

18 September 2018

**FAROE PETROLEUM PLC**  
**(“Faroe Petroleum”, “Faroe”, the “Company” or the “Group”)**

**Unaudited Interim Results for the six months ended 30 June 2018**

Faroe Petroleum, the independent oil and gas company focusing on exploration, appraisal and production opportunities in Norway and the UK, announces its unaudited Interim Results for the six months ended 30 June 2018.

**Highlights**

*Operations – significant resource upgrade following the Iris Hades discovery*

- Successful Iris Hades discovery (Faroe 20%), adding 42 mmboc 2C resources net to Faroe – appraisal well planned for H1 2019
- Fogelberg (Faroe 15%) appraisal well and production testing completed in June 2018
- Fenja field development part-divestment (Faroe 7.5%, previously 25%) raised \$54.5 million, reduces capex
- Average H1 2018 production of 12,402 boepd from existing portfolio (H1 2017: 14,800 boepd) – lower rate reflects temporary production shut-ins on Trym and Tambar in Q1 2018
- Farm-in to Plantain/Agar well in UKCS announced in August 2018 – drilling operations underway

*Finance – strong cash generation from producing assets and robust balance sheet*

- Adjusted revenue £102.2 million (H1 2017: £95.5 million) – reflecting higher commodity prices, partially offset by lower production during period. Statutory revenue of £67.8 million (H1 2017: £80.1 million) – excludes produced but not lifted hydrocarbons (underlift) of £37.3 million (H1 2017: £15.6 million)
- EBITDAX £77.2 million (H1 2017: £44.0 million) – includes pre-tax net income of £21.3 million in relation to Oselvar compensation payments
- Operating profit of £82.5 million (H1 2017: loss £0.3 million) and profit after tax of £42.5 million (H1 2017: loss £2.9 million) – reflecting higher EBITDAX and £24.5 million post-tax gain on Fenja part-divestment
- Unrestricted cash and net cash at 30 June 2018 £158.6 million and £82.6 million (31 December 2017: £149.1 million and £75.0 million)
- \$250 million reserve based lending (“RBL”) facility, undrawn at 30 June 2018 (31 December 2017: £nil)

*Outlook – E&A drilling programme ramp-up and ongoing development investments, fully funded*

- Full year 2018 production guidance 12,000-14,000 boepd, approximately two thirds of which is oil
- Fully-funded near to medium term organic growth target of 35,000 boepd on schedule
- Ongoing significant multi-field development programme across our portfolio
- Fully-funded net Group capital expenditure for 2018 is estimated at c. £225 million pre-tax
- Flagship Brasse development concept selection underway with field sanction scheduled for H2 2019
- Exploration programme continues with six firm wells targeting unrisks resources in range 80 to 150 mmboc (net)
- Long term growth to be sustained through continuing annual exploration licence participation

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

"I am pleased to announce the results for H1 2018 – a period of strong profitability, effective portfolio management and material exploration success. The significant Iris Hades discovery announced in April 2018 is our largest discovery to date and adds an estimated 42 mmboe of 2C oil equivalent net to the Company, substantially increasing our resource base.

"We remain one of the most dynamic and successful explorers in the sector and have a very active drilling programme underway. Seven E&A wells will be drilled over the coming months including appraisal of Iris Hades, the Agar/Plantain exploration well in the UK currently drilling and the Faroe-operated Rungne exploration well, due to spud soon. The unrisks resource potential net to Faroe targeted by the firm six well exploration campaign programme is estimated to be in the range of 80-150 mmboe.

"In the medium term we are targeting material increase in shareholder value and cashflow with our fully funded investment programme across the portfolio, encompassing exploration, appraisal, development and production. I remain confident in our ability to deliver our stated near to medium term production growth target of 35,000 boepd, and wish to express my sincere gratitude to all our stakeholders for their ongoing support and to our staff and colleagues for their hard work and commitment to delivering the best possible results for all of our shareholders."

Ends

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## CHAIRMAN'S AND CHIEF EXECUTIVE'S STATEMENT

Faroe has a proven track record of delivering outstanding results in exploration and asset monetisation. In H1 2018, we again had significant successes in both these elements of the business: the Iris Hades discovery added 42 mmboe of 2C resources (net to Faroe) and our partial divestment in the Fenja development project generated a post-tax gain of £24.5 million. Faroe's production portfolio generated EBITDAX of £77.2 million in the first six months, underpinning our significant ongoing field investment programme in Norway.

With gross cash of £158.6 million and an undrawn \$250 million RBL facility, Faroe is fully funded for its entire ongoing investment programme and to continue to grow the business further. There has been good progress in exploiting our resources, through development and production-enhancing projects as well as maturing existing discoveries towards development, and we are on track to deliver our stated objective of production levels of 35,000 boepd in the near to medium term, all from the Company's existing assets.

### **Iris Hades discovery leads to significant increase in resources**

We remain one of the most active and successful explorers in the sector with a finding cost in Norway of less than \$1 per barrel (post-tax), a commercial success rate of over one in three and value creation through exploration twice the NCS average. 75% of Faroe's 2P Reserves of 98 mmboe (as at 31 December 2017) have been generated, directly or indirectly, from our exploration drilling. We pursue efficient and sustainable organic growth principally through the drill bit. Faroe has an outstanding in-house exploration team with an exemplary record in winning licences in application rounds from which a very high proportion progress to being drilled.

Our latest drilling success was the significant Iris Hades discovery (Faroe 20%) announced in April 2018. This is the largest single discovery we have made so far, with Faroe's estimated net 2C resources on the discovery of 42 mmboe, taking Faroe's net total 2C resources to 113 mmboe. The Iris Hades partnership has contracted the Deep Sea Bergen drilling rig to drill an appraisal well in H1 2019 targeting an area near the crest of the structure to the south of the discovery well.

Our exploration-led strategy continues with our most active drilling programme to date, substantially funded by Norway's long-established tax refund incentive. Seven committed wells will be drilled over the coming months, comprising six in Norway, and one in the UK, the low-cost Plantain well (Faroe 25%), currently underway, potentially followed by a contingent side-track to appraise the Agar discovery. The unrisks resource range potential targeted by this ongoing committed exploration programme has been estimated between 80-150 mmboe net to Faroe.

### **Active portfolio management**

In line with our continuous active portfolio management designed to optimise value and returns, in June 2018 we announced the completion of the sale of a partial interest in our ongoing Fenja development project, reducing Faroe's interest, and corresponding field capital expenditure exposure from 25% to 7.5%. As well as producing an immediate cash return of \$54.5 million, the transaction reduces Faroe's net capital expenditure on the Fenja development by 70% to approximately \$96 million. This in turn frees up additional liquidity for allocation across our other high quality projects, notably the Brasse development, and ensures we are fully funded to achieve our organic production growth target.

### **Projects on schedule, production guidance maintained**

Taking full advantage of the materially lower cost base, the Company is pursuing its largest ever investment programme. Faroe is actively investing in several significant development projects in Norway: the Njord Future Project (Faroe 7.5%), which comprises Njord, Hyme and Bauge; Fenja (Faroe 7.5%); and Oda (Faroe 15%), all of which are on schedule and on budget. Notably the production wells on the Oda field are currently being drilled with first production scheduled for mid-2019. On Tambar (Faroe 45%) two infill wells have been drilled and are now on production, and preparations are underway for the installation of gas lift in order to further increase field productivity.

Faroe's operated Brasse development project (Faroe 50%) is progressing well and to plan. The next key project milestone will be Concept Selection including the reservoir drainage plan and the selection of a host facility for fluid processing and onward transportation. Field development sanction is scheduled for H2 2019. An exploration well is scheduled to be drilled on Brasse East in Q4 2018, followed by a side-track into the Brasse main structure, with the potential to add further incremental reserves to the existing 2P reserves of 61.4 mmboe (30.7 mmboe net to Faroe) for the planned development. The Brasse East well will be drilled back-to-back using the Transocean Arctic directly after the Rungne exploration well (Faroe 40% and operator) which is scheduled to commence around the end of September 2018.

Group production averaged 12,402 boepd in H1 2018 which is within guidance but at the lower end of the range. The main reasons for lower production rates in the first half were the unplanned temporary loss of production on

the Faroe-operated Trym gas field in February and March, caused by downstream technical issues in Denmark (in which Faroe has no direct interest), combined with the delayed re-start of production on Tambar following drilling of the two new infill wells earlier this year. Full year production guidance remains 12,000 to 14,000 boepd.

Oil and gas prices have been relatively strong in the period and have more than offset the lower production in terms of cash flow; EBITDAX of £77.2 million in H1 2018 is the highest 6-months EBITDAX the Company has posted to date. Compensation receipts relating to the Oselvar shut-in contributed £21.3 million to the EBITDAX in the period.

### **Outlook**

Continuing our active drilling programme, we are set to ramp up our E&A activity in 2018 and 2019 with a total of seven exploration and appraisal wells so far committed, one of which, Agar/Plantain in the UK, is already underway. This exciting and very material programme also takes full advantage of continuing competitive rig rates and, in Norway, the State tax refund incentive, through which 78% of exploration and appraisal costs are recovered.

Faroe has the asset base and funding in place to deliver organic high value production growth to 35,000 boepd. This outstanding growth programme comes as a result of many years of successful exploration, value accretive M&A and prudent financial management. Looking ahead, we also expect to add further new organic projects to this already very significant growth plan through the maturing of a number of existing discoveries, including Iris Hades and infill wells. In addition, there is the real potential of making new discoveries through our sustained drilling campaign.

Furthermore, we aim to capitalise on our proven M&A track record together with our strong strategic and financial position, as we pursue value-accretive M&A opportunities in our focus areas to complement our organic growth.

We wish to express our sincere gratitude to all our stakeholders for their ongoing support and to our staff and colleagues for their hard work and commitment to delivering the best possible results for all of our shareholders.

John Bentley  
Chairman

Graham Stewart  
Chief Executive

## REVIEW OF ACTIVITIES

The Company has continued to make excellent progress across all areas of activity with the operational highlights of H1 2018 being the successful Iris Hades discovery and completion of the infill drilling programme on Tambar.

### Exploration and appraisal

In H1 2018, Faroe participated in two E&A wells, the Iris Hades exploration well and the Fogelberg appraisal well. The Company also added eight new licences to the portfolio through awards in the Norwegian APA licensing round. The drilling programme continues with the Agar/Plantain exploration and appraisal well in the UKCS, currently drilling, and the Rungne exploration well (Faroe 40% and operator), expected to spud in end-September 2018, to be followed back-to-back with the Faroe-operated Brasse East well (50%) with four further committed wells in 2018 and H1 2019: Pabow, Cassidy, Bergknapp (formerly Yoshi), and the Iris Hades appraisal. Apart from the Agar/Plantain well, all of these wells are in Norway where Faroe receives a tax refund of 78% on all exploration and appraisal expenditure.

#### *Drilling operations*

In April 2018 the Company announced the results of the Iris Hades exploration well (Faroe 20%). Faroe estimates gross contingent resources for Iris Hades at 63 mmmboe (1C), 210 mmmboe (2C) and 322 mmmboe (3C). The Iris Hades resources estimates include condensate, which based on preliminary fluid analysis constitute approximately 25% of the contingent resource. The Iris Hades partnership has contracted the Deep Sea Bergen drilling rig to drill an appraisal well targeting an area near the crest of the structure and to the south of the discovery well. The appraisal well is expected to spud in H1 2019.

On Fogelberg (Faroe 15%) an appraisal well and associated drill stem test (DST) were undertaken in H1 2018. During the DST, the well flowed at a maximum constrained and stable rate of 21 mmscf per day and condensate at 547 bpd (aggregate 4,047 boepd) on a 22/64 inch choke for 24 hours. An update on the volumetrics will be provided after the new data have been fully interpreted and incorporated into an updated reservoir model and ahead of development studies for the potential Fogelberg subsea tie-back to the Åsgard B host.

Faroe is currently drilling the Plantain exploration prospect (Faroe 25%) in the UK Continental Shelf (UKCS) following a farm-in agreement with Azinor Catalyst Limited, announced in August 2018. A contingent side-track to appraise the Agar oil field, discovered in 2014, may follow. Operator volumes in Agar and Plantain have been estimated by Catalyst at a combined mid-case resource of 60 mmmboe, with an upside case of 98 mmmboe. Plantain is an Eocene oil prospect which follows on from the original Agar oil discovery in 2014 (9/14a-15 A) and the analogous Frosk oil discovery (24/9-12 S) made in Norway by AkerBP earlier this year.

Well planning is progressing on schedule for the Faroe-operated Rungne exploration well (Faroe 40%) which is scheduled to spud around the end of September 2018 using the Transocean Arctic semi-submersible rig. The unrisks gross resource range (100%) in the prospect targeted is approximately 70-110 mmmboe. The Faroe-operated Brasse East well (50%) will be drilled back-to-back following the Rungne well, again using the Transocean Arctic. The unrisks gross resources (100%) targeted for Brasse East are 12.5 mmmboe, and success on this well could add further incremental reserves to the existing 2P reserves of 30.7 mmmboe (net to Faroe at 50%) for the planned Brasse field development. The Brasse East well also has the potential to significantly de-risk the Brasse Extension exploration prospect with gross resource potential of 40-70 mmmboe.

A further exploration well is expected to spud in early 2019 on the Equinor-operated Pabow prospect (Faroe 20%) in the Stord basin to the east of the prolific Utsira High. The Cassidy exploration well (Faroe 15%) is also scheduled to be drilled in Q1 2019, back-to-back with the production wells in Oda. Cassidy sits within the PL405 Oda licence to the north of Oda. Bergknapp (formerly Yoshi) (Faroe 30%) is expected to be drilled in 2019. The prospect is located in licence PL 836 S immediately to the south west of the Smørbukk South field.

#### *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. The licences included extensions of existing exploration acreage but also included new targets, notably Blue Libelle (Faroe 40% and operator) on the north western margin of the North Viking Graben, the Statoil-operated Århus (Faroe 30%) located north of the Trym field and the BP-operated Skræmetindan located in the Central Graben.

In May 2018 Faroe was awarded a new prospective exploration licence in the 30<sup>th</sup> Licensing Round on the UKCS on block 30/14b (Faroe 100% and operator). On this licence the Edinburgh prospect straddles the UK/Norway border in the Central North Sea. Work is underway to form an aligned joint venture to explore both sides of this prospective area.

## **Production**

During H1 2018, Faroe achieved net average production of 12,402 boepd (H1 2017: 14,800 *economic production*) at the lower end of production guidance. This reduction in production rates was attributable to two main factors, notably the Tambar oil field having been off line for much of Q1, whilst the two new infill wells were drilled before being brought on stream to add significant new production, along with a temporary loss of production from the Trym gas field caused by a technical fault in the downstream export system.

Production guidance remains between 12,000 and 14,000 boepd. Average operating expenditure per barrel of oil equivalent (opex/boe) in the period was \$27 (2017: \$26).

On Tambar (Faroe 45%) operated by AkerBP, the two new infill production wells are on production, and preparations are underway for the gas-lift installation, to boost production further. On Brage (Faroe 14.3%) a further long reach infill well has been sanctioned for drilling in H2 2018 targeting the prolific Sognefjord reservoir.

The principal producing fields in the UK in H1 2018 were Blane, Enoch, Schooner and Ketch. All fields have performed in line with expectations over the period. Production from Schooner and Ketch ceased on 15 August 2018 following the planned closure of the Conoco-operated Theddlethorpe onshore host facility. The Company is actively investigating the potential for alternative export routes for these two fields in the near term.

## **Development and field investment projects**

On Ula (Faroe 20%) a number of significant upgrades to the field facilities are underway which will support future infill drilling and long term production. It is planned to drill three or more new infill wells in 2019-20 based on the results of the recent time-lapse 3D seismic survey. This will include new injection wells to extend the Water Alternating Gas pattern for the Ula field, together with infill production targets.

In July 2018, development drilling on Oda commenced (Faroe 15%) with the first of three development wells. The project is on track for production start-up in mid-2019 as planned. Oselvar (Faroe 55%) ceased production in April 2018 and has now received the final compensation payment from the Oda field partners (Faroe 15%) which, due to its formulaic nature, has resulted in a higher payment than expected amounting to a total of £35.7 million net to Faroe (including the £7.4 million net received in June 2017).

In the Greater Njord Area, following our partial sale of Fenja to Suncor, Faroe now has an aligned 7.5% interest across the area encompassing Njord, Hyme and Bauge (the Njord Future Project), operated by Equinor, and in Fenja, operated by VNG. Key milestones in 2018 on the Njord Future Project include installation on the Njord A platform of blisters to enhance stability on all four columns, installation of column top extensions and deck boxes. The Njord B FSO entered the dry dock in Haugesund in July 2018 and upgrade work has commenced according to plan. Njord and Hyme are expected to recommence production in Q4 2020 followed by first oil on Bauge shortly thereafter. The Fenja development is progressing in parallel and is on schedule and within budget. Production start-up on Fenja is planned for Q1 2021.

The Brasse project is progressing to plan towards the next major milestone, which is Concept Selection, to be followed by Field Development Plan submission in end-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.

## FINANCE REVIEW

H1 2018 saw gross cash increase to £158.6 million (net £82.6 million) from £149.1 million (net £75.0 million) at 31 December 2017. This increase was mainly due to strong commodity prices, the successful divestment of 17.5% of Fenja for a consideration of \$54.5 million (£40.4 million) and the net compensation receipt of £21.3 million from Oda partners (Faroe 15%) to Oselvar partners (Faroe 55%), offset by significant levels of capital expenditure (£98.6 million) in Faroe's significant ongoing field investment and development and exploration drilling programmes.

### *Income statement*

Revenue, adjusted for underlift and including realised hedging losses, totalled £102.2 million, averaging \$62.5 per boe (H1 2017: \$45.2 per boe). Operating costs, excluding depreciation, depletion and amortisation (DDA) increased to \$27.1 per boe<sup>1</sup> compared to \$26.0 per boe in 2017, but is expected to fall with production increase in H2 2018. DDA per boe decreased to \$7.5 compared to \$10.0 in H1 2017. EBITDAX in H1 2018 increased to £77.2 million compared to £44.0 million in H1 2017.

Statutory revenue in the period was £67.8 million (H1 2017: £80.1 million). This is different to 'adjusted revenue' of £102.2 million (H1 2017: £95.5 million) as the former excludes volumes of oil and gas produced but not physically lifted in the period ("Underlift"). The underlift movement of £37.3 million (H1 2017: £15.6 million) is credited to cost of sales under IFRS. The increase in adjusted revenue reflects higher oil and gas prices in H1 2018 compared with H1 2017, partially offset by lower production during H1 2018.

Cost of sales for the period was £21.3 million (H1 2017: £74.3 million). Adjusted cost of sales excluding net underlift movement (see paragraph above) was £58.6 million (H1 2017: £89.9 million). The reduction in the adjusted cost of sales compared to the prior period reflects one-off future upgrade tariff costs of £11.9 million falling due to Ula as a result of the planned shut-down of Oselvar, and other infrastructure costs of £8.5 million which were accrued in H1 2017. DDA for the period was £12.3 million (H1 2017: £20.5 million) and reflects lower production in H1 2018 and a lower DDA per boe due to prior year impairments.

Other income was £18.7 million (H1 2017: £21.7 million), of which £21.3 million related to compensation income received by the Oselvar partnership (Faroe 55%) from the Oda partnership (Faroe 15%). In H1 2018, Faroe received the final instalments from the Oda partnership of £35.7 million, of which £7.4 million was accrued in 2017. The compensation income is partially offset due to the Group's ownership of Oda, with capex costs of £9.9 million being paid in 2018, of which £2.9 million was accrued in 2017. The net compensation income is partially offset by realised hedging losses in the period of £2.9 million.

Pre-tax expensed exploration costs for the half year were £2.0 million (H1 2017: £22.8 million) and relates to £2.0 million (H1 2017: £1.6 million) of pre-award expenditure. There were no material write-offs of previously capitalised exploration expenditure in H1 2018 due to the successful drilling campaign (H1 2017: £21.2 million).

Expensed administration costs in H1 2018 were £5.3 million (H1 2017: £2.0 million). The increase in administrative expenses was mainly due to the valuation of cash-settled share options, the last of which vested in July 2018.

In May 2018, the partial divestment of the Fenja asset was completed for a consideration of \$54.5 million, leading to a post-tax gain on disposal of £24.5 million including a £1.9 million reclassification of foreign exchange movements accumulated in the currency translation reserve being reclassified to the income statement.

The Group made a profit before tax of £73.0 million (H1 2017: loss £6.1 million). Finance charges were £10.2 million, of which £6.6 million relates to accretion on decommissioning provisions and is non-cash and £3.1 million relates to semi-annual interest paid on the bond. The tax charge recognised in the income statement in the period of £30.5 million (H1 2017: credit £3.2 million) is a non-cash movement in deferred tax and largely reflects higher profits from operations, resulting in a post-tax profit of £42.5 million (H1 2017: loss £2.9 million).

### *Taxation*

Faroe is able to pursue a multi-well exploration programme in Norway for a much lower net cost of a similar programme outside Norway, due to Norway's progressive fiscal incentive for exploration through which the Company benefits directly from a 78% exploration tax rebate. The Group had a tax receivable at 30 June 2018 of £62.5 million (31 December 2017: £35.6 million) consisting of 78% of exploration expenditure, net of production profits in Norway. The Company will receive the 2017 tax rebate of £35.6 million in November 2018.

At 30 June 2018 the Group had unrelieved UK tax losses of approximately £45.7 million (31 December 2017: £53.0 million). The unrelieved tax losses are available indefinitely for offset against future taxable profits in the UK. The carried forward losses are expected to be utilised in coming years, depending upon commodity prices, and are

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<sup>1</sup> Opex per boe excludes opex on development assets and non-producing assets and tariff costs in relation to future upgrades

recognised as a deferred tax asset at the prevailing rate of 40%, being corporation tax of 30% and supplementary corporation tax of 10%.

Development capex in Norway is depreciated on a straight line basis over six years for tax purposes. In addition, an uplift of 21.2% can be offset against the 55% special tax. The uplift is taken on a straight line basis over four years. This means that close to 90% of capex spend is recovered through the tax system. At 30 June 2018, Faroe had unused tax balances in Norway of £137.4 million and £21.8 million related to depreciation and uplift, respectively. In addition, at 30 June 2018, Faroe had unrelieved tax losses in Norway of £22.0 million and £67.0 million for corporation tax and special tax respectively.

In June 2018, the Company had a deferred tax asset of £61.1 million in respect of carried forward tax losses, capex balances and uplifts in the UK and Norway, net of other temporary differences.

#### *Balance sheet and cash flow*

Pre-tax expenditure of £98.6 million (H1 2017: £55.4 million) on intangible and tangible assets was made in the period, of which £38.6 million (post tax £8.5 million) related to exploration expenditure, primarily on Iris Hades and Fogelberg. £60.0 million related to development expenditure, principally on Tambar, Oda and Njord Future Project.

The Group recognises the discounted cost of decommissioning when obligations arise. The amount recognised is the present value of the estimated future expenditure, net of amounts carried by third parties. At 30 June 2018 the Group had decommissioning provisions of £271.1 million (31 December 2017: £262.2 million), of which £56.3 million is shown as a current provision. Most of this expenditure is expected in the period from 2020 to 2035.

Trade and other receivables increased in H1 2018 to £156.1 million (31 December 2017: £102.1 million). £70.9 million of the trade and other receivables balance relates to underlift and has increased substantially due to infrequent liftings and rising oil prices. A significant proportion of the underlift is driven by oil, of which there were 1.1 million barrels underlifted at the period end. Furthermore, there was an increase in trade and other payables in H1 2018 to £150.2 million (31 December 2017: £114.0 million). £55.0 million of the trade and other payables balance relates to deferred income (payments on account in respect of produced but not lifted oil) and has increased substantially due to infrequent liftings. In August 2018, liftings of 761,000 barrels of oil were made leading to a reduction in deferred income with a corresponding increase in revenue and a reduction in the underlift balance with a corresponding increase in cost of sales.

The net assets of Faroe Petroleum increased in H1 2018 to £272.4 million (31 December 2017: £226.0 million).

Cash and net cash at 30 June 2018 were £158.6 million and £82.6 million (31 December 2017: £149.1 million and £75.0 million). This excludes restricted cash of £7.6 million (31 December 2017: £7.4 million) consisting of monies set aside for asset retirement obligations on certain assets. The increase in cash is primarily due to the partial divestment of the Fenja licence, improved EBITDAX (related to higher commodity prices and compensation income received) offset by capital expenditure.

#### *Hedging*

Hedged volumes, on a post-tax basis, amounted to approximately 100% of total gas production in H1 2018. The hedging instruments were primarily put options and swaps at a weighted average of 42 pence per therm. Approximately 68% of post-tax oil production in H1 2018 was hedged with put options at a weighted average strike price of \$56/bbl. These hedging instruments generated hedging losses of £1.1 million (H1 2017: gain £0.8 million) before incurring hedging premiums of £1.8 million (H1 2017: £1.1million) leading to a realised hedging loss of £2.9 million (H1 2017: £0.3 million) which are included in other income/(expense).

Open hedge contracts are marked to market at the end of each period with unrealised gains or losses taken to the Income Statement as other income/expense as a non-cash item. Hedged volumes, on a post-tax basis currently amount to approximately 96% of total estimated gas production and 60% of oil production in H2 2018 and 37% of oil production in H1 2019. Unrealised hedging gains for H1 2018 were £0.3 million (H1 2017: £4.0 million).

#### *Dividend*

The Directors do not recommend payment of a dividend.

Group Income Statement	Unaudited Six months to 30 June 2018	Unaudited Six months to 30 June 2017	Audited Year to 31 December 2017
	£'000	£'000	£'000
Revenue	67,840	80,139	152,924
Cost of sales	(21,280)	(74,324)	(132,508)
Asset impairment	-	(3,000)	(12,992)
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<b>Gross profit</b>	46,560	2,815	7,424
Other income	18,735	21,725	17,353
Gain on disposal of asset	24,520	-	7,229
Exploration and evaluation expenses	(2,049)	(22,796)	(25,851)
Administrative expenses	(5,274)	(2,021)	(7,678)
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<b>Operating profit / (loss)</b>	82,492	(277)	(1,523)
Finance revenue	617	238	4,790
Finance costs	(10,151)	(6,092)	(17,006)
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<b>Profit / (loss) on ordinary activities before tax</b>	72,958	(6,131)	(13,739)
Tax (charge) / credit	(30,488)	3,191	2,313
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<b>Profit / (loss) for the period</b>	42,470	(2,940)	(11,426)
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Earnings / (loss) per share – basic (pence)	11.54	(0.80)	(3.1)
Earnings / (loss) per share – diluted (pence)	10.83	(0.80)	(3.1)

Statement of Other Comprehensive Income	Unaudited Six months to 30 June 2018	Unaudited Six months to 30 June 2017	Audited Year to 31 December 2017
	£'000	£'000	£'000
Profit / (loss) for the period	42,470	(2,940)	(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 of foreign operations net of tax	4,763	(7,160)	(13,274)
<b>Total comprehensive income / (loss) for the period</b>	49,148	(10,100)	(24,700)

<b>Group Balance Sheet</b>	<b>Unaudited 30 June 2018</b>	<b>Unaudited 30 June 2017</b>	<b>Audited 31 December 2017</b>
	£'000	£'000	£'000
<b>Non-current assets</b>			
Goodwill	9,635	7,534	9,386
Intangible assets	110,382	110,203	68,857
Property, plant and equipment: development & production	259,628	159,986	201,216
Property, plant and equipment: other	701	495	695
Deferred tax asset	61,115	112,974	114,499
	441,461	391,192	394,653
<b>Current assets</b>			
Inventories	11,015	10,478	10,644
Trade and other receivables	156,053	86,931	102,088
Current tax receivable	62,517	50,999	35,610
Financial assets	-	2,072	-
Cash and cash equivalents	158,596	117,574	149,084
	388,181	268,054	297,426
Assets held for sale	-	-	50,987
	829,642	659,246	743,066
<b>Total assets</b>			
<b>Current liabilities</b>			
Trade and other payables	(150,178)	(105,436)	(113,989)
Current Taxation	(1,286)	-	(65)
Provisions	(61,196)	-	(10,002)
Financial liabilities – borrowings	(54,115)	(44,968)	(32,948)
Financial liabilities – other	(1,085)	-	(767)
	(267,860)	(150,404)	(157,771)
<b>Non-current liabilities</b>			
Interest bearing loans and borrowings	(74,726)	-	(72,742)
Provisions	(214,635)	(270,533)	(254,697)
	(289,361)	(270,533)	(327,439)
Liabilities directly associated with assets held for sale	-	-	(31,854)
	(557,221)	(420,937)	(517,064)
<b>Total liabilities</b>			
<b>Net assets</b>	272,421	238,309	226,002
	272,421	238,309	226,002
<b>Equity attributable to equity holders</b>			
Equity share capital	37,284	36,657	36,664
Share premium account	315,580	315,580	315,580
Cumulative translation reserve	11,144	10,580	6,381
Retained earnings	(91,587)	(124,508)	(130,708)
Reserves of a disposal group held for sale	-	-	(1,915)
	272,421	238,309	226,002
<b>Total equity</b>	272,421	238,309	226,002

<b>Condensed Group Cash Flow Statement</b>	<b>Unaudited Six months to 30 June 2018</b>	<b>Unaudited Six months to 30 June 2017</b>	<b>Audited Year to 31 December 2017</b>
	£'000	£'000	£'000
Profit / (loss) before tax	72,958	(6,131)	(13,739)
Depreciation, depletion and amortisation	12,259	20,663	45,179
Exploration asset write off	63	21,175	21,524
Unrealised hedging losses	(344)	(3,975)	(369)
Asset impairment	-	3,000	12,992
Fair value of share based payments	3,615	1,662	4,948
Cash settlement of share options	-	-	(670)
Gain on disposal of asset	(24,520)	-	(7,229)
Disposal of decommissioning provision	-	-	(1,092)
Decommissioning expenditure	(3,998)	-	-
Purchase of SIP shares	(104)	-	(216)
Movement in trade and other receivables	(53,965)	(25,940)	(42,263)
Movement in inventories	(371)	(22)	(188)
Movement in trade and other payables	36,507	50,153	61,728
Currency translation adjustments	(1,803)	(1,988)	(4,060)
Interest receivable	(617)	(238)	(730)
Interest and financing fees payable	11,955	8,081	17,006
Tax rebate / (payment)	64	(193)	41,031
	<hr/>	<hr/>	<hr/>
<b>Net cash generated from operating activities</b>	<b>51,699</b>	<b>66,247</b>	<b>133,852</b>
<i>Investing activities</i>			
Purchases of intangible and tangible assets	(98,636)	(55,432)	(144,239)
Proceeds from sale of tangible assets	40,430	-	-
Interest received	617	238	730
	<hr/>	<hr/>	<hr/>
<b>Net cash used in investing activities</b>	<b>(57,589)</b>	<b>(55,194)</b>	<b>(143,509)</b>
<i>Financing activities</i>			
Proceeds from bond	-	-	75,915
Issue costs of bond instruments	-	-	(1,920)
Proceeds from issue of equity instruments	-	204	-
Net proceeds / (repayments) from borrowings	19,637	9,123	(1,404)
Interest and financing fees paid	(4,935)	(1,661)	(4,022)
	<hr/>	<hr/>	<hr/>
<b>Net cash inflow provided from financing activities</b>	<b>14,702</b>	<b>7,666</b>	<b>68,569</b>
Net increase in cash and cash equivalents	8,812	18,719	58,912
Cash and cash equivalents at the beginning of period/year	149,084	96,769	96,769
Effect of foreign exchange rate changes	700	2,086	(6,597)
	<hr/>	<hr/>	<hr/>
<b>Cash and cash equivalents at end of period/year</b>	<b>158,596</b>	<b>117,574</b>	<b>149,084</b>
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

**Group Statement of Changes in Equity  
for the period ended 30 June 2018**

	Share capital	Share premium account	Cumulative translation reserve	Retained Reserves earnings of a disposal group held for sale	Total	
	£000	£000	£000	£000	£000	
<b>As at 1 January 2018</b>	<b>36,664</b>	<b>315,580</b>	<b>6,381</b>	<b>(130,708)</b>	<b>(1,915)</b>	<b>226,002</b>
Profit for the period	-	-	-	42,470	-	42,470
Other comprehensive income:						
Exchange differences reclassified to profit and loss on partial disposal of foreign operations	-	-	-	-	1,915	1,915
Gain on retranslation of foreign subsidiaries	-	-	4,763	-	-	4,763
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>4,763</b>	<b>42,470</b>	<b>1,915</b>	<b>49,148</b>
Purchase of shares held under EBT	-	-	-	(3,862)	-	(3,862)
Purchase of SIP shares	-	-	-	(104)	-	(104)
Issue of ordinary shares under EBT	620	-	-	(620)	-	-
Share based payments	-	-	-	1,237	-	1,237
<b>As at 30 June 2018</b>	<b>37,284</b>	<b>315,580</b>	<b>11,144</b>	<b>(91,587)</b>	<b>-</b>	<b>272,421</b>

**Group Statement of Changes in Equity for the  
period ended 30 June 2017**

	Share capital	Share premium account	Cumulative translation reserve	Retained earnings	Total
	£000	£000	£000	£000	£000
<b>As at 1 January 2017</b>	<b>36,453</b>	<b>315,580</b>	<b>17,740</b>	<b>(123,235)</b>	<b>246,538</b>
Loss for the period	-	-	-	(2,940)	(2,940)
Other comprehensive loss:					
Loss on retranslation of foreign subsidiaries	-	-	(7,160)	-	(7,160)
<b>Total comprehensive loss</b>	<b>-</b>	<b>-</b>	<b>(7,160)</b>	<b>(2,940)</b>	<b>(10,100)</b>
Issue of ordinary shares under EBT	204	-	-	-	204
Share based payments	-	-	-	1,667	1,667
<b>As at 30 June 2017</b>	<b>36,657</b>	<b>315,580</b>	<b>10,580</b>	<b>(124,508)</b>	<b>238,309</b>

Group Statement of Changes in Equity for the period ended 31 December 2017	Share capital	Share premium account	Cumulative translation reserve	Retained earnings	Reserves of a disposal group held for sale	Total
	£000	£000	£000	£000	£000	£000
<b>As at 1 January 2017</b>	<b>36,453</b>	<b>315,580</b>	<b>17,740</b>	<b>(123,235)</b>	-	<b>246,538</b>
Loss for the year	-	-	-	(11,426)	-	(11,426)
Other comprehensive income:						
Gain on retranslation of foreign subsidiaries	-	-	(13,274)	-	-	(13,274)
Total comprehensive income / (loss)	-	-	(13,274)	(11,426)	-	(24,700)
Issue of ordinary shares under EBT	211	-	-	(211)	-	-
Purchase of SIP shares	-	-	-	(216)	-	(216)
Share based payments	-	-	-	4,380	-	4,380
Assets held for sale	-	-	1,915	-	(1,915)	-
<b>As at 31 December 2017</b>	<b>36,664</b>	<b>315,580</b>	<b>6,381</b>	<b>(130,708)</b>	<b>(1,915)</b>	<b>226,002</b>

## Notes

### 1. Basis of preparation

As required in AIM Rule 18, the interim financial information for the six months ended 30 June 2018 is presented and prepared in a form consistent with those that will be adopted in the annual statutory financial statement for the year ended 31 December 2018 and having regard to the International Financial Reporting Standards ("IFRS") applicable to such annual accounts.

The financial information contained in this announcement for the year ended 31 December 2017 does not constitute statutory financial statements within the meaning of Section 435 of the Companies Act 2006.

An unqualified audit opinion was expressed on the statutory accounts for the year ended 31 December 2017, as delivered to the Registrar. This unqualified audit opinion did not contain a statement under s498(2) or s498(3) of the Companies Act 2006.

### 2. Earnings per share

The calculation of earnings per share is based upon the weighted average number of ordinary shares in issue during the period of 367,932,242 (30 June 2017: 365,352,143 and 31 December 2017: 365,982,872).

Total shares in issue as at 30 June 2018 amounted to 372,838,872 with potential for an additional 28,349,389 contingently issuable shares under the Company Share Option and Company Incentive Plan schemes. The contingently issuable shares are dilutive as their conversion would decrease the earnings per share.

### 3. Dividend

The Directors do not recommend payment of a dividend.

### 4. Foreign currencies

The assets and liabilities of foreign operations are translated into sterling at the rate of exchange ruling at the balance sheet date. The resulting exchange differences are taken directly to a separate component of equity. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

## 5. Taxation

Tax on profit on ordinary activities	Unaudited Six months to 30 June 2018	Unaudited Six months to 30 June 2017	Audited Year to 31 December 2017
	£'000	£'000	£'000
<i>Current tax</i>			
Overseas tax credit	25,928	10,367	35,610
UK Tax charge	(1,286)	-	(71)
Amounts (underprovided) / overprovided in previous period/ year	(331)	(163)	138
	<hr/>	<hr/>	<hr/>
Total current tax credit	24,311	10,204	35,677
<i>Deferred tax</i>			
Origination of temporary differences	(55,609)	(6,238)	(34,660)
Change of tax rate	-	-	525
Prior period/year adjustment	39	(702)	1,843
	<hr/>	<hr/>	<hr/>
Total deferred tax charge	(55,570)	(6,940)	(32,292)
<i>Foreign exchange differences</i>			
Differences arising from the use of period end and average exchange rates	771	(73)	(1,072)
	<hr/>	<hr/>	<hr/>
Total foreign exchange differences	771	(73)	(1,072)
	<hr/>	<hr/>	<hr/>
<b>Total tax (charge) / credit in the Income Statement*</b>	<b>(30,488)</b>	<b>3,191</b>	<b>2,313</b>
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

\* Non-cash tax credit / (charge)

## 6. Cost of sales

Analysis of cost of sales	Unaudited six months to 30 June 2018	Unaudited six months to 30 June 2017	Audited Year to 31 December 2017
	£000	£000	£000
Operating costs*	34,478	36,416	72,077
Commercial tariffs*	10,242	17,684	44,386
Commercial tariffs relating to future upgrades	-	11,944	-
Depreciation, depletion and amortisation	12,259	20,473	44,806
(Underlift) in the year	(37,325)	(15,632)	(30,729)
Other cost of sales*	1,626	3,439	1,968
	<hr/>	<hr/>	<hr/>
Total cost of sales	21,280	74,324	132,508
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

\* included in the opex per boe metric

## 7. Other income / (expense)

	Unaudited six months to 30 June 2018 £000	Unaudited six months to 30 June 2017 £000	Audited Year to 31 December 2017 £000
<b>Analysis of other income</b>			
Compensation income	21,310	18,060	18,843
Realised hedging losses*	(2,919)	(310)	(1,859)
Unrealised hedging gains	344	3,975	369
	<hr/>	<hr/>	<hr/>
Total other income	18,735	21,725	17,353
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

\* included in the revenue per boe metric

## 8. Earnings before interest, tax, depreciation, amortisation and exploration expenses

	Unaudited six months to 30 June 2018 £000	Unaudited six months to 30 June 2017 £000
Revenue	67,840	80,139
Realised hedging losses	(2,919)	(310)
Other income	21,310	18,060
Operating costs	(34,478)	(36,416)
Commercial tariffs	(10,242)	(29,628)
Underlift movement in the period	37,325	15,632
Other cost of sales	(1,626)	(3,439)
	<hr/>	<hr/>
EBITDAX	77,210	44,038
	<hr/> <hr/>	<hr/> <hr/>

## 9. Trade and other receivables

	Unaudited six months to 30 June 2018 £000	Audited Year to 31 December 2017 £000
Trade receivables	24,695	17,301
Underlift	70,919	27,746
Other receivables	49,274	42,429
Prepayments and accrued income	3,527	7,182
Restricted cash deposits	7,638	7,430
	<hr/>	<hr/>
Trade receivables	156,053	102,088
	<hr/> <hr/>	<hr/> <hr/>

**10. Trade and other payables**

	<b>Unaudited six months to 30 June 2018</b>	<b>Audited Year to 31 December 2017</b>
	£000	£000
Trade creditors	18,302	21,569
Deferred income	55,020	24,999
Other payables	6,388	515
Accruals	70,468	66,906
Trade payables	<u>150,178</u>	<u>113,989</u>

**11. Post balance sheet events**

On 14 August 2018, the Group announced the farm in to the UK Continental Shelf Agar Plantain exploration and appraisal well close to the UK/Norwegian median line, operated by Azinor Catalyst Limited. Drilling on the Agar Plantain is currently scheduled to commence later this month using the Transocean Leader at a total estimated gross cost of US\$15 million. Faroe (25%) joins Azinor Catalyst Limited and Cairn Energy PLC in this sole-risk well.

## Glossary

Adjusted revenue	Revenue, movement in under/(over)lift and realised hedging gains or losses during the period
APA	awards in pre-defined areas
boe	barrels of oil equivalent
boepd	barrels of oil equivalent per day
Bpd	barrels per day
DDA	depletion, depreciation and amortisation
EBT	Employee Benefit Trust
EBITDAX	earnings before interest, taxation, depreciation, amortisation and exploration expenditure
economic production	production to which the Company has an economic entitlement. It includes production between the effective (economic) date and the completion date of an acquisition. Accounting production excludes all pre-completion production.
mmboe	million barrels of oil equivalent
MMSCF	Million standard cubic feet
NCS	Norwegian Continental Shelf
net cash	cash and cash equivalents less financial liabilities excluding the balance of the Exploration Financing Facility which is directly linked to the Norway tax rebate (disclosed as tax receivable in the balance sheet).
SIP	Share Incentive Plan
UKCS	United Kingdom Continental Shelf
Underlift	Volumes of oil and gas produced but not physically lifted in the period

John Wood, is the UK Asset Manager of Faroe Petroleum and an engineer (M.Sc in Petroleum Engineering, Imperial College, London), who has been involved in the energy industry for more than 20 years, has read and approved the technical 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 30 years, has read and approved the exploration and appraisal disclosure in this regulatory announcement.

Estimates of reserves and resources contained in this announcement were 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.

The information contained within this announcement is considered to be inside information prior to its release, as defined in Article 7 of the Market Abuse Regulation No. 596/2014, and is disclosed in accordance with the Company's obligations under Article 17 of those Regulations.

Forward looking statements and dates referenced in this announcement, in relation to Faroe's exploration, development and production assets are estimates and subject to change. Oil and gas operations, particularly those relating to development stage assets are subject to varying inputs that may impact timing, including inter alia permitting; environmental regulation; changes to regulators and regulation; third party manufacturers and service providers; the weather and asset partner and operator actions. The Company's estimates of timing for forward looking operations are based on the best information it has to hand at the time, however these timings may change with little or no notice to the Company. The Company will update the market as and when it becomes aware of a material change to any of the operations or timings referenced in this announcement.