PHAROS
ENERGY

12 May 2020
AGM Trading and Operations Update

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

2020 AGM 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 AGM on 20 May 2020. The information contained herein has not been audited and may be subject to further review and amendment.

Ed Story, President and Chief Executive Officer, commented:
"The health and safety of our employees, contractors and other stakeholders is always a primary focus of Pharos. As the COVID-19 pandemic continues, it remains at the forefront of our thinking as we maintain production operations. Earlier in the year in response to low oil prices, we took prompt action and cut capital expenditure by deferring some of our largely discretionary investments in Egypt. We are working closely with our partners to achieve cost reductions across the business and are managing our portfolio to ensure we remain robust in this challenging period. We firmly believe demand for oil and gas will continue to be an important component of the global energy mix over many future decades and we are positioning ourselves to survive the low oil price environment for the medium to long term for the benefit of all our stakeholders".

Summary

- Despite the COVID-19 pandemic, production operations continue in both Vietnam and Egypt, with strict health and safety measures in place. No reported cases of COVID-19 amongst staff, contractors or JV partners to date.
- Group working interest Q1 production 11,589 boepd net
    - Egypt Q1 production 5,596 bopd; April averaged 6,396 bopd and peaked at 7,009 bopd 23 April 2020
    - Vietnam Q1 production 5,993 boepd; April averaged 6,467 boepd
- Vietnam 2019 two-well TGT drilling campaign completed on time and under budget, and the upgrade to Gas Turbine compressors completed ahead of schedule in Q1 2020
- Group revenue for Q1 2020 was c.$35.0m before the benefit of our Q1 hedges of $5.8m;
    - A further $6.3m of hedging revenues have been booked for April
    - Mark to Market ("MTM") value of hedges as at 30 April for the remainder of 2020 stands at $23.7m
    - Remaining eight months of the year c.52% of forecast production, hedged at an average price of c.$53/bbl
- Group Q1 cash Opex was under $12/bbl
- Cash balances as at 30 April 2020 of c.$54.5m, Net debt of c.$41.7m
- Cash capex for full year of $44m of which over 60% incurred by 30 April
- Dividend payments withdrawn for 2020 given the continued uncertainly in the macro environment
- Group is targeting an overall reduction in its cost base of c.25% across the business
- 2020 Production Guidance
    - Egypt 2020 production guidance, taking account of capex deferral programme now updated to 5,000-6,000 bopd
    - Vietnam 2020 production guidance remains unchanged at 5,500-6,500 boepd net

COVID- 19 response

We have taken swift and robust action to help our employees, contractors and other stakeholders to stay safe and well. Our production operations in Egypt and Vietnam have not been disrupted by COVID-19 and, in line with the government directives in Egypt, Vietnam and the UK, measures are in place to minimise the risk of any outbreak occurring. In Vietnam, in addition to following government guidelines, the HLHVJOC has implemented a policy of testing all staff for COVID-19 before transfer to offshore operations. In the event that a case of COVID-19 is identified offshore, personnel evacuation plans and other mitigation measures are in place to ensure that the impact of any outbreak is quickly contained and operations are maintained.

In Egypt, at the El Fayum base camp, Petrosilah has implemented robust health and safety and social distancing measures to mitigate the risk of any cases of COVID- 19 arising.

In the UK and Vietnam, office staff have been working from home with negligible disruption to the business. In the Cairo office, in line with Egyptian government guidelines, social distancing measures are in place; half the staff work from home and half in the office on a two-week rotation with negligible disruption to the business.

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Outlook

We have acted promptly to protect the balance sheet and preserve the resilience of our business in order to survive in a prolonged period of low oil prices. The business in Vietnam is well positioned with its low breakeven price; and in Egypt, we are using the break in drilling activity to improve revenues, costs and productivity. Our approach to hedging will stand us in good stead this year while we shape the business to be fit for purpose for the future.

In a prolonged oil price environment the company has flexibility across the business and continues to evaluate alternative scenarios for its Egyptian assets, where the inherent flexibility offers a range of operational options if the downturn progresses.

Financial Update

We have worked quickly to ensure that the business is resilient and can survive if there is a sustained period of low oil prices.

Cash/net debt

The balance sheet entered in to the March oil price downturn in a strong position with cash balances at the start of the year of $58.5m and net debt of $41.5m. Cash balances as at 30 April 2020 were c.$54.5m with net debt of c.$41.7m.

RBL

The scheduled half-yearly redetermination of our RBL over the assets in Vietnam is underway with a price deck under discussion with our banking group and a full update will be provided when this is concluded, expected to be in July 2020.

Hedging and revenues

Our hedging positions provide some protection for the year with credit of $5.8m taken in Q1 and a further credit of $6.3m in April plus a MTM value as at 30 April of $23.7m for the remaining hedges in place. For the remaining eight months of the year, we have approx. 52% of our forecast production, hedged at an average price of $53/bbl.

Group revenues for the three months to 31 March were approx. $35m plus $5.8m from hedging. The average realised oil price per barrel achieved for the same period from Vietnam was $58/bbl representing a premium of nearly $6/bbl to Brent and for Egypt approx. $46/bbl, representing a discount of approx. $5/bbl to Brent.

Egypt receivables

Our receivables continue to be settled in Egypt and at 31 March 2020 stood at $12.1m comparative to $14.3m at year-end 2019.

Capital expenditure

As announced at our preliminary results on 11 March we have reduced our capex for the year by c.$13m and the cash capital expenditure for 2020 is planned to be c.$44m with the programme and activities as set out in the operations section. Over 60% of this capex has already been incurred by 30 April.

Cost base

The Group is targeting an overall reduction in its cost base of c.25% across the business. As non-operator of the assets in both Vietnam and in Egypt, we do not have direct control over Opex and JOC G&A levels but, as with the capex deferrals in Egypt, we are working closely with our partners to identify potential cost savings and revenue enhancements. EGPC, our partner in Egypt, has targeted cost reductions of 25% across the supply chain for the industry in Egypt. Similarly in Vietnam, we are working with our partner, PVN to target a 25% cost reduction.

All UK payroll staff have accepted a voluntary 10% reduction in salary with a further review in three months' time. Executive Directors have volunteered a reduction in salary of 25% for a period of at least four months. Savings on all contracts are being negotiated with a target minimum G&A saving of 25%.

Impairment

The drop in the oil price is a clear indicator of impairment and we will run our DCF valuation models for our half-year results using the oil price curve at that date. If the pricing remains unchanged from the current market position, we would expect a significant impairment on our Group assets.

Dividend

The Board believes it is appropriate to withdraw dividend payments during 2020, given the continued uncertainty in the macro environment.

The Board will continue to use the well documented capital allocation criteria to assess where and how to spend any free cash flow generated. The key goals are to preserve balance sheet strength, to invest in growth opportunities in excess of the cost of capital and to generate sustainable returns to shareholders.

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Operations Update

Our diversified production portfolio is positioned to see us through the downturn. We have significant operational flexibility onshore Egypt and steady production from offshore Vietnam.

Egypt

El Fayum Production

We are seeing the benefits of the three drilling-rig programme in Q1 2020 reflected in increased production levels relative to year-end 2019. Production from the El Fayum Concession averaged 5,596 bopd from 1 January - 31 March 2020; in April, production averaged 6,396 bopd and production peaked at 7,009 bopd on the 23 April 2020. Taking into account the capex deferral programme and the consequent scaling back of drilling activity for the remainder of the year, the Egypt 2020 production guidance has been adjusted to 5,000-6,000 bopd.

El Fayum Development and Operations

In Egypt, three drilling rigs and three workover rigs were operating through Q1 2020. Seven wells (five producers and two injectors) were drilled in 2020 through to April in the Greater Silah Fields and the N.E Tersa satellite field. The combination of production and injection wells allows the water flood programme, which is the critical element for secondary recovery within the overall field development, to be gradually extended across the fields. The increased field activities resulted in an increased level of production, peaking at 7,009 bopd on 23 April 2020.

2020 Work Programme

The discretionary drilling programme in Egypt has been scaled back to preserve capital in the present uncertain macro-economic environment. Two drilling rigs have been released, and one remains cold stacked at zero rate, until drill site preparations are completed to enable drilling of the remaining two contracted wells. Other than these two wells, there will be no further drilling activity for the remainder of the year or until the macroeconomic environment improves. However, during this period production operations will continue in the field. The modern artificial lift systems installed in all El Fayum wells provide maximum operational flexibility for individual well control, with minimal input required to shut-in or ramp-up production as needed.

One workover rig has been released, one remains on zero rate standby, and one remains operational to perform well maintenance operations. Work on the well intervention and water flood management programme will continue utilising the remaining active workover rig. Forward operations will be focussed on enhancing productivity from existing wells through recompletions, the addition of new producing zones, and the conversion of selected existing production wells to injector wells.

The ultimate target for the water flood management programme in the Greater Silah and N.E Tersa fields is to have 100% voidage replacement. The water injection rate needed to achieve this target is around 40,000 barrels of water per day (bwpd), however during the current period of no further drilling activity, the voidance replacement rates will be limited to approx. 8,000 bwpd.

In addition, the subsurface static and dynamic models are being updated to incorporate the results of the 2019 and 2020 drilling campaigns. 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. Reprocessing of the 3D seismic data across El Fayum started in August 2019 and will continue resulting in improved seismic resolution for optimising the location of future in-fill producer and water injector wells.

GHG emissions

Further reductions in GHG emissions are anticipated through the implementation of a second phase of associated gas generators. However, this work will continue at a reduced pace during the downturn. Solar power sources for satellite wells are also under investigation for future installation at more remote sites.

North Beni Suef

Preliminary work is underway to load and interpret the large pre-existing 3D seismic survey on the concession. Work during 2020 will focus on technical and investigative work on wells previously drilled on the concession.

Vietnam

Vietnam Production

Production from the TGT and CNV fields net to the Group's working interest average was 5,993 boepd from 1 January- 31 March 2020; April production averaged 6,467 boepd. This is in line with the production guidance issued on 8 January 2020. The Group's Vietnam production guidance for 2020 remains unchanged at 5,500-6,500 boepd.

TGT Q1 2020 production averaged 14,334 boepd gross and 4,322 boepd net to Pharos. CNV Q1 2020 production averaged 6,684 boepd gross and 1,671 boepd net to Pharos.

Vietnam Development and Operations

Block 9-2 – CNV Field
No further drilling activities are planned on CNV for 2020. The planned permanent conversion of the water injection pipeline to gas lift and flow the CNV-6PST1 well has been deferred due to the cost reduction initiatives during the downturn.

Block 16-1 – TGT Field
No further drilling activity is planned on TGT for the remainder of 2020.

The TGT-32I, injector well, which spudded in November 2019 was completed as an oil producer and its conversion to a water injector has been deferred due to cost reductions.

The TGT- 15X well, which was targeting the main Miocene and Oligocene producing sands and also appraising the deeper Oligocene D & E sequence play, reached target depth (TD) on 28 February 2020 and was dual completed. The well is currently producing from the upper section; however, the deeper section, did not flow when fracture stimulated as the formation is tight.

These two wells comprised the firm well 2019 drilling campaign and were completed on schedule and within budget.

TGT Compressors and FPSO Tie-In Agreement (TIA)
The upgrade of the TGT Gas Turbine compressors for the Leased FPSO on TGT completed ahead of schedule in April and within budget. The upgraded compressors are able to process the lower specific gravity Third Party gas more efficiently and are now operating at a higher discharge pressure.

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

Vietnam 2020 Work Programme
Operations for the remaining part of the year for TGT are focussed on a well intervention programme to proactively manage production. We anticipate some incremental production improvement in the TGT-H1 platform wells in Q2 from intervention work, which means deepening the gas lift valves in all the H1 wells. This work is expected to commence in May.

Stimulation efforts will continue on the deep section in the TGT- 15X well during Q2.

An updated TGT Full Field Development Plan (FFDP), 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, however the approval time line is extended and under review due to COVID-19 related governmental lockdowns in Vietnam

On Blocks 125&126, technical work continues on the acquired 2D seismic, gravity and magnetic data to identify areas to acquire a 3D seismic survey over high-graded prospective areas.

Israel
The commitment work programme is to reprocess all of the existing 3D seismic vintages previously acquired across the eight licences by various contractors, in order to provide a uniform data set. The operator has started preparation for this work, which is expected to commence in 2020.

Corporate

Remuneration
Upon his appointment on 13 March 2020, the incoming Chair, John Martin, volunteered to reduce the Chair fee by 25%. Subsequently and in addition, the Chair voluntarily agreed a further 25% reduction in the 2020 fees along with the Independent Non-Executive Directors, Rob Gray, Marianne Daryabegui, Lisa Mitchell and Geoffrey Green who have all voluntarily agreed a 25% reduction in their 2020 fees. The Executive Directors have voluntarily agreed a reduction in base salary of 25% for a period of at least four months effective from 1 May 2020. All UK staff and country managers have voluntarily agreed a temporary 10% reduction in base salary. The Company is also introducing more stringent cost reduction targets into the Key Performance Indicators. We will continue to assess further cost-saving opportunities available to us as the situation develops, whilst balancing the long-term requirements of our business.

Annual General Meeting
As announced on 17 April 2020, as a result of the requirements of the UK Government with regard to social distancing, and in order to protect the health and safety of our shareholders and employees, the Board has decided that the AGM this year will be convened with only one Director and another Pharos designated shareholder representative to be in attendance at the venue for quorum purposes to conduct the business of the meeting. In line with the UK Government Stay at Home Measures, shareholders will not be permitted to attend the Company's AGM in person and, if they attempt to do so, will regrettably be refused entry to the meeting under the Company's Articles of Association.

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Board Changes

As previously announced in March, Lisa Mitchell joined the Board of Pharos as an Independent Non-Executive Director and Chair of the Audit and Risk Committee with effect from 1 April and, as announced in January, Geoffrey Green will join the Board of Pharos as an Independent Non-Executive Director with effect from the conclusion of the Company's upcoming AGM. In January, Pharos announced that Ettore Contini, Non-Executive Director, would not stand for re-election at the upcoming 2020 AGM, following 18 years of service. The Board would like to thank Ettore for his service and wish him all the best for the future.

Enquiries

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Notes to editors

Pharos Energy plc is an independent oil and gas exploration and production company with a focus on sustainable growth and returns to stakeholders, 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
AGM
Annual General Meeting
bbl
Barrel
boepd
Barrels of oil equivalent per day
bopd
Barrels of oil per day
bwpd
Barrels of water per day
CASH or cash
Cash, cash equivalent and liquid investments
United Kingdom
CAPEX or capex
Capital expenditure
CNV
Ca Ngu Vang field located in Block
EGPC
Egyptian General Petroleum Corporation
FFDP
Full Field Development Plan
FPSO
Floating, Production, Storage and Offloading Vessel
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
Opex
Operational expenditure
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