12 January 2023
Trading and Operations Update

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

Trading and Operations Update January 2023

Pharos Energy plc, an oil and gas exploration and production company, issues the following trading and operations update to summarise recent operational activities and to provide trading guidance in respect of the financial year to 31 December 2022. This is in advance of the Company's Preliminary Results on 22 March 2023. The information contained herein has not been audited and may be subject to further review and amendment.

Jann Brown, Chief Executive Officer, commented:

"2022 saw strong cash generation, allowing us to make returns to shareholders through a share buyback programme which will now be extended with a further $3m allocated. We are also fully aware of the importance of regular dividends to much of our investor base, and look forward to making the first payment under the dividend policy announced in September as a key part of our overall commitment to returning value.

Our asset investments are made where we can generate a combination of near-term cash flow and longer-term value from our portfolio. In Egypt, we continue to engage with IPR as the Operator to optimise the work programme of both the El Fayum and the North Beni Suef Concessions and we remain fully carried for the first part of the year. In Vietnam, we are focused on sustaining cash generation through development drilling, and further work to enhance value is ongoing. On the TGT and CNV production licences, we are working with partners to refresh our field development plans and extend licence periods. Finally, the scale of the opportunity on Block 125 is becoming clearer as more work is done on it and we are pushing forward with the plans for drilling here, now expected to be in 2024."

Operational Highlights

- Group working interest 2022 production 7,166 boepd net [1] (2021: 8,878 boepd net, 7,533 boepd net on a comparative basis[1]), in line with production guidance;:
  - Vietnam production 5,418 boepd net (2021: 5,560 boepd net)
  - Egypt production 1,748 bopd [1] net (2021: 3,318 bopd; 1,973 bopd on a comparative basis [1])
- In Vietnam, work on submitting Revised Field Development Plans (RFDPs) for two wells on TGT and one on CNV for the 2023 work programme is progressing, with all wells remaining in contingent budget until approval
- Interpretation work on the 3D Seismic in Block 125 is continuing and showing promising results. Application for extension to Block 125/126 licence submitted as no suitable rigs available for drilling in 2023
- In Egypt, seven wells were put on production in 2022, plus one additional well drilled in Q4 2022 and awaiting completion
- Multi-well development drilling programme continues in 2023, two drilling rigs commenced drilling new wells in El Fayum
- Request for a short extension on North Beni Suef (NBS) granted, with work on a further extension request underway
- Net Zero commitment on all assets by 2050, detailed roadmap coming in 2023

Financial Highlights

- Group revenue for 2022 was c.$222m before hedging loss of c.$23m (2021: $163.8m before hedging loss of $29.7m)
  - Vietnam revenues for the year c.$185m
  - Egyptian revenues for the year circa $37m [2]
- Cash balances as at 31 December 2022 were approx. $45m; net debt c.$29m (2021: cash balances $27.1m; net debt $57.5m)
- Completion of the initial $3m share buyback programme, with a further $3m committed for 2023
- Recommending recommencement of regular dividend payments starting in 2023, subject to shareholder approval at AGM 2023, as announced at Interim Results announcement in September 2022

2023 Guidance

- Group working interest 2023 production guidance 6,050 – 7,500 boepd net:
  - Vietnam 2023 production guidance 4,700 – 5,700 boepd net
  - Egypt 2023 production guidance 1,350 – 1,800 bopd net (equivalent to gross production of 3,000 – 4,000 bopd)
- Forecast cash capex for 2023 is expected to be c.$38m (c.$23m after Egyptian carry by IPR)

1 The farm-down transaction and transfer of operatorship of Pharos' Egyptian assets to IPR completed on 21 March 2022. Working interest production for Egypt in 2022 is therefore reported as 100% through to completion and 45% thereafter. The comparative basis for 2021 also assumes 100% working interest until 21 March 2021 and then 45% for the remainder of the year.
2 Egyptian revenues are given post government take including corporate taxes.

Operations Update

Vietnam

Vietnam Production

Production in 2022 from the TGT and CNV fields net to the Group's working interest averaged 5,418 boepd (2021: 5,560 boepd). This is in line with the 2022 production guidance.

TGT production averaged 13,784 boepd gross and 4,089 boepd net to Pharos (2021: 13,887 boepd gross and 4,120 boepd net). CNV production averaged 5,317 boepd gross and 1,329 boepd net to Pharos (2021: 5,762 boepd gross and 1,440 boepd net).

Vietnam production guidance for 2023 is 4,700 to 5,700 boepd net.

Vietnam Development and Operations

On Block 16-1 – TGT Field, the drilling programme for two development wells completed in H2 2022, on time and under budget. The first well, H1-35P, commenced production on 21 October 2022, and the second well, 11XPST, commenced production on 10 November 2022.

Additionally, the JOC continues to execute an active well intervention and data-gathering programme on TGT to further optimise production.

On Block 9-2 – CNV Field, one development well, CNV-2PST1, started drilling in H2 2022 and is anticipated to be completed by the end of January 2023.

For the 2023 work programme, the JOCs are working towards submitting Revised Field Development Plans (RFDPs) for two wells on TGT and one on CNV, with all wells remaining in contingent budget until approval by partners and the Ministry of Industry and Trade (MOIT). Production guidance has assumed no contribution from these wells in 2023.

Discussions with our partners PTTEP and PVEP are ongoing to finalise the official licence extension request, which will be submitted to PVN for their approval prior to being put to the Prime Minister for final assent.

Vietnam Exploration

Blocks 125/126

On Block 125, the 3D seismic processing is complete and the ongoing interpretation of this data has resulted in the mapping of a variety of world class Prospects in this relatively unexplored basin, with further work needed to refine them into "drill-ready" status.

The analysis of the 2D seismic shot in 2019 indicated prospectivity in both the shallow and deeper water, and the ongoing interpretation of the 3D has highlighted greater prospectivity in the deeper water section given the scale of the Prospects identified.

We had planned to drill a well on this block in 2023 but the current focus on the deeper water means that a drillship is needed to drill this well and we have been unable to source one for 2023 on acceptable terms. We have therefore submitted an application for an extension of the PSC and plan to drill a well in Q2/Q3 2024.

We will use the time to optimise drilling locations and well planning for this deeper water well, to source a drillship and other long-lead items and to find a partner to support the funding of this well. A number of parties have expressed interest and have been invited to review data. Discussions are ongoing.

Egypt

El Fayum Production,

The transaction with IPR and transfer of operatorship completed on 21 March 2022. Working interest production in 2022 is therefore reported as 100% through to completion of the farm-down and 45% thereafter.

Production for 2022 from the El Fayum Concession averaged 3,128 bopd gross and 1,748 bopd net to Pharos. This is in line with the 2022 production guidance.

Egypt production guidance for 2023 is 1,350 – 1,800 bopd net (equivalent to gross production of 3,000 – 4,000 bopd).

El Fayum Development and Operations

Multi-well development drilling in El Fayum continues in 2023, with nine wells planned for the year. Seven wells were put on production in 2022 (including one well drilled in 2021), and one additional well drilled in Q4 2022 is and awaiting completion in Q1 2023.

Two drilling rigs have commenced drilling new wells in El Fayum. The second rig, which was secured on a long-term contract in July 2022, started drilling in December 2022, allowing a short period of overlap between two rigs.

Additionally, two workover rigs are on field to contribute to production through low-cost well repairs, recompletions, and deployment of water injection.

El Fayum Exploration

As part of the planned work programme in 2023, two commitment exploration wells are expected to be drilled in the El Fayum Concession. These two Satellite exploration wells are planned to target two separate structures near existing producing fields with primary reservoir targets in the Abu Roash G and Upper Bahariya formations. We are working closely with IPR to progress well planning and optimise drilling schedules.

North Beni Suef (NBS)

Drilling of a commitment well in NBS was deferred to 2023 with the granting of a short extension, thus allowing additional time to fulfil our commitment to drill this well by March 2023. The Company also plans to drill an additional commitment exploration well in NBS, the timing of which is dependent on rig availability schedule and negotiations for an additional extension of the exploration period until September 2023.

Several prospects have been identified from the existing 3D seismic and c.110 km^2 of additional 3D seismic is planned to be acquired in H1 2023.

Financial Update

Net cash/debt

The Company entered 2022 with cash of $27.1m and net debt of $57.5m. Cash balances as at 31 December 2022 were approx. $45m and net debt was c. $29m.

Egyptian Receivables

The recent global macroeconomic volatility has seen both a significant devaluation of the Egyptian Pound and continued restrictions on outgoing US Dollar (USD) transfers by the Central Bank of Egypt. As noted in previous updates to the market, Pharos have opted not to accept the payment of our receivables balance in Egyptian Pounds (EGP) unless required for operations. The progressive devaluation of EGP against USD means that it is preferable to continue to hold USD denominated receivables. As a result, Pharos' receivables have increased to $24.2m (which includes the c.$7m catch-up invoice for improved fiscal terms) at 31 December 2022 (2021: $7.4m).

The International Monetary Fund (IMF) recently announced that its Executive Board had approved the provision of a $3 billion, 46-month extended fund facility to Egypt, which the IMF expects to catalyse additional financing of approximately $14 billion from Egypt's international and regional partners. In addition, Egypt is seeking access to up to a further $1 billion from the IMF's newly created resilience and sustainability facility to support climate-related policy goals. Taken together, these developments are widely anticipated to improve Egypt's FX reserves and overall liquidity in H1 2023. We therefore remain optimistic that outstanding receivables with EGPC will start to be recovered during 2023.

In the event of continued delays in our El Fayum invoices being paid, we have access to our revolving credit facility with the National Bank of Egypt (NBE), which allows us to draw down 60% of the value of each invoice in USD. The amount drawn under the NBE facility as at 31 December 2022 was $9.2m, which is included in our net debt calculation. We recently agreed with NBE to extend the current $18m facility on the same terms to 31 March 2024. We continue to closely monitor our working capital position across the group with a view to expediting cash conversion and will keep the market updated on progress. We will keep under review the receivables position in Egypt which may impact the capital available for development.

Revenues

Group revenues for full year 2022 were c.$222m prior to a hedging loss of c.$23m. The revenue includes $7m from Egypt due to the Third Amendment to the El Fayum Concession Agreement, as announced in our Preliminary Results on 16 March 2022. The average realised oil price per barrel achieved for Vietnam was c.$106/bbl representing a premium of just over $4/bbl to Brent and for Egypt was approx. $96/bbl, representing a discount of approx. $5/bbl to Brent.

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The H1 2023 premium for TGT crude in Vietnam has been agreed at $8.00/bbl, a significant increase over the H2 2022 premium of $5.65/bbl (H1 2022: $3.13/bbl). The H1 2023 premium for CNV crude has been agreed at $7.88/bbl, significantly higher than the H2 2022 premium of $5.09/bbl. This highlights the increased competition and demand for the high quality crude being produced from both Vietnam fields.

Group overheads

Overhead reduction remains an ongoing focus for the Group. We restructured the Egyptian business with a reduction in the underlying cost base in March 2022, following the farm-down and transfer of operatorship to IPR. In addition, we reshaped the Board structure with a reduction in the number of Board members from nine to six and continue to evaluate further cost efficiencies.

Hedging

For full year 2022, Pharos entered into different commodity (swap and zero collar) hedges to protect the Brent component of forecast oil sales and to ensure future compliance with its obligations under the RBL over the producing assets in Vietnam. The commodity hedges run until December 2023 and are settled monthly. The majority of hedged production volumes (61%) were in H1 2022, leading to realised losses of $17m out of total realised losses of $23m for the year, in order to meet requirements under the RBL and also going concern and working capital tests in relation to the Egypt farm-down deal.

For 2022, 30% of the Group's total production was hedged, securing an average realised price for the hedged volumes of $73.1/bbl. The Group's reserve based lending facility (RBL) requires the Company to hedge at least 35% of Vietnam RBL production volumes and the current hedging programme meets this requirement through to December 2023, leaving 71% of Group production unhedged.

Please see below a summary of hedges outstanding as at 31 December 2022.

	Q1 23	Q2 23	Q3 23	Q4 23
Production hedge per quarter - 000/bbls	180	180	180	45
Min. Average value of hedge - $/bbl	65.33	65.33	63.33	63.33
Max. Average value of hedge - $/bbl	102.88	102.88	102.23	107.80

RBL

The December redetermination process under the RBL has now completed with a principal repayment of $12.9m made in December 2022 and the amount drawn currently stands at $64.9m.

The RBL loan, which is only over Vietnam producing assets, matures in July 2025. The facility amount is amortised by $14.2m, every re-determination, from 1 July 2022, with a facility amount as at 31 December 2022 of $85.75m, which decreased to c. $71.5m from 1 January 2023 and will decrease further to $57.3m from 1 July 2023. The Group is able to dividend up from the Vietnam RBL zone to the Plc twice a year in January and July following approval of the redetermination.

The Debt Service Reserve Account (DSRA) was put in funds of $18.5m on first business day of 2023 to service the principal repayment for half year 2023 plus interest.

Corporate Update

Portfolio management & capital allocation

The Board remains focused on optimising its asset portfolio and is driven by its duty to deliver value to shareholders, which is achieved through share price accretion and returns of capital by ways of dividends and share buybacks. The Board maintains an active approach to timely asset portfolio management, taking into account the return on capital, cash generation potential, costs, growth and strategic fit of each asset in the current portfolio in light of the overriding focus on generating value for shareholders.

Capital discipline and regular shareholder returns are core elements of our overall shareholder offering, and we note their importance for investors. The Board is pleased to recommend the recommencement of regular dividend payments starting in 2023, returning no less than 10% of Operating Cash Flow (OCF). The first dividend will be a final dividend for the 2022 financial year and will be paid in full in July following approval of the shareholders at the Company's AGM in 2023 as announced in September 2022.

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Share buyback programme

Following the initiation of a share buyback programme to purchase $3m (excluding stamp duty and expenses) of the Company's ordinary shares in July 2022, we are pleased to announce the completion of this programme. A total of 10.3 million shares were bought, at a daily average price of 24.4p.

The Board believes that the Company's shares are still trading at a material discount to their underlying net asset value, despite the performance across the Group's asset base, and the Board remains of the view that a continuation of share buybacks is an appropriate means of returning value to shareholders at this time. Therefore, the Company will be looking to continue with the share buyback programme in 2023, with a further $3m (excluding stamp duty and expenses) committed as of today. This extension of the programme (the Programme Extension), is expected to commence immediately.

Purchases of ordinary shares under the Programme Extension will initially be made under the existing authority of the Company to purchase its own shares approved by shareholders at the Company's 2022 annual general meeting (AGM). This authority will expire at the conclusion of the Company's 2023 AGM, expected to be held in May. The Company intends to seek a renewal of the authority at the 2023 AGM in customary terms. Accordingly, if the Programme Extension has not been completed by the date of the 2023 AGM, its continuation will be subject to the passing of the resolution to renew the authority.

As with the initial share buyback programme announced in July 2022:

- the Programme Extension will be conducted in compliance with European Union (EU) Regulation No 596/2014 (MAR) and the MAR buyback technical standards (Commission Delegated Regulation (EU) 2016/1052) (the Technical Standards), both of which form part of Retained EU Law as defined in the European Union (Withdrawal) Act 2018;
- the Company will not seek to rely on the safe harbour conditions for trading set out in Article 3(2) and Article 3(3) of the Technical Standards, given the limited liquidity in its ordinary shares and the limitations that the conditions would impose on the number of shares that can be purchased;
- ordinary shares purchased under the Programme Extension will be cancelled; and
- Peel Hunt LLP, the joint broker to Pharos, will manage the Programme and carry out on-market purchases as principal, with the authority to enact purchases and make trading decisions concerning the timing of the purchases independently of the Company.

Details of any and all purchases made under the Programme Extension will be provided via RNS announcements and published in the regulatory news section of the Company's website.

Outlook

Our producing assets continue to deliver strong cash generation. In Vietnam, we are looking to enter a new phase with discussions on licence extension requests ongoing and in Egypt, where we continue to benefit from a full carry for the first half of the year, IPR has committed to a programme which will add new wells to the production base. This has allowed us to commit to regular ongoing returns to shareholders, as part of our annual capital allocation plans.

Debt levels continue to reduce, and we have limited commitments over the asset base, giving us a strong foundation to work from. Finally, the opportunity which we have in our Exploration Block in Vietnam is unique and significant effort will be spent this year in concluding the analysis, planning the well and bringing in the right partner.

Enquiries

Pharos Energy plc — Tel: 020 7747 2000
Jann Brown, Chief Executive Officer
Sue Rivett, Chief Financial Officer

Camarco — Tel: 020 3757 4980
Billy Clegg | Georgia Edmonds | Rebecca Waterworth | Kirsty Duff

Notes to editors

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