

10 February 2017

Faroe Petroleum plc

(“Faroe”, “Faroe Petroleum”, the “Company”)

### Operational Update

Faroe Petroleum, the independent oil and gas company focussing principally on exploration, appraisal and production opportunities in Norway and the UK, is pleased to provide an update on operations and guidance for 2017.

#### **Graham Stewart, Chief Executive of Faroe Petroleum commented:**

*“2016 was transformational for Faroe with the acquisition of a Norwegian portfolio of producing assets from DONG doubling group production, the material Brasse discovery in Norway, and a successful £66million equity fund raise. Production from our UK/Norwegian portfolio averaged approximately 17,400 boepd in 2016, and we increased our 2P reserves base by 42% to 81 mmboe. We ended the year with a significant cash position of £97million and a new seven year Reserve Based Lending facility of \$250million which is undrawn.*

*“We are now poised for a major growth phase as we invest across our core hub assets in 2017 and beyond, and believe that we have the asset base to reach our stated goal of 40-50,000 boepd over the next five years. We continue to seek to capitalise on our strong financial position to pursue consolidation opportunities in our core areas on the UK and Norwegian continental shelves, while kicking off another exciting high impact exploration drilling campaign.”*

### Highlights

#### **Reserves and Resources – significant increase in reserves and high grading of contingent resources in 2016**

Faroe has completed its internal assessment of reserves and resources at 1 January 2017, which are as follows:

- 2P Reserves increased by 42% with closing reserves at 81.3mmboe (1 Jan-16: 57.4 mmboe). The significant increase (reserves replacement of approximately 5 times) is a result of both the acquisition of interests in the Norwegian Ula, Tambar, Trym and Oselvar producing fields and positive reserve revisions
- 2C Contingent Resources are 7.5% lower at 90.9 mmboe (1 Jan-16: 98.3 mmboe) reflecting the addition of new resources from the 2016 Brasse discovery which in part compensates for the reduction in resources associated with the respective withdrawal and relinquishment of interests in the Perth, Lowlander, Tornado and Solberg licences

The table set out below presents the 2P Reserves net to Faroe by geographic location and split into oil and liquids reserves and gas reserves. The reserves are reported in accordance with the Petroleum Resources Management System (PRMS), the joint reserves/resources definitions of the Society of Petroleum Engineers, the World Petroleum Congress and the American Association of Petroleum Geologists.

**Proven plus Probable (2P) Reserves at 1 January 2017**

	Liquids (mmstb)	Gas (bcf)	Total (mmboe)
Brage Area	7.2	3.9	7.8
Trym	0.5	11.3	2.4
Ula Area (excl. Blane)	21.3	13.3	23.5
Njord Area	29.1	79.5	42.4
Total Norway	58.0	108.0	76.0
UK (incl. Blane)	2.9	14.3	5.3
Group	60.9	122.3	81.3

**Production – significantly enhanced through asset acquisitions and field development programme to deliver long term profitable production growth**

- Total average economic production<sup>1</sup> for the full year 2016 was 17,395 boepd, of which approximately 58% was liquids and 42% gas. This record high was the result of a combination of production from the Company's pre-existing portfolio, which benefited from Njord and Hyme production up to the end of May 2016, along with production from the recently acquired interests in the Norwegian Ula, Tambar, Trym and Oselvar producing fields
- Average full year 2017 production is currently forecast to be in the range of 12,000-15,000 boepd from all fields, split approximately 60% liquids and 40% gas. The forecast reduction in production reflects the work programmes being undertaken on some of the Company's fields, notably from those acquired from DONG; the Njord and Hyme fields will not produce while facility refurbishment continues, the Tambar field will experience production interruption to enable both in-fill drilling and gas lift installation to boost production from 2018 onwards and the Trym field is at risk of potential capacity constraints across the Harald host facility. The range will be narrowed when there is greater clarity on the level of production from Trym
- Average Opex per boe<sup>2</sup> in 2016 was approximately \$24/boe. Opex per boe in 2017 is expected to be in the range of \$25/boe to \$29/boe reflecting primarily lower production rates as the investment programme is executed. Unit Opex is expected to decrease materially as new production is brought on stream and following continuing efforts to improve cost efficiency
- Faroe continues to seek suitable value-enhancing production acquisitions, taking advantage of consolidation opportunities and the Company's strong balance sheet

<sup>1</sup> Economic production for 2016 includes the Ula, Tambar, Trym and Oselvar fields, where Faroe received the economic benefit from the associated production from 1 January 2016 but can only account for it from the completion of the acquisition on 6 December 2016. Accounting production for 2016 was 8,022 boepd

<sup>2</sup> Based on economic production and Opex for the Ula, Tambar, Trym and Oselvar fields from 1 January 2016

**Development – high quality developments progressing in 2017 to deliver material organic growth in production profile**

**The Ula Hub Area**

- The Oda oil field (Faroe 15%) field development plan (FDP) has been submitted with the field being developed as a subsea tie-back to the AkerBP-operated Ula oil field (Faroe 20%). Oda has estimated reserves of 46 mmbob in an excellent reservoir, with first oil scheduled for 2019 and gross plateau production expected to be 35,000 boepd (5,250 boepd net to Faroe) as well as the Ula hub benefitting from the feed through tariff
- Tambar field (Faroe 40%) gas lift and infill well programme is expected to be sanctioned in late February 2017 with the Ula hub destined to benefit from the additional gas from Tambar

**The Njord Hub Area**

- This project is progressing to plan with a final investment decision (FID) and FDP submission expected in March 2017. The Njord Future Project, which encompasses refurbishment of the Njord facilities, development of the Bauge (previously Snilehorn) field, and potentially further Faroe-owned fields in the area is planned to recommence production in 2020
- During 2017 work will continue to mature the significant Pil, Bue and Boomerang discoveries (Faroe 25%) towards development, following the selection of a sub-sea tie back to the Njord production hub as the preferred solution. The formal concept selection and FEED will be committed to in Q1 2017 with project sanction expected by the end of the year

**The Brage Hub Area**

- The Brage field (Faroe 14.3%) infill well programme is progressing to plan including targets defined on 4D seismic and with detailed planning ongoing. Mobilising for the first well will begin in April 2017 and we expect it to be on stream in Q4

**Exploration & Appraisal – following a successful 2016 with the drill bit for Faroe, 2017 has commenced with the high impact Boné well**

- The Boné well (previously named Dazzler) (Faroe 20%), in the Barents Sea commenced drilling on 11 January 2017 and is progressing to plan
- An appraisal well on the 2016 Brasse discovery (Faroe 50% and operator) is planned for the summer of 2017
- Further potential wells are being matured for late 2017 or early 2018 including a potential well on the newly-awarded Brasse extension (Faroe 50% and operator), a well on the Norwegian Sea Aerosmith licence (Faroe 20%) and the recently awarded Goanna licence in the Norwegian North Sea (Faroe 30%)
- The Brasse discovery (Faroe 50% and operator) feasibility studies are continuing and we expect further delineation from the appraisal programme scheduled for the summer 2017

**Financial - Faroe ended 2016 in a robust financial position with significant cash reserves, enhanced production cashflow and a new, undrawn seven year RBL facility**

- 2016 year-end unaudited cash and net cash position was approximately £96.8million
- The \$250million Reserve Based Lending facility was amended and extended in December 2016 with existing and new lenders to include a further \$100million accordion – the seven year facility was undrawn at the 2016 year-end
- 2016 exploration and appraisal capex was approximately £46million pre-tax (£11million post-tax) and development and production capex was approximately £12million (unaudited)
- 2017 exploration and appraisal capex is estimated to be approximately £45million pre-tax (£10million post-tax) and development and production capex approximately £90million, split as follows:
  - Njord Area: £30million
  - Ula Area: £49million
  - Brage Area: £11million
- 2017 hedging programme in place to underpin value:

- Approximately 85% of gas production hedged on a post-tax basis at average price of 39p/therm (5.9 million therms sold forward in Q1 at an average price of 55p/therm)
- Approximately 30% of post-tax oil production hedged at \$54/bbl (principally with puts)

– Ends –

### Conference Call

An updated presentation is available on our web site ([www.faroe-petroleum.com](http://www.faroe-petroleum.com)) and a conference call for sell-side analysts will take place at 08.30 a.m. today. Please use the dial-in details below and request access to the Faroe Petroleum conference call.

Dial-in: +44 (0) 1452 562 815

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John Wood, UK Asset Manager of the Company with over 15 years' experience of the oil and gas industry and who holds an M.Sc in Petroleum Engineering from Imperial College, has read and approved the production and development disclosure in this regulatory announcement.

Andrew Roberts, Group Exploration Manager of Faroe Petroleum and a Geophysicist (BSc. Joint Honours in Physics and Chemistry from Manchester University), who has been involved in the energy industry for more than 25 years, has read and approved the exploration and appraisal disclosure in this regulatory announcement.

### Reserves Assessment

To assess the reserves, the Company has used the definitions and guidelines set out in the 2007 Petroleum Resources Management System 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).

## Glossary

"APA"	awards in pre-defined areas
"bscf"	billions of standard cubic feet
"best estimate"	an estimate representing the best technical assessment of projected volumes. Usually the P50 value. For Contingent Resources, the term of best estimate is denoted as 2C
"boe"	barrel of oil equivalent
"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
"FDP"	Field Development Plan
"mmboe"	millions of barrels of oil equivalent
"mmstb"	millions of barrels of stock tank oil
"net"	the portion that are attributed to the equity interests of Faroe
"Proved + Probable Reserves" or "2P"	those additional Reserves which analysis of geoscience and engineering data indicate are less likely to be recovered than Proved Reserves but more certain to be recovered than Possible Reserves. 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
"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

## Notes to Editors

The Company has, through successive licence applications and acquisitions, built a substantial and diversified portfolio of exploration, appraisal, development and production assets in Norway, the UK and Ireland.

Faroe Petroleum is an experienced licence operator having operated several exploration wells successfully in Norway and the UK and is also the production operator of the Schooner and Ketch gas fields in the U.K. Southern Gas Basin and the Trym and Oselvar fields in the Norwegian North Sea. Faroe also has extensive experience working with major and independent oil companies both in Norway and in the UK.

The Company's substantial licence portfolio provides a considerable spread of risk and reward. Faroe has an active E&A drilling programme and has interests in a portfolio of producing oil and gas fields in the UK and Norway, including the Schooner and Ketch gas fields and the Blane oil field in the UK, and interests in the Brage, Ringhorne East, Ula, Tambar, Oselvar and Trym fields in Norway. In December 2016 the Company completed the acquisition of a package of Norwegian producing assets from DONG Energy including interests in the Ula, Tambar, Oselvar and Trym fields. Full year average production for 2017, is estimated to be between 12,000-15,000 boepd.

In November 2013 and March 2014 Faroe announced the Snilehorn and Pil discoveries in the Norwegian Sea in close proximity to the Njord and Hyme fields. More recently, in July 2016 the Company announced the Brasse discovery, next to the Brage field, and the Njord North Flank discovery, next to the Njord field, both in Norway.

Norway operates a tax efficient system which incentivises exploration, through reimbursement of 78% of costs in the subsequent year. Faroe has built an extensive portfolio of high potential exploration licences in Norway which, together with its established UK North Sea positions provides the majority of prospects targeted by the Company's sustainable exploration drilling programme.

Faroe Petroleum is quoted on the AIM Market of London Stock Exchange. The Company is funded from cash reserves and cash flow, and has access to a \$250million reserve base lending facility, with a further US\$100million available on an uncommitted "accordion" basis. Faroe has a highly experienced technical team who are leaders in the areas of seismic and geological interpretation, reservoir engineering and field development, focused on creating exceptional value for its shareholders.