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FOR IMMEDIATE RELEASE

20 December 2018

Faroe Petroleum plc (the “Company” or “Faroe”)

Circular Rejecting DNO’s Offer

The Board of Faroe (the “Board”, “we”) announces that it is today publishing its response circular (the “Response Circular”) in relation to the unsolicited offer for the entire issued and to be issued share capital of Faroe not already owned by DNO ASA (“DNO”) at 152p per share in cash (the “Offer”).

The Board reaffirms its previous statements that the Offer is opportunistic and substantially undervalues Faroe, and encourages all shareholders to take no action.

DNO’s opportunistic Offer of 152p per share substantially undervalues Faroe’s high quality, full cycle and diversified North Sea business

- Premium of only 1% to the undisturbed three month volume weighted average share price (VWAP)¹
- Premium of only 21% to the closing share price prior to the Offer announcement – about half the average premium paid on all UK takeovers over the last 10 years²
- Discount of c.45% to the average price paid recently for comparable North Sea (in particular, Norwegian Continental Shelf (“NCS”)) portfolios measured on a per barrel of 2P reserves basis³
- DNO’s opportunistic Offer seeks to exploit the recent oil price fall – timing its Offer announcement after the oil price fell to a 12 month low⁴ – to acquire Faroe on the cheap

DNO’s unsolicited Offer ignores Faroe management’s proven track record and its exciting independent future

- One of the best exploration track records on the NCS – as validated by the Wittemann E&P Consulting report⁵ published today; our Iris/Hades discovery was one of the largest globally in 2018 YTD
- Consistently drilled 4-5 exploration wells each year delivering regular, high impact news flow and currently in the midst of our largest ever drilling campaign
- Fully funded to triple production in the near-to-medium term
- Excellent track record of value creation through active portfolio management and M&A – as exemplified by the recent Equinor asset swap

DNO’s inadequate Offer ignores the significant benefits created by the Equinor asset swap

- Accelerates the delivery of our production target by increasing production by c.60% in 2019
- Provides better portfolio balance between production and development with no material impact on reserves or growth prospects
- Adds £96 million⁶ incremental cash flow in the next two years further strengthening our already robust balance sheet. This financial flexibility enables us to give careful consideration to the optimal mix of reinvestment in the existing portfolio, potential M&A opportunities and capital return to shareholders

- DNO were not aware of this transaction when they announced their Offer and have since then failed to revise their Offer to reflect the significant benefits created by it

As previously stated, the Board strongly believes that DNO’s criticisms of Faroe are wholly unfounded and simply a tactic to distract from the simple fact that its Offer substantially undervalues the Company

To reject DNO’s opportunistic, unsolicited and inadequate Offer do nothing

John Bentley, Non-Executive Chairman of Faroe, commented:

“It is your Board’s strong belief that this Offer is entirely opportunistic and that the terms fundamentally undervalue Faroe.

“We have one of the best exploration track records on the Norwegian Continental Shelf and are currently in the midst of the largest drilling campaign in Faroe’s history. We are fully funded to deliver our 35,000 boepd production target in the near-to-medium term and are confident in our ability to deliver in excess of 50,000 boepd in the medium term.

“We have an excellent track record of actively managing our portfolio as demonstrated most recently by the Equinor asset swap which will add £96 million⁶ incremental cash flow in the next two years. DNO were not aware of this transaction when they announced their Offer and have since then failed to revise their Offer to reflect the significant benefits created by it.

“As a result of the Equinor asset swap, we are now able to give careful consideration to the optimal mix of: reinvestment into the existing portfolio given the significant growth opportunities therein; pursuing value accretive M&A opportunities leveraging our reputation as a credible and reliable counterparty; and returning capital to shareholders.

“Your Board unanimously recommends that you should reject the Offer.”

Further information for shareholders and the full text of John Bentley’s letter to shareholders is contained in the circular being published today and which is available on <https://www.fp.fo/>.

– Ends –

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Footnotes

- 1) As of 23 November 2018, Faroe's three month VWAP was 151p per share
- 2) 43% average premium on all UK takeovers over the last 10 years based on the average pre-bid speculation premium achieved in UK public market takeovers in the ten years to 20 November 2018. This data is exported from M&A Monitor (criteria: a) Target Nation: UK; b) Deal Status: Announced or Completed; c) Deal Type: Public Offers (all categories except partial, minority and squeeze-out offers)). The export was then adjusted to exclude deals categorised as "Public Transaction (partial offer)" under the "Type of deal" category. 40% average premium on all UK takeovers in the E&P space over the last 10 years based on the average pre-bid speculation premium achieved in UK E&P public market takeovers in the ten years to 20 November 2018. This data is exported from M&A Monitor (criteria: a) Target Nation: UK; b) Deal Status: Announced or Completed; c) Deal Type: Public Offers (all categories except partial, minority and squeeze-out offers)). The export was then filtered for 'Oil & Gas' under the 'Industrial Sector' category
- 3) Assumes a USD:GBP exchange rate of 1.25 as at 11 December 2018, fully diluted number of shares outstanding of 398.3m, latest reported Faroe net cash balance of £82.6m as at 30 June 2018 and Faroe 2P reserves of 98mmboe. Average price paid recently for comparable UK and Norway deals over US\$300m on a per barrel of 2P reserves basis are based on a Wood Mackenzie report ("Wood Mackenzie Report") commissioned by the Board to consider historical upstream mergers and acquisitions and determine an appropriate benchmark against which to value Faroe. The Wood Mackenzie Report can be viewed on the Company's website at www.fp.fo. Transaction multiples are based on relevant UK and Norway deals as outlined in the Wood Mackenzie report
- 4) The Brent oil price reached a 12 month low of US\$57.7/bbl on 23 November 2018 (the last business day before DNO announced its Offer)
- 5) A report from Wittemann E&P Consulting ("Wittemann E&P Consulting Report") was commissioned by the Board to assess Faroe's exploration track record on the Norwegian Continental Shelf during 2005-2017. The Wittemann E&P Consulting Report can be viewed on the Company's website at www.fp.fo
- 6) References to the additional £96 million incremental cash flow in the next two years are Quantified Financial Benefit Statements under the Takeover Code that have been reported on in full in our Response Circular being published today (and which is available on www.fp.fo). Further information supporting the Quantified Financial Benefit Statements, including the bases of belief, principal assumptions and sources of information, is set out in Part A of Appendix 1 to the Response Circular. The Quantified Financial Benefit Statements have been reported on under the Takeover Code by BDO and by Rothschild & Co. Copies of their letters are included in Parts B and C of Appendix 1 to the Response Circular. References in this announcement to the additional £96 million incremental cash flow in the next two years should be read in conjunction with those parts of the Response Circular

Further information

N M Rothschild & Sons Limited ("Rothschild & Co"), which is authorised and regulated in the United Kingdom by the Financial Conduct Authority, is acting exclusively for Faroe and no one else in connection with the above and will not be responsible to anyone other than Faroe for providing the protections offered to clients of Rothschild & Co nor for providing advice in relation to the subject matter of this announcement or any other matters referred to in this announcement.

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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 technical disclosure in this regulatory announcement.

The Company's internal 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.

Glossary

	barrel
“bbl”	
“boepd”	barrels of oil equivalent per day
“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
“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

Disclosure requirements of the Takeover Code

Under Rule 8.3(a) of the Takeover Code, any person who is interested in 1 per cent. or more of any class of relevant securities of an offeree company or of any securities exchange offeror (being any offeror other than an offeror in respect of which it has been announced that its offer is, or is likely to be, solely in cash) must make an Opening Position Disclosure following the commencement of the offer period and, if later, following the announcement in which any securities exchange offeror is first identified. An Opening Position Disclosure must contain details of the person’s interests and short positions in, and rights to subscribe for, any relevant securities of each of (i) the offeree company and (ii) any securities exchange

offeror(s). An Opening Position Disclosure by a person to whom Rule 8.3(a) applies must be made by no later than 3.30 pm (London time) on the 10th Business Day following the commencement of the offer period and, if appropriate, by no later than 3.30 pm (London time) on the 10th Business Day following the announcement in which any securities exchange offeror is first identified. Relevant persons who deal in the relevant securities of the offeree company or of a securities exchange offeror prior to the deadline for making an Opening Position Disclosure must instead make a Dealing Disclosure.

Under Rule 8.3(b) of the Takeover Code, any person who is, or becomes, interested in 1 per cent. or more of any class of relevant securities of the offeree company or of any securities exchange offeror must make a Dealing Disclosure if the person deals in any relevant securities of the offeree company or of any securities exchange offeror. A Dealing Disclosure must contain details of the dealing concerned and of the person's interests and short positions in, and rights to subscribe for, any relevant securities of each of (i) the offeree company and (ii) any securities exchange offeror(s), save to the extent that these details have previously been disclosed under Rule 8. A Dealing Disclosure by a person to whom Rule 8.3(b) applies must be made by no later than 3.30 pm (London time) on the Business Day following the date of the relevant dealing.

If two or more persons act together pursuant to an agreement or understanding, whether formal or informal, to acquire or control an interest in relevant securities of an offeree company or a securities exchange offeror, they will be deemed to be a single person for the purpose of Rule 8.3.

Opening Position Disclosures must also be made by the offeree company and by any offeror and Dealing Disclosures must also be made by the offeree company, by any offeror and by any persons acting in concert with any of them (see Rules 8.1, 8.2 and 8.4).

Details of the offeree and offeror companies in respect of whose relevant securities Opening Position Disclosures and Dealing Disclosures must be made can be found in the Disclosure Table on the Panel's website at www.thetakeoverpanel.org.uk, including details of the number of relevant securities in issue, when the offer period commenced and when any offeror was first identified. You should contact the Panel's Market Surveillance Unit on +44 (0)20 7638 0129 if you are in any doubt as to whether you are required to make an Opening Position Disclosure or a Dealing Disclosure.

Publication on website and hard copies

A copy of this announcement and the documents required to be published by Rule 26 of the Takeover Code will be available, subject to certain restrictions relating to persons resident in Restricted Jurisdictions, on Faroe's website at <https://www.fp.fo/> by no later than 12 noon on the Business Day following the date of this announcement. For the avoidance of doubt, the content of the website is not incorporated into and does not form part of this announcement.

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

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

Forward Looking Statements

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