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Faroe Petroleum plc 115p 23.11.2006 Appraising Minke along the path to production



Faroe Petroleum the independent AIM quoted oil and gas company working in the North Sea and the Atlantic Margin has announced that the Minke Main well was spudded on 16th November. This signals Faroe's first moves towards production with Faroe's net attributable reserves at Minke Main estimated to be 2.45 billion cubic feet of gas (Faroe interest 5.89%). Gross development costs are estimated at £45 million with the net costs to Faroe of £2.65 million spread over two years. We anticipate that current work will continue seamlessly on into field development underpinning our core profit and loss forecasts for the upcoming year.

Key Points:-

- Minke Main well was spudded on 16th November using the drilling rig Noble Ronald Hoope Operated by GDF Britain Ltd and is expected to have a duration of 100 days.
- Post appraisal, the intended plan for Minke Main calls for a single sub-sea well, tied back to the existing D15 platform facilities located offshore Holland. This plan forms the basis for our 2007 revenue forecasts with first gas expected to be produced in the first half of 2007 subject to the usual consents etc.
- Assuming that the first gas is produced on schedule in H1 FY07, we estimate that Faroe's stake should entitle the company to maiden revenues of around GBP 3.3m in FY 2007 (based on a flat gas sales price of 40p/therm).
- These revenues will make a significant contribution to offset U.K. G&A overheads, with the majority of Faroe's Norwegian overhead to be rebated under the Norwegian tax regime.

Share Price: 115p

12m High: 185 p

12m Low: 102p

Market Cap: £85m

Shares in Issue: 73.8m

Interest Cover: n/a

EPIC Code: FPM

ISIN No: GB0033032904

Market: AIM

Brokers: Evolution Securities Limited

Panmure Gordan & Co Ltd

PR: Financial Dynamics.

Website:

<http://www.faroe-petroleum.com>

Previous Note : 'An Independent among the Majors' 25.10.2006 114p

Analyst: Mark Parfitt

| FY | Sales | EBT Tax | Adjusted Profit | EPS | EBITDA | Net gas Production |
|--------------|-------|---------|-----------------|-------|--------|--------------------|
| Y/E December | £ 000 | £ 000 | £ 000 | p | £ 000 | Mmcf |
| 2004 A | 0 | (178) | (178) | (0.4) | (160) | 0 |
| 2005 A | 0 | (286) | (286) | (0.6) | (249) | 0 |
| 2006 E | 0 | 12 | 12 | 0.0 | 62 | 0 |
| 2007 E | 3,318 | 420 | 42 | 0.6 | 1,820 | 840 |
| 2008 E | 2,444 | (385) | (385) | (0.5) | 675 | 619 |

Faroe Petroleum plc.

P & L Forecasts

| Y/E 31 December £GBP 000 | FY04 | FY05 | FY06E | FY07E | FY08E |
|-----------------------------------|--------------|----------------|----------------|----------------|----------------|
| Production Revenues | 0 | 0 | 0 | 3,318 | 2,444 |
| Cost of Sales | 0 | 0 | 0 | (611) | (463) |
| DD& A | (18) | (37) | (50) | (1,400) | (1,059) |
| Gross Profit | (18) | (37) | (50) | 1,308 | 921 |
| Gross Margin | - | - | - | 39% | - |
| Administrative Expenses | (740) | (1,139) | (1,796) | (2,586) | (2,763) |
| Acquisitions | 0 | 0 | 0 | 0 | 0 |
| Operating Profit/Loss EBIT | (758) | (1,176) | (1,846) | (1,278) | (1,842) |
| Interest Receivable | 582 | 907 | 1,858 | 1,698 | 1,457 |
| Interest Payable | (2) | (17) | 0 | 0 | 0 |
| Net Interest | 580 | 890 | 1,858 | 1,698 | 1,457 |
| Exceptional Items | 0 | 0 | 0 | 0 | 0 |
| Earnings Before Tax | (178) | (286) | 12 | 420 | (385) |
| Tax Charge | (1) | 0 | 0 | 0 | 0 |
| Tax Charge % | 30% | 30% | 30% | 30% | 30% |
| Earnings After Tax | (179) | (286) | 12 | 420 | (385) |
| Effective Tax Rate % | 1% | 0% | 0% | 0% | 0% |
| Dividends | 0 | 0 | 0 | 0 | 0 |
| Retained Earnings | (179) | (286) | 12 | 420 | (385) |
| Earnings Data GBP | | | | | |
| Weighted Av. No. of shares | 42,974,780 | 51,571,080 | 67,550,465 | 73,837,916 | 73,837,916 |
| Year End No. of shares | 42,933,745 | 55,175,563 | 73,837,916 | 73,837,916 | 73,837,916 |
| Number of shares fully diluted | 45,344,098 | 58,980,216 | 78,082,969 | 78,082,969 | 78,082,969 |
| Basic FRS3 EPS p | (0.4) | (0.6) | 0.0 | 0.6 | (0.5) |
| Adj. FRS3 EPS p | (0.4) | (0.6) | 0.0 | 0.6 | (.9) |
| Adj. EPS FRS 14 fully diluted p | (0.4) | (0.6) | 0.0 | 0.6 | (1.9) |
| Depreciation | 0 | 0 | 0 | (1,330) | (1,981) |
| Amortisation | (18) | (37) | (50) | (70) | (80) |
| Net D & A | (18) | (37) | (50) | (1,400) | (2,061) |
| EBITDA | (160) | (249) | 62 | 1,820 | 675 |

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