iris Hades appraisal well. All of the 2019 wells are in Norway where Faroe receives a tax refund of 78% on all exploration and appraisal expenditure.

Norwegian licence round awards

In January 2018, Faroe was awarded eight new prospective exploration licences including four operatorships under the 2017 Norwegian APA Licence Round on the Norwegian Continental Shelf. Three of the licences are targeting new plays, namely the Blue Libelle prospect on the Tampen Spur on the north-western margin of the North Viking Graben (Faroe operator), the Århus prospect in the Åsta Graben, north of the Trym Field and the Skræmetindan prospect on the Cod Terrace in the Central Graben. Also, in the UK, the Company was awarded the Edinburgh license under the 30th Licensing Round in the UK Continental Shelf. The Edinburgh prospect straddles the UK Norway border in the Central North Sea.

A further eight exploration licenses were awarded in 2019 under the 2018 Norwegian APA. Please refer to Note 30 for further information.

Production

Faroe achieved net average economic production of 11,896 boepd (2017: 14,349 boepd) which is slightly below the minimum expected 12,000 boepd. This small reduction in production rates was attributable to two main factors, notably the Tambar oil field having been off line for much of Q1 2018, whilst the two new infill wells were drilled before being brought on stream to add significant new production, and a temporary loss of production from the Trym gas field caused by a technical fault in the downstream export system. The shut-down of Schooner and Ketch in August 2018 and Oselvar in March 2018 reduced production over the previous period, as expected.

Development projects

Oda (Faroe 15%): this field is being developed as a subsea tie back to the Ula platform (Faroe 20%), approximately 13 kilometres to the east. First oil was achieved on 16 March 2019, with gross plateau production expected to be 35,000 boepd (5,250 boepd net to Faroe). Production from the Oselvar field (Faroe operated 55%) ceased production in March 2018 to allow the Oda tie-in to be undertaken.

Njord and Bauge (Faroe 7.5%): the Njord Future project encompasses refurbishment of the Njord facilities to allow continued production and development of the Njord and Hyme fields and upgrading and modifications to enable the Bauge and Fenja fields to be tied back. In December 2018, the Company announced that it had signed a binding

agreement with Equinor Energy AS (a wholly owned subsidiary of Equinor ASA) (Equinor) to swap its interests in the Njord, Hyme redevelopment and Bauge development assets, in return for interests in four production assets on the Norwegian Continental Shelf: Alve, Marulk, Ringhorne East and Vilje on a cashless basis effective date of 1 January 2019.

Fenja (Faroe 7.5%): this development which is progressing on schedule and within budget, is in the Greater Njord Area and comprises three horizontal production wells - one gas injector well and two water injector wells, tied back to the Njord A floating production facility for processing and export via the Njord B FSO (floating storage and offloading vessel).

Brasse (Faroe 50%): the Brasse project is progressing towards the next major milestone, which is Concept Selection expected in 2019. Key activities in the period have been detailed studies to determine the reservoir drainage strategy and the subsea architecture and layout. In parallel, technical and commercial work has continued for the selection of the preferred host facility. Gross plateau flow rates for this field have the potential to reach 30,000 boepd.

Reserves & Resources

Reserves

The Company's internal estimate of Proven and Probable (2P) Reserves at 1 January 2019, prepared in accordance with the Petroleum Resource Management System guidelines endorsed by the Society of Petroleum Engineers, World Petroleum Congress, American Association of Petroleum Geologists and Society of Petroleum Evaluation Engineers has been estimated at 88.8 mmboe (1 January 2018: 114.1 mmboe) – decreasing reserves by 22% over the year which includes production over the year (4.4 mmboe) and the sale of a 17.5% interest in the Fenja field (16.4 mmboe).

2P Reserves	Gas (bcf)			Liquids (mmbbls)			Total (mmboe)
	Norway	UK	Group	Norway	UK	Group	Group
1 January 2018	138.4	3.4	141.8	87.1	3.4	90.5	114.1
Revisions	1.8	(0.8)	1.0	(5.7)	(0.3)	(6.0)	(5.8)
Disposals	(19.4)	-	(19.4)	(13.2)	-	(13.2)	(16.4)
Transfer from 2C	0.5	-	0.5	1.2	-	1.2	1.3
Production	(6.1)	(2.6)	(8.7)	(2.4)	(0.5)	(2.9)	(4.4)
1 January 2019	**115.2**	**-**	**115.2**	**67.0**	**2.6**	**69.6**	**88.8**

Contingent Resources

At 1 January 2019, 2C Resources were estimated to be 151.7 mmboe (including adjusting for the sale of a 17.5% interest in the Fenja field and the partial divestment of 13.3% in the Fogelberg field) representing an increase of 76% over the year (1 January 2018: 86.0 mmboe). The discoveries related to Iris Hades in Norway (38.0 mmboe) and the Agar / Plantain well in the UK (6.2 mmboe).

2C Contingent Resources	Gas (bcf)			Liquids (mmbbls)			Total (mmboe)
	Norway	UK	Group	Norway	UK	Group	Group
1 January 2018	173.0	-	173.0	55.3	1.7	57.0	86.0
Revisions	89.1	-	89.1	22.8	(0.4)	22.4	37.3
Acquisitions	-	-	-	-	-	-	-
Disposals	(36.5)	-	(36.5)	(8.4)	-	(8.4)	(14.5)
Discoveries	173.7	1.0	174.7	9.1	6.0	15.1	44.2
Transfer to 2P	(0.5)	-	(0.5)	(1.2)	-	(1.2)	(1.3)
1 January 2019	**398.8**	**1.0**	**399.8**	**77.6**	**7.3**	**84.9**	**151.7**

B. Finance review

Overview

The year end cash position was £114.5 million (2017: £149.1 million). The reduced cash position was primarily due to the significant levels of capital expenditure in 2018. Faroe's active exploration and appraisal programme in Norway, which benefits from the 78% exploration tax refund, has continued with six wells drilled in 2018, of which the Iris / Hades well and the Agar / Plantain well resulted in an increase in estimated recoverable resource volumes.

Income statement

Revenue in the year was £218.5 million (2017: £152.9 million). Faroe sells most of its oil under payment quantity contracts, and so has received payment for the outstanding underlift. The payment is included in deferred income on the balance sheet until the oil is lifted and then is released to revenue. The increase in revenue reflects a higher realised price per boe, partially offset by lower production.

Cost of sales, including depreciation of producing assets, but before impairment charges, was £128.5 million (2017: £132.5 million). Pre-tax impairment charges of £39.6 million (post-tax £21.0 million) (2017: £13.0 million and £6.6 million pre- and post-tax respectively) mainly related to Schooner and Ketch and were driven by an increase in abandonment cost estimates. The remaining impairment charge related to Blane, Ula and Brage. During the year, there was a reduction in the cost estimate to decommission certain fields which have ceased production, and this led to a credit of £9.7 million on the income statement. The Group made a gross profit for the year of £60.1 million (2017: £7.4 million).

Other income was £19.2 million (2017: £17.4 million), of which £21.7 million related to compensation income between Oselvar (Faroe 55%) and Oda (Faroe 15%) and unrealised hedging gains of £3.5 million which were offset by realised hedging losses of £5.9 million. EBITDAX in 2018 increased to £130.2 million compared to £82.2 million in 2017.

In May 2018, the partial divestment of the Fenja asset was completed for a consideration of $54.5 million (£40.4 million), leading to a post-tax gain on disposal of £23.8 million including a £1.9 million reclassification of foreign exchange movements accumulated in the currency translation reserve being reclassified to the income statement.

Pre-tax exploration and evaluation expenses for the year were £24.7 million (2017: £25.9 million). This includes pre-award exploration expenses of £7.8 million and write-offs of licence-specific exploration and evaluation expenditure of £16.9 million on previously capitalised licences where active exploration has now ceased. The majority of the exploration costs which were written off during the year related to Rungne, along with other exploration costs on a number of licences.

Expensed administration cost in 2018 increased to £30.3 million (2017: £7.7 million) mainly due to legal and professional fees associated with the ultimately unsuccessful defence against the DNO takeover (£8.8 million) and accelerated vesting of outstanding share options following the takeover (£8.7 million).

The Group's reported profit before tax was £22.8 million (2017: loss £13.7 million). Profit after tax was £9.8 million (2017: loss £11.4 million).

Hedging

In line with Group policy, approximately 81% of post-tax production was hedged in 2018, with realised hedging losses of £5.9 million (2017: £1.9 million).

Taxation

The amount of tax receivable at 31 December 2018 was £24.7 million (2017: £35.6 million) which is the tax refund on exploration expenditure in Norway net of taxable profits generated by the Norwegian producing assets. The refund will be received in November 2019. The tax charge in the Income Statement was £12.9 million (2017: credit £2.3 million) and consisted mainly of the Norway tax receivable, and origination of timing differences of £36.5 million.

At December 2018, Faroe had carried forward tax balances of £178.1 million and £29.4 million related to depreciation and uplift respectively. In addition, at December 2018, Faroe had carried forward tax losses in Norway of £21.6 million and £72.7 million for corporation tax and special tax, respectively. At December 2018 the Group had unrelieved tax losses in the UK of £44.9 million which are available indefinitely for offset against future taxable profits.

In December 2018 the Company had a deferred tax asset of £106.8 million (2017: £114.5 million) in respect of carried forward tax losses, capex balances and uplifts in the UK and Norway, net of other temporary differences.

Balance sheet

Expenditure of £199.7 million (2017: £144.2 million) on intangible and tangible assets, prior to tax rebate, was made in the year, of which £67 million related to exploration expenditure, primarily on Brasse, Iris and Hades, Agar Plantain, Rungne and Fogelberg. £132.7 million related to development expenditure, principally reflecting pre-sanction costs on the Oda field and the Njord capital enhancement project and drilling costs on the Tambar, Ula and Brage fields.

On 5 December 2018, the Group publicly announced that it had signed a binding agreement with Equinor to swap its interests in the Njord, Hyme redevelopment and Bauge development assets, in return for interests in four production assets on the Norwegian Continental Shelf: Alve, Marulk, Ringhorne East and Vilje on a cashless basis effective 1 January 2019.

The Group recognises the discounted cost of decommissioning when obligations arise. The amount recognised is the present value of the estimated future expenditure determined by local conditions and requirements, net of any amounts carried by third parties. At 31 December 2018 the Group had decommissioning provisions of £298.7 million (2017: £262.4 million). The increase in the provision is mainly due to movement in cost estimates. Most of the decommissioning expenditure is scheduled to be incurred from 2020 to 2035.

Cash flow

Closing cash was £114.5 million (2017: £149.1 million). In addition, restricted cash of £8.0 million relating to prepaid abandonment costs are included in Trade and Other Receivables. Faroe benefits significantly from an exploration financing credit facility of NOK 700 million for provision of 75% (as described above) of its eligible net exploration costs in Norway on a cash flow basis, such that only 25% of this expenditure is funded from Company equity. The EFF borrowings of NOK 155 million (£14.1 million) (2017: NOK 365 million, £32.9 million) are repaid when the tax rebate is received in November of the year following the related expenditure. In November 2018 the Company received the tax rebate for 2017 of £36.7 million, most of which was used to repay the 2017 utilisations of the EFF.

Following the change of control in 2019, there was a reduction in the reserve based lending facility as three out of ten banks exited the facility. The revised total facility amount is US$245 million (approximately £193.0 million) which is available for both debt and issuance of letters of credit. The facility will amortise over the loan life with the latest possible maturity date being 31 December 2025. At 31 December 2018 the calculated borrowing base amount was £235.2 million, of which £nil was drawn (2017: £nil million). The exploration financing facility was also reduced from NOK 1,000 million to NOK 700 million.

On 19 February 2019, some bond holders exercised their put rights leading to a repayment of $14.3 million on 26 February 2019.

With a combination of the current cash in the business, cash flow from producing assets and headroom in the Group's bank facilities, the Group will be able to fund currently committed capital expenditure (exploration and development/ production).

Dividend

The directors do not recommend payment of a dividend.

C. Key performance indicators

The Board has established the following Key Performance Indicators (KPIs) for the Group which are focussed principally on managing the activities inherent in exploration, appraisal and production operations:

Area	KPI	Comments
Health, Safety and Environment	Lost Time Injury Frequency Rate (LTI)	No time was lost on operations during 2018 or 2017 on operated assets.
Operations	Delivery of successful drilling campaign	Drilled six wells in the period with three successes[1]. Four wells were drilled in 2017 of which one was a discovery[2].
	Growth in reserves and resources	Reserves reduced by 22% over the period to 88.8 mmboe (including Fenja divestment) and contingent resources increased by 76% to 151.7 mmboe.
	Growth in production	Economic production reduced from 14,349 boepd in 2017 to 11,896 boepd in 2018.
Corporate & Finance	Total Shareholder Return (TSR)	The share price increased from 105p on 1 January 2018 to 147p on 31 December 2018
	Earnings before interest, tax, depreciation, amortisation and exploration expenditure (EBITDAX)	EBITDAX increased from £82.2 million in 2017 to £130.2 million in 2018

[1] Iris Hades, Fogelberg and Agar Plantain
[2] Brasse
[3] EBITDAX

	2018	2017
	£000	£000
Revenue	218,519	152,924
Realised hedging losses	(5,947)	(1,859)
Other income	21,710	18,843
Operating costs	(65,470)	(72,077)
Commercial tariffs	(21,866)	(44,386)
(Overlift) /underlift in the year	(14,286)	30,729
Other cost of sales	(2,507)	(1,968)
EBITDAX	130,153	82,206

Alternative Performance Measures

Faroe discloses Alternative Performance Measures (APMs) as a supplement to the Group's financial statements. Faroe believes that the APMs provide useful supplemental information to management, investors, securities analysts and other stakeholders and are meant to provide an enhanced insight into the financial development of Faroe's business operations, financing and future prospects, and to improve comparability between periods. Reconciliations of relevant APMs, definitions and explanations of the APM's are provided above.

D. Principal risks and uncertainties

Aside from the generic risks that face all businesses, the Group's business, financial condition or results of operations could be materially and adversely affected by any of the risks described below. These risks should not be regarded as a complete and comprehensive statement of all potential risks and uncertainties and additional risks and uncertainties that are not presently known to the directors, or which they currently deem immaterial, may also have an adverse effect on the Group's operating results, financial condition and prospects. Whilst the risks below have been laid out in order of priority, it should be stressed that in so doing both magnitude and probability have been combined, to assess the scale, which is imperfect e.g. the probability of a major uninsured event is low but the consequences potentially very significant.

Risk appetite

Faroe's risk appetite, in line with its strategy, is to seek exposure to a wide range of projects across the upstream exploration, development and production sector and to spread its capital and resources in proportion to the likelihood and impact of the associated risk and reward. Whilst the Group seeks to avoid excessive risk concentration in any one project or any one part of the upstream exploration and production sector, it is developing a hub strategy which by definition necessitates asset concentration risk. As the Group grows and develops multiple hubs, the concentration risk will diminish but in the short to medium term the Group's risk profile will be higher as a result of this hub strategy. The Group has appetite for geological risk, both in its exploration drilling and in field development drilling up to certain financial thresholds, and for economic risks as regards the performance of its producing assets. The Group does not have appetite for risks regarding solvency, health and safety, environmental and reputational matters.

Area	Description	Mitigation
Operational risks	The effective management of operational and HSES risk exposure is the number one priority for the Board of Directors and executive and management teams. As a participant in offshore exploration, development and production the Group is exposed to material risk in the event of there being a major process safety incident or operational accident, natural disasters, failure to comply with approved policies, and pandemics. The consequences of such risks materialising can be injuries, loss of life, environmental harm, disruption to business, activities and financial loss. Depending upon the cause and severity, the materialisation of such risks may have a material adverse effect on the Group's business.	These operational and HSES risks are managed by the Group through its dedicated HSES personnel and Business Management System, third parties and other operators the Group partners with. The Group maintains a programme of insurance to cover such exposure up to recognised industry limits but should an incident occur of a magnitude in excess of such limits, the Group would be fully exposed to the financial consequences.

Area	Description	Mitigation
Commodity prices	The market price of hydrocarbon products can be very volatile and may be at a level below the operating costs of the Group for an extended period. This not only reduces short term cash flow needed to meet the Group's commitments in the short term but also reduces the debt capacity and economic value of the Group's projects which may be significantly reduced or rendered uneconomic, which in turn may lead to early abandonment. Early abandonment crystallises liabilities earlier and negatively impacts the Group's cash flow. There is a particular risk when committing to long-term development contracts or acquisitions based on assumed future hydrocarbon prices.	Where and when appropriate the Group will consider to put in place suitable hedging arrangements, in accordance with its hedging policy, to mitigate the risk of a fall in commodity prices but such arrangements will only cover the relatively short term, leaving the Group exposed to any longer term decline in commodity prices, and in addition some of the hedging arrangements entered into by the Group also carry inherent delivery risks.

Area	Description	Mitigation
Cash flow and financing risk	The ability to finance firm commitments, participate in the Group's developments (notably the Fenja, Oda, Brasse developments and Tambar infill project) and generally develop the Group's business depends upon: (i) cash flow from the Group's producing assets: with a significant proportion of production derived from non-operated production, cash flow is dependent upon a combination of factors including field performance, (both reservoir and facilities) commodity prices, fiscal regime and operating costs, all of which are substantially out of the control of the Group; (ii) debt finance, exploration tax refund (in Norway along with the supporting exploration debt facility), farm downs and other means. (iii) funding from the Group's parent DNO ASA effective as from 11 January 2019 A number of the Group's development commitments and infill opportunities are long term in nature and there is no assurance that the Group will be successful in generating or obtaining the required financing. In those circumstances some interests may be relinquished, sold at an undervalue and/or the scope of operations reduced or ultimately the Group may default on its obligations. In the event that sufficient funds are not available to finance the business, it would have a material adverse effect on the Group's financial condition and its ability to conduct operations.	The Group seeks to mitigate these risks by: a) maintaining a diverse portfolio of oil and gas producing interests in both the UK and Norway; b) rigid financial discipline and maintaining a strong balance sheet; c) the Board of Directors reviewing and approving the financial strategy of the Group; d) regular review of short-term and longer-term cash flow forecasts by senior management and the Board; e) maintaining strong relations with its banking syndicate and bond holders; and f) where there is significant asset concentration risk, the arrangement of business interruption insurance.

Area	Description	Mitigation
Development Risks	The Group is participating in certain development and redevelopment projects notably the Oda development, the Fenja development and is planning to operate the Brasse development. The Group's on-going development projects involve advanced engineering work, extensive procurement activities and complex construction work to be carried out under various contract packages at different locations, both offshore and onshore. Furthermore, the Group (together with its license partners), must carry out drilling operations, install, test and commission offshore installations and obtain governmental approval to take them into use, prior to commencement of production. The complexity of such development projects makes them sensitive to circumstances which may affect the planned progress or sequence of the various activities, as this may result in delays or cost increases. The current or future projected target dates for production commencement may be delayed and significant cost overruns may incur due to delays, changes in any part of the development projects, technical difficulties, actual reserves not being as high as estimated at PDO, project mismanagement, equipment failure, natural disasters, political, economic, taxation, legal, regulatory uncertainties, terrorism, and protests which again may materially adversely affect the Group's future business, operating results, financial condition and cash flow. Ultimately, the Group may be unable to meet its ongoing share of expenditure and be forced to withdraw and/or default on its committed obligations, which would have a material adverse effect on the Group.	The Group is seeking to limit its exposure to any one development by taking measured equity participations in multiple developments. However, a consequence of such mitigation is to increase the probability of a development risk materialising by virtue of the greater number of projects.

Area	Description	Mitigation
Production Risk	The Group has a hub strategy and production of oil and gas is concentrated in a limited number of offshore fields and host facilities, in particular the Ula host facility. If mechanical or technical problems, storms or other events or problems affect the production on one of these key offshore fields, facilities or the downstream infrastructure, it may have direct and significant impact on a substantial portion of the Group's production. Also if the actual reserves associated with any one of our fields are less than the estimated reserves, their continued operation and financial condition could be materially adversely affected. Long-term unscheduled or scheduled shutdowns of production may have a material impact on the business, as the Group will lose production income whilst also bearing its share of any continuing fixed operating expenditure along with associated remedial or repair works which may be unquantifiable at outset and/or subject to cost overruns.	For the longer term, the Group is seeking to balance these risks by building a portfolio of assets and multiple hubs that carry a range of differing technical and commercial risks, and limit the amount invested in any one project.

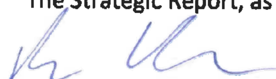
Area	Description	Mitigation
Decommissioning Costs	Decommissioning cost estimates are based on subjective judgements and determinations which will change over time based on new information, costs and practices and such estimates may increase materially. The Group has an abandonment provision on its balance sheet to account for its expected share of decommissioning costs relating to its operations. The actual costs of decommissioning are expected to be paid from the Group's cash resources and cash flow generated from both the Group's existing and future producing assets. In accordance with the practice generally employed in offshore oilfield operations, the Group does not have a sinking fund other than where it is required to do so to meet the costs of decommissioning its producing assets. The estimated timing of decommissioning is dependent upon a number of factors and a material reduction in production levels or commodity prices and/or an increase in operating expenditure may bring forward such timing. Given the uncertainty of the scope, timing and cost of decommissioning the associated liabilities may exceed the Group's cash resources to a point where the Group does not have the funds available to meet such costs. The Group plans to have adequate production profits to shelter the decommissioning cost. To the extent these past profits or production are not available, the Group is then exposed to much higher pre-tax abandonment costs.	The Group has a balanced portfolio of producing assets that are expected to decommission at different times to mitigate the overall cost impact. Notwithstanding that, the Group is reliant upon generating surplus funds from its portfolio of continuing and new producing assets to meet such liabilities. The Group has established a post-tax decommissioning provision fund to meet the costs of decommissioning its interests in the Ula, Tambar, Tambar East, Oselvar and Trym fields. However, in the event of early abandonment the fund may not be adequately funded to meet the cost of decommissioning.
Uninsured Liabilities	There can be no assurance that the proceeds of insurance applicable to covered risks will be adequate to cover expenses relating to losses or liabilities. Accordingly, the Group may suffer material losses from uninsurable or uninsured risks or insufficient insurance coverage. In addition, the Group insures most of its assets in line with the insurance values prepared by the operators but there is no guarantee that such estimates will cover the full extent of any liability or indeed that such estimates are reflective of the actual replacement costs.	The Group maintains a range of energy and other insurance cover in accordance with industry practice.

Area	Description	Mitigation
Loss of Infrastructure	The Group relies on third party infrastructure (including host platforms, pipelines and terminals) for the continuing operation of its producing assets. This infrastructure is in turn subject not only to the risk of physical damage but it also has economic thresholds governed by a combination of commodity prices and throughput often from other producing fields. If this third party infrastructure is no longer economic to operate it may lead to cessation of production leaving its satellite fields stranded without an export route; this risk has manifested itself with the closure of the Theddlethorpe Gas Treatment facility which lead to the cessation of production of the Schooner & Ketch Fields this year.	Whilst the Group assesses the risk to infrastructure when it acquires new assets, such assessment is based on assumed economics and production profiles which are hard to predict in the medium to long term.
Exploration Risk	Drilling exploration wells is speculative, may be unprofitable and may result in a total loss of investment. The Group may not identify sufficient quantities of commercially exploitable deposits or successfully drill, complete or develop oil or gas, in sufficient quantities to be profitable or commercially viable. Statistically a relatively small number of properties that are explored are ultimately developed into producing hydrocarbon fields. Moreover, the high cost of offshore development may render discoveries uneconomic other than those that are very large or those which can be readily tied back to existing infrastructure.	The Group seeks to drill multiple targets that carry a range of differing technical and commercial risks and focusses on near-field prospects.
Competition risk and cost inflation	There remains strong competition within the petroleum industry for the acquisition of good quality hydrocarbon assets. The Group competes with other oil and gas companies, many of which have greater financial resources than the Group, for the acquisition of such properties, licences and other interests as well as for the recruitment and retention of skilled personnel. The challenge to management is to secure assets and recruit and retain key staff without having to pay excessive premiums. In the current market many capital and operating costs, from site surveys through to decommissioning, have decreased. However, capacity and services have also reduced and if the recovery in hydrocarbon prices is sustained we can expect a return of cost inflation which can have a major impact on both the cash outlay and economic viability of a project. There is also continuing competition for access to pipelines and other infrastructure which may delay the development of a field and thereby its economic value.	In formulating bids to acquire assets, the Group utilises experienced senior professionals within the Group to ensure that any bids are submitted at a competitive price that reflects the potential risked asset value and can generate appropriate returns for the Group's shareholders. Prior to any asset being evaluated, senior management review the target to ensure it fits within the parameters set at the commencement of each year.

Area	Description	Mitigation
Risks relating to acquisitions	Part of the Group's strategy includes increasing oil and gas reserves and/or production through strategic business acquisitions. Although the Group performs a review of the companies, businesses and properties it acquires (or intends to acquire) to standards consistent with industry practices, such reviews are inherently incomplete. It is often not feasible to review in-depth every individual component involved in each acquisition. The Group will commonly focus its due diligence efforts on higher value components or factors and will review lower value interests on a sample basis. However, even where in-depth due diligence reviews are conducted, these may not reveal existing or potential problems, nor may they permit the Group to become sufficiently familiar with the properties or assets to fully assess their potential or limitations and deficiencies. In addition, in order to establish a value and offer a price for an acquisition the Group will make certain technical and economic assumptions as regards the continuing performance of the asset and its associated liabilities, particularly as regards decommissioning and in the event that those assumptions are incorrect the Group risks overpaying for such acquisition which may have a material adverse effect on the business. Risks commonly associated with acquisitions of companies or businesses include the difficulty of integrating the operations and personnel of the acquired business, problems with minority shareholders in acquired companies, the potential disruption of the Group's own business, the possibility that indemnification agreements with the sellers may be unenforceable or insufficient to cover potential liabilities and difficulties arising out of integration, as well as operational risks relating to the assets acquired. Furthermore, the value of any business the Group acquires or invests in may be less than the amount it pays and there can be no assurance that any acquisition by the Group will be successful and add value for the Company's Shareholders.	In formulating bids to acquire assets, the Group utilises experienced senior professionals within the Group and external advisers to test the technical, cost and economic assumptions made.
Fiscal Risks	The Group enters into commitments assuming a relatively stable fiscal system and any material change, represents a risk to the Group's ability to fund its projects.	The Group operates in jurisdictions with sophisticated tax authorities capable of assessing the adverse impact of any change in legislation before it is enacted.

Area	Description	Mitigation
Cyber Risks	The Group is at risk of financial loss, reputational damage and general disruption from a failure of its IT systems or an attack for the purposes of espionage, extortion or to cause embarrassment. Any failure of, or attack against the Group's IT systems may be difficult to prevent or detect, and the Group's internal policies to mitigate these risks may be inadequate or ineffective. The Group may not be able to recover any losses that may arise from a failure or attack.	The Group has a fully staffed IT department which ensure that the Group's systems are protected in so far as is practicable but no system is infallible.
Dependence upon executive management and technical staff	The Group is dependent upon its executive management and technical staff. There is a risk that the unexpected loss of services of any such member of staff could have a material adverse effect on the Group. The Group does not have any key person insurance in place for management. Attracting and retaining additional skilled personnel may be required to ensure development of the Group's business. The Group faces significant competition for skilled key personnel in the oil and gas sector. There is no assurance that the Group will successfully attract new personnel or retain existing key personnel required to continue to develop its business and to execute and implement its business strategy.	In order to mitigate this risk the Group has to offer competitive remuneration packages to incentivise loyalty and good performance from the existing highly skilled workforce.
Negative stakeholder reactions to operations and the Group's strategy	The Group's operational activities and its reputation could be significantly impacted if relationships with its stakeholders are not effectively managed. The Group places a high priority on managing these relationships.	This risk is mitigated through proactive engagement with regulators, governments, lenders and communities where the Group has its activities.

The Strategic Report, as set out on pages 3 to 17, has been approved by the Board of Directors.



Bjørn Dale
Director
26 April 2019

Directors' report

Performance of the business and future developments
The information of the performance of the business and future developments can be found in the Strategic Report.

Dividends
The directors do not recommend the payment of a dividend for the year.

Future developments
Please refer to the strategic report for disclosure around future developments of the Group on pages 3 to 17.

Directors
The names of the directors are disclosed on page 91.

Events since the balance sheet date

Details of significant post balance sheet events are set out in Note 30 in the Group financial statements.

Share capital and share options
Details of the share capital of the Company and options over shares of the Company are set out in Note 23 to the Group financial statements. Over the period the Company had three share incentive schemes by which directors and employees may; (i) be granted options under a long-term incentive scheme to subscribe for nil cost shares in the Company; (ii) be issued shares under a co-investment plan, and (iii) be issued shares under a share incentive plan. The maximum aggregate number of new shares which may be issued in respect of these schemes is currently limited to 15% of the issued share capital. However grants will be made each year on the basis that ordinarily expected vesting should not exceed 10% of the Company's issued ordinary share capital. Upon DNO obtaining control over Faroe, all employees participating in the share incentive schemes exercised their options and accepted DNO's offer. There are no further awards outstanding under the share incentive schemes.

Composition of Group

Details concerning the subsidiary undertakings are given in Note 16 to the Group financial statements.

Substantial shareholdings
The Company has analysed its share register at 20 March 2019 the results of which indicate that DNO own 100% of the issued share capital of the Company.

On 4 February 2019, DNO announced a compulsory acquisition procedure for the remaining shares in Faroe. The procedure was carried out pursuant to sections 974-991 of the Companies Act 2006. On 20 March 2019, following completion of the procedure, all Faroe shares held by shareholders who had not previously accepted DNO's final offer have been acquired by DNO on the same terms as those of the final offer. The offer procedure then closed, and DNO owns 100% of the entire issued share capital of Faroe (subject to stamping and registration).

The consideration due to former Faroe shareholders who did not accept the final offer will be held by Faroe as trustee on their behalf.

Directors' interests in share capital
The directors' interests in the share capital of the Company at 8 March 2019 was nil.

Health, safety, the environment and the community
The Group has a formal Health, Safety and Environmental Policy which requires all operations within the Group to pursue economic development whilst protecting the environment. The directors aim not to damage the environment of the areas in which the Group operates, to meet all relevant regulatory and legislative requirements and to apply responsible standards of its own where relevant laws and regulations do not exist.

It is the policy of the Group to consider the health and welfare of employees by maintaining a safe place and system of work as required by legislation in each of the countries where the Group operates.

Auditors and their independence

A resolution to appoint auditors for the year to 31 December 2019 as approved by the Audit Committee will be proposed at the Annual General Meeting. The Company has a policy for approval of non-audit services by the auditor, to preserve independence.

Disclosure of information to auditors

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware; and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Going concern

The Group's business activities, together with the factors likely to affect the future development, performance and position are set out in the Strategic Report. The financial position of the Group, its cash flows and liquidity position and borrowing facilities are described in the Financial Review section in the Strategic Report and in Note 21. Further information on the Group's exposure to financial risks and the management thereof is provided in Note 24.

The Board of Director's review of the accounts, budgets and financial plan lead the directors to believe that the Group has sufficient resources to continue in operation for the foreseeable future. The financial statements are therefore prepared on a going concern basis.

Treasury & Risk Management policy

The objective of the Group's treasury and risk management policy is to manage the Group's financial risks and to minimise the adverse effects of fluctuations in the financial markets on the value of the Group's financial assets and liabilities, on reported profitability and on the cash flows of the Group. Note 24 sets out the particular risks to which the Group is exposed, and how these are managed.

Directors' liabilities

The Company has granted indemnities to the directors against liability in respect of proceedings brought by third parties, subject to the conditions set out in the Companies Act 2006. Such qualifying third party indemnity provision remains in force as at the date of approving the directors' report.

Interests in contracts

There have been no contracts or arrangements during the financial year in which a director of the Company was materially interested and which were significant in relation to the Group's business.

Political donations

The Group made no political donations during the year ended 31 December 2018.

Bjørn Dale
Director
26 April 2019

Statement of directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable United Kingdom law and regulations. Company law requires the directors to prepare financial statements for each financial year. Under that law, the directors are required to prepare financial statements under IFRSs as adopted by the European Union.

Under Company Law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Group and Company for that period.

In preparing those financial statements the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether the Group and Company's financial statements have been prepared in accordance with IFRS as adopted by the European Union;
- make judgements and estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that Group and Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group and Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Group and Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF FAROE PETROLEUM PLC

Opinion

In our opinion:

- Faroe Petroleum plc's group financial statements and parent company financial statements (the "financial statements") give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2018 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Faroe Petroleum plc which comprise:

Group	Parent company
Consolidated balance sheet as at 31 December 2018	Balance sheet as at 31 December 2018
Consolidated income statement for the year then ended	Statement of changes in equity for the year then ended
Consolidated statement of comprehensive income for the year then ended	Cash flow statement for the year then ended
Consolidated statement of changes in equity for the year then ended	Related notes 1 to 32 to the financial statements including a summary of significant accounting policies
Consolidated statement of cash flows for the year then ended	
Related notes 1 to 32 to the financial statements, including a summary of significant accounting policies	

The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards to the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the group and parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the parent company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Overview of our audit approach

Key audit matters	• The appropriateness of the carrying value of exploration and appraisal assets based on current operations and future planned activities. • The appropriateness of the carrying value of development and production assets based on current operations and future planned activities. • The accuracy of oil and gas reserves estimates and the correctness of the accounting computations based thereon. • The appropriateness of the decommissioning estimates, given the level of subjectivity and complexity involved in the computations, with a number of key cost assumptions feeding into those calculations.
Audit scope	• We performed an audit of the complete financial information of four components. • The components where we performed full audit procedures accounted for 100% of Profit before tax, 100% of Revenue and 100% of Total assets.
Materiality	• Overall group materiality of £6.3m which represents 0.8% of Total Assets.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

Risk	Our response to the risk	Key observations communicated to those charged with governance
The appropriateness of the carrying value of exploration and appraisal assets based on current operations and future planned activities *Refer to the Accounting policies (Note 2); and Note 5 and 12 of the Consolidated Financial Statements* The potential impairment of exploration and appraisal ('E&A') assets or the need to de-recognise the E&A assets is a significant risk area due to the significant value attached to E&A assets in the balance sheet. We focused on this area as it involves complex and subjective judgements about the future results of the business. Management are required to make a number of significant judgements in determining the recognition of, and the carrying value of these assets and in determining whether there are any indicators of impairment. A decrease in oil prices will impact the current and future financial performance, as well as increase the risk of uncommercial exploration activities and the non-renewal of exploration licenses. This risk for the E&A assets is unchanged from the prior year.	In evaluating whether the carrying value of the E&E assets was supported we; • Evaluated whether any indicators of impairment existed; • obtained evidence to support management's current and future planned activities on an asset by asset basis; • confirmed whether any firm committed activities were already underway, also taking into account any key licence decision points in order to satisfy ourselves over the future viability of each asset; • corroborated the carrying value of the E&A asset portfolio of the Group to the valuations made within the Competent Persons Report. For E&A assets we performed full scope audit procedures over this risk area in two locations, which covered 100% of the account balance. Additionally we evaluated the financial statement disclosures for compliance with the requirements of accounting standards.	We concluded that management's judgements in relation to the future demonstrable activities planned on those E&A assets which remained in the Balance Sheet as at 31 December 2018, and management's judgement's on E&A assets which were deemed to be sub-economic and consequently written off through the Income Statement were reasonable. We concluded that adequate disclosures exist in the financial statements to ensure compliance with the requirements of accounting standards. Based on our audit procedures on the E&E assets, we concluded that there are no material misstatements within the carrying value of D&P assets disclosed in the Balance Sheet as on 31 December 2018 or within the impairment charge recognized within the Income Statement.

The appropriateness of the carrying value of development and production assets based on current operations and future planned activities *Refer to the Accounting policies (Note 2); and Note 5 and 12 of the Consolidated Financial Statements* The potential impairment of development and production ('D&P') assets is a key area of audit focus due to the significant value attached to D&P assets in the balance sheet. Management are required to make a number of significant judgements in determining the recognition of, and the carrying value of these assets and in determining whether there are any indicators of impairment. The change in oil prices will impact the current and future financial performance, as well as increase the risk of uncommercial exploration activities and the non-renewal of exploration licenses. This risk is unchanged from the prior year.	We focused on this area as it involves complex and subjective judgements about the future results of the business. In evaluating whether any impairment was necessary to the remaining carrying value of the D&P assets, our audit work involved obtaining evidence regarding its recoverable amount and how this compared to the amount at which the D&P assets were currently recorded. In assessing the recoverable amount of the D&P assets, we evaluated whether any indicators of impairment existed. Where impairment indicators were identified and an impairment test run, we: • evaluated the appropriateness of the discount rate and inflation rate applied; • reconciled the net book values within the impairment computations to those recorded within the finance system at the year-end; • tested the integrity of the impairment models used by Faroe; • corroborated the oil and gas reserves used in the impairment calculations to those determined by the Company's in-house specialists; • tested the pricing assumptions used for oil and gas within the impairment calculations; • corroborated the life of field activity via the cessation of production dates as estimated within the latest decommissioning cost estimates; • assessed the forecast cash flows in the net present value computations including oil revenues, gas revenues, opex costs and capex costs, ensuring that forecast plans for the assets were in line with our current	We agreed with the adjustments booked by management at the year-end in relation to impairment and concluded that following these adjustments, the amounts booked for impairment were reasonable. Based on our sensitivity analysis on the oil and gas price assumptions and discount rates that drive the impairment analysis, we concluded that it was reasonable and supportable not to record an impairment charge. Based on our audit procedures on the D&P assets, we concluded that there are no material misstatements within the carrying value of D&P assets disclosed in the Balance Sheet as on 31 December 2018 and there exist adequate disclosures in financial statements to ensure compliance with the requirements of applicable accounting standards.

	understanding of the business; and • verified that the amount of impairment booked was correctly computed based on recoverable amounts determined. We also evaluated management's sensitivity analysis on D&P impairment testing in order to assess the potential impact of a range of possible outcomes; as well as performing our own sensitivity analysis. Sensitivities were applied for oil and gas pricing assumptions and discount rates. Additionally we evaluated the financial statement disclosures for compliance with the requirements of accounting standards.	
	We performed full scope audit procedures over this risk area in two locations, which covered 100% of the account balance.	
The accuracy of oil and gas reserves estimates and the correctness of the accounting computations based thereon *Refer to the Operational Report (page 3); and Accounting policies (Note 2) of the Consolidated Financial Statements* This was considered to be a fraud risk area due to the subjective nature of reserves estimates and their impact on the financial statements through impairment and depreciation, depletion and amortisation ("DD&A") calculations. This is a risk related to management override. Faroe undertakes an evaluation of its oil and gas reserves, using its own technical experts. An independent 3rd party is also engaged to evaluate the Group's oil and gas reserves. Any differences between the two data sets are	We gained an understanding of the Group's internal process for reserves estimation and assessed management's assumptions including commercial assumptions to ensure that they are based on supportable evidence. In doing so, we have: • compared the internal reserve estimation balances to those derived from an external 3rd party reserves specialist and challenged any variations. • performed an analysis of the reasonableness of key assumptions and agreed key assumptions to corroborative evidence where possible, such as oil and gas pricing, production flow rates, near term operational plans for assets; and • confirmed the competence, capabilities and objectivity of	We concluded that management's judgements in relation to the volume of 2P reserves to be recognized were appropriate.

investigated and dealt with appropriately. This risk is unchanged from the prior year.	the in-house reserves specialists and the 3rd party specialists.	
The appropriateness of the decommissioning estimates, given the level of subjectivity and complexity involved in the computations, with a number of key cost assumptions feeding into those calculations *Refer to the Accounting policies (Note 2); and Note 22 of the Consolidated Financial Statements* This was considered to be a significant risk due to the subjective nature of decommissioning, owing to the number of key judgements involved it its estimation. It is a significant risk area due to the significant value attached to the decommissioning assets and provisions in the balance sheet. This risk is unchanged from the prior year.	We focused on this area as it involves complex and subjective judgements about the future decommissioning plans of both Faroe and of the Operators of fields in which Faroe has a non-operating interest. Our audit procedures included; • obtaining an understanding of and assessing the reliance which we could place on the third party operator gross cost estimates supplied to the Group, with respect to fields in which Faroe has a non-operating interest; • agreeing the ownership entitlements applied to the cost estimates by management to external data; • evaluated the appropriateness of the discount and inflation rates applied; • evaluating the completeness of the estimates in light of any new drilling or developments undertaken; • assessing the reliance which we could place on external specialists employed by Faroe to estimate the gross cost estimate for decommissioning for self-operated fields; and • assessing the suitability of the estimated lives of each field through to the estimated dates of decommissioning. Additionally we evaluated the financial statement disclosures for compliance with the requirements of accounting standards.	We agreed with the adjustments booked by management at the year-end in relation to decommissioning and concluded that following these adjustments the amounts booked in relation to decommissioning were reasonable.

An overview of the scope of our audit

Tailoring the scope

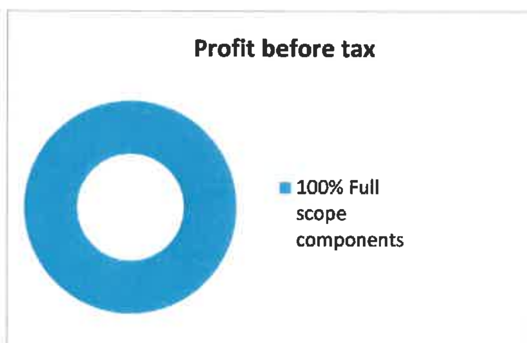
Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each entity within the Group. Taken together, this enables us to form an opinion on the consolidated financial statements. We take into account size, risk profile, the organisation of the group and effectiveness of group wide controls, changes in the business environment and other factors when assessing the level of work to be performed at each entity.

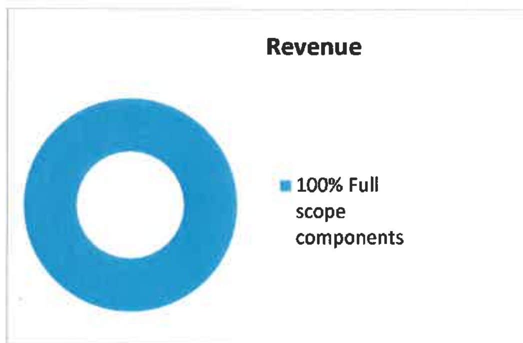
In assessing the risk of material misstatement to the Group financial statements, and to ensure we had adequate quantitative coverage of significant accounts in the financial statements, we selected all four reporting components of the Group, covering entities within United Kingdom and Norway, which represent the principal business units within the Group.

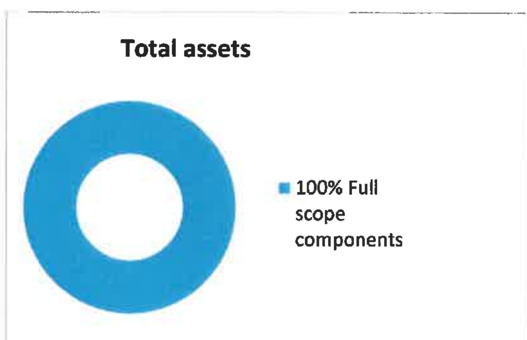
We performed an audit of the complete financial information of four (2017: three) components ("full scope components") which were selected based on their size or risk characteristics.

The reporting components where we performed audit procedures accounted for 100% (2017: 100%) of the Group's Profit (2017: Loss) before tax, 100% (2017: 100%) of the Group's Revenue and 100% (2017: 100%) of the Group's Total assets. For the current year, the full scope components contributed 100% (2017: 99%) of the Group's Profit (2017: Loss) before tax, 100% (2017: 98%) of the Group's Revenue and 100% (2017: 99%) of the Group's Total assets. There are no specific scope components during the year, however during the prior year, the specific scope component contributed 1% of the Group's Loss before tax, 2% of the Group's Revenue and 1% of the Group's Total assets. The audit scope of these components may not have included testing of all significant accounts of the component but will have contributed to the coverage of significant accounts tested for the Group.

The charts below illustrate the coverage obtained from the work performed by our audit teams.







Changes from the prior year

One of the reporting components of the Group, which was designated as a specific scope component in prior year audit was designated as a full scope component during this audit as we were performing the statutory audit of the entity at the same time of the group audit. There were no other changes in scoping compared to prior year.

Involvement with component teams

In establishing our overall approach to the Group audit, we determined the type of work that needed to be undertaken at each of the components by us, as the primary audit engagement team, or by component auditors from other EY global network firms operating under our instruction. Of the four full scope components, audit procedures were performed on three of these directly by the primary audit team. For the other full scope component, where the work was performed by component auditors, we determined the appropriate level of involvement to enable us to determine that sufficient audit evidence had been obtained as a basis for our opinion on the Group as a whole.

The Group audit team continued to follow a programme of planned visits that has been designed to ensure that the Senior Statutory Auditor visits Norway component team annually. During the current year's audit cycle, one visit was undertaken by the primary audit team to the component team in Norway. The visit involved discussing the audit approach with the component team and any issues arising from their work, meeting with local management as part of the closing meeting and reviewing key audit working papers on risk areas. The primary team interacted regularly with the component teams where appropriate during various stages of the audit, reviewed key working papers and were responsible for the scope and direction of the audit process. This, together with the additional procedures performed at Group level, gave us appropriate evidence for our opinion on the Group financial statements.

Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the Group to be £6.3 million (2017: £5.6 million), which is 0.8% (2017: 0.8%) of Total Assets. We believe that Total Assets provides us with a base for materiality which relates to the balances which shareholders are most concerned with for Faroe Petroleum plc. The increase in the group's assets, reflecting the business growth, is reflected in our higher materiality level.

We determined materiality for the Parent Company to be £5.8 million (2017: £5.2 million), which is 1.8% (2017: 1.6%) of Total Equity.

During the course of our audit, we reassessed initial materiality which was set at £6.6 million based on 0.8% of Total Assets and it was reduced to reflect the fluctuation in business.

Performance materiality

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgement was that performance materiality was 75% (2017: 50%) of our planning materiality, namely £4.8m (2017: £2.8m). We have set performance materiality at this percentage as our understanding of the entity and past experience with the engagement indicated a lower risk of misstatements.

Audit work at component locations for the purpose of obtaining audit coverage over significant financial statement accounts is undertaken based on a percentage of total performance materiality. The performance materiality set for

each component is based on the relative scale and risk of the component to the Group as a whole and our assessment of the risk of misstatement at that component. In the current year, the range of performance materiality allocated to components was £1.2m to £3.8m (2017: £0.90m to £2.1m).

Reporting threshold

An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £0.32m (2017: £0.28m), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

Other information

The other information comprises the information included in the annual report set out on pages 3-20, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 20, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Ernst & Young LLP

Jamie Dixon (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Aberdeen
29 April 2019

Notes:

1. The maintenance and integrity of the Faroe Petroleum plc web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.
2. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Group Income Statement

for the year ended 31 December 2018

	Note	2018 £000	2017 £000
Revenue	3	**218,519**	152,924
Cost of sales	4	**(128,506)**	(132,508)
Change in abandonment estimate	22	**9,698**	-
Asset impairment	5	**(39,585)**	(12,992)
Gross profit		**60,126**	7,424
Other income	7	**19,242**	17,353
Gain on disposal of asset	7	**23,798**	7,229
Impairment of goodwill	7	**(1,975)**	-
Exploration and evaluation expenses		**(24,676)**	(25,851)
Administrative expenses	7	**(30,284)**	(7,678)
Operating profit/(loss)	7	**46,231**	(1,523)
Finance revenue	9	**4,139**	4,790
Finance costs	9	**(27,577)**	(17,006)
Profit/(loss) on ordinary activities before tax		**22,793**	(13,739)
Tax (charge)/credit	11a	**(12,944)**	2,313
Profit/(loss) for the year from continuing operations		**9,849**	(11,426)

Group statement of other comprehensive income

for the year ended 31 December 2018

	Note	2018 £000	2017 £000
Profit/(loss) for the year		**9,849**	(11,426)
Items that may be reclassified subsequently to profit or loss:			
Exchange differences reclassified to profit and loss on partial disposal of foreign operations		**1,915**	-
Exchange differences on retranslation on foreign operations net of tax		**(270)**	(13,274)
Total comprehensive profit/(loss) attributable to equity holders of the parent		**11,494**	(24,700)

Company statement of other comprehensive income

for the year ended 31 December 2018

	2018 £000	2017 £000
Loss for the year	**(15,020)**	(5,147)
Total comprehensive loss attributable to equity holders of the parent	**(15,020)**	(5,147)

Group Balance Sheet

at 31 December 2018

	Note	2018	2017
		£000	£000
Non-current assets			
Goodwill	13	**7,445**	9,386
Intangible assets	12	**109,170**	68,857
Property, plant and equipment: development & production	12	**261,115**	204,767
Property, plant and equipment: other	12	**886**	695
Deferred tax asset	11	**106,826**	114,499
		485,442	398,204
Current assets			
Inventories	17	**12,612**	10,644
Trade and other receivables	18	**100,355**	102,088
Current tax receivable	18	**24,735**	35,610
Financial assets – other	15	**617**	-
Cash and cash equivalents	19	**114,509**	149,084
		252,828	297,426
Assets held for sale	14	**70,991**	47,436
		323,819	344,862
Total assets		**809,261**	743,066
Current liabilities			
Trade and other payables	20	**(137,560)**	(113,989)
Current taxation payable		**(375)**	(65)
Provisions	22	**(15,174)**	(10,002)
Financial liabilities - borrowings	20	**(14,056)**	(32,948)
Financial liabilities - other	15	**(4,717)**	(767)
		(171,882)	(157,771)
Non-current liabilities			
Interest bearing loans and borrowings	21	**(77,579)**	(72,742)
Provisions	22	**(283,508)**	(254,697)
		(361,087)	(327,439)
Liabilities directly associated with assets held for sale	14	**(30,894)**	(31,854)
Total liabilities		**(563,863)**	(517,064)
Net assets		**245,398**	226,002

Group Balance Sheet (continued)
at 31 December 2018

	Note	**2018**	2017
		£000	£000
Equity attributable to equity holders			
Equity share capital	23	**37,289**	36,664
Share premium account		**315,580**	315,580
Cumulative translation reserve		**8,795**	6,381
Retained earnings		**(113,582)**	(130,708)
Reserves of a disposal group held for sale		**(2,684)**	(1,915)
Total equity		**245,398**	226,002

These financial statements were approved by the Board of Directors on 26 April 2019 and were signed on its behalf by:

Bjørn Dale
Director

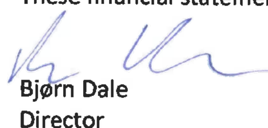
Company Balance Sheet

at 31 December 2018

	Note	2018 £000	2017 £000
Non-current assets			
Property, plant and equipment	12	**43**	38
Financial assets	15	**208,104**	256,269
Investments in subsidiary undertakings	16	**57,192**	51,805
		265,339	308,112
Current assets			
Trade and other receivables	18	**1,113**	398
Cash and cash equivalents	19	**52,447**	92,830
		53,560	93,228
Total assets		**318,899**	401,340
Current liabilities			
Trade and other payables	20	**(9,997)**	(1,519)
Provisions	22	-	(1,228)
		(9,997)	(2,747)
Non-current liabilities			
Interest bearing loans and borrowings	21	**(77,579)**	(72,742)
		(77,579)	(72,742)
Total liabilities		**(87,576)**	(75,489)
Net assets		**231,323**	325,851
Equity attributable to equity holders			
Equity share capital	23	**37,289**	36,664
Share premium account		**315,580**	315,580
Retained earnings		**(121,546)**	(26,393)
Total equity		**231,323**	325,851

The Company's loss for the year was £15,020,000 (2017: £5,147,000).

These financial statements were approved by the Board of Directors on 26 April 2019 and were signed on its behalf by:



Bjørn Dale
Director

Registered number 4622251

Group cash flow statement

for the year ended 31 December 2018

	Note	2018 £000	2017 £000
Profit/(loss) before tax		**22,793**	(13,739)
Depreciation, depletion and amortisation	7	**24,742**	45,179
Exploration asset write off	7	**16,898**	21,524
Unrealised hedging gains	7	**(3,479)**	(369)
Asset impairment	5	**39,585**	12,992
Goodwill impairment		**1,975**	-
Fair value of share based payment		**14,099**	4,948
Cash settlement of share options		**(4,261)**	(670)
Gain on disposal of asset	7	**(23,798)**	(7,229)
Disposal of decommissioning provision		**-**	(1,092)
Change in abandonment estimate	22	**(9,698)**	-
Decommissioning expenditure		**(9,772)**	-
Movement in trade and other receivables		**(2,220)**	(42,263)
Movement in inventories		**(3,573)**	(188)
Movement in trade and other payables		**30,915**	61,728
Currency translation adjustments	9	**5,557**	(4,060)
Interest received	9	**(1,198)**	(730)
Interest and financing fees	9	**19,079**	17,006
Tax rebate		**36,696**	41,031
Net cash generated in operating activities		**154,340**	134,068
Investing activities			
Purchases of intangible and tangible assets		**(199,663)**	(144,239)
Proceeds from sale of tangible and intangible assets		**41,267**	-
Interest received	9	**1,198**	730
Net cash used in investing activities		**(157,198)**	(143,509)
Financing activities			
Proceeds from interest bearing loans and borrowings	21	**-**	75,915
Issue costs of bond instruments	21	**-**	(1,920)
Purchase of SIP shares		**(206)**	(216)
Purchase of shares held under EBT		**(3,794)**	-
Repayments from borrowings		**(19,482)**	(1,404)
Interest and financing fees paid		**(10,260)**	(4,022)
Net cash (outflow)/inflow from financing activities		**(33,742)**	68,353
Net (decrease)/increase in cash and cash equivalents		**(36,600)**	58,912
Cash and cash equivalents at the beginning of the year		**149,084**	96,769
Effect of foreign exchange rate differences		**2,025**	(6,597)
Cash and cash equivalents at the end of the year	19	**114,509**	149,084

Company cash flow statement

for the year ended 31 December 2018

	Note	2018 £000	2017 £000
Loss before tax		(15,020)	(5,147)
Depreciation charges	12	23	48
Intercompany investment impairment		945	-
Share based payment charges to foreign subsidiary		(5,647)	-
Fair value of share based payment		6,586	2,815
Cash cost of share based payment		(2,154)	(407)
Movement in trade and other receivables		(715)	64
Movement in trade and other payables		8,478	(352)
Currency translation adjustments		5,135	3,716
Inter-company service charge uplift		(195)	(223)
Interest received		(12,054)	(4,250)
Interest and financing fees		6,419	511
Net cash used in operating activities		(8,199)	(3,225)
Investing activities			
Purchases of property, plant and equipment	12	(28)	(22)
Loans to subsidiary undertakings		(26,904)	(28,373)
Investments in subsidiary undertakings		-	-
Interest received		416	207
Net cash used in investing activities		(26,516)	(28,188)
Financing activities			
Proceeds from Interest bearing loans and borrowings	21	-	75,915
Issue costs of bond instruments	21	-	(1,920)
Purchase of SIP shares		(206)	(216)
Interest paid		(6,045)	(3)
Net cash (outflow)/inflow from financing activities		(6,251)	73,776
Net (decrease)/increase in cash and cash equivalents		(40,966)	42,363
Cash and cash equivalents at the beginning of the year		92,830	52,149
Effect of foreign exchange rate differences		583	(1,682)
Cash and cash equivalents at the end of the year	19	52,447	92,830

Registered number 4622251

Group statement of changes in equity

for the year ended 31 December 2018

	Notes	Share capital £000	Share premium account £000	Cumulative translation reserve £000	Retained earnings £000	Disposal group held for sale £000	Total £000
As at 1 January 2017		36,453	315,580	17,740	(123,235)	-	246,538
Loss for the year		-	-	-	(11,426)	-	(11,426)
Other comprehensive income:							
Loss on retranslation of foreign subsidiaries		-	-	(13,274)	-	-	(13,274)
Total comprehensive loss		-	-	(13,274)	(11,426)	-	(24,700)
Issue of ordinary shares under EBT	23	211	-	-	(211)	-	-
Purchase of SIP shares		-	-	-	(216)	-	(216)
Share based payments		-	-	-	4,380	-	4,380
Assets held for sale		-	-	1,915	-	(1,915)	-
As at 31 December 2017		36,664	315,580	6,381	(130,708)	(1,915)	226,002
Profit for the year		-	-	-	9,849	-	9,849
Other comprehensive income:							
Exchange differences reclassified to profit and loss on partial disposal of foreign operations		-	-	-	-	1,915	1,915
Loss on retranslation of foreign subsidiaries		-	-	(270)	-	-	(270)
Total comprehensive (loss) / income		-	-	(270)	9,849	1,915	11,494
Issue of ordinary shares under EBT	23	625	-	-	(625)	-	-
Purchase of shares held under EBT		-	-	-	(3,794)		(3,794)
Purchase of SIP shares		-	-	-	(206)	-	(206)
Share based payments		-	-	-	11,902	-	11,902
Assets held for sale		-	-	2,684		(2,684)	-
As at 31 December 2018		**37,289**	**315,580**	**8,795**	**(113,582)**	**(2,684)**	**245,398**

Share capital
The balance classified in share capital is the nominal value on issue of the Group's equity share capital, comprising 10p ordinary shares.

Share premium
The balance classified as share premium is the premium on issue of the Group's equity share capital, comprising 10p ordinary shares less any costs of issuing the shares.

Cumulative translation reserve
The cumulative translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries.

Company statement of changes in equity

for the year ended 31 December 2018

	Notes	Share capital £000	Share premium account £000	Retained earnings £000	Total £000
As at 1 January 2017		**36,453**	**315,580**	**(24,687)**	**327,346**
Loss for the year		-	-	(5,147)	(5,147)
Total comprehensive loss		-	-	(5,147)	(5,147)
Issue of ordinary shares under EBT	23	211	-	-	211
Purchase of SIP shares		-	-	(939)	(939)
Share based payments		-	-	4,380	4,380
As at 1 January 2018		**36,664**	**315,580**	**(26,393)**	**325,851**
Cumulative impairment loss allowance recognised on adoption of IFRS 9		-	-	(91,889)	(91,889)
As at 1 January 2018 (restated)		**36,664**	**315,580**	**(118,282)**	**233,962**
Loss for the year		-	-	(15,020)	(15,020)
Total comprehensive loss		-	-	(15,020)	(15,020)
Issue of ordinary shares under EBT	23	625	-	-	625
Purchase of SIP shares		-	-	(206)	(206)
Vesting of SIP shares		-	-	60	60
Share based payments		-	-	11,902	11,902
As at 31 December 2018		**37,289**	**315,580**	**(121,546)**	**231,323**

Share capital

The balance classified in share capital is the nominal value on issue of the Company's equity share capital, comprising 10p ordinary shares.

Share premium

The balance classified as share premium is the premium on issue of the Company's equity share capital, comprising 10p ordinary shares less any costs of issuing the shares.

Notes

1 AUTHORISATION OF FINANCIAL STATEMENTS AND STATEMENT OF COMPLIANCE WITH IFRS

The financial statements of Faroe Petroleum plc and its subsidiaries (the "Group") for the year ended 31 December 2018 were authorised for issue by the Board of Directors on 26 April 2019 and the Balance Sheet was signed on the Board of Director's behalf by Bjørn Dale. Faroe Petroleum plc, which is registered at 30 Crown Place, London, EC2A 4ES, is a public limited company incorporated in England and domiciled in Scotland.

The Group's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) as they apply to the financial statements of the Group for the year ended 31 December 2018.

2 ACCOUNTING POLICIES

Basis of preparation
The Group's financial statements for the year end 31 December 2018, have been prepared in accordance with IFRS as adopted by the EU. The Company's financial statements have been prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the Companies Act 2006. The Company has taken advantage of the exemption provided under section 408 of the Companies Act 2006 not to publish its individual Income Statement and related notes.

The Group intends to prepare the financial statements of the UK qualifying subsidiaries in accordance with Financial Reporting Standard 101: Reduced Disclosure Framework (FRS 101) and in accordance with applicable accounting standards.

The accounting policies which follow set out those policies which apply in preparing the financial statements for the year ended 31 December 2018.

The Group and Company financial statements have been prepared under the historical cost convention, except for certain fair value adjustments required by those accounting policies. The financial statements are presented in Sterling and all values are rounded to the nearest thousand pounds (£000) except where otherwise indicated.

The directors believe that the Company has adequate resources to continue its operations for the foreseeable future. The bases for the directors' considerations are disclosed in the directors' report. Thus the directors continue to adopt the going concern basis of accounting in preparing the financial statements.

Accounting judgements and estimates
The Group's accounting policies make use of estimates and judgements in the following areas; Impairment, Depreciation, Decommissioning, Reserves and Share based payments. These are described in more detail in the relevant accounting policies.

Basis of consolidation
The consolidated financial statements comprise the financial statements of the Group as at 31 December 2018. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has all of the following:

- power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee);
- exposure, or rights, to variable returns from its involvement with the investee; and
- the ability to use its power over the investee to affect its returns

Generally, there is a presumption that a majority of voting rights result in control. To support this presumption and when the Group has less than a majority of the voting, or similar, rights of an investee, it considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- the contractual arrangement(s) with the other vote holders of the investee;
- rights arising from other contractual arrangements; and
- the Group's voting rights and potential voting rights.

Notes *(continued)*

2 ACCOUNTING POLICIES *(continued)*

Basis of consolidation (continued)

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests (NCI), even if this results in the NCI having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value.

Foreign currencies

The functional currency for the UK entities is Sterling and the functional currency for Faroe Petroleum Norge AS is Norwegian Kroner.

Transactions in foreign currencies during the year are recorded in the functional currency at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities are translated at the rate ruling on the Balance Sheet date and any gains and losses on translation are reflected in the Income Statement.

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

Joint arrangements

Judgement is required to determine when the Group has joint control over an arrangement, which requires an assessment of the relevant activities and when the decisions in relation to those activities require unanimous consent. The Group has determined that the relevant activities for its joint arrangements are those relating to the operating and capital decisions of the arrangement, including the approval of the annual capital and operating expenditure work programme and budget for the joint arrangement, and the approval of chosen service providers for any major capital expenditure as required by the joint operating agreements applicable to the entity's joint arrangements. The considerations made in determining joint control are similar to those necessary to determine control over subsidiaries, as set out in Note 2. Judgement is also required to classify a joint arrangement. Classifying the arrangement requires the Group to assess their rights and obligations arising from the arrangement. Specifically, the Group considers:

- the structure of the joint arrangement – whether it is structured through a separate vehicle;
- when the arrangement is structured through a separate vehicle, the Group also considers the rights and obligations arising from:
    - the legal form of the separate vehicle;
    - the terms of the contractual arrangement; and

Notes *(continued)*

2 ACCOUNTING POLICIES *(continued)*

Joint arrangements (continued)

- o other facts and circumstances, considered on a case by case basis.

This assessment often requires significant judgement. A different conclusion about both joint control and whether the arrangement is a joint operation or a joint venture, may materially impact the accounting. A complete list of the Group's Joint Operations is provided in Note 32.

A Joint Operation is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets and obligations for the liabilities, relating to the arrangements. In relation to its interests in joint operations, the Group recognises its:

- assets, including its share of any assets held jointly;
- liabilities, including its share of any liabilities incurred jointly;
- revenue from the sale of its share of the output arising from the joint operation;
- share of the revenue from the sale of the output by the joint operation; and
- expenses, including its share of any expenses incurred jointly.

Revenue

Management have assessed the sale of crude oil, gas or condensate and determined that these represent a single performance obligation, being the sale of barrels equivalent on collection of a cargo or on delivery of a commodity into an infrastructure. Revenue will accordingly be recognised for this performance obligation when control over the corresponding commodity is transferred to the customer. Payment terms are generally within 30 days from date of invoice.

Interest income is recognised on an accruals basis using the effective interest method.

Tariff income for the use of Group infrastructure

Management have assessed the revenue arising from tariffs, which are charged to customers for the use of infrastructure owned by the Group in the North Sea. There is one contract per customer which is for a period of 12 months or less and is based on performance obligations for the use of Group assets. Tariff income is recognised evenly over the term of the contract. Payment terms are generally within 30 days from date of invoice.

Oil and gas expenditure – exploration and evaluation assets

Capitalisation
Pre-acquisition costs on oil and gas assets are recognised in the Income Statement when incurred. Costs incurred after rights to explore have been obtained, such as geological and geophysical surveys, drilling and commercial appraisal costs and other directly attributable costs of exploration and appraisal including technical and administrative costs are capitalised as intangible exploration and evaluation ("E&E") assets. The assessment of what constitutes an individual E&E asset is based on technical criteria but essentially either a single licence area or contiguous licence areas with consistent geological features are designated as individual E&E assets.

E&E costs are not amortised prior to the conclusion of appraisal activities. Once active exploration is completed the asset is assessed for impairment. If commercial reserves are discovered then the carrying value of the E&E asset is reclassified as a development and production ("D&P") asset, following development sanction, but only after the carrying value is assessed for impairment and where appropriate its carrying value adjusted. If commercial reserves are not discovered the E&E asset is written off to the Income Statement.

Notes *(continued)*

2 ACCOUNTING POLICIES *(continued)*

Oil and gas expenditure – exploration and evaluation assets (continued)

Impairment
The Group's oil and gas assets are analysed into cash generating units ("CGU") for impairment review purposes, with E&E asset impairment testing being performed at a grouped CGU level. The current CGU consists of the Group's whole E&E portfolio. E&E assets are reviewed for impairment when circumstances arise which indicate that the carrying value of an E&E asset exceeds the recoverable amount. When reviewing E&E assets for impairment, the combined carrying value of the grouped CGU is compared with the grouped CGU's recoverable amount. The recoverable amount of a grouped CGU is determined as the higher of its fair value less costs to sell and value in use. Impairment losses resulting from an impairment review are written off to the Income Statement.

Oil and gas expenditure – development and production assets

Capitalisation
Costs of bringing a field into production, including the cost of facilities, wells and sub-sea equipment together with E&E assets reclassified in accordance with the above policy, are capitalised as a D&P asset. Normally each individual field development will form an individual D&P asset but there may be cases, such as phased developments, or multiple fields around a single production facility when fields are grouped together to form a single D&P asset.

Business Combinations and Goodwill
In order to consider an acquisition as a business combination, the acquired asset or group of assets must constitute a business. IFRS 3 describes a business as an integrated set of activities and assets conducted that is capable of being managed for the purpose of providing a return to investors. The combination consists of inputs and processes, which when combined have the ability to create outputs.

Acquired businesses are included in the financial statements from the transaction date, which is defined as the date on which the Company achieves control over the assets. Comparative figures are not adjusted for acquired, sold or liquidated businesses.

Acquisition cost equals the fair value of assets used as consideration, including contingent consideration, equity instruments issued and liabilities assumed in connection with the transfer of control. Acquisition cost is measured against the fair value of the acquired assets and liabilities assumed. Identifiable intangible assets are included in connection with acquisitions if they can be separated from other assets or meet the legal contractual criteria. When calculating the fair value, the tax implications of any re-evaluations are taken into consideration.

If the acquisition cost at the time of the acquisition exceeds the fair value of the acquired net assets goodwill arises. In contrast, if the fair value of identifiable assets exceeds the acquisition cost on the acquisition date, the excess amount is taken to the income statement.

Goodwill is allocated to the cash generating units or groups of cash generating units that are expected to benefit from the business combination. The allocation of goodwill may vary depending on the basis for its initial recognition. The goodwill recognised is mainly related to the requirement to recognise deferred tax for the difference between the assigned fair values and the related tax base ("technical goodwill"). The valuation at fair value of licenses is based on cash flows after tax, which is because the licenses are sold in an after tax market based on decisions made by the Norwegian Ministry of Finance pursuant to the Petroleum Taxation Act Section 10. The purchaser is therefore not entitled to deduction for the consideration with tax effect through depreciation. In accordance with IAS 12 (paras 15 and 24) a provision is made for deferred tax corresponding to the difference between the acquisition cost and the transferred tax depreciation basis. The offsetting entry to this deferred tax is goodwill. Hence goodwill arises as a technical effect of deferred tax.

Technical goodwill is tested for impairment separately for each cash generating unit which gives rise to technical goodwill.

Notes *(continued)*

2 ACCOUNTING POLICIES *(continued)*

Oil and gas expenditure – development and production assets (continued)

Business Combinations and Goodwill (continued)
The estimation of fair value and goodwill may be adjusted up to 12 months after the acquisition date if new information has emerged about facts and circumstances that existed at the time of the acquisition and which, had they been known, would have affected the calculation of the amounts that were included from that date.

Acquisition related costs, except costs to issue debt or equity securities, are expensed as incurred.

Depreciation
All costs relating to a development are accumulated and not depreciated until the commencement of production. Depreciation is calculated on a unit of production basis based on the proven and probable reserves of the asset. Any re-assessment of reserves affects the depreciation rate prospectively. Significant items of plant and equipment will normally be fully depreciated over the life of the field. However these items are assessed to consider if their useful lives differ from the expected life of the D&P asset and should this occur a different depreciation rate would be charged.

The key areas of estimation regarding depreciation and the associated unit of production calculation for oil and gas assets are:

- recoverable reserves; and
- future capital expenditure

Impairment
A review is carried out for any indication that the carrying value of the Group's D&P assets may be impaired. The impairment review of D&P assets is carried out on an asset by asset basis and involves comparing the carrying value with the recoverable value of an asset. The recoverable amount of an asset is determined as the higher of its fair value less costs to sell and value in use. The value in use is determined from estimated future net cash flows. Any additional depreciation resulting from the impairment testing is charged to the Income Statement.

The future cash flows are adjusted for risks specific to the cash-generating unit and are discounted using a pre-tax discount rate. The discount rate is derived from the Group's post-tax weighted average cost of capital and is adjusted where applicable to take into account any specific risks relating to the country where the cash-generating unit is located, although other rates may be used if appropriate to the specific circumstances. In 2018 the rate used was 8.1% nominal (2017: 7.5% nominal). The discount rates applied in assessments of impairment are reassessed each year.

See Note 12 for the carrying value of oil and gas assets. Reserves and production volumes are also stated in the Review of Activities, primarily in the Producing Assets section.

Notes *(continued)*

2 ACCOUNTING POLICIES *(continued)*

Oil and gas expenditure – development and production assets (continued)

Key assumptions used in the value-in-use calculations
The calculation of value-in-use for oil and gas assets under development or in production is most sensitive to the following assumptions:

- production volumes / recoverable reserves;
- commodity prices;
- fixed and variable operating costs;
- capital expenditure; and
- discount and inflation rates.

Production volumes/recoverable reserves
Annual estimates of oil and gas reserves are generated internally by the Company's reservoir engineers. These are reported annually to the Board in conjunction with an externally generated Competent Persons Report ('CPR'). The self certified estimated future production profiles are used in the life of the fields which in turn are used as a basis in the value-in-use calculation.

Commodity prices
An average of published forward prices and the long-term assumption for natural gas and Brent oil are used for the first three years of future cash flow and an inflated real price thereafter, in accordance with the Company's corporate assumptions. Field specific discounts and prices are used where applicable.

Fixed and variable operating costs
Typical examples of variable operating costs are pipeline tariffs, treatment charges and freight costs. Commercial agreements are in place for most of these costs and the assumptions used in the value-in-use calculation are sourced from these where available. Examples of fixed operating costs are platform costs and operator overheads. Fixed operating costs are based on operator budgets.

Capital expenditure
Field development is capital intensive and future capital expenditure has a significant bearing on the value of an oil and gas development asset. In addition, capital expenditure may be required for producing fields to increase production and/or extend the life of the field. Cost assumptions are based on operator budgets or specific contracts where available.

Discount and inflation rates – Discount rates reflect the current market assessment of the risks specific to the oil and gas sector and are based on the weighted average cost of capital for the Group. Where appropriate, the rates are adjusted to reflect the market assessment of any risk specific to the field for which future estimated cash flows have not been adjusted. The Group has applied a discount rate of 8.1% for the current year (2017: 7.5%). The inflation rate used in the calculation was 2.0% (2017: 2.0%).

Sensitivity to changes in assumptions
Following our review of the above assumptions and having performed a sensitivity analysis on the impairment reviews performed we conclude that commodity prices are the most sensitive assumption. A 10% change in commodity prices would result in a change of the impairment charge by £4.8 million in the UK and £26.5 million effect in Norway.

Notes *(continued)*

2 ACCOUNTING POLICIES *(continued)*

Oil and gas expenditure – development and production assets (continued)

Oil and gas expenditure – acquisitions and disposals
Commercial transactions involving the acquisition of a D&P asset in exchange for an E&E or D&P asset are accounted for at fair value with the difference between the fair value and cost being recognised in the Income Statement as a gain or loss. When a commercial transaction involves a D&P asset and takes the form of a farm-in or farm-out agreement, the premium expected to be paid/received is treated as part of the consideration.

Fair value calculations are not carried out for commercial transactions involving the exchange of E&E assets. The capitalised costs of the disposed asset are transferred to the acquired asset. Farm-in and farm-out transactions of E&E assets are accounted for at cost. Costs are capitalised according to the Group's cost interest (net of premium received or paid) as costs are incurred.

Proceeds from the disposal of an E&E asset, or part of an E&E asset, are deducted from the capitalised costs and the difference recognised in the Income Statement as a gain or loss. Proceeds from the disposal of a D&P asset, or part of a D&P asset, are recognised in the Income Statement, after deducting the related net book value of the asset.

Decommissioning
The Group recognises the discounted cost of decommissioning when the obligation to rectify environmental damage arises. The amount recognised is the present value of the estimated future expenditure determined by local conditions and requirements. A corresponding property, plant and equipment asset of an amount equal to the provision is created unless the associated activity resulted in an Income Statement write-off. This asset is subsequently depreciated as part of the capital cost on a unit of production basis. Any change to the present value of the estimated decommissioning cost is reflected as an adjustment to the provision and the property, plant and equipment asset. The unwinding of the discount on the decommissioning provision is included as an interest expense.

Where the Group has an asset with nil carrying value, and subsequently on the basis of new information makes an increase to the discounted cost of decommissioning, then such increase is taken to the Income Statement.

The key areas of estimation regarding decommissioning are:

- expected economic life of field, determined by factors such as
    - field reserves and future production profiles – see *Operational Report*
    - commodity prices
- inflation rate;
- nominal discount rate; and
- decommissioning cost estimates (and the basis for these estimates)

Certain gross cost estimates have been changed by operators in order to reflect the latest available information. Following the finalisation of the internal reserve estimates, cessation of production ("COP") dates were also changed.

See Note 22 Provisions in respect of decommissioning obligations and explanation of discount rates.

Production imbalances
Production imbalances arise on fields as oil is lifted per each joint venture party, resulting in a variance in the volume of oil lifted versus the entitlement per owner per their working interest. The change in production imbalances is currently taken through cost of sales at fair value at the date of lifting, with the balance being recognised within Trade and other receivables. All Group fields are operated through a Joint Venture Agreement ("JVA") through which production imbalances are settled. These transactions are settled by the JVA through lifting schedules and are not settled in cash and therefore do not meet the definition of revenue from customers under IFRS 15.

Notes *(continued)*

2 ACCOUNTING POLICIES *(continued)*

Other property, plant & equipment

Property, plant and equipment other than oil and gas assets are stated in the Balance Sheet at cost less accumulated depreciation. Depreciation is provided to write off the cost less the estimated residual value of the tangible fixed asset on a straight-line basis over their estimated useful lives as follows:

- IT equipment 3 to 4 years
- Other equipment 5 years

Financial assets

In the Company accounts, financial assets which are loans provided by the parent company to subsidiary undertakings are carried at cost. In the Company accounts, foreign currency gains and losses on such loans to subsidiary undertakings are recognised in the Income Statement.

Investments

Investments in subsidiaries are included in the financial statements at cost less provisions for impairment.

Trade creditors

Trade creditors are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade creditors are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Inventories

The Group's share of any physical stock is accounted for at the lower of cost and net realisable value.

Taxation

The Income Statement tax charge/ (credit) comprises both current and deferred tax. Tax is charged or credited in the Income Statement except on items related directly to equity, in which case it is recognised in equity. Current tax liabilities are payable on income for the year and are based on rates of tax enacted or substantively enacted at the Balance Sheet date.

Deferred income tax is provided in full on temporary differences between the carrying value of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes, with the following exemptions:

- where the temporary differences arise on initial recognition of an asset or liability in a transaction (other than a business combination) that at the time of the transaction affects neither accounting nor taxable profit or loss;
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future; and
- deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences, carried forward tax credits or tax losses can be utilised.

Notes *(continued)*

2 ACCOUNTING POLICIES *(continued)*

Key assumptions in determining the recoverability of the deferred tax asset
In considering the recoverability of the deferred tax asset in respect of carried forward tax losses at the year end, the directors have considered that:

1. Based on current forecasts, the deferred tax asset in respect of the UK carried forward losses will be fully utilised by 2024;
2. The current forecasts are based on the same price assumptions used in the 2018 impairment tests, which are deemed to be reasonable;
3. The forecasts are derived from operator budgets and Life of Field models which are deemed to be reasonable; and
4. With regard to the Norwegian carried forward tax losses, Norway refunds any non-utilised tax losses if the activity ceases and therefore the asset is recoverable.

Pensions

Group employees and certain senior Norwegian employees receive contributions to personal pension plans, which are charged to the Income Statement on an accruals basis.

Trade and other receivables
Trade and other receivables, which generally have 30-60 day terms, are shown at face value less any provision for unrecoverable debt. Provision is made when there is objective evidence that the Group will not be able to recover balances in full. Balances are written off when the probability of recovery is assessed as being remote.

Operating leases
Rentals under operating leases are charged to the Income Statement on a straight line basis over the period of the lease.

Cash and cash equivalents
Cash and short-term deposits in the Balance Sheet comprise cash at banks and on hand and short-term deposits with a maturity of three months or less, which are subject to an insignificant risk of changes in value.

Notes *(continued)*

2 ACCOUNTING POLICIES *(continued)*

Share based payments
Employees (including senior executives) of the Group receive remuneration in the form of share-based payment transactions which may be equity settled or cash settled. The cost of equity-settled transactions with employees, for awards granted after 7 November 2002, is measured by reference to the fair value at the date on which they are granted. The fair value is determined by an external valuer using an appropriate pricing model.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the "vesting date"). The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The Income Statement charge or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

The key areas of estimation regarding share based payments are:

- share price volatility; and
- estimated lapse rates

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

Where the terms of an equity-settled award are modified, the minimum expense recognised is the expense if the terms had not been modified. An additional expense is recognised for any modification, which increases the total fair value of the share based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

Cash settled transactions relate to phantom options, where employees are entitled to a cash payment equivalent to the gain that would have been made by exercising options at notional price over a notional number of shares and then selling the shares at the date of exercise. The ultimate cost of a cash-settled transaction is the fair value of the cash paid at the settlement date. The cumulative cost recognised until settlement date is a liability on the face of the balance sheet and not a component of equity. The fair value of the liability is determined by an external valuer using an appropriate pricing model. All changes in the liability are recognised in profit or loss.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

Employee Benefit Trust
The substance of the relationship between the Group and the Employee Benefit Trust indicates that the Trust is a Special Purpose Entity (SPE) controlled by the Group. The activities of the Trust are being conducted on behalf of the Group in order to obtain benefits from its operation and on this basis the assets held by the Trust are consolidated into the Group's financial statements.

Notes *(continued)*

2 ACCOUNTING POLICIES *(continued)*

Held for sale assets
Non-current assets (and disposal groups) classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell. Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sales transaction rather than through continuing use. The condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for sale in its present condition. Management must be committed to the sale which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Interest bearing loans and borrowings
Interest bearing loans and borrowings are recognised initially at fair value, net of transaction costs incurred. Transaction costs are amortised over the life of the facility. Borrowing costs are stated at amortised cost using the effective interest method.

The effective interest method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or a shorter period to the net carrying amount of the financial liability where appropriate.

Interest on borrowing directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use.

Derivative financial instruments and hedging
The Group uses derivative financial instruments to manage certain exposures to fluctuations in foreign currency exchange rates and commodity prices in addition to trading purposes. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at fair value. Derivatives relating to unquoted equity instruments are carried at cost where it is not possible to reliably measure their fair value subsequent to initial recognition. Derivatives are carried as assets when the fair value is positive and liabilities when the fair value is negative.

Financial liabilities at fair value through profit or loss are carried on the Balance Sheet at fair value, with realised and unrealised gains or losses arising from changes in fair value recognised in the Income Statement. Derivatives are classified as held for trading and are included in this category. Unrealised gains or losses are calculated by comparing the derivative contract pricing to forward curve data.

The use of derivative financial instruments is explained further in note 24 and the Principal Risks and Uncertainties section of these financial statements.

Comparatives
Certain 2017 comparatives for the held for sale disclosure were reclassified with fixed assets to provide consistency with the current year presentation.

Notes *(continued)*

2 ACCOUNTING POLICIES *(continued)*

Impact of new standards and interpretations
The Group applied for the first time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2018.

IFRS 15 – Revenue from contracts with customers: IFRS 15 supersedes IAS 11 Construction Contracts, IAS 18 Revenue and related interpretations and it applies with limited exceptions. IFRS 15 establishes a five –step model to account for revenue arising from contracts with customers and requires that revenue be recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

IFRS 15 requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The change did not have a material impact on the income statement for the year.

IFRS 9 Financial Instruments: IFRS 9 Financial Instruments replaces IAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting. The adoption of IFRS 9 led to an impairment charge of £92 million being recognised against the intercompany loan due from Faroe Petroleum (U.K.) Limited, a wholly owned subsidiary of Faroe Petroleum PLC.

The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The IASB and IFRIC have issued the following standards and interpretations with an effective date after the commencement date of the accounting period for these financial statements:

Title	**Effective date (annual periods beginning on or after)**
IFRS 16 Leases	1 January 2019
Amendments to IFRS 10 and IAS 28: Sale or contribution of assets between an investor and an associate or joint venture	Deferred
Amendments to IAS 28: Long –term interest in associates and joint ventures	1 January 2019
Annual improvements to IFRS 2015-2017 Cycle	1 January 2019
IFRIC 23 Uncertainty over Income Tax Treatments	1 January 2019
IFRS 11 Joint Arrangements	1 January 2019
Amendment to IFRS 3 Business Combinations	1 January 2020
Amendments to IAS 1 and IAS 8: Definition of material	1 January 2020
Amendments to References to the Conceptual Framework in IFRS standards	1 January 2020

Notes *(continued)*

2 ACCOUNTING POLICIES *(continued)*

Impact of new standards and interpretations (continued)

Management have performed an analysis of IFRS 16 Leases and concluded that there is no material impact on the profit after tax in the 2018 Group Income Statement. Management have analysed all lease contracts, and have concluded that a lease liability and associated right of use asset of £2.1 million would need to be recognised. The expected income statement effect for the year ended 31 December 2018 is immaterial.

The Group plans to adopt IFRS 16 using the modified retrospective approach. The Group will elect to apply the standard to contracts that were previously identified as leases applying IAS 17 and IFRIC 4. The Group will therefore not apply the standard to contracts that were not previously identified as containing a lease applying IAS 17 and IFRIC 4.

All other amendments as noted above are not believed to have a material impact on the financial statements of the Group. The Group will adopt these standards on the date at which they become effective.

3 REVENUE

Revenue recognised in the Income Statement is analysed as follows:

	2018 £000	2017 £000
Oil sales	**162,953**	86,152
Gas sales	**48,632**	59,408
Condensate sales	**3,571**	3,033
Tariff income	**3,363**	4,331
Total revenue	**218,519**	152,924

4 COST OF SALES

Cost of sales recognised in the Income Statement is analysed as follows:

	2018 £000	2017 £000
Operating costs	**65,470**	72,077
Commercial tariffs	**21,866**	44,386
Depreciation, depletion and amortisation – development and production assets	**24,377**	44,806
Movement in overlift / (underlift) during the year	**14,286**	(30,729)
Other cost of sales	**2,507**	1,968
Total cost of sales	**128,506**	132,508

Notes *(continued)*

5 ASSET IMPAIRMENT

Impairment losses

An asset impairment charge of £39.6 million (2017: £13.0 million) has been recognised during the year. The pre-tax impairment charge and the related movement in deferred tax were as follows:

	Pre-tax impairment £000	Movement in Deferred Tax £000	Post-tax impact £000
2018			
Schooner	21,634	(8,654)	12,980
Ketch	8,703	(3,481)	5,222
Blane	2,020	(808)	1,212
Ula	5,459	(4,258)	1,201
Brage	1,769	(1,380)	389
Total	39,585	(18,581)	21,004
2017			
Brage	3,132	(2,443)	689
Schooner	5,693	(2,277)	3,416
Enoch	4,167	(1,667)	2,500
Total	12,992	(6,387)	6,605

The factors that led to the impairments in 2018 were as follows:

Schooner: The impairment charge is driven by the increase in the abandonment estimate. The recoverable amount is deemed to be £nil.

Ketch: The impairment charge is driven by the increase in the abandonment estimate. The recoverable amount is deemed to be £nil.

Blane: The impairment charge is principally driven by the commodity price environment and the technical downward revision in reserves. The recoverable amount is £27.9 million.

Ula: The impairment charge is principally driven by the commodity price environment. The recoverable amount is £28.7 million

Brage: The impairment charge is principally driven by the technical downward revision in reserves and the commodity price environment. The recoverable amount is £20.4 million.

The factors that led to the impairments in 2017 were as follows:

Brage: The impairment charge is principally driven by the technical downward revision in reserves. The recoverable amount is £22.6 million.

Schooner: The impairment charge is principally driven by the increase in the abandonment estimate and acceleration of cessation of production. The recoverable amount is negligible and therefore was fully written off in 2017.

Ketch: The impairment charge is driven by the increase in the abandonment estimate and the acceleration of cessation of production. The recoverable amount is negligible and was therefore fully written off in 2017.

The assumptions used for the impairment review are stated in Note 2.

Notes *(continued)*

6 SEGMENTAL REPORTING

The Group operates a single class of business being oil and gas exploration, appraisal, development and production and related activities in a single geographical area presently being Northwest Europe. Revenue from two key customers (2017: two key customers) which individually represent more than 10% of total sales were as follows: £139.7 million and £20.6 million arising from sales of oil in Norway and the UK respectively (2017: £74.0 million and £8.9 million Norway and UK respectively), £14.2 million and £33.1 million arising from sales of natural gas in the UK and Norway respectively (2017: £21.2 million and £34.8 million UK and Norway respectively) and £nil arising from sales of condensate in the UK and Norway (2017: £nil for UK and Norway). The Company has negligible revenue.

Capitalised Exploration and Evaluation costs are split £102.4 million and £6.7 million between the Norway and UK respectively (2017: £68.7 million and £0.3 million). Capitalised Development and Production costs are split £229.8 million and £31.4 million between the Norway and UK respectively (2017: £163.3 million and £37.9 million between Norway and UK respectively).

7 GROUP OPERATING PROFIT / (LOSS)

	2018	2017
	£000	£000
Group operating profit/(loss) is stated after charging / (crediting)		
Exploration asset write off	**16,898**	**21,524**
Asset impairment (Note 5)	**39,585**	**12,992**
Impairment of goodwill	**1,975**	**-**
Pre-award exploration expenditure	**7,778**	**4,327**
Depletion, depreciation and amortisation – development and production assets	**24,377**	**44,806**
Depreciation of property, plant and equipment - other	**365**	**373**
Realised hedging losses	**5,947**	**1,859**
Unrealised hedging gains	**(3,479)**	**(369)**
Operating lease payments	**667**	**927**
Gain on disposal of asset	**(23,798)**	**(7,229)**
Compensation income	**(21,710)**	**(18,843)**

Other income is mainly made up of compensation income of £21.7 million (2017: £18.8 million), realised hedging losses of £5.9 million (2017: £1.9 million) and unrealised hedging gains of £3.5 million (2017: £0.4 million).

In May 2018, the partial divestment of the Fenja asset was completed for a consideration of $54.5 million (being £40.4 million), leading to a post-tax gain on disposal of £23.8 million including a £1.9 million reclassification of foreign exchange movements accumulated in the currency translation reserve being reclassified to the income statement. Please refer to Note 14 for further information.

Expensed administration cost in 2018 increased to £30.3 million (2017: £7.7 million) mainly due to legal and professional fees associated with the ultimately unsuccessful defence against the DNO takeover (£8.8 million) and accelerated vesting of outstanding share options following the takeover (£8.7 million).

Notes (*continued*)

8 AUDITORS' REMUNERATION

The Group paid the following amounts to its auditors in respect of the audit of the financial statements and for other services provided to the Group:

	2018 £000	2017 £000
Audit of Group financial statements	**80**	70
Audit of subsidiaries pursuant to legislation	**60**	54
Other services – interim review	**25**	25
Other services – compliance tax services	**38**	41
Other advisory services	**-**	17
	203	207

Fees paid to Ernst & Young LLP and its associates for non-audit services are not disclosed in the individual accounts of the Company as Group financial statements are prepared which are required to disclose such fees on a Group basis. Fees paid to Ernst & Young LLP and its associates for the audit of Faroe Petroleum plc itself as opposed to the Group in 2018 were £12,000 (2017: £12,000).

9 FINANCE REVENUE AND COST

	2018 £000	2017 £000
Bank and other interest receivable	**1,198**	730
Total interest income for financial assets not at fair value through profit or loss	**1,198**	730
Realised exchange gain	**2,941**	4,060
Total finance revenue	**4,139**	4,790
Bank interest payable and other loans	**(11,295)**	(4,898)
Capitalised interest	**2,914**	-
Total interest expense for financial assets not at fair value through profit or loss	**(8,381)**	(4,898)
Unwinding of discount on decommissioning provision	**(10,698)**	(12,108)
Unrealised exchange loss	**(8,498)**	-
Total finance cost	**(27,577)**	(17,006)

Notes *(continued)*

10 EMPLOYMENT COSTS

The aggregate payroll costs of staff and directors were as follows:

	Group 2018 £000	Group 2017 £000	**Company 2018 £000**	Company 2017 £000
Wages and salaries	**15,680**	11,646	**4,689**	4,014
Social security costs	**4,159**	2,248	**1,437**	805
Pension costs	**1,495**	1,323	**202**	222
Share based payments charge (both equity settled and phantom options)	**14,099**	4,948	**6,586**	2,815
	35,433	20,165	**12,914**	7,856

Included in pension costs is a charge of £1.5 million (2017: £1.3 million) and £0.2 million (2017: £0.2 million) in respect of the defined contribution scheme for the Group and Company respectively.

The average number of persons employed by the Group (including executive directors) during the year was as follows:

	Group 2018 No.	Group 2017 No.	**Company 2018 No.**	Company 2017 No.
Technical	**47**	44	**8**	8
Finance & Commercial	**28**	26	**15**	15
Administration	**11**	10	**4**	4

Notes *(continued)*

10 EMPLOYMENT COSTS *(continued)*

Directors' emoluments:

	2018 £000	2017 £000
Directors emoluments	**2,321**	1,957
Aggregate contributions to pension schemes[1]:		
Defined contribution	**258**	206
Number of directors accruing benefits under:		
Defined contribution schemes	**3**	3

The emoluments of the directors in 2018:

	Fees/basic salary £'000	**Annual bonus £'000**	**Benefits in kind £'000**	**2018 Total £'000**	2017 Total £'000	**2018 Pension[1] £'000**	2017 Pension £'000
Aggregate remuneration	1,433	862	26	**2,321**	1,957	**258**	206

During the year, three directors (G Stewart, H Hammer and J Cooper) exercised share options and made total gains of £4.2 million on the exercise of share options.

The emoluments of the above directors in 2017:

	Fees/basic salary £'000	**Annual bonus £'000**	**Benefits in kind £'000**	**2017 Total £'000**	2016 Total £'000	**2017 Pension[1] £'000**	2016 Pension £'000
Aggregate remuneration	1,272	663	22	**1,957**	2,103	**206**	204

[1] Pension contributions made to UK executive directors in excess of the Annual Allowance or Lifetime Allowance are paid as salary (but such sums are not taken into account when calculating any bonus or option award).

The highest paid director received the following remuneration in 2018:

	Fees/basic salary £'000	**Annual bonus £'000**	**Benefits in kind £'000**	**2018 Total £'000**	**2018 Pension £'000**
Aggregate remuneration	414	376	5	**795**	**83**

Notes *(continued)*

10 EMPLOYMENT COSTS *(continued)*

The highest paid director received the following remuneration in 2017:

	Fees/basic salary £'000	Annual bonus £'000	Benefits in kind £'000	2017 Total £'000	2017 Pension £'000
Aggregate remuneration	376	282	5	**663**	**75**

11 TAXATION

(a) Tax on profit/(loss) on ordinary activities

	2018 £000	2017 £000
Current taxation		
Overseas tax credit	**24,735**	35,610
UK tax charge	**(374)**	(71)
Current tax credit	**24,361**	35,539
Amounts (over) / under provided in previous year	**(134)**	138
Total current tax credit	**24,227**	35,677
Deferred taxation		
Origination of temporary differences	**(36,857)**	(34,660)
Change of tax rate	**-**	525
Not provided in earlier years	**354**	1,843
Total deferred tax charge	**(36,503)**	(32,292)
Foreign exchange differences		
Differences arising from the use of year end and average exchange rates	**(668)**	(1,072)
Total foreign exchange differences	**(668)**	(1,072)
Total tax (charge) / credit in the Income Statement	**(12,944)**	2,313

There are no items charged to equity with any current or deferred tax effect.

Notes *(continued)*

11 TAXATION *(continued)*

(b) Reconciliation of the total tax charge/(credit)

The tax charge/(credit) in the Income Statement for the year is higher than the inside ring fence rate of corporation tax in the UK of 40% (2017: 40%). The differences are reconciled below:

Tax reconciliation	**2018 £000**	2017 £000
Profit / (loss) on ordinary activities before tax	**22,793**	(13,739)
Tax at 40% (2017: 40%)	**9,117**	(5,496)
Expenses not deductible for tax purposes	**2,745**	923
Prior year adjustments	**(220)**	(1,981)
Income not taxable	**(1,466)**	(1,328)
Ring fence expenditure supplement and field allowances	**(356)**	(32)
Effect of foreign profits/losses charged at different rate of tax	**26,260**	10,725
Effect of profits/losses taxed at 20.0% (2017: 20.0%)	**4,142**	1,068
Foreign exchange differences	**682**	(4,379)
Movement in unrecognised deferred tax	**1,930**	1,309
Change of ring fence rate	**59**	163
Internal transfer of assets	**(6,598)**	-
Other	**750**	221
Norwegian norm price adjustments	**(19,647)**	3,498
Norwegian foreign exchange hedges	**2,598**	-
Norwegian allowances uplift	**(7,052)**	(7,004)
Total tax charge / (credit)	**12,944**	(2,313)

The 2018 overseas tax credit of £24.7 million (2017: £35.6 million) represents a tax refund on net exploration expenditure and is due for repayment in November 2019.

The reconciliation of the total tax credit has been based upon the UK ring fence corporation tax rate of 30% (2017: 30%) and the UK supplementary charge which was 10% (2017: 10%) giving a combined rate of 40% (2017: 40%). The UK oil and gas activities of the Group were subject to this rate during 2018.

Group

As at 31 December 2018 the Group has gross ring fence tax losses in the UK of £44.9 million (2017: £53.8 million) that are available indefinitely for offset against future taxable profits. A deferred tax asset has been recognised in respect of these losses and other deductible temporary differences arising in the UK as it is probable that they will be used in the foreseeable future.

At December 2018, Faroe had carried forward tax balances in Norway of £178.1 million and £29.4 million related to depreciation and uplift respectively. In addition, at December 2018, Faroe had carried forward tax losses in Norway of £21.6 million and £72.7 million for corporation tax and special tax respectively.

(c) Unrecognised tax losses

Company

The Company has net excess management expenses of £21.5 million (2017: £13.1 million). A deferred tax asset has not been recognised in respect of losses as there is uncertainty whether the losses may be used to offset future taxable profits.

Notes *(continued)*

11 TAXATION *(continued)*

(d) Deferred tax liability

The provision for deferred tax liabilities included in the Balance Sheet is as follows:

	Group 2018 £000	Group 2017 £000	Company 2018 £000	Company 2017 £000
Deferred tax liability				
Difference between net book value and tax value	**(2,389)**	(1,066)	-	-
Recognised deferred tax liability [1]	**(2,389)**	(1,066)	-	-

[1] The change in the deferred tax liability is not equal to the origination of temporary difference as in Note 11 (a) mainly because of the Business Combination in 2017 and foreign exchange differences.

(e) Deferred tax assets

Deferred tax assets included in the Balance Sheet are as follows:

	Group 2018 £000	Group 2017 £000	Company 2018 £000	Company 2017 £000
Recognised deferred tax assets				
Differences between accumulated depreciation and capital allowances	**24,899**	40,098	-	-
Tax losses	**17,964**	21,400	-	-
Other temporary differences	**43,271**	24,468	-	-
Recognised deferred tax asset	**86,134**	85,966	-	-

The difference between the net deferred tax asset of £83.7 million (2017: £84.9 million) and the £106.8 million (2017: £114.5 million) disclosed on the Balance Sheet relates to the deferred tax liability on the swapped assets (2017: divested Fenja interest), which was classified as held for sale at year end and is disclosed in note 15.

	Group 2018 £000	Group 2017 £000	Company 2018 £000	Company 2017 £000
Unrecognised deferred tax assets				
Difference between accumulated depreciation and capital allowances	**50**	57	**50**	57
Other temporary differences	**2,555**	2,156	**2,555**	2,156
Excess management expenses	**4,081**	2,542	**4,081**	2,542
Unrecognised deferred tax asset	**6,686**	4,755	**6,686**	4,755

In considering the recoverability of the deferred tax asset in respect of carried forward tax losses at the year end, the directors have considered that:

- Based on current forecasts, the deferred tax asset in respect of the UK carried forward losses will be fully utilised by 2024;
- The current forecasts are based on the same price assumptions used in the 2018 impairment tests, which are deemed to be reasonable;
- The forecasts are derived from operator budgets and Life of Field models which are reasonable; and

Notes *(continued)*

11 TAXATION *(continued)*

- With regard to the Norwegian carried forward tax losses, Norway refunds any non-utilised tax losses if the activity ceases and therefore the asset is recoverable.

12 INTANGIBLE ASSETS AND PROPERTY, PLANT & EQUIPMENT

	Intangible	Property, Plant & Equipment		
	Exploration and evaluation costs £000	Development and production costs £000	Other £000	Total £000
GROUP				
Cost				
At 1 January 2017	107,376	448,082	3,762	559,220
Additions	47,743	93,197	492	141,432
Business Combination (Note 13)	-	8,925	-	8,925
Effect of changes to decommissioning liabilities	-	(5,014)	-	(5,014)
Reclassifications	(58,670)	58,670	-	-
Write-offs	(21,524)	-	-	(21,524)
Exchange Adjustments	(6,068)	(6,343)	(35)	(12,446)
Assets held for sale	-	(44,198)	-	(44,198)
At 31 December 2017 and 1 January 2018	68,857	553,319	4,219	626,395
Additions	66,964	135,057	556	202,577
Disposals	(7,178)	-	-	(7,178)
Effect of changes to decommissioning liabilities	-	50,526	-	50,526
Write-offs	(16,898)	-	-	(16,898)
Exchange Adjustments	32	(628)	-	(596)
Assets held for sale	(2,607)	(126,160)	-	(128,767)
As at 31 December 2018	109,170	612,114	4,775	726,059
Depreciation and impairment				
At 1 January 2017	-	290,754	3,151	293,905
Impairment	-	12,992	-	12,992
Depreciation charge for year (Note 4)	-	44,806	373	45,179
At 31 December 2017 and 1 January 2018	-	348,552	3,524	352,076
Assets held for sale	-	(61,515)	-	(61,515)
Impairment	-	39,585	-	39,585
Depreciation charge for year (Note 4)	-	24,377	365	24,742
At 31 December 2018	-	350,999	3,889	354,888
Net book value				
At 31 December 2018	109,170	261,115	886	371,171
At 31 December 2017	68,857	204,767	695	274,319

Notes *(continued)*

12 INTANGIBLE ASSETS AND PROPERTY, PLANT & EQUIPMENT *(continued)*

The E&E write-offs in 2018 of £16.9 million (2017: £21.5 million) relate to licences where active exploration has been completed and commercial reserves have not been discovered.

A provision for decommissioning the oil and gas assets is recognised in full when the related facilities are installed. The extent to which a provision is required depends on the legal requirements for decommissioning, the costs, the timing of work and the discount rate to be applied.

	Property, plant and equipment
	Other
	£000
COMPANY	
Cost	
At 1 January 2017	731
Additions	22
At 31 December 2017 and 1 January 2018	753
Additions	28
At 31 December 2018	781
Depreciation	
At 1 January 2017	667
Charge for year	48
At 31 December 2017 and 1 January 2018	715
Charge for year	23
At 31 December 2018	738
Net book value	
At 31 December 2018	43
At 31 December 2017	38

Notes *(continued)*

13 GOODWILL

	£000
As at 1 January 2018	9,386
Impairment	(1,975)
Foreign exchange	34
	7,445

The impairment charge of £2.0 million related to the Group's acquisition of Blane from JX Nippon in 2017. As a result of the decline in commodity prices towards the end of 2018, the recoverable amount, based on value in use, of the Blane CGU was £27.9 million which was below the book value and accordingly the goodwill balance was impaired. The Goodwill related to the Blane CGU was fully written off, however please refer to Note 5 for further detail on the impairment assumptions used by the Group.

The remaining £7.4 million of goodwill relates to the recognition of deferred tax liabilities associated with the assets acquired from DONG in 2016.

Acquisition of increased Blane interest from JX Nippon Exploration and Production (U.K.) Limited

On 31 October 2017, the Group acquired an additional 13.9935% interest in the Blane field from JX Nippon Exploration and Production (U.K.) Limited ("JXN"), which is a 100% wholly owned subsidiary of JX Nippon Oil and Gas Exploration Corporation for a cash consideration of $5.25 million as at 1 January 2017. Net consideration after adjustments was $3.9 million. The acquisition added 2P reserves of 1 mmboe and increases the Group's aggregate production by approximately 210 economic boepd in 2017. Further the acquisition is a strategic fit as it is tied into Ula, which is one of Faroe's key hubs.

The acquisition has been accounted for using the acquisition method, with completion of the transaction occurring on 31 October 2017, following settlement of the agreed consideration. For tax purposes, the effective date was 1 January 2017. The acquisition of interests from JXN is deemed to meet the IFRS definition of a business and is accounted for using the acquisition method of accounting in accordance with IFRS 3. A purchase price allocation (PPA) has been performed to allocate the cash consideration to fair value of assets and liabilities from JXN. The PPA is performed as of the acquisition date, 31 October 2017.

Each identifiable asset and liability is measured at its acquisition date fair value based on guidance in IFRS 13. The standard defines fair value as the price that would be received to sell an asset or transfer a liability in an orderly fashion between willing market participants at the measurement date.

Trade receivables are recognised at gross contractual amounts due as they relate to large and credit worthy customers. Historically, there has been no significant uncollectible trade receivables with regard to the product sales of Blane.

The Group consolidated financial statements include the results of the acquired assets for the two month period from the acquisition date. The fair values of the identifiable assets and liabilities of the acquired assets as at the date of acquisition were:

Notes *(continued)*

13 GOODWILL (continued)

	Fair value recognised £000
Non Current Assets	
Property, plant and equipment: development and production	8,925
	8,925
Current assets	
Trade receivables and inventory	504
	504
Total assets	**9,429**
Current Liabilities	
Accruals	(1,575)
Non Current Liabilities	
Provisions	(5,956)
Deferred tax liability	(1,066)
Total liabilities	**(8,597)**
Total identifiable net assets at fair value	832
Goodwill arising on acquisition	1,975
Purchase consideration transferred	**2,807**
Analysis of cash flows on acquisition	
Net cash acquired with the assets	-
Cash paid	(2,807)
Net cash outflow	**(2,807)**

The above valuation is based on currently available information about the fair values as at the acquisition date.

From the date of acquisition, the assets acquired have contributed £nil million of revenue and £1.0 million to the net profit before tax from the continuing operations of the Group. If the combination had taken place at the beginning of 2017, revenue from continuing operations would have been £159.2 million and the loss from continuing operations would have been £13.8 million.

£2.0 million of goodwill was recognised in respect of the assets acquired from JXN, partly because of the requirement to recognise deferred tax assets and liabilities for the temporary difference between the assigned fair values and tax bases of assets acquired and liabilities assumed. Licenses under development and licenses in production can only be sold in a market after tax. The assessment of fair value of such licenses is therefore based on cash flows after tax. Nevertheless, in accordance with IAS 12 Sections 15 and 19, a provision is made for deferred tax corresponding to the tax rate multiplied with the difference between the acquisition cost and the tax base. The offsetting entry to this deferred tax is goodwill. Hence, £1.1 million of the goodwill arises as a technical effect of deferred tax ("technical

Notes *(continued)*

13 GOODWILL (continued)

goodwill"), and the remainder is due to differences in the perceived fair value of the asset between the buyer and seller.

None of the goodwill recognised will be deductible for income tax purposes.

Acquisition related costs of £50,000 have been expensed and are included in administrative expenses in the Income Statement and are part of operating cash flows in the Group Cash Flow Statement.

14 HELD FOR SALE ASSETS

On 5 December 2018, the Group publicly announced that it had signed a binding agreement with Equinor to swap its interests in the Njord, Hyme redevelopment and Bauge development assets, in return for interests in four production assets on the Norwegian Continental Shelf: Alve, Marulk, Ringhorne East and Vilje on a cashless basis effective 1 January 2019. The transaction is expected to complete within one year of the reporting date.

The major classes of assets and liabilities for the Divested assets classified as held for sale as at 31 December 2018 are as follows:

	2018 £000
Assets	
Property, plant and equipment: development	64,645
Property, plant and equipment: exploration	2,607
Current assets	3,739
Assets held for sale	70,991
Liabilities	
Current liabilities	(1,855)
Deferred tax liability	(23,081)
Decommissioning provision	(5,958)
Liabilities directly associated with assets held for sale	(30,894)
Net assets directly associated with assets held for sale	**40,097**
Amounts included in reserves	
Cumulative translation reserve	(2,684)

Notes *(continued)*

14 HELD FOR SALE ASSETS (continued)

On 12 February 2018, the Group publicly announced the farm down of the Fenja development asset from a working interest of 25% to 7.5% to Suncor Energy Norge AS for a cash consideration of $54.5 million due upon completion. The transaction is expected to complete during the first half of 2018. Prior to the year end, the Board of Directors had approved plans to farm down the Fenja asset and the transaction completed on 17 May 2018.

The major classes of assets and liabilities for the 17.5% interest in Fenja classified as held for sale as at 31 December 2017 are as follows:

	2017 £000
Assets	
Property, plant and equipment: development	44,198
Current assets	3,238
Assets held for sale	47,436
Liabilities	
Current liabilities	(2,255)
Deferred tax liability	(29,599)
Liabilities directly associated with assets held for sale	(31,854)
Net assets directly associated with assets held for sale	**15,582**
Amounts included in reserves	
Cumulative translation reserve	(1,915)

Notes *(continued)*

15 FINANCIAL ASSETS AND LIABILITIES

	Cost and net book value 2018 £000	Cost and net book value 2017 £000
Group		
Financial assets – Current		
Derivative financial instruments	**617**	-
Financial liabilities – Current		
Derivative financial instruments	**(4,717)**	(767)
Company		
Financial assets – non current		
Loans to subsidiaries	**208,104**	256,269

16 INVESTMENTS IN SUBSIDIARY UNDERTAKINGS

	Company Investments in subsidiary undertakings £000
Cost and net book value	
At 1 January 2017	49,904
Additions	1,901
At 31 December 2017	51,805
Additions	6,332
Impairment	(945)
At 31 December 2018	57,192

At 31 December 2018, the subsidiary undertakings of the Company and Group were:

Company	**Country of Incorporation**	**Nature of Business**	**Proportion of shares and voting rights held**
Føroya Kolvetni P/F	Faroe Islands	Oil and gas exploration	100% ordinary
Faroe Petroleum (U.K.) Limited	England	Oil and gas exploration	100% ordinary
Faroe Petroleum Norge AS	Norway	Oil and gas exploration	100% ordinary
Faroe Petroleum (Energy) Limited	England	Investment activities	100% ordinary
Faroe Petroleum SIP Employment Benefit Trust Limited	England	Employee Benefit Trust Company	100% ordinary
Faroe Petroleum (ROGB) Limited	England	Oil and gas exploration	100% ordinary

The impairment charge relates to the impairment of the Company's investment in Føroya Kolvetni P/F which has no recoverable value due to there being no operational activity within that entity and consequently the investment was written down to £nil.

Notes *(continued)*

16 INVESTMENTS IN SUBSIDIARY UNDERTAKINGS (continued)

The registered office for each of the English companies above is 30 Crown Place, London, EC2A 4ES, with Faroe Petroleum Norge AS being registered at Badehusgata 37, 4014 Stavanger, Norway and Føroya Kolvetni P/F registered at Arsfrasogn 2012, Skras.nr.2688, Faroe Islands.

Unquoted equity investments are held at cost less impairment charges because the fair value of the financial asset cannot be reliably measured.

17 INVENTORIES

	2018 **£000**	2017 £000
Materials and equipment	**12,612**	10,644

18 TRADE AND OTHER RECEIVABLES

	Group 2018 £000	Group 2017 £000	**Company 2018 £000**	Company 2017 £000
Amounts falling due within one year:				
Trade receivables	**9,022**	17,301	**-**	-
Restricted cash deposits	**7,991**	7,430	**-**	-
Other receivables	**74,930**	70,175	**509**	213
Prepayments and accrued income	**8,412**	7,182	**604**	185
	100,355	102,088	**1,113**	398
Current tax receivable	**24,735**	35,610	**-**	-
Total receivables	**125,090**	137,698	**1,113**	398

The current tax receivable in 2018 relates to a tax rebate in Norway of 78% of Norwegian net exploration expenditure.

The restricted cash balance relates to monies held in Escrow was $10.0 million (£8.0 million) (2017: $10.0 million £7.4 million).

The credit quality of trade and other receivables that are neither past due or impaired is assessed by reference to external credit ratings where available, otherwise historical information relating to counterparty default rates is used.

	Group 2018 £000	Group 2017 £000	**Company 2018 £000**	Company 2017 £000
Counterparties with internal credit rating	**83,952**	87,476	**509**	213
	83,952	87,476	**509**	213

The Group recognises revenue in the UK and Norway in line with invoiced oil and gas sales following deliveries to the customers, which mainly are oil and gas majors.

Notes *(continued)*

18 TRADE AND OTHER RECEIVABLES (continued)

In accordance with IFRS 9, trade and other receivables are recognized and carried at their anticipated realizable value, which implies that a provision for a loss allowance on lifetime expected credit losses of the receivable is recognized. A provision for loss allowance for expected credit losses is performed at each reporting date and is based on a multifactor and holistic analysis depending on several assumptions taken. The Group considers reasonable and supportable information that is available without undue cost or effort and that is relevant for the assessment of credit risk with regard to the customers. The Group's trade and other receivables are all current and not overdue.

Normal payment terms apply to amounts owed by the customers for oil and gas sales. Historically, invoices are normally paid on or around the due date and this is the established operating cycle under IFRS 9. The Group has had no historical losses on trade and other receivables during this period. As long as the customer continues to settle invoices on a monthly basis in line with what has been the established practice, there are no indications of significant increase in credit risk. Therefore, it is not considered necessary to provide for any loss allowance on credit losses.

Cash deposits
Credit risk from balances with banks and financial institutions is managed by the Group's treasury function. The Group limits its counterparty credit risk by maintaining its cash deposits with banks and financial institutions with high credit ratings.

19 CASH AND CASH EQUIVALENTS

	Group 2018 £000	Group 2017 £000	**Company 2018 £000**	Company 2017 £000
Cash at bank and in hand	**56,634**	108,363	**29,527**	77,820
Short-term deposits	**57,875**	40,721	**22,920**	15,010
	114,509	149,084	**52,447**	92,830

Cash at bank earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates. If the Group is required to utilise a deposit, there is access to a deposit at any point in the term. The fair value of cash and cash equivalents is £114.5 million (2017: £149.1 million). At 31 December 2018, the Group had available £235.2 million (2017: £174.6 million) of undrawn committed borrowing facilities in respect of which all conditions precedent had been met. The fair value of cash and cash equivalents of the Company is £52.4 million (2017: £92.8 million).

Notes *(continued)*

20 TRADE AND OTHER PAYABLES AND CURRENT FINANCIAL LIABILTIES

	Group 2018 £000	Group 2017 £000	**Company 2018 £000**	Company 2017 £000
Amounts falling due within one year:				
Trade payables	**39,658**	21,569	**227**	213
Other payables	**4,427**	515	**1,134**	730
Deferred income	**15,975**	24,999	**-**	-
Accruals	**77,500**	66,906	**8,636**	576
Trade and other payables	**137,560**	113,989	**9,997**	1,519
Exploration Financing Facility	**14,056**	32,948	-	-
Short – term bank borrowing	**14,056**	32,948	-	-

Set out below is the amount of revenue recognised from:

	2018 £000	2017 £000
Amounts included in deferred income at the beginning of year	**24,999**	95
Performance obligations satisfied in previous years	-	-

Exploration Financing Facility (EFF)

This facility dated 19 December 2016, was granted in favour of Faroe Petroleum Norge AS and has an aggregate commitment of NOK 700 million (approximately £63.5 million). In addition to the committed NOK 700 million, a further NOK 0.5 billion (£45.3 million) is available on an uncommitted accordion basis. Utilisations can be made under the facility up until 31 December 2019. Interest charged on utilisations is based on the NIBOR rate prevailing at the time and a margin of 1.3% (2017: 1.3%). At 31 December 2018 NOK 155 million (£14.1 million) was utilised under the facility (2017: NOK365 million (£32.9 million)). The facility is secured against the annual Norwegian tax rebate under which 78% of all allowable expenditure is repaid to the claimant (together with interest thereon) 12 months after the end of the tax year.

Reserve Based Lending Facility (RBL)

Following the change of control in 2019, there was a reduction in the reserve based lending facility as three out of ten banks exited the facility. The revised total facility amount is US$245 million (approximately £193.0 million) which is available for both debt and issuance of letters of credit. The facility will amortise over the loan life with the latest possible maturity date being 31 December 2025. At 31 December 2018 the calculated borrowing base amount was £235.2 million, of which £nil was drawn (2017: £nil million). Interest charged on utilisations is based on the LIBOR, NIBOR or EUROBOR rates (depending on the currency of the drawdown) plus a margin ranging from 3.0% to 4.0% (2017: 3.0% to 4.0%) (depending on the total facility utilised and the contribution by development assets). At 31 December 2018, Faroe Petroleum Norge AS had utilised $14.3 million (£11.3 million) (2017: US$13.9 million (£10.3 million) as cover for a Letter of Credit and drawn £nil (2017: £nil). The UK entities had drawn £nil (2017: £nil million) under the facility and had utilised £54.4 million (2017: £32.0 million) as cover for Letter of Credits.

Notes *(continued)*

21 INTEREST BEARING LOANS AND BORROWINGS

	Group 2018 £000	Group 2017 £000	**Company 2018 £000**	Company 2017 £000
Short term debt:				
Bank loans	**14,056**	32,948	-	-
Long term debt:				
Senior loan notes	**77,579**	72,742	**77,579**	72,742
Total borrowings	**91,635**	105,690	**77,579**	72,742

A maturity analysis showing the ageing profile of the total borrowings is shown in note 24.

At the year end, the Group's principal credit facilities comprised short term debt which is described in Note 20 and Senior loan notes which are described below.

On 21 November 2017, the Group issued a $100 million senior unsecured bond in the Nordic bond market, with a fixed coupon of 8% payable semi annually. The final maturity is expected on 28 April 2023. The senior notes are listed on the Nordic ABM on 17 January 2018.

On 19 February 2019, some bond holders exercised their put rights leading to a repayment of $14.3 million on 26 February 2019.

	Group 2018 £000
Bonds – net	
Total liability component at 1 January 2018	**72,742**
Foreign exchange	**4,478**
Interest repayments	**(6,039)**
Interest charged	**6,398**
Total borrowings	**77,579**

The total interest charged on new bonds has been calculated by applying an effective interest rate of 8.45% to the liability component for the period. The non cash accrual of interest will increase the liability component (as the cash interest is only paid at 8%).

Notes *(continued)*

22 PROVISIONS

Group	Decommissioning provision £000	Other provision £000	Total £000
At 1 January 2017	267,056	2,413	269,469
Asset acquisition	5,956	-	5,956
Disposal	(8,186)	-	(8,186)
Employee benefits	-	586	586
Revisions to abandonment estimates	(5,014)	-	(5,014)
Exchange adjustments	(8,903)	41	(8,862)
Utilised	(667)	(691)	(1,358)
Unwinding of discount (Note 9)	12,108	-	12,108
At 31 December 2017 and 1 January 2018	262,350	2,349	264,699
Employee benefits	-	1,903	1,903
Revisions to abandonment estimates	40,828	-	40,828
Exchange adjustments	536	9	545
Utilised	(9,772)	(4,261)	(14,033)
Unwinding of discount (Note 9)	10,698	-	10,698
Assets held for sale	(5,958)	-	(5,958)
At 31 December 2018	298,682	-	298,682
Current provision	(15,174)	-	(15,174)
Long term provision	283,508	-	283,508

Company	Other provision £000	Total £000
At 1 January 2017	1,258	1,258
Employee benefits	340	340
Utilised	(370)	(370)
At 31 December 2017 and 1 January 2018	1,228	1,228
Employee benefits	926	926
Utilised	(2,154)	(2,154)
At 31 December 2018	-	-

Decommissioning

The total decommissioning provision of £304.6 million (before adjusting for the decommissioning provision in respect of the held for sale assets totalling £6.0 million) (2017: £262.4 million) relates primarily to the Group's production and development facilities. The decommissioning provision is recorded as the Group's share of the decommissioning cost expected to be incurred. These costs are expected to be incurred at various intervals over the next 18 years. The economic life and the timing of the decommissioning liabilities are dependent on government legislation, commodity prices and the future production profiles of the production and development facilities. In addition, the costs of decommissioning are subject to inflationary changes in the service costs of third parties.

The revision to abandonment estimates during the year was £50.5 million and was offset by a £9.7 million reduction in decommissioning cost estimates for assets that have been fully written down. This £9.7 million reduction was recognised as a credit through the income statement.

Notes *(continued)*

22 PROVISIONS (continued)

Other provisions

The provision for employee benefits relates to phantom shares which were awarded as part of the FPIP scheme, and is shown as a current liability. Further details of the FPIP scheme are disclosed in Note 26.

23 CALLED UP SHARE CAPITAL

	Group and Company 2018 £000	Group and Company 2017 £000
Authorised		
372,889,693 (2017: 366,642,990) Ordinary Shares of £0.10	**37,289**	36,664
Issued and fully paid		
372,889,693 (2017: 366,642,990) Ordinary Shares of £0.10	**37,289**	36,664

	2018 Thousands	2017 Thousands	2018 £000	2017 £000
Ordinary Shares of £0.10 each				
At 1 January	**366,642**	364,526	**36,664**	**36,453**
Share issue	**6,248**	2,116	**625**	**211**
	372,890	366,642	**37,289**	**36,664**

At 31 December 2018 the issued share capital of the Company was represented by 372,889,693 Ordinary Shares of £0.10 each (2017: 366,642,990). At 31 December 2018, there were 25,529,425 (2017: 32,864,958) outstanding options under various share option schemes, exercisable over various periods up to 2021, to acquire shares of the Company at prices of £nil (2017: £nil). Further details are contained in Note 26.

Notes *(continued)*

24 FINANCIAL INSTRUMENTS, FINANCIAL RISK FACTORS AND CAPITAL MANAGEMENT

Fair value of financial assets and liabilities

Set out below is an analysis of carrying amounts and fair values of all of the Group's financial instruments that are carried in the financial statements.

	Group 2018 £000	Group 2017 £000	**Company 2018 £000**	Company 2017 £000
Financial assets				
Loans and receivables				
Cash	**114,509**	149,084	**52,447**	92,830
Trade and other receivables	**83,952**	87,476	**509**	213
Restricted cash	**7,991**	7,430	**-**	-
Derivative financial assets	**617**	-	**-**	-
Loans to subsidiaries	**-**	-	**208,104**	256,269
Financial liabilities				
Amortised Cost				
Trade and other payables	**(60,060)**	(47,083)	**(1,378)**	(964)
Derivative financial liabilities	**(4,717)**	(767)	**-**	-
Short-term bank borrowing	**(14,056)**	(32,948)	**-**	-
Interest bearing loans and borrowings	**(78,604)**	(71,631)	**(78,604)**	(71,631)
	49,632	91,561	**181,078**	276,717

There is no material difference between the carrying value and the fair value of the financial instruments due to their short-term nature, other than interest bearing loans and borrowings which mature in 2023.

The Group and Company is exposed to financial risks arising out of market risks (e.g. commodity prices, foreign currency exchange rates and interest rates), credit risks and liquidity risks. Details of these areas of risk are described below.

Within the above analysis, only the commodity pricing derivative contracts are deemed to be a level 2 financial instrument within a fair value hierarchy. Derivative financial assets are valued using the year end forward curves for oil and gas and applying those to the open hedge contract at the year end.

As shown below, the interest bearing loans and borrowings are shown as level 1 (quoted prices in active markets) due to the fact that the interest bearing loans and borrowings are listed on the Nordic ABM.

Fair value measurement hierarchy for liabilities as at 31 December 2018.

	Date of valuation	**Total 2018 £000**	Level 1 2018 £000
Liabilities for which fair values are disclosed			
Interest bearing loans and borrowings			
Fixed rate borrowings	**31 December 2018**	**78,604**	78,604
		78,604	78,604

Notes *(continued)*

24 FINANCIAL INSTRUMENTS, FINANCIAL RISK FACTORS AND CAPITAL MANAGEMENT *(continued)*

Fair value measurement hierarchy for liabilities as at 31 December 2017.

	Date of valuation	Total 2017 £000	Level 1 2017 £000
Liabilities for which fair values are disclosed			
Interest bearing loans and borrowings			
Fixed rate borrowings	**31 December 2017**	**71,631**	71,631
		71,631	71,631

(a) Market risk

Market risk is the risk arising from possible market price movements and their impact on the future performance of the business. The Group is currently exposed to commodity price risks in the form of oil and gas prices, movement in foreign currency exchange rates and interest rates. The Company is exposed to movement in foreign currency exchange rates and interest rates.

(i) Commodity price risk

The Group is exposed to commodity price risk. Revenue, including movement in overlift averaged $62.6 (2017: $46.2) per boe and a 10% increase or decrease in oil and gas prices would have an £20.4 million (2017: £18.4 million) impact on revenue, including movement in overlift. Any significant change in commodity prices would lead to cost efficiency measures and therefore the Group have not quantified the impact on profit / (loss) before tax or equity. Therefore, where and when appropriate the Group will put in place suitable hedging arrangements to mitigate the risk of a fall in commodity prices. At December 2018, the Group had entered into hedging arrangements covering approximately 56% of expected H1'2019 post tax oil production. The oil hedging contracts are put options with an average strike price of $61.5 per barrel. The unrealised hedging gain arising from these instruments was £0.6 million. The Company is not directly subject to commodity price risk.

(ii) Foreign currency exchange risk

The Group and Company have potential currency exposures in respect of items denominated in foreign currencies relating to transactional exposure in respect of operating costs and capital expenditure incurred in currencies other than the functional currency of operations. Currency risk in respect of non-functional currency expenditure is reviewed by the Board. There are no material currency hedging arrangements in place. Loans to foreign subsidiaries with a functional currency other than British Pounds are denominated in the functional currency of the subsidiaries. Foreign currency exchange differences arising on these loans are recognised in the Company's Income Statement as a gain or loss. In the Group accounts, these differences are taken to equity in such circumstances whereby the subsidiary would be unable to raise funds on the open market.

The following table demonstrates the sensitivity to a reasonably possible change in the US dollar and NOK exchange rates, being the currencies which the Group is primarily exposed to, with all other variables held constant, on the Group's loss before tax and the Group's equity.

	Increase/ decrease in FX rate	Effect on profit/(loss) pre tax £000	Effect on Equity £000
2018 – USD	**+/-10%**	**7,383 / (7,383)**	-
2018 – NOK	**+/-10%**	**25,975 / (25,975)**	-
2017 – USD	+/-10%	8,692 / (8,692)	-
2017 – NOK	+/-10%	19,431 / (19,431)	-

Notes *(continued)*

24 FINANCIAL INSTRUMENTS, FINANCIAL RISK FACTORS AND CAPITAL MANAGEMENT *(continued)*

(a) Market risk (continued)

(iii) Interest rate risk

The Group is exposed to interest rate risks through the Group's bank loan in Norway and the UK (see Note 21 for terms). The possible effect of changes in interest rates is shown in the table below:

	Increase/ decrease in basis points	Effect on profit/(loss) pre tax 000
2018		
Norwegian kroner	**+/-10**	**1,093 / (1,093)**
British pounds	**+/-10**	**-/ -**
2017		
Norwegian kroner	+/-10	643 / (643)
British pounds	+/-10	-/ -

(b) Credit risk

Credit risk is the risk that a customer or partner fails to pay amounts due causing financial loss to the Group and Company. The Group has limited exposure to such credit risk and has put procedures in place to mitigate such risks. The maximum individual exposure for the Group at 31 December 2018 was £nil (2017: £nil). For credit quality of trade and other receivables, please refer to Note 18. The Company had no significant exposure to credit risk at 31 December 2018 (2017: £nil) from customers or partners as the receivables balance primarily relates to prepayments and deposits. The exposure to subsidiaries failing to repay loans to the Company at 31 December 2018 was £208.1 million (2017: £256.3 million).

With respect to credit risk arising from the other financial assets of the Group, which comprise cash and derivative financial assets, the Group's exposure to credit risk arises from the default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments. The Group limits its counterparty credit risk on these assets by dealing only with financial institutions with credit ratings of at least A or equivalent.

(c) Liquidity risk

The ability to finance firm commitments and develop the Group's business depends upon: (i) cash flow from the Group's producing assets; and (ii) finance from the capital markets, debt finance, tax rebates (in Norway), farm downs and other means. In the event that sufficient funds are not available to finance the business it would have a material adverse effect on the Group's financial condition and its ability to conduct operations. The Group seeks to mitigate these risks by maintaining a portfolio of oil and gas producing interests in both the UK and Norway. The Board reviews and approves the financial strategy of the Group. Short-term and longer-term cash flow forecasts are reported to senior management and the Board. The Group seeks to maintain strong relations with its banking syndicate and its shareholders.

The table below shows the maturity analysis of the Group's financial liabilities.

31 December 2018	On demand £000	Less than 3 months £000	3 to 12 months £000	1 to 5 years £000	>5 years £000	Total £000
Trade and other payables	-	56,545	-	-	-	56,545
Derivative financial liabilities	-	1,668	3,049	-	-	4,717
Short-term bank borrowing*	-	-	15,103	-	-	15,103
Long term bank borrowing*	-	-	6,304	99,815	-	106,119

Notes *(continued)*

24 FINANCIAL INSTRUMENTS, FINANCIAL RISK FACTORS AND CAPITAL MANAGEMENT *(continued)*

(c) Liquidity risk (continued)

31 December 2017	On demand £000	Less than 3 months £000	3 to 12 months £000	1 to 5 years £000	>5 years £000	Total £000
Trade and other payables	-	47,032	-	-	-	47,032
Short-term bank borrowing*	-	-	33,959	-	-	33,959
Long term bank borrowing*	-	-	5,930	99,818	-	105,748

**Includes the interest borne on these short-term bank borrowings.*

The Company's financial liabilities consist of trade and other payables of £1.4 million (2017: £0.9 million) which are due within three months and interest bearing loans and borrowings of £77.6 million (2017: £72.7 million) and mature in 2023.

Capital Management

The Group defines capital as the total equity of the Company. The objective of the Group's capital management is to ensure that it makes the maximum use of its capital to support its business and maximise shareholder value. There are no external constraints on the Group's capital.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as borrowings divided by total equity. Borrowings include current and non-current debt.

As the Group's primary focus is on exploration, equity is the principal form of funding. The Group's policy is to utilise debt where possible. A committed reserve based lending facility is in place to finance its exploration and production and development assets' operations activity.

The Group's policy is to utilise debt where possible. The EFF banking facility has been arranged in Norway to bridge the tax rebate receivable and the RBL banking facility is in place to finance operations and further growth in the business.

At 31 December 2018 the net debt ratio was 37.3% (2017: 46.8%)

	2018 £'000	2017 £'000
Borrowing	**91,635**	105,690
Equity	**245,398**	226,002
Debt ratio	**37.3%**	46.8%

25 PENSION SCHEME

In the UK and for certain Norwegian employees the Group makes contributions to defined contributions schemes nominated by employees for which the pension cost for the year amounted to £1.5 million (2017: £1.3 million). There were accrued contributions of £18,000 (2017: £21,000).

Notes *(continued)*

26 SHARE BASED PAYMENTS

During the year, the Company operated three share schemes to incentivise employees: the Faroe Petroleum Co-Investment Plan ("CIP"), the Faroe Petroleum Share Incentive Plan ("SIP"); and the Faroe Petroleum Incentive Plan ("FPIP") which also incorporates the Restricted Share Plan ("RSP"), details of which are summarised below:

CIP:
Under this plan key employees can invest up to 100% of their bonus in any financial year to purchase Company shares ("Investment Shares"). Investment Shares will be matched by new shares to be issued by the Company dependent upon the Company's performance over a three year period. The maximum match will be 1:1 but on a grossed up basis (i.e. assuming an investment was made on pre-tax basis) requiring the Company to satisfy stretching share price growth targets and be subject to a comparative total shareholder return underpin.

	2018 CIP Share Awards No	2017 CIP Share Awards No
Outstanding at beginning of the year	**9,107,092**	8,673,924
Granted during the year	**132,497**	920,185
Lapsed during the year	**(1,944,185)**	(487,017)
Forfeited during the year	**(16,737)**	-
Exercised during the year	**(2,857,078)**	-
Outstanding at the end of the year	**4,421,589**	9,107,092

The estimated fair value of the share award under the CIP and the inputs used in the Monte Carlo Simulation model to calculate the fair values, are included in the table below. The CIP awards outstanding at 31 December 2018 have a weighted average remaining contractual life of 0.5 years and an exercise price of £nil.

The range of exercise prices for the CIP plan in 2018 was £nil (2017: £nil).

SIP:
Under this scheme employees commit to invest a monthly amount of up to an annual maximum of £1,500 through market purchases of the Company's shares and for every share purchased the Company will match it with two matching shares. The matching shares are released at the end of a three year holding period.

FPIP & RSP:
Under the scheme awards will be granted in the form of whole shares as either Nil-cost options or cash equivalent phantom options.

The options will vest after three years, dependent upon the Company's performance over the three year period. In the case of a Phantom Share, the Award Holder is entitled to receive a cash payment to the extent that the Award has vested. In the case of a Nil-Cost Option, the Award Holder is entitled to exercise the Nil-Cost Option at any time during the Exercise Period to the extent that the option has vested. Options are forfeited if the employee leaves the Group before the options are exercised.

The Group has applied the requirements of IFRS 2 'Share-based payment' and has elected to adopt the exemption to apply IFRS 2 only to awards made after 7 November 2002 and which had not vested on 1 January 2006.

The Group recognised total expenses of £14.1 million (2017: £4.9 million), all of which related to share-based payment transactions under the Current Schemes.

Notes *(continued)*

26 SHARE BASED PAYMENTS *(continued)*

Date of Grant	Fair value (£)	Share price at grant (£)	Exercise price (£)	Volatility of share price	Expected life (yrs.)	Risk-free rate	Dividend yield
20/01/2015	0.20	0.69	0.00	36%	3.0	1%	0%
27/01/2016	0.19	0.49	0.00	40%	3.0	1%	0%
12/01/2017	0.53	1.00	0.00	43%	3.0	0%	0%
23/01/2017	0.56	1.06	0.00	43%	3.0	0%	0%
16/02/2017	0.54	1.10	0.00	43%	3.0	0%	0%
30/04/2018	0.69	1.33	0.00	38%	3.0	1%	0%

	2018 SIP Share Awards No	2017 SIP Share Awards No
Matching shares Outstanding at the beginning of the period	**623,740**	496,148
Matching shares purchased during the period	**170,370**	215,340
Matching shares forfeited during the period	**(640)**	-
Matching shares exercised during the period	**(237,580)**	(87,748)
Outstanding at the end of the period	**555,890**	623,740

The estimated fair value of the share award under the SIP and the inputs used in the Black Scholes Simulation model to calculate the fair values, are included in the table below. The SIP awards outstanding at 31 December 2018 have a weighted average remaining contractual life of 1.4 years.

The range of matching share exercise prices for the SIP plan in 2018 was £nil (2017: £nil).

Notes *(continued)*

26 SHARE BASED PAYMENTS *(continued)*

Date of Grant	Fair value (£)	Share price at grant (£)	Expected life (yrs.)
05/01/2015	0.60	0.60	3.00
26/01/2015	0.70	0.70	3.00
25/02/2015	0.78	0.78	3.00
27/03/2015	0.84	0.84	3.00
28/04/2015	0.86	0.86	3.00
26/05/2015	0.80	0.80	3.00
26/06/2015	0.89	0.89	3.00
05/08/2015	0.80	0.80	3.00
28/08/2015	0.73	0.73	3.00
30/09/2015	0.67	0.67	3.00
30/10/2015	0.72	0.72	3.00
30/11/2015	0.54	0.54	3.00
31/12/2015	0.54	0.54	3.00
29/01/2016	0.53	0.53	3.00
29/02/2016	0.64	0.64	3.00
31/03/2016	0.65	0.65	3.00
29/04/2016	0.79	0.79	3.00
31/05/2016	0.74	0.74	3.00
30/06/2016	0.68	0.68	3.00
29/07/2016	0.67	0.67	3.00
31/08/2016	0.66	0.66	3.00
30/09/2016	0.71	0.71	3.00
31/10/2016	0.79	0.79	3.00
30/11/2016	0.75	0.75	3.00
03/01/2017	1.05	1.05	3.00
31/01/2017	1.01	1.01	3.00
28/02/2017	1.03	1.03	3.00
31/03/2017	1.00	1.00	3.00
28/04/2017	0.94	0.94	3.00
23/05/2017	0.99	0.99	3.00
28/06/2017	0.84	0.84	3.00
31/07/2017	0.88	0.88	3.00
31/08/2017	0.86	0.86	3.00
27/09/2017	0.97	0.97	3.00
31/10/2017	1.02	1.02	3.00
30/11/2017	1.02	1.02	3.00
03/01/2018	1.02	1.02	3.00
31/01/2018	1.08	1.08	3.00
28/02/2018	1.05	1.05	3.00
29/03/2018	1.06	1.06	3.00
30/04/2018	1.33	1.33	3.00
31/05/2018	1.52	1.52	3.00
29/06/2018	1.47	1.47	3.00
31/07/2018	1.41	1.41	3.00
31/08/2018	1.50	1.50	3.00
30/09/2018	1.66	1.66	3.00
31/10/2018	1.48	1.48	3.00
30/11/2018	1.61	1.61	3.00
31/12/2018	1.47	1.47	3.00

Notes *(continued)*

26 SHARE BASED PAYMENTS *(continued)*

Faroe Petroleum Investment Plan.

	2018 FPIP Share Awards No	2017 FPIP Share Awards No
Outstanding at the beginning of the period	**23,134,126**	21,200,028
Granted during the period(1)	**4,061,782**	6,670,935
Lapsed during the period	**(179,992)**	(1,684,089)
Forfeited during the period	**(141,235)**	(162,197)
Exercised during the period(2)	**(6,322,735)**	(2,890,551)
Outstanding at the end of the period(3)	**20,551,946**	23,134,126

(1) 4,061,782 (2017: 6,670,935) relate to award of Nil cost options

(2) The range of FPIP exercise prices in 2018 was nil (2017: £nil)

(3) The FPIP awards outstanding at 31 December 2018 had a weighted average remaining contractual life of 0.6 years (2017: 1.7 years), with a weighted average exercise price of £nil (2017: £nil)

Notes *(continued)*

26 SHARE BASED PAYMENTS *(continued)*

The estimated fair values of FPIP awards, and the inputs used in the Monte Carlo/ Black Scholes Simulation model to calculate those fair values, are as follows:

Date of Grant	Fair value (£)	Share price at grant (£)	Exercise price (£)	Volatility of share price	Expected life (yrs.)	Risk-free rate	Dividend yield
24/07/2013	0.68	1.115	0.00	40%	5.00	1%	0%
24/07/2013	1.11	1.115	0.00	40%	5.00	1%	0%
24/07/2013	0.98	1.115	0.00	40%	5.00	1%	0%
17/06/2014	0.67	1.26	0.00	36%	5.10	1%	0%
17/06/2014	1.26	1.26	0.00	36%	5.10	1%	0%
17/06/2014	1.07	1.26	0.00	36%	5.10	1%	0%
15/06/2015	0.45	0.8175	0.00	38%	5.11	1%	0%
15/06/2015	0.82	0.8175	0.00	38%	5.11	1%	0%
15/06/2015	0.69	0.8175	0.00	38%	5.11	1%	0%
15/06/2015	0.45	0.8175	0.00	38%	3.11	1%	0%
15/06/2015	0.82	0.8175	0.00	38%	3.11	1%	0%
15/06/2015	0.82	0.8175	0.00	38%	3.11	1%	0%
15/06/2015	0.69	0.8175	0.00	38%	3.11	1%	0%
09/08/2016	0.31	0.673696	0.00	42%	5.00	0%	0%
09/08/2016	0.48	0.673696	0.00	42%	5.00	0%	0%
09/08/2016	0.99	0.673696	0.00	42%	3.00	0%	0%
09/08/2016	0.31	0.673696	0.00	42%	3.00	0%	0%
09/08/2016	0.48	0.673696	0.00	42%	3.00	0%	0%
10/04/2017	0.66	1.0225	0.00	42%	2.33	0%	0%
10/04/2017	0.81	1.0225	0.00	42%	2.33	0%	0%
28/07/2017	0.40	0.86	0.00	42%	5.00	0%	0%
28/07/2017	0.72	0.86	0.00	42%	5.00	0%	0%
28/07/2017	1.25	0.86	0.00	42%	3.00	0%	0%
28/07/2017	0.40	0.86	0.00	42%	3.00	0%	0%
28/07/2017	0.72	0.86	0.00	42%	3.00	0%	0%
24/05/2018	0.77	1.42	0.00	38%	5.00	1%	0%
24/05/2018	1.09	1.42	0.00	38%	5.00	1%	0%
24/05/2018	2.07	1.42	0.00	38%	3.00	1%	0%
24/05/2018	0.77	1.42	0.00	38%	3.00	1%	0%
24/05/2018	1.09	1.42	0.00	38%	3.01	1%	0%

Current status of share incentive schemes

Upon DNO obtaining control over Faroe, all employees participating in the share incentive schemes exercised their options and accepted DNO's offer and so there are no further awards outstanding under the share incentive schemes in 2019.

Notes *(continued)*

27 COMMITMENTS

Pre-tax capital commitments at the end of the financial year for which no provision has been made, in relation to the Group's licences, amount to £326.5 million (2017: £378.5 million) as follows:

Group	**2018 £000**	2017 £000
UKCS Contracted	**8,300**	428
Norway Contracted	**318,240**	378,088
Total	**326,540**	378,516

Company

As at 31 December 2018, the Company has no future capital commitments (2017: £nil). The Company has provided a guarantee for all the licence costs of its subsidiaries.

28 OBLIGATIONS UNDER OPERATING LEASES

Obligations under non-cancellable operating leases for land and buildings are as follows:

	Group 2018 £000	Group 2017 £000	**Company 2018 £000**	Company 2017 £000
Future minimum lease payments under non-cancellable leases:				
Within one year	**551**	587	**243**	281
Two to five years	**1,706**	1,866	**938**	770
After five years	**224**	208	**224**	208
	2,481	2,661	**1,405**	1,259

Rentals due under operating leases are charged against income on a straight line basis over the term of the lease. In 2018 lease payments (net) of £0.7 million (2017: £0.9 million) were charged against income (see Note 7). The operating leases relate predominantly to office leases with rent payable on a quarterly basis.

Notes *(continued)*

29 RELATED PARTY DISCLOSURES

For the purpose of related party disclosure in accordance with IAS 24, only directors are considered to be key management personnel.

Compensation of key management personnel:

	2018 £000	2017 £000
Short-term employee benefits	**3,497**	2,495
Post-employment benefits	**258**	206
Share-based payment	**5,223**	1,842
	8,978	4,543

Jorunn Saetre, who was an independent non-executive director is currently the Rig Team Leader and manager of the Stavanger office of the engineering support Group AGR which in 2018 provided engineering services of a value of approximately £93,280 (2017: £197,920).

During the year the Company entered into transactions, in the ordinary course of business, with other related parties, all within the Group. Trading balances outstanding at 31 December 2018 with other related parties, are as follows:

	2018 £000	2017 £000
Loans to subsidiaries	**208,104**	256,269

The terms of the loans to subsidiaries are summarised in the table below.

Subsidiary	**Loan facility**	**Maturity***	**Interest rate**
Faroe Petroleum (UK) Limited	£100,000,000	-	LIBOR +3%
Faroe Petroleum Norge AS	NOK 1,560,000,000	-	LIBOR +3%
Faroe Petroleum Norge AS	NOK 830,000,000	21 April 2023	8%
Faroe Petroleum (ROGB) Limited	£1,000,000	-	LIBOR +3%

* These loans only fall due when the subsidiaries current assets exceed total liabilities (excluding loans payable to the ultimate parent Company). Accordingly, the Company has disclosed these receivables as long term due to the fact that these loans are unlikely to be repaid by 31 December 2019.

Notes *(continued)*

30 SUBSEQUENT EVENTS

Results of Brasse East exploration well and Brasse appraisal side track
The Brasse East exploration well 31/7-3 S was drilled to a total depth of 2,247 metres below sea level. The well targeted a separate structure located to the east of the Brasse field. The well encountered 48 metres of gross Jurassic reservoir, but was found to be water wet. Data acquisition was undertaken including coring and logging.

The Brasse appraisal well 31/7-3 A sidetrack, planned as a further appraisal of the northern part of the Brasse field, was drilled to a total depth of 2,254 metres below sea level. Preliminary analysis of the log data acquired whilst drilling, indicated the well encountered approximately 40 metres of gross hydrocarbon-bearing Jurassic reservoir. The sidetrack well encountered a lower than expected net to gross ratio and a significantly deeper oil water contact. These new data points will now be incorporated in the Brasse geological models and an updated reserves range will be reported in due course.

Eight exploration licenses awarded in Norway in 2019 under 2018 Norwegian APA
Licence PL 969 Edinburgh – Blocks 1/6 and 1/8: Faroe (45% and operator), Shell (40%) and Spirit (15%): The Edinburgh structure is a cross-border (Norway-UK) prospect located in the Central North Sea with reservoirs in Jurassic and Triassic sandstones. The work programme involves geological and geophysical studies before a drill or drop decision by February 2021.

Licence PL 1007 Elysium – Blocks 6506/7, 6506/8 and 6506/10: Faroe (40% and operator), OMV (20%), Equinor (20%) and Spirit (20%): The Elysium Prospect is a four-way closure located on the highest part of the Sklinna Ridge in the Norwegian Sea and just to the south of the recent PL 644 Iris Hades discoveries. The work programme involves reprocessing of 3D data and a drill or drop decision by February 2021.

Licence PL 968 Portishead – Block 2/2, 2/5, 2/6 and 2/8: Faroe (40% and operator), AkerBP (20%), MOL (20%) and Petoro (20%): The Portishead prospect is defined as a stratigraphic trap in the Ty/Heimdal and Borr sandstones, similar to those encountered in the Faroe operated SE Tor licence. The work program involves reprocessing of 3D data with a drill or drop decision in 2021.

Licence PL 1006 Griffon Vulture – Blocks 6405/3, 6406/1, 6505/12 and 6506/10: Faroe (30%) and Equinor (70% and operator): The licence contains the Griffon Vulture Prospect in similar Cretaceous sandstones as the recent Hades discovery to the north. The work programme involves reprocessing of 3D data and a drill or drop decision by February 2021.

Licence PL 983 Såta – Blocks 16/3, 17/1, 17/2, 25/12, 26/8, 26/10 and 26/11: Faroe (20%), Equinor (40% and operator), Petoro (20%) and Total (20%): The licence is located in the Åsta Graben, 50 km east of the Utsira High. Several prospects have been identified, with the main prospect being Såta that is a four-way closure with reservoirs in the Sandnes and Statfjord formations. The work programme involves acquiring seismic broadband 3D data before a drill or drop decision by February 2021.

Licence PL 644 C Iris/Hades Extension – Block 6506/10: Faroe (20%), OMV (30% and operator), Equinor (40%) and Spirit (10%): This licence contains a potential southward extension of the Hades Discovery. The work programme is the same as the existing PL 644 licence.

Licence PL 019 H Ula Extension – Block 7/12: Faroe (20%), AkerBP (80% and operator): The licence contains a potential northward extension of the Ula North Discovery. The work programme is geological and geophysical studies before a drill or drop decision in February 2020.

Licence PL 006 F SE Tor extension – Block 2/5: Faroe (85% and operator), AkerBP (15%): This licence contains a portion of the Paleocene Gomez exploration target which extends outside the existing Faroe operated SE Tor Licence. The work programme is the same as the existing PL006 C SE Tor licence.

Notes *(continued)*

30 SUBSEQUENT EVENTS (continued)

DNO acquisition

DNO ASA obtained control of Faroe Petroleum plc on 11 January 2019 and subsequently de-listed the Company from AIM on 14 February 2019.

31 ULTIMATE PARENT COMPANY

As of 11 January 2019, the immediate and ultimate holding company of Faroe Petroleum plc is DNO ASA, which is incorporated in Norway and registered at Dokkveien 1, 0250 Oslo.

Notes *(continued)*

32 JOINT OPERATIONS

Fields in production or under development as at 31 December 2018:

Country	Licence	Block	Field Name	Field Operator	Field % Interest
Norway	PL019	7/12	Ula	Aker BP ASA	20.00
Norway	PL019 E	7/12	Ula Extension	Aker BP ASA	20.00
Norway	PL048 D	15/5	Enoch	Equinor Energy AS	9.30
Norway	PL053 B	30/6	Brage	Wintershall Norge AS	14.2567
Norway	PL055	31/4	Brage	Wintershall Norge AS	14.2567
Norway	PL055 B	31/4	Brage	Wintershall Norge AS	14.2567
Norway	PL055 D	31/4	Brage	Wintershall Norge AS	14.2567
Norway	PL065	1/3	Tambar	Aker BP ASA	45.00
Norway	PL065 B	1/3	Tambar Extension	Aker BP ASA	45.00
Norway	PL107	6407/7	Njord	Equinor Energy AS	7.50
Norway	PL107 C	6407/7	Njord	Equinor Energy AS	7.50
Norway	PL132	6407/10	Njord	Equinor Energy AS	7.50
Norway	PL147	3/7	Trym	Faroe Petroleum Norge AS	50.00
Norway	PL169 E	25/8	Ringhorne Øst	Equinor Energy AS	30.00
Norway	PL185	31/7	Brage	Wintershall Norge AS	14.2567
Norway	PL274	1/3	Oselvar	Faroe Petroleum Norge AS	55.00
Norway	PL274 CS	1/2	Oselvar	Faroe Petroleum Norge AS	55.00
Norway	PL300	2/1	Tambar Øst	Aker BP ASA	45.00
Norway	PL348	6407/8	Hyme	Equinor Energy AS	7.50
Norway	PL348 B	6407/8	Hyme/Bauge	Equinor Energy AS	7.50
Norway	PL405	8/10	Oda	Spirit Energy Norway AS	15.00
Norway	PL433	6506/9, 12	Fogelberg	Spirit Energy Norway AS	15.00
Norway	PL586	6406/11, 12	Fenja	Spirit Energy Norway AS	7.50
UK	P.039	53/4d	Wissey	Tullow Oil SK Limited	23.10
UK	P.611	44/24a, 44/30a	Orca	Neptune E&P Netherlands BV	3.24
UK	P.454	44/29b	Orca	Neptune E&P Netherlands BV	3.24
UK	D15	D15	Orca	Neptune E&P Netherlands BV	3.24
UK	D18a	D18a	Orca	Neptune E&P Netherlands BV	3.24
UK	P.516	44/26a	Schooner	Faroe Petroleum (U.K.) Limited	60.00
UK	P.453	44/28b	Ketch	Faroe Petroleum (U.K.) Limited	60.00
UK	P.520	49/1a	Topaz	Ineos UK SNS Limited	25.00
UK	P.111	30/3a Upper	Blane	Repsol Norge AS	44.44
UK	P.219	16/13a	Enoch	Repsol Sinopec North Sea Limited	14.55
UK	P.558	204/24a Sub	East Foinaven	BP Exploration Operating Company Limited	10.00
UK	P.803	204/25b Sub	East Foinaven	BP Exploration Operating Company Limited	10.00

Notes *(continued)*

32 JOINT OPERATIONS *(continued)*

Exploration acreage and discoveries as at 31 December 2018:

Country	Licence	Block	Field Name	Field Operator	Field % Interest
Norway	PL006 C	2/5	Tor Extension	Faroe Petroleum Norge AS	85.00
Norway	PL006 E	2/5	Tor Extension	Faroe Petroleum Norge AS	85.00
Norway	PL644	6506/8, 10, 11	Aerosmith	OMV (Norge) AS	20.00
Norway	PL644 B	6506/11	Aerosmith Extension	OMV (Norge) AS	20.00
Norway	PL 740	31/7, 30/9	Brasse	Faroe Petroleum Norge AS	50.00
Norway	PL740 B	31/4, 7	Brasse Extension	Faroe Petroleum Norge AS	50.00
Norway	PL740 C	31/4	Brasse Extension	Faroe Petroleum Norge AS	50.00
Norway	PL749	6306/4, 5	Seychelles	Spirit Energy Norway AS	20.00
Norway	PL793	6407/7, 8, 10, 11	Portrush	Equinor Energy AS	20.00
Norway	PL810	2/1, 7/12, 8/10	Katie	Faroe Petroleum Norge AS	40.00
Norway	PL810 B	2/1, 8/10	Katie Extension	Faroe Petroleum Norge AS	40.00
Norway	PL811	7/9, 7/12, 8/7	Gullaxy	Spirit Energy Norway AS	20.00
Norway	PL825	30/3, 6	Rungne	Faroe Petroleum Norge AS	40.00
Norway	PL836 S	6406/2, 3	Bergknapp (Yoshi)	Wintershall Norge AS	30.00
Norway	PL845	6609/6 6610/4, 5, 6	Grønøy	ConocoPhillips Skandinavia AS	20.00
Norway	PL870	25/6 25/9 26/7	Pabow	Equinor Energy AS	20.00
Norway	PL881	33/9	Goanna	Wellesley Petroleum AS	30.00
Norway	PL888	6507/7	Canela	Faroe Petroleum Norge AS	40.00
Norway	PL906	7/11, 12	Skræmetindan	Aker BP ASA	20.00
Norway	PL908	9/11, 12 10/10, 11	Aarhus	Equinor Energy AS	30.00
Norway	PL926	33/9, 12 34/10	Blue Libelle	Faroe Petroleum Norge AS	40.00
UK	P.1763*	9/9d, 9/14a	N/A	N/A	N/A
UK	P.2401**	30/14b	N/A	N/A	N/A
Ireland	16/23	Blocks 19/7, 19/17 and Part Blocks 19/8, 11, 12 &16	N/A	Nexen Petroleum (U.K.) Limited	N/A

* FPUK has 25% interest in Agar/Plantain sole risk well

** FPUK is in the process of acquiring 100% interest in P.255 30/14b from Total with a view to drilling cross-border Edinburgh prospect. Farm-down of 30/14a & 30/14b to Shell & Spirit agreed subject to completion

Notes *(continued)*

32 JOINT OPERATIONS *(continued)*

Fields in production or under development as at 31 December 2017:

Country	Licence	Block	Field Name	Field Operator	Field % Interest
UK	P.559	204/ 24a,	East Foinaven	B.P. Exploration Operating Company Ltd	10.00
UK	P.803	204/ 25b	East Foinaven	B.P. Exploration Operating Company Ltd	10.00
UK	P039	53/4d	Wissey	Tullow Oil UK Limited	18.75
UK	P611	44/24a	Minke	Engie E&P UK Ltd	5.89
UK	P454	44/29b	Minke	Engie E&P UK Ltd	5.89
UK	P611	44/24a	Orca	Engie E&P UK Ltd	3.24
UK	P454	44/29b	Minke	Engie E&P UK Ltd	5.89
Netherlands	D15	D15	Orca	Engie E&P Nederland B.V	3.24
Netherlands	D18a	D18a	Orca	Engie E&P Nederland B.V	3.24
UK	P516	44/26a	Schooner	Faroe Petroleum (U.K.) Limited	60.00
UK	P453	44/28b	Ketch	Faroe Petroleum (U.K.) Limited	60.00
UK	P520	49/1a	Topaz	RWE Dea UK Limited	7.50
UK	P111	30/3 A Upper	Blane	Repsol Norge AS	44.5
Norway	PL107	6407/7	Njord	Statoil Petroleum AS	7.50
Norway	PL107C	6407/7	Njord	Statoil Petroleum AS	7.50
Norway	PL132	6407/10	Njord	Statoil Petroleum AS	7.50
Norway	PL348	6407/8,9	Hyme	Statoil Petroleum AS	7.50
Norway	PL348b	6407/8	Hyme	Statoil Petroleum AS	7.50
UK	P.219	15/5	Enoch	Repsol Sinopec North Sea Limited	13.86
Norway	PL048D	15/5	Enoch	Repsol Sinopec Resources UK Limited	1.86
Norway	PL053B	30/6	Brage	Statoil Petroleum AS	14.26
Norway	PL055	31/4	Brage	Statoil Petroleum AS	14.26
Norway	PL055B	31/4	Brage	Statoil Petroleum AS	14.26
Norway	PL055D	31/4	Brage Extension	Statoil Petroleum AS	14.26
Norway	PL185	31/7	Brage	Statoil Petroleum AS	14.26
Norway	PL169E	25/8	Ringhorne East	Exxon Expl & Prod Norway AS	7.80
Norway	PL147	3/7	Trym	Faroe Petroleum Norge AS	50.0
Norway	PL274	1/3	Oselvar	Faroe Petroleum Norge AS	55.0
Norway	PL274 CS	1/2	Oselvar	Faroe Petroleum Norge AS	55.0
Norway	PL300	2/1,	Tambar	Aker BP ASA	45.0
Norway	PL065	1/3	Tambar	Aker BP ASA	45.0
Norway	PL019	7/12	Ula	Aker BP ASA	20.0

Notes *(continued)*

32 JOINT OPERATIONS *(continued)*

Exploration acreage and discoveries as at 31 December 2017:

Country	Licence	Block	Field Name	Field Operator	License % Interest
Norway	PL433	6506/9 part, 12 part	Fogelberg	Spirit Energy Norge AS	28.30
Norway	PL644	6506/8,10,11	Iris/Hades	OMV (Norge) AS	20.00
Norway	PL644B	6506/,11	Iris/Hadesextension	OMV (Norge) AS	20.00
Norway	PL586	6406/11,12	Fenja	VNG Norge AS	25.00
Norway	PL749	6306/4	Seychelles	Spirit Energy Norge AS	20.00
Norway	PL006C	2/5 part	SE Tor	Faroe Petroleum Norge AS	85.00
Norway	PL405	8/10	Oda	Spirit Energy Norge AS	15.00
Norway	PL627 / 627B	25/5,6,8,9	Shango	Total E&P Norge AS	20.00
Norway	PL740	30/9, 31/7	Brasse	Faroe Petroleum Norge AS	50.00
Norway	PL740B	31/4.7	Brasse extension	Faroe Petroleum Norge AS	50.00
Norway	PL793	6407/7.8.10 & 11	Portrush	A/S Norske Shell	20.00
Norway	PL836S	6406/2, 3	Yoshi	Wintershall Norge AS	30.00
Norway	PL810	2/1,7/12,8/10	Katie	Faroe Petroleum Norge AS	40.00
Norway	PL870	25/6,9,26/7	Pabow	Statoil Petroleum AS	20.00
Norway	PL881	33/9	Goanna	Wellesley Petroleum AS	30.00
Norway	PL888	6507/7	Canela	Faroe Petroleum Norge AS	40.00
Norway	PL811	7/9, 12, 8/7, 10	Gullaxy	Centrica Resources Norge AS	20.00
Norway	PL825	30/3, 6	Rungne	Faroe Petroleum Norge AS	40.00
Norway	PL845	6609/6, 6610/4,5,6	Grønøy	ConocoPhillips Skandinavia AS	20.00
Ireland	16/23	Corrib East	Slyne basin	Faroe Petroleum (U.K) Limited	20.00
Ireland	17/1	Part blocks 48/28.29,30,49/26, 57/3, 4 & 5	Celtic Sea	Faroe Petroleum (U.K) Limited	100.00*
Ireland	17/2	Blocks 57/7 and part blocks 57/6, 8,9 &12	Celtic Sea	Faroe Petroleum (U.K) Limited	100.00*

* Licensing options, not jointly controlled – belongs 100% to the Group.

** Not jointly controlled–belongs 100% to the Group

OTHER INFORMATION

Officers and professional advisers

DIRECTORS

Mr B K Dale (appointed 28 January 2019)
Mr O Gjerde (appointed 28 January 2019)
Mr G Stewart (resigned 28 January 2019)
Mr J R Cooper (resigned 28 January 2019)
Mr H Hammer (resigned 28 January 2019)
Mr J Bentley (resigned 28 January 2019)
Mr R Witts (resigned 28 January 2019)
Mr T Read (resigned 26 June 2018)
Ms K Roe (resigned 14 February 2019)
Ms J J Saetre (resigned 14 February 2019)
Mr B Cheshire (resigned 14 February 2019)

GROUP HEAD OFFICE

24 Carden Place
Aberdeen
AB10 1UQ

SECRETARY AND REGISTERED OFFICE

Ms Ute Quinn
Aker Brygge
Oslo

PRINCIPAL BANKERS

DNB Bank ASA
8th Floor,
The Walbrook Building
25 Walbrook
London
EC4N 8AF

AUDITORS

Ernst & Young LLP
Blenheim House
Fountainhall Road
Aberdeen
AB15 4DT

JOINT SOLICITORS

K&L Gates LLP
One New Change
London
EC4M 9AF

Pinsent Masons LLP
13 Queen's Road
Aberdeen
AB15 4YL

REGISTRARS

Link Asset Services, Shareholder Solutions
The Registry
34 Beckenham Road
Beckenham
Kent
BR3 4TU

Glossary

"APA"	awards in pre-defined areas
"bcf"	billions of standard cubic feet
"boe"	barrels of oil equivalent
"boepd"	barrels of oil equivalent per day
"Contingent Resources"	those quantities of petroleum estimated, as of a given date, to be potentially recoverable from known accumulations by application of development projects but which are not currently considered to be commercially recoverable due to one or more contingencies. Contingent Resources are a class of discovered recoverable resources
"DNO"	DNO ASA and its consolidated subsidiaries
"EBITDAX"	earnings before interest, taxation, depreciation, amortisation and exploration expenditure (gross profit plus depreciation and impairment on producing assets)
"Faroe"	Faroe Petroleum plc and its consolidated subsidiaries
"net to gross ratio"	the total amount of pay footage divided by the total thickness of the reservoir interval
"net to Faroe"	the portion that is attributed to the equity interests of Faroe
"PL"	production licence
"PRMS"	the 2007 Petroleum Resources Management System (PRMS) prepared by the Oil and Gas Reserves Committee of the Society of Petroleum Engineers (SPE) and reviewed and jointly sponsored by the World Petroleum Council (WPC), the American Association of Petroleum Geologists (AAPG) and the Society of Petroleum Evaluation Engineers (SPEE)
"Proved Reserves" or "1P"	those quantities of petroleum, which, by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be commercially recoverable, from a given date forward, from known reservoirs and under defined economic conditions, operating methods, and government regulations. If deterministic methods are used, the term reasonable certainty is intended to express a high degree of confidence that the quantities will be recovered. If probabilistic methods are used, there should be at least a 90% probability that the quantities actually recovered will equal or exceed the estimate
"Proved + Probable Reserves" or "2P"	when added to 1P, those additional Reserves which analysis of geoscience and engineering data indicate are less likely to be recovered than 1P but more certain to be recovered than 3P. It is equally likely that actual remaining quantities recovered will be greater than or less than the sum of the estimated Proved plus Probable Reserves (2P). In this context, when probabilistic methods are used, there should be at least a 50% probability that the actual quantities recovered will equal or exceed the 2P estimate
"Proved + Probable + Possible Reserves" or "3P"	when added to 2P, those additional reserves which analysis of geoscience and engineering data suggest are less likely to be recoverable than 2P. The total quantities ultimately recovered have a low probability of exceeding the sum of Proved plus Probable plus Possible (3P) Reserves, which is equivalent to the high estimate scenario. In this context, when probabilistic methods are used, there should be at least a 10% probability that the actual quantities recovered will equal or exceed the 3P estimate
"reserves"	reserves are those quantities of petroleum 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: they must be discovered, recoverable, commercial, and remaining (as of the evaluation date) based on the development project(s) applied. 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
"STOIIP"	stock tank oil initially in place