ÅRSREGNSKAPET FOR REGNSKAPSÅRET 2017 - GENERELL INFORMASJON

Enheten

Organisasjonsnummer:	989 399 071
Organisasjonsform:	Aksjeselskap
Foretaksnavn:	DNO NORTH SEA (NORGE) AS
Forretningsadresse:	Badehusgata 37 4014 STAVANGER

Regnskapsår

Årsregnskapets periode:	01.01.2017 - 31.12.2017

Konsern

Morselskap i konsern:	Nei

Regnskapsregler

Regler for små foretak benyttet:	Nei
Benyttet ved utarbeidelsen av årsregnskapet til selskapet:	IFRS

Årsregnskapet fastsatt av kompetent organ

Bekreftet av representant for selskapet:	Nina Henriksen/Ludvig Høvring
Dato for fastsettelse av årsregnskapet:	06.06.2018

Grunnlag for avgivelse

År 2017: Årsregnskapet er elektronisk innlevert
År 2016: Tall er hentet fra elektronisk innlevert årsregnskap fra 2017

Det er ikke krav til at årsregnskapet m.v. som sendes til Regnskapsregisteret er undertegnet. Kontrollen på at dette er utført ligger hos revisor/enhetens øverste organ. Sikkerheten ivaretas ved at innsender har rolle/rettighet for innsending av årsregnskapet via Altinn, og ved at det bekreftes at årsregnskapet er fastsatt av kompetent organ.

Brønnøysundregistrene, 20.11.2020

Brønnøysundregistrene
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Organisasjonsnummer: 974 760 673

Resultatregnskap

Beløp i: NOK	Note	2017	2016
RESULTATREGNSKAP			
Inntekter			
Revenue	3	1 454 905 000	580 308 000
Sum inntekter		**1 454 905 000**	**580 308 000**
Kostnader			
Production cost	4	620 997 000	356 312 000
Depreciation	4,12	292 067 000	127 547 000
Asset impairment	5,12	34 700 000	23 570 000
Exploration and evaluation expenses	10	263 497 000	276 631 000
Administrative expenses	6,8,9,19	27 389 000	52 099 000
Net gain on disposal of property, plant and equipment		-77 470 000	0
Sum kostnader		**1 161 180 000**	**836 159 000**
Driftsresultat		**293 725 000**	**-255 851 000**
Finansinntekter og finanskostnader			
Finance revenue	7	5 746 000	18 351 000
Sum finansinntekter		**5 746 000**	**18 351 000**
Finance cost	7	203 929 000	92 840 000
Sum finanskostnader		**203 929 000**	**92 840 000**
Netto finans		**-198 183 000**	**-74 489 000**
Ordinært resultat før skattekostnad		**95 542 000**	**-330 340 000**
Tax credit	11	70 522 000	-258 658 000
Ordinært resultat etter skattekostnad		**25 020 000**	**-71 682 000**
Årsresultat		**25 020 000**	**-71 682 000**

Balanse

Beløp i: NOK	Note	2017	2016
BALANSE - EIENDELER			
Anleggsmidler			
Immaterielle eiendeler			
Exploration, development and producing assets	12	2 617 869 000	2 311 015 000
Utsatt skattefordel	11	759 971 000	897 792 000
Goodwill	24	82 098 000	82 098 000
Sum immaterielle eiendeler		**3 459 938 000**	**3 290 905 000**
Varige driftsmidler			
Property, ålant and equipment	12	7 292 000	5 795 000
Sum varige driftsmidler		**7 292 000**	**5 795 000**
Finansielle anleggsmidler			
Investering i annet foretak i samme konsern		0	2 270 000
Sum finansielle anleggsmidler		**0**	**2 270 000**
Sum anleggsmidler		**3 467 230 000**	**3 298 970 000**
Omløpsmidler			
Varer			
Fordringer			
Trade and other receivables	13	1 126 609 000	645 438 000
Current tax receivable	11	394 484 000	442 753 000
Assets held for sale	25	515 120 000	0
Sum fordringer		**2 036 213 000**	**1 088 191 000**
Bankinnskudd, kontanter og lignende			
Cash and cash equivalents	14	440 982 000	293 904 000
Sum bankinnskudd, kontanter og lignende		**440 982 000**	**293 904 000**
Sum omløpsmidler		**2 477 195 000**	**1 382 095 000**
SUM EIENDELER		**5 944 425 000**	**4 681 065 000**

Balanse

Beløp i: NOK	Note	2017	2016
BALANSE - EGENKAPITAL OG GJELD			
Egenkapital			
Innskutt egenkapital			
Equity share capital	26	10 000 000	10 000 000
Overkurs		195 050 000	195 050 000
Sum innskutt egenkapital		**205 050 000**	**205 050 000**
Opptjent egenkapital			
Other reserves		104 690 000	86 214 000
Retained earnings		160 132 000	131 064 000
Sum opptjent egenkapital		**264 822 000**	**217 278 000**
Sum egenkapital		**469 872 000**	**422 328 000**
Gjeld			
Langsiktig gjeld			
Annen langsiktig gjeld			
Other long term liabilities	17	1 721 625 000	1 388 657 000
Provisions	16	2 024 357 000	2 170 168 000
Liabilities directly associated with assets held for sale	25	350 003 000	0
Sum annen langsiktig gjeld		**4 095 985 000**	**3 558 825 000**
Sum langsiktig gjeld		**4 095 985 000**	**3 558 825 000**
Kortsiktig gjeld			
Liability credit istitution	15,17	365 000 000	380 000 000
Leverandørgjeld	15,17	1 013 569 000	319 913 000
Sum kortsiktig gjeld		**1 378 569 000**	**699 913 000**
Sum gjeld		**5 474 554 000**	**4 258 738 000**
SUM EGENKAPITAL OG GJELD		**5 944 426 000**	**4 681 066 000**

Faroe

Directors' Report &
Financial Statements with notes

31 December 2017

Registered number 989 399 071

Contents

Directors Report

Principal activities and location

The principal activities of Faroe Petroleum Norge AS ('the Company') are the exploration, appraisal, development and production of oil and gas reserves on the Norwegian continental shelf. The Company is located in Badehusgata 37, Stavanger.

The Company's parent company is Faroe Petroleum plc whose head office is in Aberdeen, United Kingdom.

Going Concern

The financial statements for 2017 are prepared on a going concern basis. Taking into consideration the Company's current cash position, future revenue from existing oil and gas fields, the Company's borrowing facilities, and the parent company guarantee, the Company has adequate financial resources and the Board of directors believe that the Company is well placed to meet the costs of its commitments and manage its business risks successfully. The Board's review of the financial statements, budgets and forward plan lead the directors to believe that the Company has sufficient resources to continue in operation for the near future. The financial statements are therefore prepared on a going concern basis.

Finance review

Overview
The year end net cash position was MNOK 440.9 (2016: MNOK 293.9). The tax receivable at the end of 2017 was MNOK 394.5 (2016: 442.7 receivable) and exceeds the utilisation from the exploration financing facility.

For the Group, the year end gross cash position was £149.1 million, with net cash of £75.0 million (2016: gross / net £96.8 million). The increased cash position was due to the issue of a $100 million senior unsecured bond in the Nordic bond market in November 2017 as well as EBITDAX increasing to £82.2 million in the year (2016: £25.8 million). The Group's active exploration and appraisal programme in Norway, which benefits from the 78% exploration tax refund, has continued with four wells drilled in 2017, of which the Faroe-operated Brasse appraisal well resulted in an increase in estimated recoverable resource volumes and the Boné well (Faroe 20%) and Goanna (Faroe's costs fully carried for its interest of 30%) being dry. The Iris/Hades exploration well spudded in December 2017 and in April 2018 it was announced discoveries in both the Hades and Iris prospects.

In February 2018, the Group announced a partial divestment of the Fenja discovery for a cash consideration of $54.5 million, reducing the Group's exposure on future capital expenditure on Fenja to approximately £70 million, upon completion of the deal.

For the Company the revenue, including realised hedging losses, averaged $46 per boe (2016: $42 per boe) after taking account of MNOK 320 of underlift (2016: MNOK 21.7 overlift), included in revenue and cost of sales. Faroe sells most of its oil under payment quantity contracts, and so has received payment for the outstanding underlift. The payment sits within deferred income on the balance sheet until the crude is lifted and then is released to IFRS revenue. Opex per boe was $28.5 in 2017 compared to $21.1 in 2016 reflecting one off tariff costs in relation to future upgrades, operating costs on non producing and development assets, including Njord and Hyme opex post production suspension. Opex per boe on producing assets excluding accrued facility upgrade costs was $24.6/boe (2016: $22.8/boe). DD&A per boe decreased by $0.5 to $8.9 per boe (2016: $9.4 boe).

Income statement
Revenue for the year was MNOK 1 454.9 (2016: MNOK 580.3). The increase in revenue reflects higher accounting production, mainly due to the acquisition of interests in producing fields from DONG in December 2016, and a higher realised price per boe. Cost of sales, including depreciation of producing assets, but before impairment charges, was MNOK 913 (2016: MNOK 483.8) reflecting an increase in accounting production and one-off estimated future upgrade tariff costs falling due to Ula as a result of the planned shut-down of Oselvar, and is partially offset by the estimated tariff receipt which is included in Revenue as a result of the Company's interest in Ula. Pre-tax impairment charges of MNOK 34.7 (post-tax MNOK 7.6) (2016: MNOK 23.57 and MNOK 5 pre- and post-tax respectively) were incurred on Brage. The Company's profit before tax was MNOK 95.5 (2016: loss MNOK 330).

Pre-tax exploration and evaluation expenses for the year were MNOK 263.5 (post-tax: MNOK 57.9) (2016: MNOK 276.6 and MNOK 60.8 pre- and post-tax respectively). This includes pre-award exploration expenses of MNOK 36 and write-offs of licence-specific exploration and evaluation expenditure of MNOK 227.3 on previously capitalised licences where active exploration has now ceased. The exploration costs which were written off during the year were mainly related to PL716 Bonè (MNOK 219.7) along with other exploration costs on a number of licences.

Expensed administration costs in 2017 were MNOK 27.4 (2016: MNOK 52). The decrease of MNOK 24.4 is primarily due to an increase of salary/personnel costs and consultant costs of MNOK 43 offset by an increase in time writing of MNOK 75.

The Company's profit before tax was MNOK 95.5 (2016: loss MNOK 330). Net profit for the year was MNOK 25 (2016: MNOK 71.68 loss)

Hedging
In line with Group policy approximately 60% of the Group's post-tax production was hedged in 2017, with realised hedging losses, net of cost, of £1.9 million (2016: gain £4.7 million). The cost incurred for the 2017 hedges was £2.3 million (2016: £1.0 million). The hedging was predominantly with put options, with 93% of gas and 31% of oil production (post-tax) hedged in 2017.

At December 2017, the Group had entered into hedging contracts covering approximately 85% of 2018 total expected gas production (on a post-tax production basis) and 41% of expected oil production (on a post-tax production basis). The gas hedging contracts are put options and swaps with floors between 35 and 48 pence per therm. The oil hedging contracts are put options with an average strike price of $55 per barrel. Unrealised hedging losses for the open hedge contracts for 2017 were £0.8 million (2016: £1.4 million) based on mark-to-market calculations and are recognised as derivative financial liabilities (2016: liabilities). The unrealised hedging losses (2016: losses) are shown as Other income/(expense) in the Income Statement, net of hedging costs of £2.3 million (2016: £2.6 million).

The Company's portion of this was kr 14.6 million (2016: kr 15.8 million).

For the Group, further gas and oil hedges have been undertaken in 2018 following which approximately 60% of post-tax oil production is hedged in 2018, 6% of post-tax oil production is hedged in 2019. The Company continues to monitor the commodity market and aims to extend the current hedging programme, at opportune moments taking a layered approach to its hedging strategy.

The Group (and the Company) is subject to taxation under two regimes in Norway, namely: offshore where a special tax of 53% is applied, and; onshore where the standard corporation tax rate is 25%. Hedging gains fall only within the onshore regime and hence the concept of hedging "post-tax production" which implies that in order to be fully hedged in Norway on a post-tax basis, approximately 29% of pre-tax barrels need to be hedged.

Taxation
The Company benefits from a 78% exploration and appraisal cost rebate, meaning that for every NOK 100 spent the Norwegian Government will return NOK 78 of net exploration and appraisal expenditure in the form of a rebate the following year. The Company can also borrow under its Norway exploration facility 96% of the NOK 78 per NOK 100, thereby maximising equity leverage in Norwegian exploration wells and minimising the need to farm down. The Norwegian tax system therefore ensures a cost-effective fiscal environment in which to explore, and also cushions the cash impact of falling oil prices, as lower profits from production result in an increased tax rebate.

The amount of tax receivable at 31 December 2017 was MNOK 394.5 (2016: MNOK 442.7) 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 2018. The tax expense in the Income Statement was MNOK 70.5 (2017: MNOK 258.7 tax credit).

Development capex in Norway is depreciated on a straight-line basis over six years for tax purposes. In addition, an uplift of 21.6% (2018:21.2%) can be offset against the 54% (2018:55%) 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 December 2017, Faroe had carried forward tax capex balances of NOK 1,192.5 million. In addition, at December 2017, Faroe had carried forward tax losses in Norway of NOK232.3 million and NOK 652.5 million for corporation tax and special tax respectively.

In December 2017 the Company had a deferred tax asset of MNOK 432.8 (2016: MNOK 897.8) in respect of carried forward tax losses, capex balances and uplifts, net of other temporary differences.

Balance sheet

Exploration and evaluation investments of MNOK 499.3 (post-tax: MNOK 109.8) (2016: MNOK 516.58 pre-tax, MNOK 113.6 post-tax) were made in 2017. These investments mainly relates to the Brasse and Bonė wells. After exploration write-offs of MNOK 227.4 (2016: MNOK 241.6) and transfer from E&A to D&P of MNOK 648.9, the intangible E&A assets decreased by MNOK 376.9 to MNOK 760.7 (2016: MNOK 1 137.6). Net assets increased during the year to MNOK 3 621.7 (2016: MNOK 3 296.7).

Development and production investments of MNOK 843.3 (2016: MNOK 621.9) were made in the year, principally reflecting pre-sanction costs on the Oda field and the Njord capital enhancement project and drilling costs on the Tambar and Brage fields.

During the period, the book value of Fenja (previously Pil & Bue) and Bauge was reclassified from intangible exploration assets to property plant and equipment, totalling NOK648.9 (pre tax – NOK142.8 million) following PDO submission and a clearly defined path and timeline to project sanction. NOK482.0 million of the NOK648.9 million related to the 17.5% interest in Fenja, which was divested in 2018, was subsequently classified as held for sale at the year end.

The Company 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 2017 the Company had decommissioning provisions of MNOK 2 011.9 (2016: MNOK 2 158.2). The decrease in the provision is mainly caused by reduced decommissioning estimates and change in estimated life of field for some of the producing assets. Most of the decommissioning expenditure is scheduled to be incurred from 2020 to 2035

Cash flow

Closing cash was MNOK 440.9 (2016: MNOK 293.9). Faroe benefits significantly from a revolving credit facility of NOK 1,000 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 are repaid when the tax rebate is received in November of the year following the related expenditure. In November 2017 the Company received the tax rebate for 2016 of MNOK 442.7 plus MNOK 1.8 in interest, most of which was used to repay the 2016 utilisations of the EFF.

The Group also has a secured US$250 million reserve based lending facility which is available for both debt and issuance of letters of credit. At 31 December 2017 the calculated borrowing base amount was £174.6 million, of which £nil was drawn (2016: £nil million).

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).

OPERATIONAL REPORT

The Company has continued to make good progress across all areas of activity, delivering: production from the portfolio at the higher end of guidance; a substantial increase in the Company's 2P reserve base; the successful operated appraisal programme on the Brasse discovery, and approval of two key new field development PDOs; and further new licence awards.

Exploration and Appraisal

In the first half, Faroe participated in two E&A wells, the Eni-operated Boné exploration well in the Barents Sea (dry) and the Faroe-operated Brasse appraisal well (discovery). The Company also added four licences to the licence portfolio through awards in the 2016 Norwegian APA licensing round. The drilling programme continued with the Goanna exploration well (Faroe 30%) in August 2017. The well was unfortunately dry but Faroe was fully carried on the well cost. The OMV-operated Iris/Hades (formerly known as Aerosmith) exploration well in the Norwegian Sea (Faroe 20%) commenced in November 2017 and in April 2018 it was announced discoveries in both the Hades and Iris prospects. The Spirit Energy-operated Fogelberg appraisal well (currently Faroe 25%) commenced drilling in February 2018 and in the announcement of the preliminary results in April 2018 it was published that the well confirmed gas and condensate in a sand-rich reservoir. All of these wells are located in Norway where Faroe receives a tax rebate of 78% on all exploration and appraisal expenditure.

Following a partner withdrawal from the Fogelberg licence and two separate farm-out deals by Faroe, all of which are expected to complete in 1H 2018, Faroe's equity will reduce from 25% to 15%, with an effective date of 1 January 2018.

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 for the Company, 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.

Production

Faroe achieved net average economic production of 10,973 boepd (2016: 13,701 boepd), a reduction over the previous year reflecting the work programmes being undertaken on some of the Company's fields and the temporary loss of production from the Njord and Hyme fields whilst the Njord Future Project continues. Average operating expenditure per barrel of oil equivalent (opex/boe) in the period was $24.6 (excluding accrued tariff costs in relation to future upgrades) (2016: $22.8). Faroe expects to see a material reduction in unit operating costs as its new low operating cost subsea fields come on production in the following years.

Faroe's production base is spread across a portfolio of oil and gas assets. Approximately 76% of total production in the Group came from Norwegian fields and approximately 54% of total production was oil. In Norway, the main producing fields are Trym, Tambar, Ula, Brage and Ringhorne East.

The future of the Trym field beyond 2019 (Faroe 50% and operator) has been secured following the final investment decision to redevelop the Tyra host platform in Denmark (Faroe has no working interest in Tyra). Trym is now scheduled to produce for an extended period until 2H 2019 before being suspended temporarily in order to allow the Tyra redevelopment works to be carried out over a period of around three years. Trym production was temporarily shut in during Q1 2018 as a result of a pipeline integrity issue at the Tyra gathering hub, but resumed production in March 2018.

The redevelopment project on the Tambar field (Faroe 45%) continues with the drilling of two infill wells and the installation of gas lift in three existing wells designed to increase significantly production from the field. The two infill wells, which targeted undrained areas in the north and south of the field, have now been drilled with flow rates from both wells exceeding pre-drill expectations. The first well was brought on stream earlier this month and a second is expected later in March 2018. Initial production rates from the two wells are estimated to be in the range of 10,000 - 15,000 boepd (Faroe 4,500-6,750 boepd). It is expected that the overall investment programme including gas lift will extend field life by up to 10 years, with the additional benefit of lowering unit operating costs in the Ula hub area. The encouraging results from the infill campaign will be used to refine the field model and to plan further development of the Tambar reservoir.

On the Brage field (Faroe 14.3%), the Statfjord and the Fensfjord producer wells, drilled in 2017, have been brought on stream. The second Statfjord producer was completed in January 2018 and will be put on stream in the coming weeks. Based on drilling results, the well is expected to deliver production rates well above pre-drill expectations. A further horizontal well in the Sognefjord formation is being evaluated for drilling in 2H 2018.

On the Ula field (Faroe 20%), the operator continues to mature targets for a new infill campaign which is expected to commence in 2019. Potential infill targets include wells to expand the use of WAG (water alternating gas) injection to increase recovery, the deeper Triassic reservoir which has only one well in production today, as well as near field discoveries such as Ula North. The 4D seismic survey successfully acquired in 2017 will provide important new information when processing is complete in Q2 this year. A number of significant upgrades to the field facilities are also under way which will support long term production.

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 west. The project, which is both on schedule and within budget is now entering a busy offshore construction phase this spring with three wells being drilled in the field (two producers and one water injection well). First oil is scheduled for mid-2019, with gross plateau production expected to be 30,000 boepd (4,500 boepd net to Faroe). Production from the Oselvar field (Faroe operated 55%) ceased in April

2018 to allow the Oda tie-in to be undertaken. Upon cessation of production the Oselvar owners (Faroe 55%) will receive a final compensation payment, dependent on the Oselvar field production level at the time it is shut in. An initial payment to Faroe of NOK81.8 million net was received in June 2017.

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. The Njord Future Project is progressing on schedule and within budget. In 2018, key milestones include installation of blisters to enhance stability on all four columns, installation of column top extensions and deck boxes. Truss work reinforcement is also ongoing. Current timing is for the Njord A platform to be towed offshore during spring 2020. The Bauge development project is also progressing on schedule and within budget. Contracts for marine and drilling operations are currently being progressed. Njord and Hyme are expected to recommence production in Q4 2020 followed by first oil from Bauge shortly thereafter.

Fenja (Faroe 7.5% following completion in H1 2018): in December 2017, the PDO was submitted for the Fenja field in the Greater Njord Area comprising 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). The Fenja licence partners are planning to invest NOK 10.2 billion with planned production start-up in Q1 2021 and a planned field life of 16 years. In February 2018, the Company announced a sale of a 17.5% interest in Fenja to Suncor for cash consideration of $54.5 million, to reduce its interest to 7.5%, harmonise its equity interests with its other interests in the Njord area and to rebalance capital allocations across the portfolio. The sale is subject to final approval by the MPE.

Brasse (Faroe 50%): at the end of 2017, the Brasse feasibility study phase was completed confirming several attractive development solutions and export routes. The preliminary reservoir drainage plan includes three to six subsea production wells and possible water injection for pressure support. Gross plateau flow rates for this field have the potential to reach 30,000 boepd, and first production is targeted for 2021. The key project milestone for 2018 will be the Concept Selection including the selection of a reservoir drainage plan and a processing host. The PDO submission is expected in 2019.

Reserves & Resources

Reserves

The Company's internal estimate of Proven and Probable (2P) Reserves at 1 January 2018, 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 110.2mmboe (1 January 2017 76.0 mmboe) – increasing reserves by 45% over the year (before adjusting for the disposal of a 17.5% interest in the Fenja field). The significant increase (reserves replacement of approximately seven times) is a result of both the conversion of Brasse from 2C contingent resources to 2P reserves and incremental projects across the portfolio, which generated positive reserve revisions notably on Tambar. Adjusting for the divestment of a 17.5% interest in the Fenja field, announced in February 2018 and with an effective date of 1 January 2018, 2P reserves at 1 January 2018 were 97.7 mmboe, which represents an increase of 20% year on year.

2P Reserves	**Gas (bcf)**	**Liquids (mmbbls)**	**Total (mmboe)**
1 January 2017	108.0	58.0	76.0
Revisions	7.5	8.0	9.3
Transfer from 2C	32.1	23.5	28.9
Production	-9.2	-2.4	-3.9
Acquisitions	-	-	-
1 January 2018	138.4	87.1	110.2

Contingent Resources

At 1 January 2018, 2C Resources were estimated to be 84.1mmboe (before adjusting for the disposal of a 17.5% interest in the Fenja field) representing a decrease of 7% over the year (1 January 2017: 86.0 mmboe). Additional contingent resources, mainly in Ula, Tambar and Oselvar, did not fully compensate for the transfer of Brasse to reserves. Adjusting for the divestment of a 17.5% interest in the Fenja field, 2C Contingent Resources at 1 January 2018 were 78.6 mmboe, which represents a decrease of 14% year on year.

2C Contingent Resources	Gas (bcf)	Liquids (mmbbls)	Total (mmboe)
1 January 2017	150.6	65.8	90.9
Revisions	46.9	12.8	20.6
Acquisitions	7.6	0.5	1.8
Discoveries	-	-	-
Transfer to 2P	-32.1	-23.5	-28.8
Disposals	-	-0.3	-0.3
1 January 2018	173.0	55.3	84.1

Licences held in Norway

See note 29 for list of licences held in Norway.

Reporting of payments to governments

This report is prepared in accordance with the Norwegian Accounting Act § 3-3 d), which was a new requirement applicable from the fiscal year 2014. It states that companies engaged in activities within the extractive industries shall annually prepare and publish a report containing information about their payments to governments at country and project level. The Ministry of Finance has issued a regulation (F20.12.2013 nr 1682 – "the regulation") stipulating that the reporting obligation only apply to reporting entities above a certain size and to payments above certain threshold amounts. In addition, the regulation stipulates that the report shall include other information than payments to governments, and provides more detailed rules with regard to definitions, publication and group reporting.

The report contains information for the activity in the whole fiscal year 2017 for Faroe Petroleum Norge AS (Faroe). The management of Faroe has applied judgment in interpretation of the wording in the regulation with regard to the specific type of payment to be included in this report, and on what level it should be reported. When payments are required to be reported on a project-by-project basis, it is reported on a field-by-field basis. Only gross amounts on operated licences are reported, as all payments within the licence performed by none operators, normally will be cash calls transferred to the operator and will as such not be payments to the government. Since Faroe has no activities within the extractive industries outside the Norwegian Continental Shelf, only payments to the Norwegian government is deemed to be within the scope of this reporting.

Reporting of payments

The regulation § 2 no.5 defines the different types of payments subject to reporting. In the following sections, only those applicable to Faroe will be described.

Income tax

The income tax is calculated and paid/received by Faroe. As described in the tax note (Note 11 to the financial statements), Faroe was in a tax receiving position last year and therefore no payments were made to the

Norwegian government during 2017. The tax receivable during 2017 is related to income tax 2016. Total tax received were MNOK 442.7 (2016: MNOK 459.6). In addition, interests on tax receivables amounted to MNOK 1.8 (2016: MNOK 2.8).

Environmental Taxes

For 2017 kr 4 754 745 was paid for operated licenses in Environmental Taxes (2016: kr 155 258)

Area fee

For 2017 MNOK 5.36 was paid in Area Fee (2016: MNOK 5.27). Other information is required to be reported when companies are required to report payments in accordance with the Norwegian Accounting Act § 3-3 d. It is also mandatory to report on investments, sales income, production volumes and purchases of goods and services in the country of which companies have activities within the extractive industries. As mentioned above, Faroe operates on the Norwegian Continental Shelf only. This reporting requirement is therefore deemed to be met by the financial statements. Please see the Income, Cash Flow statements and notes to the Financial Statements.

Research and development

The Company's target is to create value through generation of prospects, exploration, development and production on the Norwegian Continental Shelf. To achieve this target, the Company uses high technology and software, and has set a goal to be a leading company in several key technologies. Technology within exploration, drilling, development and production is undergoing a continuous development process, and the Company is participating in several projects in connection with license work. The Company is also participating in various research and development projects with both research institutions and Universities ranging from short to long term projects. The Company is involved in research in two new geophysical prospecting methods, and has made investments since 2013 to increase our understanding in the application of these methods. The company also focuses on increasing our understanding of the basin development through time, and its control on depositional environments and reservoir development. In 2017 we joined a study related to subsea systems that will continue in 2018 and we also developed and tested a worlds first wireless communication using Electromagnetic (EM) in a well and sidetrack.

Health, Safety and Environment

For operated activity the Company experienced no personal injuries, high potential incidents, or incidents that have caused impact on the external environment as a result of the Company's activity in 2017. The majority of Faroes activities are undertaken by other licence operators, operating with Faroe as a partner. To ensure safe operations and to comply with the regulations, Faroe follows up on contractors and partners through our audit, review and verification activities. These activities are based on risk evaluations. Despite this, whilst drilling wells on the Tambar field (operated by Aker BP) an employee of Maersk Drilling died and another was injured in December 2017 as a result of an accident on the Maersk Interceptor. Faroe will continue its efforts in carrying out the required risk assessments as a basis for decision-making as we see this as the main tool in preventing severe incidents.

To ensure continuous improvement, experiences from our operated and non-operated activities is systematically captured in our integrated Environment, Health and Safety Business Management System (BMS), and implemented in work processes and procedures. The BMS is consistent with the internationally recognised requirements for Quality, Health, Safety and Environmental management (ISO 9001, OHSAS 18001 and ISO 14001). The BMS has been successfully verified for compliance with the OSPAR Recommendation 2003/5 (based on ISO14001:2015) for Environmental Management for over three years. An internal training program ensures familiarity with the BMS. On this basis on most resent authority consent to drilling and operations (May-July 2017); Faroe is qualified and accepted as an operator both in UK and in Norway.

Occupational health

The Company operates from modern offices in Stavanger, and the working environment in the Company throughout 2017 has been very good. As a result of growth and commitment to provide a healthy and safe workplace, a Work environment Committee was established in 2017. The WMC meets quarterly to discuss the health and wellbeing of the workforce. Faroe provides private medical cover for employees, which includes counselling for work/life issues such as stress and bereavement. The Group also provides pensions, insurance, income protection benefit and contributes towards gym memberships for employees.

During 2017, the Company has actively worked on creating a safe and effective working environment utilising the employees' skills and further developing their professional competence. This is followed up by continuous maintenance of the Faroe Training portal (implemented in 2012). To ensure overview of Faroe's present competence as well as required competence is in place.

At the end 2017, the Company had 53 employees. To ensure capacity and competence to fulfil our greater obligations as a partner and operator, the number of employees increased in December 2017. The Company has maintained a low level of absence due to illness through the year. The sick leave was as low as 1.65% in 2017.

Gender Equality

Year end 2017, the percentage of female employees is 36% of total staff. The percentage of women in management positions is 33%.

Discrimination

The Company's policy is aimed to promote gender equality, ensure equal opportunities and rights, and to prevent discrimination due to ethnicity, national origin, descent, skin colour, language, religion and faith. At the end of 2017, the company employed staff/long term consultants with origin from many different countries. Important areas in which Faroe works conscientiously to achieve these objectives including recruiting, salary and working conditions, promotion, development opportunities and protection against harassment. The Company aims to be a workplace with no discrimination due to reduced functional ability and aims to have office facilities, which allow as many as possible to utilise the various functions. Individual adjustments of workplace and responsibility will be made for employees with reduced functional ability

London, 06.06.2018

Name: Graham D Stewart
Chairman of the board

Name: Helge A Hammer
Board member

Name: Jonathan R Cooper
Board member

Income statement
for the year ended 31 December 2017

	Notes	**2017 NOK000**	**2016 NOK000**
Revenue	3	1 454 905	580 308
Production cost	4	-620 997	-356 312
Depreciation	4,12	-292 067	-127 547
Gross profit/loss		541 842	96 449
Asset impairment	5,12	-34 700	-23 570
Net gain on disposal of property, plant and equipment		77 470	-
Exploration and evaluation expenses	10	-263 497	-276 631
Administrative expenses	6,8,9,19	-27 389	-52 099
Operating profit/loss		293 726	-255 850
Finance revenue	7	5 746	18 351
Finance costs	7	-203 929	-92 840
Profit/loss on ordinary activities before tax		95 543	-330 339
Tax(-)/Tax credit	11	-70 522	258 658
Profit/Loss for the year attributable to equity holders of the parent		25 021	-71 681

Statement of other comprehensive income
for the year ended 31 December 2017

	Notes	2017 NOK000	2016 NOK000
Profit/(-loss) for the year		25 021	-71 681
Total comprehensive profit/(-loss) for the year		25 021	-71 681

Balance sheet – assets
at 31 December 2017

	Note	2017 NOK000	2016 NOK000
Non-current assets			
Property, plant and equipment	12	7 292	5 795
Exploration, development and producing assets	12	2 617 869	2 311 015
Goodwill	24	82 098	82 098
Deferred tax asset	11	759 971	897 792
Total Non-current assets		3 467 231	3 296 701
Investments			
Other shares		-	2 270
Total investments		-	2 270
Current assets			
Trade and other receivables	13	1 126 609	645 438
Current tax receivable	11	394 484	442 753
Cash and cash equivalents	14	440 982	293 904
Assets held for sale	25	515 120	
Total Current assets		2 477 195	1 382 095
Total assets		5 944 426	4 681 066

Balance sheet – equity
at 31 December 2017

	Note	2017 NOK000	2016 NOK000
Share capital			
Equity share capital	26	10 000	10 000
Share premium account		195 050	195 050
Other reserves		104 690	86 214
Retained earnings		160 132	131 064
Total equity		469 872	422 328
Non-current liabilities			
Other long term liabilities	17	1 721 625	1 388 657
Provisions	16	2 024 357	2 170 168
Liabilities directly associated with assets held for sale	25	350 003	
Total Non-current liabilities		4 095 985	3 558 825
Current liabilities			
Liabilities credit institution	15,17	365 000	380 000
Trade and other payables	15,17	1 013 569	319 913
Total Current liabilities	15	1 378 569	699 913
Total equity and liabilities		5 944 426	4 681 066

Cash flow statement

for the year ended 31 December 2017

	Note	2017 NOK000	2016 NOK000
Operating activities			
Profit/-loss before tax		95 543	-330 339
Depreciation charges	12	295 517	130 654
Asset impairment	5	34 700	23 570
Exploration asset write off	12	227 363	241 624
Fair value of share based payments		14 952	12 278
(Increase)/decrease in trade and other receivables		-511 272	-326 474
Increase/(decrease) in trade and other payables		570 663	1 851 284
Increase/(decrease) in tax payables		394 484	-880 353
Interest received		-3 317	-3 995
Net cash outflow from operating activities		1 118 633	718 250
Change in tax refund/Tax paid		48 269	13 610
Net cashflow from operating activities		1 166 901	731 860
Investing activities			
Expenditure on intangible assets and Property, plant and equipment		-1 347 632	-1 225 129
Other shares		2 270	-2 270
Net cashflow from investing activities		- 1 345 362	-1 227 419
Financing activities			
Long term borrowings (net)	23	340 539	395 217
Short term borrowings (net)	15	-15 000	-45 000
Net cashflow from financing activities		325 539	350 217
Net increase/-decrease in cash and cash equivalents	14	147 079	-145 342
Cash and cash equivalents at the beginning of the year	14	293 904	439 246
Cash and cash equivalent at the end of the year	14	440 982	293 904

Changes in equity
for the year ended 31 December 2017

	Equity share capital NOK000	Share premium account NOK000	Retained earnings NOK000	Other comprehensive income NOK000	Total NOK000
As at 1 January 2016	**10 000**	**195 050**	**202 745**	**73 936**	**481 731**
Share based payment reserve	-	-	-	12 278	12 278
Profit for the period	-	-	-71 681	-	-71 681
As at 31 December 2016	**10 000**	**195 050**	**131 064**	**86 214**	**422 328**
Share based payment reserve	-	-	4 047	18 476	22 523
Profit for the period	-	-	25 021	-	25 021
As at 31 December 2017	**10 000**	**195 050**	**160 132**	**104 690**	**469 872**

Notes

1 Authorisation of financial statements and statement of compliance with IFRS

The financial statements of Faroe Petroleum Norge AS for the year ended 31 December 2017 have been prepared in accordance with International Financial Reporting Standards (IFRS). The Company has used a simplified application of these international accounting standards in accordance with the Norwegian Accounting Act §3-9.

2 Accounting policies

Basis of preparation

The 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 Norwegian Kroner (NOK) and all values are rounded to the nearest thousand (NOK000) except when otherwise indicated.

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

The accounting policies which follow set out those policies which apply in preparing the financial statements for the year ended 31 December 2017.

Accounting judgements estimates

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

Foreign currencies

The functional currency for the Company 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. Non monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Joint arrangements

Judgement is required to determine when the Company 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 Company 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 program 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. Judgement is also required to classify a joint arrangement. Classifying the arrangement requires the Company to assess its rights and obligations arising from the arrangement. Specifically, the Company 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 Company also considers the rights and obligations arising from:
- The legal form of the separate vehicle
- The terms of the contractual arrangement
- 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 treatment. A complete list of the Company's Joint Operations is provided in note 29.

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 Company 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.

Some licenses held on the Norwegian Continental Shelf may not be assessed as joint arrangements under the definition in IFRS 11 if there are no joint control. Such licenses are recognised by the Company's share of related expenses, assets, liabilities and cash flows on a line by line basis in the financial statements in accordance with applicable IFRSs.

Revenue

Revenue arising from the sale of goods is recognised when the significant risks and rewards of ownership have passed to the buyer and it can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods provided in the normal course of business, net of discounts, customs duties and sales taxes. Revenues associated with the sale of oil, natural gas, natural gas liquids, liquefied natural gas, petroleum and chemicals products and all other items are recognised when the title has passed, or has deemed to pass to the customer, in accordance with the commercial terms of each contract.

Generally, revenues from the production of oil and natural gas properties in which the Company has an interest with joint venture partners are recognised on the basis of the Company's working interest in those properties (the entitlement method). Differences between the production sold and the Company's share of production are recognised within cost of sales at market value.

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

Finance costs and debt

Finance costs of debt instruments are allocated to periods over the term of the related instrument at a constant rate on the carrying amount. Arrangement fees and issue costs are deducted from the proceeds on initial recognition of the liability and are amortised and charged to the Income Statement as finance costs over the term of the instrument.

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 appraisal ("E&A") assets. The assessment of what constitutes an individual E&A 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&A assets.

E&A 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&A 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&A asset is written off to the Income Statement.

Impairment

The Company's oil and gas E&A assets are analysed on an asset by asset basis and a review of the oil and gas E&A portfolio is undertaken by management on a regular basis. E&A assets are written off where active exploration has been completed and commercial reserves have not been discovered. E&A assets are also reviewed for impairment when circumstances arise which would indicate that the carrying value of such E&A assets is no longer viable. Such circumstances may include the drilling of a non commercial well on the asset or such similar negative results of other geological and geophysical activities. Such write offs are expensed to the Income Statement in full.

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&A 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 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 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.

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 Company'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. Fair value less cost to sell is determined from estimated future net cash flows applying market participants' assumptions, unless an observable market value is available. 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 Company'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 2017, the rate used was 7.5% nominal (2016: 7.5% nominal). The discount rates applied in assessments of impairment are reassessed each year.

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 7.5% for the current year (2016: 7.5%). The inflation rate used in the calculation was 2.0% (2016: 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 have no effect on the impairment charge in Norway.

Oil & gas expenditure – acquisitions and disposals

Commercial transactions involving the acquisition of a D&P asset in exchange for an E&A 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&A assets. The capitalised costs of the disposed asset are transferred to the acquired asset. Farm-in and farm-out transactions of E&A assets are accounted for at cost. Costs are capitalised according to the Company's cost interest (net of premium received or paid) as costs are incurred.

Proceeds from the disposal of an E&A asset, or part of an E&A 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 Company 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 Company 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 *Review of Activities* section
    - commodity prices
- inflation rate 2% (2016 2%);
- nominal discount rate 5% (2016: 5%); and
- decommissioning cost estimates (and the basis for these estimates)

See Note 16 Provisions in respect of decommissioning obligations and explanation of discount rates.

Under/Overlift

Lifting arrangements for oil and gas produced in certain fields are such that each participant may not receive its share of the overall production in each period. The difference between cumulative entitlement and cumulative production less stock is 'underlift' or 'overlift'. Underlift and overlift are valued at market value and included within debtors ('underlift') or creditors ('overlift'). Movements during an accounting period are adjusted through cost of sales, such that gross profit is recognised on an entitlement basis. The Company's share of any physical stock is accounted for at the lower of cost and net realisable value.

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 years
- Other equipment 5 years

Financial assets

Financial assets which are trade investments of the Company are accounted for at fair value unless this cannot be reliably re-assessed. 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 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 or receivable 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 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 or alternatively when recovery is probable under the tax regulation

In accordance with special regulations in the Petroleum Tax Act, the Company can request the repayment of the tax value of exploration expenditure from the State. The effect of the uplift, which is a particular deduction in the special tax basis for the offshore industry, is taken into consideration in the tax calculation as a temporary difference. Acquired uplift is capitalised.

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. The current forecasts are based on the same price assumptions used in the 2016 impairment tests, which are deemed to be reasonable; and
2. The forecasts are derived from operator budgets and Life of Field models which are deemed to be reasonable.

3. With regard to the Norwegian carried forward tax losses, the Norwegian Government refund any non-utilised tax losses if the activity of the Company ceases and therefore the asset is recoverable.

Pensions

On 1 November 2015 the Company changed the pension arrangements in Norway where up until that date it had been operating both a defined benefits scheme up to a certain limit and above that a defined contributions scheme. The defined contributions scheme was enhanced, as described below, to replace the defined benefits scheme.

The Norwegian defined benefit scheme, which was in place until 31 October 2015, was designed to provide a pension, from 67 years of age, equivalent to 66% of base salary up to 12G. All staff employed up until 2015, participated in this scheme.

From 1 November 2015, following the closure of the defined benefit scheme, the Company made one off compensation payments to certain Norwegian employees to address any shortfall arising from the transfer to the expanded defined contribution scheme where the Company contributes to a pension scheme on behalf of the employee up to 25.1% of base salary limit up to 12G.

The existing defined contributions scheme, which continued in operation for all Norwegian staff throughout the period, involves the Company making the following contributions to the employees: 10% of base salary above 12G; and for certain other senior managers the Company a further 10% of base salary above 17G.

Defined contributions above the limit of 12G are a taxable benefit to the employee, and the Company meets the associated taxation on behalf of the relevant employees.

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 Company 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.

Share based payments

Employees (including senior executives) of the Company receive remuneration in the form of share-based payment transactions, which are equity settled. The cost of equity-settled transactions with employees, for awards granted after 1 February 2006, 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 Company'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.

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. The Company has not borrowed against qualifying assets and has not capitalised any interest costs.

Derivative financial instruments and hedging

The Company and the Group uses derivative financial instruments to manage certain exposures to fluctuations in foreign currency exchange rates, interest 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.

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 2017.

Amendments to IAS 12 – Recognition of Deferred Tax Assets for Unrealised Losses: The objective of this amendment is to outline the basis for the recognition of deferred tax liabilities or assets regarding unrealised losses on debt instruments measured at fair value and in particular the recognition of deferred tax on such items. The interest bearing loan is measured at amortised cost and therefore this standard does not have an impact on the Group.

Amendments to IAS 7 – Disclosure Initiative: The objective of the Disclosure initiative (amendments to IAS 7) is to require information to enable users of financial statements to evaluate changes in liabilities arising from financial actvities. Liabilities arising from financing activities are liabilities for which cash were, or future cash flows will be, classified in the statement of cash flows as cash flows from financing activities. Please refer to note 22 for the disclosure.

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 9 Financial Instruments (issued 2010 and 2014)	1 January 2018
IFRS 15 Revenue from Contracts with Customers	1 January 2018
IFRS 16 Leases	1 January 2019
Clarifications to IFRS 15 Revenue from Contracts with Customers	1 January 2018
Amendments to IFRS 10 and IAS 28: Sale or contribution of assets between an investor and an associate or joint venture	Deferred
Hedge Accounting and amendments to IFRS 9, IFRS 7 and IAS 39	1 January 2018
Amendments to IFRS 7 and IFRS 9 Mandatory Effective Date and Transition Disclosures	1 January 2018
IFRIC 22 Foreign Currency Transactions and Advance Consideration	1 January 2018
Annual improvements to IFRS 2014-2016 Cycle	1 January 2018
Amendments to IFRS 2 – Classification and Measurement of Share-Based Payment Transactions	1 January 2018
IFRIC 23 Uncertainty over Income Tax Treatments	1 January 2019

Management have performed an analysis of IFRS 15 Revenue from Contracts with Customers and concluded that there is no material impact on the recognition of revenue within the Group financial statements. Management have analysed all contracts with customers, and have not identified a material difference to revenue recognition because, other than the delivery of a commodity, no other performance obligations exist.

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. The Company is assessing the impact of IFRS 9 on the valuation of intercompany receivables.

3 Revenue

Revenue recognised in the income statement is analysed as follows:

	2017 NOK000	2016 NOK000
Gas sales	403 890	67 091
Oil sales	795 107	492 593
Condensate sales	15 184	22 149
Tariff income	46 077	14 311
Other income	194 647	-15 836
Total revenue	1 454 905	580 308

The Company hedged a proportion of the forecast oil and natural gas production using a variety of hedging instruments and incurred hedging loss, net of costs, of MNOK 14.6 (2016: MNOK 15.8 loss) in the year.

Other income/(expense) relates mainly to compensation income between Oselvar (Faroe 55%) and Oda (Faroe 15%). Approx MNOK 117 of the compensation was received in June 2017 following PDO approval of the Oda development. A further MNOK 117 has been accrued and recognised as income and will be received during 2018 when Oselvar is taken offline. The Compensation is partially offset due to the Company's ownership of Oda, with capex cost of MNOK17.5 being paid in June 2017 and a further MNOK17.5 being accrued at the year end reflecting further compensation due to Oslevar for the planned shut down.

4 Cost of sales

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

	2017 NOK000	2016 NOK000
Operating costs	-596 076	-290 741
Commercial tariffs	-344 916	-43 920
Over-/(underlift) in the year	319 996	-21 651
Total Production cost	-620 997	-356 312
Depreciation, depletion and amortisation	-292 067	-127 547
Total cost of sales	-913 063	-483 859

5 Asset impairment/Net gain on disposal of property, plant and equipment

Impairment losses

The following impairments were done:

	2017 NOK000	2016 NOK000
Jotun	-	23 570
Brage	34 700	-
Total impairment	34 700	23 570

Recognised in impairment is MNOK 34.7 relating to the Brage field. The impairment charge is principally driven by the technical downward revision in reserves.

Net gain on disposal of property, plant and equipment

	2017 **NOK000**	**2016** **NOK000**
Pre-tax gain on sale of Jotun	77 470	-

The Company made a post-tax gain of MNOK 7.1 on the disposal of Jotun, an asset due for abandonment. The Company paid MNOK 12.4 on completion to Exxon, leading to a reduction in the pre-tax decommissioning provision of MNOK90.2 (post-tax MNOK19.8).

6 Auditors' remuneration

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

	2017 NOK000	2016 NOK000
Audit of financial statements (net of VAT)	615	381
Services relating to taxation (net of VAT)	879	232
	1 494	613

7 Finance revenue and cost

	2017 NOK000	2016 NOK000
Bank and other interest receivable	3 872	1 113
Interest income from tax rebate	1 874	2 882
Exchange gain	-	14 355
Total finance revenue	5 746	18 351
Bank interest payable and other loans	-70 654	-68 439
Exchange loss	-26 245	-
Unwinding abandonment discount	-107 030	-24 401
Total finance cost	-203 929	-92 840
Total finance	-198 183	-74 489

8 Employment costs

The aggregate payroll costs of staff (including management) were as follows:

	2017 NOK000	2016 NOK000
Wages and salaries	78 191	64 038
Social security costs	15 853	10 540
Pension costs	11 721	8 892
Other salary related costs	29 735	23 563
	135 500	107 033

The number of man-years in the Company (including executive directors) during the year was as follows:

	2017 No	2016 No
Technical, finance and administration	50.1	36.3

Remuneration of management – Managing Director

	2017 NOK000	2016 NOK000
Wages and salaries and other	5 452	6 201
Pension costs	854	895
Other remuneration	136	138
	6 443	7 234

Under the employment contract, the Managing Director can be paid a bonus of up to 100% of annual salary. There is no contractual obligation to pay a bonus to the Managing Director.

The Managing Directors Helge A Hammers interests in the share capital of the Company at 31 December 2017 was as follows:

Ordinary shares:	812 548
Options and Matching shares:	3 925 885

9 Specification of administrative expenses

	2017 NOK000	2016 NOK000
Salary and personnel costs	132 500	107 033
Misc office costs	21 722	16 189
Consultants, legal and professional fees	39 633	22 124
Misc travel expenses	1 822	1 550
Entertainment and commercial costs	4 516	3 259
Reallocation of time writing	-176 444	-101 354
Other operating costs	188	191
Office asset depreciation	3 450	3 107
	27 389	52 099

10 Exploration costs in the income statement

	2017 NOK000	2016 NOK000
Expensed drilling and exploration costs (note 12)	227 363	241 624
Expenses for license rounds	28 058	33 012
Seismic data and other exploration costs	8 076	1 994
	263 497	276 631

11 Taxation

Calculation of tax basis	2017 NOK000	2016 NOK000
Profit/(-loss) before taxes	95 543	-330 339
Change in temporary differences	-683 277	1 254 603
Adjustment to TD (Acquisition)	-	-1 662 134
Normprice adjustment	13 314	-9 220
Prior years adjustment	-	-2 210
Capitalized interest in connection with acquisition	-	7 129
Other permanent differences	12 939	-8 659
Onshore Tax loss carry forward	28 387	183 279
Other	-	-79
Basis 24% (2016: 25%) tax refund	-533 093	-567 631
Onshore tax loss added back	-28 387	-183 279
Offshore tax loss carry forward	-	132 596
Timing differences added back	-	359
Normprice adjustment exchange	-2 909	-3 325
Hedging gain/loss	11 102	
Net financial items added back	53 092	53 649
Other	6 600	-
Basis for 54% tax (tax refund)	-493 596	-567 631
Taxes payable/receivable (-)	-394 484	-442 753

Specification of tax expenses	2017 NOK000	2016 NOK000
Taxes payable/(-claim refund of tax value for exploration expenses)	-394 484	-442 753
Change deferred tax	487 021	-173 307
DT on interest on tax loss carry forward	-11 915	-4 309
Booked against balance sheet in connection with acquisition	-	14 534
Deferred Tax asset reversal	9 066	1 065
Other adjustment (derivatives)	1 332	-
Prior year adjustments	-20 498	-502
Total tax expenses:	70 522	-258 658

Deferred tax	**2017 NOK000**	**2016 NOK000**
Capitalised expl costs/producing assets/other assets	-1 907 091	-1 515 889
Onshore assets	2 215	2 199
Abandonment	1 996	2 158 249
Over/Underlift	-176 266	-
Share options	113 552	99 664
Arrangement fee loan	-	-37 592
Derivatives	19 325	15 836
Tax loss carry forward	230 710	183 276
Tax loss carry forward - Interest	1 609	1 466
Basis for 23% (2016: 24%) corporation tax	280 757	907 213
Deferred tax at 23% (2016: 24%)	**64 574**	**217 731**
Basis for 40% (estimate) corporation/special tax - Arrangement fee loan	-24 551	
Deferred tax at 40% (estimate)	**-9 820**	
Basis for 23% (2016: 24%) corporation tax (see above)	280 757	907 213
Uplift	492 479	394 750
Derivatives	-19 325	-15 836
Change tax loss carry forward for special tax	-70 301	-50 683
Change tax loss carry forward – interest for special tax	-1 264	-405
Basis for deferred special tax	682 346	1 235 038
Deferred tax at 55% (2016:54%)	**375 290**	**666 921**
Other – (derivatives)	**-1 332**	**-**
Deferred tax benefit on future uplift	**4 074**	**13 141**
Total deferred tax asset/- liability excl asset held for sale	**432 786**	**897 792**
Asset held for sale	**327 185**	**-**

Total deferred tax asset/- liability	**759 971**	**-**

The deferred tax asset will be released by the abandonment obligation being effective, offset by the capitalised exploration and producing assets being recognised in the income statement by way of a depletion charge or write off.

CHANGE IN TAX LEGISLATION

During 2017, effective as from 01.01.2018 the tax rates for calculating the corporate and special tax was changed from 24% (corporate tax) and 54% (Petroleum tax) to 23% and 55% respectively.

Calculation of total taxes	**2017 NOK000**	**2016 NOK000**
Profit before taxes	95 543	-330 339
Expected tax	-74 524	257 664
Prior years adjustments	20 498	502
Normprice	-10 385	5 963
Interest of normprice	-698	-831
Other permanent differences	-12 971	7 983
Iceland	-	174
Financial items	-32 041	-25 267
Current year uplift	52 774	22 491
Change tax rate	4 395	3 282
Interest on tax loss carry forward	707	1 027
Deferred tax charge on future uplift	-9 066	-1 065
Tax calculated as per Completion booked to balance sheet	-	-13 265
Derivatives	-9 211	-
Total taxes	**-70 522**	**890 883**
Effective tax rate	**-73.82%**	-84.29%

12 Intangible assets and property, plant & equipment

	Intangible	Property, Plant & Equipment		
	Exploration and evaluation costs NOK000	Development and production costs NOK000	Other NOK000	Total NOK000
At 31 December 2015 and 1 January 2016	862 640	702 568	4 401	1 569 609
Additions	516 586	621 963	4 501	1 143 049
Write-offs	-241 624	-	-	-241 624
Depreciation charge for year	-	-127 547	-3 107	-130 654
Impairment loss	-	-23 570	-	-23 570
Transfer to D&P	516 586	621 963	4 501	1 143 049
At 31 December 2016 and 1 January 2017	1 137 602	1 173 413	5 795	2 316 810
Additions	499 366	843 320	4 947	1 347 633
Write-offs	-227 363	-	-	-227 363
Depreciation charge for year	-	-292 067	-3 450	-295 517
Impairment loss	-	-34 700	-	-34 700
Asset held for sale	-	-481 702	-	-481 702
Transfer to D&P	-648 869	648 869	-	-
At 31 December 2017 and 1 January 2018	**760 736**	**1 857 133**	**7 292**	**2 625 161**

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.
The write-offs in 2017 of MNOK 227.4 (2016: MNOK 241.6) are of E&A assets where active exploration has been completed and commercial reserves have not been discovered. The E&A assets written off were:

	NOK000
PL716 Bonè	219 779
PL611 Kvalross	2 153
PL627 Shango	1 274
PL793 Portrush	2 703
Other	1 454
Total Write Offs	277 363

Depreciation charge for 2017 was MNOK 292 (2016: MNOK 127.5). The depreciation is related to the following fields:

	NOK000
Ringhorne East	11 874
Brage	71 820
Ula	74 645
Tambar	38 336
Trym	35 050
Oselvar	60 342
Depreciation charges 2017 - Total	292 067

13 Trade and other receivables

	2017 NOK000	2016 NOK000
Amounts falling due within one year:		
Trade and other receivables	657 443	392 027
Oil and gas underlift	322 262	56 210
Prepayments	151 339	196 636
Derivative Financial Assets	-4 435	566
Total receivables	1 126 609	645 438

All amounts in other receivables are not past due date or impaired.

14 Cash and cash equivalents

	2017 NOK000	2016 NOK000
Cash at bank*	440 980	293 902
Cash in hand	2	2
	440 982	293 904

Cash at bank earns interest at floating rates based on daily bank deposit rates.

*Includes NOK 10 856 357 in restricted tax funds (2016: NOK 10 590 337)

15 Trade and other payables and current financial liabilities

	2017 NOK000	2016 NOK000
Amounts falling due within one year:		
Trade payables	-179 107	-79 049
Accrued tax liabilities	-15 500	-11 898
Other payables	-261 094	-10 299
Accruals and deferred income	-557 868	-218 666
Trade and other payables	-1 013 569	-319 913
Short-term bank borrowing	-365 000	-380 000
Financial liabilities	-1 378 569	-699 913

Exploration Financing Facility (EFF)

On 20 December 2016, the Group announced that this facility is under Faroe Petroleum Norge AS and has an aggregate commitment of NOK1.0 billion. In addition to the committed NOK 1 billion, a further NOK 0.5 billion 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% (2016: 1.3%). At 31 December 2017 MNOK 365 was utilised under the facility (2016: MNOK 380). 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)

On 20 December 2016, the Group announced that the Revolving Borrowing Base facility is under both Faroe Petroleum (U.K.) Limited and Faroe Petroleum Norge AS. The facility has an aggregate amount of US$250 million and will amortise over the loan life which matures on 31 December 2023. Interest charged on utilisations is based on the LIBOR, NIBOR or EUROBOR rates (depending on the currency of the drawdown) plus a margin of 3.0% (2016: 3.0% to 3.5%) (depending on the total facility utilised and the contribution by development assets). At 31 December 2017, Faroe Petroleum Norge AS had utilised US$14.7 million and DKK29.0 million (2016: US$16.4 million) as cover for a Letter of Credit and drawn $nil (2016 $nil).

16 Provision

	Decommissioning provision NOK000
At 1 January 2017	2 158 249
New provisions and changes in estimates	-253 307
Accretion	107 030
Other Provisions	12 384
At 31 December 2017	2 024 357

	2017 NOK000
Glitne	63
Enoch	3 906
Jotun	0
Ringhorne East	8 969
Hyme	27 530
Njord	35 723
Brage	241 016
Ula	781 848
Tambar	391 520
Trym	215 913
Oselvar	305 484
Decommissioning Provision total at year end	2 011 973
Other Provisions	12 384
At 31 December 2017	2 024 357

Decommissioning

The total decommissioning provision of BNOK 2 (2016: BNOK 2.1) relates primarily to the Company's production and development facilities. The decommissioning provision is recorded as the Company'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.

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.

17 Financial instruments, financial risk factors and capital management

(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 Company is exposed to commodity price risk. Where and when appropriate the Company will put in place suitable hedging arrangements to mitigate the risk of a fall in commodity prices. At December 2017, the Company had entered into hedging contracts covering approximately 71% of 2018 total expected gas production (on a post-tax production basis). 40% of oil production was hedged in 2018 on a post tax basis as at 31 December 2017.

The Company continues to monitor the commodity market and aims to enter hedging programme at opportune moments taking a layered approach to its hedging strategy.

(ii) Foreign currency exchange risk

The Company (and Group) has 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 is no currency hedging arrangement in place.

The following table demonstrates the sensitivity to a reasonably possible change in the US dollar exchange rate, being the currency which the Company (Group) is primarily exposed to, with all other variables held constant, on the loss before tax and the equity.

	Increase/ decrease in US Dollar rate	Effect on profit/(loss) pre tax NOK000	Effect on Equity NOK000
2017 – USD	**+/-10%**	**8,692 / (8,692)**	-
2017 – NOK	**+/-10%**	**19,431 / (19,431)**	-
2016 – USD	+/-10%	12,231 / (12,231)	-
2016 – NOK	+/-10%	23,997 / (23,997)	-

(iii) Interest rate risk

The Company is exposed to interest rate risks through the bank loans in Norway (see note 15 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 NOK000
2017		
Norwegian kroner	+/-10	643/(643)
British pounds	+/-10	- / -
2016		
Norwegian kroner	+/-10	312/(312)
British pounds	+/-10	20 / (20)

(b) Credit risk

Credit risk is the risk that a customer or partner fails to pay amounts due causing financial loss to the Company. The Company has very limited exposure to such credit risk and has put procedures in place to mitigate such risks.

(c) Liquidity risk

Liquidity risk is the risk that sources of funding for the Company's business activities are not available. As a business, which primarily focuses on oil and gas exploration and appraisal, the primary source of funding of the Company's activities is borrowing. The Board always ensures that there is sufficient funding available before committing to any significant expenditure.

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

31 December 2017	**On demand NOK000**	**Less than 3 months NOK000**	**3 to 12 months NOK000**	**1 to 5 years NOK000**	**>5 years NOK000**	**Total NOK000**
Trade and other payables	-	1 013 569	-	1 721 625	-	2 735 194
Short-term bank borrowing	-	-	365 000	-	-	365 000

31 December 2016	**On demand NOK000**	**Less than 3 months NOK000**	**3 to 12 months NOK000**	**1 to 5 years NOK000**	**>5 years NOK000**	**Total NOK000**
Trade and other payables	-	319 913	-	1 388 657	-	1 708 570
Short-term bank borrowing	-	-	380 000	-	-	380 000

Capital Management

As the Company's primary focus is on exploration, equity is the principal form of funding. The Company'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.

18 Pension scheme

The Company is obliged to have a pension scheme according to the Norwegian Act of Compulsory Lifecycle Fund (lov om obligatorisk tjenestepensjon). The Company's pension scheme satisfies the requirements of the law.

On 1 November 2015 the Company changed the pension arrangements in Norway where up until that date it had been operating both a defined benefits scheme up to a certain limit and above that a defined contributions scheme. The defined contributions scheme was enhanced, as described below, to replace the defined benefits scheme.

The Norwegian defined benefit scheme, which was in place until 31 October 2015, was designed to provide a pension, from 67 years of age, equivalent to 66% of base salary up to 12G. All staff employed up until 2015, participated in this scheme.

From 1 November 2015, following the closure of the defined benefit scheme, the Company made one off compensation payments to certain Norwegian employees to address any shortfall arising from the transfer to the expanded defined contribution scheme where the Company contributes to a pension scheme on behalf of the employee up to 25.1% of base salary limit up to 12G.

For Norwegian employees with a base salary above 12G the Company makes contributions to defined contributions schemes nominated by employees for which the pension cost for the year amounted to NOK 2 030 559 (2016: NOK 1 687 618). There were no prepaid or accrued contributions at either the beginning or the end of the financial year

19 Share based payments

During the year, the Company operated four share schemes to incentivise employees: the Faroe Petroleum Unapproved Share Option Scheme ("Option Scheme"), the Faroe Petroleum Co-Investment Plan ("CIP"), the Share Incentive Plan (SIP); and the Faroe Petroleum Incentive Plan (FPIP), details of which are summarised below:

CIP:
Under this plan key employees can invest up to 100% of base salary 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 3:1 (i.e. three new shares for every Investment Share) but will require the Company to satisfy stretching share price growth targets and be subject to a comparative total shareholder return underpin.

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:
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 Company recognised total expenses of NOK 20 163 744 (2016: NOK 20 538 560), all of which related to share-based payment transactions under the Current Schemes.

Co-investment plan

During 2007 the Group introduced a Co-Investment Plan. Under this plan, shares are released on the third anniversary of the date of grant provided that TSR performance conditions have been satisfied and the participant is still being employed on the anniversary date.

	2017 CIP Share Awards No	2016 CIP Share Awards No
Outstanding at the beginning and end of the period	4 713 969	4 472 077
Granted during the period	495 771	758 565
Lapsed during the period	-127 399	-516 673
Exercised during the period	-	-
Outstanding at the end of the period	5 082 341	4 713 969

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 as follows. The CIP awards have a weighted average expected life of 3 years and an exercise price of £nil.

The range of exercise prices for the CIP plan in 2017 was £nil (2016: £nil).

Date of grant	Estimated fair value	Share price	Exercise price (nominal value)	Expected volatility	Expected life	Risk free rate	Expected dividends
30 May 2007	£0.47	£1.15	£0.00	39.82%	3.0	5.73%	0.00%
12 Sept 2008	£0.63	£1.37	£0.00	41.53%	3.0	4.50%	0.00%
23 Sept 2008	£0.60	£1.27	£0.00	42.47%	3.0	4.52%	0.00%
13 May 2010	£0.66	£1.19	£0.00	62.91%	3.0	1.69%	0.00%
19 Nov 2010	£0.94	£1.73	£0.00	64.01%	3.0	1.41%	0.00%
12 Apr 2011	£0.95	£1.82	£0.00	63.13%	3.0	1.80%	0.00%
22 Dec 2011	£0.73	£1.53	£0.00	53.09%	3.0	0.51%	0.00%
28 May 2012	£0.74	£1.56	£0.00	45.97%	3.0	0.34%	0.00%
04 Jan 2013	£0.55	£1.39	£0.00	43.55%	3.0	0.65%	0.00%
24 Jul 2013	£0,39	£1.12	£0.00	39.77%	3.0	0.66%	0.00%
17 Jun 2014	£0.40	£1.26	£0.00	35.96%	3.0	1.46%	0.00%
20 Jan 2015	£0.20	£0.69	£0.00	35.83%	3.0	0.71%	0.00%
28 Jan 2016	£0.19	£0.49	£0.00	39.73%	3.0	0.65%	0.00%
12 Jan 2017	£0.53	£1.00	£0.00	43.02%	3.0	0.26%	0.00%
23 Jan 2017	£0,56	£1.06	£0.00	42.63%	3.0	0.31%	0.00%
16 Feb 2017	£0,54	£1.10	£0.00	42.77%	3.0	0.21%	0.00%

Share Incentive Plan

During 2013 the Company introduced a Share Incentive Plan.

	2017 SIP Share Awards No	2016 SIP Share Awards No
Matching shares Outstanding at the beginning of the period	276 698	205 228
Matching shares purchased during the period	149 272	120 494
Matching shares exercised during the period	-47 980	-49 024
Outstanding at the end of the period	377 990	276 698

The share awards under the SIP are booked through the Employment Benefit Trust at actual cost.

Faroe Petroleum Investment Plan

During 2013 the Company introduced a Faroe Petroleum Investment Plan.

	2017 FPIP Share Awards No	2016 FPIP Share Awards No
Outstanding at the beginning of the period	8 482 914	7 429 890
Adjustment to opening balance	9 346	-
Granted during the period	3 021 020	2 649 653
Exercised during the period	-968 071	-693 598
Lapsed during the period	-583 098	-862 982
Forfeited during the period	-22 714	-40 049
Outstanding at the end of the period	9 939 397	8 482 914

20 Commitments

Pre-tax capital commitments at the end of the financial year for which no provision has been made, in relation to the Company's licences are as follows:

	2017 NOK000	2016 NOK000
Contracted	3 943 695	737 130

21 Obligations under operating leases

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

	2017 NOK000	2016 NOK000
Future minimum lease payments under operating leases:		
Within one year	3 389	3 501
Within 2 – 5 years	12 142	-
	15 531	3 501

Rentals due under operating leases are charged against income on a straight-line basis over the term of the lease. In 2017 lease payments of MNOK 5.3 (2016: MNOK 5.1) were charged against income.

22 Related party disclosures

Faroe Petroleum Norge AS has not provided any loans or guarantees to management, employees, board members or members of the corporate assembly.

For the purpose of related party disclosure in accordance with IAS 24, only directors are considered key management personnel. For compensation of key management, personnel note 8 contains additional information regarding remuneration of management – Managing Director.

23 Intercompany accounts

Specifications of intercompany accounts included in payables and receivables:

	2017 NOK000	2016 NOK000
Long term accounts receivable - intercompany	118	45
Long term accounts payable - intercompany	-1 721 743	-1 388 702
	- 1 721 625	-1 388 658

No intercompany liabilities are lent by security. The long term accounts receivable relates to Faroe Petroleum PLC. Of the long-term accounts payable, MNOK 1 548 510 is an intercompany loan from PLC to the Company. The remaining intercompany payable relates to Faroe Petroleum PLC and Faroe Petroleum UK Ltd.

Interest calculated on the intercompany loan from PLC was MNOK 33.9 with an interest rate of LIBOR plus 3%.

24 Business combinations

Acquisition of a package of interests in producing Norwegian oil and gas assets from Dong E&P Norge AS

On 6 December 2016, the Company acquired a package of interests in producing oil and gas assets from Dong E&P Norge AS ("Dong"), which was a 100% wholly owned subsidiary of Dong Energy A/S for a cash consideration of $70.2 million as at 1 January 2016. The net consideration on 6 December 2016 after adjustments was NOK255 million. The Company acquired interests in five Norwegian North Sea producing oil and gas fields, Ula (20%), Tambar (45%), Tambar East Unit (37.8%), Oselvar (55%) and Trym (50%). The acquisition added 2P reserves of 19.8 mmboe and increased the Company's aggregate production by approximately 9,900 economic boepd in 2016. Further the acquisition created a new strategic hub for Faroe, centred around the Ula platform, in a core area in offshore Norway.

The acquisition was accounted for using the acquisition method, with the Company obtaining control of the acquired assets on 6 December 2016, following settlement of the agreed consideration. For tax purposes, the effective date was 1 January 2016. The acquisition of interests from Dong was deemed to meet the IFRS definition of a business and is accounted for using the acquisition method of accounting in accordance with IFRS 3.

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 in Dong.

The Company consolidated financial statements include the results of the acquired assets for the 26 day 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:

	Fair value recognised on acquisition NOK000
Non Current Assets	
Property, plant and equipment: development and production	508 432
Deferred tax assets	1 325 331
	1 833 763
Current assets	
Trade receivables	136 988
	136 988
Total assets	**1 970 751**
Current Liabilities	
Accruals	-30 314
Non Current Liabilities	
Provisions	-1 767 551
Total liabilities	**- 1 797 865**

Total identifiable net assets at fair value	172 886
Goodwill arising on acquisition	82 098
Purchase consideration transferred	**254 984**
Analysis of cash flows on acquisition	
Net cash acquired with the assets	-
Cash paid	-254 984
Net cash outflow	**-254 984**

The acquisition accounting was provisional because the acquisition was only completed on 6 December 2016 and therefore the Company will continue to assess the performance of the assets acquired over the 12 month period to determine whether the fair values allocated to each of the assets is materially correct. The affected balances are Property, Plant and Equipment, Goodwill, Deferred tax assets and Provisions. During 2017 the Company reallocated some of the values within the Property, Plant and Equipment but not relating to other balances.

From the date of acquisition, the assets acquired have contributed NOK110 mill and –NOK1.4 mill to the net profit before tax from the continuing operations of the Company. If the combination had taken place at the beginning of the year, revenue from continuing operations would have been NOK1 635 mill and the profit from continuing operations would have been NOK 110.2 mill.

MNOK 82 of goodwill was recognised in respect of the assets acquired from Dong, because of the requirement to recognise deferred tax assets and liabilities for the 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, based on a decision made by the Norwegian Ministry of Finance pursuant to the Petroleum Taxation Act Section 10. 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, goodwill arises as a technical effect of deferred tax ("technical goodwill"). None of the goodwill recognised will be deductible for income tax purposes.

Acquisition related costs (2016) of NOK 3 747 117 have been expensed and are included in the in administrative expenses in the Income Statement and are part of operating cash flows in the Cash Flow Statement.

25 Held for sale assets

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 had approved plans to farm down the Fenja asset and the transaction is expected to complete within one year of the reporting date.

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
	NOK000
Assets	
Property, plant and equipment: development	481 702
Current assets	33 418
Assets held for sale	515 120
Liabilities	

Current liabilities	-22 818
Deferred tax liabilities	-327 185
Liabilities directly associated with assets held for sale	-350 003
Net assets directly associated with assets held for sale	**165 117**

26 Share holders and number of shares

The share capital in Faroe Petroleum Norge AS is NOK 10 000 000. Of these NOK 5 000 000 is fully paid and distributed on 5 shares and NOK 5 000 000 was in December 2010 converted from intercompany loan to equity and is distributed on 5 shares. Value per share is NOK 1 000 000. Faroe Petroleum PLC holds all 10 shares.

The chairman of the board is Graham Stewart, and the other members of the board are Jonathan Cooper and Helge Hammer.

Two board members are jointly empowered to sign for the Company. The board can notify the General manger sole authority to sign on behalf of the Company. The General Manager is Helge Hammer.

27 Subsequent events

Norwegian exploration licence awards
On 17 January 2018, the Company announced that it has been awarded eight new prospective exploration licences, under the 2017 Norwegian APA licence round on the Norwegian Continental Shelf. Due to the nature of the oil and gas industry it is not possible to quantify the financial effect of these licence awards.

Farm down of Fenja to Suncor Energy Norge AS
In February 2018, the Company executed a farm-down agreement with Suncor for Licence PL586 in Norway. Under the terms of the farm-down agreement, upon completion the 16th May 2018, 17.5% of the Company's working interest in the Fenja development located in the Norwegian sea was sold for a cash consideration of $54.5 million (excluding tax balances) together with working capital adjustments notably capital expenditure incurred since the effective date of 1 January 2018.. The company retains a 7.5% working interest.

Fogelberg equity
Following three separate transactions on the Fogelberg licence PL433, all of which are expected to complete in 1H 2018, Faroe's equity will be 15%, with an effective date of 1 January 2018. The Company's equity at 31 December 2017 was 25%.

Fogelberg appraisal well in Norway Sea
On 10 April 2018, the Company announced preliminary results on the Fogelberg appraisal in the Norwegian Sea. Preliminary results based on extensive coring, wireline logs, pressure data and fluid sampling showed that the well confirmed gas and condensate in a sand-rich reservoir. The reservoir quality was better than that seen in the original discovery well, 6506/9-2 S, and when combined with a confirmed deeper gas-water contact led the partnership to the decision to carry out a drill stem test (DST) to confirm well and reservoir productivity.

Iris/Hades gas/condensate discoveries
4 April 2018 it was announced discoveries in both the Hades and Iris prospects in licence PL 644 B (Faroe 20%), located in the Norwegian Sea. Preliminary gross volumes of recoverable hydrocarbons for the Hades prospect are estimated to be 19 – 113 mmboe, exceeding pre-drill estimates and 19 – 132 mmboe for the Iris prospect.

Approval of Plan for Development and Operation of Fenja field
On 10 April 2018 the Company announced that the Norwegian Minister of Petroleum and Energy had approved the plan for the development and operation ('PDO') of the Fenja field. The operator, VNG Norge AS, estimates

that the field contains gross recoverable resources of 97 million barrels of oil equivalent, and is comprised predominantly of oil. Fenja is expected to come on stream in 2021 with a planned field life of 16 years.

28 Corporation

Faroe Petroleum PLC owns 100% of the shares in Faroe Petroleum Norge AS.

The main office for the corporations has the following address:

Faroe Petroleum plc
24 Carden Place
Aberdeen AB10 1UQ
United Kingdom

Tlf: +44 1224 650 920
Fax: +44 1224 650 921

The consolidated annual accounts can be provided by contacting Faroe Petroleum PLC. The final consolidated annual accounts will be published on the Internet page www.faroe-petroleum.com.

29 Jointly controlled assets

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

Country	Licence	Block	Field Name	Field Operator	Field % Interest
Norway	PL107	6407/7	Njord	Statoil Petroleum AS	7.50
Norway	PL107C	6407/7	Njord	Statoil Petroleum AS	7.51
Norway	PL132	6407/10	Njord	Statoil Petroleum AS	7.52
Norway	PL348	6407/8,9	Hyme	Statoil Petroleum AS	7.53
Norway	PL348b	6407/8	Hyme	Statoil Petroleum AS	7.54
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	14.27
Norway	PL055B	31/4	Brage	Statoil Petroleum AS	14.28
Norway	PL055D	31/4	Brage Extension	Statoil Petroleum AS	14.29
Norway	PL185	31/4	Brage	Statoil Petroleum AS	14.30
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

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/Hades extension	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	43381	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

Fields in production or under development as at 31 December 2016:

Country	Licence	Block	Field Name	Field Operator	Field % Interest
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
Norway	PL048D	15/5	Enoch	Talisman Energy Norge AS	1.86
Norway	PL053B	31/4	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	31/4	Brage	Statoil Petroleum AS	14.26
Norway	PL103b	25/7	Jotun	Det norske oljeselskap ASA	3.00
Norway	PL169E	25/8	Ringhorne East	Statoil Petroleum AS	7.80
Norway	PL147	3/7	Trym	Faroe Petroleum Norge AS	50.0
Norway	PL274	1/2, 1/3	Oselvar	Faroe Petroleum Norge AS	55.0
Norway	PL300	2/1	Tambar	Aker BP	45.0
Norway	PL065	1/3	Tambar	Aker BP	45.0
Norway	PL019	7/12	Ula	Aker BP	20.0

Exploration acreage and discoveries as at 31 December 2016:

Country	Licence	Block	Field Name	Field Operator	License % Interest
Norway	PL433	6506/9 part, 12 part	Fogelberg	Centrica Resources Norge AS	25.00
Norway	PL475	6406/3, 6407/1 part	Rodriguez	Wintershall Norge AS	20.00
Norway	PL348C	6407/8	Bister	Statoil Petroleum AS	7.50
Norway	PL644	6506/8,10,11	Aerosmith	OMV (Norge) AS	20.00
Norway	PL644B	6506/,11	Aerosmith extension	OMV (Norge) AS	20.00
Norway	PL586	6406/11,12	Pil	VNG	25.00
Norway	PL749	6306/4	Seychelles	Centrica Resources Norge AS	20.00
Norway	PL753	6407/7,8	Zircon	VNG	30.00
Norway	PL006C	2/5 part	SE Tor	Faroe Petroleum Norge AS	85.00
Norway	PL405	7/9,12, 8/7,8,10,11	Butch	Centrica Resources Norge AS	15.00
Norway	PL627 / 627B	25/5,6,8,9	Shango	Total E&P Norge AS	20.00
Norway	PL740	30/9 and 31/7	Brasse	Faroe Petroleum Norge AS	50.00
Norway	PL793	6407/7.8.10 & 11	Portrush	Shell	20.00
Norway	PL794	6407/7 & 10	Rosapenna	Statoil Petroleum AS	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	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
Norway	PL611	7223/3,6 7224/1,2,3,4,5	Kvalross	Wintershall Norge AS	40.00
Norway	PL716	7318/11,12	Dazzler	Eni Norge AS	20.00

London, date: 06.06.2016

Name: Graham Duncan Stewart
Chairman of the board

Name: Helge Ansgar Hammer
Board member

Name: Jonathan R Cooper
Board member

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Statsautoriserte revisorer
Ernst & Young AS

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INDEPENDENT AUDITOR'S REPORT

To the Annual Shareholders' Meeting of Faroe Petroleum Norge AS

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Faroe Petroleum Norge AS, which comprise the balance sheet as at 31 December 2017, the income statement, statement of other comprehensive income, statements of cash flows and changes in equity for the year then ended and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements have been prepared in accordance with laws and regulations and present fairly, in all material respects, the financial position of the Company as at 31 December 2017 and its financial performance and cash flows for the year then ended in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway.

Basis for opinion

We conducted our audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Norway, and we have fulfilled our ethical responsibilities as required by law and regulations. We have also complied with our other ethical obligations 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.

Other information

Other information consists of the information included in the Company's annual report other than the financial statements and our auditor's report thereon. The Board of Directors and Chief Executive Officer (management) are responsible for the other information. Our opinion on the audit of the financial statements does not cover the other information, and 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, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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In preparing the financial statements, management is responsible for assessing the 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 management either intends to liquidate the Company or to cease operations, or has 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 laws, regulations, and auditing standards and practices generally accepted in Norway, including International Standards on Auditing (ISAs) 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.

As part of an audit in accordance with law, regulations and generally accepted auditing principles in Norway, including ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern;
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on other legal and regulatory requirements

Opinion on the Board of Directors' report

Based on our audit of the financial statements as described above, it is our opinion that the information presented in the Board of Directors' report concerning the financial statements and the going concern assumption is consistent with the financial statements and complies with the law and regulations.

Opinion on registration and documentation

Based on our audit of the financial statements as described above, and control procedures we have considered necessary in accordance with the International Standard on Assurance Engagements (ISAE) 3000, *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*, it is our opinion that management has fulfilled its duty to ensure that the Company's accounting information is

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properly recorded and documented as required by law and bookkeeping standards and practices accepted in Norway.

Stavanger, 6 June 2018
ERNST & YOUNG AS

Erik Søreng
State Authorised Public Accountant (Norway)

Faroe

Ernst & Young AS
Vassbotne 11a Forus
P.O Box 8015
4068 Stavanger

Att: Eirik Søreng

Your ref.	Our ref.	Date
	2018-063/BV	6 June 2018

Representation letter

This representation letter is provided in connection with your audit of the financial statements for the year ended 31 December 2017, for the purpose of expressing an opinion as to whether those financial statements present fairly, in all material respects, the financial position, results of operations, and cash flows in accordance with the Accounting Act and Simplified International Financial Reporting Standards. We acknowledge our responsibility for such fair presentation of those financial statements.

We confirm, to the best of our knowledge and belief, the following representations:

1. The financial statements referred to above are fairly presented in conformity with the Accounting Act and Simplified International Financial Reporting Standards. The going concern assumption applied in preparing the financial statements is appropriate.

2. The Company has, as of the above date:

   a) satisfactory title to all owned assets, and there are no liens or encumbrances on such assets, nor has any asset been pledged as collateral except as disclosed

   b) no significant current assets recorded at a value exceeding realizable value

   c) no significant fixed assets recorded at a value exceeding realizable value without appropriate disclosure

   d) no significant unrecorded assets

   e) no significant unrecorded liabilities

Faroe Petroleum Norge AS, Postboks 309 - Sentrum, N-4002 Stavanger, Norway
Tel.: +47 51 21 51 00 Internett: http://www.fp.fo Org. No: NO 989 399 071 MVA

Faroe

3. To the extent required by the Accounting Act sections 7-44 and 7-45, the financial statements and footnote disclosures contain complete information regarding all agreements made by the Managing Director, Chairman of the Board, other Board members and other executives with respect to compensation, as well as all loans or collateral provided to Board members, shareholders and employees.

4. The Company is not a party to any completed, current or impending legal proceedings that has incurred, or could incur, financial consequences. The Company has no other liabilities including pension obligations than those disclosed in the 2017 financial statements.

5. We are responsible for implementing and operating the accounting and internal control systems that have been developed to prevent and detect fraud and errors.

6. We have informed the auditor of

   a) any instances of fraud or suspicion of fraud known to management and that can have influenced the Company, involving:

      a. management,

      b. employees with important functions in internal control, or

      c. others where fraud could have had a significant influence on the financial statements

   b) the results of our assessments concerning the risk of material errors in the financial statements due to fraud

   c) any allegations or suspicions of fraud that can have influenced the Company's financial statements and that have been communicated by employees, former employees, analysts, regulatory authorities or others.

7. The following have been properly recorded or disclosed in the financial statements and have been communicated in full to you:

   a) the Company's related parties and all transactions, transfers free of charge and agreements with related parties

   b) transactions with employees beyond ordinary compensation arrangements on terms different from normal market prices and/or payment terms

8. All transactions have been recorded in the accounting records underlying the financial statements. In our opinion, we have fulfilled our duty to properly register and document the accounting information in accordance with Norwegian law and generally accepted accounting principles.

9. We acknowledge our responsibility for the preparation of the other information included in our annual report. The other information comprises the Board of Directors' report that has been made available to you.

We confirm that the content contained within the other information is consistent with the financial statements and that we are not aware of any misstatement in the other information.

10. In our view, the methods, the information and the assumptions applied by us in making accounting estimates, including estimates at fair value, are reasonable and constitute management's best estimate.

11. The Company has complied with prevailing laws and regulations affecting the business (including direct and indirect tax regulations, currency regulations, price and competition laws, etc.).

12. No events have occurred subsequent to the balance sheet date and through the date of this letter that would require adjustment to or disclosure in the financial statements other than those disclosed in note 27.

13. The Company has no plans or intentions that may materially affect the Company's operations, position or the carrying value or classification of assets and liabilities.

14. There are no unadjusted audit differences identified during the current audit and pertaining to the latest period presented.

Yours sincerely,

Bogi Vang

Bogi Vang
Group Financial Controller
Phone number: +44 1224 650 927
E-mail: bvang@faroe-petroleum.com

Skattedirektoratet

Saksbehandler	Deres dato	Vår dato
Torstein Kinden Helleland	13.10.2009	22.10.2009
Telefon	Deres referanse	Vår referanse
22078139	Nina Irene Henriksen	2009/806899

FAROE PETROLEUM NORGE AS
Postboks 309
4002 STAVANGER

Søknad om tillatelse til å utarbeide årsregnskap og årsberetning på engelsk språk for Faroe Petroleum Norge AS, org. nr. 989 399 071

Det vises til Deres brev av 13. oktober 2008. De søker på vegne av Faroe Petroleum Norge AS om dispensasjon fra kravet til å utarbeide årsregnskap og årsberetning på norsk språk.

I søknaden er det opplyst at selskapet er Faroe Petroleum Norge AS er heleid av morselskapet Faroe Petroleum PLC, som er et britisk selskap registrert på AIM på London børsen. Morselskapet er lokalisert i Aberdeen i Skottland. Selskapet er finansiert av morselskapet samt gjennom en lånefasilitet med Bank of Scotland og syndikat banken Barclays Bank. Bank of Scotland og Barclay Bank krever i låneavtalen at selskapet årlig skal sende de årsberetning og årsregnskap oversatt til engelsk. Styresammensetningen i selskapet er også internasjonal. Selskapet søker på denne bakgrunn om dispensasjon fra Regnskapsloven § 3-4 tredje ledd om at årsregnskap og årsberetning skal være på norsk.

Etter regnskapsloven § 3-4 tredje ledd skal *"årsregnskapet og årsberetningen ... være på norsk. Departementet kan ved ... enkeltvedtak bestemme at årsregnskapet og/eller årsberetningen kan være på et annet språk."*

I Ot. prp. nr. 42 (1997-1998) Om lov om årsregnskap m.v., er det uttalt følgende om regnskapslovens formål, jf. pkt. 1.1:
"Regjeringen har som siktemål at regnskapsloven skal bidra til informative regnskaper for ulike grupper av regnskapsbrukere. Regnskapsbrukerne er dels investorer og kreditorer som tilfører kapital til foretakene, og dels andre grupper som har interesse av å vite hvordan foretaket drives, f.eks. de ansatte og lokalsamfunnet. Informasjonen til kapitalmarkedet skal gi grunnlag for riktig prising av finansielle objekter. Riktig prisdannelse på aksjer er en forutsetning for at ressursbruken i samfunnsøkonomien skal bli best mulig. Goderegnskaper vil også gjøre det vanskeligere for markedsdeltakere å ta ut spekulasjonsgevinster med basis i skjevt fordelt informasjon."

Det fremgår således at et av hovedformålene med regnskapsloven er å bidra til *"informative regnskaper for ulike grupper av regnskapsbrukere"*. Regnskapsbrukere vil omfatte, jf. uttalelsen i proposisjonen, blant andre investorer, kreditorer, ansatte og lokalsamfunnet. Offentlige myndigheter må også anses som en sentral regnskapsbruker, idet ulike myndigheter, som lignings- og tilsynsmyndigheter, benytter regnskapene som sentrale verktøy i sin kontrollvirksomhet.

Det er etter Skattedirektoratets vurdering derfor avgjørende at spørsmål om dispensasjon fra kravet til å utarbeide årsregnskap og/eller årsberetning på norsk, ikke på vesentlige områder fraviker fra hensynet til brukere av regnskapsinformasjon. Søkeren må dessuten som et utgangspunkt for vurderingen ha en særlig interesse for kun å utarbeide årsregnskap og/eller årsberetning på et annet språk enn norsk.

Postadresse	Besøksadresse	Sentralbord
Postboks 9200 Grønland	Fredrik Selmers vei 4	800 80 000
0134 Oslo	Org. nr: 974761076	Telefaks
skattedirektoratet@skatteetaten.no		22 17 08 60

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Som nevnt ovenfor er det særlig hensynet til brukerne av regnskapsinformasjon som skal vurderes ved en dispensasjonssøknad. Selskapet er 100 % eid av Faroe Petroleum PLC, som er et britisk selskap registrert på AIM på London børsen. Selskapet er finansiert av morselskapet samt gjennom britiske banker. Selskapet må i dag på grunnlag av britiske eierinteresser, styrets sammensetning og lånefasiliteter med britiske banker oversette årsberetning og årsregnskap i sin helhet fra norsk til engelsk.

Skattedirektoratet gir på bakgrunn av en helhetsvurdering Faroe Petroleum Norge AS dispensasjon fra kravet til å utarbeide årsregnskap og årsberetning på norsk språk, jf. regnskapsloven § 3-4 tredje ledd.

Dispensasjonen er gitt under den forutsetning at de ovennevnte opplysninger som vedtaket baserer seg på ikke endres vesentlig.

Med hilsen

Jan Hoelstad
seniorrådgiver
Rettsavdelingen, foretaksskatt
Skattedirektoratet

Torstein Kinden Helleland