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Pharos Energy PLC
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7 April 2021

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

2020 Preliminary Results

Pharos Energy plc, an independent oil and gas exploration and production company, announces its preliminary results for the year ended 31 December 2020. A conference call will take place at 0900 BST today.

Ed Story, President and Chief Executive Officer, commented:
"Despite the challenges of the past year there have been positives; group production was in line with guidance, we were granted an extension to our TGT and CNV licences in Vietnam; and the TGT Full Field Development Plan, where drilling will commence in Q3 2021, received final approvals. In order to preserve liquidity and the opportunities in our current portfolio during a turbulent 2020, we deferred discretionary capex, reduced our cost base, and took the difficult decision to suspend the dividend. Vietnam provides the lowest breakeven in our portfolio, investments here have quick paybacks, and the drilling programme is fully self-funded from the operating cash flows in country. We expect to reach post capex free cash flow in H1 2022. In Egypt, reserves have been significantly upgraded and the waterflood programme has commenced, supported by the equity placing completed in January 2021. We are well advanced in a process to select the right farm-out partner to make the investment needed to fast-track material production growth and, an agreement has been reached with EGPC on a change to the El Fayum licence terms which, once approved by the Egyptian Government, will enhance operating cash flows and profitability. Finally I want to thank our colleagues for all of the commitment and energy that has seen us through what has been a hugely difficult year."

2020 Corporate Summary

The health, safety and welfare of our staff, suppliers and host communities across our business has been our highest priority

- Pharos has continued to manage its operations carefully, with the Group adhering to the COVID-19 procedures and restrictions put in place by its host countries, with negligible disruption to business in the period
- Continuation of ESG enhancements across the business, including new independent Board appointments and adoption of a new Climate Change policy
- Ongoing discussions through a formal farm-out process with potential industry partner(s) for the Company's assets in Egypt to fast-track activity and increase production
- Intense focus on cutting cash costs across the Group, including:
  - Cash cost savings on total group expenditure for the year of c.23% against the budget. Group reduction of G&A costs 35%
  - 25% reduction on fees for all Non-Executive Directors from 1 May 2020
  - 25% reduction on remuneration for Executive Directors effective 1 May 2020, a further 10% (total 35%) from 1 August 2020- 31 March 2021
  - Closure of London office
- Further developments in 2021:
  - Successful completion of an oversubscribed equity Placing, Subscription and Retail Offering in January 2021 which raised gross proceeds of approximately $11.7m; proceeds are being used to fund Phase 1B of the waterflood programme in Egypt, which is now underway
  - Remuneration of Executive Directors reduced by 50% from 1 April 2021
  - Head office reorganisation and reduction in headcount to be completed by end 2021

2020 Financial Summary

- Group revenue of $118.3m plus $23.7m from hedging (2019: $189.9m less hedging loss of $0.2m) *
- Loss for the year of $215.8m (2019: loss $24.5m), following oil price related post tax impairments of $198.1m
- Cash operating costs of $11.60/bbl (2019: $10.45/bbl)[1]
- Cash generated from operations $85.5m (2019: $113.0m)
- Group Net Debt $32.6m as at 31 December 2020 (2019: Net Debt $41.5m)[1]
- Cash balances as at 31 December 2020 of $24.6m (2019: $58.5m)
- No dividend payment for the year (2019: $27.4m paid 31 May 2019)
- Net Debt to EBITDAX of 0.48 (2019: 0.37)[1]

* Egyptian revenues are stated post government take including corporate taxes.
1 See Non-IFRS measures at page 39

2020 Operational Summary

- Total Group working interest 2020 production 11,373 boepd net (2019: 12,136 boepd)
  - Egypt production 5,270 bopd (2019: 5,055 bopd*)
  - Vietnam production 6,103 boepd (2019: 7,081 boepd)
- In Egypt
  - Technical work on the asset resulted in an upgrade of 53% in proven and probable (2P) reserves in the El Fayum concession as concluded by McDaniel & Associates
  - Technical progress including reprocessing of 3D seismic data; waterflood evaluation and a pilot test project in the Silah field for phased implementation of a secondary recovery programme
  - Updated sub-surface static model to optimise the location of future wells
  - Optimised a 57 well investment case for the field developments designed to take the Recovery factor to ~18%
  - Identified a number of low-risk prospects as well as potential producing field extensions from third-party Development Leases into the North Beni Suef Exploration Concession
  - Benefited from improved commercial terms with EGPC regarding the Western Desert discount and negotiated a six-month reduction on the El Fayum discount and fees
- In Vietnam
  - Granted two-year extensions to both the TGT and CNV field licences from the Ministry of Industry and Trade
  - Completed upgrade work on the Gas Turbine compressors for the Leased FPSO in the TGT Field in April 2020 ahead of schedule and under budget
  - Extended a successful well intervention campaign
  - TGT-15X spudded on 28 February 2020 and is producing from both the upper and deep sections
  - Received approval from the Prime Minister of Vietnam for the TGT Full Field Development Plan (FFDP)

* Egypt 2019 production from 2 April to 31 December 2019.

Outlook for 2021

- Received provisional approval from EGPC to an amendment of the fiscal terms on the El Fayum Concession. Under the revised terms, the cost recovery percentage will be increased from 30% to 40% allowing Pharos a significantly faster recovery of all its past and future investments

- Approximately 42% of the Group's 2021 forecast production from April 2021 to December 2021 hedged at an average price of $50.6/bbl
- Total Group working interest 2021 forecast production range of 9,200 to 10,600
- In Egypt
  - Production guidance for 2021 is 4,000-4,400 bopd, before any investment from a farm in partner
  - Phase 1B of the Waterflood programme in the field has commenced following the successful equity placing in January 2021
  - The outcome of the ongoing formal farm-out process for the Company's assets inEgypt, is expected to be announced Q2 2021 with completion planned for H2 2021

- In Vietnam
  - Production guidance for 2021 is 5,200-6,200 boepd
  - The drilling of four development wells will commence in Q3 2021 in the TGT Field
  - Preparation underway for the 3D seismic survey planned over certain high graded leads in the northern part of Block 125.

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Notes to editors
Pharos Energy plc is an independent oil and gas exploration and production company with a focus on sustainable growth and returns to stakeholders, which is listed on the London Stock Exchange.

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

In Egypt, Pharos holds a 100% working interest in the El Fayum oil Concession in the Western Desert. The Concession produces from 10 fields and is located 80 km southwest 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 Vietnam, Pharos has a 30.5% working interest in Block 16-1 which contains 97% of the Te Giac Trang (TGT) field and is operated by the Hoang Long Joint Operating Company. Pharos' unitised interest in the TGT field is 29.7%. Pharos also has a 25% working interest in the Ca Ngu Vang (CVN) field located in Block 9-2, which is operated by the Hoan Vu Joint Operating Company. Blocks 16-1 and 9-2 are located in the shallow water Cuu Long Basin, offshore southern Vietnam. Pharos also holds a 70% interest in and is designated operator of Blocks 125 & 126, located in the moderate to deep water Phu Khanh Basin, north east of the Cuu Long Basin, offshore central Vietnam.

In Israel, Pharos together with Cairn Energy plc and Israel's Ratio Oil Exploration, have eight licences offshore Israel. Each party has an equal working interest and Cairn is the operator.

Chair's statement

A year of unprecedented change
The global COVID-19 pandemic, US presidential elections and the completion of the UK's formal separation from the European Union are some of the events that impacted the global economy and made 2020 a year of unprecedented change, but there is hope for the future. The global roll-out of a number of vaccines supports the view that we might be nearing the beginning of the end of the severe lockdowns which have impacted economic activity across the globe.

Actions taken in the year
During 2020, the COVID-19 pandemic resulted in a sustained period of reduced economic activity affecting energy demand, which was reflected in severe downward pressure on the oil price. In addition, geopolitics in 2020 put further downward pressure on the industry resulting in a significant oil price drop. The Company responded quickly and decisively to defer all discretionary expenditure and reduce G&A costs across the Group to preserve balance sheet strength.

Pharos was agile in reacting to the rapidly changing oil price environment and took advantage of the flexibility that our onshore Egyptian operations offered by deferring drilling activity in Egypt. Our business in Vietnam is well positioned with its low breakeven price. In Egypt, the Company benefited from improved commercial terms with EGPC on the discounts and handling fees in 2020 and has now received provisional approval to amend the fiscal terms on its El Fayum Concession which, once approved by the Egyptian government, will accelerate cost recovery, reduce breakeven prices, and enhance cash flow generation. The business in Egypt is now well placed to secure the right industry partner to fund the investment programme and develop the fields and discussions are ongoing.

The reduction of the longer-term commodity prices impacted on the Group's exploration and producing assets with a non-cash after tax impairment charge against our Vietnam and Egyptian assets of $198.1m which, together with reduced revenues due to the oil price fall, were the key drivers for our overall loss for the year of $215.8m.

Cost reductions and Dividend
There has been a strong focus on cutting cash costs across the Group and a reduction in 2020 forecast expenditure of approx. 23% has been achieved. All Directors took a voluntary reduction in salary and fees of 25% from 1 May 2020 and then the three Executive Directors went further and agreed an additional 10% reduction which began on 1 August 2020, giving a total reduction of 35%. These reductions continued until 31 March 2021. The Board also agreed that no bonuses will be paid in 2020. The Executive Directors have volunteered a 50% reduction in salary from 1 April 2021.

As announced in May 2020, the Board believed it was appropriate to suspend dividend payments during 2020, given the continued uncertainty in the macro environment. The decision to re-instate the dividend will be kept under review and the Board will continue to use its well-documented capital allocation criteria to assess where and how to spend any free cash flow generated.

Farm-out of Egyptian assets and successful equity raise
There are multiple investment opportunities in Egypt, and now is the right time to bring in an industry partner to support the funding required to develop and explore El Fayum and North Beni Suef, both of which have transformative potential. The Company launched a formal farm-out process in the latter part of 2020 and the results are expected to be announced in Q2 2021. A successful farm-out will de-risk our current 100% participating interest holding, reduce our capital exposure and accelerate the first phase of the full-scale development drilling programme at El Fayum, targeting material increases in production.

In January 2021, the Company announced the successful completion of an oversubscribed equity Placing, Subscription and Retail Offering in January 2021 which raised gross proceeds of approximately $11.7m. The proceeds are being used to fund Phase 1B of the waterflood programme in Egypt, which is now underway as we progress our farm out process.

We were delighted to have such strong support in this equity raising from the market, underpinned by our existing shareholders, management team and board.

Health & Safety and wellbeing of staff and host communities
The health, safety and welfare of our staff, suppliers and host communities across our business remains the highest priority on the Board agenda, especially at during this global pandemic. Pharos managed its operations carefully in light of COVID-19 and the Group adhered to the requisite procedures and restrictions, in line with the government directives in Egypt, Vietnam and the UK. At our onshore operations in Egypt, field staff continue to engage with the community adjacent to the El Fayum Concession and have carried out disinfection of community areas such as schools, post offices, ambulance units and police stations.

We are pleased to report that our Joint Operations in Vietnam continue to an exceptional record of safety, reporting zero LTIs since operational inception, representing nine production years on TGT and 12 production years on CNV. In Egypt, we are sad to report the loss of one of our sub-contractor assistant crane operators in Q4 2020, following an accident during a rig move operation where the crane ran off the road. Following the accident there was immediate reinforcement of safe working practices with all sub-contractors, such as safe driving and manoeuvring practices, increased supervision of rig moves, and awareness of potentially unsafe road conditions. The safety of our workforce remains our number one priority and Pharos has reinforced the use of stop cards and safety training across all operations.

The 'S' in ESG encompasses not only social projects that we invest in but extended during 2020 to focus on our employees, contractors, suppliers, and wider stakeholder groups during global lockdowns. The CEO's statement details of the social projects the Joint Operating Companies (JOCs) invested in and I would like to address how Pharos has worked and engaged with our employees.

Remote working for head office staff
The Board has been focused on the welfare of staff who have been working remotely throughout the pandemic and the Company has actively engaged and consulted with staff on new remote working practices. Office staff in Vietnam and Egypt have been following governmental guidelines, which has meant a combination of working remotely and/or in the office with negligible disruption to the business. The London head office staff have been working remotely since March 2020 and this is likely to continue for the foreseeable future. Given this new pattern of working, the London head office was closed.

Workforce engagement in a remote working environment
The Board remains passionate about workforce engagement and fostering a genuine dialogue between the Company and staff. As such, I will continue in my role as the designated Non-Executive Director for workforce engagement. This year I spoke to staff in Egypt, Vietnam and London via video conference, giving them a platform where they could share their feedback and views about the Company. Following feedback from the previous year's session, one of the significant changes made was the hiring of a dedicated Head of HR. Monthly focus groups held with staff to hear their views on any issues arising from new working environments have been especially important. A Group wide Employee Engagement Survey, the first in the Company's history, was also launched in 2020, with a 92% response rate, the outcomes of which will allow us to improve our understanding of cultural differences and employee experience.

Culture and our Guiding Principles
One of Pharos' Guiding Principles is Openness and Integrity, and we know the value of open and transparent communication and listening. Monthly focus groups have been critical in developing and adapting ways of communicating across the Group and increasing the frequency of business updates and engagement with staff. Less formal virtual gatherings have also been organised to offer some of the interaction that naturally gets lost when people are not physically in the same office.

Diversity and Inclusion
We have a workforce with a diversity of experience, nationalities, cultural backgrounds, and gender, which supports our business strategy of long-term sustainable growth. It is crucial to the success of our business that we retain and develop the diversity of our workforce and have diversity and inclusion at the heart of our recruitment, development and promotion processes. We are very proud of the number of women we have in the London office, which in 2020 accounted for some 58% of the team and three out of four Group Heads of Function posts were managed by women. Our Code of Business Conduct and Ethics and Policies and our Guiding Principles commit us to providing a workplace free of discrimination where all employees can fulfil their potential based on merit and ability. They also commit us to providing a fully inclusive workplace, while providing the right development opportunities to ensure existing staff have rewarding careers.

Training and development
Providing training and development opportunities to ensure existing staff have rewarding careers has continued at Pharos. We maintained a training budget to support the ongoing development of all our staff, providing them with external training and 'lunch and learn' sessions run by the staff.

Pharos remains committed to creating value for host countries and local communities as well as for staff. 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.

Environmental, Social and Governance (ESG) committee
Last year, the Board established an ESG Committee, with delegated authority to oversee and direct work towards our goal of establishing and maintaining the highest operating standards across ESG matters. The ESG committee has dialogue with employees and external advisors. In 2020, the ESG working group, which sits within the ESG Committee and includes Pharos' Country Managers, Head of Operations, Head of Investor Relations and Risk Manager, met quarterly to discuss various social projects and material ways to reduce greenhouse gas ("GHG") emissions in our operations.

Reduction in GHG emissions across our business is important to Pharos and we recognise that our assets are operated by JOCs over which we have influence but not control. At the beginning of 2020, the Group launched an internal initiative with senior management and asset managers called Project GOO (Greening Our Operations) focusing on identifying key sources of GHG emissions and processes and methods which could be changed to reduce GHG emissions. In 2019 in Egypt, the JOC initiated Phase one utilisation of associated gas-powered electricity generators, which reduced flared gas at one site by 30% in 2019. The implementation of a second phase of this project, which was anticipated to further reduce GHG emissions, has been paused. Both these initiatives have been interrupted by the impact of the pandemic and we will look to resume them at the appropriate time.

Climate Change
We recognise and actively consider the impact of climate change and energy transition as immediate challenges facing Pharos. In our view, oil and gas will continue to be an important component of the global energy mix for many decades to come, although there is a risk that there could be less demand for oil and gas. This could lead to downward pressure and volatility in the oil price.

According to a recent World Bank report, the Vietnamese economy is one of the few in the world likely to avoid a recession following the COVID-19 pandemic, giving confidence that demand for energy there will be maintained. Pharos will continue to develop its oil and gas resources responsibly to aid global economic development and deliver value for all our stakeholders. We believe that 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 sustainable way. We will also continue to support our host governments as they seek to use oil revenues to promote sustainable and inclusive economic development, and we will support the actions that they take to manage climate change.

In December 2020, we published our Climate Change Policy addressing our principal climate change risks through the development and implementation of an appropriate mitigation response that recognises energy transition away from fossil fuels towards renewable sources of energy, whilst supporting the long-term resilience of the Company's strategy and business operations. This response includes integrating climate change considerations into key business decisions in the short-term, particularly in relation to new business opportunities and using our relationships and influence as a JV partner and our role in the JOCs to identify key performance indicators ("KPIs") to help measure, monitor and, where possible, reduce the energy consumption and greenhouse gas intensity of our operations, ensuring our business strategy responds to evolving climate-related risks. Our Climate Change Policy is available on our corporate website https://www.pharos.energy/responsibility/policy-statements/. Over the past four years, we have also participated in the CDP (Climate Disclosure Project) Climate Change Questionnaire and have maintained our score (C) and amongst all UK listed oil and gas companies that participated in the CDP we ranked fourth.

We recognise the requirements for increased transparency concerning the impact on the environment from our business decisions and we continue to provide full disclosure of our emissions, discharges and water usage. We are always looking at actions that will minimise our impacts on the environment. From a financial perspective, we support the requirements of the Task Force on Climate-related Financial Disclosures ("TCFD") and are looking to bring our disclosures in line with these recommendations. The Project consists of two phases. Phase 1, which is now complete, consisted of a thorough peer benchmarking, internal document review and gap analysis which culminated in the development and approval by the Board of Pharos' Climate Change Policy in December 2020. Phase 2 will aim to assess the Company's climate impact, define its 2020 baseline and develop a set of KPIs to better manage and monitor its GHG emissions. These efforts have been interrupted by the impact of the pandemic and we will look to resume them at the appropriate time.

Board changes
Amid unprecedented turmoil and a rapidly changing 'new normal', good corporate governance has become even more important. During 2020, as part of our planned Board refreshment, I was pleased to welcome Lisa Mitchell and Geoffrey Green to the Board. Lisa is an experienced CFO with over 25 years' international experience across the oil and gas, mining, and pharmaceutical industries and she has served as Chair of the Audit and Risk Committee and as a member of the Nominations Committee and ESG committee from 1 April 2020. Geoffrey has many years of legal and commercial experience in advising major UK listed companies on corporate and governance issues, mergers and acquisitions and corporate finance. Geoffrey was appointed as the Chair of the Remuneration Committee and as a member of the Audit and Risk Committee and ESG Committee, with effect from 20 May 2020. Geoffrey's wealth of legal experience and corporate governance expertise along with Lisa's strategic, financial, taxation and treasury expertise have already proven to be invaluable to the Board, adding to its strength and diversity. In addition, Ettore Contini (Non-Executive Director) stepped down from the Board following the AGM in May 2020, after eighteen years of service. I would like to thank Ettore for his service and support to the Company over the years, and we wish him all the very best for the future. In March 2021, we announced the appointment of Sue Rivett to the Board as Chief Financial Officer ("CFO") effective 1 July 2021. Jann Brown, who is currently Managing Director ("MD") and CFO, will remain as MD, focused on delivering the next phase of the Group's strategic plan.

Brexit
The Board had previously considered the uncertainties which exist around Brexit when it was first announced and has continued to conclude that the potential impact on Pharos is likely to be low, since our principal operations are conducted in territories outside the EU, our cash flows are linked to the US Dollar, and we do not rely on large numbers of EU staff members being able to work in the UK.

Outlook

Our current focus is to allocate capital to the near-term development drilling in Vietnam and Egypt, both of which have potential to generate free cash flow. In Vietnam, the development is self-funding and in Egypt funds for the development were raised from the equity placing with further funds expected to come through securing a farm-in partner.

Our principal strategy is the delivery of sustainable long-term returns to shareholders through a combination of regular cash returns and growth in our asset base. 2020 was a difficult year as the drop in oil price not only significantly reduced our operating cash flows but also led to a reduction in the oil price used by our lending banks, which increased the scheduled mid-year repayment to an amount significantly in excess of our previous forecasts. We have done what was required, including deferring discretionary capex, reducing our cost base and agreeing improved terms with host governments. We also took the decision to suspend the dividend which would have been paid in 2020. We are not complacent about the situation, but we are confident that we can continue to deliver value to our shareholders and a commitment to cash returns to shareholders remains a core element of or overall allocation framework. The re-instatement of the dividend will be kept under regular review by the Board.

One of the most difficult decisions has been to announce a staff redundancy programme in the UK and this will be completed during 2021. In addition, the executive team has offered to take a 50% reduction in salary effective 1 April 2021 bringing our overall cost base into line with the current scale of the business.

In Egypt, we have started Phase 1B of the waterflood programme following the equity placing and are working steadily towards securing a new farm-in partner to make the investment needed to accelerate the first phase of the full-scale development drilling programme at El Fayum and increase production to take advantage of the excellent growth potential in the El Fayum concession.

In Vietnam, infill production drilling on the TGT field to enhance production levels will begin in Q3 2021. On Blocks 125 & 126, numerous prospects and leads have been identified using the acquired 2D seismic, gravity and magnetic data and preparation work is ongoing for a 3D seismic survey over certain high graded leads on the northern part of Block 125.

Sustainability informs our actions and decisions. Our aim is to add value in everything we do through responsible, efficient, and safe energy production.

I would also like to thank all of our employees and contractors for their continued hard work and commitment. This has been an extraordinarily challenging year for most of our employees and everyone has risen to the challenges, compounded by what have been at times highly unusual working situations as a result of the pandemic.

John Martin
Chair

Chief Executive Officer's statement

The health, safety and wellbeing of our employees, contractors and other stakeholders is always a priority at Pharos and in line with the government directives in Egypt, Vietnam and the UK, measures were put in place to minimise the risk of any COVID-19 outbreak occurring. The JOCs in both Egypt and Vietnam implemented stringent offshore and onshore procedures such that mitigation measures were in place to ensure the impact of any outbreak could be quickly contained, and operations would be maintained. Our office staff in Egypt, Vietnam and UK also followed governmental guidelines. Our UK head office staff began remote working in advance of the Government directive to do so and have continued to work remotely throughout with negligible disruption to the business.

Operating a sustainable business remains key to Pharos. During 2020, our focus was on being agile to the changing global pandemic environment and its impact on the oil and gas industry. Our relentless focus on capital discipline and looking for opportunities to reduce costs across the organisation resulted in us being able to defer discretionary capex, negotiate improved commercial terms in Egypt, and reduce costs across the organisation. Our focus on cost saving has not finished and we recently announced that all three executive directors have volunteered to take a reduction in pay of 50%. In addition, and with regret, we have decided to downsize our staff numbers in the UK and this programme of redundancies will be completed in 2021.

Cash balances as at 31 December 2020 were $24.6m (2019: $58.5m), which includes $57.2m drawn from the RBL, giving a net debt figure of $32.6m (2019: $41.5m). Revenues for January-December 2020 were$118.3m (2019: $189.9m) plus $23.7m gain (2019: $0.2m loss) from hedging. The hedging positions in place at balance sheet date and additional hedging taken out since then continue to provide solid protection with approximately 42% of the Group's forecast production from April to December 2021 hedged at an average price of $50.6 /bbl.

The strength of our business lies in our low-cost commitments and operational flexibility, particularly in Egypt where we were able to defer the discretionary drilling programme to preserve capital. In the meantime, we worked with EGPC to negotiate better commercial terms resulting in an improvement in the break-even price per barrel; reductions in the Western desert discount reduced in stages, from a high of $2.90/bbl in April to $0.60/bbl by October. In addition, we agreed reductions with EGPC on both the price discount applied specifically to the El Fayum crude ($1/bbl reduction) and on the crude handling fees paid at the refinery ($0.80/bbl reduction). Both of these reductions were in place for an initial period of six months from August 2020 to January 2021 while the Company continued its joint review with EGPC on the specification of the crude oil, on which the discount and fees are applied. Additional negotiations with EGPC on changes to the Concession Agreement have now concluded successfully and, once these have been approved by the Egyptian Government, will significantly improve our breakeven price in Egypt.

Group working interest 2020 production was 11,373 boepd net, in line with production guidance. Egypt production for 2020 was 5,270 bopd. Operations focussed on maintenance interventions and water flood intervention. We conducted a waterflood evaluation for the phased implementation of a secondary recovery programme, updated the sub-surface static model and created field dynamic models to optimise the location of future oil producer and water injector wells, ready for when the drilling programme resumes. Our ongoing technical work on the asset resulted in an upgrade of 53% in proven and probable (2P) reserves in the El Fayum concession as concluded by a third-party reserves auditing company McDaniel & Associates. We also started the formal process of looking for a new industry partner in Egypt to make the investment needed to accelerate production growth with a view to doubling Egypt gross production to ~12,000 bopd through implementation of multi-rig drill programme. This farm-out process is progressing well, and we expect the result to be announced in Q2 2021 with completion in H2 2021. In January 2021, Pharos announced the successful completion of an equity Placing. The funds raised have allowed us to restart our investment in the water flood programme in the El Fayum oil fields in Egypt.

Vietnam is a self-funding asset; the produced crude commands a premium to Brent and the producing properties are cash flow generative even at low oil prices. Vietnam 2020 production was 6,103 boepd net. The Vietnam producing fields, TGT and CNV, have been part of Pharos's portfolio for almost two decades. This year one well on the TGT Field in Block 16-1, TGT-15X, spudded in early 2020 and is modestly producing from deeper tighter reservoirs. Operations on TGT focussed on proactively managing the existing reservoirs and optimising production from the existing wells. The upgrade work to the Gas Turbine compressors for the Leased FPSO was completed in April 2020 ahead of schedule and under budget. In September 2020, the JOC received approval from the Prime Minister of Vietnam for the TGT Full Field Development Plan (FFDP). The FFDP includes drilling six new producer wells. The JOC has approved the drilling of four development wells in the 2021 budget cycle to start drilling in Q3 2021. The remaining two wells shall be proposed in the next budget cycle for drilling in 2022.

We were also delighted with the two-year extensions to both the TGT and CNV field licences that were formally granted by the Ministry of Industry and Trade in Vietnam. The TGT licence now runs to 7 December 2026 and the CNV licence now runs to 15 December 2027 and a further licence extension for both TGT and CNV will be pursued in due course in accordance with the licence terms. On Blocks 125 & 126 numerous prospect and leads have been identified using the acquired 2D seismic, gravity and magnetic data and preparation work is ongoing for a 3D seismic survey) over certain high-graded leads on Block 125.

Social investment with host communities

Our goal is to have a responsible and positive presence in the regions in which we operate.

In Egypt, 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 and assisted with COVID-19 measures. In April 2020, Petrosilah provided disinfection and sterilisation services for all public and service buildings such as schools, post offices, ambulance units and police stations, along with homes of the villages adjacent to the company's sites. Medical equipment such as 100 sets of face masks, face shields and protection suits were donated and delivered to the Nabawi General Hospital in Fayum, a Ministry of Health hospital which operates as an isolation hospital during the pandemic.

The JOCs 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. In 2020 Pharos' joint operations continued to achieve an outstanding record of safety and have contributed to national economic growth through, employment, training, and industry upskilling.

I am also pleased to say our social investment in Vietnam through the HLHVJOC Charitable Donation programme continued. During 2020, a total of nine projects in Vietnam were approved. These donations have been used to assist the overall development of underprivileged rural areas in Vietnam, and were specifically designated for healthcare, education, environmental development, and the assistance of flood victims in the Central Highlands region. For example, this year, donations were made to Tran Hung Dao Commune's Medical Clinic in Ly Nhan district, Ha Nam province to buy medical equipment such as endoscope and ultrasound machines. The programme continued its annual support to the Ha Noi Private School for the Hearing Impaired for the project aimed at improving integration ability for underprivileged disabled students. The school is currently offering education to 100 students with autism and hearing-impairment. Additionally, the programme provided financial support to Tho Hai Commune's People Committee, Thanh Hoa province to renovate buildings built before the year 2000, with 10 classrooms that had serious degradation, and for the construction of new secondary school classrooms.

Our people

It is now over a year into the progression of the global pandemic, and the lives of individuals across the globe have changed in unprecedented ways. Lockdowns across the world meant that our colleagues had to adapt their working environment to working from home in a matter of days. I wish to add my own thanks to staff for all of the commitment and energy that has seen us through what has been a hugely difficult year.

Outlook

We are focusing on near term value-adding activities in Vietnam and Egypt, both of which have potential to generate free cash flow, and on the longer-term prospects in Israel. Key events for 2021 will include:

In Vietnam

- The commencement of sequential infill drilling of four development wells in Q3 2021 in TGT Field
- Preparing for the 3D seismic survey in certain high graded leads in Block 125, following the identification of numerous prospect and leads using the acquired 2D seismic, gravity and magnetic data

In Egypt

- Phase 1B of the Waterflood programme in Q1 2021, following the successful equity placing in January 2021
- The ongoing formal farm-out process for the Company's assets in Egypt, result expected to be announced Q2 2021 with completion in H2 2021
- Continued interpretation of the large pre-existing 3D seismic survey on the North Beni Suef Concession

Ed Story
President and Chief Executive Officer

Review of Operations

Egypt

Egypt Production

Production for 2020 from the El Fayum Concession averaged 5,270 bopd. This is in line with the Egypt 2020 production guidance given on 12 May 2020 of 5,000-6,000 bopd.

Production guidance for 2021 is 4,000-4,400 bopd before any investment from a farm-in partner.

Egypt Development and Operations

El Fayum

Prior to the COVID-19 pandemic and the oil price shock, three drilling rigs and three workover rigs were operating through Q1 2020. Seven wells (five producers and two injectors) were drilled, through to April 2020.

Due to the uncertain macro-economic environment resulting from the global impact of COVID-19 and the oil price shock, the discretionary drilling programme in Egypt was scaled back to preserve capital with termination notices issued on five of the six rigs retaining just one workover rig, on a call out contract, for ongoing maintenance. Production operations in the field since, have been centred on well maintenance interventions, pilot water flood tests in the Silah Field and evaluation of a phased water-flood programme. During the hiatus in drilling operations, Pharos has:

- Benefited from improved commercial terms with EGPC regarding the Western Desert discount and negotiated a reduction on the El Fayum discount. The Western Desert discount reduced in stages, from a high of $2.90/bbl in April to $0.60/bbl by October. In addition, we have agreed reductions with EGPC, effective 1 August 2020, on both the price discount applied specifically to the El Fayum crude ($1/bbl reduction) and on the crude handling fees paid at the refinery ($0.80/bbl reduction). Both of these reductions are in place for an initial period of six months while the Company continues its joint review with EGPC on the specification of the crude oil, on which the discount and fees are applied
- Received provisional approval from EGPC to an amendment of the fiscal terms of its El Fayum Concession
- Updated the sub-surface static model and created field dynamic models to optimise the location of future wells, both oil producers and water injectors, as the development programme is implemented
- Optimised the field development plan, with ERCE our external consultants, to create a 57 well Investment Case designed to take the Recovery Factor from 8% on primary depletion alone to ~18% with secondary recovery. A further 40 well development programme would increase the Recovery Factor to ~30% which is more in line with analogous fields in Egypt
- Reprocessed the 3D seismic data across El Fayum, for improved subsurface definition
- Conducted a full waterflood evaluation study for the phased implementation of a secondary recovery programme

2021 Work Programme

Following the successful equity placing in January 2021, the Phase 1B of the waterflood programme, has commenced. It is designed to increase reservoir pressure support and increase production. The waterflood programme is progressing across four main areas:

- Surface facilities injection capability upgrade and optimisation: Procurement process of long-lead items (LLIs)
- Existing well conversions from producers to injectors: workover rig in-place
- Complete outstanding new wells as injectors: engagement with service companies to optimise the completion programmes is ongoing
- Recompletion of existing wells to add new zones under waterflood to production: recompletion targets have been identified

The subsurface static and dynamic models continue to be updated to allow further understanding and optimisation of waterflood patterns and well spacing which will in turn improve sweep efficiency and increase well deliverability.

El Fayum Exploration

Exploration drilling activity, apart from the Batran well, is currently on hold while the Company focuses on development, production, and cash flow. The Batran exploration well in the NE Tersa Development Lease is a commitment well that is planned to be drilled around May 2021.

North Beni Suef Exploration

During 2020, work focused on technical and investigative work on wells previously drilled on the concession. Interpretation of the large pre-existing 3D seismic survey on the NBS concession continues and a number of low-risk prospects and potential producing field extensions from third party Development Leases to the NBS Exploration Concession have been identified.

Egypt Operational Outlook

- 2021 production guidance is 4,000-4,400 bopd, before the allocation of any investments from a farm-in partner is considered
- Phase 1B Waterflood programme in the El Fayum Concession has commenced
- Ongoing formal farm-out process for the Company's assets in Egypt, result expected to be announced Q2 2021 with completion in H2 2021
- Continued interpretation of the large pre-existing 3D seismic survey on the North Beni Suef Concession

Vietnam

Vietnam Production

Production in 2020 from the TGT and CNV fields net to the Group's working interest averaged 6,103 boepd. This is in line with the 2020 production guidance of

5,500 to 6,500 boepd.

TGT 2020 production averaged 15,296 boepd gross and 4,547 boepd net to Pharos (2019: 17,847 boepd gross and 5,382 boepd net to Pharos). CNV 2020 production averaged 6,223 boepd gross and 1,556 boepd net to Pharos (2019: 6,793 boepd gross and 1,699 boepd net to Pharos).

The Group's Vietnam production guidance for 2021 of 5,200 - 6,200 boepd.

Vietnam Development and Operations

2020 Activity on CNV
As planned, no drilling activities took place on CNV for 2020. Operations on CNV focused on routine well maintenance.

2020 Activity on TGT
Production wells
The last well from the 2019 drilling campaign, TGT-15X, spudded on 28 February 2020 and is producing from both the upper and deep sections. The well was drilled within budget. No further drilling activity occurred during 2020. Operations on TGT focussed on proactively managing the existing reservoirs and optimising production from the existing wells, principally through well interventions and gas lift optimisation.

TGT Compressors and FPSO Tie-In Agreement (TIA)
The upgrade work to the Gas Turbine compressors for the Leased FPSO was completed in April 2020 ahead of schedule and under budget. This allowed the gas injection pressure to be raised in the well intervention operations for optimised gas lift and new perforations.

The third-party Tie In Agreement ("TIA") between the HLJOC and the current counterparty, Thang Long Joint Operating Company (TLJOC) terminated in 2018. The cost sharing elements have been finalised, but negotiations continue regarding TLJOC'S rights of access to the HLJOC's production facilities and FPSO.

TGT Full Field Development Plan
As announced in September 2020 the Joint Operating Company (JOC), received approval from the Prime Minister of Vietnam for the TGT Full Field Development Plan (FFDP), the last stage in the approval process. The FFDP includes drilling six new producer wells. This sequential infill-drilling programme is targeted to increase gross production at TGT from the present ~15,000 boepd to around 20,000 boepd in 2022.

Vietnam License Extension
As previously announced, two-year extensions to both the TGT and CNV field licences were formally granted by the Ministry of Industry and Trade in Vietnam. The TGT licence now runs to 7 December 2026 and the CNV licence now runs to 15 December 2027. A further licence extension for both TGT and CNV will be pursued in due course in accordance with the licence terms.

2021 Work Programme
Following the approval for the TGT FFDP, the JOC has approved the drilling of four development wells in the 2021 budget cycle and ordering of long-lead items has begun to enable the commencement of drilling in Q3 2021, a quarter earlier than previously announced. The remaining two wells shall be proposed in the next budget cycle for drilling in 2022.

Vietnam Exploration
Blocks 125 & 126
Preparation work on 3D seismic survey over certain high graded leads in the northern part of Block 125 is ongoing.

Vietnam Outlook
- 2021 production guidance 5,200 - 6,200 boepd net
- Proactively manage the existing producing reservoirs
- Commencement of in-fill drilling programme of four wells in the FFDP in Q3 2021

Israel

During 2020, as part of the minimum work commitment, a contract for seismic processing was awarded and seismic processing is ongoing. The project aims to improve the imaging of existing seismic in order to identify and mature any prospectivity. This asset offers low-cost option for potential material gas and provides geographical as well as hydrocarbon diversification.

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, 2020	15.4	6.0	21.4	28.5	49.9
Production	(1.7)	(0.6)	(2.3)	(1.9)	(4.2)
Revision	(0.7)	(0.5)	(1.2)	14.2	13.0
2P Commercial Reserves as of 31 December 2020	**13.0**	**4.9**	**17.9**	**40.8**	**58.7**
Oil & Gas 2C Contingent Resource[1,2]					
As of 1 January, 2020	8.5	4.6	13.1	23.5	36.6
Revision	(0.2)	(0.7)	(0.9)	(4.5)	(5.4)
2C Contingent Resources as of 31 December 2020	8.3	3.9	**12.2**	**19.0**	**31.2**
Total Group 2P Reserves & 2C Contingent Resources [3,4] As of 31 December 2020	**21.3**	**8.8**	**30.1**	**59.8**	**89.9**

(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
(4) Reserves and Contingent Resources have been independently audited by McDaniel.

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 2020.

Vietnam Reserves Statistics

Net Working Interest (mmboe)	TGT	CNV	Total Vietnam
Oil & Gas 2P Commercial Reserves[1,2]			
As of 1 January, 2020	15.4	6.0	21.4
Production	(1.7)	(0.6)	(2.3)
Revision	(0.7)	(0.5)	(1.2)
2P Commercial Reserves as of 31 December 2020	13.0	4.9	**17.9**
Oil & Gas 2C Contingent Resource[1,2]			
As of 1 January, 2020	8.5	4.6	13.1

Revision	(0.3)	(0.7)	(0.9)
2C Contingent Resources as of 31 December 2020	**8.3**	**3.9**	**12.2**
Total Vietnam 2P Reserves & 2C Contingent Resources [3] As of 31 December 2020	**21.3**	**8.8**	**30.1**

(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 and 2C contingent resources were revised slightly downwards due to lower-than-expected performance of a recent infill well, a small reduction to the unitised field net working interest and delayed drilling as a result of the global pandemic.

On CNV, the 2P reserves and 2C contingent resources were revised downwards as one of the wells drilled in late 2018 has been cleaning-up at a slower rate than previously anticipated. Additionally, the COVID-19 pandemic resulted in delayed well interventions and facilities work required to arrest the field's natural decline. This work is now planned to be completed in the first half of 2021.

Egypt Reserves and Contingent Resources

Egypt Reserves Statistics

Net Working Interest (mmboe)	**Egypt**
Oil 2P Commercial Reserves[1]	
As of 1 January, 2020	28.5
Production	(1.9)
Revision	14.2
2P Commercial Reserves as of 31 December 2020	**40.8**
Oil 2C Contingent Resource[1]	
As of 1 January, 2020	23.5
Revision	(4.5)
2C Contingent Resources as of 31 December 2020	**19.0**
Total Egypt 2P Reserves & 2C Contingent Resources [2] As of 31 December 2020	**59.8**

(1) Reserves and contingent resources are categorised in line with 2018 SPE standards.
(2) Reserves and Contingent Resources have been independently audited by McDaniel.

On El Fayum, better than expected field performance, improved understanding of the subsurface, demonstration of the successful impact on production of the pilot water flood projects in the Silah Field and the adoption of an optimised field development plan (57 well Investment Case) have resulted in an upward revision of the 2P reserves. El Fayum contingent resources have been revised downwards as some volumes have been re-categorised from 2C to 2P.

Group's Working Interest Reserves and Contingent Resources

El Fayum Fields at 31 December 2020 (mmboe)

Reserves	1P	2P	3P
Oil	18.5	40.8	54.7
Contingent Resources	1C	2C	3C
Oil	9.4	19.0	39.0
Sum of Reserves and Contingent Resources [1,2]	1P & 1C	2P & 2C	3P & 3C
Total	**27.9**	**59.8**	**93.7**

(1) Reserves and Contingent Resources have been audited independently by McDaniel.
(2) The summation of Reserves and Contingent Resources has been prepared by the Company.

TGT Field at 31 December 2020 (mmboe)

Reserves[3]	1P	2P	3P
Oil	9.7	11.8	14.8
Gas[1]	0.8	1.2	1.7
Total	**10.5**	**13.0**	**16.5**
Contingent Resources[3]	1C	2C	3C
Oil	4.9	7.9	10.9
Gas[1]	0.1	0.4	0.8
Total	**5.0**	**8.3**	**11.8**
Sum of Reserves and Contingent Resources[2]	1P & 1C	2P & 2C	3P & 3C
Oil	14.6	19.7	25.7
Gas[1]	0.9	1.6	2.5
Total	**15.6**	**21.3**	**28.3**

(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 2020 (mmboe)

Reserves[3]	1P	2P	3P
Oil	2.6	3.2	3.7
Gas[1]	1.4	1.7	2.0
Total	**4.0**	**4.9**	**5.7**
Contingent Resources[3]	1C	2C	3C
Oil	1.7	2.6	3.4
Gas[1]	0.9	1.4	1.8
Total	**2.6**	**3.9**	**5.2**
Sum of Reserves and Contingent Resources[2]	1P & 1C	2P & 2C	3P & 3C
Oil	4.3	5.7	7.2
Gas[1]	2.3	3.1	3.8
Total	**6.6**	**8.8**	**11.0**

(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.

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 are guiding the business firstly, to preserve capital and balance sheet strength at this time, then moving on to access the capital needed to invest to deliver near term returns.

We have created a range of opportunities in the portfolio, some of which are self-funding and others need that additional capital to accelerate access to their inherent value. Throughout 2020 and beyond we have taken steps not only to preserve our balance sheet strength but introduce much needed capital.

Operating performance

Revenues

Group revenues for the year totalled to $118.3m plus $23.7m from hedging gain, representing a 38% decrease over the prior year (2019: $189.9m less hedging loss of $0.2m).

The revenue for Vietnam of $87.7m (2019: $155.5m) reduced year on year. The average realised crude oil price was $44.70/bbl (2019: $68.48/bbl), and the premium to Brent was just over $3/bbl (2019: $4/bbl), a 35% reduction year on year. Production also declined from 7,081 boepd to 6,103 boepd.

The revenue for Egypt of $30.6m (2019: $34.4m) also reduced largely as a result of the lower average realised crude oil price, down 38% to $37.08/bbl (2019: $59.33/bbl), offset by an additional 3 months production and a slight increase in average production levels, from 5,055 boepd to 5,270 boepd. There are two discounts applied to the El Fayum crude production - a general Western Desert Discount and one related specifically to El Fayum. Both are set by EGPC, the in country regulator and combined reduced from $5/bbl at the start of the year to $4/bbl.

The Western Desert discount reduced in stages, from a high of $2.90/bbl in April to $0.60/bbl by October. In addition, we agreed with EGPC, that the price discount applied specifically to the El Fayum crude would reduce by $1/bbl for a period of six months from 1 August 2020, and we are in discussions with EGPC to have that extended.

Operating costs

Group cash operating costs were $48.3m (2019: $41.5m). Vietnam decreased by 4% from $27.6m to $26.5m mainly as a result of ongoing cost reduction programmes. The cash operating costs of the Egyptian assets increased from $13.9m to $21.8m mainly due to an additional 3 months reported in 202 0 and an increased number of workovers on existing wells to sustain current production levels. The Group operating cost per barrel was $11.60/boe (2019: $10.45/boe), an increase of 11%. In Vietnam, the per barrel cost was $11.86/boe (2019: $10.69/boe), an increase of 11% due to fixed costs such as the FPSO and other facilities being spread over fewer produced barrels. In Egypt the operating cost per barrel was $11.30/boe (2019: $10.01/boe), an increase of 13% as a result of increased workovers on existing wells to sustain the current production levels.

DD&A

Group DD&A associated with producing assets decreased to $63.3m (2019: $74.4m) due to the lower depreciating cost base following the oil price related impairments taken on both Vietnam and Egyptian assets at June 2020, plus the lower production. DD&A per bbl is currently $21.40/boe for Vietnam (2019: $23.29/boe) and $8.04/boe in Egypt (2019: $10.25/boe).

Administrative Expenses

Administrative expenses for the year totalled $14.7m (2019: $23.1m). After adjusting for the non-cash items under IFRS 2 Share Based Payment of $2.8m (2019: $3.7m) and IFRS 16 Leases of $0.7m (2019: $0.6m), the administrative expense is $11.2m (2019: $18.8m), which included $1.3m (2019: $1.8m) on new venture third party costs, reflecting continued effort on portfolio rationalisation and capturing new business particularly in the earlier part of the year.

Operating Profit

Operating profit from continuing operations for the year was $3.5m (2019: $38.0m) excluding the impairment charge of $234.8m (2019: $0m), reflecting the low commodity price environment throughout the year.

Other/Exceptional Expenses

Other/exceptional expenses for the year totalled $5.8m (2019: $16.7m), $4.9m relates to a royalty arrangement in Egypt put in place prior to our acquisition of El Fayum, where the likelihood of payments was previously considered remote but now is accepted as probable. The royalty over production post acquisition has been charged to operating cost. The lease on the London office was transferred resulting in a charge of $1.0m. The overall expense was offset by a $0.1m tax refund relating to prior year redundancies.

Finance Costs

Finance costs decreased to $4.2m (2019: $11.5m) following accelerated repayments of principal resulting in lower RBL interest of $4.5m (2019: $7.0m). This included a one-off gain relating to amortisation of the capitalised borrowing cost of $1.5m (2019: $2.7m charge), following a change in estimated future cash flows after the June and December 2020 redeterminations and the accelerated repayment of principal.

Cash operating cost per barrel*	**2020**	**2019****
	$m	**$m**
Cost of sales	123.8	128.6
Less		
Depreciation, depletion and amortisation	(63.3)	(74.4)
Production based taxes	(7.0)	(12.3)
Inventories	(2.3)	3.5
Other cost of sales	(2.9)	(3.9)
Cash operating costs	48.3	41.5
Production (BOEPD)	11,373	12,136
Cash operating cost per BOE ($)	11.60	10.45

DD&A per barrel*	**2020**	**2019****
	$m	**$m**
Depreciation, depletion and amortisation	(63.3)	(74.4)
Production (BOEPD)	11,373	12,136
DD&A per BOE ($)	15.21	18.74

Cash operating cost per barrel by Segment	**Vietnam $m**	**Egypt $m**	**Total $m**
Cost of sales	84.7	39.1	123.8
Less			
Depreciation, depletion and amortisation	(47.8)	(15.5)	(63.3)
Production based taxes	(6.5)	(0.5)	(7.0)
Inventories	(2.3)	-	(2.3)
Other cost of sales	(1.6)	(1.3)	(2.9)
Cash operating costs	26.5	21.8	48.3
Production (BOEPD)	6,103	5,270	11,373
Cash operating cost per BOE ($)	11.86	11.30	11.60

DD&A per barrel by Segment	**Vietnam $m**	**Egypt $m**	**Total $m**
Depreciation, depletion and amortisation	(47.8)	(15.5)	(63.3)

Production (BOEPD)	6,103	5,270	11,373
DD&A per BOE ($)	21.40	8.04	15.21

*Cash operating cost per barrel and DD&A per barrel are alternative performance measures. See page 39.
** Egypt from the date of acquisition

Movements in Property, Plant and Equipment	2020 $m	2019 $m
As at 1 Jan	676.9	507.2
Egypt assets acquired	-	184.7
Capital spend	33.5	53.3
Revision in decommissioning assets	6.6	7.2
Disposal of other assets	(0.5)	-
Derecognition of right-of-use asset	(5.7)	-
DD&A- Oil and gas properties	(63.3)	(74.4)
DD&A - Other assets	(1.2)	(1.1)
Impairment - PP&E	(210.5)	-
As at 31 Dec	435.8	676.9
Property, Plant and Equipment	435.7	669.6
Right-to-use-Asset (IFRS 16 Impact)	0.1	7.3
As at 31 Dec	435.8	676.9

Taxation

The net tax credit of $25.6m (2019: $38.2m charge) relates to a reversal of deferred tax on impairment of $36.7m offset by a current tax charge of $26.7m and deferred tax credit of $15.6m on operations totalling to $11.1m both in Vietnam.

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.

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 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. Due to accumulated tax-deductible balances, there is no tax due on PEF this period.

Work on simplifying the group structure continues but progress has been slower than anticipated due to the restrictions of the pandemic.

Loss post tax

The post tax loss for the year from continuing operations and prior to the impairment charge of $234.8m, impairment tax credit of $36.7m and exceptional costs of $5.8m was $11.7m (2019: loss $9.8m, prior to exceptional items). The overall loss for the year was $215.8m (2019: $24.5m).

Cash flow

Net cash flow from continuing operations amounted to $56.4m (2019: $72.3m), a decrease of 22% compared to the drop in revenue of 38%. Careful cost control and liquidity management both served to protect cash flows despite the drop in revenues.

Net operating cash flow for the year (before working capital movements) was $70.8m (2019: $117.2m).

Capital expenditure on continuing operations for the year was $41.3m (2019: $63.4m). All discretionary capex was deferred following the oil price crash to preserve balance sheet strength and liquidity.

Net cash outflows from financing activities of $48.5m (2019: $36.2m) included repayment of the RBL totalling to $42.8m (2019: $0) plus $4.6m interest payments (2019: $7.7m). The significant decrease in the oil price in H1 2020 led to a reduction in the borrowing base and principal repayments during the year totalling $42.8m, well in excess of the $26.4m repayments forecast in line with the oil price deck used at 31 December 2019 and classified as current liabilities at that balance sheet date.

No final dividend was paid for the year (2019: $27.4m).

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 2020, the total payments to governments for the Group amounted to $150.9m (2019: $232.7m), of which $104.9m or 70% (2019: $165.5m or 71%) was related to the Vietnam producing licence areas, of which $72.5m (2019: $113.5m) was for indirect taxes based on production entitlement. Egypt was paid a total of $42.2m (2019: $63.1m) of which $41.3m (2019: $46.4m) relates to indirect taxes based on production entitlement.

Balance sheet

Intangible assets decreased during the period to $1.5m (2019: $20.4m) due mainly to impairments taken on exploration assets due to a lack of clarity on timing of further investment. Additions for the year related to Blocks 125 & 126 in Vietnam $2.0m (2019:$10.1m), Egypt $1.1m (2019: $4.2m) of which $0.3m (2019:$2.4m) relates to North Beni Suef and $1.2m (2019: $0.3m) for the Israeli bid round licence fee. At June 2020 and December 2020 an impairment indicator of IFRS 6 was triggered following the Group's decision to defer all non-essential investment at this point. No significant work programme for its explorations areas in Vietnam and Egypt is either budgeted or planned in the near future. Exploration costs including costs associated with Blocks 125 & 126 in Vietnam of $17.9m and costs associated with Egyptian projects of $5.3m were written off in the income statement in accordance with the Group's accounting policy on oil and gas exploration and evaluation expenditure. An additional $1.1m of tax receivables in relation to Blocks 125 & 126 was also written off as it was dependent on the related E&E being developed.

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

Impairment

As a result of changes in reserves profiles and reduction in the oil price from 2025 from $72/bbl to $62/bbl, we have tested each of our oil and gas producing properties for impairment. The results of these impairment tests are summarised below.

For CNV, a pre-tax impairment charge of $23.3m has been reflected in the income statement with an associated deferred tax credit of $8.7m. As at 31 December 2020, the carrying amount of the CNV oil and gas producing property, after additions ($1.9m), DD&A ($11.5m) and the impairment charge, is $91.2m.

For TGT, a pre-tax impairment charge of $81.8m has been reflected in the income statement with an associated deferred tax credit of $28.0m. As at 31 December 2020, the carrying amount of the TGT oil and gas producing property, after additions ($14.8m), DD&A ($36.3m) and the impairment charge, is $239.3m.

For Egypt, an impairment charge (pre and post-tax) in the amount of $105.4m has been reflected in the income statement. As at 31 December 2020, the carrying amount of the Egypt oil and gas producing property, after additions ($22.7m), DD&A ($15.2m) and after the impairment charge, is $104.1m.

The total non-cash, post tax impairment charge amounts to $173.8m and the balance sheet carrying values of the oil and gas producing properties stands at $434.6m. Further details of these impairment charges, including key assumptions in relation to oil price, discount rate and 2P reserves in Vietnam are provided in Note 10 of the financial statements.

Right of use asset

On 4 December 2020 Pharos signed the transfer of the London office lease to a third party. Accordingly we derecognised the right of use asset of $5.7m and the associated lease liability of $6.0m. The assets held for office furniture and fixture and fittings were also fully depreciated, with a resulting charge of $0.4m. Pharos also paid a premium to the new tenant of $0.9m as an incentive for them to take on the lease. The overall income statement charge of $1.0m has been recorded within Other/exceptional expense. An additional $1.2m has been transferred to an escrow account held by a third party (recorded within prepayments) and will be paid to the new tenant (and expensed to the income statement) over the next 21 months on the condition the new tenant pays the rent to the landlord.

Balance sheet continued

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 $5.6m at 31 December 2020 (2019: $8.2m), of which $5.4m related to Vietnam and $0.2m to Egypt. Trade and other receivables decreased to $22.9m (2019: $41.2m) of which $11.2m (2019: $19.3m) relates to Vietnam and $10.0m (2019: $21.3m) to Egypt, mainly due to lower oil price and timing of crude oil cargos.

Cash and cash equivalents at the end of the year were $24.6m (2019: $58.5m) mainly due to lower revenue and repayment of $42.8m of the RBL.

Trade and other payables are almost flat at $35.6m (2019: $35.5m), of which $23.3m (2019: $18.8m) relates to the Egypt payables, $1.7m (2019: $8.3m) Vietnam payables and $6.8m (2019: $3.0m) net hedging liability. Tax payable decreased to $6.7m (2019: $8.8m) following lower revenue.

Borrowings decreased to $53.7m (2019: $98.1m) mainly due to a repayment of $42.8m (2019: $0), which was significantly higher than previously forecast due to the lower oil price deck used by the lending banks to calculate the Borrowing Base Amount. Net debt was therefore $32.6m (2019: ($41.5m).

Long-term provisions comprise the Group's decommissioning obligations and the royalty over the El Fayum asset. In Vietnam the decommissioning provision increased from $60.5m at 2019 year-end to $68.0m at 2020 mainly due to new provisions and changes in estimates of $6.7m primarily due to reduction in discount rate from 1.9% to 0.9% as a result of falls in prevailing risk-free market rates and the unwinding of the discount of $0.8m. The amounts set aside into the abandonment funds total $45.9m (2019: $43.6m). No decommissioning obligation exists in Egypt under the terms of the Concession Agreement. The royalty provision relates to a historical arrangement granting a 3% royalty on Pharos's share of profit oil and excess cost recovery from El Fayum in Egypt. At both the date of acquisition of the Egypt assets (April 2019) and 31 December 2019 the risk of a material outflow in relation to this arrangement was, based on legal advice, considered remote and therefore no provision was recorded. As a result of additional legal advice obtained during 2020, it is now considered probable that amounts are due under this arrangement and accordingly a provision of $5.4m has been recognised, which is anticipated to be settled in 1 to 3 years. Of this amount, $4.9m relates to the period up to the acquisition date and has been recorded within Other/exceptional expense, with the balance arising since acquisition recorded within cost of sales.

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 2020, the trust held 2,181,655 (2019: 2,897,094), representing 0.54% (2019: 0.71%) of the issued share capital.

In addition, as at 31 December 2020, the Company held 9,122,268 (2019: 9,122,268) treasury shares, representing 2.24% (2019: 2.24%) 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.

A base case forecast has been considered which uses an oil price of $54.8/bbl in 2021 and $57/bbl in 2022.The key assumptions and related sensitivities include a "Reasonable Worst Case" (RWC) sensitivity, where the Board has considered the risk of an oil price crash broadly similar to 2020 as a result of the global outbreak of the COVID-19 virus. This assumes the Brent oil price drops to $35/bbl in March 2021 rising by $5/bbl every two months until in line with the base case price, concurrent with reductions in Vietnam and Egypt production compared to our base case of 5%. Both the base case and RWC take into consideration the hedging that has already been put in place for 2021 which covers 42% of the Group's forecast Q2 2021 to Q4 2021 entitlement volumes securing a minimum price for this hedged volume of $50.6 per barrel. Under the RWC scenario, we have identified appropriate mitigating actions, including the deferral of additional uncommitted capital expenditure for 2 TGT wells, which would be available and enable us to maintain sufficient financial headroom for the following 12 months.

We have also developed a reverse stress test sensitivity, which shows the extent to which oil prices would need to fall before our financial headroom is breached, keeping all other variables unchanged.

There is a process underway to farm out our assets in Egypt, with a view to providing fresh capital to invest, with the consideration structured to minimise our own outlays over the peak investment period. Although the process is progressing well, for the purposes of the going concern assessment it has not been assumed that it concludes successfully.

Our business in Vietnam remains robust with a breakeven price of less than $26/bbl. We have limited capital expenditure outside of the 4 TGT wells in Vietnam over the rest of the business with most falling outside 2021. 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 2020 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

As announced in May, the Board decided to withdraw dividend payments during 2020 (2019: $27.4m), given the continued uncertainty in the macro environment. The decision to re-instate the dividend will be kept under review and 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 balance the preservation of balance sheet strength with investing in growth opportunities where returns exceed the risked cost of capital, in order to generate sustainable returns for shareholders.

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.

Over the past few years we have focused on extending the range of growth opportunities in the portfolio and the oil price downturn occurred at a point where we were poised to invest and start to monetise these. The updated Full Field Development Plan for TGT in Vietnam, described in more detail in the Operational Review, is fully funded from the operating cash flows in country and is expected to reach post capex free cash flow point in H1 2022. The increase in this high value, low breakeven production will provide a strong foundation for the business. In Egypt, the updated reserves and development drilling plan have been supported in the short term by the equity placing, completed in January, and we are well advanced in a process, led by Jefferies Investment Bank, to select the right farm-out partner to support the long term capital investment programme there. The agreement of enhanced Concession terms, set to be ratified by Parliament later this year, provide an additional impetus to make these investments quickly.

We continue to have the support of our core RBL banks and hope to expand our facility with them this year. In addition, we have recently signed a working capital facility with National Bank of Egypt, which will deliver a modest amount of additional liquidity.

Finally, on top of the cost reduction measures secured in 2020, we have recently announced both a pay cut for executives and a redundancy round which will reduce the headcount and the cost base of the UK business. It is sad to be losing colleagues who have worked so tirelessly and with such commitment to support all of the measures set out in this Annual Report and we wish them all well in the future.

These measures have set us up to weather the current storm and to preserve our capital. We remain protected for further downside by our oil price hedges in H1 2021 and we will continue to focus on preserving financial flexibility while the global situation remains uncertain.

Placing

In January 2021 the company raised $10.9m (net of fees and expenses) in an equity placing to support the ongoing reservoir pressure and production levels in the El Fayum field(s) through a small scale waterflood programme. The issuance was oversubscribed with strong support from the board and from existing shareholders, both institutional and individuals, and from new institutional investors. Work on the waterflood programme is underway and additional information on the waterflood programme on can be found in the Operations Review.

Egypt El Fayum farm-out

In Q4, 2020, the Company appointed Jefferies Investment Bank to run a farm out process for the El Fayum asset, to de risk the current 100% holding and introduce support for the investment required to develop the fields. The company has been encouraged by the level of interest and is currently reviewing a number of bids.

Concession agreement amendment

In March 2021, the Company has received provisional approval for an amendment of the fiscal terms from EGPC on the El Fayum Concession. Under the terms, the cost recovery percentage will be increased from 30% to 40% allowing Pharos a significantly faster recovery of all its past and future investments. In return, Pharos has agreed to (i) waive its rights to recover a portion of the past costs pool ($115 million) and (ii) reduce its share of Excess Cost Recovery Petroleum from 15% to 7.5%. This amendment is now subject to the approval of the Egyptian Government.

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 statement of annual results for the year ended 31 December 2020 (the "preliminary announcement").

The preliminary announcement includes the preliminary results, chair's statement, chief executive officer's statement, review of operations, financial review, the condensed consolidated income statement, the condensed consolidated statement of comprehensive income, the group and parent company condensed consolidated balance sheets, the group and parent company condensed consolidated statements of changes in equity, the group and parent company condensed consolidated cash flow statements, the related notes 1 to 15 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 announcement in accordance with the UK Listing Rules.

We are responsible for agreeing to the publication of the preliminary announcement, 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 6 April 2021. 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. Impairment of producing oil & gas 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 2020 was $434.6 million (2019: $668.2 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. We have assessed an increased risk in 2020 as compared to 2019 as a result of significant oil price volatility. 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 the significant falls in the oil price which occurred in 2020 and ongoing oil price volatility, Management revised their oil price assumption downwards during 2020 compared to the prior year assumptions, as set out in Note 10. Given the significance of the revision, together with changes to estimates of oil & gas reserves, Management concluded that there was an indicator of impairment for all three of those fields. Management have estimated the recoverable amount of each field, being its fair value less costs to sell, and compared this to its balance sheet carrying amount. Management recorded pre-tax impairment charges of $23.3 million on CNV, $81.8 million on TGT and $105.4 million on El Fayum. No impairment charges were recorded in 2019. Management's fair value estimates were based on key assumptions which included: · oil price forecasts, being $54/bbl in 2021, $57/bbl in 2022, $59/bbl in 2023, $61/bbl in 2024 plus inflation of 2% thereafter; · reserves estimates and production profiles; · post-tax nominal discount rates of 11% for TGT and CNV, and 14% for El Fayum, being 1% and 2% higher respectively than the previous year; 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. Management have explained the scope of work of the third party experts and their findings in the operations review, as well as highlighting oil and gas reserves as a key source of estimation uncertainty. The impairment of producing oil & gas assets is considered by management as a key source of estimation uncertainty. Further details of the key assumptions used by management in their impairment evaluation are provided in note 10 of the financial statements. The disclosures in note 10 include the sensitivity of the impairment charges to changes in key assumptions, including the impact of adopting oil prices consistent with the average of a number of third party forecasts described as being compliant with achieving the 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 obtained an understanding of management's key internal controls over the estimation of oil and gas prices, discount rates and reserve estimates, as well as the overall process by which management has derived its estimates of fair value less cost to sell. In addition, we conducted the following substantive procedures: **Oil and gas prices:** · We independently developed a reasonable range of forecasts based on external data obtained, against which we compared management's oil and gas price assumptions in order to challenge whether they are reasonable. · In developing this range, we obtained a variety of reputable and reliable third party forecasts, peer information and other relevant market data. · In challenging management's price assumptions, we considered the extent to which they reflect the impact of lower oil and gas demand due to climate change, the energy transition and COVID-19. This included consideration of third party forecasts stated as being consistent with achieving the Paris 2°C Goal. **Discount rates:** · We involved our internal valuation specialists to independently develop a reasonable range of discount rates for TGT, CNV and El-Fayum and compared those to the rates used by management. **Reserves estimates:** · 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 experts' 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 compared the production forecasts used in the impairment tests with management's approved reserves and resources estimates. **Other procedures:** · 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 assessed that Pharos' impairment methodology was acceptable under IFRS and tested the integrity and mechanical accuracy of the impairment models. · We assessed whether management's presentation and disclosures relating to

	impairment and associated estimation uncertainty were adequate.
Key observations	We are satisfied that the impairment charges recorded by management are appropriate. We are also satisfied that appropriate disclosures relating to Management's impairment assessment and sensitivities have been provided in Note 10.

1.2. Going concern basis of accounting

Key audit matter description	As a result of the significant fall in the oil price which occurred in 2020 and ongoing oil price volatility, we consider the appropriateness of the going concern basis of accounting and the appropriateness 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 $54.8/bbl in 2021 and $57/bbl in 2022; · production and expenditure forecasts for TGT and CNV consistent with management's latest life of field production models; and · production and expenditure forecasts for El Fayum based on an assumption of no further drilling, in contrast to the full field development plan (FFDP) case used for the (fair value based) impairment test, as the proposed farm-out process to provide funding for the FFDP has not yet completed. Management's downside scenarios include individual sensitivities relating to oil price and production. They have also considered an aggregated downside scenario, with key assumptions including: · oil price forecast of $35/bbl in March 2021, increasing by $5/bbl every 2 months until the oil price forecast is back in line with the base case by October 2021; and · 5% reduction in production for its Vietnam and Egypt producing assets. The aggregated downside scenario also includes a number of mitigating actions, of which the most significant is the deferral of uncommitted capital expenditure at TGT. Management's base case forecasts 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. In the downside scenario, the group is forecast to remain cash positive but there is a risk that liquidity falls below a minimum threshold specified under the terms of the RBL facility. However, management have identified additional mitigations, including the impact of recently agreed improvements in the fiscal terms of the concession agreement in Egypt and further expenditure reductions, which result in them forecasting to remain in compliance with the RBL liquidity threshold for the 12 month period. A reverse stress test has also been performed to show the extent to which oil prices would need to fall before the group breached its RBL liquidity covenant. Based on the analysis outlined above, management have 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 obtained an understanding of management's key internal controls over the going concern basis of accounting process. In addition, we conducted the following substantive procedures: · assessed that the forecasts incorporated in the base case model are consistent with the budget approved by the Board; · compared the key assumptions in the base case forecast to those used in the impairment models for oil & gas producing assets and understood the basis for any differences; · 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 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; · assessed the results of the oil price reverse stress test, by comparing to currently prevailing prices; · tested the going concern model for mechanical accuracy; and · assessed whether the disclosures relating to going concern are appropriate.
Key observations	Based on the cash flow 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 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
06 April 2021

CONDENSED CONSOLIDATED INCOME STATEMENT

for the year to 31 December 2020

	Notes	2020 $ million	2019 $ million
Continuing operations			
Revenue	3	**142.0**	189.7
Cost of sales	4	**(123.8)**	(128.6)
Gross profit		**18.2**	61.1
Administrative expenses		**(14.7)**	(23.1)
Impairment charge - Intangibles	3, 9	**(24.3)**	-
Impairment charge - PP&E	3, 10	**(210.5)**	-
Operating (loss)/profit		**(231.3)**	38.0
Other/Exceptional expense	5	**(5.8)**	(16.7)
Investment revenue		**0.1**	1.9
Finance costs	6	**(4.2)**	(11.5)
(Loss)/Profit before tax	3	**(241.2)**	11.7
Tax	3,7	**25.6**	(38.2)
Loss for the year from continuing operations		**(215.6)**	(26.5)
Discontinued operations	3		
(Loss)/Profit post-tax for the year from discontinued operations		**(0.2)**	2.0
Loss for the year		**(215.8)**	(24.5)
Loss per share from continuing operations (cents)	8		
Basic		**(54.6)**	(7.0)
Diluted		**(54.6)**	(7.0)
Loss per share from continuing and discontinued operations (cents)			
Basic		**(54.6)**	(6.5)
Diluted		**(54.6)**	(6.5)

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

for the year to 31 December 2020

	2020 $ million	2019 $ million
Loss for the year	**(215.8)**	(24.5)
Items that may be subsequently reclassified to profit or loss:		
Fair value gain/(loss) arising on hedging instruments during the year	**20.0**	(2.8)
Less: Cumulative (gain)/loss arising on hedging Instruments reclassified to profit or loss	**(23.7)**	0.2
Total comprehensive loss for the year	**(219.5)**	(27.1)

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

CONDENSED CONSOLIDATED BALANCE SHEET

	Notes	Group 2020 $ million	Group 2019 $ million	Company 2020 $ million	Company 2019 $ million

Non-current assets					
Intangible assets	9	**1.5**	20.4	**-**	0.3
Property, plant and equipment	10	**435.7**	669.6	**-**	0.6
Right-of-use assets		**0.1**	7.3	**-**	6.3
Investments		**-**	-	**268.1**	539.2
Loan to subsidiaries		**-**	-	**21.1**	16.8
Other assets		**45.9**	43.6	**-**	-
		483.2	740.9	**289.2**	563.2
Current assets					
Inventories		**17.7**	16.2	**-**	-
Trade and other receivables		**22.9**	41.2	**1.6**	0.5
Tax receivables		**0.6**	1.2	**0.6**	0.3
Cash and cash equivalents		**24.6**	58.5	**3.5**	4.5
		65.8	117.1	**5.7**	5.3
Total assets		**549.0**	858.0	**294.9**	568.5
Current liabilities					
Trade and other payables		**(35.6)**	(35.5)	**(2.7)**	(5.5)
Borrowings		**(12.7)**	(26.4)	**-**	-
Lease Liabilities		**(0.4)**	(0.8)	**-**	(0.3)
Tax payables		**(6.7)**	(8.8)	**(0.4)**	(1.7)
		(55.4)	(71.5)	**(3.1)**	(7.5)
Net current assets (liabilities)		**10.4**	45.6	**2.6**	(2.2)
Non-current liabilities					
Deferred tax liabilities		**(85.5)**	(137.8)	**-**	-
Borrowings		**(41.0)**	(71.7)	**-**	-
Lease Liabilities		**-**	(6.4)	**-**	(6.0)
Long term provisions		**(73.4)**	(60.5)	**-**	-
		(199.9)	(276.4)	**-**	(6.0)
Total liabilities		**(255.3)**	(347.9)	**(3.1)**	(13.5)
Net assets		**293.7**	510.1	**291.8**	555.0
Equity					
Share capital		**31.9**	31.9	**31.9**	31.9
Share Premium		**55.4**	55.4	**55.4**	554
Other reserves		**243.0**	246.6	**197.6**	199.3
Retained (deficit) / earnings		**(36.6)**	176.2	**6.9**	268.4
Total equity		**293.7**	510.1	**291.8**	555.0

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

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

Group

	Called up share capital $ million	Share premium $ million	Other reserves $ million	Retained earnings $ million	Total $ million
As at 1 January 2019	27.6	-	246.6	226.6	500.8
Loss for the year	-	-	-	(24.5)	(24.5)
Other comprehensive loss	-	-	(2.6)	-	(2.6)
Currency exchange 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 1 January 2020	**31.9**	**55.4**	**246.6**	**176.2**	**510.1**
Loss for the year	**-**	**-**	**-**	**(215.8)**	**(215.8)**
Other comprehensive loss	**-**	**-**	**(3.7)**	**-**	**(3.7)**
Currency exchange translation differences	**-**	**-**	**0.8**	**-**	**0.8**
Share-based payments	**-**	**-**	**2.3**	**-**	**2.3**
Transfer relating to share-based payments	**-**	**-**	**(3.0)**	**3.0**	**-**
As at 31 December 2020	**31.9**	**55.4**	**243.0**	**(36.6)**	**293.7**

Company

	Called up share capital $ million	Share premium $ million	Other reserves $ million	Retained earnings $ million	Total $ million
As at 1 January 2019	27.6	-	196.7	269.9	494.2
Profit for the year	-	-	-	24.4	24.4
Currency exchange 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 1 January 2020	**31.9**	**55.4**	**199.3**	**268.4**	**555.0**
Loss for the year	**-**	**-**	**-**	**(264.5)**	**(264.5)**
Currency exchange translation differences	**-**	**-**	**0.8**	**-**	**0.8**
Share-based payments	**-**	**-**	**2.3**	**-**	**2.3**
Transfer relating to share-based payments	**-**	**-**	**(4.8)**	**3.0**	**(1.8)**
As at 31 December 2020	**31.9**	**55.4**	**197.6**	**6.9**	**291.8**

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

CONDENSED CONSOLIDATED CASH FLOWS STATEMENTS

for the year to 31 December 2020

		Group		Company	
	Notes	**2020 $ million**	2019 $ million	**2020 $ million**	2019 $ million
Net cash from (used in) operating activities	13	**56.4**	72.3	**(16.9)**	(21.1)
Investing activities					
Purchase of intangible assets		**(3.5)**	(9.9)	**-**	(0.3)
Purchase of property, plant and equipment		**(35.5)**	(50.2)	**-**	(0.6)
Payment for acquisition of subsidiary, net of cash acquired		**-**	(153.1)	**-**	(155.5)
Payment to abandonment fund		**(2.3)**	(3.3)	**-**	-
Other investment in subsidiary undertakings		**-**	-	**(5.4)**	16.8
Dividends received from subsidiary undertakings		**-**	-	**21.8**	87.5
Net cash (used in) from continuing investing activities		**(41.3)**	(216.5)	**16.4**	(52.1)
Net cash used in discontinued investing activities		**-**	(0.7)	**-**	-
Net cash (used in) from investing activities		**(41.3)**	(217.2)	**16.4**	(52.1)
Financing activities					
Repayment of borrowings		**(42.8)**	-	**-**	-
Interest paid on borrowings		**(4.6)**	(7.7)	**-**	-
Lease payments		**(1.1)**	(1.2)	**(0.5)**	(0.9)
Share-based payments		**-**	0.1	**-**	0.1
Dividends paid to company shareholders		**-**	(27.4)	**-**	(27.4)
Net cash used in financing activities		**(48.5)**	(36.2)	**(0.5)**	(28.2)
Net decrease in cash and cash equivalents		**(33.4)**	(181.1)	**(1.0)**	(101.4)
Cash and cash equivalents at beginning of year		**58.5**	240.1	**4.5**	105.9
Effect of foreign exchange rate changes		**(0.5)**	(0.5)	**-**	-
Cash and cash equivalents at end of year		**24.6**	58.5	**3.5**	4.5

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 2020 or 2019, but is derived from those accounts. A copy of the statutory accounts for 2019 has been delivered to the Registrar of Companies and those for 2020 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) adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union, 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 international accounting standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union. The financial information has also been prepared in accordance with the recognition and measurement criteria of International Financial Reporting Standards as issued by the IASB.

The financial information has also been prepared on a going concern basis of accounting.

(b) New and amended standards adopted by Pharos

A number of new or amended standards became applicable for the current reporting period. The group did not have to change its accounting policies or make retrospective adjustments as a result of adopting these standards.

- IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors (Amendment - Disclosure Initiative - Definition of Material)

- IFRS 3 Business Combinations (Amendment - Definition of Business)

- Conceptual Framework for Financial Reporting (Revised)
- IBOR Reform and its Effects on Financial Reporting - Phase 1

(c) New standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2020 reporting periods and have not been early adopted by the Group. These standards are not expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

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 in previous years. 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	2020 Group $ million
Oil and gas sales	**87.7**	**30.6**	**-**	**-**	**118.3**
Realised gain on commodity hedges	**-**	**-**	**-**	**23.7**	**23.7**
Total revenue	**87.7**	**30.6**	**-**	**23.7**	**142.0**
Depreciation, depletion and amortisation - Oil and gas	**(47.8)**	**(15.5)**	**-**	**-**	**(63.3)**
Depreciation, depletion and amortisation - Other	**-**	**(0.5)**	**-**	**(0.7)**	**(1.2)**
Impairment charge - Intangibles[3]	**(19.0)**	**(5.3)**	**-**	**-**	**(24.3)**
Impairment charge - PP&E	**(105.1)**	**(105.4)**	**-**	**-**	**(210.5)**
(Loss)/profit before tax from continuing operations[1]	**(121.8)**	**(124.6)**	**-**	**5.2**	**(241.2)**
Loss (post-tax) from discontinued operations	**-**	**-**	**(0.2)**	**-**	**(0.2)**
Tax charge on operations	**(11.1)**	**-**	**-**	**-**	**(11.1)**
Tax credit on impairment	**36.7**	**-**	**-**	**-**	**36.7**

	SE Asia $ million	Egypt $ million	Africa[2] $ million	Unallocated $ million	2019 Group $ million
Oil and gas sales	155.5	34.4	-	-	189.9
Realised loss on commodity hedges	-	-	-	(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	(38.2)	-	-	-	(38.2)

1 Unallocated amounts included in profit/(loss) 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.
3 Includes $1.1m write off of Block 125&126 tax receivable (other receivable - current) which was dependent on the E&E being developed.

Included in revenues arising from South East Asia and Egypt are revenues of $61.3m and $30.6m which arose from the Group's two largest customers, who contributed more than 10% to the Group's oil and gas revenue (2019: $150.7m and $34.4m 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.

	2020 $ million	2019 $ million
Vietnam	**64.4**	153.9
Egypt	**30.6**	34.4
China	**9.4**	-
Malaysia	**9.2**	-
Other	**4.7**	1.6
	118.3	189.9

Non-current assets	**2020 $ million**	2019 $ million
Vietnam	**330.5**	482.7
Egypt	**105.3**	207.4
Israel	**1.5**	-
United Kingdom	**-**	7.2
	437.3	697.3

Excludes other assets.

4. Cost of sales

	2020 $	2019

	million	$ million
Depreciation, depletion and amortisation	**63.3**	74.4
Production based taxes	**7.0**	12.3
Production operating costs	**51.2**	45.4
Inventories	**2.3**	(3.5)
	123.8	128.6

5. Other/exceptional expense

	2020 $ million	2019 $ million
Egypt acquisition cost - assignment fee	**-**	13.6
Egypt acquisition cost - royalty	**4.9**	-
Redundancy (gain)/loss	**(0.1)**	3.1
Premium - lease transfer	**1.0**	-
	5.8	16.7

In 2019, an assignment fee of $13.6m, payable to EGPC in relation to the acquisition of Merlon Petroleum El Fayum Company in Egypt, was settled through a non-cash offset against receivables due from EGPC.

6. Finance Cost

	2020 $ million	2019 $ million
Unwinding of discount on provisions	**0.8**	1.6
Interest expense payable and similar fees	**4.5**	7.0
Interest on lease liabilities	**0.3**	0.3
Amortisation of capitalised borrowing costs	**(1.5)**	2.7
Net foreign exchange losses/(gains)	**0.1**	(0.1)
	4.2	11.5

In 2020 $0.8m relates to the unwinding of discount on the provisions for decommissioning (2019: $1.6m). 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 producing life of TGT and CNV (currently estimated to be 10-11 years) in the removal and decommissioning of the facilities currently in place.

Following the June and December 2020 redeterminations and the accelerated repayment of principal in relation to the group's reserve based lending facility, there was a change in estimated future cash flows, as a result a one off gain of $1.5m has been recognised in profit or loss.

7. Tax

	2020 $ million	2019 $ million
Current tax charge	**26.7**	42.2
Deferred tax credit on operations	**(15.6)**	(4.0)
Deferred tax credit on impairment	**(36.7)**	-
Total tax (credit) / charge	**(25.6)**	38.2

The Group's corporation tax is calculated at 50% (2019: 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 2020 and 2019 both current and deferred taxation have arisen in overseas jurisdictions only.

The charge for the year can be reconciled to the profit / (loss) per the income statement as follows:

	2020 $ million	2019 $ million
(Loss) / Profit before tax (including discontinued operations)	**(241.4)**	13.7
(Loss) / Profit before tax at 50% (2019: 50%)	**(120.7)**	6.8
Effects of:		
Non-deductible expenses	**24.8**	14.0
Tax losses not recognised	**57.7**	17.4
Non-deductible exploration costs written off	**9.5**	-
Adjustments to tax charge in respect of previous periods	**3.1**	-
Tax (credit) / charge for the year	**(25.6)**	38.2

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.

The effect of non-deductible exploration costs written off of $9.5m relates to the impairment of exploration assets in Vietnam.

Non-deductible expenses, primarily relate to Vietnam DD&A charges for costs previously capitalised, which are non-deductible for Vietnamese tax purposes of $6.1m (2019: $8.9m) and Vietnam net impairment of $15.9m (2019: Nil). A further $2.0m (2019: $5.1m) 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 revenues, 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. It also includes losses arising in Egypt for which no future benefit can be obtained under the terms of the concession agreement.

8. Earnings per share

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

	Group	
	2020 $ million	2019 $ million
Loss from continuing and discontinued operations for the purposes of basic loss per share	(215.8)	(24.5)
Effect of dilutive potential ordinary shares - Cash settled share awards and options	-	-
Loss from continuing and discontinued operations for the purposes of diluted loss per share	(215.8)	(24.5)

	Group	
	2020 $ million	2019 $ million
Loss from continuing operations for the purposes of basic loss per share	(215.6)	(26.5)
Effect of dilutive potential ordinary shares - Cash settled share awards and options	-	-
Loss from continuing operations for the purposes of diluted loss profit per share	(215.6)	(26.5)

	Number of shares (million)	
	2020	2019
Weighted average number of ordinary shares	395.1	378.1
Effect of dilutive potential ordinary shares - Share awards and options	-	-
Weighted average number of ordinary shares for the purpose of diluted loss per share	395.1	378.1

In accordance with IAS 33 "Earnings per Share", the effects of 1.3m (2019: 1.7m) antidilutive potential shares have not been included when calculating dilutive earnings per share for the year ended 31 December 2020 or 2019, as the Group was loss making.

9. Intangible assets

Intangible assets at 2020 year-end comprise the Group's exploration and evaluation projects which are pending determination. At June 2020 and December 2020 an impairment indicator of IFRS 6 was triggered following the Group's decision to defer all non-essential investment in Vietnam and Egypt at this point. No substantive expenditure for its exploration areas in Vietnam and Egypt is either budgeted or planned in the near future. Exploration costs including costs associated with Blocks 125 & 126 in Vietnam of $17.9m and costs associated with Egypt projects in the amount of $5.3m were written off in the income statement in accordance with the Group's accounting policy on oil and gas exploration and evaluation expenditure. An additional $1.1m of tax receivables in relation to Blocks 125 & 126 was also written off as it was dependent on the related E&E being developed.

During 2020, $1.2m was spent in Israel on geoscience and geophysical studies (2019: $0.3m were held in the Company). We continue to hold $2.7m (2019: $2.7m) cash in relation to bank guarantees for the Israeli offshore exploration licenses.

10. Property, plant and equipment

As a result of the oil price volatility and movements in 2P reserves, 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 recoverable amount 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 and 2P reserves (2019: oil price, discount rate and capital spend). As at 31 December 2020, the fair value of the assets was estimated based on a post-tax nominal discount rate of 11% (2019: 10%) and a nominal Brent oil price of $54.0/bbl in 2021, $57.0/bbl in 2022, $59.0/bbl in 2023, $61.0/bbl in 2024 plus inflation of 2.0% thereafter (2019: Brent oil price of $65.0/bbl in 2020, plus inflation of 2.0% thereafter).

Impairments have arisen on both TGT and CNV as a result of the above impairment tests.

For CNV, a pre-tax impairment charge of $23.3m has been reflected in the income statement with an associated deferred tax credit of $8.7m. As at 31 December 2020, the carrying amount of the CNV oil and gas producing property, after additions ($1.9m), DD&A ($11.5m) and the impairment charge, is $91.2m.

For TGT, a pre-tax impairment charge of $81.8m has been reflected in the income statement with an associated deferred tax credit of $28.0m. As at 31 December 2020, the carrying amount of the TGT oil and gas producing property, after additions ($14.8m), DD&A ($36.3m) and the impairment charge, is $239.3m.

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 additional post-tax impairments of $30.3m on TGT and $5.7m on CNV. A 1% increase in discount rate would result in additional post-tax impairments of $4.9m on TGT and $1.7m on CNV. We have also run sensitivities utilising the average of a number of third party forecasts described as being consistent with achieving the 2015 COP 21 Paris agreement goal to limit temperature rises to well below 2 degrees Celsius (the "Paris oil price scenario"). The nominal Brent prices used in this scenario were as follows; 2021: $49/bbl, 2022:$54/bbl, 2023:$56/bbl, 2024:$57/bbl, 2025:$58/bbl, 2026: $61/bbl, 2027:$64/bbl, 2028:$65/bbl, 2029:$66/bbl. Using these prices and an 11% discount rate would result in additional post-tax impairments of $17.8m on TGT and $3.0m on CNV.

The impairment tests for TGT and CNV assume that production ceases in 2029 and 2030 respectively,

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 2020, the fair value of the assets are estimated based on a post-tax nominal discount rate of 14% (2019: 12%) and a nominal Brent oil price of $54.0/bbl in 2021, $57.0/bbl in 2022, $59.0/bbl in 2023, $61.0/bbl in 2024 plus inflation of 2.0% thereafter (2019: Brent oil price of $65.0/bbl in 2020, plus inflation of 2.0% thereafter).

An impairment charge (pre and post-tax) of $105.4m arose on El Fayum as a result of the above impairment test. As at 31 December 2020, the carrying amount of the Egypt oil and gas producing property, after additions ($22.7m), DD&A ($15.2m) and the impairment charge, is $104.1m.

Testing of sensitivity cases indicated that a $5/bbl reduction in long term oil price used would result in an additional impairment of $52.3m. A 1% increase in discount rate would result in an additional impairment charge of $12.7m. We have also run a sensitivity using a 14% discount rate and the Paris oil price scenario which would result in an additional impairment of $30.2m.

It is not considered possible to provide meaningful sensitivities in relation to 2P reserves for any of the group's oil and gas producing properties, as the impact of any changes in 2P reserves on recoverable amount would depend on a variety of factors, including the timing of changes in production profile and the consequential effect on the expenditure required to both develop and extract the reserves.

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

11. Hedge transactions

During 2020 Pharos entered into different commodity (swap) 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 2021 and are settled monthly. The hedging positions in place at the balance sheet date cover 42% of the Group's forecast production until December 2021, securing an average price for this hedged volume of $44.7 per barrel (2019: cover was 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 as cash flow hedges. This means that the effective portion of 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. For the year end 31 December 2020 a gain of $23.7m was realised (2019: loss of $0.2m). The outstanding unrealised loss on open position as at 31 December 2020 amounts to $6.3m (2019: loss of $2.6m).

The carrying amount of the swaps 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 2020 was $6.8m (2019: liability position $3.0m).

12. Distribution to Shareholders

The Company is focused on preserving balance sheet strength and has therefore decided to withdraw dividend payments during 2020, given the continued uncertainty in the macro environment.

In May 2019, the Company paid dividends to shareholders of $27.4m or 5.50 pence per Ordinary Share. The Pharos EBT, which is consolidated within the Group, waived its rights to receive a dividend in 2019.

13. Reconciliation of operating profit to operating cash flows

	Group		Company	
	2020 $ million	2019 $ million	**2020 $ million**	2019 $ million
Operating (loss)/profit	**(231.3)**	38.0	**(14.3)**	(21.1)
Share-based payments	**2.8**	3.7	**2.8**	3.7
Depletion, depreciation and amortisation	**64.5**	75.5	**0.7**	0.9
Impairment Charge	**234.8**	-	**-**	-
Operating cash flows before movements in working capital	**70.8**	117.2	**(10.8)**	(16.5)
Increase in inventories	**(1.5)**	(0.5)	**-**	-
Decrease (Increase) in receivables	**19.6**	(1.7)	**(0.1)**	0.6
Decrease in payables	**(3.4)**	(2.0)	**(3.3)**	(3.6)
Cash generated by (used in) operations	**85.5**	113.0	**(14.2)**	(19.5)
Interest received	**0.1**	2.2	**-**	1.0
Bank fees paid	**-**	-	**-**	(0.2)
Other/ exceptional expense outflow	**(2.7)**	(2.4)	**(2.7)**	(2.4)
Income taxes paid	**(26.5)**	(40.5)	**-**	-
Net cash from (used in) operating activities	**56.4**	72.3	**(16.9)**	(21.1)

During the year, a total of $10.2m (2019: $27.5m) of trade receivables due from EGPC in Egypt were settled by way of non-cash offset against trade payables.

14. Subsequent events

Placing

In January 2021, the Company announced the successful completion of the Placing of 44,661,490 new Ordinary Shares, as well as the concurrent Subscription and Retail Offer.

Through this placing, Pharos raised additional capital of $10.9m (net of direct issue costs of $0.8m - Placing Price £0.1925 converted at the exchange rate as of 21/01/21 of 1.3628). These funds will allow us to restart our investment in the water flood programme in the El Fayum oil fields in Egypt imminently as we progress our farm out process.

El Fayum Farm-out

In Q4, 2020, the Company appointed Jefferies Investment Bank to run a farm out process for the El Fayum asset, to de risk the current 100% holding and introduce support for the investment required to develop the fields. The company has been encouraged by the level of interest and is currently reviewing a number of bids.

Concession Agreement Amendment El Fayum area

In March 2021, the Company has received provisional approval for an amendment of the fiscal terms from EGPC on the El Fayum Concession. Under the terms, the cost recovery percentage will be increased from 30% to 40% allowing Pharos a significantly faster recovery of all its past and future investments. In return, Pharos has agreed to (i) waive its rights to recover a portion of the past costs pool ($115 million) and (ii) reduce its share of Excess Cost Recovery Petroleum from 15% to 7.5%.

This amendment is now subject to the approval of the Egyptian Government.

15. Preliminary results announced

Copies of the announcement will be available to download from www.pharos.energy. The Annual Report and Accounts, together with notice of the 2021 AGM, will be posted to shareholders in due course.

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 are cash operating cost per barrel, depreciation, depletion and amortisation costs per barrel which are defined below. For the RBL covenant compliance, three Non-IFRS measures are included: 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.

	2020 $ million	2019* $ million
Cost of sales	**123.8**	128.6
Less:		
Depreciation, depletion and amortisation	**(63.3)**	(74.4)
Production based taxes	**(7.0)**	(12.3)
Inventories	**(2.3)**	3.5
Other cost of sales	**(2.9)**	(3.9)
Cash Operating Costs	**48.3**	41.5
Production (BOEPD)	**11,373**	12,136
Cash operating cost per		

BOE ($)	**11.60**	10.45

Cash-operating costs per barrel by Segment (2020)

	Vietnam	**Egypt**	**Total**
	$ million	**$ million**	**$ million**
Cost of sales	84.7	39.1	123.8
Less:			
Depreciation, depletion and amortisation	(47.8)	(15.5)	(63.3)
Production based taxes	(6.5)	(0.5)	(7.0)
Inventories	(2.3)	-	(2.3)
Other cost of sales	(1.6)	(1.3)	(2.9)
Cash operating cost	26.5	21.8	48.3
Production (BOEPD)	6,103	5,270	11,373
Cash operating cost per BOE ($)	11.86	11.30	11.60

* 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.

	2020	2019*
	$ million	$ million
Depreciation, depletion and amortisation	**(63.3)**	(74.4)
Production (BOEPD)	**11,373**	12,136
DD&A per BOE ($)	**15.21**	18.74

* Egypt from the date of acquisition to 31 December 2019

DD&A per barrel by Segment (2020)

	Vietnam	**Egypt**	**Total**
	$ million	**$ million**	**$ million**
Depreciation, depletion and amortisation	(47.8)	(15.5)	(63.3)
Production (BOEPD)	6,103	5,270	11,373
DD&A per BOE ($)	21.40	8.04	15.21

Net Debt

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

	2020	2019
	$ million	$ million
Cash and cash equivalents	**24.6**	58.5
Borrowings	**(57.2)**	(100.0)
Net Debt	**(32.6)**	(41.5)

EBITDAX

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

	2020	2019
	$ million	$ million
Operating (loss)/profit	**(231.3)**	38.0
Depreciation, depletion and amortisation	**64.5**	75.5
Impairment charge	**234.8**	-
EBITDAX	**68.0**	113.5

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.

	2020	2019
	$ million	$ million
Net Debt	**(32.6)**	(41.5)

EBITDAX	**68.0**	113.5
Net Debt/EBITDAX	**0.48**	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)

	2020	2019
	$ million	$ million
Total Debt	**57.2**	100.0
Total Equity	**293.7**	510.1
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.

	2020	2019
	$ million	$ million
Net cash from operating activities	**56.4**	72.3
Weighted number of shares in the year	**397,515,684**	381,170,329
Operating cash per share	**0.14**	0.19