PHAROS ENERGY

20 July 2022
Trading and Operations Update

Pharos Energy plc
("Pharos" or the "Company" or, together with its subsidiaries, the "Group")

Trading and Operations Update July 2022

Pharos Energy plc, an independent oil and gas exploration and production company, issues the following Trading and Operations update in advance of the Company's half-year results on 14 September 2022. The information contained herein is not audited and may be subject to further review and amendment.

Summary

- Group working interest H1 production 7,961 boepd net:
    - Egypt production 2,100 bopd
    - Vietnam production 5,861 boepd
- 2022 Full year Group working interest production guidance remains unchanged from 19 May 2022 trading update:
    - 1,350-1,800 bopd in Egypt (equivalent to gross production of 3,000-4,000 bopd)
    - 5,000-6,000 boepd in Vietnam
- Group revenue for H1 2022 of c.$129m before hedging loss of c.$17m
- Cash balances as at 30 June 2022 of $47.5m, net debt of $38.1m
- Forecast cash capex for the full year of c.$29m, post carry in Egypt
- Planning well advanced for TGT & CNV development drilling programme, due to commence in September 2022
- Work on 3D seismic processing in Block 125 in Vietnam nearing completion
- Development drilling continues in El Fayum, drilling rig secured on long-term contract
- Commencing today and announced separately, initiation of $3m share buyback programme

Jann Brown, Chief Executive Officer, commented:

"The first half of 2022 has seen us deliver on both our strategic and operational objectives with strong progress made on all fronts across the portfolio. In Egypt, following the farm-out to IPR, investment has recommenced and production levels are starting to rebuild. Securing a rig on long-term contract positions us for continuous drilling in El Fayum over the next year and beyond, to monetise the significant 2P reserves base under the enhanced fiscal terms secured. In Vietnam, the three well development drilling programme is on track to commence in September, focused on sustaining production levels in the current high netback, fast payback environment. These operational plans build on the strong cash flows generated in H1 2022 and give us the confidence to allocate capital to commence a share buyback programme, announced today, in recognition of the significant discount value we see in our shares at the current price. Value creation and shareholder returns remain top of our agenda and we remain focused on the near term opportunities in the current portfolio."

Operational Update

Egypt

El Fayum Production

The transaction with IPR and transfer of operatorship completed on 21 March 2022. Working interest production is therefore reported as 100% through to completion and 45% thereafter. Production for the first half of 2022 from El Fayum averaged 3,142 bopd gross and 2,100 bopd net to Pharos. The Group's Egypt production guidance for 2022 remains unchanged at 1,350-1,800 bopd, equivalent to gross production of 3,000-4,000 bopd.

El Fayum Development and Operations

Development drilling in El Fayum continues. Gross oil production from El Fayum has steadily increased from 2,800 bopd in January to c.3,400 bopd in June. IPR's current development plan is focused on drilling high value wells with a planned ramp up in activities to allow the incorporation of new subsurface learnings and optimisation of future well locations and is based on their experience in other operations in Egypt.

Petrosilah, the El Fayum joint operating company (JOC), has now secured a rig on a long-term contract, one year firm plus an option for a second year, starting in Q4 2022, and continues to assess the availability of other rigs. The new rig will allow a continuous drilling campaign which is essential to adding new barrels to production as well as providing a stable platform for additional drilling activities.

Two workover rigs continue to contribute to production through low-cost well repairs and recompletions.

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North Beni Suef (NBS)

Planning for the commitment well due to be drilled in Q4 2022 is advancing, and the request for an extension to the exploration period has been submitted to EGPC.

Vietnam

Vietnam Production

Production for the first half of 2022 from the TGT and CNV fields net to the Group's working interest averaged 5,861 boepd, in line with our previously published guidance of 5,000-6,000 boepd.

During the period, production from TGT averaged 15,133 boepd gross and 4,490 boepd net to Pharos. CNV production averaged 5,483 boepd gross and 1,371 boepd net to Pharos.

Vietnam Development and Operations

On Block 16-1 – TGT Field, two additional development wells are planned in H2 2022.

On Block 9-2 – CNV Field, one development well is planned in H2 2022. The revised field development plan, including the additional well, has been approved by the Vietnam Ministry of Industry and Trade on 19 April 2022.

A Letter of Award has been signed with Velesto for the Naga 3 drilling rig. Rig contract negotiations are well advanced with drilling due to commence in September 2022.

Work on the submission of licence extension requests for both TGT & CNV is progressing well within the JOCs.

Vietnam Exploration

On Block 125, final 3D seismic processing is well underway. Once completed, the Group will continue to work to identify prospects with a view to secure a funding partner before drilling the commitment well in 2023.

Israel

Relinquishment is being finalised amongst partners.

Financial Update

Revenues and hedging

Revenues

Group revenues for the six months to 30 June 2022 were c. $129m prior to a hedging loss of c.$17m. The revenue includes $7m from Egypt due to the Third Amendment to the El Fayum Concession Agreement, as announced in our Preliminary Results on 16 March 2022. The H1 2022 average realised oil price per barrel achieved was approx. $111/bbl from Vietnam, representing a premium of just over $3/bbl to Brent, and approx. $99/bbl from Egypt, a discount of just under $6/bbl to Brent. Egypt price realisations exclude the additional $7m revenue due to the Third Amendment to the El Fayum Concession Agreement. The dated Brent prices used for Vietnam and Egypt are driven by their respective sales volumes by daily prices as calculated throughout the period.

As previously announced in May 2022, the H2 2022 premium for TGT crude in Vietnam has been agreed at $5.65/bbl, a significant increase over the H1 2022 premium of $3.13/bbl.

Hedging

In the first six months of 2022, 42% of the Group's production was hedged, securing a minimum price for the hedged volumes of $67.2/bbl. For the remainder of 2022, 25% of the Group's forecast production is hedged, at a minimum price of $69.1/bbl. The Group's reserve based lending facility (RBL) requires the Company to hedge at least 35% of Vietnam RBL production volumes and the current hedging programme meets this requirement through to June 2023, leaving 75% of Group production unhedged.

Cash / net debt

The Company entered the year with cash of $27.1m and net debt of $57.5m. Cash balances as at 30 June 2022 were c.$47.5m with net debt of c.$38.1m.

We have a solid record of converting revenues earned in Egypt into cash and believe that we remain well placed to do so, notwithstanding the impact of recent global macroeconomic volatility which has seen both a devaluation of the Egyptian Pound and restrictions on outgoing US Dollar (USD) transfers by the Central Bank of Egypt. We have received payment in USD as recently as late June. In the event of any delay in our El Fayum invoices being paid, we have access to our facility with the National Bank of Egypt (NBE), which allows us to draw down 60% of the value of each invoice in USD. The amount drawn under the NBE facility as at 30 June 2022 was $7.5m, which is included in our net debt calculation. We will continue to closely monitor our working capital position across the group with a view to expediting cash conversion and will keep the market updated on progress.

Cash expenditure

Capex

Forecast cash capital expenditure for 2022 is c.$29m, post carry in Egypt, of which c.$10.0m was incurred in H1, including c.$5m for the 3-well programme in Egypt prior to completion of the farm out. Approximately $24m is allocated to Vietnam for the 3 well development drilling campaign on TGT and CNV and the exploration programme on Blocks 125 & 126.

RBL

The June redetermination process under the RBL has now completed with a principal repayment of $0.2m made in July 2022, highlighting the strong reserves base and commodity pricing.

Corporate Update

Initiation of Share Buyback Programme

In a separate release made today, we are announcing the initiation of a share buyback programme to purchase up to approximately US$3 million (excluding stamp duty and expenses) of the Company's ordinary shares. The programme will commence today and is expected to take three to six months to complete, depending on trading volumes.

The Board believes that the Company's shares are trading at a material discount to their underlying net asset value, despite the performance across the Group's asset base, and this programme forms part of our broader strategy to deliver value to our shareholders.

Strong cash generation in the first half of the year has put us in a position where we can be confident that this modest amount of capital can be allocated to the programme alongside the investments being made in Vietnam, while the work programme in Egypt is fully carried by our partner, IPR, for 2022 and beyond. Given the discount noted above, the Board is of the view that share buybacks are an appropriate means of returning value to shareholders at this time and will enhance NAV, earnings and dividends per share over time, by reducing the number of shares in issue.

Outlook

We approach the second half of 2022 with a confident outlook, having successfully delivered the two key strategic goals in the first six months:

- Signature of the Third Amendment to the El Fayum Concession Agreement in January 2022, which increased the Cost Recovery Petroleum percentage from 30% to 40%, and Contractor's share of revenue from c.42% to c.50%; and

- Completion of the farm-out of our Egyptian assets in March 2022, with a smooth transition of operatorship to IPR, reshaping both our portfolio and our financial position to maximise the potential of these assets.

In Egypt, IPR has proven itself to be an excellent partner and we are now positioned to deliver the next stage of growth together, with an important first building block being the JOC securing a drilling rig on a long-term contract.

In Vietnam, the next phase of development drilling is due to commence and work is well underway to submit requests for licence extensions for both TGT and CNV.

Underpinning our production, development and exploration activity is a strengthened balance sheet and a focus on capital discipline to deliver value for stakeholders responsibly and sustainably.

Pharos is strongly positioned for the future.

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Notes to editors

Pharos Energy plc is an independent oil and gas exploration and production company with a focus on sustainable growth and returns to stakeholders, which is listed on the London Stock Exchange. Pharos has production, development and/or exploration interests in Egypt, Vietnam and Israel. In Egypt, Pharos holds a 45% working interest share in the El Fayum Concession in the Western Desert, with IPR Lake Qarun, part of the international integrated energy business IPR Energy Group, holding the remaining 55% working interest. The El Fayum Concession produces oil from 10 fields and is located 80 km southwest of Cairo. It is operated by Petrosilah, a 50/50 joint stock company between the contractor parties (being IPR Lake Qarun and Pharos) and the Egyptian General Petroleum Corporation (EGPC). Pharos also holds a 45% working interest share in the North Beni Suef (NBS) Concession in Egypt, which is located immediately south of the El Fayum Concession. IPR Lake Qarun operates and holds the remaining 55% working interest in the NBS Concession. In Vietnam, Pharos has a 30.5% working interest in Block 16-1 which contains 97% of the Te Giac Trang (TGT) field and is operated by the Hoang Long Joint Operating Company. Pharos' unitised interest in the TGT field is 29.7%. Pharos also has a 25% working interest in the Ca Ngu Vang (CVN) field located in Block 9-2, which is operated by the Hoan Vu Joint Operating Company. Blocks 16-1 and 9-2 are located in the shallow water Cuu Long Basin, offshore southern Vietnam. Pharos also holds a 70% interest in, and is designated operator of, Blocks 125 & 126, located in the moderate to deep water Phu Khanh Basin, north east of the Cuu Long Basin, offshore central Vietnam. In Israel, Pharos, together with Capricorn Energy PLC (formerly known as Cairn Energy PLC) and Israel's Ratio Oil Exploration, has eight licences offshore Israel. Each party has an equal working interest and Capricorn Energy is the operator.