



JARÐFEINGI
FAROESE GEOLOGICAL SURVEY



FAROESE LICENSING ROUND

Application and Fiscal Terms

2017 / 2018

WELCOME TO THE FOURTH FAROESE LICENSING ROUND

It is with a warm welcome we invite companies to participate in the Fourth Faroese Licensing Round.

Faroese Geological Survey has, together with partners in the industry, been re-interpreting all the data from the Faroese continental shelf to get a better understanding of the geological evolution of the Faroese region. This work has led to a new understanding of the prospectivity that will increase the probability of finding commercial quantities of hydrocarbons. However, there are still large areas remaining to be explored as only nine exploration wells have been drilled to date. In addition, these wells are not widely distributed and they have only penetrated a limited part of the stratigraphy.

The Faroese society is small and fragile. It is also of great importance that the exploration activity is always being conducted carefully, in a way to ensure that the environment is

protected. Exploration activity must always be conducted in a way to ensure that the environment is protected.

The fishing industry is vital for the Faroese economy and therefore, exploration must pay particular attention to this important industry. As the authority we are striving to make these two industries work alongside one another in the best possible way. However, the oil industry also brings opportunities to the economy which should be utilized. I am confident that a sensible cooperation between the local industry and the oil industry could and should be of mutual benefit.

The local society has welcomed the oil industry and it is my sincere hope and expectation that all parts involved will do their very best in order to continue along this route. With this in mind I shall repeat my welcome to interested companies to take part in the Fourth Faroese Licensing Round.



Poul Michelsen
Minister of Foreign Affairs and Trade for the Faroes

A handwritten signature in blue ink that reads "Poul Michelsen".

INVITATION TO APPLY FOR EXPLORATION AND PRODUCTION LICENSES

In accordance with section 7(1) of Act No. 31 of 16 March 1998 on Hydrocarbon Activities, the Minister of Foreign Affairs and Trade hereby invites you to apply for licenses for exploration and production of hydrocarbons on the Faroese continental shelf. The area to be offered for licensing and the terms and conditions on which licenses will be granted are defined in Parliamentary Act No. 72 of 28 February 2017 on the Fourth Faroese Licensing Round.

APPLICANTS

Licenses will be granted to Faroese limited companies, or foreign limited companies with a branch registered in the Faroe Islands. The branch must be registered within 3 months after the award of a license.

The limited company shall have a minimum equity share capital of DKK 1 million. Companies may submit applications individually or in groups. In this document the term “applicant” is also used for a group of companies submitting a joint application. In case of several companies submitting a joint application the intended operator of the license shall be stated in the application.

PRECONDITIONS FOR OBTAINING A LICENSE

According to section 6 of the Act on Hydrocarbon Activities, licenses for exploration and production of hydrocarbons may only be granted to applicants that are considered to have the requisite expertise, experience, resources and financial capacity. It is a condition for the granting of licenses that the Faroe Islands gain insight into the activities carried out by virtue of any licenses granted. Applicants must also possess the necessary expertise regarding health, safety and the environment.

It is a condition for the granting of licenses that the licensee conducts the exploration activities with due regard to fishing operations and the conservation of fish stocks.

NEGOTIATING ISSUES

The general terms and conditions on which licenses will be granted are defined in the Act on the Fourth Licensing Round with attendant model license.

Jarðfeingi (The Faroese Geological Survey) will negotiate the following specific terms for the individual licenses on the basis of proposals submitted by the applicants:

- The work programme
- The schedule for the license term

AWARD CRITERIA

With a view to ensuring a thorough evaluation of the Faroese continental shelf and in order to ensure genuine opportunities for participation in the hydrocarbon activities by Faroese industry, the following criteria will apply to the award of licenses:

- a) The geological understanding and the extent of the work commitments that the applicant is willing to undertake to thoroughly investigate the prospectivity and to explore for hydrocarbons in the area to be covered by the license.
- b) How the applicant is willing to secure genuine opportunities for Faroese participation in the hydrocarbon activities.

APPLICATION

THE APPLICATION SHALL INCLUDE THE FOLLOWING INFORMATION, IN FOLLOWING ORDER:

- a) Name and address of the applicant and of the person who will serve as liaison towards the Faroese authorities in connection with the handling of the application. In case of several companies submitting a joint application, the participating interest of the individual company shall be stated in the application. Furthermore the intended operator shall be stated in the application.
- b) The application area defined by geographical coordinates of whole minutes of latitude and longitude, and with reference to block numbers as specified above.
- c) Proposal on the work commitments which the applicant will undertake with a view to thoroughly investigate the prospectivity and to explore for hydrocarbons in the area to be covered by the license, and proposal for the timing of the activities.
- d) Proposal on how the applicant will ensure genuine opportunities for Faroese industry to participate in the hydrocarbon activities.
- e) Enclosure 1 shall contain a summary of the application.
- f) Enclosure 2 shall contain a geological evaluation of the area covered by the application, with special emphasis on the primary factors affecting the hydrocarbon system in the area applied for.
- g) Enclosure 3 shall contain information and proposals for Faroese participation in the hydrocarbon activities.
- h) Enclosure 4 shall contain information on company related matters.
- i) Enclosure 5 shall contain information on the applicant's expertise and experience regarding management of health, safety and environment. Jarðfeingi may require additional information.

The information contained in the application and the enclosures will be kept confidential, cf. section 21 of the model license.

The application, excluding enclosures, should not exceed 10 pages. The applications, including enclosures, may be written in Faroese or in English.

APPLICANTS MAY CONTACT JARÐFEINGI TO RECEIVE:

1. Geographical coordinates for the area offered for licensing
2. Guidelines for the preparation of the above mentioned enclosures
3. Act on the Fourth Licensing Round with explanatory notes
4. Model license for exploration and production of hydrocarbons
5. Model prospecting license

The above mentioned information is also available on the web site of Jarðfeingi (www.jf.fo)

TIME FRAME

Jarðfeingi shall receive applications for Licenses for Exploration and Production of Hydrocarbons by **17 February 2018 at 12 noon.**

THE APPLICATIONS SHALL BE SUBMITTED TO:

Jarðfeingi

Postbox 3059
FO-110 Tórshavn
Faroe Islands

Or sent to the email address:
application4round@jarðfeingi.fo

APPLICATION FEE:

For the handling of each individual application, an application fee of DKK 50.000 is due upon submission.

The fee shall be paid, free of charge, to:

Jarðfeingi:

P/F Føroya Banki
SWIFT FIFBFOTX
acc. no 6460-2600058
IBAN FO31 6460 0002 6000 58
(ref. FEE 142571-2520-0700-0100).

Address:

Føroya Gjaldstova
P.O. Box 2009
FO-165 Argir
Faroe Islands.

A copy of the receipt shall be attached to the application.

MISCELLANEOUS

Where a license is granted to several parties jointly it is subject to the condition that a joint operating agreement is executed not later than 90 days after the license has been granted. The Minister of Foreign Affairs and Trade may require that the agreement be modified on specific points, cf. section 17 of the model license.

Within 30 days from the granting of the license the licensee shall provide performance guarantee for all its obligations and liabilities under the license. The performance guarantee is subject to approval by the Minister of Foreign Affairs and Trade who may require that such guarantee be changed or supplemented, cf. section 25 of the model license. Within 3 months after the granting of the application the licensee shall submit a proposal, to be approved by the Minister of Foreign Affairs and Trade, on how and where his onshore activities will be organised during the exploration period, cf section 16 (2) of the model license.

The Minister of Foreign Affairs and Trade may decide not to grant licenses on the basis of applications submitted, cf. section 7(3) of the Act on Hydrocarbon Activities in the blocks included in the Fourth Licensing round.

FISCAL TERMS

COMPANY INCOME TAX

27% of Taxable Income

Deductibles:

- Costs
- Investments (30% depreciation/year)
- Royalty

18% Tax on Company Income from other activities

SPECIAL TAX

Rate-of-Return based (ROR)

- Higher return, higher special tax

Calculation basis: Cash flow

Special Tax Rates:

- ROR < 20% 0% Special Tax
- ROR < 25% 10% Special Tax
- ROR < 30% 25% Special Tax
- ROR > 30% 40% Special Tax

Deductibles:

- Costs and investments
- Company Income Tax and Royalty
- Not interest

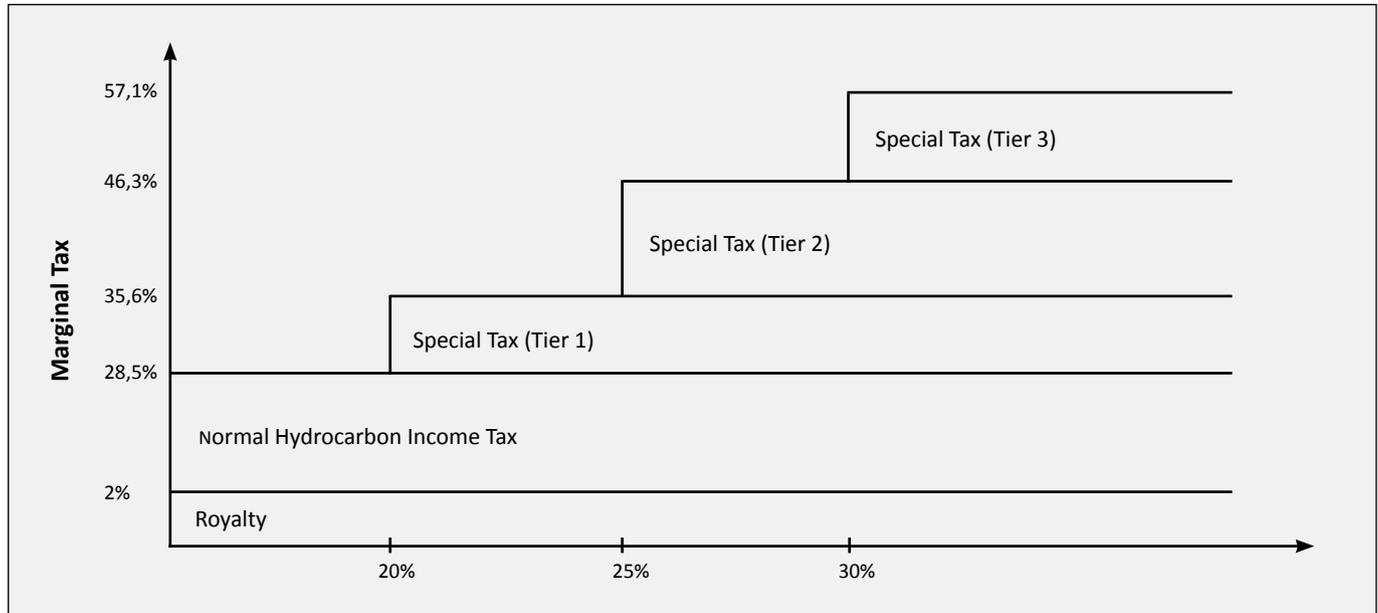
Ring-fence (field basis)

ROYALTY

2% of Gross Income

Deductible in tax calculation

PROFITABILITY (INTERNAL RATE OF RETURN - POST NORMAL HYDROCARBON INCOME TAX)





FAROE ISLANDS 4TH LICENSING ROUND AREA

LEGEND

- Licensing Area
- UK - FO border
- Pipelines
- Gas
- Oil
- Gas / oil
- Onshore well
- Oil-gas
- Traces
- Dry



JARÐFEINGI
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