11 March 2020
2019 Preliminary Results

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

2019 Preliminary Results

Pharos Energy plc, an independent oil and gas exploration and production company, focused on sustainable growth and returns to stakeholders, announces its preliminary results for the year ended 31 December 2019. A conference call will take place at 0930 GMT today.

Ed Story, President and Chief Executive Officer, commented:
"In these turbulent times of global market uncertainties we remain focused on financial discipline and are now taking appropriate measures to preserve shareholder value. We are confident that through a combination of our low gearing, low commitments, low oil price break-evens for Vietnam and the flexibility offered by deferring some of our largely discretionary investments in Egypt, the business is well placed to weather the challenging macroeconomic conditions whilst retaining the growth opportunities. Operating a sustainable business remains a key priority for Pharos and environmental, social and governance (ESG) issues are at the heart of how we run the business. We continue to make ESG enhancements including new Independent Board appointments, social investments and reductions in greenhouse gas (GHG) emissions in our operations. We believe these prompt actions ensure the business is in the best possible position to weather the current uncertainties".

2019 Strategic Highlights

- Completion of the acquisition of the El Fayum Concession in Egypt
- Building a regional portfolio through the acquisition of further prospective acreage, via the North Beni Suef onshore Concession in Egypt, and eight offshore licences in Israel
- ESG enhancements across the business including the establishment of the Environmental, Social and Governance (ESG) Board Committee, new independent Board appointments, initiatives to reduce GHG emissions and maintaining our exceptional safety record in Vietnam
- Rebranded to Pharos Energy plc to reflect a refreshed business with new focus on growth opportunities

2019 Financial Highlights

- Group revenue of $189.7m (2018: $175.1m)[1, 2]
- Loss for the year of $24.5m (2018: profit of $27.7m, including a post-tax impairment reversal of $23.9m)
- Cash operating costs $10.45/bbl (2018: $13.63/bbl)[1, 3]
- Cash generated from operations $113.0m (2018: $101.4m)[1]
- Group Net Debt $41.5m as at 31 December 2019 (2018: Net Cash $140.1m)[3]
- Cash balances as at 31 December 2019 of $58.5m
- 2019 full year dividend of $27.4m (2018: $23.3m) paid 31 May 2019
- Net Debt to EBITDAX of 0.37[3]

* Egyptian revenues are given post government take including corporate taxes.

1 Vietnam – full 12 months | Egypt – from 02/04/2019

2 Stated after realised hedging loss of $0.2m

3 See Non-IFRS measures at page 39

2019 Operational Highlights

- Total Group working interest production 12,136 boepd net (2018: 7,274 boepd)
  - Vietnam production 7,081 boepd (2018: 7,274 boepd)
  - Egypt production 5,055 bopd (2 April to 31 December 2019)
- In Egypt, expanded El Fayum operations and ESG enhancements;
  - Increased drilling activity and commencement of waterflood implementation in the Greater Silah Area

- Reduced GHG emissions through the elimination of 730,000 litres of diesel use per year and associated emissions
- Achieved a 30% reduction in flared gas at the North Silah Deep site.

- In Vietnam two firm wells approved in the 2019 work programme;
    - First well TGT-H5-31I has been completed as a producer / future water injector
    - Second TGT-H1-15X appraisal/future development well is currently operating. This well will test the commercial potential of a new deeper play, discovered in early 2019, with estimated STOIIP potential of 225 million barrels across the TGT structure, discovered in early 2019.

Outlook for 2020

- Cash capital expenditure in 2020 is now expected to be up to c. \$45m, with an additional c. \$10m of discretionary spend in Egypt under review.

- In light of the new global macroeconomic circumstances, Egypt production guidance issued on 8 January 2020 for the full year 2020 (Egypt: 6,500 to 7,500 bopd) is suspended whilst the scale of our discretionary work programme for the rest of the year is under review. The production guidance for Vietnam remains unchanged for the 2020 full year (5,500 to 6,500 boepd net)

- In Egypt
    - Appropriate pacing of low cost multi-well producer and water-injector programme, to proceed with waterflood implementation to increase production and recovery
    - Phase Two programme of associated gas powered electrical generators is planned to reduce CO_2 emissions further and the use of solar power sources for electrical generation at satellite wellsite(s) is under investigation
    - The low-cost evaluation of the oil development potential of the recently awarded North Beni Suef Concession which straddles the Nile across both the Western and Eastern Deserts

- In Israel low-cost activities during the first phase of the licences comprise reprocessing of existing 3D seismic data and evaluation of the acreage's potential

- In Vietnam
    - The appraisal and production performance of the deep Oligocene reservoir in the TGT-H1-15X well offshore Vietnam (Target depth reached 28 February 2020)
    - Evaluation of the undrilled Phu Khanh Basin Blocks 125 & 126 offshore Vietnam will continue, but the planned 3D seismic may be deferred until 2021

- We maintain our commitment to paying the dividend of 2.75 pence per share during 2020, as previously announced. However, given the current uncertainties in the global economy, the Board has decided to postpone these dividend payments until the macro environment becomes clearer.

- Careful deployment of capital to maintain a strong balance sheet throughout the period of market uncertainty, with a view to early resumption of our approach to maximising shareholder returns through organic investments or acquisitions that can support cash flow generation and value accretion to underpin a longer-term dividend stream.

Enquiries

Pharos Energy plc Tel: 020 7747 2000
Ed Story, President and Chief Executive Officer
Jann Brown, Managing Director and Chief Financial Officer
Mike Watts, Managing Director
Sharan Dhami, Group Head of Investor Relations

Camarco Tel: 020 3757 4980
Billy Clegg | Owen Roberts | Monique Perks

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, headquartered in London and listed on the London Stock Exchange.

Pharos has production, development and exploration interests in Egypt, Israel and Vietnam.

In Egypt, Pharos holds a 100% working interest in the El Fayum oil Concession in the low-cost and highly prolific Western Desert, one of Egypt's most established and prolific hydrocarbon basins. The Concession produces from 10 fields and is located 80 km south west of Cairo. It is operated by Petrosilah, a 50/50 JV between Pharos and the Egyptian General Petroleum Corporation (EGPC). Pharos is also an operator with a 100% working interest in the North Beni Suef (NBS) Concession, which is located immediately south of the El Fayum Concession.

In Israel, Pharos together with Cairn Energy plc and Israel's Ratio Oil Exploration, were successful in their bid for eight blocks in the second offshore bid round in Israel. Each party has an equal working interest and Cairn is the operator.
In Vietnam, Pharos holds a 30.2% unitised working interest in the Te Giac Trang (TGT) Field in Block 16-1, which is operated by the Hoang Long Joint Operating Company and a 25% working interest in the Ca Ngu Vang (CVN) Field 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.

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Chair's Welcome

A sustainable business

2019 was a year of transition for Pharos.

The highlights of the year include the successful completion of the transaction to acquire the El Fayum Concession in Egypt, the award of new licences in Israel and Egypt, and enhancements of Environment, Social and Governance (ESG) matters throughout the business including new independent Board appointments and the maintenance of our exceptional safety record in Vietnam.

The Egyptian transaction was completed on 2 April 2019. The El Fayum Concession complements and diversifies our portfolio, which now has two separate regional producing centres. This timely achievement is testament to the quality and professionalism of the team and the strong relationships that have been established in country. We welcomed our new colleagues in Cairo and El Fayum, and have worked to integrate the new and existing businesses, at the same time as managing an expanded work programme of activities in Egypt.

To reflect this new phase in our history we rebranded the Company as Pharos Energy plc. The timing and choice of the new name reflect our entry into Egypt and more broadly the Group's new focus on the MENA region in addition to its traditional operating hub in South East Asia. The word Pharos is most commonly associated with the Lighthouse of Alexandria, one of the traditional Seven Wonders of the Ancient World. The name change symbolises the development and evolution of the corporate values of the Group to reflect our continuing commitment to operating a sustainable business and focussing on environmental awareness, safety, openness and good governance.

Safety across our business is paramount and remains the highest priority on the Board agenda. We are pleased to report that our Joint Operations in Vietnam continue to achieve a high level of safe operations with an exceptional record of safety, reporting zero LTIs since operational inception, representing eight production years on TGT and 11 production years on CNV. In Egypt, our activities and forward plans have been focused on improving HSES standards. We are pleased to report zero LTIs since we acquired the Egyptian asset and there have been no LTIs in Egypt since 2015. The Petrosilah Joint Venture has achieved ISO 14001 (Environmental) and ISO 45001 (Health and Safety) certification in Egypt. In evaluating new off-take options for El Fayum crude, HSSE standards were one of the key considerations in identifying a new refinery as our delivery destination point. The transport route to and from the refinery avoids built-up and residential areas and offers safer driving conditions on a fully tarmacked road leading directly to the refinery.

Energy transition is being carefully considered by the Board. In our view demand for oil and gas will continue to be an important component of the global energy mix over many future decades. We see a place for Pharos in responsibly developing oil and gas resources to aid global economic development and in delivering value for all our stakeholders. We believe that in the future, countries such as Egypt and Vietnam can continue to have economic and social benefits from the responsible development of their natural resources and we are committed to doing this in a responsible and sustainable way.

Climate change is one of the key drivers of energy transition and is considered to be a principal risk. Climate change is considered in all our key business decisions, and particularly in any new business opportunities. A key part of the Board's investment decision to bid for the eight licences, prospective for gas, offshore Israel was the opportunity to diversify from mainly oil production to a balanced oil and gas portfolio. We recognise the need to reduce any impact of our operations on the environment and to reduce greenhouse gas emissions (GHG) and are continually assessing initiatives to reduce GHG in our operations. For example, in Egypt, we have moved to using associated-gas powered electricity generators rather than diesel-powered generators to reduce diesel usage and gas going to flare. Another initiative involves investigating ways in which solar panels can be used to generate electrical power at satellite sites. In Vietnam, we work closely with our state-owned partners and the Government to mitigate the impacts of our Joint Operations on climate change.

We have also been active in recognising the growing requirements from our shareholders and other stakeholders for increased transparency concerning the impact on the environment from our business decisions. We continue to provide full disclosure of our emissions, discharges and water usage. From a financial perspective, we support the implementation of the requirements of the Task Force on Climate-related Financial Disclosures (TCFD) and we have begun work on how we can meet these disclosures. Over the past three years, we have also participated in the CDP Climate Change Questionnaire and improved our score from the previous year.

Pharos remains committed to creating value for host countries and local communities as well as for staff and shareholders. In Vietnam commitment to local sourcing, employment, training and industry capacity building has continued with a training levy of $300,000 per year, in a ring-fenced fund to support developing future Vietnamese expertise in the industry. In Egypt, under the El Fayum and North Beni Suef Concession Agreements, the Company contributes a total of $200,000 per year split equally between the two Concessions, to support training and development within the industry.

In Vietnam we continue to invest in a programme of long-term social projects through the HLHVJOC Charitable Donation Programme. For example, this year, donations were made to the Hoang Van Thu High School, which has 1,410 students, to replace 400 sets of tables and chairs that were damaged due to flash floods. The programme continued its support of the Light Your Hope Scholarship Fund, which helps students from low-income backgrounds to pursue their academic studies at colleges and universities in Vietnam. In Egypt we are in the process of assessing where we can make the most valuable contribution to long-term social projects, both at the local level and more widely.

To reflect Pharos' ongoing commitment to operating a sustainable business, the Board has established the ESG Committee, with delegated authority from the Board. The ESG Committee, Chaired by John Martin, takes responsibility for overseeing and directing Pharos' work towards the goal of establishing and maintaining the highest operating standards across Environment, Social and Governance matters.

Culture and values

Pharos Energy represents more than just a name, it represents our values. A staff workshop was held to facilitate a review of our values and culture to reflect the Company we are today. The way we work and do business is based on five guiding principles, which we call The Pharos Way; Safety & Care, Energy & Challenge, Openness & Integrity, Empowerment & Accountability, and Pragmatism & Focus. They are important to the Board and important to our staff. Our approach is driven by the strength, skills and pragmatism of our people, and our shared purpose to have a positive impact on everything we do.

The Board is committed to and engaged in fostering a genuine two-way dialogue between the Company and the workforce. This year a workforce engagement session was held for London staff with John Martin, who is the designated Non-Executive Director for workforce engagement. Feedback from the meeting has resulted in positive changes across the organisation including improved communications and implementation of online HR processes. The Board remains hugely committed to this engagement and looks forward to developing this further.

Diversity and Inclusion remain important in our business. We reap the benefits that staff with diverse experience, perspectives and expertise have on our business. We currently have a team of 30 staff based in our London corporate head office and are very proud of the fact that women represent 60% of this workforce. Five out of six Group Heads of Function posts are also filled by women. Our diversity of experience, nationalities, cultural backgrounds, and genders gives us a broad and well-informed global outlook and helps drive our strategy.

Providing the right development opportunities to ensure existing staff have rewarding careers is also a focus at Pharos. We continue to support the ongoing development of long-term careers in all of our staff and empower them with training, lunch and learn sessions run by the staff and external courses.

In Egypt, we have established a gender-neutral recruitment process and, wherever possible, ensure that any vacancy is filled by an Egyptian national.

Board changes

Marianne Daryabegui was appointed as an Independent Non-Executive Director with effect from 15 March 2019. Marianne has extensive experience in oil and gas corporate transactions and capital markets. Ambassador António Monteiro, Non-Executive Director, retired from the Board of Pharos following conclusion of the Annual General Meeting (AGM) on 23 May 2019. In 2020, further Board changes will occur. In January 2020, Pharos announced that Ettore Contini, Non-Executive Director, would not stand for re-election to the Board of Pharos at the AGM on 20 May 2020, following 18 years of service. Geoffrey Green will be appointed as an Independent Non-Executive Director with effect from conclusion of the Company's upcoming AGM. Today, we announced the appointment of Lisa Mitchell, as an Independent Non-Executive Director with effect from 1 April 2020. John Martin, who was appointed as an Independent Non-Executive Director on 7 June 2018, will become Chair of the Board of Directors with effect from 13 March 2020, the date of my retirement. Having previously indicated my intention to retire, this appointment comes after a selection process, with Korn Ferry as search consultants, to identify a successor.

I am delighted that John Martin will succeed me as Chair and I wish him all the best in his new role. John has contributed a great deal of knowledge and expertise during his tenure as Independent non-executive Director. John has breadth and depth of experience in the industry, in leadership and in finance. There is no doubt that John will continue to make a great contribution to the Company and steer it in the right direction as it enters a new phase of return to growth. I would also like to thank Ambassador António Monteiro, Antony Maris, and Ettore Contini for their extensive service and commitment to the Company over the years. I wish them all the very best for the future.

Financial discipline

Capital discipline and financial stability are part of the Company's DNA and continue to underpin the business. Capital investment and divestment decisions are taken to allocate capital where it will provide the best risk-adjusted returns. The balance sheet remained strong throughout 2019 and the Company had solid cash flows and low cash operating costs. The Group finished the year with $58.5m in cash, after returning $27.4m to shareholders through 5.5 pence per share final dividend for the 2018 financial year and bringing the total return to shareholders since 2006 to approximately $530m. Overall loss for the year was $24.5m (2018: $27.7m profit). We have responded quickly to the current turbulence in the global economy, which has had a significant impact on the oil price. In Vietnam our production continues to command a significant premium to Brent and our business is profitable at low oil prices, while the largely discretionary nature of our planned investments in Egypt gives us considerable operational flexibility. Over the coming weeks and months, we will cut discretionary expenditure as appropriate to preserve balance sheet strength. We maintain our commitment to paying the dividend of 2.75 pence per share during 2020, as previously announced. Given the current uncertainties in the global economy, the Board has however decided to postpone these dividend payments until the macro environment becomes clearer.

Outlook - A wealth of organic opportunities, a clear strategy and outlook

Our strategic ambition is to deliver value for all our stakeholders through the responsible management of our current portfolio and the careful selection of growth opportunities in Asia and MENA. Such opportunities include those with near-term low-cost onshore development and, where appropriate, exploration assets with transformative potential.

Our principal strategy is the delivery of sustainable long-term growth whilst maintaining traditional commitment to shareholder returns through financial discipline. We have noted the recent pressure on share prices across the sector, our own included, and it is a source of frustration, given all the progress made by the Company this year. The Board and management team are not complacent about the situation. We are confident that our continued focus on sustainable long-term growth complemented by dividends as part of overall shareholder returns will continue to deliver value to our shareholders.

In Egypt, we have high quality oil production operations, development and exploration assets, and significant opportunities to build scale. Our contractual position offers significant flexibility and committed expenditure is low.

We have valuable established assets in Vietnam, with production from two fields (TGT & CNV) and further potential for growth from two additional exploration blocks (Blocks 125 & 126).

We further diversified our portfolio with eight licences offshore in Israel with the potential for gas with very little committed capital. We will also continue to assess M&A opportunities.

Sustainability is at the heart of everything we do. This applies equally to our financial discipline and commitment to a sustainable dividend, and to our approach to achieving high standards under our Environment, Social and Governance policies and programmes.

The recent outbreak of the COVID-19 virus, which started in China and is now spreading throughout the rest of the world, is impacting on the global economy. The forecast of a sustained period of low economic growth is affecting energy demand, which in turn is reflected in downward pressure on the oil price. In addition the recent geopolitics have put further downward pressure on the oil price resulting in a significant oil price drop. The oil price is one of the factors which drive our revenues and overall profitability and, in the event that the spread of the virus is not contained, and the geopolitical situation does not improve, there may be an impact on our results for the current year and beyond.

In addition, the spread of the virus has the potential to affect our operations in both Vietnam and Egypt. The Pharos Board is closely monitoring developments to ensure that all World Health Organization, Public Health England and all relevant in country advice is taken to protect employees, contractors and stakeholders.

Pharos Energy is guided by a Board with diverse experience, knowledge, skills and backgrounds. I leave you in very capable hands.

I would also like to thank all of our employees and contractors, ably led by the Executive team, for their continued hard work and commitment. At each engagement across the Group, the Board and I have been impressed by the responsibility and enthusiasm amongst our staff, as we continue to build a business with a return to growth.

Rui de Sousa
Chair

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Chief Executive Officer's statement

During 2019, Pharos' focus has been to integrate the Egyptian business and increase its production, maintain and proactively manage the production from the Vietnam fields and further strengthen the business through pursuit of organic and inorganic growth opportunities in order to build scale, underpinned by our relentless focus on financial discipline. I am pleased with the strategic progress that Pharos has made in 2019. We have diversified our asset base with new oil and gas exploration and production interests in Egypt and Israel, to complement our existing assets in Vietnam. We have further strengthened the Board. We continue to have an excellent safety record in Vietnam, and have enhanced our ESG initiatives across the business. We leave 2019 as a refreshed business, confident that the initiatives we have taken during the year have created an enhanced platform from which we can build future growth.

The strength of our business lies on our low cost commitments and operational flexibility. Operating a sustainable business remains a key focus to Pharos and we continue to make ESG enhancements across the business including new Board appointments, a new Board Committee and initiatives to reduce GHG emissions, and continued commitment to social investment programmes.

Egypt

The transaction to acquire the Egyptian assets completed on 2 April 2019. Following completion, work activities began, including drilling and waterflood programmes aimed at increasing production. In July 2019, a second drilling rig was contracted which started drilling in mid-July. Production from the El Fayum Concession averaged 5,055 barrels of oil per day (bopd) from 2 April to 31 December 2019. The exit rate of 6,007 bopd achieved at 31 December 2019 was short of the guided exit rate of 6,500 bopd due to operational delays. However, to compensate for these delays, three rigs have been running through 1Q 2020. The rigs have been drilling a combination of production and injection wells in new waterflood areas aimed to increase production.

Vietnam

Vietnam 2019 production averaged 7,081 boepd net to the Group's working interest. In 2019, activities were focused on increasing well productivity by optimising gas-lift for key wells, improving operational efficiencies and up-time, and significant well intervention. In January 2019, the TGT-H5-31P well drilled through the main reservoir sections and discovered oil in the deeper Oligocene section. The well continued to produce from the Miocene and shallower Oligocene during 2019.

Drilling activity for the approved 2019 work programme of two further firm wells began in late 2019. The first of these two wells, the TGT-H5-32I injector well, spudded in November 2019 and was completed at the end of December. In January 2020, the second well, TGT-H1-15X was spudded. This well is targeting not only Miocene and Oligocene producing sands but also appraising the deeper Oligocene D & E sequence play discovered by the TGT-H5 31P well in January 2019. The well will be fracture stimulated before testing to optimise flow from the deeper tight reservoirs before assessing their potential commerciality. The work on the FPSO gas compressors, which started in 2019, has progressed very well and it is anticipated that completion of the upgrade will be achieved ahead of the targeted 1H 2020. The upgraded compressors will be operating at a higher discharge pressure and we anticipate some production improvement from being able to inject deeper into the wells.

On Blocks 125 & 126 the acquisition of 7,107 km line of new 2D seismic, gravity and magnetic data was completed in May 2019, safely, on time and within budget.

Growth Opportunities

Pharos has a wealth of complementary oil and gas opportunities in its portfolio within Asia and MENA. We plan to utilise this platform to support further growth in Egypt and in the wider MENA region, both organically and through additional mergers and acquisitions. In December 2019, Israel signed an Egypt Gas Permit, significantly increasing the amount of natural gas it plans to export to Egypt. In October 2019, Pharos, Cairn Energy PLC and Israel's Ratio Oil Exploration, were awarded eight licences offshore Israel, a region of prolific gas discoveries. This complements our current portfolio geographically and diversifies it from our mainly oil producing assets. On 24 December 2019 Pharos signed the onshore North Beni Suef (NBS) Concession in Egypt. The NBS Concession is located immediately south of the El Fayum Concession.

Finances

Pharos' balance sheet remained strong throughout 2019 and the Group had robust revenue of $189.7m representing an 8% increase over the prior year (2018: $175.1m),lower cash operating costs of $10.45 boe (2018: $13.63 boe) and solid cash flows, and an overall loss for the year of $24.5m (2018: $27.7m profit).The Group finished the year with cash balances as at 31 December 2019 of $58.5m and net debt of $41.5m, after funding its operating and capital expenditure programmes and returning $27.4m to shareholders in its 2018 dividend paid in May 2019.

Environment, Social and Governance

Safety will always be of the highest priority within the business. Our Joint Operations have achieved an outstanding record of safety in Vietnam, and we will work to continue this success in Egypt. Our goal is to have a responsible and positive presence in the regions in which we operate, resulting in value for host countries, local communities, employees, contractors and shareholders. The JOC's have invested over $1 billion into its oil and gas projects located offshore southern Vietnam, making Pharos one of the largest UK investors in the country. Pharos' current producing interests in the TGT and CNV Fields, together place Pharos amongst Vietnam's largest oil producers. Pharos' Joint Operations have achieved an outstanding record of safety and have contributed to national economic growth through local sourcing, employment, training and industry upskilling.

Reduction in GHG emissions across our business is important at Pharos. For example, in Egypt, at the North Silah Deep Site, there has been a 30% reduction in flared gas. Another initiative has been the installation of associated-gas powered electricity generators eliminating 730,000 litres of diesel use per year and associated emissions in Phase One, with further Phase Two reductions in progress.

Our people drive the value from our assets. Pharos is guided by experienced and committed teams in the UK, Vietnam and Egypt and I would like to take this opportunity to thank all of our staff for their hard work and contributions.

Another change in 2019 was the announcement of a new Chair after Rui de Sousa, the current Chair, expressed his intention to retire. Rui has been Chair during some of our most exciting but also some of our most challenging years and I would like to thank him for his committed service throughout his tenure. Rui has been a valued colleague and friend and I wish him all the very best for the future. John Martin, current Independent Director and Chair of the Audit and Risk Committee will succeed Rui. I look forward to continuing to work with John as the Company delivers on our strategy of sustainable long-term growth. I wish John all the best in his new role. I also look forward to welcoming and working with Geoffrey Green and Lisa Mitchell who are joining the Board of Pharos as Independent Non-Executive Directors.

Outlook

Our distinctive and diverse portfolio in Asia and MENA supports our strategy of delivering long-term, sustainable growth and returns. We are focusing on both growth and cash flow from our current portfolio and potential M&A opportunities.

Our focus is on growth opportunities in Asia and MENA that provide near-term low-cost onshore development and, where appropriate, exploration assets with transformative potential.

Despite the macroeconomic challenges, there is much to look forward to for 2020 and beyond;

- The continuation of a low cost multi-well producer and water-injector programme to optimise the phasing of the development of the discovered oil resources in El Fayum, consistent with current markets conditions.

- The continued high value production from the TGT and CNV Fields in Vietnam

- The production performance of the deep Oligocene tight oil potential at TGT in offshore Vietnam

- The assessment of a number of low-cost and low-risk conventional exploration targets and an unconventional resource play in El Fayum

- The evaluation of the low-cost oil potential of the recently awarded North Beni Suef Concession in Egypt, which straddles the Western and Eastern Deserts. We will seek to defer our commitments wherever possible.

- The low cost data evaluation of possibly transformational:
    - Gas potential of our material acreage position in Israel and;
    - Oil potential in Blocks 125 & 126 in the undrilled Phu Khanh Basin offshore Vietnam

All of these activities are underpinned by our capital discipline, a consistently strong and efficient balance sheet, a portfolio of assets with a competitive low operating cost, steady cash flows and a highly experienced and committed management team. Times are challenging but we believe we have the assets and the people to weather the storm and flourish.

Ed Story
President and Chief Executive Officer

Review of Operations

Egypt

In Egypt, Pharos holds a 100% working interest in the El Fayum Concession in the low-cost and highly oil prolific Western Desert, c.80km south west of Cairo and in proximity to local energy infrastructure. It is operated by Petrosilah, a 50/50 JV between Pharos and Egyptian General Petroleum Corporation (EGPC). The concession has 10 oil fields, the largest three of which form the Greater Silah Area.

The acquisition of the Egyptian assets was completed on 2 April 2019.

The El Fayum Concession has 1,564km^2 of exploration acreage, of which c.70% is covered by existing 3D seismic, with multiple identified exploration prospects and leads set in proven petroleum systems, as well as a large under explored area in the northern portion of the concession and deep untested pre-Kharita potential in the south.

Egypt Production

Production from the El Fayum Concession averaged 5,055 barrels of oil per day (bopd) from 2 April to 31 December 2019. The exit rate of 6,007 bopd achieved at 31 December 2019 was short of the guided exit rate of 6,500 bopd due to operational delays.

Egypt production guidance for 2020 (6,500 to 7,500 bopd) as announced on 8 January 2020 is suspended whilst the scale of our discretionary work programme for the rest of the year is under review.

Egypt Development and Operations

El Fayum (100% Participating interest; operated by Petrosilah JOC)

Other than four outstanding exploration commitment wells, the forward drilling programme is discretionary providing the company with significant operational flexibility.

Since completion of the acquisition, ten development wells and three injector wells have been drilled within the Concession area. This drilling programme has been focused on increasing production from the core areas of the Greater Silah Area and on further appraisal and development of the North East Tersa satellite field.

At the time of completion in April 2019, one drilling rig was operating on the concession. A second drilling rig, which had been cold stacked, commenced operations in mid-July. In August, the same rig underwent a 45-day maintenance programme, after which its performance improved. A third drilling rig was contracted and commenced operations in December 2019 All three drilling rigs will be operating through 1Q 2020 to compensate for the earlier operational delays, after which the drilling programme will revert to two rigs.

Operations have focused on optimising existing waterflood areas, improving artificial lift performance, and restoring production from inactive wells. The workover rig count was increased from two to three in October to accelerate new well completions and perform well maintenance activities.

Reprocessing of the 3D seismic data across El Fayum started in August, to improve resolution for future in-fill wells, and to optimise the location of new wells in the waterflood areas. The proposed new 3D seismic acquisition in the northern, under-explored parts of El Fayum awaits military approval and clearance of unexploded ordinance.

Exploration drilling activity is currently on hold while we focus on development, production and cash flow.

2020 Work Programme

The forward plan calls for a combination of production and injection wells to augment waterflood deployment and increase production. Subsurface static and dynamic models are being updated for the results of the 2019 drilling campaign. This will allow further optimisation of waterflood patterns and well spacing which will in turn improve sweep efficiency and increase well deliverability.
The discretionary drilling programme provides the company with flexibility as to the number of rigs contracted but each rig is expected to drill on average one well per month.

El Fayum Exploration

Over 100m of core in Abu Roash F (AR F) section was acquired in the Al Medina 1X exploration well drilled in January 2019. Special core analysis has confirmed high total organic content, and subsequent geochemical analyses have confirmed that the AR F at the depth in the well has just entered the generative oil window at this location. Additional wells to the north, where the section deepens and should be optimal for expulsion, will be required to test the commercial feasibility of this unconventional resource play in due course.

Egypt Operational Outlook

- 2020 Production guidance of 6,500-7,500 bopd is suspended whilst the scale of our discretionary work programme for the rest of the year is under review
- Phase Two programme of associated gas powered electrical generators is planned to further reduce GHG emissions
- Implementation of studies to further reduce GHG emissions such as investigating satellite wellsite(s) solar power sources
- Continue in-fill drilling across the fields in the Greater Silah area and selective drilling in satellite fields
- Proceed with waterflood deployment
- Continue defining appraisal targets/mature exploration targets in areas covered by existing 3D seismic in El Fayum and newly acquired North Beni Suef Concession

Vietnam

Blocks 16-1 and 9-2, which contain the TGT and CNV fields respectively, are located in shallow water in the hydrocarbon-rich Cuu Long Basin, near the Bach Ho Field, the largest field in the region with production already in excess of one billion barrels of oil equivalent. The Blocks are operated through non-profit Joint Operating Companies in which each partner holds an interest equivalent to its share in the respective Petroleum Contract. The Group holds a 30.5% working interest in Block 16-1 and a 25% working interest in Block 9-2 and its partners in both blocks are PetroVietnam Exploration and Production, a subsidiary of the national oil company of Vietnam and PTTEP, the national oil company of Thailand.

Vietnam Production

Production in 2019 from the TGT and CNV fields net to the Group's working interest average was 7,081 boepd (2018: 7,274 boepd). This is in line with production guidance of 6,500-7,500 boepd.

TGT 2019 production averaged 17,847 boepd gross and 5,382 boepd net to Pharos (2018: 18,857 boepd gross and 5,686 boepd net). CNV production averaged 6,793 boepd gross and 1,699 boepd net to Pharos (2018: 6,352 boepd gross and 1,588 boepd net).

The Group's Vietnam production guidance for 2020 of 5,500-6,500 boepd net, as announced on 8 January 2020, remains unchanged. Actual production at the higher end of this range will depend on several operational factors, including the performance of the two new wells in TGT, the results of the planned well intervention program and general field reservoir performance.

Vietnam Development and Operations

Block 9-2 – CNV Field (25% working interest; operated by HVJOC)

The CNV Field is located in the western part of Block 9-2, offshore southern Vietnam and is operated by the HVJOC. The CNV Field reservoir is fractured granitic basement, which produces a volatile oil with a high gas to oil ratio. Exploitation is dependent on the fracture interconnectivity to deplete the reservoir efficiently. Accordingly, traditional reservoir properties and Stock Tank Oil Initially In Place (STOIIP) calculations are not straightforward, but managed properly the fractured basement reservoir declines at a much slower rate than is commonly seen in clastic reservoirs.

Hydrocarbons produced from CNV are transported via subsea pipeline to the Bach Ho Central Processing Platform (BHCPP), where wet gas is separated from oil and transported via pipeline to an onshore gas facility for further distribution. The crude oil is stored on a floating, storage and offloading FPSO vessel prior to sale, and realises a significant premium to Brent.

2019 Activity on CNV

In October 2019, temporary conversion of the water injection pipeline to gas lift was completed and the JOC is now focussed on improving CNV-5P-ST2 well performance. Later in 2020, conversion of the pipeline will be made permanent allowing increased gas lift volumes. At that point it will be possible to flow test the CNV 6PST1.

No further drilling activities are currently planned on the CNV field.

Block 16-1 – TGT Field (30.5% interest; operated by HLJOC)

TGT 2019 production averaged 17,847 boepd gross and 5,382 boepd net to Pharos (2018: 18,857 boepd gross and 5,686 boepd net).

The TGT field is located in the north eastern part of Block 16-1, offshore southern Vietnam and is operated by the HLJOC. The Block 16-1 petroleum contract was signed in December 1999, with the first commercial discovery made in 2005. TGT is a simple structure, with a complex series of stacked producing intervals, extending over 16km and with hydrocarbons located in at least five major fault blocks. The producing reservoirs comprise a complex series of over 80 clastic reservoir intervals of Miocene and Oligocene age. Each interval requires individual reservoir management to optimise field recovery. The TGT field continues to be a rewarding investment for Pharos Energy, with its attractive fiscal terms, low operating costs and an oil quality which realises a significant premium to Brent.

The first well head platform, H1-WHP, came on stream in August 2011, followed by the H4-WHP in July 2012 and the H5-WHP in August 2015. Crude oil from TGT is transported via subsea pipeline to the FPSO, where it is processed, stored and exported by tankers to regional oil refineries. Gas produced from the field is exported by pipeline to the nearby Bach Ho facilities for processing and onward transportation to shore by pipeline to supply the Vietnamese domestic market.

<u>2019 Activity on TGT</u>
A programme of well intervention activity was the prime focus of TGT operations in 2019. In addition, in January 2019, the TGT-H5-31P well was drilled through the main reservoir sections and discovered oil in the deeper reservoirs of the Oligocene. A single DST was conducted, and oil flowed to surface from the deeper D & E sections under controlled conditions. The well continues to produce from the shallower main reservoirs in the Oligocene and Miocene section.

The rig, contracted through PV Drilling, executed the approved 2019 work programme of two firm and two contingent infill wells. The first of the two firm wells, the TGT-H5-31I, injector well, spudded in November 2019. The well was initially completed as an oil producer but will be shortly converted to water injection.

The rig then moved to the north to drill the TGT-H1-15X well, which is targeting not only the Miocene and Oligocene producing sands but also appraising the deeper Oligocene D & E sequence play discovered by the TGT-H5-31P well in January 2019. The well spudded on 19 January 2020, reached target depth (TD) on 28 February 2020, and is to be fracture stimulated and completed as a dual producer. Operations are expected to be completed in 2Q 2020.

The production performance of the TGT-H1-15X well deeper section will be an important factor in assessing the ultimate recovery factor and hence commercial potential of this new HPHT play for which the STOIIP estimate across the entire structure is approximately 225 million barrels.

TGT Compressors and FPSO Tie-In Agreement (TIA)
Delivery of the upgraded bundles for the Gas Turbine compressors for the Leased FPSO was made in December and completion of the upgrade has progressed well and is anticipated to complete ahead of the expected 1H 2020. The upgraded compressors will be operating at a higher discharge pressure and we anticipate some production improvement from being able to inject gas deeper into the wells.

Negotiations on the TIA between the HLJOC and the current counterparty, Thang Long Joint Operating Company (TLJOC) continue.

<u>2020 Work Programme</u>
Operations are focussed on completing testing and producing from the TGT-H1-15X well.

An updated Full Field Development Plan (FFDP), which includes drilling six TGT producer wells in 2021 has been issued to all partners. We anticipate approvals from partners, and final approvals from PetroVietnam and the Vietnamese Government in 2Q 2020.

<u>Vietnam Exploration</u>
Blocks 125 & 126 (70% operated working interest)
Exploration Blocks 125 & 126 are in moderate to deep waters in the under-explored Phu Khanh Basin.

The Phu Khanh is similar in geological style to all the productive Tertiary basins across South East Asia and a small oil discovery in the shallow inboard part of the basin confirms that it contains an active petroleum system.

The acquisition of 7,107 km of 2D seismic, gravity and magnetic data was completed on 31 May 2019 on time and within budget. Initial interpretation of the seismic confirms multiple structural and stratigraphic plays across the basin. The forward work plan is to acquire a 3D seismic survey (minimum 500 km²) in 2020-2021 over high-graded prospective areas.

<u>Vietnam Outlook</u>
- 2020 production guidance 5,500 - 6,500 boepd net
- Proactively manage the existing producing reservoirs
- Production performance of the new deeper Oligocene D & E sequence play at TGT
- 2D interpretation and 3D Seismic acquisition over selected areas of Blocks 125 & 126 maybe deferred until 2021
- Approval of the updated TGT FFDP

HSES

Safety is the highest priority in our business, and we are committed to operating safely and responsibly at all times and to providing a safe and healthy working environment for staff and contractors.

In Vietnam, we continue to work with our partners to maintain a high level of safety and we are proud of our record of zero Lost time Injury (LTI) frequency rate with more than 25 million man-hours since inception. In Egypt, the Petrosilah JV obtained zero lost time injury frequency rate with 9.7 million man-hours since completion of Merlon acquisition on 2 April 2019. The Company is looking at ways it can reduce GHG emissions across its operations. One such initiative in Egypt, includes the use of associated -gas-powered generators. The gas comes from the wells themselves and replaces diesel usage at the sites. Phase One utilisation of these generators started in June 2019. Reductions in GHG emissions were achieved through the elimination of 730,000 litres of diesel use per year and associated emissions. There was also a 30% reduction in flared gas at the North Silah Deep site.

A Phase Two associated gas generator programme is planned to reduce CO2e emissions by a further 2,330 tonnes and is currently expected to start in May 2020. Satellite wellsite(s) solar power sources are also under investigation.

We support local capacity building during the exploration or development phases of a project to ensure a positive imprint and legacy. Our licence agreements include a degree of local content, which commits us to hire locally where possible and provide training to develop new skills. In Vietnam, a training levy of $150,000 for each JOC, a total of $300,000 per year, is a ring-fenced fund to support the development of future Vietnamese expertise in the industry. In Egypt, under the El Fayum and North Beni Suef Concession Agreements, the Company commits to a total of $200,000, which is split equally between the two concessions, for development and training of employees.

We understand that our success is reliant upon building strong relationships and being welcomed as a responsible partner in our host communities. We invest in social projects for their long-term benefit. In 2019, our social investment in Vietnam was through the HLHVJOC Charitable Donation programme as set out in our licence terms to which we contributed $245,379. This supported 12 community and charitable investment partnerships mainly in education and healthcare support. In Egypt, we are in the process of assessing where we can make the most valuable contribution to long-term social projects, both at the local level and more widely.

New Business

In addition to the acquisition of the El Fayum Concession, which is a high quality oil concession with significant development upside and exploration optionality, Pharos further diversified its portfolio in 2019 through acquiring further exploration acreage in Egypt and in Israel.

Egypt - North Beni Suef

On 24 December 2019, Pharos signed the North Beni Suef (NBS) Concession Agreement, which was awarded in February 2019 during the EGPC 2018 International Bid Round. The NBS Concession is located onshore immediately south of the El Fayum Concession. Pharos is the operator with 100% working interest.

Israel

On 28 October 2019, Pharos, together with Cairn Energy PLC and Israel's Ratio Oil Exploration signed eight offshore licences that were awarded during the second offshore bid round in Israel. Each party has an equal working interest and Cairn is the designated operator.

In 2020, Pharos and its partners are intending to commence reprocessing of all the existing 3D seismic vintages across the eight licences to provide a uniform data set.

Pharos continues to evaluate M&A opportunities by reference to our strategic, financial and operational criteria and to only pursue transactions if they are determined by the Board to be in the best interest of shareholders. The Company continues to evaluate a number of opportunities in accordance with these criteria.

Group Reserves and Contingent Resources

The Group Reserves Statistics table below summarises our reserves and contingent resources based on the company's unitised working interest in each field. Gross reserves and contingent resources have been independently audited by RISC Advisory Pty Ltd (RISC) for Vietnam and McDaniel & Associates Consultants Ltd. (McDaniel) for Egypt.

Group Reserves Statistics

Net Working Interest (mmboe)	TGT	CNV	Vietnam[3]	Egypt[4]	Group
Oil & Gas 2P Commercial Reserves [1,2]					
As of 1 January, 2019	16.2	6.8	23.0	-	23.0
As at acquisition date (2 April 2019)	-	-	-	21.6	21.6
Production	(2.0)	(0.6)	(2.6)	(1.4)	(4.0)
Revision	1.2	(0.2)	1.0	8.3	9.3
2P Commercial Reserves as of 31 December 2019	15.4	6.0	**21.4**	**28.5**	**49.9**
Oil & Gas 2C Contingent Resource [1,2]					
As of 1 January, 2019	12.2	4.2	16.4	-	16.4
As at acquisition date (2 April 2019)	-	-	-	22.3	22.3
Revision	(3.7)	0.4	(3.3)	1.2	(2.1)
2C Contingent Resources as of 31 December 2019	8.5	4.6	**13.1**	**23.5**	**36.6**
Total Group 2P Reserves & 2C Contingent Resources [3,4] As of 31 December 2019	**23.9**	**10.6**	**34.5**	**52.0**	**86.5**

(1) Reserves and contingent resources are categorised in line with 2018 SPE standards.
(2) Assumes an oil equivalent conversion factor of 6,000 standard cubic feet per barrel of oil equivalent.
(3) Reserves and Contingent Resources have been independently audited by Risc Advisory Pty Ltd.
(4) Reserves and Contingent Resources have been independently audited by McDaniels.

The company's reserves and resources more than doubled as a result of the acquisition of the El Fayum asset in Egypt, which completed on 2 April 2019.

Vietnam Reserves and Contingent Resources

In accordance with the requirements of its Reserve Base Lending Facility, the company commissioned RISC to provide an independent audit of gross (100% field) reserves and contingent resources for TGT and CNV as of 31 December 2019.

Vietnam Reserves Statistics

Net Working Interest (mmboe)	TGT	CNV	Vietnam
Oil & Gas 2P Commercial Reserves [1,2]			
As of 1 January, 2019	16.2	6.8	23.0
Production	(2.0)	(0.6)	(2.6)
Revision	1.2	(0.2)	1.0
2P Commercial Reserves as of 31 December 2019	15.4	6.0	**21.4**
Oil & Gas 2C Contingent Resource [1,2]			
As of 1 January, 2019	12.2	4.2	16.4
Revision	(3.7)	0.4	(3.3)
2C Contingent Resources as of 31 December 2019	8.5	4.6	**13.1**
Total Vietnam 2P Reserves & 2C Contingent Resources [3] As of 31 December 2019	**23.9**	**10.6**	**34.5**

(1) Reserves and contingent resources are categorised in line with 2018 SPE standards.
(2) Assumes an oil equivalent conversion factor of 6,000 standard cubic feet per barrel of oil equivalent.
(3) Reserves and contingent resources have been independently audited by RISC.

On TGT, 2P reserves were revised higher as a result of the inclusion of additional wells in the revised Full-Field Development Plan (FFDP). TGT contingent resources were revised downwards due to a corresponding reduction in potential new wells in the 2C category in the revised FFPD.

On CNV, the 2P reserves position at 31 December 2019 was revised slightly downwards as one of the wells drilled in late 2018 has been cleaning-up at slower rate than previously anticipated. CNV contingent resources have been revised upwards because of the inclusion of a potential future sidetrack to an existing producer.

Egypt Reserves and Contingent Resources

Egypt Reserves Statistics

Net Working Interest (mmbbl)	**Egypt**
Oil & Gas 2P Commercial Reserves [1,2]	
As of 1 January, 2019	-
As at acquisition date (2 April 2019)	21.6
Production	(1.4)
Revision	8.3
2P Commercial Reserves as of 31 December 2019	**28.5**
Oil & Gas 2C Contingent Resource [1,2]	
As of 1 January, 2019	-
As at acquisition date (2 April 2019	22.3
Revision	1.2
2C Contingent Resources as of 31 December 2019	**23.5**
Total Egypt 2P Reserves & 2C Contingent Resources [3] As of 31 December 2019	**52.0**

(1) Reserves and contingent resources are categorised in line with 2018 SPE standards.
(2) Assumes oil equivalent conversion factor 6,000 scf/boe.
(3) Reserves and Contingent Resources have been independently audited by McDaniel.

This is the first time the company has reported Egypt reserves following completion of the El Fayum acquisition on 2 April 2019. McDaniel estimates of 2P reserves are higher than previous estimates supporting the acquisition as more definitive drilling plans have facilitated the re-categorisation of some 2C volumes to 2P.

Group's Working Interest Reserves and Contingent Resources

El Fayum Fields at 31 December 2019 (mmboe)

Reserves	1P	2P	3P
Oil	17.7	28.5	33.1
Contingent Resources	1C	2C	3C
Oil	1.5	23.5	41.5
Sum of Reserves and Contingent Resources [1]	1P & 1C	2P & 2C	3P & 3C
Total	**19.2**	**52.0**	**74.6**

(1) Reserves and Contingent Resources have been audited independently by McDaniel's

TGT Field at 31 December 2019 (mmboe)

Reserves[3]	1P	2P	3P
Oil	10.4	14.6	18.5
Gas[1]	0.4	0.8	1.3
Total	**10.8**	**15.4**	**19.8**
Contingent Resources[3]	1C	2C	3C
Oil	4.8	8.2	11.5
Gas[1]	0.1	0.2	0.4
Total	**4.9**	**8.5**	**11.9**

Sum of Reserves and Contingent Resources[2]	1P & 1C	2P & 2C	3P & 3C
Oil	15.2	22.8	29.9
Gas[1]	0.5	1.1	1.7
Total	**15.7**	**23.9**	**31.7**

(1) Assumes oil equivalent conversion factor of 6,000 standard cubic feet per barrel of oil equivalent.
(2) The summation of Reserves and Contingent Resources has been prepared by the Company.
(3) Reserves and Contingent Resources have been audited independently by RISC.

CNV Field at 31 December 2019 (mmboe)

Reserves[3]	1P	2P	3P
Oil	2.9	4.0	5.1
Gas[1]	1.4	2.0	2.5
Total	**4.3**	**6.0**	**7.6**
Contingent Resources[3]	1C	2C	3C
Oil	1.2	3.1	5.0
Gas[1]	0.6	1.5	2.5
Total	**1.8**	**4.6**	**7.5**
Sum of Reserves and Contingent Resources[2]	1P & 1C	2P & 2C	3P & 3C
Oil	4.1	7.1	10.1
Gas[1]	2.0	3.5	5.0
Total	6.1	10.6	15.1

(1) Assumes oil equivalent conversion factor of 6,000 standard cubic feet per barrel of oil equivalent.
(2) The summation of Reserves and Contingent Resources has been prepared by the Company.
(3) Reserves and Contingent Resources have been audited independently by RISC.

PHAROS ENERGY

11 March 2020
2019 Preliminary Results

Financial Review

Finance strategy

Our finance strategy continues to underpin the Group's business model and goes hand in hand with our commitment to building shareholder value through capital growth and sustainable dividends.

The finance strategy is founded on three core areas – capital discipline, capital allocation and capital return.

In this current period of turmoil, with oil prices at a multi-year low, these three core areas come into sharp focus and will guide the business to preserve capital and balance sheet strength at this time.

Pharos' results for this year-end are the first to include our new concession in Egypt, El Fayum, acquired on 2 April 2019 through the Merlon acquisition.

The acquisition is a significant step forward in Pharos' key objective of expanding and diversifying its resource base to create a full-cycle, growth orientated E&P Company of scale. Our new presence in Egypt has created a platform from which we can build future growth in Egypt and the wider Middle East & North Africa (MENA) region.

The consideration for the transaction was a mixture of cash and shares, with the cash element funded from internally generated free cash flow together with a Reserve Based Lending facility (RBL) over our assets in Vietnam.

Consideration	$m
Cash paid to Merlon shareholders	136.1
Value of shares issued to Merlon shareholders	59.7
Repayment of Merlon RBL	19.4
Total consideration	215.2

All assets and liabilities acquired in the El Fayum business as at 2 April 2019 have been brought on to the balance sheet at fair value and the results of that business from that date forward are included as a new and separate business segment.

Operating performance

The Group continued to deliver robust revenue of $189.7m, representing an 8% increase over the prior year (2018: $175.1m). The revenue for Vietnam of $155.5m (2018: $175.1m) reduced year on year largely as a result of the lower average realised crude oil price of $68.48/bbl (2018: $74.34/bbl), a premium to Brent of $4/bbl (2018: $3/bbl), and a slight decline in production from 7,274 boepd to 7,081 boepd. On 2 April 2019 we completed the acquisition of the Egyptian assets and the revenue over the period to year end was $34.4m. Revenues from the El Fayum Concession are stated after accounting for government entitlements. There was a small realised loss on our hedge position in the year of $0.2m (2018: $nil).

Group cash operating costs were $41.5m[1] (2018: $36.2m). Vietnam decreased over 24% from $36.2m to $27.6m mainly as a result of the improved terms of the extended FPSO and bareboat charter contracts. The cash operating costs of the Egyptian assets feature for the first time and were $13.9m for the period following completion to end of 2019. The Group operating cost per barrel was $10.45 (2018: $13.63), an improvement of 23%. In Vietnam, the per barrel cost was $10.69/boe (2018: $13.63), a decrease of over 21%. In Egypt the operating cost per barrel was $10.01/boe.

Group DD&A associated with producing assets increased to $74.4m (2018: $51.8m). This was partly due to the introduction of the Egyptian assets for the first time, which added $14.2m, plus an increase of $8.4m reflecting the reserves adjustments on both TGT and CNV made at the beginning of the year.

Administrative expenses for the year totalled $23.1m (2018: $28.4m). After adjusting for the non-cash items under IFRS 2 Share Based Payment and IFRS 16 Leases, the administrative expense is $18.8m (2018: $26.0m), which included $1.8m (2018: $9.6m) on new venture third party costs, reflecting continued effort on portfolio rationalisation and capturing new business, as well as $1.8m for the Egyptian assets following completion.

1 See Non-IFRS measures at page 39

Operating profit from continuing operations for the year was $38.0m (2018: $42.1m, excluding a $37.8m reversal of an impairment charge on CNV), reflecting the lower commodity price environment throughout the year.

Other/exceptional expenses for the year totalled $16.7m (2018: $0) of which $13.6m related to the assignment fee for the acquisition of El Fayum and $3.1m was incurred for redundancy payments to staff.

Finance costs increased to $11.5m (2018: $2.5m). This was mainly due to $7.0m (2018: $0) of RBL related interest and expenses and $2.7m (2018: $0.6m) amortisation of capitalised borrowing costs.

Taxation

The tax expense for the year relates exclusively to tax charges in Vietnam as no taxable profit arose in Egypt. The charge decreased to $38.2m (2018: $42.1m, excluding the impact of the reversal of the impairment charge $13.9m) in line with profit. The Group's effective tax rate approximates to the statutory tax rate in Vietnam of 50%, after adjusting for non-deductible expenditure and tax losses not recognised after expenditure. In Egypt, under the terms of the concession all local taxes arising are settled by EGPC.

Loss/Profit post tax

The post tax loss for the year from continuing operations and prior to exceptional costs was $9.8m (2018: loss $13.7m, prior to reversal of impairment). Overall loss for the year was $24.5m (2018: $27.7m profit).

Cash flow

Net cash flow from continuing operations amounted to $72.3m (2018: $55.9m).

Net operating cash flow for the year (before working capital movements) was $117.2m (2018: $96.7m).

Capital expenditure on continuing operations for the year was $63.4m (2018: $22.4m). This increase year on year is due to the ramp up of activity, with the acquisition of 2D seismic data on Blocks 125 & 126 in Vietnam, commencement of the TGT drilling programme and continuous drilling activity within Egypt.

Net cash flows from investing activities included a cash outflow for the cash consideration of El Fayum of $153.1m.

A final dividend for the year of $27.4m (2018: $23.3m) was paid to shareholders in May 2019 following approval at the 2019 AGM of a final dividend of 5.50p (2018: 5.25p) per share.

Cash operating cost per barrel*	2019	2018**
	$m	$m
Cost of sales	128.6	104.6
Less:		
Depreciation, depletion and amortisation	(74.4)	(51.8)
Production based taxes	(12.3)	(15.1)
Inventories	3.5	(0.1)
Other cost of sales	(3.9)	(1.4)
Cash operating costs	41.5	36.2
Production (BOEPD)	12,136	7,274
Cash operating cost per BOE ($)	10.45	13.63

DD&A per barrel*	2019 $m	2018** $m
Depreciation, depletion and amortisation	74.4	51.8
Production (BOEPD)	12,136	7,274
DD&A per BOE ($)	18.74	19.51

*Cash operating cost per barrel and DD&A per barrel are alternative performance measures.

Cash operating cost per barrel by Segment	Vietnam $m	Egypt*** $m	Total $m
Cost of sales	99.1	29.5	128.6
Less:			
Depreciation, depletion and amortisation	(60.2)	(14.2)	(74.4)
Production based taxes	(12.3)	-	(12.3)
Inventories	3.5	-	3.5
Other cost of sales	(2.5)	(1.4)	(3.9)
Cash operating costs	27.6	13.9	41.5
Production (BOEPD)	7,081	5,055	12,136
Cash operating cost per BOE ($)	10.69	10.01	10.45

DD&A per barrel by Segment	Vietnam $m	Egypt*** $m	Total $m
Depreciation, depletion and amortisation	60.2	14.2	74.4
Production (BOEPD)	7,081	5,055	12,136
DD&A per BOE ($)	23.29	10.25	18.74

** 2018 included Vietnam only
*** Egypt from the date of acquisition

Tax strategy and total tax contribution

Tax is managed proactively and responsibly with the goal of ensuring that the Group is compliant in all countries in which it holds interests. Any tax planning undertaken is commercially driven and within the spirit as well as the letter of the law. This approach forms an integral part of Pharos' sustainable business model.

The Group's Code of Business Conduct & Ethics seeks to build open, cooperative and constructive relationships with tax authorities and governmental bodies in all territories in which it operates. The Group supports greater transparency in tax reporting to build and maintain stakeholder trust. We have a number of overseas subsidiaries which were set up some time ago and the Group is now proactively planning to bring these into the UK tax net to ensure greater transparency and comparability. No additional taxes are expected to be due as a result of this exercise.

During 2019, the total payments to governments for the Group amounted to $232.7m (2018: $202.4m), of which $165.5m or 71% (2018: $196.5m or 97%) was related to the Vietnam producing licence areas, of which $113.5m (2018: $133.0m) was for indirect taxes based on production entitlement. Egypt was paid a total of $63.1m of which $46.4m relates to indirect taxes based on production entitlement.

The breakdown of other contributions, including payroll taxes and other taxes is contained within the additional information in the 2019 Annual Report and Accounts.

Movements in Property, Plant and Equipment	2019 $m	2018 $m
As at 1 Jan	507.2	505.9
Egypt assets acquired	184.7	-
Capital spend	53.3	15.5
Revision in decommissioning assets	7.2	-
DD&A- Oil and gas properties	(74.4)	(51.8)
DD&A – Other assets	(1.1)	(0.2)
Reversal of impairment	-	37.8
As at 31 Dec	676.9	507.2

Property, Plant and Equipment	669.6	37.8
Right-to-use-Asset (IFRS 16 Impact)	7.3	507.2
As at 31 Dec	676.9	507.2

Balance sheet

Intangible assets increased during the period to $20.4m (2018: $5.8m). $10.1m was added in relation to Blocks 125 & 126 in Vietnam where 2D seismic was acquired. In Egypt $4.2m was incurred, including $2.4m for North Beni Suef. The remaining $0.3m relates to the assets acquired in Israel in the bid round. Licences were signed in October 2019.

The movements in the Property, Plant and Equipment asset class are shown above.

There are no impairments to the Group's producing assets (2018: Impairment reversal $37.8m)

Cash is set aside into abandonment funds for both TGT and CNV. These abandonment funds are operated by PetroVietnam and, as the Group retains the legal rights to the funds pending commencement of abandonment operations, they are treated as other non-current assets in our financial statements.

Oil inventory was $8.2m at 31 December 2019 (2018: $4.1m), of which $7.7m related to Vietnam and $0.5m to Egypt. Trade and other receivables increased to $41.2m (2018: $19.6m) of which $19.3m (2018: $17.3m) relates to Vietnam and $21.3m to Egypt, mainly due to timing of crude oil cargos.

Cash and cash equivalents decreased to $58.5m (2018: $240.1m) mainly due to cash consideration for the acquisition of El Fayum of $136.1m and $19.4m for the repayment of the Merlon RBL.

Trade and other payables increased to $35.5m (2018: $22.9m), of which $18.8m relates to the newly acquired Egypt payables. Tax payable was $8.8m (2018: $5.2m).

Borrowings increased to $98.1m (2018: $95.6m) mainly due to the amortisation of the capitalised borrowing cost $2.7m (2018: $0).

Long-term provisions comprise the Group's decommissioning obligations in Vietnam which have increased from $51.7m at 2018 year-end to $60.5m at 2019 mainly due to new provisions and changes in estimates of $7.2m and the unwinding of the discount of $1.6m. No decommissioning obligation exists in Egypt under the terms of the Concession Agreement.

Own shares

The Pharos EBT holds ordinary shares of the Company for the purposes of satisfying long-term incentive awards for senior management. At the end of 2019, the trust held 2,897,094 (2018: 2,897,094), representing 0.71% (2018: 0.85%) of the issued share capital.

In addition, as at 31 December 2019, the Company held 9,122,268 (2018: 9,122,268) treasury shares, representing 2.24% (2018: 2.67%) of the issued share capital.

Going concern

Pharos regularly monitors its business activities, financial position, cash flows and liquidity through detailed forecasts. Scenarios and sensitivities are also regularly presented to the Board, including changes in commodity prices and in production levels from the existing assets, plus other factors which could affect the Group's future performance and position.

The key assumptions and related sensitivities include a "Reasonable Worst Case" (RWC) sensitivity with a reduction in Brent oil to $54/bbl in 2020 and $58.5/bbl thereafter. The Board has considered the risk of further oil price falls as a result of the recent impact on commodity prices of the global outbreak of the COVID-19 virus and Saudi Arabia's decision to increase production. An additional sensitivity has been developed based on a Brent oil price of $30/bbl in 2020, increasing by $5/bbl in each quarter of 2021, concurrent with reductions in Vietnam production compared to our base case of 5%. In such a scenario, we have identified appropriate mitigating actions, including the deferral of additional uncommitted capital expenditure, which would be available to us.

This analysis has required us to stress test at significantly lower levels due to the recent drop in the oil price. The hedging that has already been put in place for 2020 covers 70% of the Group's forecast H1 2020 entitlement volumes securing a minimum price for this hedged volume of $61.3 per barrel, which stands us in good stead.

Our business in Vietnam remains robust at oil prices of less than $25/bbl .We have limited expenditure commitments over the whole business most of which fall outside 2020. All of our debt is secured against the Vietnam assets. Finally, our business in Egypt provides a high degree of flexibility through the use of short-term drilling contracts, which can be terminated with 60 days notice.

The forecasts outlined above show that the Group will have sufficient financial headroom for the 12 months from the date of approval of the 2019 Accounts. Based on this analysis, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Therefore, they continue to use the going concern basis of accounting in preparing the annual Financial Statements.

Annual dividend and Company distributable reserves

Pharos remains committed to paying a dividend. During the year, the Company paid a final dividend to shareholders in respect of the financial year ended 31 December 2018 of 5.50 pence per Ordinary Share (2018: 5.25 pence), at a cost to the Company of $27.4m (2018: $23.3m).

We announced in January of this year, our intention to pay a dividend of 2.75 pence per Ordinary Share in 2020. We have now entered a period of global economic uncertainty, driven by the outbreak of COVID-19 and the pressure that this is putting on oil price against this backdrop. The Company is focused on preserving balance sheet strength and has therefore decided to defer all discretionary expenditure including the dividend until such time as the medium to long term outlook is clearer.

Financial outlook

Pharos' financial strength is founded on our long-term approach to managing capital to provide risk adjusted full cycle returns, which has allowed us to return significant amounts of capital to shareholders. The new assets added in Egypt and in Israel provide low-cost opportunities to create value and generate cash flow to underpin the sustainability of the dividends over the longer term. The acquisition of El Fayum in Egypt creates an entry into the MENA region and provides not just a platform for organic growth but also a base from which we can explore further growth opportunities in 2020 and beyond.

The Pharos business plan is built for long term resilience - our leverage is modest, our commitments manageable and in Vietnam life of field Brent breakeven prices are c.$12/bbl for CNV and c.$24/bbl for TGT. In Egypt, the breakeven prices are higher but our contractual positions give us the flexibility to defer our capital expenditure, and we are currently planning to do so.

These measures set us up to weather the current storm and to preserve our capital. We are significantly protected by our hedges over production in H1 2020 and we preserve the financial flexibility while the global situation prevails.

Jann Brown

Managing Director and Chief Financial Officer

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF PHAROS ENERGY PLC ON THE PRELIMINARY ANNOUNCEMENT OF PHAROS ENERGY PLC

As the independent auditor of Pharos Energy plc we are required by UK Listing Rule LR 9.7A.1(2)R to agree to the publication of Pharos Energy plc's preliminary announcement statement of annual results for the period ended 31 December 2019.

The preliminary statement of annual results for the period ended 31 December 2019 includes the preliminary results, chair's welcome, chief executive officer's statement, review of operations, financial review, the condensed consolidated income statement, the condensed consolidated statement of comprehensive income, the condensed consolidated balance sheets, the condensed consolidated statements of changes in equity, the condensed consolidated cash flow statements, the related notes 1 to 17 and the non-IFRS measures. We are not required to agree to the publication of the preliminary results presentation.

The directors of Pharos Energy plc are responsible for the preparation, presentation and publication of the preliminary statement of annual results in accordance with the UK Listing Rules.

We are responsible for agreeing to the publication of the preliminary statement of annual results, having regard to the Financial Reporting Council's Bulletin "The Auditor's Association with Preliminary Announcements made in accordance with UK Listing Rules".

Status of our audit of the financial statements

Our audit of the annual financial statements of Pharos Energy plc is complete and we signed our auditor's report on 10 March 2020. Our auditor's report is not modified and contains no emphasis of matter paragraph.

Our audit report on the full financial statements sets out the following key audit matters which had the greatest effect on our overall audit strategy; the allocation of resources in our audit; and directing the efforts of the engagement team, together with how our audit responded to those key audit matters and the key observations arising from our work:

1.1. Fair value acquisition accounting of Merlon

Key audit matter description	The acquisition of Merlon Petroleum El Fayum Company ("Merlon") was completed on 2 April 2019 for a consideration of \$215.2 million, settled through the payment of \$136 million cash and the issuance of 65,561,041 new shares. The fair value of net assets acquired was considered equal to the consideration amount of \$215.2 million and hence no goodwill was recognised on acquisition. This is considered a key audit matter due to the significant judgements and estimates involved in assessing the fair value of the assets acquired and liabilities assumed as part of the acquisition, in particular the fair value of the oil & gas property, plant and equipment ("PP&E"). Management have estimated the fair value of the oil & gas PP&E acquired using discounted post-tax cash flows. The key assumptions included: • oil price forecasts, being \$65/bbl in 2020, plus inflation of 2% thereafter; • post-tax nominal discount rate of 12%; • reserves and resources estimates and associated production profiles. The reserve estimates used by Management were estimated 2P Reserves together with a share of estimated 2C Contingent Resources, with the underlying data for such reserves and resources based on the Competent Persons Report ("CPR") prepared for the purposes of the transaction. The CPR was prepared by a third party reservoir engineering expert as of 31 December 2018 using standard industry reserve estimation methods and definitions, which has then been adjusted by Management for production up to the date of acquisition.

	Further details of the key assumptions used by management in their fair value estimates for this transaction are provided in note 15 of the preliminary announcement.
How the scope of our audit responded to the key audit matter	For the fair valuation of net assets acquired and net liabilities assumed in relation to this acquisition, we performed the following procedures: • we obtained an understanding of controls relevant to the preparation of the fair value estimates; • we understood the process by which management has derived its fair value estimates; • we compared oil price assumptions with third party forecasts and publicly available forward curves; • we involved our internal valuation specialists to perform an independent recalculation of the discount rate used at the date of acquisition; • we understood the process used by management to derive their reserves estimates and associated production profiles and how they provide information to, and interact with, the third party expert; • we reviewed the third party expert's report on Merlon's reserves estimates and communicated directly with them to discuss and assess their scope of work, and evaluate their competence, capabilities and objectivity; • we assessed, with the involvement of Deloitte reserves experts, whether it was appropriate to include a share of estimated 2C Contingent Resources in the reserve estimates used in the fair value estimates; • we assessed the other assumptions used by Management by reference to third party information, our knowledge of Merlon and industry and also budgeted and forecast performance; • we tested management's fair value calculations for mechanical accuracy; and • we considered whether management's presentation and disclosures relating to the acquisition were appropriate and in accordance with *IFRS 3 Business Combinations*.
Key observations	We are satisfied that the fair values recorded by the group are appropriate, and that no goodwill arose on the acquisition. We are satisfied that the presentation and disclosure of the acquisition in note 15 of the preliminary announcement are in accordance with the requirements of *IFRS 3 Business Combinations*.

1.2. Impairment of producing assets

Key audit matter description	The value of property, plant and equipment relating to the group's producing oil and gas assets as at 31 December 2019 was $661.8 million (2018: $506.9 million). This is considered as a key audit matter due to the significant judgements and estimates involved in assessing whether any impairment has arisen at year-end, and in quantifying any such impairments. In addition, we considered that there was a risk of impairment due to the potential impact of climate change on long term oil prices. Given the importance of producing assets to the group and the judgemental nature of the inputs used in determining the recoverable amounts, we also considered there to be a potential for fraud in this area. Management reviewed its two producing assets in Vietnam, being Te Giac Trang ('TGT') and Ca Ngu Vang ('CNV'), and its one producing asset in Egypt, being El Fayum, for indicators of impairment. As a result of ongoing oil price volatility, Management concluded that there was an indicator of impairment for all three of these fields. Management has estimated the recoverable amount of each field, being its fair value less costs to sell, and compared this to its balance sheet carrying amount. The recoverable amount for each field was above the carrying amount and as such, Management considered that no impairment was required. Management's fair value estimates were based on key assumptions which included:

	• oil price forecasts, being $65/bbl in 2020, plus inflation of 2% thereafter; • reserves estimates and production profiles; • post-tax nominal discount rates , which were consistent with prior year at 10% for TGT and CNV, and for El Fayum were consistent with the acquisition date assumption of 12%; and • operating and capital expenditure. In relation to reserves estimates Management have engaged third party reservoir engineering experts to provide an independent report on the group's reserves estimates using standard industry reserve estimation methods and definitions for each of the CNV, TGT and El Fayum fields. Consistent with the approach adopted in relation to the acquisition date fair values of Merlon, Management has included a share of estimated 2C Contingent Resources in their estimate of El Fayum reserves, based on underlying data in the third party reserves report for that field. Management have explained the scope of work of the third party experts and their findings in the operations review. Further details of the key assumptions used by management in their impairment evaluation are provided in note 9 of the preliminary announcement. The disclosures in note 9 include the sensitivity of the impairment assessments to changes in key assumptions, including the impact of adopting a long term oil price consistent with a scenario described as being compliant with achieving the 2015 COP 21 Paris agreement goal to limit temperature rises to well below 2°C ("Paris 2°C Goal").
How the scope of our audit responded to the key audit matter	For the TGT, CNV and El Fayum impairment assessments, we performed the following procedures : • we understood the basis for Management's conclusion as to the existence or otherwise of impairment triggers for TGT, CNV and El Fayum; • we obtained an understanding of controls relevant to the preparation of the fair value estimates; • we understood the process by which management has derived its estimate of fair value less costs to sell; • we compared oil price assumptions with third party forecasts and publicly available forward curves. This included comparison with a third party forecast described as being consistent with the Paris 2°C Goal; • we understood the process used by management to derive their reserves estimates and associated production profiles and how they provide information to, and interact with, the third party experts; • we reviewed the third party expert's reports on Pharos' reserves estimates as summarised in the operations review and evaluated whether these estimates were used consistently throughout the accounting calculations reflected in the financial statements; • we communicated directly with the third party reserves experts to discuss and assess their scope of work, and evaluate their competence, capabilities and objectivity; • we involved our internal valuation specialists to perform an independent recalculation of the discount rates used for TGT, CNV and El Fayum; • we assessed management's other assumptions by reference to third party information, our knowledge of the group and industry and also budgeted and forecast performance; • we tested the fair value estimates for mechanical accuracy; and • we considered whether management's presentation and disclosures relating to impairment and associated estimation uncertainty were adequate.
Key observations	We are satisfied that Management's decision that no impairment charge is required on TGT, CNV or El Fayum is appropriate. We are also satisfied that appropriate disclosures relating to Management's impairment assessment have been provided in note 9.

1.3 Going Concern

Key audit matter description	As a result of the significant (approximately 50%) reduction in oil prices subsequent to the balance sheet date, we consider the appropriateness of the going concern assumption and the adequacy of Management's disclosure in this area to be a key audit matter. Management have prepared a base case cash flow forecast for a period of at least 12 months from the date of approval of the financial statements and also considered a number of downside scenarios. The key assumptions used by management in their base case include: • oil price forecasts, being $60/bbl in 2020, increasing to $65/bbl from January 2021, adjusted for existing hedging positions in place; and • production and expenditure forecasts consistent with those used in their impairment tests for producing oil & gas assets. Management's downside scenarios include individual sensitivities relating to oil price, production and capital expenditure. They have also considered an aggregated downside scenario, with key assumptions including: • oil price forecast of $30/bbl in 2020, increasing by $5/bbl in each quarter in 2021; • 5% reduction in production for its Vietnam producing assets; and • 10% increase in capital expenditure. The aggregated downside scenario also includes a number of mitigating actions, of which the most significant is the removal of uncommitted capital expenditure in both Egypt and Vietnam, together with the associated reduction in future production volumes. Management's base case and downside scenarios forecast that the group will remain cash positive and in compliance with the financial covenants in its reserve based lending (RBL) facility for at least 12 months from the date of approval of the financial statements. Based on this, management has concluded that the going concern basis of accounting is appropriate. Further details of the key assumptions used by management are provided in the going concern section of the financial review.
How the scope of our audit responded to the key audit matter	We performed the following audit procedures: • obtained an understanding of the company's going concern assessment process as well as the control environment implemented by management; • confirmed that the forecasts incorporated in the base case model are consistent with the budget approved by the Board and the impairment tests for producing oil & gas assets; • assessed the historical accuracy of budgets prepared by Management; • compared the oil prices in the aggregated downside scenario with both the spot oil price and publically available forward curves as of the date of approval of the financial statements; • assessed and recalculated the impact of the aggregated downside scenario on the financial covenants included in the the RBL during the going concern period; • assessed the ability of management to execute the mitigating actions in its aggregated downside scenario, including the extent to which the adjustments made to capital expenditure are uncommitted as of the date of this report; • tested the going concern model for mechanical accuracy; and • considered whether the disclosures relating to going concern are appropriate.

Key observations	Based on the cashflow forecasts prepared by Management, we are satisfied that it is appropriate to adopt the going concern basis of accounting in preparing the financial statements.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we did not provide a separate opinion on these matters.

Procedures performed to agree to the preliminary announcement of annual results

In order to agree to the publication of the preliminary announcement of annual results of Pharos Energy plc we carried out the following procedures:

(a) checked that the figures in the preliminary announcement covering the full year have been accurately extracted from the audited financial statements and reflect the presentation to be adopted in the audited financial statements;

(b) considered whether the information (including the management commentary) is consistent with other expected contents of the annual report;

(c) considered whether the financial information in the preliminary announcement is misstated;

(d) considered whether the preliminary announcement includes a statement by directors as required by section 435 of CA 2006 and whether the preliminary announcement includes the minimum information required by UKLA Listing Rule 9.7A.1;

(e) where the preliminary announcement includes alternative performance measures ("APMs"), considered whether appropriate prominence is given to statutory financial information and whether:

- the use, relevance and reliability of APMs has been explained;
- the APMs used have been clearly defined, and have been given meaningful labels reflecting their content and basis of calculation;
- the APMs have been reconciled to the most directly reconcilable line item, subtotal or total presented in the financial statements of the corresponding period; and
- comparatives have been included, and where the basis of calculation has changed over time this is explained.

(f) read the management commentary, any other narrative disclosures and any final interim period figures and considered whether they are fair, balanced and understandable.

Use of our report

Our liability for this report, and for our full audit report on the financial statements is to the company's members as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for our audit report or this report, or for the opinions we have formed.

David Paterson ACA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom
10 March 2020

PHAROS ENERGY

CONDENSED CONSOLIDATED INCOME STATEMENT

for the year to 31 December 2019

	Notes	2019 $ million	2018 $ million
Continuing operations			
Revenue	3	189.7	175.1
Cost of sales	4	(128.6)	(104.6)
Gross profit		61.1	70.5
Administrative expenses		(23.1)	(28.4)
Reversal of impairment charge		-	37.8
Operating profit		38.0	79.9
Other/exceptional expense	5	(16.7)	-
Investment revenue		1.9	2.7
Finance costs	6	(11.5)	(2.5)
Profit before tax	3	11.7	80.1
Tax	3,7	(38.2)	(56.0)
(Loss)/profit for the year from continuing operations		(26.5)	24.1
Discontinued operations			
Profit pre and post-tax for the year from discontinued operations	3,14	2.0	3.6
(Loss)/profit for the year		(24.5)	27.7
(Loss)/earnings per share from continuing operations (cents)	8		
Basic		(7.3)	7.3
Diluted		(7.3)	7.0
(Loss)/earnings per share from continuing and discontinued operations (cents)			
Basic		(6.8)	8.4
Diluted		(6.8)	8.1

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

for the year to 31 December 2019

		2019 $ million	2018 $ million
(Loss)/profit for the year		(24.5)	27.7
Items that may be subsequently reclassified to profit or loss:			
Commodity hedge losses (pre and post-tax)	13	(2.6)	-
Unrealised currency translation differences		-	0.2
Total comprehensive (loss)/profit for the year		(27.1)	27.9

The above condensed consolidated income statement and condensed consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

CONDENSED CONSOLIDATED BALANCE SHEETS

		Group		Company	
		2019	2018	2019	2018
	Notes	$ million	$ million	$ million	$ million
Non-current assets					
Intangible assets		20.4	5.8	0.3	-
Property, plant and equipment	9	669.6	507.2	0.6	0.3
Right-of-use assets	12	7.3	-	6.3	-
Investments		-	-	539.2	396.7
Loan to subsidiaries		-	-	16.8	-
Other assets		43.6	40.6	-	-
		740.9	553.6	563.2	397.0
Current assets					
Inventories		16.2	4.1	-	-
Trade and other receivables		41.2	19.6	0.5	0.9
Tax receivables		1.2	0.6	0.3	0.6
Cash and cash equivalents		58.5	240.1	4.5	105.9
		117.1	264.4	5.3	107.4
Total assets		858.0	818.0	568.5	504.4
Current liabilities					
Trade and other payables		(35.5)	(22.9)	(5.5)	(9.5)
Borrowings		(26.4)	-	-	-
Lease liabilities	12	(0.8)	-	(0.3)	-
Tax payable		(8.8)	(5.2)	(1.7)	(0.7)
		(71.5)	(28.1)	(7.5)	(10.2)
Net current assets (liabilities)		45.6	236.3	(2.2)	97.2
Non-current liabilities					
Deferred tax liabilities		(137.8)	(141.8)	-	-
Borrowings		(71.7)	(95.6)	-	-
Lease liabilities	12	(6.4)	-	(6.0)	-
Long term provisions		(60.5)	(51.7)	-	-
		(276.4)	(289.1)	(6.0)	-
Total liabilities		(347.9)	(317.2)	(13.5)	(10.2)
Net assets		510.1	500.8	555.0	494.2
Equity					
Share capital		31.9	27.6	31.9	27.6
Share premium		55.4	-	55.4	-
Other reserves		246.6	246.6	199.3	196.7
Retained earnings		176.2	226.6	268.4	269.9
Total equity		510.1	500.8	555.0	494.2

The above condensed consolidated balance sheets should be read in conjunction with the accompanying notes.

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

for the year to 31 December 2019

	Called up share capital $ million	Share Premium $ million	Other reserves $ million	Retained earnings $ million	Total $ million
					Group
As at 1 January 2018	27.6	-	245.9	221.1	494.6
Profit for the year	-	-	-	27.7	27.7
Unrealised currency translation differences	-	-	(1.4)	0.2	(1.2)
Distributions	-	-	-	(23.3)	(23.3)
Share-based payments	-	-	3.0	-	3.0
Transfer relating to share-based payments	-	-	(0.9)	0.9	-
As at 1 January 2019	27.6	-	246.6	226.6	500.8
Loss for the year	-	-	-	(24.5)	(24.5)
Other Comprehensive income	-	-	(2.6)	-	(2.6)
Unrealised currency translation differences	-	-	0.4	-	0.4
Shares Issued	4.3	55.4	-	-	59.7
Distributions	-	-	-	(27.4)	(27.4)
Share-based payments	-	-	3.7	-	3.7
Transfer relating to share-based payments	-	-	(1.5)	1.5	-
As at 31 December 2019	31.9	55.4	246.6	176.2	510.1

	Called up share capital $ million	Share Premium $ million	Other reserves $ million	Retained earnings $ million	Total $ million
					Company
As at 1 January 2018	27.6	-	195.8	157.3	380.7
Profit for the year	-	-	-	159.9	159.9
Unrealised currency translation differences	-	-	(1.4)	(24.8)	(26.2)
Distributions	-	-	-	(23.3)	(23.3)
Share-based payments	-	-	3.0	-	3.0
Transfer relating to share-based payments	-	-	(0.7)	0.8	0.1
As at 1 January 2019	27.6	-	196.7	269.9	494.2
Profit for the year	-	-	-	24.4	24.4
Unrealised currency translation differences	-	-	0.4	-	0.4
Shares Issued	4.3	55.4	-	-	59.7
Distributions	-	-	-	(27.4)	(27.4)
Share-based payments	-	-	3.7	-	3.7
Transfer relating to share-based payments	-	-	(1.5)	1.5	-
As at 31 December 2019	31.9	55.4	199.3	268.4	555.0

The above consolidated statements of changes in equity should be read in conjunction with the accompanying notes.

CONDENSED CONSOLIDATED CASH FLOW STATEMENTS

for the year to 31 December 2019

	Notes	Group 2019 $ million	Group 2018 $ million	Company 2019 $ million	Company 2018 $ million
Net cash from (used in) continuing operating activities		72.3	55.9	(21.1)	(23.2)
Net cash used in discontinuing operating activities		-	(1.7)	-	-
Net cash from (used in) operating activities	11	72.3	54.2	(21.1)	(23.2)
Investing activities					
Purchase of intangible assets		(9.9)	(2.4)	(0.3)	-
Purchase of property, plant and equipment		(50.2)	(16.6)	(0.6)	(0.1)
Decrease in liquid investments [1]		-	25.3	-	-
Payment for acquisition of subsidiary, net of cash acquired		(153.1)	-	(155.5)	-
Payment to abandonment fund		(3.3)	(3.4)	-	-
Other investment (repayments) in subsidiary undertaking		-	-	16.8	(33.4)
Dividends received from subsidiary undertaking		-	-	87.5	187.0
Net cash (used in) from continuing investing activities		(216.5)	2.9	(52.1)	153.5
Net cash (used in) from discontinuing investing activities		(0.7)	0.5	-	-
Net cash (used in) from investing activities		(217.2)	3.4	(52.1)	153.5
Financing activities					
Proceeds from borrowings		-	95.6	-	-
Interest paid on borrowings		(7.7)	-	-	-
Lease payments		(1.2)	-	(0.9)	-
Share-based payments		0.1	-	0.1	-
Proceeds from exercise of share options		-	-	-	(1.2)
Purchase of own shares into treasury		-	(1.3)	-	-
Dividends paid to Company shareholders		(27.4)	(23.3)	(27.4)	(23.3)
Net cash (used in) from continuing financing activities		(36.2)	71.0	(28.2)	(24.5)
Net cash (used in) from financing activities		(36.2)	71.0	(28.2)	(24.5)
Net (decrease) increase in cash and cash equivalents		(181.1)	128.6	(101.4)	105.8
Cash and cash equivalents at beginning of year		240.1	112.4	105.9	1.0
Effect of foreign exchange rate changes		(0.5)	(0.9)	-	(0.9)
Cash and cash equivalents at end of year [1]		58.5	240.1	4.5	105.9

[1] Liquid investments comprise short term liquid investments of between three to six months maturity while cash and cash equivalents comprise cash at bank and other short term highly liquid investments of less than three months maturity. No liquid investments were held as of 31 December 2019 and 2018.

The above condensed consolidated cash flow statements should be read in conjunction with the accompanying notes.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. General information

The financial information set out above does not constitute the Company's statutory accounts for the years ended 31 December 2019 or 2018, but is derived from those accounts. A copy of the statutory accounts for 2018 has been delivered to the Registrar of Companies and those for 2019 will be delivered following the Company's annual general meeting. The auditors have reported on those accounts; their reports were unqualified, did not draw attention to any matters by way of emphasis without qualifying their report and did not contain statements under section 498(2) or (3) of the Companies Act 2006. Whilst the financial information included in this preliminary announcement has been computed in accordance with International Financial Reporting Standards (IFRS), this announcement does not itself contain sufficient information to comply with IFRS. The financial statements are presented in US dollars which is the functional currency of each of the Company's subsidiary undertakings.

2. Significant accounting policies

(a) Basis of preparation

The financial information has been prepared in accordance with the recognition and measurement criteria of IFRS and with IFRSs adopted for use in the European Union. The financial statements have been prepared under the historical cost basis, except for the valuation of hydrocarbon inventory and the revaluation of certain financial instruments.

The Group has a strong financial position and based on future cash flow projections should be able to continue in operational existence for the foreseeable future. Consequently, the Directors believe that the Group is well placed to manage its financial and operating risks successfully and have prepared the financial information on a going concern basis.

(b) New and amended standards adopted by the Group

On 1 January 2019, Pharos adopted IFRS 16 'Leases', which replaced IAS 17 'Leases'. The Group applied the modified retrospective approach and did not restate comparative amounts for the year prior to first adoption.

For short-term leases (lease term less than 12 months) and leases of low value assets, the Group has opted to recognise a lease expense on a straight-line basis as permitted by IFRS 16.

Right-of-use assets were measured at the amount of the corresponding lease liability on the date of initial adoption (adjusted for any prepaid or accrued lease expenses).

Lease liabilities were measured at the present value of the remaining lease payments, discounted using the interest rate implicit in the lease (if available), or the incremental borrowing rate as of 1 January 2019, or start of the lease, whichever is earlier. Refer to Note 12 for further detail.

3. Segment information

The Group has one principal business activity being oil and gas exploration and production. The Group's continuing operations are located in South East Asia and Egypt (the Group's operating segments). Africa has been classified as a discontinued operation for all years shown, as the Group disposed of all of its interests in that geographical area. There are no inter-segment sales. South East Asia and Egypt form the basis on which the Group reports its segment information.

	SE Asia $ million	Egypt $ million	Africa[2] $ million	Unallocated $ million	2019 Group $ million
Oil and gas sales	155.5	34.4	-	-	189.9
Commodity Hedge	-	-	-	(0.2)	(0.2)
Total Revenue	155.5	34.4	-	(0.2)	189.7
Depreciation, depletion and amortisation – oil and gas	60.3	14.1	-	-	74.4
Depreciation, depletion and amortisation – other	-	0.2	-	0.9	1.1
Profit (loss) before tax from continuing operations[1]	55.2	(10.1)	-	(33.4)	11.7
Profit post-tax from discontinued operations	-	-	2.0	-	2.0
Tax charge (see Note 7)	38.2	-	-	-	38.2

	SE Asia $ million	Egypt $ million	Africa[2] $ million	Unallocated $ million	2018 Group $ million
Oil and gas sales	175.1	-	-	-	175.1
Depreciation, depletion and amortisation – oil and gas	51.8	-	-	-	51.8
Depreciation, depletion and amortisation – other	-	-	-	0.3	0.3
Reversal of impairment charge	37.8	-	-	-	37.8
Profit (loss) before tax from continuing operations[1]	107.7	-	-	(27.6)	80.1
Profit post-tax from discontinued operations	-	-	3.6	-	3.6
Tax charge (see Note 7)	56.0	-	-	-	56.0

[1]Unallocated amounts included in profit before tax comprise corporate costs not attributable to an operating segment, investment revenue, other gains and losses and finance costs.

[2] As of December 2018, Africa operations had been disposed.

Included in revenues arising from South East Asia and Egypt are revenues of $150.7m and $34.4m which arose from the Group's two largest customers, who contributed more than 10% to the Group's oil and gas revenue (2018: $129.1m and $35.0m in South East Asia from the Group's two largest customers).

Geographical information

The Group's oil and gas revenue and non-current assets (excluding other receivables) by geographical location are separately detailed below where they exceed 10% of total revenue or non-current assets, respectively:

Revenue

All of the Group's oil and gas revenue is derived from foreign countries. The Group's oil and gas revenue by geographical location is determined by reference to the final destination of oil or gas sold.

Revenue	2019 $ million	2018 $ million
Vietnam	153.9	131.8
Egypt	34.4	-
Thailand	-	26.1
Other	1.6	17.2
	189.9	175.1

Non-current assets	2019 $ million	2018 $ million
United Kingdom	7.2	0.2
Vietnam	482.7	512.8
Egypt	207.4	-
	697.3	513.0

Excludes other assets.

4. Cost of sales

	2019 $ million	2018 $ million
Depreciation, depletion and amortisation	74.4	51.8
Production based taxes	12.3	15.1
Production operating costs	45.4	37.6
Inventories	(3.5)	0.1
	128.6	104.6

5. Other/exceptional expense

	2019 $ million	2018 $ million
Assignment fee – Egypt acquisition cost (see Note 15)	13.6	-
Redundancy cost	3.1	-
	16.7	-

6. Finance Cost

	2019 $ million	2018 $ million
Unwinding of discount on provisions	1.6	1.4
Interest expense payable and similar fees	7.0	0.6
Interest on lease liabilities (see Note 12)	0.3	-
Amortisation of capitalised borrowing costs	2.7	-
Net foreign exchange (gains)/losses	(0.1)	0.5
	11.5	2.5

In 2019 $1.6m relates to the unwinding of discount on the provisions for decommissioning (2018:$1.4m). The provisions are based on the net present value of the Group's share of the expenditure which may be incurred at the end of the life of TGT and CNV (currently estimated to be 11-12 years) in the removal and decommissioning of the facilities currently in place.

7. Tax

	2019 $ million	2018 $ million
Current tax	42.2	46.8
Deferred tax	(4.0)	9.2
	38.2	56.0

The Group's corporation tax is calculated at 50% (2018: 50%) of the estimated assessable profit for the year in Vietnam. In Egypt, under the terms of the concession any local taxes arising are settled by EGPC. During 2019 and 2018 both current and deferred taxation have arisen in overseas jurisdictions only.

	2019 $ million	2018 $ million
Profit before tax (including discontinued operations)	13.7	83.7
Profit before tax at 50% (2018: 50%)	6.8	41.9
Effects of:		
Non-deductible expenses	14.0	4.5
Tax losses not recognised	17.4	8.5
Non-deductible exploration costs written off	-	1.1
Tax charge for the year	38.2	56.0

The prevailing tax rate in Vietnam, where the Group produces oil and gas, is 50%. The tax charge in future periods may also be affected by the factors in the reconciliation above.

Non-deductible expenses included $8.9m (2018: $6.7m) relating to Vietnam DD&A charges for costs previously capitalised, which are non-deductible for Vietnamese tax purposes. A further $5.1m (2018: $2.8m) relates to non-deductible corporate costs including share scheme incentives.

The Egypt concessions are subject to corporate income tax at the standard rate of 40.55%, however responsibility for payment of corporate income taxes falls upon EGPC on behalf of our local subsidiary Pharos El Fayum (PEF). The Group records a tax charge, with a corresponding increase in revenue, for the tax paid by EGPC on its behalf. However, this is only valid if PEF is in a profit making position and no such tax has been recorded this year.

The effect from tax losses not recognised relates to costs, primarily of the Company, deductible for tax in the UK but not expected to be utilised in the foreseeable future.

8. Earnings/(loss) per share

The calculation of the basic and diluted earnings/(loss) per share is based on the following data:

	Group	
	2019 $ million	2018 $ million
(Loss)/profit from continuing and discontinued operations for the purposes of basic (loss)/ profit per share	(24.5)	27.7
Effect of dilutive potential ordinary shares – Cash settled awards and options	-	(0.7)
(Loss)/profit from continuing and discontinued operations for the purposes of diluted (loss)/profit per share	(24.5)	27.0

	Group	
	2019 $ million	2018 $ million
(Loss)/profit from continuing operations for the purposes of basic (loss)/profit per share	(26.5)	24.1
Effect of dilutive potential ordinary shares – Cash settled awards and options	-	(0.7)
(Loss)/profit from continuing operations for the purpose of diluted (loss)/profit per share	(26.5)	23.4

	2019	2018
Weighted average number of ordinary shares	**361.3**	329.8
Effect of dilutive potential ordinary shares – Share awards and options	**-**	4.6
Weighted average number of ordinary shares for the purpose of diluted earnings/(loss) per share	**361.3**	334.4

The denominator for the purposes of calculating both basic and diluted earnings per share have been adjusted to reflect the capitalisation issue in 2019.

In accordance with IAS 33 "Earnings per Share", the effects of 1.7 million antidilutive potential shares have not been included when calculating dilutive earning per share for the year ended 31 December 2019 as the Group was loss making.

9. Property, plant and equipment

As a result of ongoing oil price volatility, we have tested each of our oil and gas producing properties for impairment. The results of these impairment tests are summarised below. For each producing property, the recoverable amount has been determined using the fair value less costs of disposal method which constitutes a level 3 valuation within the fair value hierarchy. The net book value is supported by the fair value derived from a discounted cash flow valuation of the 2P production profile.

Vietnam

The key assumptions to which the fair value measurement is most sensitive are oil price, discount rate, capital spend and 2P reserves (2018: oil price, discount rate and 2P reserves).. As at 31 December 2019, the fair value of the assets are estimated based on a post-tax nominal discount rate of 10% (2018: 10%) and an oil price of $65.0/bbl in 2020, plus inflation of 2.0% thereafter (2018: an oil price of $63.8/bbl in 2019, $66.3/bbl in 2020 plus inflation of 2% thereafter).

No impairments arose on either TGT or CNV as a result of the above impairment tests.

Testing of sensitivity cases indicated that a $5/bbl reduction in long term oil price used when determining the fair value less costs of disposal method would result in a minor impairment of $1m on TGT and a $0.2m impairment on CNV. A 1% increase in discount rate would not result in any impairment.

Egypt

The key assumptions to which the fair value measurement is most sensitive are oil price, discount rate, capital spend and 2P reserves. As at 31 December 2019, the fair value of the asset is estimated based on a post-tax nominal discount rate of 12% and an oil price of $65.0/bbl in 2020, plus inflation of 2.0% thereafter. In addition to 2P reserves, the production volumes used in the impairment test include 60% of estimated 2C contingent resources, with the underlying data for such volumes based on the reserve figures audited by our third party reservoir engineers in Egypt, McDaniels.

No impairment arose on El Fayum as a result of the above impairment test.

Testing of sensitivity cases indicated that a $5/bbl reduction in long term oil price used when determining the fair value less costs of disposal method would result in an impairment of $48.6m. A 1% increase in discount rate would result in an impairment of $9.7m.

In developing the long term oil price assumptions outlined above, consideration was given to a third party forecast described as being consistent with achieving the 2015 COP 21 Paris agreement goal to limit temperature rises to well below 2°C. The long term oil price shown in this third party forecast is below the amount used in the above impairment tests but within the range encapsulated by the oil price sensitivity shown above.

Other fixed assets comprise office fixtures and fittings and computer equipment.

10. Distribution to Shareholders

In May 2019, the Company paid dividends to shareholders of $27.4m (2018: $23.3m) or 5.50 pence per Ordinary Share (2018: 5.25 pence per Ordinary Share).

The Pharos EBT, which is consolidated within the Group, waived its rights to receive a dividend in 2019 and 2018.

We announced in January of this year, our intention to pay a dividend of 2.75 pence per Ordinary Share in 2020. We have now entered a period of global economic uncertainty, driven by the outbreak of Covid-19 and the pressure that this is putting on oil price against this backdrop. The Company is focused on preserving balance sheet strength and has therefore decided to defer all discretionary expenditure including the dividend until such time as the medium to long term outlook is clearer.

11. Reconciliation of operating profit to operating cash flows

	Group		Company	
	2019	2018	2019	2018
	$ million	$ million	$ million	$ million
Operating profit/(loss)	38.0	79.9	(21.1)	(26.7)
Share-based payments	3.7	2.5	3.7	2.5
Depreciation, depletion and amortisation	75.5	52.1	0.9	0.3
Reversal of impairment charge	-	(37.8)	-	-
Operating cash flows before movements in working capital	117.2	96.7	(16.5)	(23.9)
(Increase)/decrease in inventories	(0.5)	0.1	-	-
(Increase)/decrease in receivables[1]	(1.7)	1.2	0.6	(0.7)
(Decrease)/increase in payables[1]	(2.0)	3.4	(3.6)	1.4
Cash generated by operations	113.0	101.4	(19.5)	(23.2)
Interest received	2.2	2.6	1.0	-
Interest paid	-	(0.1)	(0.2)	-
Other/exceptional expense outflow	(2.4)	-	(2.4)	-
Income taxes paid	(40.5)	(48.0)	-	-
Net cash from (used in) continuing operating activities	72.3	55.9	(21.1)	(23.2)
Net cash used in discontinuing operating activities	-	(1.7)	-	-
Net cash from (used in) operating activities	72.3	54.2	(21.1)	(23.2)

[1] Decrease in trade receivables in Egypt from EGPC during the year of $27.5m were offset by trade payables

12. Lease arrangements

This note explains the impact of the adoption of IFRS 16 Leases on the Group's financial statements and discloses the new accounting policy in relation to leases that has been applied from 1 January 2019.

On adoption of IFRS 16, the Group recognised lease labilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. For short-term leases (lease term less than 12 months) and leases of low value assets the Group has opted to recognise a lease expense on a straight-line basis as permitted by IFRS 16.

Lease liabilities were measured at the present value of the remaining lease payments, discounted using the interest rate implicit in the lease (if available), or the incremental borrowing rate as of 1 January 2019 or start of the lease, whichever is earlier. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 4.43%.

The Group impact of the transition has resulted in an upward revision of both property, plant and equipment and current and non-current lease liabilities. Financing cash flows represent repayment of principal and interest. In prior periods operating lease payments were all presented as operating cash flows under IAS 17.

	2019 $ million
Operating lease commitments disclosed as at 31 December 2018	55.9
Lease commitments not recognised as such under IFRS 16	(54.0)
Lease liability as at 1 January 2019 undiscounted	1.9
Discounted using the lessee's incremental borrowing rate at the date of initial application	(0.1)
Lease liability recognised as at 1 January 2019	1.8
New lease during 2019	1.4
Renewal of lease during 2019	6.9
Discounted using the lessee's incremental borrowing rate of at the date of initial application	(1.7)
Interest expense	0.3
Foreign exchange adjustments	(0.3)
Principal repayments	(1.2)
Lease liability recognised as at 31 December 2019	7.2
Of which are:	
Current lease liabilities	0.8
Non-current lease liabilities	6.4
Right of use recognised as at 31 December 2019:	
Oil & Gas properties	0.9
Other assets	6.4

The FPSO leased by HLJOC is not recognised as a lease under IFRS 16 (lease commitments as of 31 December 2018: $54.0m) as the asset is shared, in accordance with a tie in agreement, with a third party which utilises around 30% of the capacity of the FPSO. The FPSO facility is not an identified asset under IFRS 16 as HLJOC does not utilise substantially all the capacity.

13. Hedge transactions

During 2019, Pharos entered into different commodity (swap and zero collar) hedges, to protect its cash position and to ensure future compliance with its obligations under the RBL over the producing assets in Vietnam. The commodity hedges run until June 2020 and are settled monthly. The hedging positions in place cover 57% of the Group's forecast H1 2020 entitlement volumes securing a minimum price for this hedged volume of $60.7 per barrel.

Pharos has designated the swaps and zero collar as cash flow hedges, measured at Fair Value through Other Comprehensive Income (FVOCI). This means that any unrealised gains or losses on open positions will be reflected in other comprehensive income. Every month, the realised gain or loss will be reflected in the revenue line of the income statement. The carrying amount of the swap is based on the fair value determined by a financial institution. As all material inputs are observable, they are categorised within Level 2 in the fair value hierarchy. It is presented in "Trade and other receivables" or "Trade and other payables" in the consolidated statement of financial position. The liability position as of December 2019 was $3.0m. The reclassification to profit or loss corresponding to the realised gain or loss is included in "Revenue" in the consolidated income statement (as at 31 December amounts to a loss of $0.2m). The outstanding unrealised loss on open position as at 31 December 2019 amounts to $2.6m.

14. Disposal of Africa interest

Disposal of Congo interest

On 24th June 2018, Pharos signed and completed a sale and purchase agreement with Coastal Energy Congo Limited (Coastal Energy), to sell its entire shareholding in SOCO Congo Limited, a Cayman Islands Company, which held the Group's exploration interests in Congo (Brazzaville). Under the terms of the Agreement the Group is entitled to receive a cash consideration of up to $10m plus subsequent payments based on future oil and condensate production sold from those interests in Congo (royalty). The fair value of the financial asset at 31 December 2018 was $0.5m. Pharos understands that Coastal Energy has not been and may never be recognised as operator by the Congolese Ministry of Hydrocarbons. As a consequence, Pharos has revised the fair value of the consideration to $0m. In addition, accrued balances of $2.7m held on Pharos's balance sheet have now been released to the income statement as they are deemed highly unlikely ever to be incurred. The overall net gain from these discontinued operations as of 31 December 2019 amounts to $2.0m.

15. Acquisition of Egypt assets

On 2 April 2019, Pharos Energy announced the completion of the acquisition of 100% of Merlon Petroleum El Fayum Company ("Merlon") from Merlon International LLC (the "Seller"). Pharos Energy agreed to acquire Merlon in consideration for approximately $136m in cash and the issue of 65,561,041 new Pharos Energy ordinary shares of £0.05 each. In addition, debt of $19.4m due by Merlon was repaid. Merlon's principal asset is a 100% working interest in the onshore El Fayum Concession in Egypt. The El Fayum Concession covers an area of 1,826 km^2 and is located c.80km south west of Cairo.

The Egyptian Minister of Petroleum and Mineral Resources approved the transaction on 28 March 2019 and the transaction completed on 2 April 2019. All Merlon assets and liabilities were valued at that date in accordance with IFRS 3 and incorporated into Pharos Energy's balance sheet at those values. The results of the Merlon operations are included in the income statement from that date.

The acquisition of Merlon is a significant step forward in Pharos Energy's stated objective of expanding and diversifying its resource base to create a full-cycle, growth orientated E&P company of scale. Pharos Energy views Merlon as a highly strategic platform to enable future organic and inorganic growth in Egypt and the wider Middle East & North Africa ("MENA") region.

Acquisition-related costs

Pharos Energy incurred acquisition related costs in the period of $1.0m on legal fees and due diligence costs. These costs have been included in 'administrative expenses'.

An assignment fee of $13.6m, payable to EGPC, was later settled through an offset against receivables due from EGPC.

Consideration paid

Details of the purchase consideration and the net assets acquired are set out below. No goodwill arose on this transaction.

	02.04.19
Purchase consideration:	$ million
Cash paid	136.1
Ordinary shares issued – equity	4.3
Ordinary shares issued – share premium	55.4
RBL repayment	19.4
Total purchase consideration	215.2

The net cash paid for the acquisition was $153.1m, being $136.1m in cash, plus the repayment of $19.4m for the RBL, offset by the balance acquired of $2.4m. The fair value of the 65,561,041 shares issued as part of the consideration paid was based on the published share price on 02/04/19 of £0.699 per share and converted at the exchange rate as of 02/04/19 of 1.3031.

Identifiable assets acquired and liabilities assumed

The assets and liabilities recognised as a result of the acquisition are as follows:

	02.04.19
	$ million
Plant and equipment	183.8
Other fixed assets	0.9
Inventories	10.7
Trade receivables	29.9
Other receivables	5.6
Cash	2.4
Trade payables	(17.5)
Other payables	(0.6)
Total identifiable net assets acquired	215.2

Measurement of fair value

The valuation techniques used for measuring the fair value of material assets acquired were as follows:

The fair values of the oil and gas properties acquired have been determined using discounted cash flows, forward curve commodity prices at the acquisition date ($65/bbl for 2020 plus inflation of 2% thereafter), a post-tax nominal discount rate of 12% based on market observable data and cost and production profiles consistent with the estimated hydrocarbon reserves acquired with each asset. The estimated hydrocarbon reserves were proved and probable reserves together with 60% of the estimated 2C contingent resources, with the underlying data for such reserves based on the Competent Persons Report prepared for the purposes of the transaction.

The fair value of trade receivables has been estimated after taking into consideration the credit default rate for the Egyptian Government (as no direct reference point for EGPC is available), which is considered to represent a Level 2 fair value under the IFRS 13 fair value hierarchy, as it is based on quoted prices for identical or similar assets in markets that are not active.

From the date of acquisition to 31 December 2019, Merlon contributed $34.4m to Group revenue and decreased the Group's profit before tax from continuing operations by $10.1m, which includes the assignment fee payment of $13.6m.

If the acquisition of Merlon had taken place at the beginning of the year, Merlon's contribution to Group revenue for the period ended 31 December 2019 would be $46.5m and would have reduced the Group's profit before tax from continuing operations by $8.7m.

16. Subsequent events

Subsequent to year end, global oil prices have fallen by approximately 50%, partly due to the global outbreak of the COVID-19 virus and partly due to Saudi Arabia's decision to increase production. Although it is not possible to reliably estimate the length or severity of these developments, and hence their financial impact, if oil prices remain at or below currently prevailing levels for an extended period of time, this could have a significant adverse impact on our financial results for future periods.

17. Preliminary results announced

Copies of the announcement will be available from the Company's head office, situated at 48 Dover Street, London, W1S 4FF and is also available to download from www.pharos.energy. The Annual Report and Accounts, together with notice of the 2020 AGM, will be posted to shareholders in due course.

Glossary

Non-IFRS measures

The Group uses certain measures of performance that are not specifically defined under IFRS or other generally accepted accounting principles. These non-IFRS measures include cash operating costs per barrel, DD&A per barrel, Gearing and operating cash per share. For the new RBL covenant compliance, three new Non-IFRS measures have been added: Net debt, EBITDAX and Net debt/EBITDAX.

Cash-operating costs per barrel

Cash operating costs are defined as cost of sales less depreciation, depletion and amortisation, production based taxes, movement in inventories and certain other immaterial cost of sales.

Cash operating costs for the period is then divided by barrels of oil equivalent produced. This is a useful indicator of cash operating costs incurred to produce oil and gas from the Group's producing assets.

	2019	2018*
	$ million	$ million
Cost of sales	**128.6**	104.6
Less:		
Depreciation, depletion and amortisation	**(74.4)**	(51.8)
Production based taxes	**(12.3)**	(15.1)
Inventories	**3.5**	(0.1)
Other cost of sales	**(3.9)**	(1.4)
Cash operating costs	**41.5**	36.2
Production (BOEPD)	**12,136**	7,274
Cash operating cost per BOE ($)	**10.45**	13.63

Cash-operating costs per barrel by segment (2019)

	Vietnam	Egypt**	Total
	$ million	$ million	$ million
Cost of sales	99.1	29.5	128.6
Less:			
Depreciation, depletion and amortisation	(60.2)	(14.2)	(74.4)
Production based taxes	(12.3)	-	(12.3)
Inventories	3.5	-	3.5
Other cost of sales	(2.5)	(1.4)	(3.9)
Cash operating cost	27.6	13.9	41.5
Production (BOEPD)	7,081	5,055	12,136
Cash operating cost per BOE ($)	10.69	10.01	10.45

*2018 included Vietnam only

**Egypt from the date of acquisition to 31 December 2019

Depreciation, depletion and amortisation costs per barrel

DD&A per barrel is calculated as net book value of oil and gas assets in production, together with estimated future development costs over the remaining 2P reserves. This is a useful indicator of ongoing rates of depreciation and amortisation of the Group's producing assets.

	2019 $ million	2018* $ million
Depreciation, depletion and amortisation	74.4	51.8
Production (BOEPD)	12,136	7,274
DD&A per BOE ($)	18.74	19.51

DD&A per barrel by segment (2019)

	Vietnam $ million	Egypt** $ million	Total $ million
Depreciation, depletion and amortisation	60.2	14.2	74.4
Production (BOEPD)	7,081	5,055	12,136
DD&A per BOE ($)	23.29	10.25	18.74

*2018 included Vietnam only

**Egypt from the date of acquisition to 31 December 2019

Net Debt

Net debt comprises interest-bearing bank loans, less cash and short-term deposits.

	2019 $ million	2018 $ million
Cash and cash equivalents	58.5	240.1
Borrowings	(100.0)	(100.0)
Net (Debt)/Cash	(41.5)	140.1

EBITDAX

EBITDAX is earnings from continuing activities before interest, tax, depreciation, amortisation, impairment, exploration expenditure and other/exceptional items in the current year.

	2019 $ million	2018 $ million
Operating profit	38.0	79.9
Depreciation, depletion and amortisation	75.5	52.1
Reversal of Impairment charge	-	(37.8)
EBITDAX	113.5	94.2

Net Debt/EBITDAX

Net Debt/EBITDAX ratio expresses how many years it would take to repay the debt, if net debt and EBITDAX stay constant.

	2019 $ million	2018 $ million
Net (Debt)	(41.5)	-
EBITDAX	113.5	-
Net Debt/EBITDAX	0.37	-

Gearing

Debt to equity ratio is calculated by dividing interest-bearing bank loans by stockholder's equity. The debt to equity ratio expresses the relationship between external equity (liabilities) and internal equity (stockholder's equity).

	2019 $ million	2018 $ million
Total Debt	100.0	100.0
Total Equity	510.1	500.8
Debt to Equity	0.20	0.20

Operating cash per share

Operating cash per share is calculated by dividing net cash from (used in) continuing operations by number of shares in the year.

	2019 $ million	2018 $ million
Net cash from (used in) continuing operations activities	72.3	55.9
Weighted number of shares in the year	381,170,329	331,954,643
Operating cash per share	0.19	0.17