PHAROS
ENERGY

9 July 2020
Trading and Operations Update

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

Trading and Operations Update

Pharos Energy plc, an independent oil and gas exploration and production company, issues the following Trading and Operations update in advance of the Company's half-year results on 19 August 2020. The information contained herein has not been audited and may be subject to further review and amendment.

Summary

- Rapid and responsible response to COVID -19 and oil price fall - protecting people, cutting costs and deferring capex
- Group working interest H1 production 12,093 boepd net, in line with production guidance;
    - Egypt H1 production 5,979 bopd
    - Vietnam H1 production 6,114 boepd net
- 2020 Production Guidance remains unchanged as announced on 12 May;
    - Egypt - 5,000-6,000 bopd
    - Vietnam - 5,500-6,500 boepd net
- Group revenue for H1 2020 was c.$77m, including the benefit of our H1 hedges of $21m
- Production operations continue in both Vietnam and Egypt in light of COVID-19, with strict health and safety measures in place
- Cash balances as at 30 June 2020 of c.$38m after RBL repayment of $22.3m on 30/06/20, Net debt of c.$36m - further RBL payment of $9.4m expected to be made by 14/07/2020
- Cash capex for the full year has reduced to c.$37m of which the majority has already been incurred
- Cash cost savings on total group expenditure for the year of c.25% have been achieved, cost reduction programmes ongoing

COVID- 19 response

Pharos continues to manage its operations carefully in light of COVID-19 and the Group is adhering to the procedures and restrictions put in place by its host countries. All our staff and contractors are safe and all Pharos, Cairo office staff have been working from home with negligible disruption to the business and London office staff have been working from home since March in line with UK governmental guidelines. In Vietnam, office staff have returned to office following government guidelines and easing of lockdown restrictions.

Petrosilah has been engaging with the local communities during the pandemic to offer support. Field staff continue dialogue and social engagement with the villages adjacent to the El Fayum fields through the continued sterilisation of community areas. In addition, Petrosilah has donated face masks, face shields, and protection suits to the El-Fayum General Hospital.

Financial Update

RBL and cash / net debt

The scheduled half-yearly redetermination of our RBL over the Group's producing assets in Vietnam is almost complete. As part of the regular six monthly amortisation schedule a repayment of $22.3m was made on 30 June 2020, and a further payment of $9.4m is expected to be made by 14 July 2020. The RBL has a five-year term and matures in September 2023. Cash balances as at 30 June 2020 were c.$38m with net debt of c.$36m (2019: cash $58.5m and net debt of $41.5m).

Cost savings

Cash cost savings on total group expenditure for the year of approx. 25% against the budget have been achieved, and we continue to work closely with our partners in the JOCs in Vietnam and Egypt to identify further potential cost savings.

Impairment

The forecast oil price is a key driver of asset values and we will re-run our DCF valuation models for our half-year results using the oil price curve as at 30 June 2020. As we have noted in previous statements and as has been seen across the sector, the reduction in the oil price since the year-end is likely to result in a significant non-cash impairment charge. There are no adjustments to be made to the combined reserves and resources in Egypt so any impairment charge on these assets will result entirely from the downward revision to our future oil price assumptions and the related impact on near term activity. In Vietnam, the TGT-15X is producing from both the upper and deep section at low rates and has not yet stabilised, also the drilling programme for 2021 is delayed to start in Q4 2021. It is therefore likely that there will be an adjustment of c.7% to reserves over and above any impairment related to oil price forecasts.

Egypt receivables

Our receivables continue to be settled in Egypt and at 30 June 2020 stood at c.$8m comparative to $14.3m at year-end 2019.

PHAROS ENERGY

9 July 2020
Trading and Operations Update

Revenues and hedging

Group revenues for the six months to 30 June 2020 were approx. $56m plus $21m from hedging. The average realised oil price per barrel achieved for the same period from Vietnam was c.$44/bbl representing a premium of nearly $5/bbl to Brent and for Egypt approx. $34/bbl, representing a discount of approx. $5/bbl to Brent. Our hedging activities are set to deliver c.$26m of cash flow in 2020 (2019: ($0.2m)). This includes c.$5m in H2 as 57% of 2020 forecast production is hedged at an average price of c.$47/bbl which stands us in good stead.

Capital expenditure

Cash capital expenditure for 2020 has reduced to c. $37m, from $44m as announced on 12 May 2020, mainly due to reductions in Egypt, of which the majority has already been incurred.

Outlook

In Vietnam, current expectations, based on forecast oil prices and production rates for H2 2020, are that our assets will deliver operating cash flows for the full year of c.$61m (2019: $74m) which includes c.$26m hedging benefit mentioned above. The current operating cash flow forecast for Egypt is expected to be broadly cash neutral, after accounting for working capital adjustments. Cash generated from our assets in Vietnam, plus the hedges in place, cover the capex, and G&A across the group. After the scheduled RBL repayment in July, total cash at the year-end should be around $30m.

All development drilling activity has now been put on hold in Egypt and the existing producing wells will go into natural decline until such time as cash is available to restart drilling activity. As the oil price recovers, the cash flow generated by the Vietnam assets can be deployed across the portfolio to support work programme activities across the group. While the flexibility in the drilling programme in Egypt has been a significant benefit in allowing us to reshape the programme and defer capex this year, any significant delays in recommencing drilling in Egypt could have a disproportionate impact on the length of time it takes to increase production levels to previous rates. Therefore, Management will look to deploy development capital in Egypt as soon as is possible to do so.

The Pharos business plan is built for long term resilience - our leverage is modest and our commitments manageable. We expect to continue navigating the remainder of the year in a positive way, using the flexibility that our business plan and balance sheet allow.

Operations Update

Egypt

El Fayum Production

Production for the first half of 2020 from the El Fayum Concession averaged 5,979 bopd. This is in line with the Egypt 2020 production guidance given on 12 May, which remains unchanged at 5,000-6,000 bopd.

El Fayum Development and Operations

As announced earlier in the year, the discretionary drilling programme in Egypt was scaled back to preserve capital in the prevailing uncertain macro-economic environment. Pharos is using the break in drilling activity to reduce the cost base, whilst aiming to maintain productivity and the revenue stream.

Production operations in the field have been centred on well intervention and water-flood enhancement, utilising the remaining active workover rig. Forward operations will be focussed on further enhancing productivity from existing wells through recompletions, the addition of new producing zones, and the conversion of selected existing production wells to injector wells.

In addition, work to update the subsurface static and dynamic models to incorporate the results of the 2019 and 2020 drilling campaigns has progressed well. This work will allow further optimisation of the water-flood pattern and facilitate optimised reservoir management through better well spacing when drilling recommences, which will further improve sweep efficiency, well deliverability and lead to an increased recovery. Target secondary recovery factors for water-flood activity in the El Fayum fields remain c.24%; current primary recovery factor is 8 to 12%.

GHG emissions

Further reductions in GHG emissions are anticipated through the implementation of a second phase of associated gas generators at the appropriate time.

Work to ensure we are prepared to report in line with the TCFD guidelines has begun and is progressing well.

Vietnam

Vietnam Production

Production for the first half of 2020 from the TGT and CNV fields net to the Group’s working interest averaged 6,114 boepd. This is in line with the Vietnam 2020 production guidance given in January 2020 at 5,500-6,500 boepd.

TGT H1 2020 production averaged 14,878 boepd gross and 4,431 boepd net to Pharos. CNV H1 2020 production averaged 6,731 boepd gross and 1,683 boepd net to Pharos.

9 July 2020
Trading and Operations Update

Vietnam Development and Operations

Operations for TGT are focussed on a well intervention programme to manage production improvements proactively. We anticipate some incremental production improvement from TGT wells in Q3 from well intervention work consisting of deepening gas lift valves, additional perforations and high water cut zone shut-offs. In some instances, we have already seen significant improvements to well productivity.

The TGT-15X well is producing from the both the upper and deep section at low rates and has not yet stabilised. Data collection and analysis continues on the deeper section.

An updated TGT Full Field Development Plan, which includes drilling six producer wells commencing in 2021, has been approved by all Partners and is awaiting final approval from the Ministry of Industry and Trade. COVID-19 related governmental lockdowns in Vietnam have had an impact on the approval timetable.

The JOC has also requested an extension of the licence of two years from 07/12/2024, which is with the Ministry of Industry and Trade for approval, and has support from PetroVietnam.

On Blocks 125 & 126, technical work continues on the acquired 2D seismic, gravity and magnetic data to high-grade prospective areas on which to target future 3D seismic survey(s).

Corporate

In addition to optimising production from our existing developed reserves and resources, Pharos naturally looks to achieve its growth ambitions through realising the transformative organic potential in its existing portfolio and accretive M&A activity.

In the present economic downturn, the Company's priority must be to protect its balance sheet through careful and considered reductions in its cost base across the organisation and in delaying discretionary investment expenditure. All exploration has been deferred and any investigative M&A activity, which requires significant upfront due diligence or preparatory costs to participate in auction processes, has been curtailed.

Our producing assets remain significantly geared to a recovery in the oil price and, with modest leverage and limited committed expenditure, the company is well positioned to return to investing for growth in the range of organic opportunities across the portfolio and in pursuing value accretive M&A.

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.

Glossary of Terms

$ -United States Dollar
£ -UK Pound Sterling

bbl
Barrel

boepd
Barrels of oil equivalent per day

Bopd
Barrels of oil per day

CASH or cash
Cash, cash equivalent and liquid investments

CAPEX or capex
Capital expenditure

CNV
Ca Ngu Vang field located in Block

EGPC
Egyptian General Petroleum Corporation

FFDP
Full Field Development Plan

G&A
General and administration

GHG
Greenhouse gas

JOC
Joint Operating Company

JV

Joint venture

HLHVJOC

Hoang Long and Hoan Vu Joint Operating Companies

m

million

Petrosilah

An Egyptian joint stock company held 50/50 between the Pharos Group and the Egyptian General Petroleum Corporation

RBL

Reserve Based Lending facility

TGT

Te Giac Trang field located in Block 16-1

TIA

Tie-in Agreement