PHAROS
ENERGY

Annual Report and Accounts 2019

Pharos Energy is an independent oil and gas exploration and production company with a focus on sustainable growth and returns to stakeholders.

Headquartered in London and listed on the London Stock Exchange, we have production, development and exploration interests in Egypt, Israel and Vietnam.

www.pharos.energy

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Our new name reflects a refreshed business

ED STORY, PRESIDENT AND CEO

We have a diverse and complementary portfolio in Asia and MENA, a robust and disciplined capital allocation framework and a solid commitment to operating in a sustainable way. We are well positioned for a positive future.

As a business, our ability to deliver value is key to our robust stakeholder investment case.

- A diverse team PAGE 04
- Financial stability PAGE 05
- Clear operational strategy PAGE 06
- A sustainable business PAGE 08

Pharos at a glance

2019 KEY FIGURES

FOUNDING YEAR

1997

EMPLOYEES

66

COUNTRIES

3

BLOCKS & LICENCES

14

ACREAGE KM²

20,537

OIL & GAS FIELDS

12

> Read more
Non-IFRS measures on page 156

2019 GROUP HIGHLIGHTS

LOST TIME INJURY FREQUENCY (LTIF)
(Per million man-hours)

Zero

REVENUE
($m)

$189.7m

CASH OPERATING COSTS
($/boe)

$10.45/boe

RETURN TO SHAREHOLDERS
(Pence per ordinary share)

5.5p

CASH AND CASH EQUIVALENTS
($m)

$58.5m

AVERAGE NET PRODUCTION
(boepd)*

12,136 boepd

NET LOSS

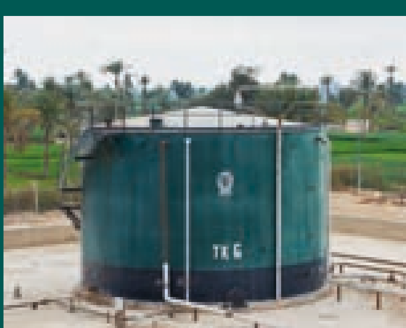
($24.5m)

Agile, decisive, productive

Our production, development and exploration assets in Egypt, Israel and Vietnam place Pharos in a good position for future growth.

> Read more
Operations review page 26

EGYPT (D,P,E)



We have high quality oil production operations, development and exploration assets in Egypt, building our scale and creating significant opportunities. We continue to work with local teams to generate value and evolve the assets into a viable production and development business.

2019 AVERAGE PRODUCTION

5,055 bopd*

ISRAEL (E)

Pharos, Cairn Energy plc and Israel's Ratio Oil Exploration were successful in their bid for eight licences in the second offshore bid round in Israel. Each party has an equal working interest and Cairn is the operator.

WORKING INTEREST

33.33%

VIETNAM (D,P,E)

We have valuable and long-established assets in Vietnam. Production is from two fields (TGT & CNV) and further potential for growth from two additional exploration blocks (Blocks 125 & 126).

2019 AVERAGE PRODUCTION
(net)

7,081 boepd

D: Development P: Production E: Exploration
* Egypt production from 2 April to 31 December 2019.

Diversity helps deliver our strategy

Diversity and Inclusion give us a broad and well-informed global outlook.

Diversity and Inclusion remain important in our business. We have a workforce with a diversity of experience, nationalities, cultural backgrounds and gender. This diversity gives us a wide and well-informed global outlook, and drives our strategy, which is based on business efficiency and new ventures.

We are very proud of the number of women we have in the London office; five out of six Group Heads of Function posts are filled by women.

Local focus

We acquire business assets as part of our growth strategy, and integrate the existing management teams to benefit from their regional knowledge and experience, ensuring we grow the assets to their full potential. We apply our expertise locally with operational teams in each region, working closely with joint operating companies.

Changes to the Board bringing deeper experience

In 2019, significant changes to the Board occurred. A new NED joined the Board and a new Chair was announced. The Company is committed to good governance and will continue to review the balance and effectiveness of the Board commensurate with our size and needs.

> Read more
Corporate Governance Report page 82 and Corporate Responsibility Report page 56

Good capital discipline remains core to Pharos

Capital discipline and financial stability have always been key to the Company and continue to underpin the business. Investment decisions are taken to allocate capital where it will provide the best full-cycle risk-adjusted returns. The balance sheet remained strong throughout 2019 and the Company had solid cash flows, low cash operating costs and low gearing.

> **Read more**
Financial review
page 42

Funding robust

- Strong operational cash flow
- Active hedging programme
- Gearing remains low

OUR HISTORY OF SHAREHOLDER RETURNS

2006	Purchase of own shares	$13.6m
2011	Purchase of own shares	$6.8m
2012	Purchase of own shares	$32.9m
2013	Cash returns	$213.3m
2014	Cash returns	$119.2m
2015	Dividend	$51.1m
2016	Dividend	$17.5m
2017	Dividend	$21.0m
2018	Dividend	$23.3m
2019	Dividend	$27.4m

Flexibility in allocation

- Low commitments
- Development through drilling
- Facilities already in place

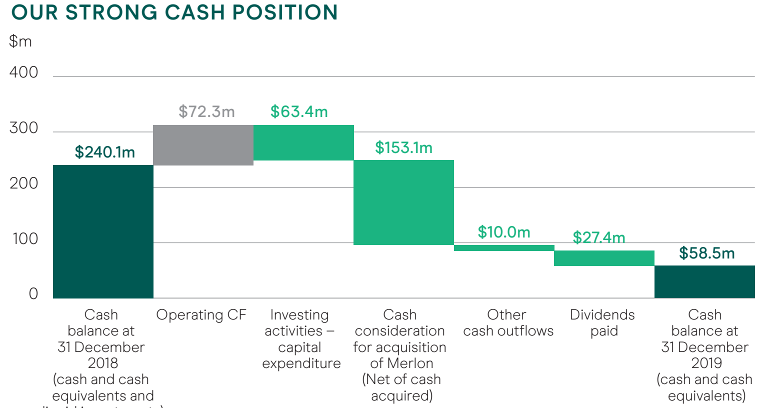
CAPITAL ALLOCATION FRAMEWORK

- Includes dividends as measure of discipline
- High-grade investment opportunities using a number of metrics
- Long-term potential in Israel

Commitment to sustainable dividend

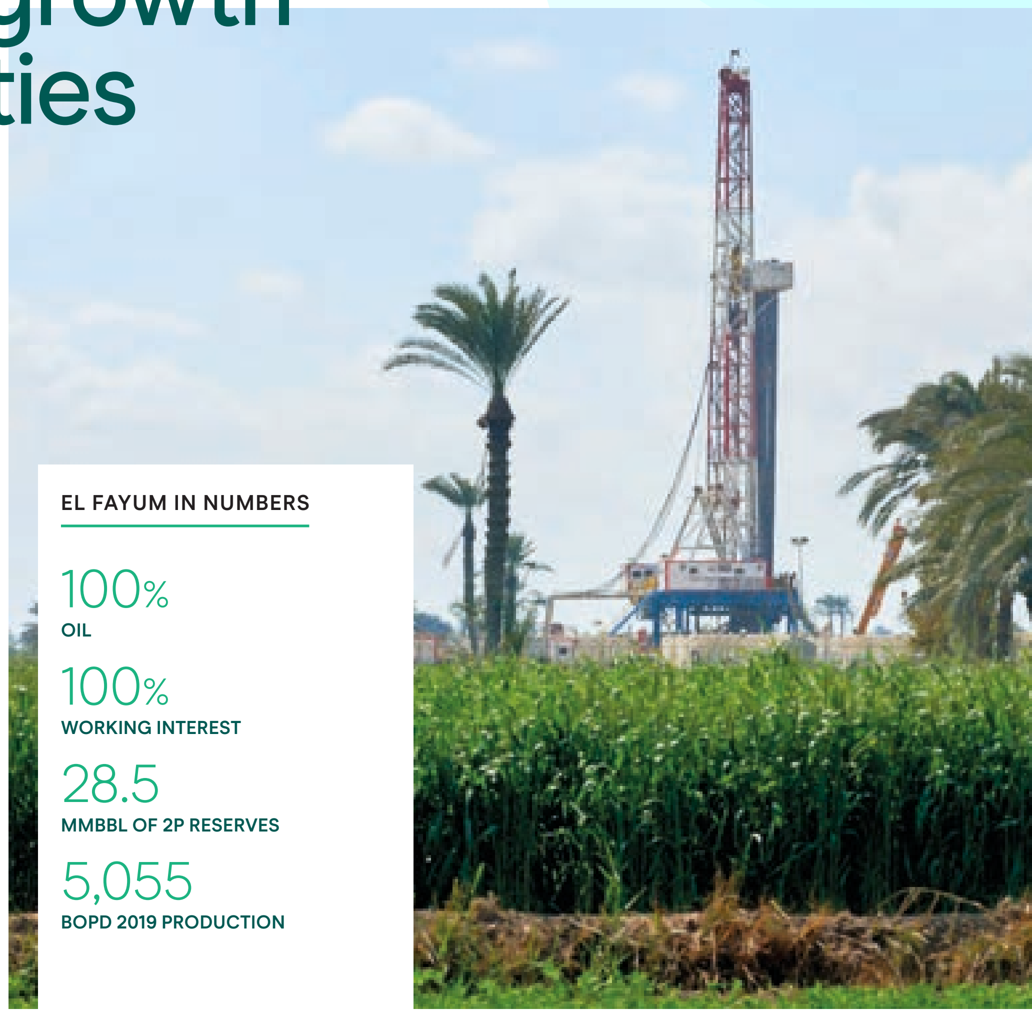
- Integral part of approach to cost control
- Egyptian asset provides sustainability
- All opportunities screened for cash generation

OUR STRONG CASH POSITION



Pursuing low-cost organic and inorganic growth opportunities

E&P company focused on Asia and MENA region



Egypt

An evolving energy hub for the Eastern Mediterranean

- MENA region – a key focus
- Egypt is a dynamic and growing economy, providing a stable business environment
- Oil producing asset with visible growth trajectory
- Expert operational teams in Egypt
- The Western Desert – one of the largest discovered resources

EL FAYUM IN NUMBERS

100%
OIL

100%
WORKING INTEREST

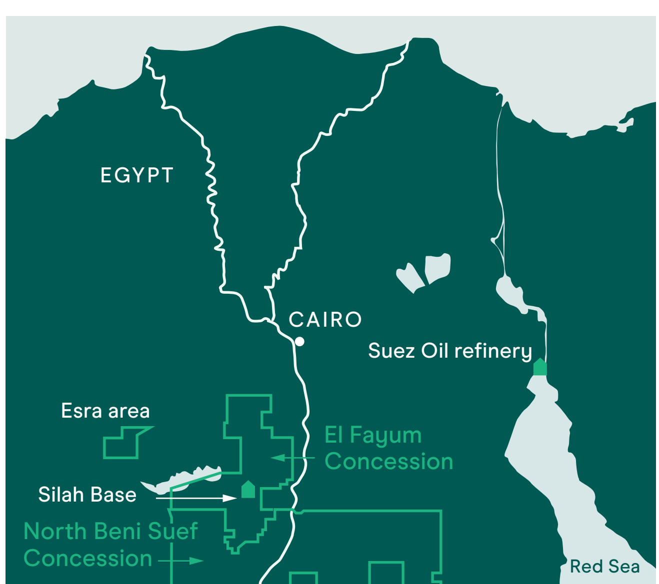
28.5
MMBBL OF 2P RESERVES

5,055
BOPD 2019 PRODUCTION

The El Fayum Concession is located in the low-cost and highly prolific Western Desert, about 80km south west of Cairo and close to local energy infrastructure. It is operated by Petrosilah, a 50/50 joint venture (JV) between Pharos and the Egyptian General Petroleum Corporation (EGPC). On 24 December 2019, Pharos signed for the North Beni Suef (NBS) Concession which is located immediately south of the El Fayum Concession.

Growth opportunities

- Implementation of a low-cost multi-well producer and water-injector programme to optimise the development of the discovered oil resources in El Fayum.
- The evaluation of the low-cost oil potential of the recently awarded North Beni Suef Concession in Egypt.



10
OIL FIELDS AT THE EL FAYUM CONCESSION

6,880km²
ACREAGE (EL FAYUM AND NORTH BENI SUEF)

> Read more
Operations review
page 26

Vietnam

A valued asset with renewed growth opportunity

$1 billion

OVER $1 BILLION INVESTED IN VIETNAM BY THE JOC OVER 20 YEARS

7,081 boepd

AVERAGE NET PRODUCTION IN 2019 FROM THE TGT AND CNV FIELDS

Vietnam remains one of the fastest-growing economies in the Asia-Pacific region

Two significant discoveries:

- Ca Ngu Vang (CNV) Field
  - Discovered in 2002
  - First production in 2008
- Te Giac Trang (TGT) Field
  - Discovered in 2005
  - First production in 2011

Highly experienced team in Vietnam

Majority of oil is sold domestically to a local refinery at a strong premium to Brent

Current exploration activities in Blocks 125 & 126 in the Phu Khanh Basin

Pharos' current producing interests, the TGT and CNV Fields, together are amongst Vietnam's largest oil producers. We have further potential for growth from two additional exploration blocks (Blocks 125 & 126). We continue to have an excellent safety record in Vietnam, and look to maintain this.

Growth opportunities:

- The appraisal of the deep Oligocene tight oil potential at TGT in offshore Vietnam.
- The evaluation of the transformational oil potential in Blocks 125 & 126 in the undrilled Phu Khanh Basin offshore Vietnam.

M&A strategy

Pharos continues to evaluate M&A opportunities with reference to our strict strategic, financial and operational criteria. We only pursue transactions if they are determined by the Board to be in the best interests of shareholders.

Israel

A major source of potential gas

8

LICENCES

In October 2019, Pharos, Cairn Energy plc and Israel's Ratio Oil Exploration were awarded eight licences offshore Israel. This provides geographical diversification and also offers transformational gas potential complementing our majority oil producing assets.

There will be a minimum work programme in the initial phases which includes re-evaluation of the potential of the acreage by integrating all available data, and reprocessing of 3D seismic data over high-graded prospects in each licence.

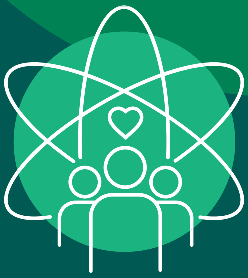
Continued commitment to operating a sustainable business

Responsibility framework

Our goal is to be a positive presence in the regions in which we operate, by providing responsible and sustainable development, resulting in delivering value for host countries and local communities as well as for our own shareholders and employees.

ENVIRONMENT

Reduction initiatives to improve GHG emissions in Egypt and Vietnam



SOCIETY

$400,000 combined total training levies in Vietnam and Egypt for industry capacity building in 2019

$245,379 community and charitable investments through the HLHVJOC Charitable Donation Programme supporting 12 partnerships and projects in Vietnam in 2019

ENVIRONMENT CASE STUDY

Minimising our impact on the environment

Reduction in GHG emissions
Through Phase One utilisation of associated-gas powered electricity generators with further Phase Two reductions in progress

Elimination of 730,000 litres of diesel use per year and associated emissions

30% reduction of flared gas at North Silah Deep

SOCIETY CASE STUDY

Working in harmony with our community

Vietnam

Donated 400 sets of new tables and chairs to 1,410 students in Hoang Van Thu High School in Vietnam

Supported children with autism at Binh Minh Social Assistance Centre and Minh Anh Specialised Education Centre through financial support

BUSINESS

~99%TGT/ CNV Oil
100% El Fayum Oil sold and used domestically, contributing to host country development goals and access to energy

ETHICS

100% of staff received anti-bribery and corruption training

$232.7m taxes and royalties paid to host governments in 2019

PEOPLE

Zero Lost Time Injury since incorporation in Vietnam and in Egypt for the past five years

5/6 of UK Head of Department positions are filled by women

Zero

LOST TIME INJURY FREQUENCY RATE

> **Read more**
Corporate Responsibility
page 56

A sustainable business

2019 was a year of transition for Pharos. The highlights of the year include the successful completion of the transaction to acquire the El Fayum Concession in Egypt, the award of new licences in Israel and Egypt, and enhancements of Environmental, Social and Governance (ESG) matters throughout the business including new independent Board appointments and the maintenance of our exceptional safety record in Vietnam.

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

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

Safety across our business is paramount and remains the highest priority on the Board agenda. We are pleased to report that our joint operations in Vietnam continue to achieve a high level of safe operations with an exceptional record of safety, reporting zero Lost Time Injury (LTIs) since operational inception, representing eight

production years on TGT and 11 production years on CNV. In Egypt, our activities and forward plans have been focused on improving HSES standards. We are pleased to report zero LTIs since we acquired the Egyptian asset and there have been no LTIs in Egypt since 2015. The Petrosilah Joint Venture has achieved ISO 14001 (Environmental) and ISO 45001 (Health and Safety) certification in Egypt. In evaluating new off-take options for El Fayum crude, HSES standards were one of the key considerations in identifying a new refinery as our delivery destination point. The transport route to and from the refinery avoids built-up and residential areas and offers safer driving conditions on a fully tarmacked road leading directly to the refinery.

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

"Safety across our business is paramount. Pharos' joint operations continue to achieve an exceptional record of safety and have maintained commitment to local sourcing, employment, training and industry upskilling."

Rui de Sousa
Non-Executive Chair

INTRODUCING OUR NEW CHAIR

John Martin
Date of handover, 13 March 2020

John Martin, Independent Non-Executive Director

"I am very pleased to be taking on the role as Chair, having served as an Independent Non-Executive Director. I see great potential in the Company and have already seen significant changes and progress during my tenure.

I look forward to continuing to work with Ed and the Board as we work to focus on delivering the full potential of the Company's opportunities and return to growth when so much work has been done to refresh the Company's portfolio, its governance and its Board."

On page 49, we set out our assssment of the principal risks facing the business. Climate change is one of the key drivers of energy transition and is considered to be a principal risk. Climate change is considered in all our key business decisions and particularly in any new business opportunities. A key part of the Board's investment decision to bid for the eight licences, prospective for gas, offshore Israel was the opportunity to diversify from mainly oil production to a balanced oil and gas portfolio. We recognise the need to reduce any impact of our operations on the environment and to reduce greenhouse gas emissions (GHG) and are continually assessing initiatives to reduce GHG in our operations. For example, in Egypt, we have moved to using associated-gas powered electricity generators rather than diesel-powered generators to reduce diesel usage and gas going to flare. Another initiative involves investigating ways in which solar panels can be used to generate electrical power at satellite sites. Further details of these initiatives can be found in the Corporate Responsibility Report on page 56. In Vietnam, we work closely with our state-owned partners and the Government to mitigate the impacts of our joint operations on climate change.

We have also been active in recognising the growing requirements from our shareholders and other stakeholders for increased transparency concerning the impact on the environment from our business decisions.

We continue to provide full disclosure of our emissions, discharges and water usage. From a financial perspective, we support the implementation of the requirements of the Task Force on Climate-related Financial Disclosures (TCFD) and we have begun work on how we can meet these disclosures. Over the past three years, we have also participated in the CDP Climate Change Questionnaire and improved our score from the previous year.

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

In Vietnam, we continue to invest in a programme of long-term social projects through the HLHVJOC Charitable Donation Programme. For example, this year, donations were made to the Hoang Van Thu High School, which has 1,410 students, to replace 400 sets of tables and chairs that were damaged due to flash floods.

The programme continued its support of the Light Your Hope Scholarship Fund, which helps students from low-income backgrounds to pursue their academic studies at colleges and universities in Vietnam. Further information about our community projects can be found in our Corporate Responsibility Report on page 56. In Egypt, we are in the process of assessing where we can make the most valuable contribution to long-term social projects, both at the local level and more widely.

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

Culture and values

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

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

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

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

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

Board changes

Marianne Daryabegui was appointed as an Independent Non-Executive Director with effect from 15 March 2019. Marianne has extensive experience in oil and gas corporate transactions and capital markets. Ambassador António Monteiro, Non-Executive Director, retired from the Board of Pharos following conclusion of the Annual General Meeting (AGM) on 23 May 2019. In 2020, further Board changes will occur. In January 2020, Pharos announced that Ettore Contini, Non-Executive Director, would not stand for re-election to the Board of Pharos at the upcoming 2020 AGM, following 18 years of service.

Geoffrey Green will be appointed as an Independent Non-Executive Director with effect from conclusion of the Company's upcoming AGM. On 11 March 2020, we announced the appointment of Lisa Mitchell, as an Independent Non-Executive Director with effect from 1 April 2020. John Martin, who was appointed as an Independent Non-Executive Director on 7 June 2018, will become Chair of the Board of Directors with effect from 13 March 2020, the date of my retirement. Having previously indicated my intention to retire, this appointment comes after a selection process, with Korn Ferry as search consultants, to identify a successor.

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

Financial discipline

Capital discipline and financial stability are part of the Company's DNA and continue to underpin the business. Capital investment and divestment decisions are taken to allocate capital where it will provide the best risk-adjusted returns. The balance sheet remained strong throughout 2019 and the Company had solid cash flows and low cash operating costs. The Group finished the year with \$58.5m in cash, after returning \$27.4m to shareholders through 5.5 pence per share final dividend for the 2018 financial year and bringing the total return to shareholders since 2006 to approximately \$530m. Overall loss for the year was \$24.5m (2018: \$27.7m profit). We have responded quickly to the current turbulence in the global economy, which has had a significant impact on the oil price. In Vietnam, our production continues to command a significant premium to Brent and our business is profitable at low oil prices, while the largely discretionary nature of our planned investments in Egypt gives us considerable operational flexibility.

Over the coming weeks and months, we will cut discretionary expenditure as appropriate to preserve balance sheet strength. We maintain our commitment to paying the dividend of 2.75 pence per share during 2020, as previously announced. Given the current uncertainties in the global economy, the Board has however decided to postpone these dividend payments until the macro environment becomes clearer.

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

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

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

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

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

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

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

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

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

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

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

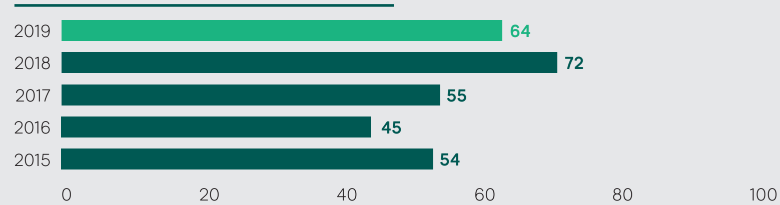
Rui de Sousa
Chair

> **Read more**
Non-IFRS measures on page 156

Market overview

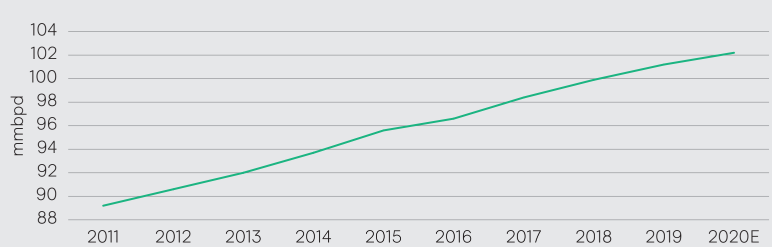
Brent oil prices averaged $64/bbl in 2019, a decrease of 11% over 2018. The Organization of the Petroleum Exporting Countries (OPEC) and its partners (predominantly led by Russia) continued 2019 with their policy to restrict oil supply, hoping to stabilise the market and prop up oil prices.

BRENT OIL PRICE 2015-2019 ($/BBL)



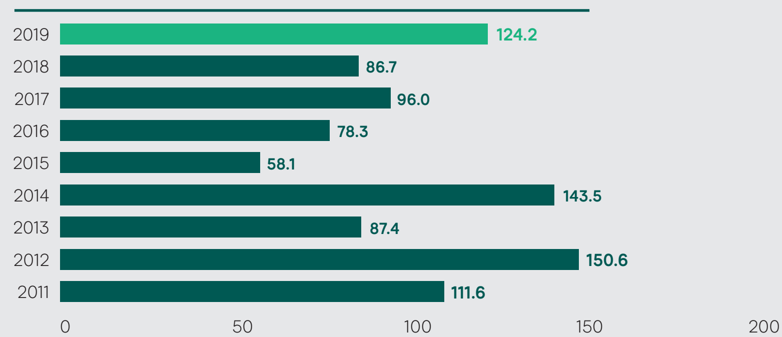
Source: Bloomberg.

GLOBAL CRUDE OIL CONSUMPTION 2011-2020E



Source: EIA.

GLOBAL E&P M&A TOTAL DEAL VALUE 2011-2019 ($BN)



Source: IHS Herold.

The period saw the US shale industry showing signs of strain as capital budgets were reduced for the year ahead and the rig count falling since the middle of the year. US crude oil supply continues to grow but is now growing at a slower pace than the past two years.

Economics and political

Global economic growth continued to slow down in 2019 with the World Bank estimating that global GDP grew by 2.4% last year, down from 3.0% in 2018 and 3.2% in 2017. Importantly for commodities, China's economy, the second largest in the world, saw a slowing in 2019 in its workforce ages and contract awards. Several commentators attributed slowing global growth to increased protectionism as international trade, the engine of global activity, is being halted by raising prices for producers and consumers, fuelling uncertainty, disrupting activity and affecting global growth.

China's Central Bank easing of their monetary policy continued but one of the surprises of 2019 was that the US Federal Reserve and the European Central Bank also switched from tightening to easing their monetary policies. Brexit dominated much of the UK and the wider world's news during 2019 with the UK leaving the EU at the beginning of 2020. 2019 was a good year for financial markets and investors, with global equities up 27% over the course of the year. All major asset classes ended 2019 up on the year and risk assets were clear outperformers.

Oil price

The Brent oil price averaged $64 per barrel in 2019 and traded mostly within a $60-65 per barrel price range with some exceptions in the first half of the period where Brent traded as much as $74 per barrel. A year ago concerns over slowing global growth had pushed oil prices to their lowest level since the summer of 2017 and spurred OPEC production cuts.

Despite a significant pull back in production from OPEC members as well as non-OPEC partners, led by Russia, oil prices failed to move significantly as US supply remained buoyant and global demand waned under continuing concerns about flagging economic growth. More recently, significant disruption to the global economy including the demand for oil has been caused by the outbreak of the Coronavirus COVID-19, which has had a widespread effect across China as well as other parts of the world. The forecast of a sustained period of low economic growth is affecting energy demand, which in turn is reflected in downward pressure on the oil price. In addition, the recent geopolitics have put further downward pressure on the oil price resulting in a significant oil price drop. We have responded quickly to the current turbulence in the global economy, which has had a significant impact on the oil price. In Vietnam, our production continues to command a significant premium to Brent and our business is profitable at low oil prices, while the largely discretionary nature of our planned investments in Egypt gives us considerable operational flexibility. Over the coming weeks and months, we will cut discretionary expenditure as appropriate to preserve balance sheet strength.

Pharos has adopted strategic principles, and put policies and procedures in place aimed at protecting its business, and "future-proofing" it against the potential impact of short-term volatility in prices. Pharos' strategy to mitigate this principal risk is set out on pages 46 to 53 in our discussion on principal risks. Pharos regularly evaluates whether the benefit of hedging of its oil production is in the best interest of shareholders by considering the balance between protecting the Group in low oil price scenarios against the opportunity cost of being unhedged. In addition, Pharos continues to manage its overall portfolio to ensure a low break-even oil price, regardless of actual oil prices. In terms of portfolio discipline, Pharos undertakes regular assessment of its assets and seeks to dispose of those that do not meet our commercial viability criteria. Our strong ethos of capital discipline ensures that cost efficiencies are maintained, even in higher oil price environments. Pharos ensures all operational decisions – including new country entry, production optimisation and acquisitions and divestments – are reviewed through the lens of full-cycle project economics in a range of oil price scenarios.

E&P Merger & Acquisition activities

The Global E&P sector saw an increase in M&A value by 70% from $86.7bn in 2018 to $124.2bn in 2019. The most high profile transaction was the IPO of Saudi Aramco which raised over $25bn as it listed just 1.5% of the Company on the local Tadawul Stock Exchange after marketing the float almost exclusively to investors in the Middle East.

Pharos completed its acquisition of the Egyptian asset in the period, repositioning the Group for further growth not only in Egypt, but also in the wider MENA region.

Climate change regulation

Climate change regulation and wider ESG concerns were at the forefront of thinking and strategy for not just oil and gas companies but the wider global economy in 2019. Investors are looking more closely at operational indicators to better understand company performance in reducing emissions. In response, oil and gas companies in particular have had to put the management and disclosure of indicators at the centre of their ESG strategies.[1]

Pharos has continued to review its emissions with the objective of reducing them. We seek to be transparent in our emissions performance reporting and in 2019 we continued to report our emissions and disclose them in accordance with UK industry requirements and standards. We participated in the CDP Climate Change Questionnaire and we set an objective to continue to work to improve GHG emissions management by identifying realistic initiatives for emissions reduction. The period saw Pharos support the implementation of the Task Force on Climate-related Financial Disclosures, making Pharos' efforts in combatting climate change measured and committed.

More information on Pharos' emissions can be found in the Corporate Responsibility Report on page 56.

1 https://ihsmarkit.com/research-analysis/comparison-of-ghg-emissions-across-oil-gas-companies-infeasible.htm

A stronger organisation

2019 was a year where we changed our company name to Pharos Energy to reflect a refreshed business with growth opportunities in our portfolio. Operating a sustainable business remains a key priority for Pharos and we continue to make enhancements to ESG across the business including new Board appointments, reduction in GHG emissions in our operations and social investments.

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

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

> “In these turbulent times of global market uncertainties, we remain focused on financial discipline and are now taking appropriate measures to preserve shareholder value. We are confident that through a combination of our low gearing, low-commitments, low oil price break-evens for Vietnam and the flexibility offered by deferring some of our largely discretionary investments in Egypt, the business is well placed to weather the challenging macroeconomic conditions whilst retaining the growth opportunities.”

Ed Story
President and Chief Executive Officer

Egypt

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

Vietnam

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

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

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

28.5mmbbls
EGYPT PROVEN AND PROBABLE (2P) RESERVES

23.5mmbbls
EGYPT ESTIMATED CONTINGENT (2C) RESOURCES

Growth opportunities

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

Finances

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

Environmental, Social and Governance

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

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

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

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

Outlook

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

Our focus is on growth opportunities in Asia onshore development and, where appropriate, exploration assets with transformative potential.

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

- The continuation of a low cost multi-well producer and water-injector programme to optimise the phasing of the development of the discovered oil resources in El Fayum, consistent with current markets conditions
- The continued high value production from the TGT and CNV Fields in Vietnam
- The production performance of the deep Oligocene tight oil potential at TGT in offshore Vietnam
- The assessment of a number of low-cost and low-risk conventional exploration targets and an unconventional resource play in El Fayum

> Our goal is to have a responsible and positive presence in the regions in which we operate, resulting in value for the host countries, local communities, employees, contractors and shareholders.

- The evaluation of the low-cost oil potential of the recently awarded North Beni Suef Concession in Egypt, which straddles the Western and Eastern Deserts. We will seek to defer our commitments wherever possible
- The low cost data evaluation of possibly transformational:
  - Gas potential of our material acreage position in Israel and;
  - Oil potential in Blocks 125 & 126 in the undrilled Phu Khanh Basin offshore Vietnam

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

Ed Story
President and Chief Executive Officer

Delivering value for our stakeholders

ACTIVITIES IN 2019

01 Growth orientated

Identifying and evaluating inorganic and organic growth opportunities to build scale.
Targeting growth opportunities in our current portfolio. Actively managing our portfolio through investments and divestments. Seeking low-cost, cash-flow accretive assets with a focus on production and near-term developments, where we can create value for shareholders and manage safely, to high operational and safety standards, using local staff and suppliers.

- Completed acquisition of the El Fayum Concession in Egypt
- Low-cost multi-well producer and water-injector programme
- North Beni Suef Concession in Egypt offering low-cost oil potential awarded and signed
- Growth opportunities in Vietnam on the TGT Field and Blocks 125 & 126
- Awarded eight licences offshore Israel in second offshore bid round

02 Focus on stakeholders

Dialogue with shareholders, local communities, host governments, employees, contractors, and others in the supply chain.
We continue to consult and have engagement through formal and informal processes and an open dialogue with our stakeholders, considering matters that are important to our stakeholders and to the successful delivery of our corporate objectives.

- Further Board refreshment and increased independence
- Active engagement by the Independent NED workforce representative with UK employees
- Established the ESG Committee to oversee and direct Pharos' work across the ESG agenda
- Open and active dialogue with shareholders throughout the year
- Engagement across our supply chain to identify and address red-flag areas of concern

03 Stewards of capital

A culture of prudent financial management, capital allocation and capital return.
Capital discipline focuses on controlling and managing costs. Capital allocation decisions are taken to make investments where they will provide risk-adjusted full-cycle returns. It is this approach that has allowed us to return significant amounts of capital to shareholders. We have looked to add another strand to the story – capital growth – to underpin the sustainability of dividends over the longer term.

- Disciplined capital investment and allocation. Flexibility on capital allocation due to low commitments, development through drilling with facilities already in place
- Revenue stability through active hedging programme - 27% of production hedged in 2019, providing continuity to underpin capital programmes and preserve upside exposure
- Modest gearing

Our strategy is to deliver value through both growth and an annual dividend. Sustainability is at the heart of everything we do; in our finance discipline and commitment to a sustainable dividend; and in our commitment to building on our ESG policies and programmes to deliver continuous improvements across the business.

PRIORITIES IN 2020	RISKS	MITIGATION
• Expansion of waterflood programme in the El Fayum Concession to maintain and increase production • Appraisal of the deep Oligocene tight oil potential at TGT offshore Vietnam • Continued evaluation of M&A opportunities against our strategic, operational and financial criteria	• Lack of growth due to insufficient funds to meet full scope work programmes • Inability to complete further acquisitions in line with growth strategy • Volatility in production levels – sub-optimal well performance	• Targeted M&A opportunity assessment (scale & materiality) • Regular review of funding options • Proactive dialogue with banks and other providers of capital • Quality and number of advisers • Intense opportunity screening • De-risk best prospects/drill best prospects • Improve reservoir models
• Progress on implementing Task Force on Climate-related Financial Disclosures (TCFD) recommendations • Continued workforce and stakeholder engagement, building on work done in 2019 • Regular staff training and development	• HSES reputational and operational risk • Climate change – transitional and physical risks • Human resource risk • Political and regional risks • Business conduct and bribery • Partner alignment risk	• Promote a positive health and safety culture • Emergency preparedness • Embed climate change scenarios and evaluate "strategic fit" of climate change decisions on key business operations • On-going succession planning • Comply with all legislative/regulatory frameworks and focus on a goal based approach focused on improving safety • Adhering to our Code of Business Ethics • Annual training and compliance certifications by all associated persons/whistleblowing facility in place • Active participation in JOC management • Engage directly with the relevant authorities on a regular basis
• Continue to actively manage capital allocation and investments • Maintain financial strength through managing capital to provide risk adjusted full cycle returns • Commitment to sustainable dividends; an integral part of approach to cost control • Gearing to remain modest	• Commodity price risk • Financial discipline and governance; insufficient funds to finance both growth plans and maintain dividends	• Oil commodity hedging • Close monitoring of business activities, financial position, cash flows • Control over procurement costs/effective management of supply chains • Capital discipline with focus on controlling and managing costs • Stress test scenarios and sensitivities to ensure a level of robustness to downside price scenarios • Discretionary spend actively managed

Links to Risk Report (See page 46)

Our business model is to build for the future

VALUE INPUTS

Our people

- Extensive industry experience
- Technical expertise
- Commercial acumen
- Relationship-driven

Our assets

- Mix of complementary assets
- Mature, short payback in Vietnam
- Low-cost onshore drilling in Egypt

Our capital

- Low operating cost
- Financial prudence
- Modest gearing target
- Strict allocation process

Assess

Invest

Develop & produce

We are building a business focused on generating sustainable returns. We look to grow Pharos through responsible management of its current portfolio and the careful selection of new opportunities, particularly those with near-term low-cost development and, where appropriate, exploration assets with transformative potential within Asia and MENA.

VALUE OUTPUTS

We assess opportunities which offer a superior risk-weighted return. Our experienced management team identify established high margin, low-risk producing assets enabling geographical asset diversification and increase in exploration acreage growth leading to value growth.

Growth opportunities

- Existing discovered resources
- New blocks in Egypt and Israel
- Conventional and unconventional + exploration potential

Our investment programme will continue to be allocated over our asset base in a disciplined manner to deliver sustainable returns for our stakeholders. We maintain a culture of prudent financial management, capital allocation, and capital returns.

Stakeholders

- Net Asset Value (NAV) growth and share price
- Dividend payments
- Local capability
- In-country economic contribution and social investment
- Employment and training

Our production increases through development of existing discovered resources. Maximising margins through optimising production and low operating costs. Responsible operations, operating safely at all times.

Growth production metrics

- Responsible and safe operations
- Low cost per barrel
- Development of discovered Egyptian resources
- Continued development of Vietnam assets

Reporting on our performance

The financial and non-financial metrics facilitate better management of long-term performance and delivering on our sustainable responsible business plans. They are kept under periodic review and regularly tested for relevance against our strategies and policies.

> **Read more**
Non-IFRS measures on page 156

Financial measures

LOW CASH OPERATING COST
$/BOE

10.45

Description
Low operating expenditure helps deliver high margin production revenues. The cost of producing a single barrel of oil is influenced by industry costs, inflation, fixed costs and production output.

Objective
To be profitable at lower oil prices.

Performance
Pharos achieved an operating cost of $10.45/boe in 2019, a large improvement over 2018 mainly as a result of improved terms of the extended FPSO and bareboat charter contracts in Vietnam.

Outlook
The Company has a low operating cost base which we plan to maintain in 2020.

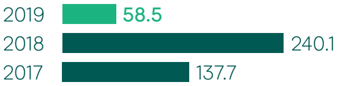
Links to strategy
- Deliver value through growth

Associated risks
- Partner alignment risk
- Political and regional risk

Links to Remuneration Report (See page 96)

CASH, CASH EQUIVALENTS AND LIQUID INVESTMENTS $M

58.5



Description
Pharos has a history of stable finances and a strong balance sheet due to the prudent management of producing assets.

Objective
Maintain financial strength through a strong cash balance, ensuring obligations can be met as they become due, invest in the future of the business and maintain commitment to return cash to shareholders.

Performance
Pharos has a cash balance of $58.5m whilst also returning cash to shareholders and paying a cash consideration for the acquisition of the Egyptian asset of $136m and $19.1m for the repayment of the Merlon RBL.

Outlook
Pharos has a culture of capital discipline, capital allocation and capital returns and this remains the key focus as we grow the business.

Links to strategy
- Deliver value through growth
- Return to shareholders

Associated risks
- Commodity price risk
- Financial discipline and governance risk

Operational measures

CAPITAL EXPENDITURE
CASH $M (includes abandonment funding)

63.4

2019	63.4
2018	22.4
2017	25.2

Description
Investment in the asset base required to maintain and grow the business and directed to the assets in Egypt and Vietnam.

Objective
Allocate capital to achieve high and feasible returns.

Performance
The 2019 cash capital expenditure was much higher than 2018 due to the ramp up of activity; the acquisition of seismic data on Blocks 125 & 126 in Vietnam, the commencement of the TGT drilling programme, and continuous drilling activity in Egypt.

Outlook
Cash capital expenditure budget for 2020 is under review in light of the new macroeconomic circumstances.

Links to strategy
- Deliver value through growth
- Investment growth

Associated risks
- Commodity price risk
- Partner alignment risk

LOST TIME INJURY FREQUENCY ("LTIF")
PER MILLION MAN-HOURS WORKED

0

2019	0
2018	0
2017	0

Description
The Group is committed to operating safely and responsibly at all times. Having a positive impact on the wellbeing of our employees, our contractors and the local communities in which we operate is a priority.

Objective
Pharos' key safety target is zero LTIF.

Performance
Zero LTIF in the year.

Outlook
Continue to work with the joint operating companies to maintain the high safety standards with the aim of driving continuous improvement year-on-year and look to replicate this in Egypt.

Links to strategy
- Focus on stakeholders

Associated risks
- HSES and social risk
- Partner alignment risk

Links to Remuneration Report (See page 96)

GROUP NET PRODUCTION
BOEPD

12,136

2019	12,136
2018	7,274
2017	8,276

Description
Production revenues generate cash flows which are re-invested in the portfolio of assets, new business opportunities, and in returns to shareholders.

Objective
Optimise production from Pharos asset base.

Performance
Vietnam production 7,081 boepd net. Egypt production 5,055 bopd (2 April–31 Dec 2019).

Outlook
2020 work programme includes the TGT-15X well on TGT which reached target depth end Feb 2020, and a three rig work porgramme in Egypt to 1Q 2020. In light of the new global macroeconomic circumstances, the scale of our discretionary work programme for the rest of the year is under review,

Links to strategy
- Deliver value through growth

Associated risks
- Reserve risk
- Sub-optimal capital allocation risks
- Commodity price risk

Links to Remuneration Report (See page 96)

RETURNS TO SHAREHOLDERS
PENCE PER ORDINARY SHARE

5.5

2019	5.5
2018	5.25
2017	5.0

Description
Since 2006 Pharos has paid a regular dividend to shareholders.

Objective
Sustainable cash returns to shareholders.

Performance
Pharos' business model continues to deliver cash returns to shareholders and during the year we paid a dividend of 5.5 pence per Ordinary Share, an increase from 2018.

Outlook
An annual dividend is a key aspect of the Company's capital discipline and investment thesis. Given the current uncertainties in the global economy, the Board has however decided to postpone these dividend payments until the macro environment becomes clearer.

Links to strategy
- Return to shareholders

Associated risks
- Commodity price risk
- Climate change risk
- Sub-optimal capital allocation risks

SOCIAL AND ECONOMIC INVESTMENT
$

545,379

2019	545,379
2018	509,408
2017	501,582

Description
A training levy of $150,000 for each joint operating company goes into a fund which is ringfenced to support the development of future talent in Vietnam in the industry. A further $245,379 was invested in community and charitable investments through the HLHVJOC Charitable Donation Programme.

Objective
Continue to support local capability building and social investments in Vietnam and Egypt.

Performance
In 2019, the HLHVJOC Charitable Donation Programme invested in 12 community and charitable partnerships and investment projects in Vietnam.

Outlook
Build on previous work, and continuously assess and review where the most valuable contribution to long-term social projects, both at the local level and more widely, can be made.

Links to strategy
- Deliver value through growth
- Return to shareholders

Associated risks
- Commodity price risk
- Financial discipline and governance risk
- Business conduct and bribery

EMPLOYEES UNDERTAKEN ANTI-BRIBERY AND CORRUPTION TRAINING %

100

2019	100
2018	100
2017	100

Description
Our Anti-Bribery and Corruption ("ABC") programme is designed to prevent corruption and ensure systems are in place to detect, remediate and learn from any potential violations. All personnel are required to complete annual ABC training.

Objective
All personnel to complete the annual ABC programme including training, testing and self-declaration statement.

Performance
100% of personnel completed the ABC training.

Outlook
Maintain 100% completion rate for the ABC training. Comply with new legislations and industry best practices and ensure the training programmes are up-to-date.

Links to strategy
- Deliver value through growth
- Investment growth

Associated risks
- Partner alignment risk
- Business conduct and bribery

Egypt continuing to evolve

High quality oil production operations, development and exploration assets in Egypt, building scale and creating significant opportunities.

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

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

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

LOCATION

- Surrounded by analogue productive fields and existing infrastructure
- Gindi Basin geologic province, in one of Egypt's most prolific oil-producing regions close to Qarun, Wadi Rayan, East Beni Suef Fields

TERMS

- Earliest development licence expiry: 2029 with two additional five-year extensions possible
- Operatorship: carried out by the Petrosilah Operating Company (50/50 JV with EGPC)

AREA

- Total area: 6,880km^2
- Fayum Exploration: 1,564km^2/ Development: 256km^2
- North Beni Suef: 5,060km^2

INFRASTRUCTURE

- Crude trucked ~200km to Suez domestic refinery
- Export potential via Dashour (~70 km) or Sidi Kerir (~270 km, trucked)

5,055 bopd

Average Egypt production (2 April to 31 December 2019)

10

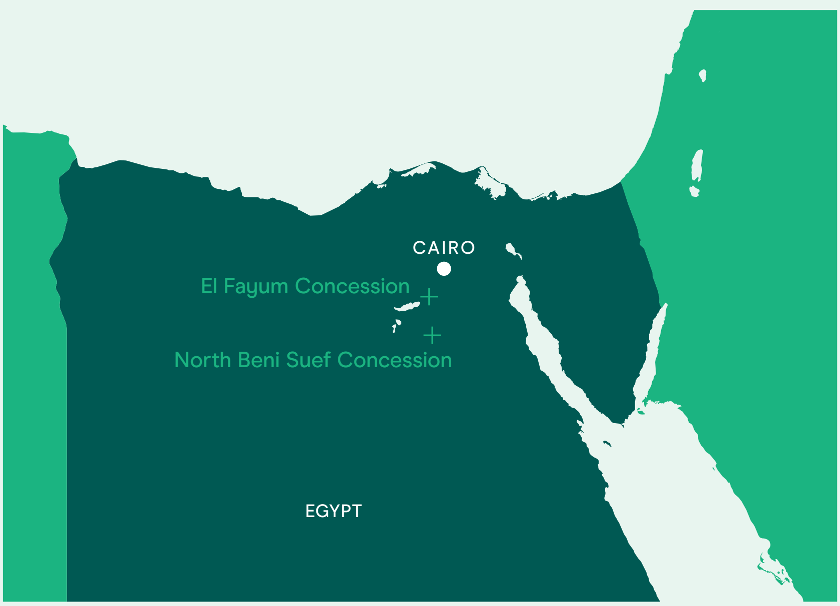
Oil fields

Egypt

An evolving energy hub for the Eastern Mediterranean

Pharos Energy is positioned to play a significant role in the regional growth

Continued industry consolidation in Egypt with existing organic growth opportunities



1 El Fayum (D&P)

The El Fayum Concession is located in the low-cost and highly prolific Western Desert, about 80km south west of Cairo and close to local energy infrastructure.

+ See page 28

2 North Beni Suef (E)

The North Beni Suef (NBS) Concession is located south of the El Fayum Concession. Pharos entered into the NBS Concession Agreement on 24 December 2019.

+ See page 30

1 El Fayum

Located in highly productive Western Desert of Egypt

100%
Working interest; operated by Petrosilah JOC

28.5
Mmbbl of 2P Reserves

23.5
Mmbbl of 2C Resources

Egypt production

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

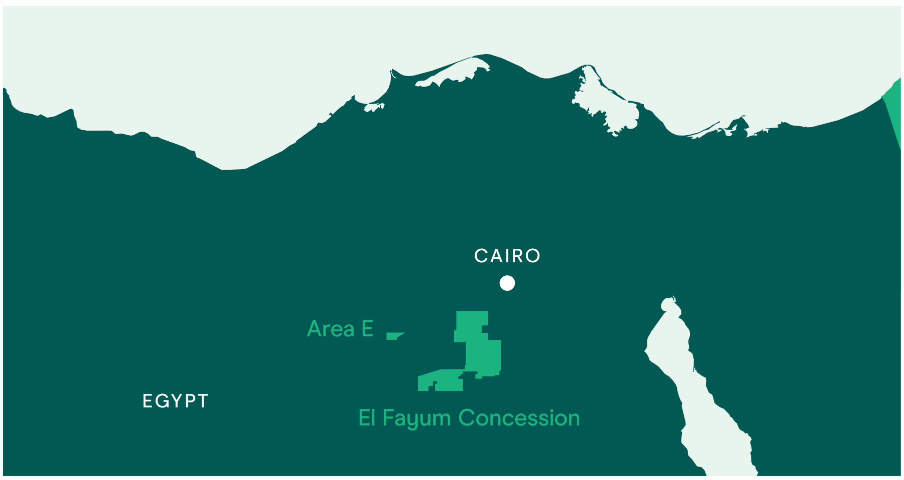
Egypt production guidance for 2020 (6,500 to 7,500 bopd) as announced on 8 January 2020 is suspended whilst the scale of our discretionary work programme for the rest of the year is under review.

Egypt development and operations

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

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

At the time of completion in April 2019, one drilling rig was operating on the concession. A second drilling rig, which



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

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

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

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

2020 work programme

The forward plan calls for a combination of production and injection wells to augment waterflood deployment and increase production. Subsurface static and dynamic models are being updated for the results of the 2019 drilling campaign. This will allow further optimisation of waterflood patterns and well spacing which will in turn improve sweep efficiency and increase well deliverability.

The discretionary drilling programme provides the company with flexibility as to the number of rigs contracted but each rig is expected to drill on average one well per month.

El Fayum exploration

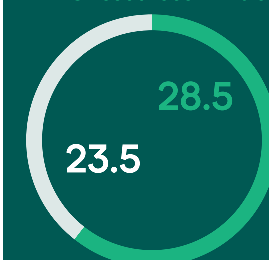
Over 100m of core in Abu Roash F (AR F) section was acquired in the Al Medina 1X exploration well drilled in January 2019. Special core analysis has confirmed high total organic content and subsequent geochemical analyses have confirmed that the AR F at the depth in the well has just entered the generative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

Full Field Development Plan provides detailed runway to growth

Longer-term strategy

- Grid drilling with optimized well spacing
- Expand water floods across the fields
- Add new reserves and open new production hubs
- Focus on field economics/ high-return investment

2P reserves mmbls
2C resources mmbls



Egypt outlook

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

Egypt

2 North Beni Suef

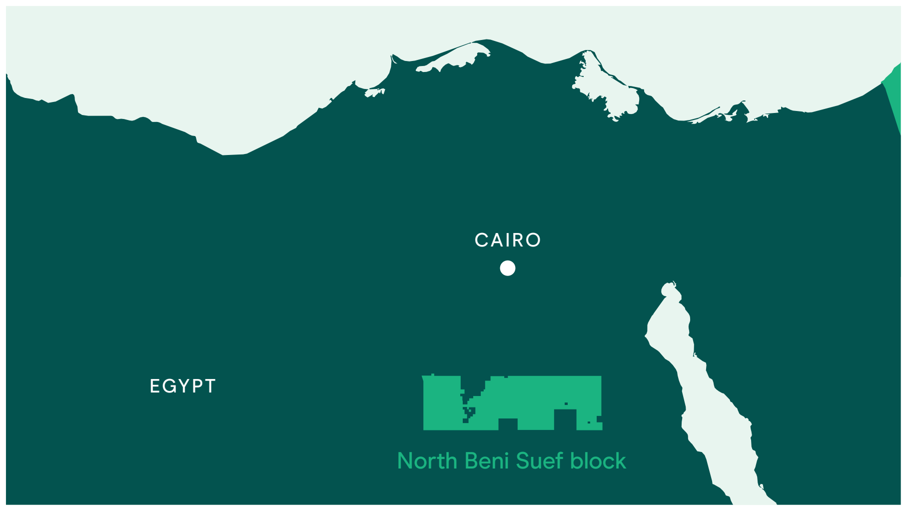
Located south of the El Fayum Concession in the low-cost, highly prolific Western Desert.

Existing data base

5,060km²
Acreage

1,788km²
3D seismic

8
Wells



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

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

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

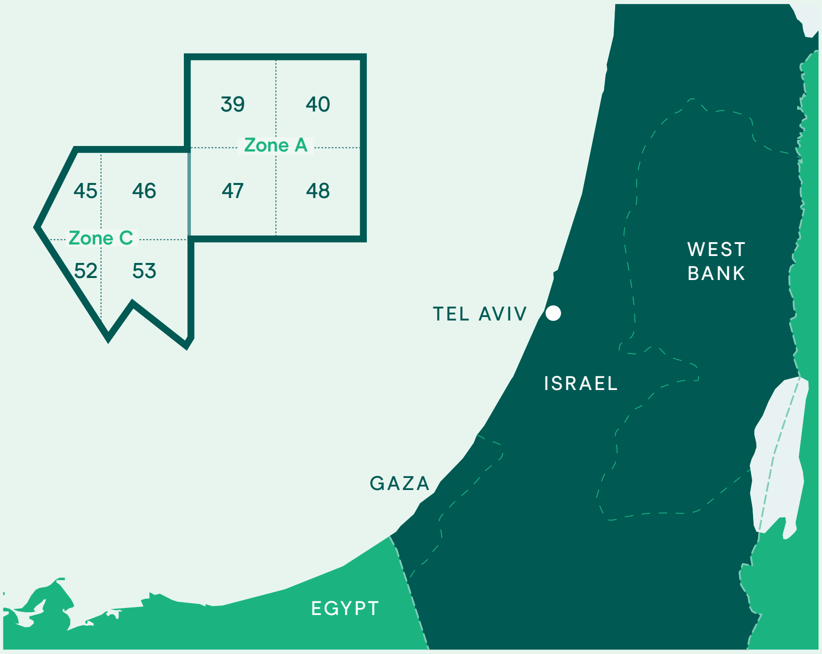
Israel ready for initial phase

A potential major source of future gas from Israel to Egypt

8 licences awarded

Effective from 28 October 2019

With new partners, Pharos submitted a successful bid for two zones offshore Israel in the 2019 offshore bid round, resulting in the award of eight licences across the two zones.



1 Zone A & Zone C (E)

Two contiguous zones, A & C, each containing four licences (eight in total). The licences will have an initial term of three years with each having two-year extension options. There will be a minimum work programme in the initial phases which include re-evaluation of the potential of the acreage by integrating all available data, and reprocessing of 3D seismic data over high-graded prospects in each zone.

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

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

KEY FISCAL TERMS

Concession with a royalty and profit tax:

- Royalty is 12.5%
- CIT is 23%
- Capex, opex and super profits tax can be used to offset profits
- First phase commitments are seismic studies only

8
Licences

33.33%
Working interest

Vietnam finding further potential

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

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

Vietnam production

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

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

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

Production by field	FY 2019	FY 2018
TGT production	5,382	5,686
Oil	5,034	5,346
Gas[1]	348	340
CNV production	1,699	1,588
Oil	1,106	1,052
Gas[1]	593	536
Total production	7,081	7,274
Oil	6,140	6,398
Gas[1]	941	876

Figures in boepd.

1 Assumes oil equivalent conversion factor of 6,000 standard cubic feet per barrel of oil equivalent.

23
Years active in Vietnam since 1997

$1 billion
Over $1 billion invested by the JOC in oil and gas projects located offshore Vietnam, making Pharos one of the largest British investors in the country

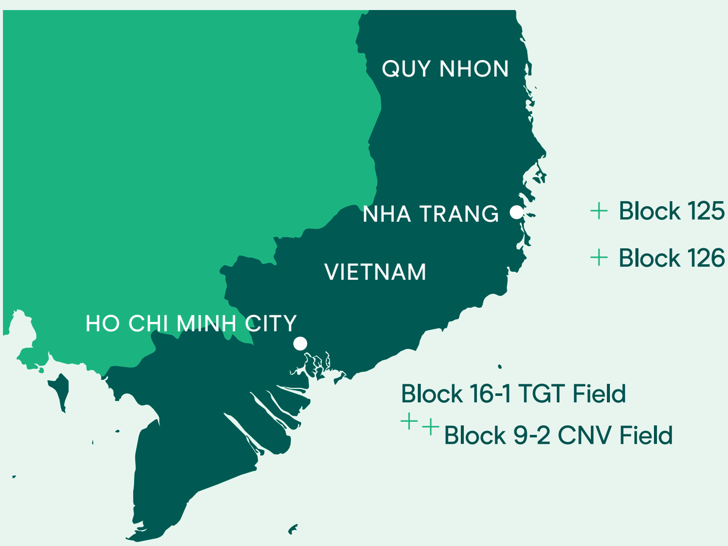
Zero
Lost Time Injury (LTI) since incorporation

Vietnam

A valued asset with future growth opportunities

Supportive relationships developed at the highest levels of government

Organic growth opportunities



❶ Block 9-2 CNV Field (D&P)

The CNV Field is located in Block 9-2, offshore Vietnam, in the shallow water Cuu Long Basin. In contrast to the geology of TGT, the CNV Field reservoir is fractured granitic Basement.

+ See page 35

❷ Block 16-1 TGT Field (D&P)

The TGT Field is located in Block 16-1, offshore Vietnam in the shallow water Cuu Long Basin.

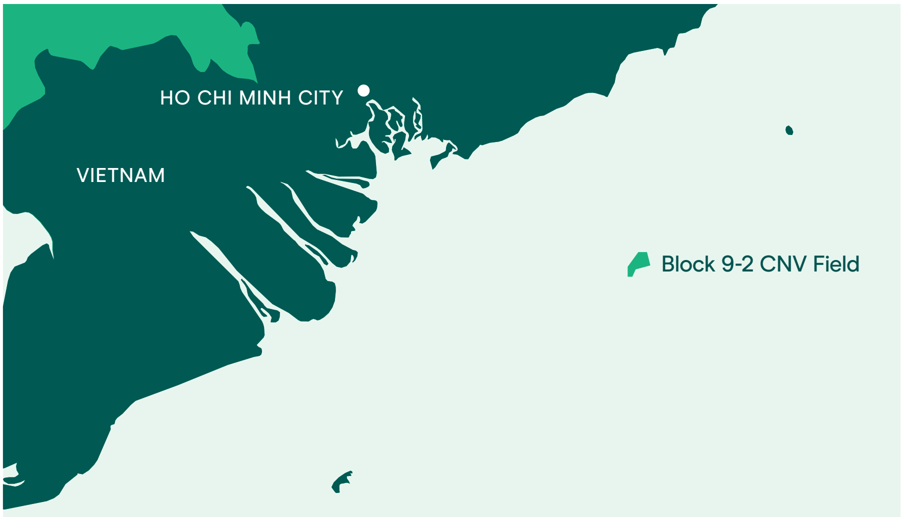
+ See page 36

❸ Blocks 125 & 126 (E)

Blocks 125 & 126 are located in moderate to deep waters in the Phu Khanh Basin, north east of the Cuu Long Basin.

+ See page 37

1 Block 9-2 CNV Field



The CNV Field is located in Block 9-2, offshore Vietnam, in the shallow water Cuu Long Basin.

25%
Working interest; operated by HVJOC

1,699 boepd net
2019 production averaged 6,793 boepd gross and 1,699 boepd net to Pharos

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

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

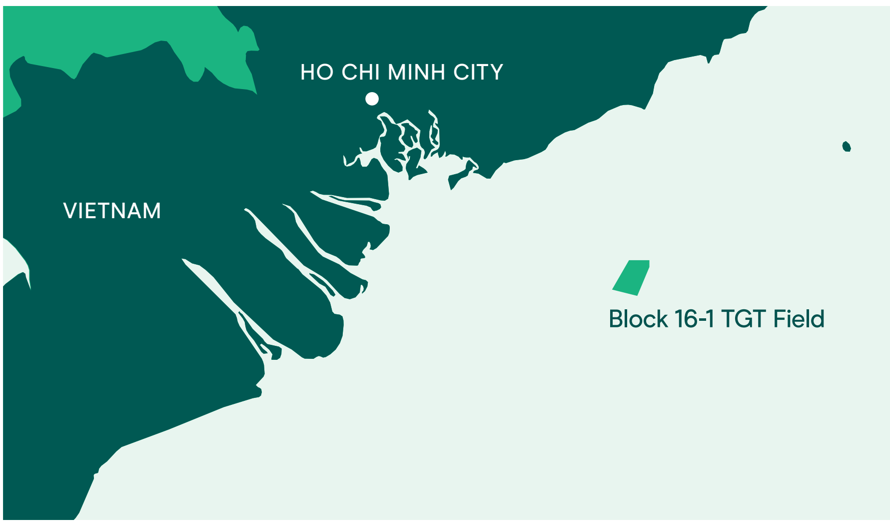
2019 activity

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

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

Vietnam

2 Block 16-1 TGT Field



Located in Block 16-1, offshore Vietnam, in the shallow water Cuu Long Basin.

30.5%

Working interest; operated by HLJOC

5,382 boepd net

2019 production averaged 17,847 boepd gross and 5,382 boepd net to Pharos

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

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

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

2019 activity

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

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

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

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

TGT Compressors and FPSO Tie-In Agreement (TIA)

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

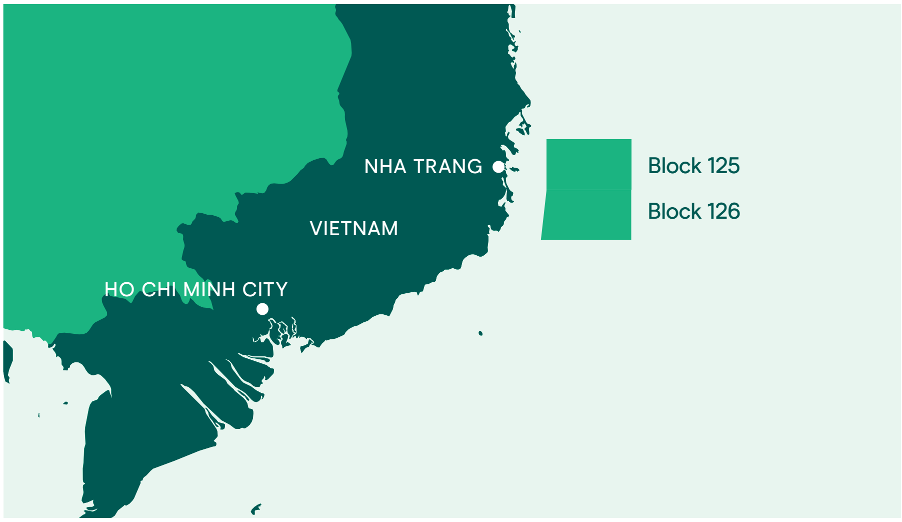
3 Blocks 125 & 126

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

2020 work programme

Operations are focussed on completing testing and producing from the TGT-H1-15X well.

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



Located in moderate to deep waters in the Phu Khanh Basin, north east of the Cuu Long Basin.

70%

Operated working interest

Exploration Blocks 125 & 126 are in moderate to deep waters in the under-explored Phu Khanh Basin.

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

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

Vietnam outlook

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

HSES

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

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

A Phase Two associated gas generator programme is planned to reduce CO_2e emissions by a further 2,330 tonnes and is currently expected to start in May 2020. Satellite wellsite(s) solar power sources are also under investigation.

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

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

Group reserves and contingent resources

The Group Reserves Statistics table on page 39 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. **(SEE FIG 1)**

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

Vietnam reserves and contingent resources

In accordance with the requirements of its Reserve Base Lending Facility, the company commissioned RISC to provide an independent audit of gross (100% field) reserves and contingent resources for TGT and CNV as of 31 December 2019. **(SEE FIG 2)**

On TGT, 2P reserves were revised higher as a result of the inclusion of additional wells in the revised Full-Field Development Plan (FFDP).

TGT contingent resources were revised downwards due to a corresponding reduction in potential new wells in the 2C category in the revised FFPD.

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

Egypt reserves and contingent resources

This is the first time the company has reported Egypt reserves following completion of the El Fayum acquisition on 2 April 2019. McDaniel estimates of 2P reserves are higher than previous estimates supporting the acquisition as more definitive drilling plans have facilitated the re-categorisation of some 2C volumes to 2P. **(SEE FIG 3)**

FIG 1. GROUP RESERVES AND CONTINGENT RESOURCES

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

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

FIG 2. VIETNAM RESERVES STATISTICS

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

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

FIG 3. EGYPT RESERVES STATISTICS

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

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

FIG 4. GROUP'S WORKING INTEREST RESERVES AND RESOURCES

TABLE A: EL FAYUM FIELD AT 31 DECEMBER 2019 (MMBOE)

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

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

TABLE B: TGT FIELD AT 31 DECEMBER 2019 (MMBOE)

Reserves[3]	1P	2P	3P
Oil	10.4	14.6	18.5
Gas[1]	0.4	0.8	1.3
Total	**10.8**	**15.4**	**19.8**
Contingent Resources	1C	2C	3C
Oil	4.8	8.2	11.5
Gas[1]	0.1	0.2	0.4
Total	**4.9**	**8.5**	**11.9**
Sum of Reserves and Contingent Resources[2]	1P & 1C	2P & 2C	3P & 3C
Oil	15.2	22.8	29.9
Gas[1]	0.5	1.1	1.7
Total	**15.7**	**23.9**	**31.7**

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

TABLE C: CNV FIELD AT 31 DECEMBER 2019 (MMBOE)

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

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

S.172(1) Companies Act 2006

The duty under s.172(1) of the Companies Act 2006 is applied in addition to the other duties of a Director. Each Director must discharge these duties in accordance with the duty of care, skill and diligence both objectively and to a subjective standard.

In accordance with section 172(1) of the Companies Act 2006, the Directors of the Company have a statutory duty to promote the success of the Company. The Board at Pharos, as individuals and together, consider that they have acted in a way that would most likely promote the success of the Company, to deliver the goals and objectives for the benefit of its members as a whole in relation to all stakeholders who may be affected by or engaging with the Company's activities.

Board meetings and discussions

The Board has always taken into account the s.172 obligations during the year in line with the new reporting requirements. Their key decisions have been specifically confirmed at each Board meeting to take into account these matters. This has been supplemented by the roles of the individual directors giving due regard and consideration of each element of the s.172 requirements including:

a) The likely consequences of any decisions in the long-term;

b) The interests of the employees;

c) The requirements to foster business relationships with suppliers, customers, and others;

d) The impact on the community and environment of the Company's operations;

e) The desirability of the Company maintaining a reputation for high standards of business conduct; and

f) The need to act fairly as between members of the company.

For examples, the Chair has taken particular interest in the considerations relating to shareholders. The Chair of the ESG committee has taken particular interest in the relations with employees and other stakeholders.

During its meetings and discussions, the Board considers decisions with keen regard to consequences in the long term for the business; Board papers are drafted to promote discussion and provide options for the Board to hold an informed and balanced debate.

The interests of the Company's employees is a key element of the statutory duty under s. 172(1). As we have demonstrated, our NEDs responsible for employee engagement meet with the workforce to ensure open lines of communication and dialogue. Improved communication has been a valuable development in this stakeholder relationship during 2019.

The Company's business relationships with suppliers, customers and others is under review and consideration on a regular basis from vendor due diligence to active contracts management. Vendor due diligence is actively undertaken before a service provider of any size is engaged. The process has been streamlined in 2019 and ensures the financial robustness and reputation of our supply chain. Significant contracts, concessions and commitments are considered by the executive and the Board, supported by Board papers outlining impact and consequences of potential decisions. Our relationships with our joint venture partners are key in developing these strong foundations and will support our business in the future.

By establishing the ESG Committee during 2019 the organisation has provided robust evidence of its commitment to ESG in the sector. This Committee is a strong example of Pharos' engagement with stakeholders and acting on recommendation and feedback. Please see page 77 for explanation of its activities and future objectives.

Our Business Ethics and Anti Corruption Policy was revised, updated and approved by the Board in September 2019. We undertook a complete review of the policy following the integration of the Egyptian assets to the business, including ensuring that our engagements with government officials in all countries are recorded and monitored internally. This ensures that our Company understands its Code of Business Conduct and Ethics and places it at the forefront of our engagement with public officials.

The Board has an obligation and duty to ensure that we exercise our intention to behave responsibly. The management team is obliged to execute the business responsibly and to the highest standards. We communicate regularly with the Executive Directors and maintain open communication with the management team to ensure the two-way information flow is clear and open. Each Board member brings individual judgement and considerable experience to decision-making and carefully assesses the course of action which is most likely to promote the success of the Company.

We will act and make decisions responsibly in the interests of the Company, our shareholders and stakeholders, delivering our plan and working closely to consider the best opportunities for the Company. Detailed Board and Committee papers are carefully prepared and analysed to ensure all scenarios and options are fully considered in a timely and consistent fashion in meetings.

In accordance with s. 172(1), we have also continued to consult with, and take account of, the views of our investors, employees, partners, governments, suppliers and other stakeholders throughout the year.

These initiatives have included:

- Rigorous assessment of all suppliers/ potential suppliers/ partners and offtakers
- Frequent meetings between Executive Directors and in-country regulators and partners, reported to the Board
- Responsibility for workforce engagement assigned to John Martin and Rob Gray who are both Independent NEDs
- The establishment of the ESG Committee

Focus on shareholder engagement, including:

- A section of the agenda for each regularly scheduled meeting of the Board being dedicated to investor and stakeholder considerations.
- Reports from brokers and financial PR on feedback from investors and research analysts.

Building on financial strength

Pharos' financial strategy is founded on its approach to capital discipline, capital allocation and capital returns.

Finance strategy

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

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

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

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

> Read more
Non-IFRS measures on page 156

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

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

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

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

Operating performance

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

Group cash operating costs were $41.5m1 (2018: $36.2m). Vietnam decreased over 24% from $36.2m to $27.6m mainly as a result of the improved terms of the extended FPSO and bareboat charter contracts. The cash operating costs of the Egyptian assets feature for the first time and were $13.9m for the period following completion to end of 2019. The Group operating cost per barrel was $10.45 (2018: $13.63), an improvement of 23%. In Vietnam, the per barrel cost was $10.69/boe (2018: $13.63), a decrease of over 21%. In Egypt the operating cost per barrel was $10.01/boe.

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

Administrative expenses for the year totalled $23.1m (2018: $28.4m). After adjusting for the non-cash items under IFRS 2 Share Based Payment and IFRS 16 Leases, the administrative expense is $18.8m (2018: $26.0m), which included $1.8m (2018: $9.6m) on new venture third

> 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.

Jann Brown
Managing Director and Chief Financial Officer

party costs, reflecting continued effort on portfolio rationalisation and capturing new business, as well as $1.8m for the Egyptian assets following completion.

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

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

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

Taxation

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

Loss/Profit post tax

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

Cash flow

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

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

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

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

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

Tax strategy and total tax contribution

Tax is managed proactively and responsibly with the goal of ensuring that the Group is compliant in all countries in which it holds interests. Any tax planning undertaken is commercially driven and within the spirit as well as the letter of the law.

This approach forms an integral part of Pharos' sustainable business model.

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

During 2019, the total payments to governments for the Group amounted to $232.7m (2018: $202.4m), of which $165.5m or 71% (2018: $196.5m or 97%) was related to the Vietnam producing licence areas, of which $113.5m (2018: $133.0m) was for indirect taxes based on production entitlement. Egypt was paid a total of $63.1m of which $46.4m relates to indirect taxes based on production entitlement. The breakdown of other contributions, including payroll taxes and other taxes is contained within the additional information on page 159.

CASH OPERATING COST PER BARREL*

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

DD&A PER BARREL*

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

CASH OPERATING COST PER BARREL BY SEGMENT

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

DD&A PER BARREL BY SEGMENT

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

MOVEMENTS IN THE PROPERTY, PLANT AND EQUIPMENT

	2019 $m	2018 $m
As at 1 Jan	**507.2**	505.9
Egypt assets acquired	**184.7**	–
Capital spend	**53.3**	15.5
Revision in decommissioning assets	**7.2**	-
DD&A – Oil and gas properties	**(74.4)**	(51.8)
DD&A – Other assets	**(1.1)**	(0.2)
Reversal of impairment	**–**	37.8
As at 31 Dec	**676.9**	507.2
Property, Plant and Equipment	**669.6**	37.8
Right-to-use-Asset (IFRS 16 Impact)	**7.3**	507.2
As at 31 Dec	**676.9**	507.2

* Cash operating cost per barrel and DD&A per barrel are alternative performance measures. See page 156

** 2018 included Vietnam only

*** Egypt from the date of acquisition

Balance sheet

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

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

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

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

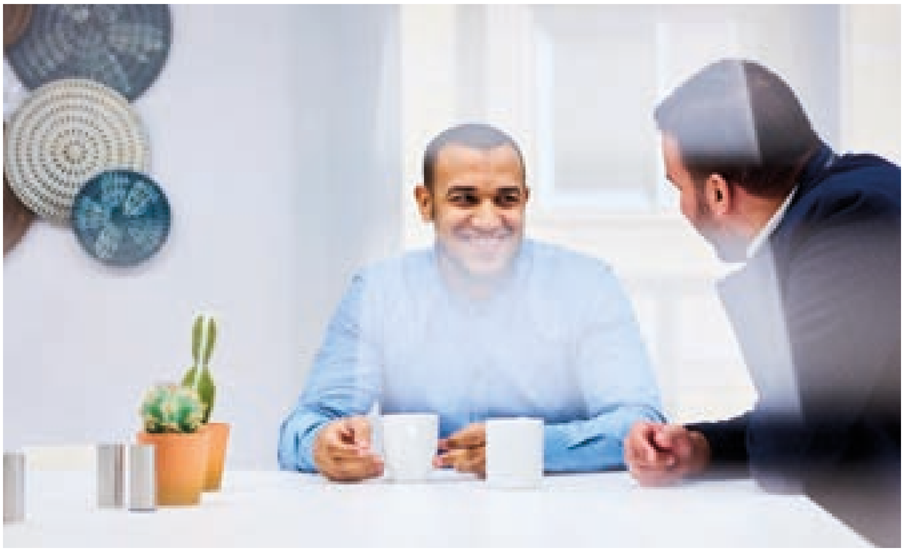
Oil inventory was $8.2m at 31 December 2019 (2018: $4.1m), of which $7.7m related to Vietnam and $0.5m to Egypt. Trade and other receivables increased to $41.2m (2018: $19.6m) of which $19.3m (2018: $17.3m) relates to Vietnam and $21.3m to Egypt, mainly due to timing of crude oil cargos.

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

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

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

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



Own shares

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

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

Going concern

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

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

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

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

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

Annual dividend and Company distributable reserves

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

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

Financial outlook

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

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

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

The breakdown of other contributions, including payroll taxes and other taxes is contained within the additional information on page 159.

Jann Brown
Managing Director and Chief Financial Officer

Risk Management Report

Effective risk management is integral to Pharos achieving its corporate strategy to further strengthen the business through growth in line with our financial strategy of capital discipline, capital allocation and capital return, while protecting our personnel, assets, the communities in which we operate, and our corporate reputation.

Pharos' Risk Management process requires that all business units within the Group conduct on going risk management and reporting to the Risk Committee and the Board. The Risk Policy defines the specifics of the Risk Management process, describes the risk tools (i.e. Risk Matrix and Risk Register), and outlines the reporting process and responsibilities in order to meet the Group's Risk Management Framework.

Risk Management and reporting is a necessary and important activity at Pharos. It is an internal control process implemented by the Board, management and all other personnel; applied throughout the organisation and all functions, designed to identify potential events which may affect the business, and manage risks to be controlled within its risk appetite. In addition, Risk Management is a process that provides reasonable assurance regarding the achievement of the Group's objectives. A comprehensive Risk Management approach allows Pharos to:

- Assist the Group in achieving its corporate objectives;
- Better manage the business by anticipating potential and emerging risks and devise preventive/mitigating measures or develop alternate strategies; and
- Meet regulatory requirements.

MANAGING OUR RISKS

Principal risks in 2018

- Lack of acquisitions
- Merlon acquisition may not complete
- Health, Safety, Environmental and Social
- Climate change
- Commodity price
- Financial discipline & governance
- Partners' alignment
- Reserves
- Cyber security
- Human resources
- Stakeholders
- Political and regional
- Business conduct and bribery

Principal risks in 2019

- Lack of growth due to insufficient funds to meet work programmes
- Volatility in production levels
- Health, Safety, Environmental and Social
- Climate change
- Commodity price
- Financial discipline & governance
- Partners' alignment
- Reserves
- Cyber security
- Human resources
- Sub-optimal capital allocation
- Political and regional
- Business conduct and bribery

The Business Management System ("BMS") evolves continually at Pharos but at its core comprises a set of Policies and Standards, including the Risk Management Policy which is based on ISO 31000 Risk Management Principles and Guidelines. The BMS is supported by procedures and processes for each function and business unit to control day-to-day business activities. This Internal Control Framework and Risk Management process ensures that risk identification, assessment and mitigation are all properly embedded throughout the organisation. Whilst the Risk Management approach is designed to provide a reasonable assurance that material financial irregularities and control weaknesses can be detected, the process does not totally eliminate the possiblity that a risk could have a material adverse effect on our operations, earnings, liquidity and financial outlook. Risk is often described as an event, change of circumstances or a consequence. Pharos' risk reporting focuses on identifying risk as a potential event. Each event will be assessed on its potential impact to people, the environment, the respective asset/financial impact on operations, and the Group's reputation in terms of severity and likelihood.

RISK MANAGEMENT FRAMEWORK

Risk hierarchy and assurance process at Pharos

Oversight, Accountability, Empowerment, Monitoring and Assurance

Board of Directors

- Approves of the Group's Risk Management Framework and processes
- Ensures the functioning and development of the Group's Risk Management system, approves its composition and organises its work
- Sets the tone and culture of Risk Management
- Performs a comprehensive assessment of the principal and emerging risks

Audit and Risk Committee

- Evaluates the Risk Management system and preparation of the recommendations for the Board of Directors
- Approves of risk assessment criteria
- Conducts decision-making on how to respond to risk and promotes continual improvement of the Risk Management system
- Elaborates on recommendations to increase the effectiveness of risk mitigations

Environmental, Social and Governance (ESG) Committee

- Assists the Board in defining the Pharos Group's strategy relating to ESG matters
- Oversees the Pharos Group's management of ESG matters and compliance with legal and regulatory requirements
- Reports on these matters to the Board and, where appropriate, make recommendations to the Boarda

Managers/risk owners

- Identification and analysis of risks that affect the set targets – maintaining Risk Registers by function/asset
- Informing immediate supervisor about the risks
- Developing measures of exposure to risk and risk monitoring
- Line managers conduct quality and plausibility checks (i.e. comparing risk data to budget baseline, reviewing preventive measures)

Organisers of Risk Management at business unit level

- Organisation and co-ordination of Risk Management process by Risk Manager/ Country Managers
- Analysis and consolidation of information on risks
- Risk training, monitoring, control and ensuring Risk Management is fully embedded and integrated throughout the Group
- Preparation of and summarising periodic reporting on risks

Internal controls/Internal Audit

- Coordination of work on improvement of the Risk Management system
- Performance of internal audit on specific topic/provide recommendations
- Providing assistance on the evaluating and improving effectiveness of the Risk Management process

During 2019, Pharos conducted a review of the overall effectiveness of its Internal Controls Framework and identified a number of opportunities to continue to improve its effectiveness and further efforts to be deployed during 2020.

Black Hat workshop

Following the Capital Markets Day in 4Q 2019, Pharos hosted the first "Black Hat" workshop with the participation of Managing Directors, the Chair of the Audit and Risk Committee, all Country Managers and all Head of Departments and Senior Managers at head office.

The key objective was to:

- Increase awareness of how risk permeates everything we do
- Collect risk input, feedback and discuss risk perspectives from all stakeholders
- Identify and implement key building blocks to improve Risk Management across the Group

Letter of Assurance

The annual cycle of monitoring at Pharos resulted in the year end completion of a Letter of Assurance from each key asset. The Letter of Assurance is a declaration by the head of each business unit that confirms compliance with corporate policies and standards, the HSES Management System, the Risk Management process, financial reporting and control over the joint venture operations and also highlights areas of concerns.

Internal Audit

The Board made a decision to further improve the Internal Controls Framework by appointing KPMG to perform a series of internal audits during 2020. KPMG kicked off this internal audit initiative in late 2019 – after carrying out a desk top review of the Group's existing policies and procedures and interviews with the Executives, Audit and Risk Committee Chair and senior managers, an Internal Audit Plan was approved for execution during 2020.

Recalibration of the heat map and risk tools

Feedback was obtained from risk owners, Country Managers and Senior Managers on the Risk Registers, the risk matrix which assists in the calibration of a risk on its likelihood and severity impact resulting in a number of changes to ensure the risk tools are simpler to utilise and fit-for-purpose to facilitate risk identification and assessment process for all risk owners.

Simple syntax

Cause → Risk → Effect

Risk response

Reduce Accept

Avoid Transfer

Board responsibility

The Board fulfils its role in risk oversight by developing policies and procedures around risk that are consistent with the organisation's strategy and risk appetite, taking steps to foster risk awareness and encouraging a Company culture of risk adjusting awareness throughout the Group. The Audit and Risk Committee reports to the Board regarding the adequacy of Risk Management measures so that the Board has confidence that management can support them. The Board periodically reviews the principal risks facing the business, including an annual review of the effectiveness of the Risk Management process in identifying, assessing and mitigating any significant risks which may affect the Group's business objectives.

Risk Management and the principal financial risks and uncertainties facing the Group are discussed in Note 3 of the Financial Statements. The Group's Risk Management policies and procedures are further discussed in the Corporate Governance Report on pages 82 to 85 and in the Audit and Risk Committee Report on pages 90 to 95, where the significant issues related to the 2019 Financial Statements are also reported. Pharos' BMS, which includes the Health, Safety, Environmental and Social Responsibility ('HSES') Management System ('MS'), which comprises the Group's internal control mechanisms of policies, procedures and guidelines through which the Group assesses, manages and mitigates its HSES risks and impacts, is described more fully in the Corporate Responsibility ('CR') Report on pages 56 to 72.

The Board has carried out a review of the uncertainties surrounding the Group's principal and emerging risks and recognises that a potential adverse event on Pharos could have a material impact on the Group's future earnings and cash flows. The fluctuating prices of crude oil and gas remain a significant variable to monitor for the Group. Flash events are happening more frequently from international trade tensions, geopolitical events, sudden outbreak of diseases, climate change transition and physical risks which may require changes to our corporate price assumptions and production outlook which in turn may trigger impairment of assets.

Regarding the principal risk of climate change, the Board has taken its potential ramifications seriously and is fully committed to managing and reducing its greenhouse gases, including setting up an ESG Committee and internal working group to deliver effective compliance with the Task Force on Climate-related Financial Disclosures ("TCFD") recommendations. Environmental and social concerns continue to dominate the top long-term risks identified by key stakeholders – our corporate responsibility and sustainability to comply with the United Nations Sustainable Development Goals and the Paris Agreement on limiting global warming to below the 2 degree mark means that Pharos is committed to measuring and reducing its CO_2e emissions at every point in its supply chains and future portfolio of investment mix.

Principal risks and mitigations

A summary of the key risks affecting Pharos and how these are mitigated to enable the Company to achieve its strategic objectives is as follows:

Key to change in likelihood: Increase, No Change, Decrease, N New Risk

Strategic

1 Lack of growth due to insufficient funds to meet work programmes (Increase)

Inability to complete further acquisitions in line with growth strategy

Causes
- Reduced capital in oil and gas sector as investors review their policy on investment
- Lack of opportunities (sector downturns)
- Fluctuating oil prices/economic conditions
- Target governance
- Industry competition (higher for "good" assets)
- Issues exposed by due diligence including technical risks/uncertainties, disputes
- Resourcing limitations
- Geopolitical risks
- Inability to access suitable funding

Risk mitigation
- Focused M&A (scale & materiality)
- Regular review of funding options
- Proactive dialogue with banks and other providers of capital
- Quality and number of advisers
- Intense opportunity screening
- Strong relationships/industry intelligence
- Effective project management and resourcing

2 Volatility in production levels (N)

Sub-optimal well performance

Causes
- Inadequate waterflood responses
- Incorrect well placements
- Development wells uncommercial
- Poor reservoir models
- Lack of financing for drilling programme

Risk mitigation
- Develop a clear wells strategy, focusing on performance improvement, regulatory compliance and increased activity
- Increase drilling activity/plan-drill additional injection wells/frac injection zone
- Reduce cost of well construction
- Increase surveillance and intervention rates
- Perform target workovers on producer/injection wells
- De-risk best prospects/drill best prospects
- Improve reservoir models

3 Health, Safety, Environmental and Social risk

Reputational
Operational outages leading to lower production

Causes

- Health, safety and environmental risks of major explosions, leaks or spills
- Facing oil and gas high-risk operating conditions and HSES risks
- Climate change impacts on the sector – production faces increasing risks from the impacts of climate change from extreme weather, sea level rise and water availability and the sector will need to build resilience to adapt to changing conditions
- Security of workforce supply and human rights violations of workers and communities – child labour, terrorism and sabotage, social conflict and unrest
- Coastal and marine ecology – impact on corals and marine biodiversity from offshore and coastal operations and tankers (spills)
- Gas venting and flaring natural hazards and risks – well blow outs, localised land subsidence, land/water contamination
- Non-alignment of new acquisitions' HSES practices with Pharos' corporate standards
- Spread of COVID-19 virus

Risk mitigation

- Better understanding of our risks, implementing a bottom-up approach at managing risk registers and proactive mitigation plan
- Improve structural and asset integrity through strong operational and maintenance processes which are critical to preserving a safer environment
- Comply with all legislative/regulatory frameworks and transitioning to a goal based approach focused on improving safety
- Promote a positive health and safety culture where workers are given proper training and incentives to work safe with a zero tolerance for non-compliance
- Environmental and Social Impact Assessment forward-looking assessment of:
  - climate impacts and need to adapt to changing climate conditions over the life of the asset
  - regulatory developments
- Emergency preparedness and spill prevention plan
  - Controlled venting
  - Control and management of pressurised oil and gas from boreholes
  - Use of low impact extraction chemicals where alternatives exist
  - Water management – securing of a sustainable water supply, recycling and reuse wastewater
  - Marine management plan – especially for offshore drilling
- Implement early precautionary measures based on WHO guidance, restrict business travel and facilitate working from home where appropriate

4 Climate change risk

Lack of capital
Reputational
Increased operating costs

Causes

- Pressure on investors to divest/avoid fossil fuel companies/projects
- Inability to find economically viable CO_2e reduction solutions
- Potential litigation and additional compliance obligations
- Global transition to a lower carbon intensity economy which reduces oil prices and increases the risk of impairment
- Increased climate regulation and disclosure
- Increase in carbon taxes/decarbonisation charges
- Eco-consumers are increasing, potentially causing radical/transformational shifts in consumption of fossil fuels
- Climate activists pressing prominent institutions and investors to abandon fossil investments – "greening" the financial system

Risk mitigation

- Transparent reporting and participation in Carbon Disclosure Project (CDP)
- Embracing the TCFD recommendations, prepare and align Pharos' growth strategy to tackle climate concerns
- Embeded climate change scenarios and evaluate "strategic fit" of climate change decisions on key business operations/directions
- Continuous improvement of GHG emissions management and trigger initiatives to help CO_2e emissions reduction
- "Making climate change risk visible" – factoring in climate hazards when investing in exploration/development projects so that corporate models embed resilience into projects

Financial

5 Commodity price risk

Uncertainty on planning
Inability to fund work programme/dividend

Causes

- On-going oil market volatility
- Geopolitical factors, including pressure on investors to divest/avoid fossil fuel companies/projects
- Lower long-term prices tighten the margin of error for investments and increase the risk of impairment
- Forecasting volatility swings are more complex as it is challenging to gauge what that means for the industry, affected communities and end users but is necessary for the future understanding of oil market dynamics
- Negative cash flows & earnings degradation
- Market speculation and trading in oil futures
- Spread of COVID-19 virus impacting on oil prices

Risk mitigation

- Oil commodity hedging
  - Comply with RBL requirements
  - Maintain robust processes around treasury, governance, forecasting, credit and risk
- Close monitoring of business activities, financial position cash flows
- Control over procurement costs/effective management of supply chains derived from third parties – suppliers, joint venture partners, investors, and contractors
- Stress test scenarios and sensitivities via principal compound risks analysis to ensure a level of robustness to downside price scenarios
- Capital discipline with focus on controlling and managing costs
- Discretionary spend actively managed

6 Financial discipline and governance

Insufficient funds to finance growth plans and maintain dividends

Causes

- RBL redetermination
- Restrictions imposed in RBL facility limit flexibility
- Equity and/or debt markets reducing investment in oil and gas activities
- Financial fraud

Risk mitigation

- Strong financial discipline
- Maintain robust systems, processes and application of Group's Delegation of Authority
- Discretionary spend actively managed
- Continued engagement with lenders
- Forecasting
- Extension of licence terms in Vietnam

Operational

7 Reserves risk

Future cash flows and value depend on producing our reserves

Causes

- Inaccurate reserves estimates
- Pharos bears the responsibility of developing these reserve estimates, but subcontracts some of this work out to independent reserve engineers
- Earlier impairment triggers due to low commodity price and/or capital constraints jeopardise planned exploration/development initiatives
- Inherent uncertainties in the evaluation techniques to estimate the 2P reserves

Risk mitigation

- Improve reserves reporting by adhering to three key considerations: consistency, transparency and utility
- Disclose movements in reserves on a country-by-country basis
- Subjective judgements are moderated
- Material projects disclosed
- Ongoing evaluation of projects in existing and potential new areas of interest and pursue development opportunities
- Ensuring continuing adherence to industry best practice regarding technical estimates and judgements
- Ensuring peer and independent verification of future production profiles and reserve recovery
- RBL compliance – Vietnam reserves are audited independently by reserves consultants approved by lenders

8 Partner alignment risk

Misalignment at JV/JOC level can delay investment
Adverse impact on production and cash flow

Causes

- Co-venturers having divergent views on drilling and upgrade programme 2020/21
- Floating production, storage, and offloading vessel (FPSO) Tie-in Agreement ("TIA") from other party
- Delay in the Full Field Development Plan

Risk mitigation

- Active participation in JOC management
- Direct secondment
- Agree on more equitable alignment of interest with Thang Long JOC regarding FPSO TIA
- Application of internal control best practice under a procedural framework
- 2020 TGT work programme agreed in principle and preliminary preparation of bid packages

9 Cyber risk

Major cyber security breach may result in loss of key confidential data
Unavailability of key systems

Causes

- Sophistication and frequency of cyber attacks increasing
- Heavy reliance on and disruption to critical business systems
- Infiltration of spam emails corrupting our systems

Risk mitigation

- Offsite installation of back-up system and Business Recovery Plan in place
- Cloud back-up solutions
- Prevention and detection of cyber threats via a programme of effective continuous monitoring
- Plan for staged integration (new acquisition) and upgrade of IT systems

10 Human resource risk

Good skilled people are essential to ensure success

Causes

- Failure to recruit and retain high calibre personnel to deliver on and implement growth strategy
- Challenges in the recruitment & integration of additional technical expertise for the new acquisition
- High costs for recruiting experienced workforce

Risk mitigation

- Remuneration Committee retains independent advisers to test the competitiveness of compensation packages for key employees
- Ongoing succession planning
- Maintain a competitive remuneration mix regarding incorporating bonus, long-term incentive and share option plans
- Build and use people networks in each country and advertise vacancies in these networks

Reputation

11 Sub-optimal capital allocation

Adverse reaction from current/future stakeholders
Investment decisions based on realistic/achievable economic assumptions

Causes

- Scarcity of capital for investment projects
- Investment decisions are guided by economic analyses based on key assumptions which may differ significantly in a volatile macroeconomic environment
- Pressure to invest and produce growth and returns in the short term to maintain dividend payments
- Relentless focus on better returns
- Inability to "switch-off" drilling / investment commitments if economic assumptions change rapidly

Risk mitigation

- Carry out robust economic analyses based on opportunities high-grading to support capital allocation
- Key KPIs such as NPV, IRR and payback used to compare across many project scenarios
- Rig count investment scenarios are stress-tested against a range of Brent oil price
- Non-operated ventures – Pharos always seeks to maximise its influence to promote best practice
- Obtaining the views of its stakeholders through direct and indirect engagement
- Maintain a balanced investment portfolio which allows a degree of resilience in adjusting short-term investment commitments

12 Political and regional risk

Energy sector exposed to a wide range of political developments which may impact adversely on operating costs, compliance and taxation

Causes

- Operations in challenging regulatory and political environments
- Fiscal regimes can be subject to sudden change
- Approval processes can be protracted causing delays
- Government reform, political instability, civil unrest

Risk mitigation

- Canvass support in risk management by using both international and in-country professional advisers
- Engage directly with the relevant authorities on a regular basis
- Assess country risk profiles, trend analyses and on-the-ground reports by journalists/academics
- Thoroughly evaluate the risks of operating in specific areas and assess commercial acceptability
- Buy political risk insurance
- All operations are located outside of the EU and USD is the main currency of our business

13 Business conduct and bribery

Reputational damage and exposure to criminal charges

Causes

- Present in countries with below average score on the Transparency International Corruption Index
- Lack of transparent procurement and investment policies
- Compliance with Criminal Crime Offences (CCO) and UK Bribery Act
- Corruption, human rights issues

Risk mitigation

- Ensure adequate due diligence prior to on-boarding with a risk based approach, including independent "Red Flags" checks
- Annual training and compliance certifications by all associated persons
- Increase awareness of Pharos' Anti-Bribery and Corruption ("ABC") policies for all employees and associated persons
- Gifts and Hospitality declaration
- Whistleblowing facility in place
- CCO risk assessment and ongoing implementation of adequate procedures to prevent facilitation of tax evasion across all operations
- Adhere to the principles of the Extractive Industries Transparency Initiative

Viability statement

In accordance with the UK Corporate Governance code, the Board has assessed the prospects of the company over a period longer than the twelve months required to support the Going Concern Statement on page 45 of the Financial Statements.

In undertaking this assessment, the Board has carried out a robust review of the principal and emerging risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity, giving particular attention to the principal and emerging risks.

Our strategy and associated principal and emerging risks underpin both the Group's three year base forecast and scenario testing, plus our longer term prospects and position.

Our longer-term prospects and position

Group's current position

- Production assets in Vietnam and Egypt with low cash cost base
- Collectively Group oil sales are at a premium to Brent
- Flexibility in the capital expenditure programme
- Strong operating cash flows
- Focus on capital discipline and avoiding high capital commitments in operations
- Excellent HSES standards

Strategy & Business model

- Strategy focussing on acquisition of further cash flow accretive assets to extend sustainability of the business over a longer period
- Business model drawing on geoscience, engineering, financial and commercial talent
- Access to capital, balanced by a focus on strict management of leverage levels

The principal and emerging risks which are relevant to the assessment of the Group's prospects are the same as those used to stress test our viability over the three-year period.

How we assess our viability

Our forecast is built on an asset-by-asset basis using a bottom up model and is stress tested by compounding downward scenarios.

The three-year period selected for testing covers the Group's medium term capital plans and projections, in particular oil price projections, a fundamental driver of the groups operating cash flows, where market consensus data becomes less reliable for periods further ahead than three years.

Although individual assets are often modelled for periods longer than three years, to reflect the return on investments being considered over the life of field, the three-year period has been selected by the Board as most appropriate for the group as a whole. It provides management and the Board with sufficient and realistic visibility of the future industry environment whilst capturing the Group's future expenditure commitments on its licences.

In assessing the Group's viability over the next three years, it is recognised that all future assessments are subject to a level of uncertainty which increases with time and that future outcomes cannot be guaranteed.

Key assumptions

During the three year period the Group is expected to be dependent on its two cash generating assets in Vietnam and the El Fayum concession in Egypt.

The oil and gas reserves in both Vietnam and Egypt have been certified by Reserves Auditors, RISC (for Vietnam) and McDaniel (for Egypt). The base forecast models include the Group's latest life of field production models and expenditure forecasts, in line with the profiles included in the reserves reports and, where guidance to the market has been given for the near term, in line with that guidance.

In our models we have used management's best estimate of future commodity prices (based on recent forward curves), resulting in a base oil price prior to scenario testing of $60 for 2020 and $65 thereafter. The base price is also adjusted for hedging positions already in place. The impact of the spread of COVID-19 on the near term oil price is substantially negated by the hedging positions already in place.

The company has a Reserves Based Lending (RBL) facilty of $125 million over its Vietnam producing assets taken out in September 2018. The loan also has an accordion feature of a further $125 million which can be accessed by including further assets in the borrowing base. It is the intention to include the El Fayum assets in due course. This additional financing will provide further liquidity for investment into the company's asset base but is not included within the going concern and viability calculations. The current borrowing levels and the repayment schedules generated by the base case and stress tested scenarios are included with the going concern and viability calculations.

Stress testing linked to Principal Risks

As well as the base model, the Board also considers several scenarios and has stress tested the forecast for a combination of a number of severe but plausible events that could impact its ability to fund planned activities and/or comply with the covenants and undertakings within its reserves based lending (RBL) facility agreement. These events include:

- A material and sustained reduction in the oil price putting pressure on the Group's capital available for investment
- A material reduction in production
- A material increase in capex
- An unfavourable event resulting in lost production and increased capital costs

The oil price scenarios include one which is consistent with the most severe case outlined in the going concern assessment in the Financial Review page 45.

In all combinations tested the Group had access to mitigating actions, which allow us to meet all covenant levels in the RBL. The forecast cash flows are regularly monitored and reviewed to provide early warnings of any issues and to give sufficient time to take any necessary mitigating actions.

In considering the impact of these scenarios, the Directors have reviewed realistic mitigating actions that could be taken to reduce the impact of the underlying risk. These include reducing operating and administration costs, deferring uncommitted capital expenditure and revising our dividend policy.

The potential impact of each of the other principal and emerging risks on the viability of the group during the assessment period has also been considered. Such risks include the inability to attract and retain appropriately skilled people and climate change.

The Board has considered the risk mitigation strategy for each of these risks and believes that the mitigation strategies are sufficient to reduce the impact of each risk to make it unlikely to jeopardise the Group's viability during the three-year period.

The Directors have also reviewed the Group's funding plan considering additional financing to fund growth strategies.

Based on all of these assessments, including the availability of actions which could be taken in the event of plausible negative scenarios occurring, the Directors confirm that they have a reasonable expectation that the Group will continue to operate and meet its liabilities as they fall due for the three year period to 31 December 2022.

Climate Change

The Directors have also taken a longer-term assessment of the Group's viability in relation to the impact of Climate Change through review of a third-party scenario which maps out a way to meet global sustainable energy goals in full, requiring rapid and widespread changes across all parts of the energy system.

This scenario also charts a path fully aligned with the Paris Agreement, by holding the rise in global temperatures to "well below 2°C" and meets objectives related to universal energy access and cleaner air and as such assumes that there will be a significant reduction in the demand for hydrocarbons. The resulting oil price curve is in backwardation with a slow decline through to 2030 and beyond. The forecasted oil price in 2030 in this scenario remains above the price curve the Group has stress tested in its three-year viability statement window.

Base forecast flexed for combinations of the following scenarios	Link to principal risks and uncertainties	Level of severity tested	Conclusion
Sustained drop in oil price	4,5, 6	Sharp drop in oil price over period of testing	Company remains viable with mitigating actions
Reduction in production	1, 2, 3, 7, 8	5% reduction in production over period of testing or a do-nothing profile	Company remains viable with mitigating actions
Increase in capex	6, 11	10% increase in capex over period of testing	Company remains viable with mitigating actions
Unfavourable event leading to lost production and increased capex	1, 2, 3, 6, 7, 8, 11,12	Combination of tests above	Company remains viable with mitigating actions

Adding value in everything we do

Business

100%
El Fayum oil

c.99%
TGT/CNV oil

Oil sold and used domestically, contributing to host country development goals and access to energy

Ethics

$232.7m
Taxes and royalties paid to host governments

100%
Percentage of staff receiving anti-bribery and corruption training by 31 January 2020

People

Zero
Fatal accident frequency rate (number of fatal accidents per hundred million man-hours) for both employees and contractors

Zero
Lost time injury frequency rate (number of lost time injuries per million man-hours) for both employees and contractors

> Our goal is to be a positive presence in the regions in which we operate, by providing responsible and sustainable development, resulting in value for host countries and local communities as well as for our own shareholders and employees.

Dr Mike Watts
Managing Director

Environment

283
Tonnes CO_2e per 1,000 tonnes of hydrocarbon produced

2
Oil/chemical spills (quantities greater than 100 litres)

Society

$400,000
Combined total training levies in Vietnam and Egypt for investment in industry capacity building

$245,379
Community and charitable investments supporting 12 partnerships and projects in Vietnam through the HLHVJOC Charitable Donation Programme

> Business Page 60

> Ethics Page 63

> People Page 64

> Environment Page 67

> Society Page 71

Our aim is to add value in everything we do through responsible, efficient and safe energy production.

We take our role in society very seriously. We are committed to open, transparent communication, and taking a rigorous, conscientious approach to the environment, our role in society, our business practices and ethics, and how we relate to people.

That includes all our stakeholders: the people who work with us directly and indirectly, those who live where we operate, and the host governments and authorities that regulate our activities.

Corporate Responsibility ("CR") governance & management

A long-term goal of the Group is to be a positive presence in regions in which it operates by providing responsible and sustainable development. The objective of sustainability will apply equally to the Company's traditional reputation for financial discipline and return of value to shareholders as it will to the Group's objective of striving towards the goal of establishing and maintaining the highest operating standards across Environmental, Social and Governance ("ESG") matters. To reflect Pharos' ongoing commitment to operating a sustainable business, the Board has established a new committee, the ESG Committee.

> The Board is committed to treating all stakeholders in every area of operations with honesty, fairness, openness, engagement and respect.

Dr Mike Watts
Managing Director

Structure of CR/ HSES Management System

1. Code of Business Ethics

2. Key CR policies

- Health, Safety and Environment Policy
- Social Responsibility Policy
- Security Policy
- Human Rights Policy
- Biodiversity and Conservation Policy
- Prevention of Modern Slavery and Human Trafficking Policy

3. Standards, procedures and guidance support the policies

See **https://www.pharos.energy/responsibility/policy-statements/** for the full text of the current versions of each of these CR policies.

The Terms of Reference of the ESG Committee was constituted by resolution of the Board of Directors of the Company on 10 September 2019 to:

- Assist the Board in defining the Pharos Group's strategy relating to ESG matters;
- Review the policies, programmes, practices and initiatives of the Pharos Group relating to ESG matters ensuring they remain effective and up to date;
- Provide oversight of the Pharos Group's management of ESG matters and compliance with legal and regulatory requirements, including applicable rules and principles of corporate governance, and applicable industry standards;
- Report on these matters to the Board and, where appropriate, make recommendations to the Board; and
- Report as required to shareholders of the Company on the activities and remit of the Committee.

The Board is also fully committed to effective compliance with the 2018 UK Corporate Governance Code, applicable to the current financial year of the Company ending 31 December 2019. The Board's objective is to be recognised for meticulous governance, with a considerate and pragmatic approach to its business.

In terms of corporate responsibility and community engagement, the Board is committed to treating all stakeholders in every area of operations with honesty, fairness, openness, engagement and respect, and to conducting all business ethically and safely. The Group will only work with parties that share these values.

Our Code of Business Conduct and Ethics ("our Code") sets out our expectations for how we do business, clarifying our commitments to ethical, social and environmental performance. Our CR policies support our Code.

Stakeholder groups and CR topics

Stakeholder group	How we engage with them and understand any concerns	Key areas of concern for stakeholder groups
Local communities	Environmental and social impact assessments and grievance mechanisms at project level	• Community investment • Effluents and waste management • Biodiversity • Transparency
National and host governments	Regular dialogue	• Payments to governments • Local content • Environmental management • Health and safety
Employees and contractors	Regular dialogue and grievance mechanisms	• Local capacity building • Contractor management
Shareholders	Regular dialogue	• HSES Management System • Preventing corruption • Health and safety • Climate risk/energy transition
International community	Responding to inquiries and media scanning	• Preventing corruption • Human rights • New country entry • Climate risk/energy transition • GHG emissions

Our Corporate Standards, Procedures and Guidelines support the policies. Project specific Operational Plans, Programmes and Procedures provide the specifics of how things are done within each project.

The Pharos Health, Safety, Environmental and Social Responsibility Management System ("HSES MS") describes the Group's internal processes to manage risks and is consistent with the requirements of internationally recognised standards (ISO 14001, ISO 45001) and aligned with the World Bank's International Finance Corporation ("IFC") Environmental and Social Performance Standards.

The Chief Executive Officer is accountable to the Board for implementation of CR policies and Health, Safety, Environmental and Social ("HSES") performance. The Board and the Audit and Risk Committee oversee the adequacy and effectiveness of our policies, standards and management system for HSES. The ESG Committee has responsibility, *inter alia,* for defining the Group's strategy related to ESG matters, reviewing the Group's ESG policies, programmes and initiatives and, more generally, has oversight of the Group's management of ESG matters.

CR objectives are defined annually and reviewed quarterly in relation to: our business; our ethics; our people; environment and society.

Stakeholder engagement

In determining our CR strategy, we consider issues that are important to the successful delivery of our corporate objectives and the matters that are important to our stakeholders. Our Communication and Stakeholder Guidance sets out the controls and arrangements for effective, timely and transparent processes. We receive feedback from stakeholders through a range of formal and informal processes. This takes place at a project and at a corporate level.

ESG materiality screening

As part of Pharos commitment to continual improvement, a review of material ESG factors relevant to the oil and gas sector was carried out in early 2020. The purpose of the review was to calibrate our existing position and ensure that any new and material issues of importance to the energy sector are captured.

This year, and to provide a basis for strategy formulation, Pharos reviewed international guidance and non-financial standards published by the Global Reporting Initiative (GRI), the UN Sustainable Development Goals (SDGs), frameworks issued by IPIECA, the IFC's Performance Standards and the Sustainability Accounting Standards Board (SASB).

The results of the work will be discussed internally and used to form opinion, recognise best practice and provide clear direction on our ESG strategy in 2020.

Our approach on environmental and social reporting in 2019 has taken into account the current guidance "Oil and Gas Industry Guidance on Voluntary Sustainability Reporting (3rd edition, published September 2015)" issued by IPIECA, the global not-for-profit oil and gas industry association for environmental and social issues, in partnership with the American Petroleum Institute and the International Association of Oil and Gas Producers. In 2020 we are reviewing best practice to further guide our reporting. We include data for where we have operational control and also report on the jointly operated companies.

Dr Mike Watts
Managing Director

Issues linked to business risk and stakeholder interest in 2019

Business

- Climate change risk
- Energy transition
- Business partners and influence
- New country entry
- HSES management system
- Contractor management

Ethics

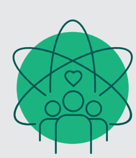
- Preventing corruption
- Payments to host governments
- Transparency

People

- Occupational health and safety
- Major accident prevention
- Equal opportunities
- Local capacity building
- Training and development

Environment

- GHG emissions
- Effluents and waste
- Biodiversity



Society

- Human Rights, Modern Slavery and Human Trafficking
- Community investment
- Local content

Business

Our objective is to provide responsible and sustainable development. In 2019, we continued on the path set in 2018 and focused on key issues in this area including those related to: global climate risk and energy transition; business partners and influence; new country entry; our HSES Management System and contractor management.

100%

Potential new investments screened for CR issues using new country procedure in 2019

Climate risk and global energy transition

Climate change is considered a principal risk to Pharos and its business over the medium and long term, and this is discussed in more detail in the Risk Management Report on page 46.

Global energy transition is a factor that impacts many of the Group's principal risks including those associated with commodity price, reserves, operations, political, stakeholder and reputational risks. We recognise that a global transition to a lower carbon intensity economy in response to climate change could result in reduced demand, lower oil prices and increased operating cost, capital cost, regulation and taxation. Our overall risk management integrates climate change and carbon related risks. Established management processes include any physical risks associated with climate change.

At the same time, we also recognise that energy demand is forecast to grow and that oil and gas will continue to be an important component of the global energy mix over many future decades. This will be essential for sustainable economic development, especially in the countries where we operate.

In October 2019, Pharos, Cairn Energy plc and Israel's Ratio Oil Exploration were awarded eight licences offshore Israel, a region of prolific gas discoveries. This complements our current portfolio geographically and diversifies from our mainly oil producing assets.

We report transparently and participate in the Carbon Disclosure Project ("CDP"). Our greenhouse gas emissions ("GHG") are reported in the Environment section on page 67.

Pharos supports the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) and we are studying how we can meet these disclosures.

Pharos is committed to implementing the TCFD's recommendations and a working group consisting of personnel from head office and the respective business units is now set up, supported by a specialist consultancy to achieve this.

Business partners and influence

Relationships with business partners, host governments and local communities where we operate are critical for our business. Our Code sets out our commitment to doing business honestly and ethically and to complying with all applicable laws and regulations. It sets out our expectations to take steps to only do business with others who share our values.

Our ability to influence our business partners depends on our degree of ownership and operatorship. Where we are the designated operator, we fully apply the Pharos HSES MS. Where we are a joint operating partner, we seek to influence and ensure alignment with our systems. Where we have a minority interest, we seek to make our views heard and ensure that minimum standards are met in accordance with our commitment to the IFC Performance Standards.

> Relationships with business partners, host governments and local communities where we operate are critical for our business.

Dr Mike Watts
Managing Director

New country entry

For Pharos, any new business, investment or venture must identify, analyse, assess, address and monitor ESG related issues and risks (alongside commercial, legal, technical and political constraints).

Our new country entry procedure sets out our process for risk screening and due diligence. The process applies to: new country entry; transactions (acquisitions, divestment); expansion of existing projects; and operated and non-operated JV farm-ins.

In 2019, together with Cairn Energy plc and Israel's Ratio Oil Exploration, we were successful in our bid for eight licences in the second offshore bid round in Israel. Following detailed analysis and input from the Group's advisers and lending banks, the Committee reviewed and approved the proposal to enter Israel with reputable partners in order to enable the Company to apply successfully for eight exploration licences. Amongst a range of factors, the proposal also took into consideration the country's commitments to a range of international good practice regulations including adherence to Anti-Slavery and Human Rights laws.

On 2 April 2019, Pharos completed the transaction to acquire the El Fayum Concession, and has a 100% working interest in the onshore concession located in the Western Desert, Egypt, operated in conjunction with the Egyptian state oil and gas company, EGPC, through the 50/50 Joint Operating Company Petrosilah. Following this acquisition, we conducted an HSES due-diligence review of the facilities of the El Fayum Concession and gap analysis of the Merlon / Petrosilah Health, Safety, Environmental and Social Responsibility (HSES) Management System against the Pharos Energy HSES Management System. This allowed us to build on the Red Flag report undertaken prior to the acquisition, which gave us an initial snapshot on which to build.

The audit and gap analysis allowed us to develop a work programme to align local practices with Pharos' expectations.

Following last year's detailed analysis and input from the Group's advisers and lending banks, the Committee reviewed and approved the proposal to invest in Egypt in order to enable the Company to proceed with the acquisition of Merlon. This included the North Beni Suef Concession agreement which Pharos entered into on 24 December 2019.

Following the acquisitions completed in 2019, we will carry out an audit of Pharos's new country entry procedure in 2020 and improve our processes based on the outcome.

Vietnam interests and operations

Degree of influence	Blocks	Country	Pharos ownership	Pharos role	2019 activity	Target HSES outcome
High	Blocks 125 & 126	Vietnam	70%	Operator	Offshore seismic survey	Full application of the HSES MS
Moderate	Block 16-1	Vietnam	30.5%	Joint operating partner (in Hoang Long Joint Operating Company)	Field Development – drilling and completing production wells. Production of oil and gas	Influence to bring alignment to the Pharos HSES MS
Moderate	Block 9-2	Vietnam	25%	Joint operating partner (in Hoan Vu Joint Operating Company)	Production of oil and gas	

New interests acquired in 2019

Degree of influence	Blocks	Country	Pharos ownership	Pharos role	2019 activity	Target HSES outcome
Moderate	El Fayum Concession	Egypt	42.6%	Joint operating partner (in Petrosilah)	Production of oil and gas	Influence to bring alignment to the Pharos HSES MS
Moderate	North Beni Suef Concession	Egypt	100%	Joint operating partner (in Petrosilah)	Production of oil and gas	Influence to bring alignment to the Pharos HSES MS
Low	Licences 39,40,47,48 (Zone A) and 45,46,52,53 (Zone C)	Israel	33.33%	Non-operator	No field activity	Ensure minimum standards during ownership

100%

New suppliers screened in accordance with our contractor management procedure in 2019

HSES Management System

We undertake a range of activities to continuously improve our HSES MS to ensure that the Company's policy commitments are applied. We may work in countries that have different standards and we review any potential gaps to ensure adherence to our policies in dialogue with our business partners. Routine monitoring is undertaken to assess and improve performance and periodic audits are conducted.

In 2019 we updated our Corporate HSES MS to reflect our organisational changes. This has been the opportunity to update and streamline our procedures in a set of corporate standards that define the company expected practices within the whole organisation.

The new standards have been shared across the organisation and employees and contractors will be trained as required at country level in 2020.

In 2019, a total of 292 HSES training sessions took place across Vietnam and Egypt throughout the year.

In January 2019, the PetroSilah JV obtained ISO 14001 (Environmental) certification in Egypt.

Key Performance Indicators

KPI	Target	2019	2018	2017	2016
HSES regulatory non-compliances	Zero	0[1]	0	0	0

1 Although three regulatory non-compliances were reported in our Egyptian assets in 2019, these occurred in January, prior to the completion of our acquisition.

Contractor management

Contractors are used throughout all aspects of our business. Our Contractor Management Procedure sets out requirements through all stages from selection through to management and service delivery.

In HSES critical activities, bridging documents are put in place to ensure Pharos and contractor alignment with our requirements.

In 2019 we developed an on-Boarding Policy to further enhance our due diligence process and ensured its requirements aligned with our revised contractor and supply chain management procedures.

Hours worked in Vietnam and Egypt assets	Percentage of total
Company staff: 651,488	28%
Contractors: 1,702,631	72%

Overall objective

To provide responsible and sustainable development

2019 Objectives	2019 Outcomes	2020 Objectives
Conduct a programme of HSES training for employees and contractors.	Regular HSES training sessions organised throughout the year.	Each asset to develop their own HSES training programme.
Conduct a gap analysis of Merlon HSES MS against Pharos Energy HSES MS requirements.	A gap analysis and operational audit of Pharos El Fayum was conducted with a set of recommendations formulated.	Confirm that recommendations from gap analysis of Merlon HSES MS against Pharos HSES MS requirements have been closed.
		Confirm that recommendations from gap analysis of Joint Operated Company (JOC) Management system in Vietnam against Pharos HSES MS requirements have been closed.
Complete Corporate HSES audit programme according to the 2019 Audit plan.	Postponed to 2020.	Audit of New Entry procedure against acquisition of Merlon asset.

Ethics

Our objective is to conduct our business in an honest and ethical manner. In 2019, key issues in this area included those related to: preventing corruption and payments to host governments.

Preventing corruption

Pharos currently operates in Vietnam, which is allocated a low score on Transparency International's most recently published Corruption Perception Index ("CPI"), and is ranked number 96 out of 180 countries in the 2019 CPI. Egypt is ranked at 106 on the same CPI. We recognise that, with both areas of operation having a reputation for a lack of transparency and relatively high risk of corruption, it is vital that the Group's policies, procedures and working practices are fit for purpose. Pharos maintains internal control systems to guide and ensure that our ethical business standards for relationships with others are achieved. The Audit and Risk Committee and the Board have carried out a review of the effectiveness the Group's risk management and internal control systems, see the Audit and Risk report page 90. Bribery is prohibited throughout the organisation, both by our employees and by those performing work on our behalf. The Code of Business Conduct and Ethics supports the implementation across the organisation. Our Anti-Bribery and Corruption ("ABC") programme is designed to prevent corruption and ensure systems are in place to detect, remediate and learn from any potential violations. This includes due diligence on new vendors, annual training for all personnel, requisite compliance declarations from all associated persons, Gifts and Hospitality declaration and comprehensive 'whistleblowing' arrangements.

In 2019, Pharos entered Israel, where there have been no operational activities to date. Israel ranks at 35 on the CPI, indicating a lower risk of corruption. In September 2019, our Board approved a revised Code of Business Conduct and Ethics adopted across the whole of the Group. The revision reflected increased external focus on such matters.

Our Whistleblowing Policy and Procedure ensures that employees are protected from possible reprisals when raising concerns in the public interest. In addition to internal reporting channels, we have a confidential ethics hotline provided by Expolink with numbers displayed in local offices available 24 hours a day all year round. No further call was made to the Expolink hotline, in addition to the one logged early 2019 and already reported in our 2018 annual report.

100%

Employees and relevant contractors have undertaken anti-bribery and corruption training by end of January 2020

Payments to host governments

Wealth generated by natural resources plays an important part in the growth and development of countries in which we operate. Revenues to governments become payable by the Group due to oil production entitlements, taxes, royalties, licence fees and infrastructure improvements.

During 2019, the total payments to governments for the Group amounted to \$232.7m (2018: \$202.4m), of which \$165.5m or 71% (2018: \$196.5m or 97%) was related to the Vietnam producing licence areas, of which \$113.5m (2018: \$133.0m) was for indirect taxes based on production entitlement. Payments to government related to Egypt licence areas were \$63.1m of which \$46.4m relates to indirect taxes based on production entitlement. The breakdown of other contributions, including payroll taxes and other taxes is contained within the additional information on page 159.

Our Code prohibits contributions to political parties, candidates or other political organisations.

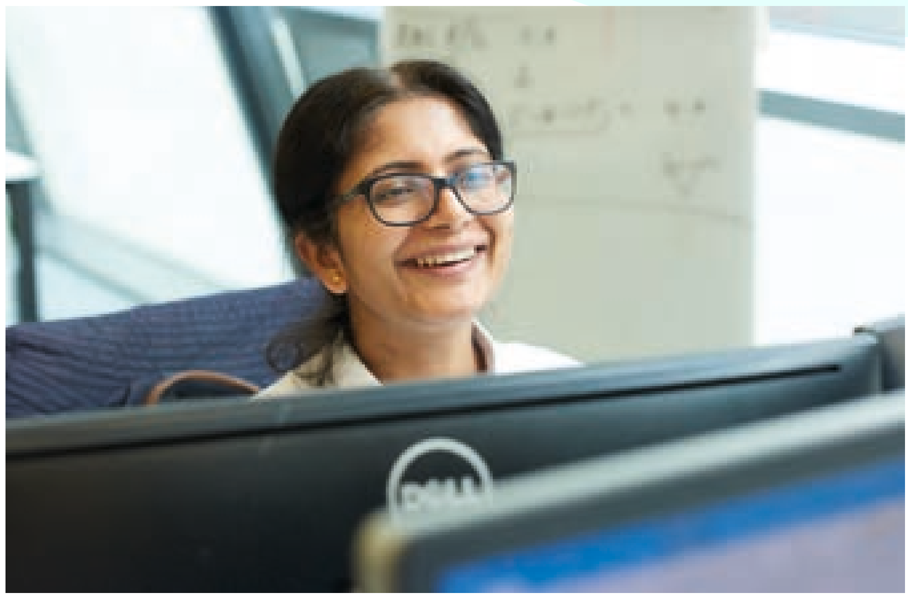
Overall objective

To conduct our business in an honest and ethical manner

2019 Objectives	2019 Outcomes	2020 Objectives
All personnel to complete the annual ABC programme including training, testing and self-declaration statement.	Completed.	• All personnel to complete the annual ABC programme including training, testing and self-declaration statement
Review ABC programme and update as required.	The ABC programme has been updated.	• Continue to review ABC programme and update as required
Implement Modern Slavery Prevention programme.	The annual statement on Modern Slavery has been published on the Pharos website.	Update and republish the Modern Slavery annual statement.

People

Our objective is to ensure the health, safety, security and welfare of our employees and those with whom we work and to ensure that we have a workforce that is performing at its best. Our Health, Safety and Environment Policy and Code of Business Conduct and Ethics commit us to protecting the health and safety of our workforce, to providing a workplace free of discrimination where diversity is valued and to ensure that we consult and engage with our employees.



Outstanding safety record

		2019		2018		2017	
KPI	Target	Pharos	IOGP**	Pharos	IOGP*	Pharos	IOGP
Lost Time Injury ("LTI") Frequency Rate	Zero	**0**		0	0.26	0	0.27
Fatal Accident Frequency Rate	Zero	**0**		0	1.01	0	1.10
Total Recordable Injury Rate***		**0.42**		0.42	0.99	–	0.96
Million-man hours worked		**2.35**		1.29		1.42	

* International Association of Oil and Gas Producers ("IOGP") Benchmark.
** Not yet available for 2019.
***TRIR = TRI x 1,000,000/total man-hours.

Note that the significant decrease of Total Recordable Injury Rate for 2019 is linked to a sharp increase of man-hours, which nearly doubled, whilst the number of recordable injuries remained stable at 1.

We value the contribution made by all employees and strive to ensure that we have training and development opportunities for everyone.

Key issues for us in 2019 included: occupational health and safety; major accident prevention; strengthening of Senior Management Team; increasing diversity and local capacity building.

Occupational health and safety

Safety is the highest priority in our business and we are committed to operating safely and responsibly at all times and to providing a safe and healthy working environment for staff and contractors. Following from our Health, Safety and Environment Policy and Code of Business Conduct and Ethics, our HSES MS provides the framework for our approach and is implemented at each stage of a project supported by Occupational Health and Safety Guidance and Standard Operating Procedures. While Pharos had no field activity in 2019 in which we were the operator, we continued to work with our partners in Vietnam where the Hoang Long and Hoan Vu Joint Operating Companies ("HLHVJOC") continued to maintain a high level of safety. We have worked to build and contribute to improvements in the safety culture in Vietnam and we are proud of that record of achievement. HSES training, drills, workshops and inspections are conducted on an annual basis to ensure that the zero target is maintained.

We are able to share our practices and lessons learned with others in the industry and are contributing to further capacity building. In January 2019, the PetroSilah JV, achieved ISO 45001 certification in Egypt.

In Egypt, a road tanker truck belonging to El-Nada Petroleum took a dangerous curve without reducing his truck speed. The truck turned over colliding with concrete barriers placed on the side of the road. This resulted in a an environmental spill (described on page 69). The driver also suffered some bruises and was taken to El-Fayum public hospital where he received the necessary medical care, allowing him to leave the hospital shortly after the incident.

This incident occurred on a trucking route to the Tebeen pumping station, where produced crude oil has historically been trucked. One of the changes made since the completion of the acquisition is to the delivery point of El Fayum crude, which is now being made directly to the Suez Oil Processing Company (SOPC) refinery, although a longer distance, the new trucking transport route avoids built-up and residential areas and offers safer driving conditions due to fully tarmacked roads leading directly to the refinery.

> “We value the contribution made by all employees and strive to ensure that we have training and development opportunities for everyone.”

Dr Mike Watts
Managing Director

Safety indicators (for both Pharos employees and contractors)

Indicator	2019
Lost Time Injury (“LTI”)	0
Fatal Accidents	0
Medical Treatment Cases	1
First Aid Cases	4
Number of Motor Vehicle Crashes	1
Roll-over	1
HSES Near Miss	31
HSES Inspections	755
HSES Audits	1,216
HSES Toolbox Talks	5,245
HSES Meetings	958

Safety indicators

Indicator	2019
Emergency Response Drills	102
Process Safety Events (Tier 1 or Tier 2)	3
Other events	2 (minor events)

Major accident prevention

Pharos has emergency response plans in place for all projects and assets. The plans are communicated to the workforce and response personnel receive training to ensure they are competent to carry out their emergency roles. This is supplemented by periodic refresher training. Drills and training exercises are carried out. On CNV, we had 48 Emergency Response Drills and 39 HSES training sessions and on TGT we had 54 Emergency Response Drills and 215 HSES training sessions. We ensure asset integrity and control operations in order to effectively manage all significant risks during all stages of the operations.

We had five Process Safety Events in 2019. Two of these occurred in Vietnam. The first involved a crane boom making contact with and damaging a walkway. A port aft crane boom access walkway made contact with a port leg during cargo operation resulting in minor damage to the boom access walkway angle iron. The second incident involved a supply boat making contact with a crane headache ball as a result of sea swell. This resulted in slight material damage to the port forward crane system.

The three other process safety events occurred in Egypt. The first event involved a limited fire inside a warehouse at the main Silah-1 site which was contained with no injuries or significant material damage. The second event was a significant water leakage at the vertical emulsion treater’s burner at North East Tersa station resulting in the vertical emulsion treater taken offline. The third event involved the loss of pressure containment when a high-pressure hose disconnected under pressure, breaking and hitting the driller cabin through the steel guard and driller cabin glass. This resulted in three medical treatment cases.

All incidents were investigated and lessons learned as appropriate. Actions to prevent recurrence included replacement and upgrade of equipment (for example replacement of the safety glass of the driller cabin at the N.Silah –Deep 1x station by 6 cm thickness anti-impact Glass), additional inspections and maintenance programmes as well as awareness sessions with workers.

Diversity and Inclusion

Our Code and Policies commit us to providing a workplace free of discrimination where all employees can fulfil their potential based on merit and ability. We value a diverse workforce.

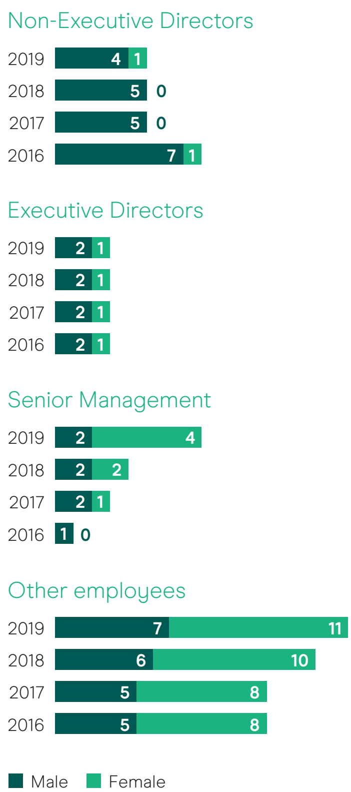
We are committed to providing a fully inclusive workplace, which ensures we recruit and retain the highest calibre candidates while providing the right development opportunities to ensure existing staff have rewarding careers.

Our corporate head office in London has 30 staff and we are very proud of the number of women we have in the London office, which is 60% and five out of six Group Heads of Function posts are filled by women.

In 2019 we had a team of over 30 employees based in Egypt and a team of three in Vietnam. Our size of direct employees facilitates daily direct interaction and multidisciplinary dialogue amongst personnel and Executive Directors.

In Egypt, we have established a gender neutral recruitment process and, wherever possible, are ensuring that any vacancy is filled by an Egyptian national. We recruit directly from the local universities and surrounding villages. A training levy is also paid to support the training and development of industry personnel in Egypt. We have also started the work to establish a KPI based staff performance appraisal scheme.

Average corporate employees



Local capability building

We are committed to providing meaningful opportunities for technical cooperation, training and capacity building in host countries.

In Vietnam, as part of the HLHVJOC, we contribute to local capability building. Out of 110 people, only seven are expatriate staff member. In addition, every position that is held by an expatriate staff has a Vietnamese staff member as a deputy or as the manager. A training levy of $150,000 for each JOC goes into a fund which is ringfenced to support the development of future talent in Vietnam in the industry. HLHVJOC also invests in staff development and training.

In Egypt, as part of the Concession Agreements of El Fayum and North Beni Suef, the Company commits to a total of $200,000 split equally between the two Concessions for training and development of employees.

Overall objective

To ensure the health, safety, security and welfare of our employees and those with whom we work.

2019 Objectives	2019 Outcomes	2020 Objectives
Conduct a continuing programme of HSES training for employees and contractors.	On target	Each asset to develop their own HSES training programme. Conduct an Employee Engagement Survey.

Environment

We recognise the potential impacts of our business on the environment. Our Health, Safety and Environment Policy sets out our commitment to conduct all business activities in a responsible manner. In setting our CR priorities, our objective is to protect the environment and conserve biodiversity. In 2019, key issues in this area included those related to: Greenhouse gas emissions; effluents and waste, and biodiversity.

Greenhouse gas emissions ("GHG")

GHGs associated with energy use and with flaring are a key area of potential impact.

In 2019, we continued to monitor our emissions and disclose them in accordance with industry requirements and standards and participated in the Carbon Disclosure Project ("CDP").

GHG reported

Pharos counts emissions of the greenhouse gases (GHG) carbon dioxide (CO_2), methane (CH_4) and nitrous oxide (N_2O), all of which are produced during consumption. For simplicity, the results of all three have been reported as a single parameter – carbon dioxide equivalent (CO_2e). The other three greenhouse gases categorised under Section 92 of the UK Climate Change Act, hydrofluorocarbons (HFC), perfluorocarbons (PFC) and sulphur hexafluoride (SF_6), are not closely associated with the petroleum industry. The total emission of these gases is therefore expected to be small and has not been calculated.

Emissions scope

Reported Scope 1 direct emissions comprise direct GHG emissions resulting from equipment or other sources owned (partly or wholly) and/or operated by the Company (for example, gas flaring operations and fuel gas/diesel use to generate power or for vehicle use). Reported Scope 2 indirect emissions comprise those arising from purchased energy already transformed into electricity, heat or steam generation. For Pharos activities, Scope 2 emissions comprise electricity supplied by the national grid in the UK, in our Egypt office and in Ho Chi Minh City (Vietnam). No Scope 3 emissions (indirect emissions created in the value chain) are reported.

Reporting boundary

Pharos reports GHG emissions from its operated projects, joint operated projects and associated corporate/administrative activities on an overall and equity share basis. The former is the total emissions generated by those projects. The latter is calculated pro-rata to Pharos ownership and interest (equity share).

Due to the significant changes in Pharos' operational activities and reporting boundary in 2019, 2019 has formed a new base year against which emission trends over time will be reported.

> The Company is looking at ways it can reduce GHG emissions across its operations.
>
> **Dr Mike Watts**
> Managing Director

Methodology

Pharos applies the expectations set by the ISO 14064-1 standards in terms of Relevance, Completeness, Consistency, Transparency and Accuracy which are endorsed by IPIECA, the Greenhouse Gas Protocol Initiative and Part 7 of The Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013. Emission factors for GHG calculations were taken from UK Government GHG Conversion Factors for Company Reporting (BEIS, 2019) and EEMS, 2008, Atmospheric Emissions Calculations; for the calculation of associated gas consumed as fuel and flared in Vietnam, the emission factors were calculated based on the carbon content of gas analysed at the TGT Field and CNV Field by the Vietnam Petroleum Institute in 2019, and for the calculation of gas consumed and flared in Egypt, the emissions factors were calculated based on the carbon content of gas analysed at the North Silah Deep, North East Tersa, South Silah and Silah Base Separators (EPRI Central Analytical Labs, 2018).

CO_2 e is based on the 100-year Global Warming Potential of CO_2, CH_4, and N_2O emitted. Factors used are those of the 2007 IPCC Fourth Assessment Report (AR4) for consistency with the BEIS factors for corporate reporting in the UK.

In 2019 we have again used the normalised figure to be tonnes of GHG per 1,000 tonnes of oil produced by equity share to align with the International Association of Oil and Gas Producers ("IOGP") benchmarks.

Key sources of our emissions are from the associated gas used as fuel to generate power on our offshore production sites and flared in Vietnam and likewise for our onshore production in Egypt. In 2019, gas fuel and gas flaring in TGT remain the largest single contributor to Pharos total emissions.

As stated above, due to organisational boundary changes in 2019 (Pharos' exit from offshore Congo and entry into Egypt), the total CO_2e emissions for 2019 are not directly comparable to the level of CO_2e emissions from 2018. 2019 is therefore being defined as a new base year for Pharos.

The transaction to acquire the Egyptian assets completed on 2 April 2019. However, data from the field was collected in 1Q 2019 and GHG emissions have been reported for the whole of 2019 calendar year to provide a full-year baseline and allow subsequent year on year comparison.

Activity data pertaining to GHG emissions by the HLHVJOC and Egypt is reported to Pharos. RPS Energy assisted with data collation and GHG emissions calculations. Verification was undertaken by a different division of RPS (RPS Planning and Environment) which has maintained appropriate independence from Pharos and RPS Energy during verification using its established approach to conflict of interest management.

Tonnes (t) of CO_2e equivalent for 2019 Operations

				CO_2e (t)	CO_2e (t) per 1000 tonnes of oil produced by equity share[3]	
Country	Reported operations	Operational phase	Overall[1]	Based on equity share[1,2]	Per field	Per country
UK	Office	Administration (office – electricity usage)	12	12	–	–
Israel		No activity	–	–	–	–
Egypt	Office	Administration support for exploration	143	60.71	–	–
	El Fayum Concession	Production	70,649	30,096	275	275
		Field development	6,502	2,770		
Vietnam Cuu Long Basin (offshore)	Office	Administration (electricity usage)	1	1	–	–
	Blocks 125 & 126	Seismic exploration	3,632	2,542		
	Block 9-2 – Ca Ngu Vang (CNV) field	Production	33,267	8,317	96	285
		Field development	0	0		
	Block 16-1 – Te Giac Trang (TGT) field	Production	311,058	94,873	345	
		Field development	12,500	3,812	–	
		Total	**437,764**	**142,485**	–	–

1 Figures include rounding to the nearest whole number.
2 Under equity share, Pharos reports a share of the emissions from the partnerships pro-rata its ownership interest.
3 Normalised emission is calculated, per field, and at country level, based on equity share, and gross/net boepd produced in 2019 in the CNV and TGT fields as well as in El Fayum Concession.

Approaches to reducing emissions

The compressor issue on the TGT FPSO is currently planned to be resolved in 1H 2020.

The Company is looking at ways it can reduce GHG emissions across its operations. One such initiative in Egypt includes the use of associated gas-powered electricity generators. The gas comes from the wells themselves and this replaces diesel usage on the sites. Phase One utilisation of these generators started in June 2019. Reductions in GHG emissions were achieved through the elimination of 730,000 litres of diesel use per year and associated emissions. There was also a 30% reduction of flared gas at the North Silah Deep site.

A Phase Two utilisation of associated gas-powered electricity generators is planned to reduce CO_2e emissions by a further 2,330 tonnes. Phase Two is currently expected to start in May 2020. Satellite wellsite(s) solar power sources are under investigation.

GHG emissions and activity data

Energy use from grid electricity was 335,873 kWh in 2019.

In 2019, 39 tonnes of gas were flared for every 1,000 tonnes of total saleable hydrocarbon production on a gross basis (not equity share adjusted).

This is an increase from 29 tonnes in 2018 that is due partly to the change in organisational boundary (with the introduction of the Egypt El Fayum Concession) and partly to change in the measured gas composition in Vietnam (including density).

Pharos conducted a new Energy Saving Opportunities Scheme ("ESOS") Audit in their London office in compliance with the UK ESOS Regulations 2014.

Effluents and waste

In 2019 we maintained our record of no spills into the environment in Vietnam. In Egypt, in June 2019, a road tanker truck belonging to El-Nada Petroleum turned over colliding with concrete barriers placed on the side of the road. This resulted in a rupture of the truck tank and the spillage of the cargo fluid on the road (347 barrels of fluid containing 134 barrels net oil) and to the drainage canal parallel to the road. Fields staff vacuumed the spill by vacuum truck for three days and transferred it to the Silah base for treatment and safe disposal. Since this incident the trucking route has been changed. The produced crude oil has historically been trucked to the Tebeen pumping station, from where it was piped to the Mostorod refinery, north of Cairo. One of the changes made since the acquisition completed is to the delivery point of El Fayum crude, prompted by the upgrade of the Mostorod refinery. Oil deliveries are now being made directly to the Suez Oil Processing Company (SOPC) refinery, although a longer distance, the new trucking transport route avoids built-up and residential areas and offers safer driving conditions due to fully tarmacked roads leading directly to the refinery. In August 2019 there was an oil leakage at the North East Tersa vertical emulsion treater's burner (not operational at the time) via a crack in a fire tube. Approximately two barrels of oil were spilled around the emulsion treater and beneath the pipework. All oil was recovered and site clean-up carried out.

Water is extracted along with hydrocarbon reservoir fluids as part of normal production operations. In 2019 we generated 5.4 million cubic metres of produced water. In Vietnam, the produced water is cleaned by separating the hydrocarbon phase before discharging to the sea in line with national standards. In Egypt, our produced water is either sent to a water disposal well (70%) or outsourced to water treatment facilities (30%).

In Vietnam, waste is generated from offshore drilling including cuttings, used oil and other materials. We work to recycle as much non-hazardous waste as possible. We have a third-party contract for the disposal of hazardous waste, with a reporting system into the specific Vietnamese authorities for checking, audit, and approval. In Egypt, waste generated is segregated into hazardous and non-hazardous waste and disposed of in a licensed facility. Corrective actions were implemented to address the environmental non-conformance related to waste disposal as identified by a committee from the Egyptian Ministry of Environment which carried out an audit for the Silah 1-2 site. Freshwater is used to support our operations. In 2019 this amounted to 202,453 cubic metres. Our use of freshwater has increased significantly compared to 2018, due to the acquisition of onshore assets in Egypt.

Biodiversity

Our Biodiversity and Conservation Policy commits us to meet the objectives of the Convention on Biological Diversity (1992). We identify whether a project is located in modified, natural or critical habitats, or a legally protected or internationally recognised area; and whether the project may potentially impact on, or be dependent on, ecosystems services over which Pharos has direct management control or significant influence. In Egypt, the El Fayum Concession borders the multiple-use management area and the natural protectorate area of Lake Qarun which includes important bird areas. It is adjacent to the Wadi El Rayan protected area which includes the Wadi Al-Hitan World Heritage Site. In Vietnam, Blocks 125 & 126 are approximately 50km offshore to the Nha Trang Bay Protected Area and the Thuy Trieu Marine Protected Area. As per our policy, Pharos does not operate in any UNESCO designated World Heritage Site and ensures that activities in buffer zones around these sites do not jeopardise the Outstanding Universal Value of these sites.

Non-Financial KPIs (HSES)

KPI	Target	2019	2018	2017
Oil spills*	0	**2**	0	0

*Number of spills reported.

KPI	Target	2019	2018	2017
Solid non-hazardous waste produced (tonnes)	Set per project	**104**	102	148
Percentage of non-hazardous waste reused or recycled	Set per project	**15**	20	
Solid hazardous waste (tonnes)	Set per project	**3,112**	96	246
Percentage of hazardous waste reused or recycled	Set per project	**<1**	10	

The notable increase in hazardous waste production compared to 2018 is due to the acquisition of the Egyptian asset, which alone produced 3,066 tonnes as a result of cleaning most of the water pits, which produced a higher amount of hydrocarbon contaminated soil. Pharos changed the water drain pit system to a closed drain system using steel tanks to enhance our environmental performance.

Comprehensive Environmental and Social Impact Assessments ("ESIAs") are undertaken for any new project prior to any operational activities using international standards and in consultation with local stakeholders. We are committed to developing site-specific biodiversity action plans ("BAPs") in the event that operational sites are within sensitive areas, incorporating country-specific strategies and action plans and working in association with external advisers to ensure that best practice conservation priorities are achieved.

335,873kWh
Energy use from grid electricity

Overall objective
To protect the environment and conserve biodiversity

2019 Objectives	2019 Outcomes	2020 Objectives
Implementation of the Biodiversity and Conservation Policy for the permitting of the Vietnam offshore seismic EIA.	On target	Carry out EIA in line with Pharos internal standards as well as country operations requirements prior to any activity.
Review of the Merlon EIA against Pharos standards ahead of field activities.	On target	–
ESOS Compliance assessment	On target	–
Implementation of the New Entry Procedure when a new project arises, including an assessment of risk of impact on the environment.	On target	Implementation of the new country entry procedure prior to any acquisition.
Solving of TGT compressor issues to reduce GHG emissions to base levels or under.	Postponed	Solving of TGT compressor issues to reduce GHG emissions to base levels or under.
		Initiate the process to become TCFD compliant.

Society

Our Social Responsibility and Human Rights Policies set our requirements for social responsibility, community engagement and human rights. In 2019, key issues in this area included: human rights; community investment; and local content.

Human rights

Pharos' Human Rights Policy was reviewied and signed by the Board in October 2019, and a copy is available on the Company's website at https://www.pharos.energy/responsibility/policy-statements/. The policy commits Pharos to conducting its business in accordance with the fundamental principles of human rights set out in the Universal Declaration of Human Rights and reflects the terms of both the OECD Guidelines for Multinational Enterprises and the United Nations Guiding Principles on Business and Human Rights. Together with our Security Policy, it sets out our commitments to align with the Voluntary Principles on Security and Human Rights. We respect indigenous rights and cultures of the communities where we operate.

Our human rights due diligence includes processes to address, monitor and communicate actual or potential impacts. In 2019, we undertook a Human Rights Review and developed an Action Plan for future operations in our newly acquired Israeli offshore licences.

The review acknowledged the provision of safe and healthy working facilities for all workers, the requirement to engage with stakeholders to understand any local concerns as well as security practices and to put in place any mitigation strategies. Community Feedback Mechanisms are required in all our projects. We take steps to ensure our agents, contractors and suppliers are aware of and comply with our policies and seek to use our influence with joint venture partners.

A similar Human Rights review and action plan had been carried out previously for Vietnam and all recommendations were implemented during the 2019 offshore acquisition survey.

For Egypt, all our corporate policies including the Policy on Human Rights have been translated into Arabic for dissemination locally.

In accordance with the UK Modern Slavery Act, Pharos reports annually on the steps it has taken to mitigate the risk of modern slavery occurring in any part of its business. Pharos' Statement on Modern Slavery for 2019 is available on the Company's website at https://www.pharos.energy/modern-slavery-act/.

In early 2020, Pharos, through the Ministry of Foreign Affairs of Vietnam, contributed towards the repatriation cost of the Vietnamese victims involved in a tragic event that occurred in Essex, UK.

Community and social investment

We understand that our success is reliant upon building strong relationships and being welcomed as a responsible partner in our host communities. We invest in social projects for the long-term benefit.

In 2019, our social investment in Vietnam was through the HLHVJOC Charitable Donation Programme which we contribute into as set out in our licence terms. In addition to the training levy, a further $245,379 was invested in 12 community and social projects which included education and healthcare support via the HLHVJOC Charitable Donation Programme.

In Egypt, we re-routed the Suez refinery-bound road tankers to avoid local villages and are in the process of assessing where we can make the most valuable contribution to long-term social projects, both at the local level and more widely.

Local capacity

We support local capacity building during the exploration or development phases of a project to ensure a positive imprint and legacy. All our licence agreements include a high degree of local content, which commits us to hire locally where possible and provide training to develop new skills. Our policy commits us to provide meaningful opportunities for technical co-operation, training and capacity building within any host country in which we operate.

Community projects 2019 via the HLHVJOC Donation Programme

Education

- Hoang Van Thu High School
- Saigon Children's Charity
- Hanoi Private School for the Hearing-Impaired
- Nhan Dao commune kindergarten
- Light Your Hope scholarship fund
- Bicycle project in Ben Tre & Tra Vinh

$145,783

Healthcare

- Financial support for treatments for children with autism and similar symptoms at Binh Minh Social Assistance Centre and Minh Anh Specialised Education Centre
- Medical equipment support for Medical Clinic of Thanh Giang Commune, Nghe An

$81,282

Rural livelihoods

- Donation to the Red Cross of Ward 11, Phu Nhuan district to support low income families on Lunar New Year 2019
- Charitable activities by Pharos and JOC's staff to support flood victims in Na Meo commune, Thanh Hoa province

$3,238

Other charitable projects

- Green Summer campaign with Ho Chi Minh City Polytechnics University

$15,076

CASE STUDY

Education support for students in Ben Tre and Tra Vinh

Chau Thanh and Cang Long are two poverty-stricken districts of Ben Tre and Tra Vinh Province. The area's poor infrastructure as well the financial situations of many families means that a significant number of students cannot pursue an education. On the 10th anniversary of the cooperation with the Ho Chi Minh City Polytechnic University, HLHVJOC provided financial support to buy 20 bicycles for 20 students from low-income families in Chau Thanh and Cang Long to go to school instead of having to walk for hours to school on dirt roads. This builds on previous work supported in 2018 between HLHVJOC and the Polytechnic University to improve their infrastructure, which transformed more than 500 metres of dirt roads into concrete roads as part of the Green Summer Campaign.

CASE STUDY

Education support for Hoang Van Thu High School

Hoang Van Thu High School for the Gifted was founded in 1947 and is located in Hoa Binh, a mountainous province which suffers from frequent heavy rain and flash floods. Due to the area's severe weather conditions, numerous tables and chairs used by the pupils were damaged and unsafe to use. HLHVJOC has donated $23,605 to the school to buy and replace 400 sets of tables and chairs for 1,410 students in 45 classrooms. This is part of our ongoing support project since 2018 to upgrade and support Hoang Van Thu High School and its students.

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Social projects supported in Vietnam through the HLHVJOC Donation Programme

Overall objective

To consult with and contribute into our host communities

2019 Objectives	2019 Outcomes	2020 Objectives
Conduct a programme of HSES training for employees and contractors.	On target	• Each asset to develop their own HSES training programme
Carry out human rights due diligence exercise for countries where we have a continued presence.	On target	• Carry out human rights due diligence exercise for countries where we have a continued presence and country manager to implement recommendations
Honour previously agreed financial commitments and continue social investment in local communities according to the project specific selection processes.	On target	• Honour social obligations under production sharing agreements. • Set up education initiatives across Egypt, Vietnam and London
Implement Human Rights Action Plan as required prior to seismic survey offshore Vietnam.	On target	• Review and implement recommendation from human rights due diligence report for Israel
Update and streamline new country entry procedure.	Postponed to 2020	• Update and streamline new country entry procedure

Corporate Responsibility

Non-Financial Indicators

	2019	2018	2017
Hours worked (million)	**2.35**	1.29	1.42
Lost Time Injury Frequency Rate (number of lost time injuries per million man-hours)	**0**	0	0
Fatal Accident Frequency Rate (number of fatal accidents per hundred million man-hours)	**0**	0	0
Total Recordable Injury Rate (number of recordable injuries per million hours worked)	**0.42**	0.42	
Total GHG emissions (tCO_2e) by equity	**142,485**	103,311	92,057
Scope 1 total GHG emissions (tCO_2e) by equity	**142,410**	103,284	92,025
Scope 2 total GHG emissions (tCO_2e) by equity	**75**	27	33
Scope 3 total GHG emissions (tCO_2e) by equity		Not measured	
Normalised emissions by production (tonnes of CO_2e per 1,000 tonnes of oil produced by equity share)	**283**	278	207
Total hydrocarbons flared (Tonnes of hydrocarbons flared for every 1,000 tonnes of production on a gross basis)	**39.04**	29	
Energy use (grid electricity kWh)	**335,873**	100,638	
Non-hazardous waste (tonnes)	**103.53**	102.08	147.95
Hazardous waste (tonnes)	**3,112.38**	95.89	245.81
Percentage non-hazardous waste recycled	**15.05**	19.52	
Percentage hazardous waste recycled	**0.12**	9.97	
Oil and chemical spills (>100 litres)	**2**	0	0
Oil in produced water content (Vietnam Blocks 16-1/9-2; Egypt)	27.79	31.36	140
Freshwater use (cubic metres)	**202,453**	23,209	
HSES regulatory non-compliance	**3**	0	0
Community investment spend ($)	**245,379**	209,408	201,582

Note: Pharos assets in 2019 were different to its assets in 2018. On that basis, trends between 2018 and 2019 are not meaningful.

Approval of the Strategic Report

This report was approved by the Board of Directors on 10 March 2020 and is signed on its behalf by

Jann Brown
Managing Director and
Chief Financial Officer

Effective governance is a priority for Pharos

Dear shareholders

2019 was a year of progress and change for Pharos; we completed the acquisition of assets in Egypt, were successful in bid rounds in Israel with new partners, and further developed our position in Vietnam. We announced several changes to the composition of the Board and of course entered a new era for the business by changing our name to Pharos Energy plc. The Board has worked closely with the executive team to deliver against a stringent set of KPIs and to preserve shareholder value in an era of ongoing volatility affecting our sector.

A significant portion of the Board's agenda was devoted to completion of the acquisition of the assets in Egypt, their integration into the management structures and systems in place across the Group and the development of plans to accelerate the value in the assets acquired.

Our commitment to the MENA region was also recognised in the success of our bids for the offshore Israel eight licences with our partners, Cairn Energy plc and Ratio Oil Exploration Limited Partnership.

During the year, the Board has devoted considerable time to supporting and challenging the executive team in assessing the Company's strategic positioning and growth opportunities, portfolio management and capital allocation. The Board received regular detailed updates from the Executive team and other key members of staff and time was allocated to operational, ESG and corporate matters. This led to a further three Board meetings being convened in addition to the four regularly scheduled meetings.

In pursuit of the best interests of shareholders, the Non-Executive Directors ("NEDs") brought constructive suggestions and offered direction and support in our challenge of the Executive's proposals and direction. Key areas of focus for the NED's discussions in 2019 were succession planning, effective implementation of Group strategy, review and challenge of M&A options and oversight of operational, financial and exploration project performance and KPIs.

BOARD MEMBERS

Rui de Sousa
Non-Executive Chair
Nominations Committee Chair

Ed Story
President and
Chief Executive Officer
Nominations Committee member
Environmental, Social and
Governance Committee member

Jann Brown
Managing Director and
Chief Financial Officer
Environmental, Social and
Governance Committee member

Dr Mike Watts
Managing Director

Rob Gray*
Deputy Chair,
Non-Executive Director and
Senior Independent Director
Audit and Risk Committee member
Remuneration Committee Chair
(from 23 May 2019)
Nominations Committee member
Environmental, Social and
Governance Committee member

John Martin*
Independent Non-Executive
Audit and Risk Committee Chair
Environmental, Social and
Governance Committee Chair
Remuneration Committee member
Nominations Committee member

Ettore Contini*
Non-Executive Director

António Monteiro*
(retired 23 May 2019)
Non-Executive Director
Remuneration Committee Chair
Audit and Risk Committee member
Nominations Committee member

Marianne Daryabegui*
(from 15 March 2019)

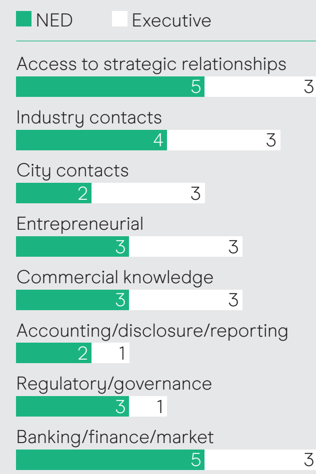
Non-Executive Director
Audit and Risk Committee member
Remuneration Committee member
Nominations Committee member

* Independent Non-Executive Directors.

DIVERSITY OF SKILLS, BACKGROUNDS AND EXPERIENCE

The Board places importance on the diversity of approach, experience, knowledge, skills, and professional, educational and cultural backgrounds. This diversity has brought an international and global outlook which has been particularly beneficial to the Board's discussions about the strategic positioning of its current and new business ventures.

As at 10 March 2020, the Group had a Board of eight Directors.



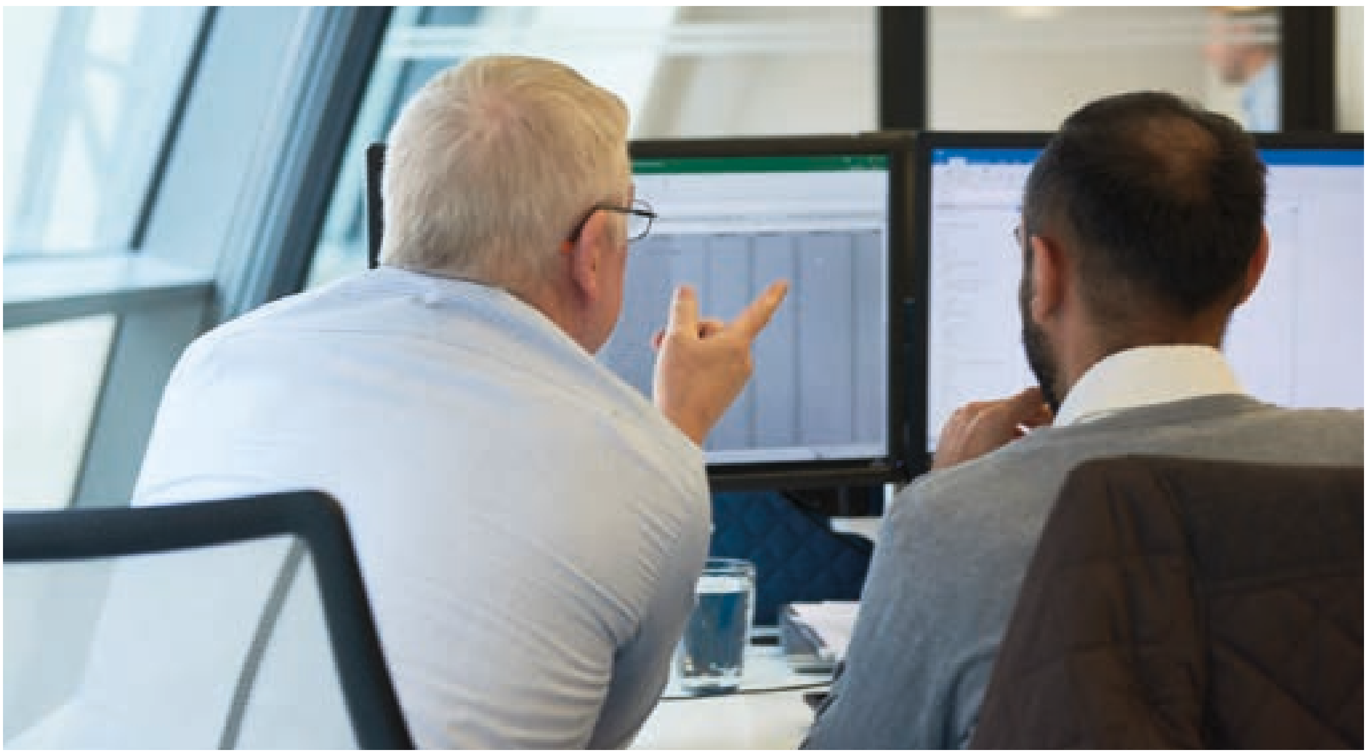
Meeting attendance

During each Director's respective term of office during 2019

Director	Board meeting (scheduled quarterly)	Board meeting (additional)	Audit and Risk Committee meeting	Remuneration Committee meeting	Nominations Committee meeting	Environmental, Social and Governance Committee meeting	Annual General Meeting
Rui de Sousa	++++	+++			++++		+
Ed Story	++++	+++			++++	+	+
Jann Brown	++++	+++				+	+
Dr Mike Watts	++++	+++				+	+
Rob Gray	++++	+++	++++	++++	++++	+	+
Ettore Contini	++++	+++					+
Marianne Daryabegui	+++	++	+++	+++	+++		+
John Martin	++++	+++	++++	++++	++++	+	+
António Monteiro (retired 23 May 2019)	+	+	+	+	+		

> "Safety has remained a top priority for the Group and responsibility for this has been given enhanced prominence with the establishment of the ESG Committee."

Dr Mike Watts
Managing Director



The decision to appoint John Martin to the position of Chair to replace me when I step down in 2020 will allow for continuity in pursuit of our long-term goals. John has been on the Board for 18 months now and his experience and independent appreciation of stakeholder priorities, risk management and global positioning have already impacted the Board's thinking. I wish him well in his new role and I am confident he will continue to be that beacon of light for the Group on the basis of which Pharos is named.

Safety has remained a top priority for the Group and responsibility for this has been given enhanced prominence with the establishment of the ESG Committee, led by John Martin.

We are pleased that Pharos has achieved another year with no LTIs and we intend to protect this excellent track record by staying current with international performance standards.

Since inception in Vietam, our record in activities relating to social matters is measurable. This includes approximately $4 million towards community and charitable investments supporting partnerships and projects in Vietnam through the HLHVJOC Charitable Donation Programme. We have also committed approximately $6 million in total as a training levy in Vietnam for industry capacity building since our inception.

In Egypt, we are in the process of assessing where we can make the most valuable contribution to long-term social projects, both at the local level and more widely.

Our initiatives to reduce greenhouse gas emissions in Egypt have been successful. For example, we have completed Phase One of the utilisation of associated-gas powered electricity generators, with further Phase Two reductions in progress. We have also eliminated 730,000 litres of diesel use per year, and recorded a 30% reduction of flared gas at North Silah Deep.

In July 2018 the UK Financial Reporting Council ("FRC") published a revised and updated version of the UK Corporate Governance Code, to have effect for reporting years commencing on or after 1 January 2019 (the "2018 Code"). This is the first year that we will be reporting in accordance with the 2018 Code.

During 2019 the Nominations Committee (see report page 86) focused on succession planning, including for the role of Chair and Chair of the Audit and Risk Committee, a Board evaluation, and a review of each Director. The Company Secretary provided assistance in the evaluation and review process, by a questionnaire. The conclusions of this review provided valuable feedback and have resulted in a renewed vigour to develop the objectives for 2020 in line with the 2018 Code and a clear commitment to compliance with s. 172(1) of the Companies Act.

The Remuneration Committee has reviewed its policy and proposed appropriate changes from 2020 to reflect the support of the business strategy. The Remuneration Committee has also proposed changes to the Executive Director Remuneration Policy for 2020 (see report at page 96); an innovative approach to incentivise how our triumvirate of Executives demonstrate their commitment to the business and work closely together with the Board to deliver on the objectives of the organisation.

We will continue building on these developments in 2020. Our priorities will be on managing value in a volatile world, focusing on the risks and opportunities which present themselves, ensuring that our capital structure is robust and our capital allocation is focused on value and cash flow. Our focus is now on developing the platform we created in the MENA region with the acquisition of the El Fayum field to continue to deliver both yield and growth opportunities for our shareholders.

Rui de Sousa
Chair

Environmental, Social and Governance (ESG) Committee

Dear shareholders,

To further Pharos' ongoing commitment to operating a sustainable business, we are very proud to have established an ESG Committee in September 2019. As the incoming Chair of Pharos Energy plc, I wanted to ensure that my personal commitment to ESG matters was at the forefront of our business, therefore I accepted the position of Chair of this Board Committee. The whole Board felt the same and comprise the members of this important Committee.

Pharos engaged with stakeholders, consultants and sector advisors to establish the scope and parameters of the work of the ESG Committee. The Committee are responsible for defining the Group's strategy for ESG matters, reviewing the Group's ESG policies, programmes and initiatives and more generally oversight of the Group's management of ESG matters.

Members of the Committee are undergoing an onboarding process, outlining and clarifying Group objectives and identifying ESG initiatives in the UK, Egypt and Vietnam. At an operational level, country management representatives, risk, technical and finance team members have formed the working group to implement the initiatives.

Pharos is committed to the Task Force for Climate-related Financial Disclosure (TCFD) objectives. Pharos is following the spirit of the TFCD guidance, including an expectation to further develop our approach and consider disclosure on the use of scenarios in future Annual Reports.

We are excited by this new development in our sector, we are proud to adopt the formal Committee to address ESG issues and I look forward to personally ensuring that the Pharos Group delivers on this initiative.

Further information about our Corporate Responsibility can be found on page 56.

John Martin

KEY AREAS OF FOCUS IN 2020

- Continuing focus on enhancing the efficiency of the balance sheet and investing for growth
- Continuing to assess all options available to maintain production levels in Vietnam
- Ongoing implementation of Group strategy
- Reviewing growth opportunities
- Assessing composition of the Board
- Overseeing operational, financial and exploration project performance
- Integration of Pharos El Fayum assets
- Risk review and management

OBJECTIVES FOR 2020

The Board's focus areas for 2020 include:

- Ongoing integration of Egyptian assets and personnel
- Continued succession planning
- Board refreshment opportunities
- Managing transition to new Chair
- Transition to new Chair

MANAGEMENT

Board of Directors

Management Committees

Further support the Board and comprise the following key committees:

- Disclosure
- Treasury
- Defence

Executive leadership team

Responsible for day-to-day management of our business and operations and for monitoring detailed performance of all aspects of our business.

Principal Committees of the Board

Audit and Risk Committee

J Martin (Chair)
R Gray
M Daryabegui

Responsible for the integrity of the Financial Statements and narrative reporting, including annual and half year reports.

Remuneration Committee

R Gray (Chair)
J Martin
M Daryabegui

Responsible for the design, development and implementation of the Company's remuneration policy.

Nominations Committee

R de Sousa (Chair)
E Story
R Gray
J Martin
M Daryabegui

Responsible for ensuring the leadership needs of the Company are sufficiently appropriate to ensure continued ability to compete effectively in the marketplace.

Environmental, Social and Governance Committee

J Martin (Chair)
R Gray
E Story
J Brown

Responsible for defining the Group's strategy related to Environmental, Social and Governance (ESG) matters, review of the Group's ESG policies, programmes and initiatives and, more generally, oversight of the Group's management of ESG matters.

Experienced leaders guiding our future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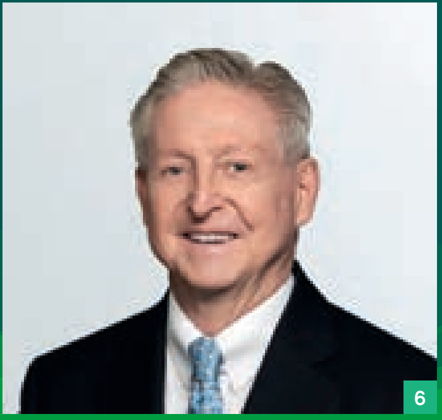
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7


8

Committee position key

- X Committee Chair
- X Committee member
- A Audit and Risk
- R Remuneration
- N Nominations
- E Environmental, Social and Governance (ESG) Committee

1: Rui de Sousa
Non-Executive Chair

Appointed: July 1999

N

Rui has approximately 40 years' experience in the energy sector. He was formerly a Director of Gazprombank-Invest (Lebanon) SAL, the Chairman of Carbon Resource Management Ltd. and the President of Quantic Mining. Rui is currently a Director of Quantic Limited, Midus Global Limited and Chairman of Blackdown Resources.

2: Ed Story
President and Chief Executive Officer

Appointed: April 1997

N E

Ed was a founding Director of the Group. Under his leadership, the Group acquired its principal assets in Vietnam and progressed the assets from initial exploration through to being one of the largest producing fields in Vietnam.

Ed has over 50 years' experience in the oil and gas industry, beginning with various roles at Exxon Corporation, including seven years resident in the Far East. He was formerly the Vice President and CFO of The Superior Oil Company, a co-founder and Vice Chairman of Conquest Exploration Company and a co-founder and President of Snyder Oil Corporation's international subsidiary, which merged its Australian-controlled entity, Command Petroleum, into Cairn Energy. Ed was a Non-Executive Director of Cairn Energy plc until 2008 and Cairn India Limited until 2017. Ed is currently a Non-Executive Director of Vedanta Resources plc and a founder and member of the Cleveland Clinic International Leadership Board.

3: Jann Brown
Managing Director and Chief Financial Officer

Appointed: November 2017

E

Jann served as co-head of the Company's Business Development group between February 2017 and November 2017 before her appointment to the Board. Jann currently serves as an Independent Non-Executive Director and Chair of the Audit Committee of Troy Income and Growth Trust plc and of the Scottish Ballet. Jann previously served as an Independent Non-Executive Director and Chair of the Audit Committee of John Wood Group P.L.C. and was formerly the Managing Director, Chief Financial Officer and executive Director of Cairn Energy plc where she had responsibility for project managing Cairn India Limited's initial public offering. Jann also previously served as the Joint Chief Executive Officer and Chief Financial Officer at Magna Energy Limited, of which she was also co-founder and is a past President of the Institute of Chartered Accountants of Scotland.

4: Dr Mike Watts
Managing Director

Appointed: November 2017

Mike served as co-head of the Company's Business Development group between February 2017 and November 2017, and as an Independent Non-Executive Director of the Board between August 2009 and January 2017. He was formerly the Deputy Chief Executive of Cairn Energy plc and the Chief Executive Officer and Managing Director of the Amsterdam listed Holland Sea Search Holding NV. Mike joined Royal Dutch Shell in 1980 and has nearly 40 years of oil industry experience. He has been associated with over 50 oil and gas discoveries. Mike was also the architect of the South Asia strategy at Holland Sea Search and Cairn, which led to the creation of a >200,000 boepd business. Mike has held senior technical and management roles with Premier Oil, Burmah and Shell and as Joint Chief Executive Officer and co-founder of Magna Energy Limited.

5: Rob Gray
Deputy Chair, Non-Executive Director and Senior Independent Director

Appointed: December 2013

R A N E

Rob has been an adviser to the natural resources sector for more than 30 years. Rob qualified as a solicitor in 1981 at Allen & Overy and then went on to help establish James Capel & Co. Petroleum Services, a successful advisory and Mergers & Acquisitions practice. Rob's experience includes 13 years at Deutsche Bank where he was latterly a Senior Advisor having been Chairman of UK Investment Banking for five years and formerly Global Head of Natural Resources. Rob was previously a Director and Head of the Natural Resource Group at Robert Fleming & Co. Ltd. for four years, a group which he established. Between 2000 and 2010, Rob was an Advisory Board Member for Heerema Marine Contractors. Rob was a co-founder of RegEnersys, a natural resources investment entity and is currently the principal of ReVysion LLP. In 2018 Rob was appointed an adviser to the T2 Energy Transition Fund of Tikehau Capital.

6: John Martin
Non-Executive Director

Appointed: June 2018

A E R N

John has more than 30 years' experience in international banking in the oil and gas industry and was a Senior Managing Director in the Oil and Gas team at Standard Chartered Bank. Prior to joining Standard Chartered in 2007, John worked for ABN Amro for 26 years, specialising in the energy sector. John has served as the Senior Vice President of the World Petroleum Council, and as an Independent Non-Executive Director of Rockhopper Exploration plc. He was previously Chairman of Falkland Oil and Gas Limited, an Independent Non-Executive Director on the board of Bowleven plc and an Independent Non-Executive Director and Chair of the Audit Committee of Total E&P UK Limited.

7: Marianne Daryabegui
Non-Executive Director

Appointed: March 2019

A R N

Marianne is currently a Managing Director at Natixis, and was previously the Head of Natural Resources at BNP Paribas in Paris, France. She has extensive experience in oil and gas corporate transactions and capital markets and has advised oil majors, independent E&Ps and national oil companies. Prior to leading the Oil and Gas Corporate Finance Team in 2006, Marianne worked for eight years in BNP Paribas' Energy Commodities Export Project Department where she headed the Commodity Structure Finance team for the Middle East and Africa. Before joining the banking sector Marianne spent eight years at TOTAL. Marianne has a Master's degree in Finance and Capital Markets from Sciences Po University, Paris and a Masters in Tax and Corporate Law.

8: Ettore Contini
Non-Executive Director

Appointed: December 2001

Ettore was formerly a Director of Energia E Servize SpA and Eurowatt-Commerce. He was previously an asset manager in the private banking division of Banca del Gottardo.

2018 UK Corporate Governance Code (the '2018 Code')

Statement of compliance with the 2018 Code

The Company was in compliance with the 2018 Code throughout the year. Provision 19 of the 2018 Code states that the usual nine year tenure limit as the Chair may be extended for a limited time in order to facilitate effective succession planning and the development of a diverse Board. This transition period was utilised in relation to the Chair who is stepping down.

Roles

The statutory duty of the Directors is to act in what they consider to be in the best interests of the Company and, as a unitary Board, they are responsible for the long-term success of the Company. The Board determines and develops the strategy for the business and provides it with the necessary entrepreneurial leadership. It ensures the Company is adequately resourced to meet its strategic objectives and can meet its obligations to its stakeholders. The Board sets the values, standards and controls necessary for risk to be effectively assessed and managed. Some of its responsibilities have been delegated to the Audit and Risk, Remuneration and Nominations Committees.

The roles of the Chair and Chief Executive Officer are separated and their responsibilities are clearly established, set out in writing and agreed by the Board. Both are collectively responsible for the leadership of the Company. The Chair chairs the Board meetings, leads the NEDs in the constructive challenge of the Executives' strategy and is accountable for the Board's effectiveness. This includes encouraging an open and frank Boardroom culture, setting the Board's agenda, facilitating the NEDs' contribution and ensuring sufficient time and information to promote effective and challenging discussions. The Chair has been in his current role since 1999.

The CEO is responsible for the everyday management of the Company. He leads the Executives and management team in the implementation of the Board's strategy and management's performance in running the business.

The NEDs have a supervisory role that contributes to the development of the strategy through supportive and challenging inquiry. They scrutinise the Executives' performance in meeting their agreed goals and objectives, and play a key role in their appointment or removal.

The Company Secretary is appointed by the Board. He facilitates the communications and processes of the Board, the induction programme for new Directors and provides advice through the Chair as may be required in the ongoing discharge of the Directors' duties. This includes ensuring that the Company provides the necessary resources for access to independent advice and any individual professional training and development needs agreed with each Director.

Matters reserved for the Board

The Board operates within a framework that distinguishes the types of decisions to be taken by the Board, including determination of strategy, setting the principal operating policies and standards of conduct, approval of overall financial budgets and financing agreements, approval for establishing key corporate relationships and approval of any actions or matters requiring the approval of shareholders. Within this framework, while the Board has largely delegated the authority for implementing its strategy and decisions to the Executives and management, there is a formal schedule of matters specifically reserved for the Board's decision or determination.

Committees

There are four principal committees of the Board:

- The Audit and Risk Committee – responsible for the integrity of the Financial Statements and narrative reporting, including annual and half year reports
- The Remuneration Committee – responsible for the design, development and implementation of the Company's remuneration policy
- The Nominations Committee – responsible for ensuring the leadership needs of the Company are sufficiently appropriate to ensure continued ability to compete effectively in the marketplace
- The Environmental, Social and Governance (ESG) Committee - responsible for defining the Group's strategy related to ESG matters.

Each principal Board committee has a formal Terms of Reference ("TOR"), which sets out the Committee's delegated role and authority and is approved by the Board. The revised TOR are available on the Company's website at https://www.pharos.energy/about-us/governance/committees/.

Attendance

The Board has four scheduled meetings a year although additional meetings are scheduled as required. At each scheduled meeting in 2019, the Directors received a report from each of the principal Board committees, the Chief Executive Officer, Chief Financial Officer, the joint Managing Directors, the Chief Operating Officer and Group Head of Investor Relations. Discussions around M&A activity, asset disposals and strategic corporate finance were regular agenda items throughout the year.

Meeting and attendance are set out in the table on page 75.

Only Committee members are entitled to attend their respective meetings. Other Directors were invited to attend, as determined appropriate or beneficial, and committee chairs provide an update at the full Board meeting. There was full attendance of committee members at the Audit and Risk, Remuneration and Nominations Committees in 2019.

See page 75 for a full overview of meeting attendance by each Director.

Board composition

The Nominations Committee ensures the leadership needs of the Company are met and maintained appropriately to allow it to compete effectively in the marketplace. The Directors' roles, including those of the principal Board committees, are established in writing and approved by the Board. Biographical details are provided on page 81.

During the year, the Board comprised eight Directors including the Chair, made up of three Executives and five NEDs. Between the appointment of Marianne Daryabegui on 15 March 2019 and the retirement of António Monteiro on 23 May, there was also an additional NED on the Board.

Antony Maris, Chief Operating Officer, stepped down at the end of 2019 after 15 years of service. In January 2020, Pharos announced that Ettore Contini, Non-Executive Director, will not stand for re-election at the upcoming 2020 AGM, following 18 years of service. Geoffrey Green will be appointed as an Independent Non-Executive Director with effect from the conclusion of the 2020 AGM.

Tony Hunter was Company Secretary throughout the year and his appointment was approved by the Board as a whole.

Changes during the year

	2019
The Board	
Members	**8**
Execs	**3**
NEDs	**5**
Independent NEDs	**Rob Gray** **John Martin**
Appointed	**Marianne Daryabegui (15 March 2019)**
Retired	**António Monteiro (23 May 2019)**
Audit and Risk Committee	
Members	**3**
Appointed	**Marianne Daryabegui (15 March 2019)**
Retired	**António Monteiro (23 May 2019)**
Remuneration Committee	
Members	**3**
Appointed	**Marianne Daryabegui (15 March 2019)**
Retired	**António Monteiro (23 May 2019)**
Nominations Committee	
Members	**5**
Appointed	**Marianne Daryabegui (15 March 2019)**
Retired	**António Monteiro (23 May 2019)**
Environmental, Social and Governance Committee	
Members	**4**
Appointed	**All members appointed on 10 September 2019**

As announced on 19 February 2019, Marianne Daryabegui was appointed as an Independent NED with effect from 15 March 2019. Marianne serves as a member of the Remuneration Committee, Nominations Committee and the Audit and Risk Committee.

Also on 19 February 2019, it was announced that Ambassador António Monteiro, Non-Executive Director and Chair of the Remuneration Committee, would retire from the Board at the AGM on 23 May 2019 following 10 years of service.

More information on Board composition, including independence, balance, diversity, succession planning and evaluation, is provided in the Nominations Committee report on page 86.

Audit, risk and internal control

The Audit and Risk Committee has responsibility for reviewing the integrity of the Financial Statements and narrative reporting, including annual and half year reports. The Committee also oversees the adequacy and effectiveness of the internal financial controls and internal controls and risk management systems, and relationship with the external auditor. The Company's risk profile is assessed and updated at least annually by the Committee. At each scheduled meeting of the Committee, it considers the Group's internal control framework and receives an Environmental, Social and Governance Report ("ESG Report").

More information, including the Committee's composition and activities during the year, is provided in the Audit and Risk Committee report on pages 90 to 95.

Remuneration

The Remuneration Committee is responsible for the design, development and implementation of the Company's Remuneration Policy.

In determining the remuneration packages awarded to management, the Board and the Remuneration Committee have continued to aim at providing incentive schemes that reflect the characteristics of attractive rewards, fairness and restraint.

Our overarching aim is to operate a Remuneration Policy which rewards senior management at an appropriate level for delivering against the Company's annual and longer-term strategic objectives. The policy is intended to create strong alignment between Executive Directors and shareholders.

In line with normal practice and regulatory requirements, it is intended that the Remuneration Policy will next be put to shareholders for approval at the 2020 AGM.

More information, including the Committee's composition and activities during the year and the proposed Remuneration Policy, is provided in the Directors' Remuneration Report on pages 96 to 117. As stated above, the TORs of the Remuneration Committee were reviewed and updated in December 2019.

Relations with stakeholders

Investors

The Board as a whole has responsibility for ensuring that a satisfactory dialogue with shareholders takes place. The Executives are responsible for ensuring that effective communication is maintained with key stakeholders and partners, including an appropriate level of contact with major shareholders and ensuring that their views are communicated to the Board. The Managing Director and Chief Financial Officer has management responsibility for investor relations.

To maintain a clear understanding of the views of shareholders, all Directors receive a quarterly investor relations report which includes market updates, brokerage and communications reports, share register and share performance analysis and comments and notes from research analysts and proxy agencies. As noted in the Remuneration Committee report on page 96, the Chair of the Remuneration Committee consulted with institutional shareholders and their key proxy advisers on remuneration matters during 2019.

Pharos had an open and active dialogue with its institutional, private and retail shareholders throughout the year. The Company uses its online presence to post and disseminate key information promptly to a wide audience. The Company's website is regularly used by shareholders and stakeholders for email communication with management. Following the name change in October 2019, Pharos launched official Twitter and LinkedIn accounts. The Company uses a PR agency to provide assistance in the dissemination of information to shareholders and the general public and also to solicit active feedback as to the effectiveness of such efforts.

The NEDs are each responsible for taking sufficient steps to understand shareholder views, including any issues or concerns. This includes being available to Pharos' major institutional shareholders and responding to requests for additional communication with the Chair, Senior

Independent Director or other NED. The delegated role of the Senior Independent Director includes being available to shareholders if they have concerns which cannot be fully or appropriately addressed by the Chair or the Executives.

Local communities, governments and employees

For more information on who are the Pharos stakeholders and how the engagement programme is executed, please refer to page 58.

AGMs

Both before and after the formal proceedings of each AGM, all Directors and senior management, including the Chairs of the Audit and Risk, Remuneration and Nominations Committees, make themselves available to meet and chat with shareholders, answer shareholder questions and respond to any specific queries.

Notice of the AGM is circulated to all shareholders at least 20 working days prior to the meeting, and resolutions are proposed for each substantially separate issue. The result of AGM proxy voting is announced after votes are taken on a show of hands or on a poll.

Corporate culture

It has been important to the Board to preserve and enhance a corporate culture of honesty, fairness, transparency, engagement and respect. The Board schedule format has been adjusted to give space for increased engagement amongst the NEDs, including the Senior Independent Director and the Chair, without the presence of the Executives, and to provide further opportunity to raise and discuss concerns.

For the workforce, this has been approached in a variety of forms including extending participation in the Company's share schemes, lunch and learn sessions with management and other feedback channels, including through the Group's whistleblowing policy and access to a dedicated and anonymous hotline.

One of the provisions of the 2018 Code, which took effect for Pharos Energy from 1 January 2019, is employee engagement at a Board level. Given the size and location of Pharos's workforce (66 employees with the majority UK-based), it was proposed that a UK-based independent NED be nominated as the Director to represent the employee voice at Board level. In December 2018, John Martin was appointed to the role and meets with the head office staff annually without Executive colleagues present. This engagement has proved an effective communication route for the employees and demonstrates the openness and integrity value we are committed to. Staff based outside head office are provided with a forum to communicate directly with the appointed Director representative.

Accountability statement page references

Accountability statements	Report	Page(s)
Business model and Strategic objectives	Strategic Report	20 to 23
Directors' responsibility statement	Directors' Report	121
Auditor's statement	Independent Auditor's Report	122
Going concern statement	Financial Review	45
	Directors' Report	120
Viability statement	Risk Management Report	54
Critical judgements and accounting estimates	Note 4 to the Financial Statements	139
Risk Management and Internal Control	Risk Management Report	46
	Corporate Governance Report	82
	Audit and Risk Committee Report	90
Audit and Risk Committee	Corporate Governance Report	82
	Audit and Risk Committee Report	90
Nominations Committee	Corporate Governance Report	82
	Nominations Committee Report	86

> "A balance of experience and independence makes our Board effective."

Rui de Sousa
Nominations Committee Chair

The Committee led a process to ensure that Board independence increased during 2019 and will continue into 2020 taking into account the Board composition requirements of the new 2018 UK Corporate Governance Code.

Membership

- During the year, the Committee comprised the Chair, the Chief Executive Officer and the three Independent Non-Executive Directors ('NEDs'), Rob Gray, John Martin, António Monteiro (retired) and, following her appointment as a Director on 15 March 2019, Marianne Daryabegui
- António Monteiro retired on 23 May 2019 and was replaced on the Committee by Marianne Daryabegui.
- The qualifications of each of the Chair and members are set out on page 81

Meetings

The Committee conducted its duties through four meetings held during 2019. The Chair additionally led discussions before the full Board on certain matters within the Committee's Terms of Reference. The first meeting of the year, held in March 2019, was attended by all members appointed to the Committee at the time. During the year the following areas were discussed at the Committee meetings:

Meeting	Matter
Q1	• Board and Committee changes • Reappointment of Directors • Board succession planning • Initial review of Nominations Committee calendar
Q2	• Chair succession planning • Finalisation of Committee calendar
Q3	• Update on appointment of Chair selection process
Q4	• Consideration of appointment of an additional NED • Search for a new Audit and Risk Committee Chair • Annual Board evaluation • Annual review of Board balance, structure, independence and compositon

Meeting attendance

Committee member	2019 attendance
Rui de Sousa (Chair)	++++
Ed Story (President and CEO)	++++
Rob Gray* (Deputy Chair and Senior Independent Director)	++++
John Martin*	++++
António Monteiro* (retired 23 May 2019)	+
Marianne Daryabegui* (appointed 15 March 2019)	+++

\+ Attended
* Independent NED

Role of the Committee

- Ensuring the composition of the Company's leadership remains effective and competitive
- Leading the process for Board and committee appointments and making recommendations to the Board
- Annually reviewing the Board balance, structure, composition, diversity and succession planning
- Establishing an ongoing process for evaluating the Board's performance and effectiveness.

As at 31 December 2019, the Board comprised three Executives and five NEDs, including the Chair. Four of those NEDs were considered independent for the purposes of the 2018 UK Corporate Governance Code ('2018 Code'). Rob Gray assumed the role of Chair of the Remuneration Committee following António's retirement.

Board refreshment and succession planning

Board refreshment and succession planning continue as ongoing processes. In 2019 the priority was to increase the independent component of the Board and to begin preparations for the new requirements on Board composition introduced by the 2018 Code.

As announced on 19 February 2019, Marianne Daryabegui, an Independent NED, was appointed to the Board with effect from 15 March 2019. Marianne, who had previously been an Independent NED of the Company between October 2013 and October 2016, also serves as a member of the Remuneration, Nominations and Audit and Risk Committees.

The Committee will continue to pursue suitable candidates for Independent NEDs with the objective of maintaining full compliance with the 2018 Code. The search consultancy firm Korn Ferry, which has no other connections with the Company or its Directors, was appointed to assist the Board and the Committee in this process during 2019.

Succession planning for the roles within senior management reporting into Board level has also been given consideration with new appointments in Technical, Legal and HR functions.

Appointments process

Board appointments are made through a formal process led by the Nominations Committee. In relation to the recruitment and appointment of Non-Executive Directors, the Committee recognises the emphasis placed by the 2018 Code on the engagement of an external search consultancy or the open advertising of vacancies.

During 2019, the Committee assessed the suitability of Marianne Daryabegui for reappointment as an Independent NED, taking into account her previous three-year service on the Board, and concluded that her expertise and track record in oil and gas and corporate finance, with particular experience in the Group's new region of focus in the MENA region, would complement and enhance the skills and experience of the current Board.

More recently, the Committee assessed the suitability of Geoffrey Green for appointment as an Independent NED, taking into account his many years of legal and commercial experience in advising major UK listed companies on corporate governance issues, mergers and acquisition and corporate finance.

Independence

As stated above, increasing the balance of independence of the Board has been a priority for the Committee during 2019. Pharos had two Independent NEDs, Rob Gray and John Martin (Senior Independent Director and Deputy Chair) at the start of the year. Marianne Daryabegui was appointed on 15 March 2019.

António Monteiro reached nine years' service since his first election by shareholders at the 2010 AGM and ceased to be considered to be independent by the Board at that point. António did not submit himself for re-election at the 2019 AGM and stepped down from the Board at the conclusion of the meeting.

Notwithstanding António's retirement, the independent presence on the Board has been maintained and reinforced with the appointment of Marianne Daryabegui to the Board with effect from 15 March 2019.

The Committee recognises that, under the new provisions of the 2018 Code applicable to the current financial year commencing 1 January 2019:

- Pharos no longer has the ability to rely on the "smaller company" exemption from the general requirement that at least half of the Board, excluding the Chair, must be Independent NEDs; and
- The Chair should not remain in place beyond nine years from the date of first appointment, save that the period can be extended for a limited time to "facilitate effective succession planning".

During 2019 the Committee worked effectively to comply with these changes and deliver on that commitment in 2020.

Board balance

The Committee assesses the Board's balance of skills, experience, independence, diversity, tenure and knowledge of the Company and the industry on an annual basis. The assessment in 2019 included consideration of the Company's leadership needs within the context of growth, portfolio diversification and long-term strategy. The discussions determined that the current balance remains appropriate and sufficient to effectively promote the long-term success of the Company and would be further enhanced through the process already underway to increase the number of Independent NEDs.

The Board's current balance and composition are shown on page 75.

Diversity

Pharos' approach to diversity and inclusiveness is embedded within the Group's Human Rights Policy available on the Company's website at https://www.pharos.energy/responsibility/policy-statements/. A key aim of the Policy is a workplace that is inclusive and free from discrimination.

In applying the Human Rights Policy to Board composition, the Committee pursues diversity of approach, experience, knowledge, skills, and professional, educational and cultural backgrounds. The international and global perspective achieved has enhanced the Board's discussions on business development, M&A and operational and financial integration.

In its annual review of diversity, the Committee noted diversity of gender, age, demographics, skills, professional backgrounds, experience and education amongst the Board and senior management.

Board evaluation

In 2019, the Board carried out its annual evaluation of its own performance and effectiveness and that of its principal Committees and individual Directors. The Committee led the process and shared the results with the full Board. The Committee was assisted in this process by the Company Secretary.

Annual Board evaluations had been conducted externally until 2017 when Tony Hunter, who had previously led the external process on behalf of Nautilus Management Limited, was appointed as Company Secretary.

As in 2018, the more recent evaluation was conducted through confidential questionnaires that solicited an evaluation of the Board's performance in regards to the following:

- Strategy and risk, including how the Board has handled risk and opportunities
- Corporate Responsibility
- Succession planning
- The performance of the Chair, Deputy Chair and Independent NEDs
- Board effectiveness and operation
- The operation of the principal Board committees
- Board training and development needs
- Time commitment

Following the evaluation process, a number of areas were identified for ongoing focus in 2020 including:

- Review of risks in M&A activity to be assessed
- Operational updates to the Board are important and encourage commitment to the business
- Continuation of the programme to increase Board independence, particularly in light of the 2018 Code
- The importance of maintaining an atmosphere of open challenge and informal discussion between meetings

The results were discussed by the Committee, led by the Committee Chair, and shared with the whole Board. The results of the Chair's performance review were discussed with the other NEDs, led by the Deputy Chair and Senior Independent Director, and communicated to the Chair.

Re-election

All Directors annually retire and seek re-election by shareholders at the Company's AGM. The Committee makes its recommendation to the Board on each re-election resolution. Pending the Chair confirming his satisfaction that each Director continues to perform effectively and with the appropriate commitment to the role, the full Board then determines its own recommendation to shareholders in relation to those resolutions.

The full Board retired and offered itself for re-election by shareholders at the Company's AGM in May 2019, with the exception of António Monteiro who stepped down from the Board with effect from close of that meeting. All Directors were duly re-elected at the 2019 AGM, each receiving more than 92% of the proxy votes lodged in advance of the meeting.

All Directors will retire and, other than Rui de Sousa and Ettore Contini, will offer themselves for re-election at the 2020 AGM.

The Committee is satisfied that each individual Director's performance continues to be effective and demonstrates commitment to the role and, accordingly, has recommended to the Board that each such Director remains in office subject to re-election by shareholders at the AGM.

The Committee formed its recommendations regarding re-election following assessments of Board balance, composition and independence.

Workforce engagement

During the year, the Committee discussed the requirements of the 2018 Code, applicable for financial years commencing on or after 1 January 2019, in relation to proposals for workforce engagement. The 2018 Code proposed three alternative means of achieving this: a director appointed from the workforce; a formal workforce advisory panel; or a designated Non-Executive Director (or a combination of more than one of these).

It determined that due to the size and culture of the Company, the most effective means of ensuring representation of the workforce in the Boardroom would be to designate responsibility for workforce engagement to an Independent NED. John Martin was appointed by the Committee in this role in December 2018. John Martin has met with staff in the head office in an informal dedicated session at which staff members were able to discuss matters of interest at least twice annually This engagement has proved an effective communication route for the employees and demonstrates the openness and integrity value we are committed to.

Board development, information and support

Throughout 2019, all Directors received ongoing access to resources for the update of their skills and knowledge; both on an individual and a full Board basis. Comments are solicited in the annual Board evaluation and discussed with the Chair.

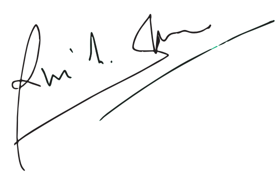
Conflicts of interest

The Board has the power, subject to certain conditions, to authorise, where appropriate, a situation where a Director has, or can have, a direct or indirect interest that conflicts, or possibly may conflict, with the Company's interests. Such authority is in accordance with section 175 of the Companies Act 2006 and the Company's Articles of Association. Procedures are in place for ensuring that the Board's powers to authorise conflicts are used effectively and appropriately. Directors are required to notify the Company of any conflicts of interest or potential conflicts of interest that may arise, before they arise, either in relation to the Director concerned or their connected persons. The decision to authorise each situation is considered separately on its particular facts.

Only Directors who have no interest in the matter are able to take the relevant decision to authorise a conflict and must act in a way they consider, in good faith, will be most likely to promote the Company's success. The Directors will impose such limits or conditions as they deem appropriate when giving authorisation or when an actual conflict arises. These may include provisions relating to confidential information, attendance at Board meetings and availability of Board papers, along with other measures as determined appropriate.

Each Director has notified the Board of either the potential for or the absence of conflicts. The Board assesses every notification of a conflict on its own merits, including the implementation of appropriate limits and conditions, prior to giving authorisation for any specific conflict or potential conflict to exist.

The Board assesses its conflict authorisations on an ongoing basis throughout the year and additionally performs a scheduled review in December.



Rui de Sousa
Nominations Committee Chair

> “The Group’s renewed growth strategy has necessitated greater focus from the Audit and Risk Committee on Environmental, Social and Governance issues, as well as strong oversight over financial controls, prudent financial management, including risk management and mitigation.”

John Martin
Non-Executive Director

Dear shareholders,

Membership and responsibilities

During most of 2019, the Audit and Risk Committee was comprised of myself as Chair, Rob Gray and Marianne Daryabegui, who replaced Antonio Monteiro from March 2019. Marianne, Rob and I are all Independent Non-Executive Directors each having recent and relevant financial experience in the energy sector.

As Chair of the Committee, I convene meetings on a regular basis and report to the Board throughout the year.

The Audit and Risk Committee has a formal document outlining its responsibilities, which is reviewed and updated as appropriate by the Board on an annual basis.

The Audit and Risk Committee Terms of Reference are available on our website, https://www.pharos.energy/about-us/governance/committees/.

Key responsibilities

- Reviewing key financial, operational and corporate responsibility risk management processes with strong focus on Environmental, Social and Governance (“ESG”) issues
- Reviewing and testing the integrity of the Group’s financial statements to ensure full compliance with international financial reporting standards and requirements
- Overseeing the planning and execution of the ongoing external audit programme including a detailed review of audit quality and results
- Reviewing the effectiveness of internal control processes and systems, including IT control platforms

Audit and Risk Committee meetings in 2019

The Committee met four times during 2019. These meetings were regularly scheduled Committee meetings held in March, May, September and December. The Committee examines and discusses at each meeting:

- Detailed review of ESG matters
- Detailed review of internal controls and implementation of upgrades
- Review of risk register and risk management reports

In addition to members of the Committee, all members of the Board, the finance management team, operational management and the Group’s external auditors, Deloitte, attended each of the Audit and Risk Committee meetings.

During 2019, the following additional areas were discussed at meetings of the Committee:

March

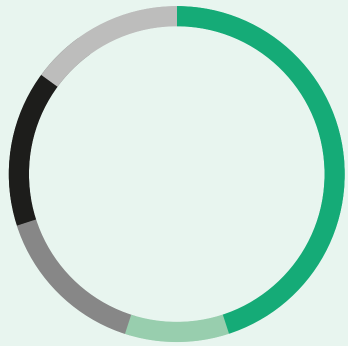
- Regular review of ESG matters. This included a review of policies and procedures, climate change reporting, annual Corporate Responsibility (“CR”) Report, Annual Health, Safety, and Environmental and Social (“HSES”) Plan, update on the implementation of Human Rights and Modern Slavery Statement and an update on implementation of General Data Protection Regulation (GDPR)
- Finance update including the Internal Controls Report, Reserves Update, Impairment Analysis, adoption of IFRS 16 “Leases” and a review of the results in relation to the Group’s previously announced exit from Africa
- Review and approval of 2018 financial statements, including reviews that they were fair, balanced and understandable, reviews of Going Concern and Viability Statements
- Review of 2018 external audit status, including analyses of findings of the external audit and key judgemental areas
- Review and update of the Audit and Risk Committee governance matters, with attention to internal controls processes and systems, and a detailed review of risk management issues and mitigation

Meeting attendance

Committee member	2019 attendance
John Martin*	++++
Rob Gray*	++++
António Monteiro*[1]	+
Marianne Daryabegui*[2]	+++

\+ Attended.
* Independent NED.
1 Retired as a Director March 2019.
2 Appointed as a Director March 2019.

Allocation of Audit and Risk Committee time (%)



May

- Review and discussion of ESG matters, including a review of key performance indicators
- Review and update of Internal Controls Report including closing of Africa exits, RBL compliance update, status of Treasury activities and joint venture audit of TGT/CNV, and review of the risk management report
- Review and discussion of the Group's finance strategy
- Review and update on status of the integration of Pharos El Fayum asset and company
- Review and approval of planned operational audit of El Fayum field operations
- Review and update of Finance System enhancements including IT platforms
- Review and assessment of risks including Anti-Bribery and Corruption policy, and implementation of employee awareness and training programmes
- Review and update on GDPR actions and IT systems
- Review and Approval of calendar checklist of duties for Audit and Risk Committee Meetings for the second half of 2019

September

- Review and discussion of ESG Report, including proposed new plans and policies, and organisational changes
- Review and update and various approvals including: Fair Value Acquisition Accounting of the Merlon, Impairment of producing assets – CNV, TGT and El Fayum Concession, Exploration and Evaluation paper (PP&E Review), exit of African assets, Going Concern Paper, and IFRS 16 in relation to Pharos El Fayum
- Review and Approval of various Policy Updates including: Code of Business Conduct and Ethics, Anti-facilitation of Tax Evasion Policy, Risk Management and Risk Reporting, and review and approval of updated on-boarding policy
- Review and Approval of 2019 Interim Accounts, including presentation by external auditor, Deloitte, and Audit and Risk Committee comments
- Review and discussion of El Fayum Operations Audit and Findings, and approval of Recommendations
- Review and approval of the Treasury Committee Report, including financing update, covenant compliance monitoring and update on commodity hedging

December

- Review and discussion of progress of ESG matters including implementation of the newly formed ESG Committee and ESG Working Group and updates on ESG policies and procedures
- Review and update on Internal Controls and Risk Report including: Detailed Review of upgraded Internal Controls and Risk Report, Review of draft revised 2019 Business Risk Profile and Mitigation Report
- Annual Review and Approval of Terms of Reference of the Audit and Risk Committee
- Review of 2019 year-end planning and approval of the 2020 Internal Audit Plan
- Review and discussion of Significant Risks including the Fair Value Acquisition Accounting for Merlon El Fayum Company
- Review of external audit scope, review of audit quality and 2019 audit plan
- Review of recent developments in relation to FRC requirements, proposed developments in relation to external auditors' responsibilities, and other related regulatory and compliance matters

During the year the Committee focused on the following matters:

Environmental, Social and Governance (ESG)

The Committee was instrumental in helping to accelerate the Group's existing policies and activities aimed at mitigating the impacts of climate change. The Committee focused on the development of updated ESG Action Plans for Egypt, Vietnam and the UK; the securing of external independent advice and the internal gathering of relevant information to comply with the requirements of the Task Force on Climate-related Financial Disclosures (TCFD); the oversight and approval of the Group's annual CDP Climate Change Questionnaire in relation to climate change mitigation; the establishment of a new Board Committee to be responsible for all ESG plans, actions and results; the setting up of a Group-wide ESG Working Group with key managers and employees from Egypt, Vietnam and the UK; and a review and updated audit of the Group's fully disclosed GHG emissions and discharges.

The Committee expresses its appreciation of the high level of engagement of the Board, management and employees concerning the implementation of enhanced ESG Action Plans and organisational changes.

Financial reporting and significant accounting issues

During the first half of 2019, the Group's accounting policies, in accordance with best practice, were reviewed by management and the Committee to ensure that they remained appropriate for the Group's activities. Following this review, the Group's accounting policies were judged to be fully up-to-date and no significant changes were recommended to the Board by the Committee.

IFRS 16 – "Leases": During 2019, management identified and reviewed all lease agreements across the Group, including leases in Egypt that were assumed on the acquisition of Merlon El Fayum Company, and the FPSO Bareboat Charter in Vietnam. Based on this review, the right of use asset and a corresponding lease liability of $1.8m have been recognised on the balance sheet as of 1 January 2019.

The Committee and Deloitte are satisfied that the underlying discount rates and disclosure are appropriate.

Significant issues related to the 2019 Financial Statements

The Committee identified the significant issues that should be taken into consideration in relation to the Financial Statements for the year ended 31 December 2019, being key issues which may be subject to heightened risk of material mis-statement.

Fair, balanced and understandable

The Committee advised the Board whether the annual report and accounts taken as a whole are fair, balanced and understandable and provide the range of information necessary for shareholders to assess the Group's performance, business model and strategy. The Directors have confirmed this in their Responsibility Statement set out on page 121 of the Annual Report of Directors.

Going Concern

Management completed their Going Concern assessment which was challenged and reviewed by the Committee and by Deloitte. The assessment included a "Base Case" for the Group, including cash flow estimates for both Egypt and Vietnam, as well as a "Reasonable Worst Case" scenario.

Under these scenarios, management has assessed, on a conservative basis, the risks around commodity pricing, operational risk and political and regional risks, particularly in Egypt. The assessments also took into account the impact of potential discretionary reductions in capital expenditures, as well as the hedging of production volumes to mitigate against commodity price fluctuations.

Based on this detailed analysis, management has concluded that the Group will continue as a Going Concern for 12 months from the date of signing of the 2019 financial statements.

Following its review of management's assessment, the Committee and Deloitte are satisfied that it is appropriate to prepare financial statements on a Going Concern basis.

Fair value acquisition accounting of Merlon El Fayum Company:

The acquisition of Merlon El Fayum Company was announced on 20 September 2018 and completed on 2 April 2019. Following completion and integration of Merlon El Fayum Company (subsequently renamed as Pharos El Fayum), management has assessed the fair value of the assets and liabilities which were assumed as part of the transaction, as well as the consideration paid.

The Committee has carefully reviewed the composition of management's calculation, including the underlying valuation assumptions, and is satisfied that the fair valuation and consideration paid are reasonable, and that it is in accordance with the requirements of IFRS 3 – "Business Combinations". Deloitte concur with this fair value assessment.

Reserve Based Lending Facility (RBL)

During 2018, the Group entered into an RBL facility for $125m based on the Vietnam assets, of which $100m was drawn in December 2018 to partially fund the Merlon El Fayum Company acquisition.

Under the RBL facility agreement, the Group is required to be compliant with certain debt covenants for each half year ending 30 June and 31 December, as set out on page 156.

The Committee has reviewed management's assessments of debt covenant calculations and is satisfied that the Group is fully compliant.

Commodity hedging – treasury management

During the year, the Group actively managed its exposure to commodity price risk by entering into an ongoing programme of hedging. The objectives of the hedging programme have been to protect the Group's budgetary base case to any downward commodity price movements and to provide certainty for cash flows, ensure compliance with the terms of the RBL Facility Agreement, and to help mitigate the redetermination risk implicit with any RBL.

A Treasury Committee, comprising the Chief Financial Officer as Chair and senior members of the Group's finance team and myself as a guest member, convene on a regular basis to review the Group's strategy and the open hedge positions to ensure that these are still fit for purpose in light of current market conditions. Over the course of 2019, the hedged positions accumulated to cover 27% of the Group's total revenue volumes.

In 2020, the Group seeks to extend this coverage further to protect budgetary cash flow and ensure compliance with and help mitigate redetermination risk on the RBL.

Exploration and evaluation assets and impairment review

The Committee reviewed the Group's intangible exploration and evaluation assets individually in Egypt and Vietnam for any indications of impairment, including the various indicators specified in paragraphs 18 to 20 as set out in IFRS 6 – "Exploration for and Evaluation of Mineral Resources".

At both the half year and year end 2019, the Committee considered whether various indicators of impairment existed, and also whether there were issues arising from the results of impairment reviews by management. Such reviews are carried out in relation to both exploration and evaluation assets, with the role of the Committee being focused on challenging management's underlying assumptions and estimates and to judge whether they are realistic and justified. Deloitte also performed a similar review. Following the impairment testing, the Committee recommended to the Board that no additional impairments be made for the current period.

Producing assets, property, plant and equipment ("PP&E) and impairment review

The Committee reviewed individually the Group's oil and gas producing assets classified as PP&E on the balance sheet for impairment with reference to IAS 36 – "Impairment of Assets". During 2019, the Group's PP&E oil and gas assets comprised its two Vietnam producing licences, TGT and CNV, as well as its El Fayum Concession in Egypt. These are described in the operations review on pages 26 to 29.

This review focused on an updated assessment of the recoverable amount of each asset compared to their carrying value in the accounts. If the recoverable amount dropped below the carrying value, there would have been an impairment charge to reduce the carrying value.

The Committee considered the various assumptions underpinning the assessment of the recoverable amount, including underlying reserves, commodity prices, production rates and discount rates. Based on the Group's approved economic assumptions, the Committee recommended to the Board that no impairments be made.

Following their detailed review, Deloitte were also satisfied that there were no impairments reported.

Oil and gas reserves

The Group's estimates of oil and gas reserves have a crucial impact on the Financial Statements, especially in relation to DD&A and impairment of PP&E assets. Oil and gas reserves, as discussed in the Risk Management Report on page 52 are calculated using best practice and industry evaluation techniques which have uncertainties in their application.

The Committee reviewed, in conjunction with management and Deloitte, the results of independent third party assessments conducted by ERCE during 2019 for Vietnam assets TGT and CNV, and subsequently audited by the Group's reserves auditor, RISC Advisory Pty Ltd ("RISC") which are described in the review of operations on pages 38 and 39.

In addition, the Committee reviewed, in conjunction with management and Deloitte, the reserves assessment conducted by McDaniel for the El Fayum Concession in Egypt.

The various reserves estimates have been scrutinised by management, taking into account the status of each field's development, to be satisfied that reserves estimates are appropriate, that DD&A calculations are correct and that rigorous impairment testing has been carried out. Management also reviewed its estimates of future costs (including decommissioning costs) associated with producing reserves. Reserve estimates are inherently uncertain, and are revised over the producing lives of oil and gas fields as new reserves estimates become available and economic conditions evolve.

New country entry/assets – Israel/Egypt

Following detailed analysis and input from the Group's advisers and lending banks, the Committee reviewed and approved the proposal to enter Israel with reputable partners in order to enable the Company to apply successfully for eight exploration licences. Amongst a range of factors, the proposal also took into consideration the country's commitments to a range of international good practice regulations including adherence to Anti-Slavery and Human Rights laws.

Following last year's detailed analysis and input from the Group's advisers and lending banks, the Committee reviewed and approved the proposal to invest in Egypt in order to enable the Company to proceed with the acquisition of Merlon El Fayum Company. This included the North Beni Suef Concession.

Internal controls and risk management systems

The Group's internal control framework and risk management processes are designed to ensure that risk identification, assessment and mitigation is properly embedded throughout the organisation. The risk management approach is designed to provide the Committee and the Board with reasonable assurance that financial irregularities and control weaknesses will be identified to mitigate risks that could potentially have a material adverse impact on the Group's operations, earnings, liquidity and financial prospects.

During 2019, the Group carried out a comprehensive review of the overall effectiveness of its internal controls framework and identified areas that required improvement. Such areas will be subject to further improvements during 2020.

Following the Capital Markets Day in October 2019, management held its first "Black Hat" risk management workshop with the participation of the two Managing Directors, myself, all Country Managers and Senior Managers in London. This workshop was designed to increase awareness of risk management across the Group.

The Committee considered the workshop to be successful and recommended to management that further workshops be held periodically.

KEY JUDGEMENTS AND ESTIMATES IN FINANCIAL REPORTING

Key judgements and estimates in financial reporting	Audit and Risk Committee review	Outcomes
	IFRS 16 – "Leases" – all lease contracts across the Group were assessed	Estimates included in Note 2 to the Financial Statements on Page 135
Asset carrying values and impairment testing – including judgements on future oil pricing, discount rates, production profiles, reserves and cost estimates	Reviewed the Group's oil price assumptions	The Group's long-term price assumptions are broadly consistent with 2018
	Upstream impairment charges were reviewed twice during the year	No impairments or reversals
Significant risks that could potentially impact on financial statements – including fair valuation of assets, reversal of impairment of CNV producing assets, DD&A estimates, override management controls	Reviewed fair valuation of all assets	Management's assessment of fair value judged as "reasonable and in compliance with IFRS 13"– fair value assessments
	Reviewed DD&A estimates, based on reserves reports, units of production and future development costs	Management's assessments of DD&A judged to be reasonable based on prudent assumptions
	Reviewed override of management controls	Under ISA 240 management override of controls is presumed significant risk. No breaches were found.
Oil reserves accounting – including management's assumptions for future oil prices which have a direct impact on the estimate of the recoverability of asset values reported in the Financial Statements	Reviewed the Group's guidelines and policy for compliance with oil reserves disclosure regulations; including governance and control	
	Reviewed exploration charges	
	Reviewed at each Committee meeting an update on the status of all updated estimates	Updated third party estimates and independent audit completed, with results disclosed in financial statements for year end 2019

The Board is primarily responsible for the effectiveness of the Group's internal control systems which are monitored and improved on an ongoing basis. The Committee has been delegated the responsibility to monitor and assess the effectiveness of the control systems operated by management. The external auditor, Deloitte, also provides feedback and recommendations on controls which are brought to the attention of the Committee.

Internal controls and risk management issues are discussed in detail and reviewed for effectiveness at each Committee meeting, with a report being provided to the Board for approval.

Internal controls focus for 2020
In previous years, based on the size and scale of the Group's activities, an Internal Audit function could not be justified. However, following the acquisition of the Egyptian asset and the Group's stated growth strategy, the Committee recommended and the Board approved the appointment of KPMG to carry out various internal audits. The Committee discussed with KPMG and subsequently approved a detailed audit plan for 2020. This audit plan will be complementary but separate to the audit work undertaken by the Group's external auditor, Deloitte.

The internal audit plan for 2020 will focus initially on the internal controls around certain key processes and the Group's operations in Egypt.

In 2019, internal assurance has been handled by the Group management. The lack of an Internal Audit function in 2019 had no impact on the work of the external auditors.

The Treasury Committee will continue to meet regularly to review the RBL covenants compliance and to review the Group's liquidity, hedging requirements and investment strategy.

The Committee reviewed and approved the related compliance statements set out in the Risk Management Report. The Committee has also reviewed and approved the statements regarding compliance with the 2018 UK Corporate Governance Code (the "Code"), in the Corporate Governance Report on page 82. The Committee reviewed and discussed with management and the external auditor the Company's relevant financial information prior to recommendation for Board approval. This included the Financial Statements and other material information presented in the annual and half year reports. The Committee considered the significant financial reporting issues, accounting policies and judgements impacting the Financial Statements, and the clarity of disclosures. The Committee conducted a review of its Terms of Reference for best practice, which were approved by the Board in early 2019. These will be reviewed again during 2020.

The Audit and Risk Committee and the Board have carried out a review of the effectiveness of the Group's risk management and internal control systems.

Overall, the control environment was considered to be operating effectively. We recognise the oil and gas industry faces many challenges ahead, including the technical, financial, environmental and political challenges of accessing an increasingly scarce resource base and at the same time coping with the opposing dual challenges of production growth but managing transition to a low carbon future.

Our Strategic Framework takes into consideration the range of potential risks and the nature of their impact on the business. The strategic ambitions of the Group, achieving our financial and ESG objectives, maintaining operational effectiveness, ensuring our reputation to markets, partners, and stakeholders are all assessed in the context of our appetite for risk.

The Board is responsible for maintaining a sound system of internal controls to safeguard shareholders' investment and the assets of the Company. There is an effective internal control function within the Company which gives reasonable assurance against any material misstatement or loss. The Board and management will continue to review the effectiveness and the adequacy of the Company's internal control systems and update such as may be necessary.

Ongoing improvements are planned in certain key areas in 2020 including:

- Continue integration of the El Fayum operations via the dissemination and adoption of Group policies and practices
- Implement the risk-based internal audit programme, focusing both on joint venture operations and Parent company audits

- Establish a deeper understanding of the Group's ESG baseline and set key KPIs to improve ESG reporting with sponsorship from the new ESG Committee and its working group and reduce our greenhouse gas emissions throughout our product life cycle, including compliance with TCFD recommendations
- Further improve our Reserve Reporting cycle by strengthening both our internal technical team, improving co-ordination with other disciplines and better support from external consultants on reservoir modelling, geological and geophysical data processing applications
- Maintain and continually update the Group's delegation of authorities to ensure the right mix of collaborative participation, empowerment and control is set between head office and the joint venture operations

Risk assessment
The Committee carried out a detailed risk assessment in which it reviewed existing risks and identified new risks as appropriate. The likelihood and significance of each risk was evaluated along with proposed mitigating factors and was reported to the Board. All new risks or changes to existing risks were monitored throughout the year and discussed at each Committee meeting. The Committee maintains a comprehensive bribery risk assessment and mitigation procedure to ensure that the Group has procedures in place to eliminate bribery, and that all employees, agents, contractors, and other associated persons are made fully aware of the Group's robust policies and procedures on a regular basis.

External auditor
Deloitte was appointed as external auditors in 2002 and no tender has been conducted since that date. In accordance with the Code's guidance concerning external audit tendering and rotation, a competitive tender process is required at least once every 10 years typically. However, taking into account the transitional provisions of Statutory Auditors and Third Country Auditors Regulation 2016 the Group will conduct a competitive tender process no later than for the 2023 year-end audit. The Committee will continue to consider the appropriate time frame in which to conduct such a tender process, in light of the regulatory requirements as well as auditor performance, audit quality, and independence. David Paterson acts as the external audit partner.

The ARC assess the performance of the auditors based on their experience, the quality of their written and oral communication and input from management, prior to the recommendations of the re-appointment of auditors at the AGM.

External auditor – non-audit services
The external auditor is appointed primarily to carry out the statutory audit and their continued independence and objectivity is crucial. In view of their knowledge of the business, there may be occasions when the external auditor is best placed to undertake other services on behalf of the Group. The Committee has a policy which sets out those non-audit services which the external auditor may provide and those which are prohibited. Within that policy, any non-audit service must be approved by the Committee.

Before approving a non-audit service, consideration is given to whether the nature of the service, materiality of the fees, or the level of reliance to be placed on it by the Group would create, or appear to create, a threat to independence. If it is determined that such a threat might arise, approval will not be granted unless the Committee is satisfied that appropriate safeguards are applied to ensure independence and that objectivity is not impaired. The auditor is prohibited from providing any services which might result in certain circumstances that have been deemed to present such a threat, including auditing their own work, taking management decisions for the Group or creating either a mutuality or conflict of interest. The Company has taken steps to develop resources and relationships in order to establish availability of alternate advisers for financial and other matters.

External audit fees
Total audit and non-audit fees in 2019 were $333,000 and $107,000 respectively. The Committee approved all non-audit services provided by the external auditor in 2019. The principal non-audit fees during 2019 were $88,000 for the interim review.

The Committee reviews its non-audit services policy on an annual basis and current policy requires all non-audit services to be pre-approved by the Committee. It is noted that the Group's policy sets out the permitted services and those that are prohibited.

Review of the effectiveness of the Audit and Risk Committee
During the year, the Committee has undergone a comprehensive review of its effectiveness and results were reported to the Board. The Committee was considered by the Board to be operating effectively and in compliance with the 2018 UK Corporate Governance Code and associated guidance.

John Martin
Audit and Risk Committee Chair

> The current Directors' Remuneration Policy is considered to have served the business well over this period of time, recognising performance on a broad basis and aligning the interests of Executive Directors with shareholders.

Rob Gray
Remuneration Committee Chair

Dear shareholders,

On behalf of the Board, we are pleased to present the Directors' Remuneration Report for the financial year ended 31 December 2019. This report has been prepared in accordance with section 421 of the Companies Act 2006 and Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended).

Our Directors' remuneration policy was renewed at the 2017 AGM with 99% support from our shareholders. In line with the requirements of applicable law, we intend to put the Policy to a binding shareholder vote at least once every three years. Accordingly, we will be proposing a new Directors' Remuneration Policy to shareholders for approval at the 2020 AGM.

The Directors' Remuneration Policy review

The current Directors' Remuneration Policy (the "Policy") is an extension of the approach which has been used for over a decade, based around the combination of competitive fixed pay, an annual bonus with substantial deferral and a long-term incentive plan award based on relative value creation. This is considered to have served the business well over this period of time, recognising performance on a broad basis and aligning the interests of Executive Directors with shareholders. The approach is cascaded further down into the organisation and is now truly embedded into the business culture.

With the acquisition of assets in Egypt expanding and diversifying our resource base, the Company is now well-positioned to take advantage of growth opportunities which will generate value for our shareholders.

As a Remuneration Committee we believe that the current Policy, with some minor amendments, will continue to support this strategy and therefore the proposed new Policy is broadly a continuation of our current approach. However, we have proposed some changes to recognise developments in governance practice over the last few years and to better align with the shareholder experience. In summary these changes are:

- **Base salary** – no changes to Policy. Future increases will still normally be aligned with those provided to the wider workforce (but there is a one-off reallocation of base salary amongst the Executive Directors (explained below).
- **Benefits** – no changes are proposed in practice although we have seen from potential acquisitions that the benefits cap could potentially be constraining and plan to add some additional flexibility (to be used in exceptional circumstances), when recruiting internationally mobile Executives.
- **Pension** – lower the Policy limit from 20% of salary to 15% of salary. In practice, this has no impact on the current Executive Directors who are entitled to a 15% of salary contribution, which is fully aligned with that offered to the wider UK workforce.
- **Annual bonus** – no change to quantum or structure. Continue to measure performance on a balanced scorecard of measures which reflect strategic, operational, financial and HSES and CR objectives for that particular year. Deferral will continue to apply to one-third of any bonus amount with the deferred element held in shares for two years (or the after-tax level so held if taxed upfront) and at risk of forfeiture on resignation. You will be aware that we have, in recent years, sought to improve the disclosure of how the balanced scorecard operates. This will continue and we look to add more objectively measurable (but still strategically relevant) targets to the extent that this is consistent with the Company's strategic objectives.
- **LTIP** – no change to maximum quantum (maximum annual award of 200% of salary) or structure (three-year vesting period with a further two-year holding period). The Policy will reserve the normal discretion as regards setting performance conditions each year.
- **Shareholding guidelines** – no change to quantum (200% of salary), with that level (or the actual holding if less) required to be held for one year post-cessation and 100% of salary required to be held for a period of up to two years after cessation of employment unless the Committee exceptionally determines that it is appropriate to release this requirement. The Committee will ensure it has appropriate enforcement mechanisms through requiring any future deferred bonuses and LTIP vestings from future grants to be lodged with the Company in escrow until a sufficient holding has been

Table A: Remuneration Committee meeting attendance during 2019

Committee member	2019 attendance
Rob Gray*	++++
John Martin*	++++
Marianne Daryabegui*[1]	+++
António Monteiro*[2]	+

\+ Attended.
* Independent NED.
1 Appointed as Director and member of Remuneration Committee on 15 March 2019.
2 Retired as a Director March 2019.

Role of Committee

The Remuneration Committee is responsible for setting the remuneration of the Chair and the Executives, and is responsible for appointing any consultants it may engage in carrying out its duty.

built up. It should be noted that in addition to the above proposal, the default position for outstanding deferred bonuses and LTIP awards on cessation for a good leaver remains to allow them to run to their normal vesting date. This forms an extra post-cessation holding requirement and the combination is considered to adequately reflect the spirit of the Code with a material exposure to the longer-term sustainable performance of the Company.

As announced at the Company's recent Capital Markets Day, we consider that the current three Executive Directors undertake their roles as something of a triumvirate and, therefore, Ed Story as our Group CEO, volunteered to split part of his base salary in excess of that of his two colleagues equally with them (so all Executive Directors now have a base salary of c.£540k (or $702k) effective as at 1 January 2020). This is considered to best reflect the scope of responsibilities of the three Executive Directors and does not result in any material aggregate cost increase.

As part of the review process the Remuneration Committee considered introducing additional performance metrics for the next LTIP award. However, following shareholder feedback, it was decided that the 2020 LTIP would remain subject solely to a relative TSR metric. However, the Committee will keep in mind the use of other performance metrics for future awards and these will be the subject of consultation with major shareholders as necessary.

At the same time as making these changes, we have reviewed our incentive plan documentation to ensure it remains fully compliant with regulatory and governance developments. In order to ensure there is maximum enforceability for recovery and withholding provisions (i.e. malus and clawback), we have amended our plan rules to now include an additional insolvency trigger.

Both the annual bonus and LTIP are operated on a discretionary basis and the Committee has no limitations to its ability to override the formulaic outcomes if considered appropriate. The Committee has used this discretion in the past (such as the scale back of 2016 annual bonus outcome and the 2019 annual bonus outcome on pages 109 to 111) and will continue to monitor its appropriateness in light of a range of factors including the experience of stakeholders during the year.

The proposed changes in the Policy were the subject of consultation with our major shareholders and proxy agencies during the course of the year. This consultation consisted of contacting shareholders covering approximately 70% of the share register with a number of meetings and follow-up discussions as required. Feedback from these discussions was helpful in finalising the Policy and the Committee wishes to thank all those who gave valuable time to the process.

How performance was reflected in the pay of our Executive Directors

As reported throughout the Strategic Report, 2019 has seen significant progress made in repositioning the Company to a full-cycle and growth-oriented E&P company of scale. The successful integration of Merlon significantly increases Group reserves, resources and production, and importantly diversifies the base from which the Company can grow production further.

The year saw a number of performance highlights, which are set out in page 2 and in more detail on pages 26 to 45. The Committee considered in some detail the achievement against the 2019 KPIs set in the annual bonus. The formulaic assessment resulted in a bonus outcome of 70% for each Executive Director. The Committee then took account of the wider performance both of the Company and the sector in terms of the shareholder experience and also noted the slow start to the ramp up of production levels in Egypt. The result of this review was a decision to use discretion to reduce the bonus outcome to 50% of maximum. The Committee believes the final result is a fair reward for the corporate and personal performance delivered over the financial year.

The 2017 LTIP which was due to vest in January/February 2020 will lapse through a failure to meet the relative TSR performance condition.

Outlook for 2020

As noted above there will be a reallocation of base salaries amongst the three Executive Directors so that they are all paid the same.

The annual bonus will be operated in the same manner as for 2019, albeit the performance measures and weightings have been rebalanced to reflect the key priorities for this financial year.

The 2020 LTIP will be the same as for 2019, with performance based on relative TSR performance which is considered to be the most meaningful metric for an E&P company at this stage of maturity. However, the Company will revert to a more standard vesting schedule, with 25% of the award vesting for median ranking, rising on a straight-line basis to full vesting for upper quartile ranking (previously full vesting was achieved for an upper 16th percentile ranking). The use of other performance measures, such as ROCE, will be kept under review for future awards.

The Committee is cognisant of the current share price and the impact this would have on the number of awards granted under the LTIP. Therefore, for the 2020 LTIP , we will use the same share price as used for the 2019 LTIP to determine the number of awards to be granted.

Conclusion

The Committee believes that the limited changes above will bring the Policy into line with developments in corporate governance and will continue to support the business strategy.

We look forward to receiving your support at the upcoming AGM.

Finally, this is my first report as the Chair of the Committee after I took over its chairmanship from António Monteiro. I want to thank him on your behalf for his hard work over the last nine years.

Rob Gray
Chairman of the Remuneration Committee

Policy Report (Unaudited)

This Remuneration Policy will be effective from the date of the 2020 AGM, subject to shareholder approval at that meeting. The Policy is intended to apply for a period of three years. However, the Committee monitors the Remuneration Policy on a continuing basis including consideration of evolving market practice and relevant guidance; shareholder views and results of previous voting; policies applied to the wider employee base; and with due regard to the current economic climate. Should the Committee resolve that the Remuneration Policy should be revised, such revisions will be subject to a binding shareholder vote.

The overarching aim is to operate a Remuneration Policy which rewards senior Executives at an appropriate level for delivering against the Company's annual and longer-term strategic objectives. The Policy is intended to create strong alignment between Executive Directors and shareholders through a heavy focus on the use of equity. The Committee is comfortable that the structure and operation of the Policy does not create any environmental, social and corporate governance matters and is managed within an acceptable risk profile.

The decision-making process

When reviewing the Policy, the Committee involved the use of our external advisers to provide data and opinion on market practice and developments in corporate governance. The Committee also called upon the Executive Directors to provide business strategy and wider employee context. However, the Committee made its decisions based on the outcomes of its own deliberations and taking into account feedback provided from shareholders and proxy agencies who were consulted at an early stage.

When considering the development of the new Policy, the Committee was mindful of how it would address the six factors set out in the UK Corporate Governance Code and which are explained in more detail below:

Clarity

- The proposed Policy has a clear objective: to enable the Company to recruit, retain and motivate high calibre individuals to deliver long-term sustainable performance which benefits all stakeholders
- The Policy itself is in line with standard UK market practice, and is an update of the current Policy, so should be well understood by shareholders and participants
- The Policy is fully embedded into the business, so it is well understood by participants and is managed efficiently from an administrative perspective
- The terms of the Policy are clearly described in this Report, including full disclosure on limits, measures and discretions. There should be no ambiguity on how it is intended to be operated
- Full retrospective disclosure of the relevant performance assessments and outcomes is provided for shareholders to consider
- Full prospective disclosure is provided in relation to LTIP awards, including the award levels, performance measures and targets

Simplicity

- The Policy includes a standard annual bonus plan and a single LTIP so the incentive arrangements are considered easy to communicate
- Payments are made either in cash or via Company shares. No artificial or complex structures are used to facilitate the operation of the incentive plans
- The rationale for each element of the Policy is clearly explained in the Policy table and links to the overall Company strategy

Risk

- Relevant individual and plan limits prevent excessive outcomes under the annual bonus or LTIP
- Regular interaction with the Audit and Risk Committee ensures relevant risk implications are understood when setting or assessing performance targets
- Periodic risk reviews to ensure the Policy remains within an acceptable risk profile and that the performance measures used do not incentivise or reward for inappropriate behaviour
- Any unintended consequences of a particular performance metric are considered when assessing its appropriateness
- Comprehensive clawback and malus provisions are in place across all incentive plans and the Committee's ability to use its discretion to override formulaic outcomes is considered an important control to prevent inappropriate reward outcomes
- Flight risk and succession issues are considered as part of the wider remit of the Remuneration Committee and the Nominations Committee, and are considered on at least an annual basis, generally as part of the annual pay review

Predictability

- The possible reward outcomes are quantified and reviewed at the outset of the performance period. The illustrations provided in the Policy section of the DRR clearly show the potential scenarios of performance and the resulting pay outcomes which could be expected
- Relevant individual and plan limits prevent excessive outcomes
- Regular monitoring of performance by the Committee ensures that there are "no surprises" at the end of period assessment

Proportionality

- Incentives only pay-out if strong performance has been delivered by the Executive Directors
- The performance measures used have a direct link to the KPIs of the business and there is a clear separation between those used in the annual bonus and LTIP
- Appropriate underpins can be (and have been) used to ensure that any pay-outs are affordable based on financial performance
- The Committee has the discretion to override formulaic outcomes if they are deemed inappropriate in light of the wider performance of the Company and considering the experience of stakeholders

Alignment to culture

- Incentive structures incentivise and reward for strong performance
- They do not reward poor performance
- The Policy seeks to retain Executives to deliver long-term, sustainable performance which benefits all stakeholders
- The relevant discretions in the Policy are intended to ensure that performance is assessed on a "like for like basis" and that participants are rewarded for "doing the right thing" for the Company, not for themselves

Policy table for Executive Directors

The table below summarises our Policy for each component of Executive Directors' Remuneration and notes any key changes from the Policy previously approved at the 2017 AGM and which is in operation until the approval of the new Policy at the 2020 AGM:

Fixed pay

Base salary

Core element of remuneration set at a sufficient level to attract and retain people of the necessary calibre to shape and execute the Company's strategy.

Operation	Maximum	Performance criteria	Key changes

• Contractual fixed cash amount paid monthly
• Particular care is given in fixing the appropriate salary level considering that incentive pay is generally set at a fraction or multiple of base salary
• The Committee takes into account a number of factors when setting salaries, including (but not limited to):
  • Size and scope of individual's responsibilities
  • Skills and experience of the individual
  • Performance of the Company and the individual
  • Appropriate market data.
  • Pay and conditions elsewhere in Pharos
• Base salaries are normally reviewed annually
• Results of benchmarking exercises are monitored for indications of potential unwarranted upward ratcheting
	• Any salary adjustments will normally be in line with those of the wider workforce
	• The Committee retains discretion to award higher increases in certain circumstances such as increased scope and responsibility of the role, or in the case of new Executive Directors who are positioned on a lower salary initially, as they gain experience over time. In these circumstances a base salary increase will not exceed the CEO's previous salary of $924,000
		• N/A	• In compliance with the latest regulatory guidance we have included a fixed salary cap. All caps have been included to comply with the regulations and do not constitute an aspiration

Benefits

Purpose and link to strategy

To provide Executive Directors with market competitive benefits consistent with the role.

Operation	Maximum	Performance criteria	Key changes
• Executive Directors receive benefits which may include (but are not limited to) medical care and insurance, permanent health insurance, life assurance cover, critical illness cover, travel benefits, expatriate benefits, car benefits and relocation expenses • Reasonable business related expenses will be reimbursed (including any tax payable thereon)	• Benefits are positioned at an appropriate market level for the nature and location of the role. Whilst the actual value of benefits may vary from year to year based on third party costs, it is intended that the maximum annual value will not exceed $250,000 or £200,000, per Directors' base currency • In addition to the above cap, the Company may contribute to relocation expenses up to 100% of salary	• N/A	• In compliance with the latest regulatory guidance we have included a maximum value cap on benefits. All caps have been included to comply with the regulations and do not constitute an aspiration

Pension

Purpose and link to strategy

To provide retirement benefits consistent with the role

• Pension benefits are delivered through contributions to Pharos' money purchase plan up to relevant plan limits and/or a cash supplement	• 15% of base salary per annum	• N/A	• Maximum pension contribution has been reduced to 15% of salary, which is fully aligned with that offered to the wider workforce

Variable pay

Annual bonus

Purpose and link to strategy

Incentivises and rewards for the delivery of the strategic plan on an annual basis.

Operation	Maximum	Performance criteria	Key changes
• Payments are based on performance in the relevant financial year. • At the beginning of the year, the Committee sets objectives which it considers are critical to the delivery of the business strategy. • Performance against these key strategic objectives is assessed by the Committee at the end of the year. • The Committee retains the discretion to amend the bonus payout (negatively or positively) to ensure it reflects the performance of either the individual or the Company. • One-third of any bonus payout is subject to deferral into Pharos shares under the Deferred Share Bonus Plan.	• 150% of base salary per annum, including cash and deferred components at the discretion of the Committee.	• The annual bonus is based on individual and corporate performance during the year. • Corporate goals are set annually and may include monitored measures for particular projects; portfolio objectives; corporate strategic goals; safety, social and environmental measures; financial measures; and other measures as may be deemed appropriate and relevant to the period for delivery of the business strategy. • If the Committee determines that a minimum level of performance has not been achieved, no bonus will be payable. Thereafter the bonus will begin paying out, up to the maximum of 150% of salary. • The Committee determines the appropriate weighting of the metrics each year.	• Bonus deferral to require that one-third of any bonus is delivered under the Deferred Share Bonus Plan. This is now part of the formal Policy, having been operated on a voluntary basis for a number of years. This ensures Directors' interests remain closely aligned with shareholders.

LTIP

Purpose and link to strategy

Incentivises and rewards for the Company's strategic plan of building shareholder value

Operation	Maximum	Performance criteria	Key changes
• Typically a conditional award of shares or a nil price option is made annually, normally in December, in the course of the annual review cycle • Vesting of the awards is dependent on the achievement of performance targets, which are typically measured over a three-year performance period • Awards (post of tax) will also be subject to a two-year post-vesting holding period during which they cannot be sold (except in exceptional circumstances and with the Committee's prior approval)	• Usually 200% of base salary per annum • In circumstances which the Committee determines to be exceptional, annual awards of up to 400% of base salary per annum may be made	• Awards vest based on performance against financial, operational and/or share price measures, as set by the Committee, which are aligned with the long-term strategic objectives of Pharos • No less than 50% of the award will be based on share price measures. The remainder will be based on financial, operational measures • For 'threshold' levels of performance, 25% of the award vests. 100% of the award will vest for maximum performance. Pro-rating applies between these points and between ranking positions • The Committee may reduce LTIP vesting outcomes (including to zero), based on the result of testing the performance condition, if it considers the potential outcome to be inconsistent with the performance of the Company, business or individual during the performance period. Any use of such discretion would be detailed in the Annual Report on Remuneration	• Formalising the previously agreed inclusion of a post-vesting holding period on vested awards • The Share Option Plan which previously featured in the Remuneration Policy, but was not used for Executive Directors, has now been excluded from this Policy

Shareholding guidelines

Purpose and link to strategy

Further increases alignment between Executive Directors and shareholders.

Operation	Maximum	Performance criteria	Key changes
• The Board has a policy of requiring Executive Directors to build a minimum shareholding in Pharos shares equivalent to 200% of salary • A post cessation shareholding guideline will operate from the approval of this Policy. Executive Directors will be expected to retain the lower of actual shares held and shares equal to 200% of salary for one year post-cessation and 100% of salary for up to two years post-cessation (unless the Committee exceptionally determines that it is appropriate to release this requirement). Pharos shares which vest from future deferred bonus and LTIP awards will be retained until a sufficient holding has been built up	• N/A	• N/A	• Introduction of a post-cessation shareholding guideline

Notes to the Policy table

Discretion

The Committee reserves the right to make any remuneration payments and payments for loss of office (including exercising any discretions available to it in connection with such payments) that are not in line with the Policy set out above where the terms of the payment were agreed:

- Before the Policy came into effect; or
- At a time when the relevant individual was not an Executive Director of the Company and, in the opinion of the Committee, the payment was not in consideration for the individual becoming an Executive Director of the Company

For these purposes, (i) 'payments' includes the Committee satisfying awards of variable remuneration and (ii) an award over shares is "agreed" at the time the award is granted.

The Committee will operate the annual bonus, LTIP and share option plan in accordance with the relevant plan rules. In line with best practice the Committee retains discretion on the operation and administration of these plans, including as follows:

- Dividend equivalents may be paid on awards up to the point of vesting
- Awards will be subject to recovery and withholding provisions and therefore may be reduced at the discretion of the Committee for instances of serious misconduct, an error in calculation, a misstatement of the Company's financial results or for serious reputational damage to the Company (as determined by the Committee). Provisions will apply for a period of three years from date of payment/vesting
- The Committee may settle an award in cash
- In the event of a variation of share capital or any other exceptional event which, in the reasonable opinion of the Committee, requires an adjustment, the Committee may adjust the number of shares or the exercise price
- If an event occurs which results in the performance conditions for outstanding incentive plans being no longer appropriate, then the Committee may adjust the measures and/or targets, with the caveat that they will, in the opinion of the Committee, be no less challenging to achieve

Any use of the above discretions would, where relevant, be explained in the Annual Report on Remuneration and may, as appropriate, be the subject of consultation with the Company's major shareholders.

Takeover or other equivalent corporate event

On a takeover or other equivalent corporate event, outstanding deferred bonus awards will vest in full as soon as practicable after the date of the event, unless the Committee determines otherwise. For outstanding LTIP and share option awards, on a takeover or other equivalent corporate event, generally the performance period will end on the date of the event. The Committee will determine the extent to which performance conditions have been achieved at this point, taking into account relevant factors as appropriate. Unless the Committee determines otherwise, awards will generally vest on a time pro-rata basis taking into account the shortened performance period. Alternatively, outstanding LTIP and share option awards may be subject to rollover, with the agreement of the acquiring company.

Minor changes

The Committee may make minor amendments to the Policy set out in this report (for regulatory, exchange control, tax or administrative purposes or to take account of a change in legislation) without obtaining shareholder approval for the amendment.

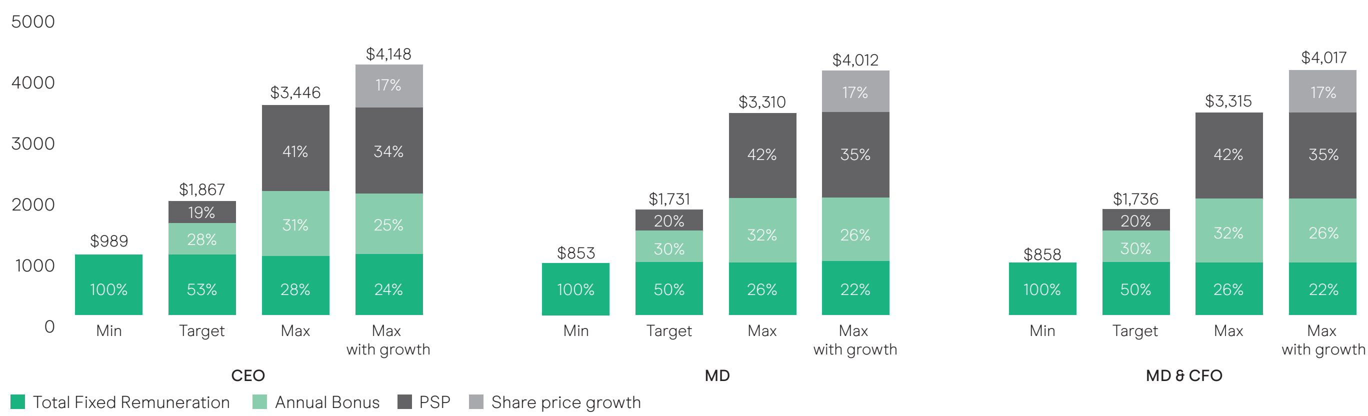
Performance measures and target setting

The Policy table for Executive Directors above describes the policy for setting performance measures used for the annual bonus and LTIP, which are intended to ensure that executives are appropriately focused on the successful delivery of the strategic plan over both the short and medium term. When setting the relevant performance targets, the Committee will take into account a number of internal and external reference points that are linked to Pharos' strategic priorities, as well as the economic environment.

Illustration of Policy

The charts below illustrate the application of the Remuneration Policy set out in the Policy table for the Executive Directors.

ILLUSTRATION OF APPLICATION OF REMUNERATION POLICY



The assumptions used for the above charts are shown on the next page.

Levels of performance	Assumptions	Performance criteria
Fixed pay	All scenarios	• Total fixed pay comprises base salary, benefits and pension • Base salary – effective as at 1 January 2020 • Benefits – value received by each Director in 2019 • Pension – 15% of salary, the benefit currently set for all Executive Directors
Variable pay	Minimum performance	• No payout under the annual bonus and no vesting under the LTIP
	Performance in line with expectations	• 50% of the maximum payout under the annual bonus (i.e. 75% of salary) • 25% vesting under the LTIP (i.e. 50% of salary)
	Maximum performance	• 100% of maximum payout under the annual bonus (i.e. 150% of salary) • 100% of maximum vesting under the LTIP (i.e. 200% of salary)
	Maximum performance with growth	• As above but with 50% share price growth assumed on the LTIP vesting

Policy table for Non-Executive Directors

Component	Pharos' approach
Chairman fees	• Comprises an all-inclusive fee for Board and Committee positions • Determined by the Remuneration Committee and approved by the Board
Non- Executive Director	• Comprises a basic fee in respect of their Board duties • Further fees may be paid in respect of additional Board or Committee roles • Recommended by the Chair and Chief Executive Officer and approved by the Board
Other	• In the event of a temporary but material increase in the time commitment required, fees may be increased on a pro-rata basis to reflect the additional workload • Reasonable business related expenses will be reimbursed (including any tax payable thereon)

No Director plays a role in determining their own remuneration. The Committee consults with the CEO in determining the Chairman's fee. Fees for all Non-Executive Directors reflect the time commitment and responsibilities of the role, and are set at a level sufficient to attract and retain individuals with the required skills, experience and knowledge to allow the Board to carry out its duties. The fees set out above are the sole element of Non-Executive Director remuneration. They are not eligible for participation in the Company's incentive or pension plans.

The fees have been set within the aggregate limits set out in the Company's Articles of Association (currently £800,000) and approved by shareholders.

Approach to remuneration on recruitment

Principles

On the appointment of a new Executive Director, we seek to apply the following principles when determining the remuneration arrangements:

- The package should be competitive to facilitate the recruitment of individuals of the calibre needed to shape and execute Pharos' strategy and build shareholder value
- The Committee reserves the right not to apply the caps contained within the Policy table for fixed pay, either on joining or for any subsequent review within the Policy period, although, in practice, the Committee does not envisage exceeding these caps
- The Committee will consider all relevant factors as appropriate. This may include, but is not limited to, the calibre and experience of the individual, market practice and the current Remuneration Policy. The Committee will be mindful that any arrangements must be structured in the interests of Pharos' shareholders without paying more than is necessary
- Typically, a new appointment will have (or be transitioned onto) the same framework that applies to other Executive Directors as set out in the Policy table above. Salaries would reflect the skills and experience of the individual, and may be set at a level to allow future salary progression to reflect development and performance in the role
- An Executive Director may initially be hired on a contract requiring up to 24 months' notice which then reduces pro-rata over the course of the first year of the contract, to requiring not more than 12 months' notice
- It would be expected that the structure and quantum of the variable pay elements would reflect those set out in the Policy table for Executive Directors
- Depending on the timing of appointment it may be necessary to set different performance measures and targets to those used for existing Executive Directors, although this would only be expected to operate for the remainder of the first financial year of appointment

In the remuneration report following appointment, the Committee will explain the rationale for any such relevant arrangements.

The Committee retains discretion to make appropriate remuneration decisions outside the standard policy to meet the individual circumstances of recruitment when:

- An interim appointment is made to fill an Executive Director role on a short-term basis
- Exceptional circumstances require that the Chair or a Non-Executive Director takes on an executive function on a short-term basis

Buy-outs

To facilitate recruitment, the Committee may make compensatory payments and/or awards for any remuneration arrangements subject to forfeit on leaving a previous employer. Such payments or awards could include cash as well as performance and non-performance related share awards, and would be in such form as the Committee considers appropriate taking into account all relevant factors such as the form, expected value, timing, impact of any performance conditions and the anticipated vesting of the forfeited remuneration. There is not a specified limit on the value of such awards, but the estimated value awarded would be equivalent to the value forfeited.

Recruitment of Non-Executive Directors

On the appointment of a new Chair or Non-Executive Director, remuneration arrangements will be consistent with the Policy set out in this report.

Policy on payment for loss of office

Where an Executive Director leaves employment, the Committee's approach to determining any payment for loss of office will normally be based on the following principles:

- The Committee's objective is to find an outcome which is in the best interests of both Pharos and its shareholders while taking into account the specific circumstances of cessation of employment
- The Committee must satisfy any contractual obligations agreed with the Executive Director. This is dependent on the contractual obligations (i) not being in contradiction with the Policy set out in this report, or (ii) if so, not having been entered into on a date later than 27 June 2012, in accordance with the relevant legislation
- The Committee may seek to compromise any claims made against the Company in relation to a termination and reserves the right to pay reasonable legal fees and/or for outplacement services if considered necessary
- The Committee may make an annual bonus payment for the year of cessation depending on the reason for leaving. Typically, the Committee will take into consideration the period served during the year and the individual's performance up to cessation. Any such payment is at the discretion of the Committee
- The treatment of outstanding share awards will be governed by the relevant plan rules as set out in the table shown below

Plan	Automatic good leaver	Treatment for good leaver	Treatment for all other reasons
Deferred bonus	• Death • Ill-health, injury or disability • Redundancy • Retirement with agreement of the employer • Any other reason as determined at the discretion of the Committee	• Awards will usually vest on the normal vesting date • The Committee retains the discretion to accelerate vesting so that awards vest as soon as practicable following cessation	• Awards will normally lapse in full (unless otherwise determined by the Committee)
LTIP and share option plan	• Death • Ill-health, injury or disability • Redundancy • Retirement with agreement of the employer • Any other reason as determined at the discretion of the Committee	• The Committee will determine the proportion of the award that will vest, normally taking into account the achievement of the relevant performance conditions at the vesting date and the time elapsed between the date of grant and cessation of employment • The vesting date for such award will normally be the original vesting date, although the Committee has the flexibility to determine that awards can vest upon cessation of employment • Where options are granted, vesting options will be exercisable within a period of six months, or 12 months in the event of death, commencing on the date on which such options vest (being either the date of cessation or the original vesting date as determined by the Committee as per above) • The Committee has the discretion to vary the period in which vested options are exercisable	• For grants under the share option plan, vested options will remain exercisable for six months • All other awards will normally lapse in full (unless otherwise determined by the Committee)

Service contracts

Executive Directors' contracts are for an indefinite period and are terminable by either party on giving one year's notice, which may be satisfied with a payment in lieu of notice. The contracts do not contain specific termination provisions.

The Committee has a duty to prevent the requirement to make payments that are not strictly merited, and endorses the principle of mitigation of damages on early termination of a service contract. Any payment on early termination will be assessed on the basis of the particular circumstances, but in any event will not be in respect of any period beyond the notice period specified by the contract.

The Non-Executive Directors' appointments are terminable at the will of the parties but are envisaged to establish an initial term of three years after which they will be reviewed annually.

The Executive Directors' service contracts and the Non-Executive Directors' letters of appointment are available at the Company's registered office.

Consideration of pay and employment conditions elsewhere in Pharos and differences in Remuneration Policy for Executive Directors compared with other employees

The Committee monitors the remuneration of senior management and makes recommendations as deemed appropriate. Pay and employment conditions elsewhere in the Company are taken into account to ensure the relationship between the pay of the Executive Directors and its employees is consistent throughout the Company. Similar benchmarking techniques are applied to non-Board employees using relevant market data and the Committee monitors staff remuneration packages during the review of Executive Directors' remuneration packages.

All eligibale employees have the same access to the same pension contribution rate (15% of salary) and access to a similar level of benefits.

As for our Executive Directors, it is intended that a meaningful amount of employee pay is weighted towards variable remuneration. All employees participate in the annual bonus plan, with the emphasis between corporate and individual goals dependent on the role and its level of direct influence on Pharos' Group-wide results. All employees have an opportunity to share in the success of the Company through participation in the share option plan which, for this purpose, is operated similarly to an all employee share scheme. The Executive Directors do not receive awards under the share option plan. Individuals with the greatest ability to directly influence Pharos' Group-wide results may also receive additional discretionary awards under the share option plan or the LTIP.

The Committee does not formally consult with employees when formulating the Remuneration Policy for Executive Directors, but during the course of the year, Non-Executive Directors have attended various workforce engagement sessions where, amongst other issues, executive pay has been discussed.

Consideration of shareholder views

The Committee takes an active interest in shareholder views and these help shape the structure of the Directors' remuneration arrangements at Pharos. In advance of any significant changes in the Policy or its operation, the Committee will liaise with major shareholders (and relevant proxy agencies) to seek out their views. Any feedback is shared with the Committee and will form part of the consideration when finalising our approach.

The Committee also monitors published shareholder guidelines and will incorporate further requirements and best practice features as appropriate.

Annual Report on Remuneration

(Audited section)

Single total figure of remuneration

The table below sets out the total remuneration in respect of qualifying services for both Executive and Non-Executive Directors for the financial year 2019. It also provides comparative figures for 2019:

						2019
	Fees/salary $000's	Benefits[1] $000's	Bonus $000's	LTIP $000's	Pension $000's	Total $000's
Executive						
E Story	924	182	693	–	139	1,938
J Brown[2]	561	46	428	–	84	1,119
M Watts[2]	561	51	428	–	84	1,124
Non-Executives						
R de Sousa	250	14	–	–	–	264
E Contini	75	–	–	–	–	75
R Gray	150	2	–	–	–	152
A Monteiro*	37	3	–	–	–	40
J Martin	100	–	–	–	–	100
M Daryabegui*	59	–	–	–	–	59
Total	2,717	298	1,549	–	307	4,871

The benefits receivable by Executive Directors include private medical insurance, permanent health insurance, life assurance cover, critical illness cover, travel and expatriate benefits and car benefits. The benefits column for Non-Executive Directors includes taxable travel and accommodation expenses to attend Board functions in the year, and the tax payable thereon, in accordance with HMRC guidance.

1 The near-term average exchange rate at the end of the performance period of 1.31 has been used to convert share price from GB pounds to US dollars.

2 Executive Directors' fees and the salaries of Jann Brown and Dr Mike Watts are set in GB pounds and are reported in US dollars at the annual average exchange rate.

* Fees paid to the Executive and Non-Executive Directors are in proportion with their dates of service.

						2018
	Fees/salary $000's	Benefits[1] $000's	Bonus $000's	LTIP $000's	Pension $000's	Total $000's
Executive						
E Story	924	228	971	–	139	2,262
J Brown[2]	601	81	620	–	90	1,392
M Watts[2]	601	218	620	–	90	1,529
Non-Executives						
R de Sousa	254	–	–	–	–	254
E Contini	67	–	–	–	–	67
R Gray	133	–	–	–	–	133
A Monteiro	73	4	–	–	–	77
J Martin*	41	–	–	–	–	41
O Barbaroux*	29	1	–	–	–	30
Total	2,723	532	2,211	–	319	5,785

The benefits receivable by Executive Directors include private medical insurance, permanent health insurance, life assurance cover, critical illness cover, travel and expatriate benefits and car benefits. The benefits column for Non-Executive Directors has been updated to include taxable travel and accommodation expenses to attend Board functions in the year, and the tax payable thereon, in accordance with changes in HMRC guidance.

* Fees paid to the Executive and Non-Executive Directors are in proportion with their dates of service.

The aggregate emoluments of all Directors during the year was $4.9m.

Notes to the single figure table

Annual bonus

Setting measures

The Company seeks to set challenging, yet achievable, performance measures designed to link pay to performance against its core strategic objectives.

The performance measures were chosen to ensure that Executive Directors are focused on the near-term objectives that build the long-term delivery of value to shareholders, which results in a combination of measures being used covering strategic, operational, financial, business development and CR goals. While we monitor Pharos's performance with a broader mix of financial and non-financial KPIs, the measures impacting the annual bonus emphasise those deemed most relevant to management performance and take into account the annual budget and the prevailing economic environment.

2019 Annual bonus measures and out-turns

The table below sets out the performance assessed against the weighted measures described in last year's Remuneration Report, and identifies the link from each of these measures to our core strategy.

Metric	Weight	Performance	Bonus awarded
Strategy/portfolio management	**30%**		**25%**
Complete Merlon transaction	7.5%	Threshold / Target / Maximum	7.5%
Link to strategy • New business opportunities • Investment growth • Deliver values through growth • Return to shareholders	Target • Complete by 30 April 2019 with clear title	Performance Completion occurred on 2 April 2019	Outcome Achieved
Maintain pipeline of value accretive projects	7.5%	Threshold / Target / Maximum	7.5%
Link to strategy • New business opportunities	Target • Maintain pipeline of value accretive projects	Performance Continuous pipeline maintained throughout the year	Outcome Achieved
Announce acquisition	7.5%	Threshold / Target / Maximum	2.5%
Link to strategy • New business opportunities	Target • Announce one acquisition	Performance Signed 8 exploration licences in Israel on 24 December 2019	Outcome Partial achievement – assets provide significant potential value but do not add reserves/ production.
Finance	7.5%	Threshold / Target / Maximum	7.5%
Link to strategy • New business opportunities	Target • Maintain self-funding business plan covered, liquid reserves plus a cushion of $10m at all times	Performance Retained a cash balance in excess of $10m throughout period	Outcome Achieved

Metric	Weight	Performance	Bonus awarded
Financial/Operational	**35%**		**15%**
Production	10%	Threshold Target Maximum	2.5%

Link to strategy	Target	Performance	Outcome
• Deliver value through growth	• Vietnam production full year target of 6,500 boepd • Egypt production exit rate 6,500 boepd	• Vietnam production turnout was 7,318 boepd. • Egypt production at end of financial year was 5,055 boepd	• Achieved for Vietnam • Not achieved for Egypt

Metric	Weight	Performance	Bonus awarded
Cash opex	10%	Threshold Target Maximum	5%

Link to strategy	Target	Performance	Outcome
• Deliver value through growth	• Vietnam cash opex bbl <$15 • Egypt cash opex bbl <$8	• Vietnam cash opex bbl $10.69 • Egypt cash opex bbl $10.01	• Achieved for Vietnam • Not achieved for Egypt

Metric	Weight	Performance	Bonus awarded
Operating cash flow	10%	Threshold Target Maximum	2.5%

Link to strategy	Target	Performance	Outcome
• Deliver value through growth	• Deliver operating cash flow per share in excess of 2018 figure of $0.17	• Operating cash flow of $0.19 per share	• Achieved

Metric	Weight	Performance	Bonus awarded
Net debt	5%	Threshold Target Maximum	5%

Link to strategy	Target	Performance	Outcome
• Deliver values through growth • Return to shareholders	• Net debt/EDITDAX of <2	• Net debt/EBITDAX -0.37	• Achieved

Metric	Weight	Performance	Bonus awarded
HSES & CR	**35%**		**30%**
Indicators for Vietnam	5%	Threshold – Target – Maximum	5%

Link to strategy	Target	Performance	Outcome
• Responsible operations	• No lost time incidents • No environmental spillage • Successful roll out of HSES systems for new operating office in Vietnam for Blocks 125 & 126	• No lost time incidents on Pharos operated assets or within HLHVJOC operations. • No environmental spillages on Pharos operated assets or within HLHVJOC operations. • Roll out of operations systems for operating office in Blocks 125 & 126, in particular, implement Human Rights Action Plan and complete Environmental Plans, as required, ahead of commencement of seismic acquisition, and execute first offshore operations (seismic acquisition) with no lost time accidents and no environmental spillage The Safety and Environmental systems were rolled out in the early part of the year ahead of the seismic acquisition programme that was completed at the start of June, which was successfully completed as our first offshore operated activity in Vietnam	• Achieved

Metric	Weight	Performance	Bonus awarded
Indicators for Egypt	5%	Threshold – Target – Maximum	5%

Link to strategy	Target	Performance	Outcome
• Responsible operations	• Conduct gap analysis of Merlon HSES MS against Pharos HSES MS requirements	• Gap analysis completed and report in June 2019 • Integration of Merlon/Pharos into the corporate HSSE reporting system was completed at the same time • Majority of work completed on closing the gaps	• Achieved

Metric	Weight	Performance	Bonus awarded
Corporate KPIs	25%	Threshold – Target – Maximum	20%

Link to strategy	Target	Performance	Outcome
• Responsible operations	• Maintain industry levels of CR and business ethics performance • Implement appropriate training programmes • Implement Modern Slavery Prevention programme • Carry out human rights due diligence • Continue social investment in local communities according to the project specific selection processes • Update and streamline new entry procedure	• Completed training programmes for all layers of the Company (Non-Executives, Executive Directors, management and staff) • Corporate targets for training have been met with new joiners completing training on timely basis • The Modern Slavery programme is now in place on supplier due diligence procedures and questionnaires are all in place and have been utilised appropriately • Human rights due diligence completed in both Vietnam and Egypt on a timely basis • All financial commitments to social investment programmes have been honoured • Continue social investment in local communities according to the project specific selection processes • New country entry procedure update and streamline has not been completed. The focus for 2019 was to overhaul the entire HSES system, and its restructuring for the current corporate personnel structure was of significantly higher importance. Although not originally part of the KPIs this has been completed	• Partially achieved – whilst the new country entry procedure task has been postponed until 2020 its replacement was considered to be of significantly higher importance, and required more effort, manpower and time to be achieved

The formulaic assessment resulted in a bonus outcome of 70% for each Executive Director. The Committee then took account of the wider performance both of the Company and the sector in terms of the shareholder experience and also noted the slow start to the ramp up of production levels in Egypt. The result of this review was a decision to use discretion to reduce the bonus outcome to 50% of maximum. The Committee believes the final result is a fair reward for the corporate and personal performance delivered over the financial year.

The Committee has formalised past practice to require all Executive Directors to receive one-third of any bonus as awards under the Deferred Share Bonus Plan. This ensures their interests remain closely aligned with shareholders.

	$000s	% of maximum
E Story	693	50%
M Watts	428	50%
J Brown	428	50%

LTIP vesting in respect of January/ February 2017 awards

The LTIP awards granted in January/ February 2017, which would have vested in January/ February 2020, did not achieve the threshold level of vesting and therefore lapsed. The table below sets out an overview of Pharos's relative TSR performance during that period.

		Performance against comparator group
Vesting schedule	25% vesting	Median (50th percentile)
	100% vesting	Upper 16th
Actual vesting	0%	Greater than 50th percentile

In all material respects, the same performance targets apply to all subsequent awards.

LTIP award grants

The LTIP awards granted in 2019 were set out in last year's report. It is anticipated that future grants, including the grant to be made in 2020, will be made following the announcement of the annual results in March. These will be made on a similar basis to prior years, with awards to Executive Directors over shares worth two times salary and subject to the same TSR measure (subject to confirmation of the precise list of comparators immediately prior to grant).

Directors' interests as at 31 December 2019

The Board has a policy requiring Executive Directors to build a minimum shareholding of 200% of their annual salary. Additionally, LTIP awards require a two-year holding period following vesting. This is intended to emphasise a commitment to the alignment of Executive Directors with shareholders and a focus on long term stewardship.

The table below sets out the Directors' interests as at 31 December 2019:

	Shareholding requirement					
	(% of salary)	Achieved (Yes/No)	Beneficially owned shares	Awards subject to performance conditions[1,3]	Awards vested	Awards subject to service conditions[2,3]
Executive						
E Story[4]	200%	Yes	14,073,747	3,779,217	–	629,473
J Brown[9]	200%	No	418,801	2,496,446	–	388,229
M Watts[9]	200%	No	552,195	2,496,446	–	388,229
Non-Executive						
R de Sousa[5]	–	–	9,178,572			
E Contini[6]	–	–	29,000,000			
R Gray	–	–	–			
A Monteiro [8]	–	–	–			
J Martin	–	–	30,000			
M Daryabegui[7]	–	–	36,757			

1 LTIP awards potentially vesting in January and February 2020 in respect of awards made in 2017 lapsed and are excluded from the above table.
2 DSBP awards made in January 2020 in respect of the 2019 annual bonus are excluded from the above table.
3 Figures include accrued dividend equivalents.
4 12,398,747 Shares are held personally by E Story. 1,675,000 Shares are held through The Story Family Trust, a closely associated person to E Story.
5 9,178,572 Shares are held through Palamos Ltd a closely associated person to R de Sousa.
6 220,000 Shares are held personally by E Contini. 28,780,000 Shares are held through Liquid Business Ltd, a closely associated person to E Contini.
7 Appointed to the Board on 15 March 2019.
8 Retired as a Director on 23 May 2019.
9 At the date of this report, J Brown and M Watts are yet to reach the 200% shareholding requirement.

While the Executive Directors, as potential beneficiaries, are technically deemed to have an interest in all Ordinary Shares held by the Pharos EBT, the table above only includes those Ordinary Shares held by the EBT which are potentially transferable to the Directors pursuant to Options granted to them under the Company's incentive schemes. Details of the EBT and its holdings are set out in Note 28 to the Financial Statements.

There have been no changes to the Directors' interests subsequent to 31 December 2019.

Share awards outstanding at 31 December 2019

	Type of award[7]	As at 1 Jan 2019	Granted/ awarded[1]	Adjusted[2]	Lapsed	Released	As at 31 Dec 2019	Date potentially vested[3,4,5]	Expiry date
E Story[6]	LTIP	919,504	–	82,543	–	–	1,132,535	8.01.19	–
	LTIP	1,003,235	–	46,757	–	–	1,049,992	25.01.20	–
	LTIP	1,447,020	–	117,879	–	–	1,564,899	23.03.21	–
	LTIP	–	2,040,087	174,231	–	–	2,214,318	31.03.22	-
	DSBP	227,175	–	18,506	–	–	245,681	26.04.20	–
	DSBP	–	353,594	30,198	–	–	383,792	03.01.21	–

	Type of award[7]	As at 1 Jan 2019	Granted/ awarded[1]	Adjusted[2]	Lapsed	Released	As at 31 Dec 2019	Date potentially vested[3]	Expiry date
J Brown[6]	LTIP	1,316,809	–	103,517	–	–	1,420,326	06.02.20	06.02.27
	LTIP	997,399	–	81,250	–	–	1,078,649	23.03.21	23.03.28
	LTIP		1,306,240	111,557	–	–	1,417,797	31.03.22	31.03.29
	DSBP	141,254	–	11,506	–	–	152,760	26.04.20	26.04.28
	DSBP		216,942	18,527	–	–	235,469	03.01.21	03.01.29
M Watts[6]	LTIP	1,316,809	–	103,517	–	–	1,420,326	06.02.20	06.02.27
	LTIP	997,339	–	81,250	–	–	1,078,649	23.03.21	23.03.28
	LTIP	–	1,306,240	111,557	–	–	1,417,797	31.03.22	31.03.29
	DSBP	141,254	–	11,506	–	–	152,760	26.04.20	26.04.28
	DSBP	–	216,942	18,527	–	–	235,469	03.01.21	03.01.29

1 The face value of awards granted to E Story, J Brown and M Watts in the year was 2 times' salary.
2 Outstanding awards under the Company's share schemes were adjusted for dividend equivalents in accordance with plan rules (see Note 30 to the Financial Statements).
3 LTIP awards vest subject to Pharos's relative TSR performance against a group of comparator companies and subject to a further holding requirement. DSBP awards vest subject to continued service over a two-year vesting period.
4 LTIP awards with a potential vest date in January 2020 did not achieve the performance threshold and lapsed.
5 In accordance with market regulation, DSBP awards potentially vesting in January 2020 were determined to not be capable of vesting before 10 March 2020, subsequent to the date of this report.
6 Awards to E Story were structured as conditional awards. Awards to M Watts and J Brown were structured as nil cost options.
7 LTIP awards vest at 25% when the threshold is met.

Payments for loss of office and payments to former Directors

There have been no payments for loss of office during the year nor any payments to former Directors.

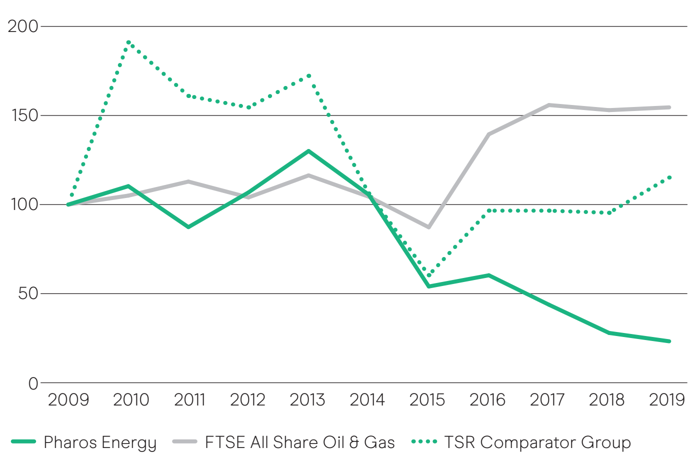
Unaudited Section

Historical TSR performance and CEO outcomes

TSR performance

The chart below illustrates Pharos' ten-year TSR performance against the FTSE Oil & Gas Index, being a broad market index which is sector specific. Note that this does not represent either the comparator group or time period against which performance is assessed under the LTIP.

TOTAL SHAREHOLDER RETURN (TSR)



CEO outcomes

The table below shows the total remuneration paid to the CEO over the same ten-year period. In addition, the annual bonus and LTIP awards vesting are set out in respect of each year as a percentage of the maximum:

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	**2019**
CEO single figure of remuneration ($000s)[1]	1,930	1,466	2,362	2,992	3,154	3,659	2,875	2,018	2,122	2,262	**1,938**
Annual bonus payout (% of maximum)	50%	25%	100%	100%	100%	80%	75%	35%	65%	105%	**50%**
LTIP vesting (% of maximum)	59%	34%	53%	71%	66%	100%	96%	46%	0%	0%	**0%**

1 The current year annual average exchange rate has been applied to covert GB pounds to US dollars for all periods to ensure consistency between periods.

Percentage change in remuneration of the CEO

The table below illustrates the percentage change in salary, benefits and annual bonus for the CEO and all other employees.

	% change in salary (2019/2018)	% change in benefits (2019/2018)[1]	% change in annual bonus (2019/2018)[2]
CEO	0%	-19.3%	-28.6%
All other employees	7.4%	-37%	11.5%

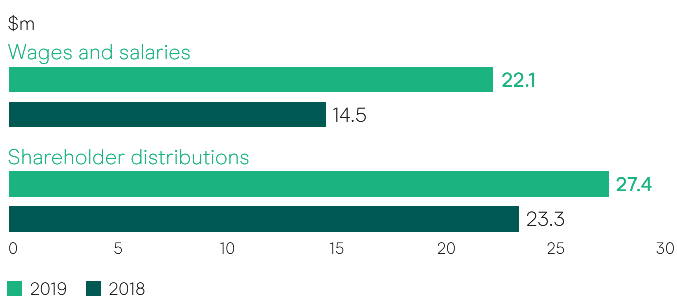
1 There has been a review to the Company's benefits packages during the year. The variance reflects a decrease in costs, employee demographics and the level to which available allowances are applicable and taken up in a given year.
2 Bonuses are awarded in respect of the calendar year.

Chief Executive Officer's pay ratio

The Company only has 30 UK employees and therefore has no statutory requirement to publish a CEO pay ratio. However, a ratio has been prepared and shared internally with the Committee for informative purposes. This figure will not be published externally as there are concerns that, with a small sample such as this, the employees could be identifiable. The Committee will continue to review the appropriateness of publishing pay ratios in the future.

Relative importance of spend on pay

The chart below illustrates the year on year change in total remuneration as per Note 11 to the Financial Statements compared to the change in shareholder returns, which would include capital returns, dividends and share buybacks.



External appointments

With prior approval of the Board, Executive Directors are allowed to accept Non-Executive appointments on other boards and to retain the associated directors' fees. Under this Policy:

- Ed Story serves on the board of Vedanta Resources PLC, for which he retained associated fees for 2019 in the amount of $79,363 (2018: $95,000); and
- Jann Brown serves on the board of Troy Income and Growth Trust and served on the Wood plc board until 1 September 2019, for which she retained associated fees for 2019 in the amount of £77,863 (2018: £82,580).

Implementation for 2020

Base salary

Executive Directors' salaries have not been increased on an aggregate basis for 2020, but as explained previously, the base salaries have been reallocated so they are spread equally across each Executive Director.

	2020 Base salary 000s	2019 Base salary 000s	Increase from 2019 %
E Story	**$702**	$924	–24%
J Brown	**£540**	£450	20
M Watts	**£540**	£450	20

Benefits

For 2020, benefits available to Executive Directors will be consistent with those set out in the Directors' Remuneration Policy approved at the 2020 AGM and as summarised further below.

Pension

For 2020, a pension benefit at 15% of salary will be provided to each Executive Director through contributions to Pharos' money purchase plan up to plan limits or a cash supplement. Our Pension Policy for Executive Directors is already consistent with that for all employees (as a percentage of salary).

Annual bonus

It is intended that annual bonus awards will be considered for Executive Directors in December 2020. The maximum total bonus opportunity for an Executive Director in each year is 150% of salary, including cash and deferred components in accordance with the approved Policy. The table below sets out the weighted performance measures which will be applied in determining annual bonus awards for 2020, and identifies the link from each of these measures to our core strategy of:

2020 KPIs

Metric	Weight	Performance criteria which will be considered
Safety & environment	15%	
Strategic objectives; to preserve the safety of all our people, staff and contractors and preserve the environment through sound oil field practices and management of our own carbon footprint wherever we work.		• LTIs • TRIR target • Zero environment spills • Carbon footprint improvements • Crisis response readiness maintained
Operational/ portfolio management	40%	
Strategic objectives: to replace produced reserves and add to the reserve base; to continue to fund exploration activity at a rate of up to 30% of annual capex.		• Production volumes for all producing assets
Financial	30%	
Strategic objectives: to control expenditure and access affordable sources of funding in order to maintain a strong balance sheet with sufficient liquid resource to fund planned activities.		• Opex per bbl for each producing asset • Operating cash flow per share • Net debt to EBITDAX • All bank covenants met • Funding plan in place for all activities covered by cash/ available debt plus headroom
Governance/ licence to operate	15%	
Strategic objectives: to instil a way of working that is strong on governance and personal codes of conduct; to develop talent throughout our business to support overall performance and succession planning.		• Code of ethics approved and implemented • Talent management plan in place to address all skills gaps • Social investment plan approved and implemented • Procurement policies approved and implemented in all locations

Details of how the Committee assessed performance against these weighted measures will be set out in next year's report. The Committee retains discretion over the amount of bonus paid out to ensure that appropriate consideration is given to the relative importance of the achievements in the year and the actual contribution of these towards furthering the Group's strategy, as well as the prevailing economic environment.

LTIP

It is intended that annual LTIP awards will be made to Executive Directors in early 2020 following announcement of the preliminary results for the year to 31 December 2019, subject to approval of the Director Remuneration Policy at the 2020 AGM. The Committee's selection of performance criteria is kept under review to ensure the long-term measures used remain appropriate to Pharos' circumstances and strategy, and most effectively support the delivery of value creation over time. For awards to be made in respect of 2020, our approach will be to measure the award using a relative TSR measure.

The performance range will be as follows:

- Performance assessed against a bespoke group of other international oil and gas producers
- Threshold vesting (25% of this element of the award) for achieving a Median ranking, rising on a straight-line basis to full vesting (100% of this element of the award) for achieving TSR equal to Upper Quartile ranking (i.e. top 25th percentile)
- The relative TSR performance is also subject to a further underpin, which requires the Committee to be satisfied that the formulaic outcome is consistent with actual underlying financial and operational performance

The Committee did contemplate the use of additional performance measures for the 2020 LTIP, but following shareholder feedback it has been decided to retain the sole use of relative TSR for the 2020 award. The Committee will continue to monitor the use of TSR for future awards and consider if there are any other measures which are better suited. In any case, a measure of TSR will be used for at least 50% of any LTIP award. Award levels will remain at 20% of salary. However, considering the current share price, the awards granted will be calculated using the same share price as used to determine the 2019 LTIP.

Malus and clawback provisions

All variable pay arrangements for Executive Directors are subject to provisions which enable the Committee to reduce vesting, or recover value delivered if certain circumstances occur. These circumstances include serious misconduct, an error in calculation, misstatement of the Company's financial results, fraud, insolvency of the Company or serious reputational damage to the Company. In each case the occurrence of those circumstances and the effect on variable pay arrangements will be determined by the Committee.

Non-Executive Director remuneration

Non-Executive Director fees, which have been set within the aggregate limits set out in the Company's articles of association and approved by shareholders, are set out in the table below:

	Fee from 1 January 2020	Fee from 1 January 2019
Chair of the Company*	**£200,000**	£200,000
Deputy Chair & Senior Independent Director*	**£120,000**	£120,000
Non-Executive Director	**£60,000**	£60,000
Additional fee: Chair of Audit and Risk Committee	**£15,000**	£15,000
Additional fee: Chair of Remuneration Committee	**£15,000**	£15,000
Additional fee: Workforce Engagement Nominated Director	**£5,000**	£5,000

* Includes fees for any Committee role

The Chair fees were reviewed and approved by the Remuneration Committee. The Non-Executive Director fees were reviewed and approved by the Board, excluding the Non-Executive Directors.

For 2020, benefits available to Non-Executive Directors will be consistent with those set out in the Policy approved at the 2020 AGM. Non-Executive Directors are not eligible for participation in the Company's incentive or pension schemes.

Service Contract (reference Table A: Directors Contract on page 118)

Consideration by Committee of matters relating to Executive Directors' remuneration

The Directors who were members of the Remuneration Committee when matters relating to Directors' remuneration for the year were being considered were Rob Gray, John Martin and Marianne Daryabegui (from 15 March 2019).

The Committee received assistance from Ed Story (President and CEO) and Jann Brown (Managing Director and CFO) subsequently, except when matters relating to their own remuneration were being discussed. The Committee additionally received assistance from other Non-Executives Directors when required.

The Committee has appointed FIT Remuneration Consultants LLP ("FIT") as its remuneration advisers, and fees of £23,044 were paid in 2019 for their advisory services. FIT is a member of the Remuneration Consultants Group and complies with their professional code of conduct. FIT do not provide any other services to the Group which, along with FIT's credentials and proven performance, contributes to the Committee's view that the advice received has been appropriate, objective and independent.

The Committee reviews all aspects of remuneration on an annual basis and with respect to individual and corporate performance during the year. The review is aided by comparison to published data on executive pay in the sector and in similar sized companies. More detailed benchmarking may be conducted, such as upon an indication of a change in market ranges, with results being monitored for indications of potential unwarranted upward ratcheting. The Committee receives regular updates on evolving regulatory and market practice including market trends, key developments, and a broad range of published principles and guidelines. The Committee takes into account pay conditions elsewhere in the Company, and considered matters related to Group remuneration.

Shareholder voting

The binding resolution on the Directors' Remuneration Policy and the advisory resolution on the annual report on Directors' remuneration proposed and passed at last year's AGM received the following votes from shareholders:

	Remuneration Policy (2017 AGM)		Remuneration report (2019 AGM)	
	Votes	%	Votes	%
Votes in favour	178,389,045	93.48%	**152,698,218**	**82.01%**
Votes against	12,443,905	6.52%	**33,496,869**	**17.99%**
Total totes	190,832,950	100.00%	**186,212,258**	**100.00%**
Votes withheld	21,549,300	–	**66,364**	–

Shareholder dilution

Pharos monitors the number of shares issued under employee share plans and their impact on dilution limits. These will not exceed the limits set by The Investment Association Principles of Remuneration currently in force, in respect of all share plans (10% in any rolling ten-year period) and executive share plans (5% in any rolling ten-year period).

This report was approved by the Board of Directors and signed on its behalf by:

Rob Gray
Remuneration Committee Chair

10 March 2020

Annual Report of the Directors

The Directors present their annual report, along with the audited Financial Statements of the Group for the year ended 31 December 2019.

The following sections of this report are incorporated herein by reference and form part of this Directors' report.

Strategic report	pages 02-73
Board of Directors	pages 80-81
Corporate Governance report	pages 82-85
Nominations Committee report	pages 86-89
Audit and Risk Committee report	pages 90-95
Directors' Remuneration report	pages 96-117
Financial Statements	pages 122-155
Additional Information	pages 156-160

Developments following the 2019 reporting period

An indication of the likely future developments in the business of the Group is included in the Strategic Report on pages 2 to 73. There were no significant events after the balance sheet date.

Results and dividends

The audited Financial Statements for the year ended 31 December 2019 are set out on pages 122 to 155. The Company announced in January of this year its intention to pay a dividend of 2.75 pence per Ordinary Share in 2020. A period of global economic uncertainty has now been entered, driven by the outbreak of COVID-19 and the pressure that this is putting on oil price against this backdrop. The Company is focused on preserving balance sheet strength and has therefore decided to defer all discretionary expenditure including the dividend until such time as the medium to long term outlook is clearer. During the year the Company paid a final dividend to shareholders in respect of the financial year ended 31 December 2019 of 5.50 pence per Ordinary Share (2018: 5.25 pence), at a cost to the Company of $27.4m (2018: $23.3m).

Directors

The business of the Company is managed by the Directors who may exercise all powers of the Company subject to the articles of association of the Company ("Articles") and applicable law. The Directors who held office during the year, and the dates of their current service contracts or letters of appointment, which are available for inspection, are listed in Table A of this report.
All Directors held office throughout the year except as noted in the table. The NEDs' appointments are terminable at the will of the parties. Executive Directors' contracts are terminable by either party on giving one year's notice.

In accordance with the provisions of the UK Corporate Governance Code, all Directors will retire at the 2020 AGM and, being eligible, offer themselves for reappointment. As announced on 17 October 2019, Rui de Sousa will step down from the Board on 13 March 2020. Ettore Contini will not offer himself for reappointment and will retire from the Board at the conclusion of the AGM. Relevant details of the Directors, which include their Committee memberships, are set out in the section headed 'Board of Directors' on pages 80 to 81.

Pharos provides liability insurance for its Directors and Officers. The annual cost of the cover is not material to the Group.
The Articles allow it to provide an indemnity for the benefit of its Directors, which is a qualifying indemnity provision for the purpose of section 233 of the Companies Act 2006 ("2006 Act"). The Company has made such provisions for the benefit of its Directors in relation to certain losses and liabilities that they may incur in the course of acting as Directors of the Company, its subsidiaries or associates, which remain in force at the date of this report.

No member of the Board had a material interest in any contract of significance with the Company or any of its subsidiaries at any time during the year, except for their interests in shares and in share awards and under their service agreements and letters of appointment disclosed in the Directors' Remuneration report commencing on page 96.

Table A: Directors holding office during 2019

Director	Date of contract
Rui de Sousa Chair	12 July 1999
Edward Story President and Chief Executive Officer	14 May 1997
Jann Brown Managing Director and Chief Financial Officer	6 December 2017
Mike Watts Managing Director	6 December 2017
Rob Gray* Deputy Chair and Senior Independent Director	9 December 2013
António Monteiro*	10 June 2009
John Martin* Appointed to the Board 7 June 2018	7 June 2019
Ettore Contini	11 December 2001
Marianne Daryabegui Appointed to the Board 15 March 2019	15 March 2019

* Denotes those determined by the Board to be Independent Non-Executive Directors as described in the Corporate Governance report on pages 82 to 85.

Contributions

The Group's policies prohibit political donations.

AGM

An explanation of the resolutions to be proposed at the 2020 AGM, and the recommendation of Directors in relation to these, is included in the circular to shareholders which is available on the Company's website (www.pharos.energy). Resolutions regarding the authority to issue shares are commented upon in this report under share capital.

A separate communication will be sent to shareholders and published on the Company's website regarding the Company's AGM.

Share capital

Details of changes to share capital in the period are set out in Note 27 to the Financial Statements. The Company currently has one class of shares in issue, ordinary shares of £0.05 each, all of which are fully paid. Each ordinary share in issue carries equal rights including one vote per share on a poll at general meetings of the Company, subject to the terms of the Articles and law. Shares held in treasury carry no such rights for so long as they are held in treasury. Votes may be exercised by shareholders attending or otherwise duly represented at general meetings. Deadlines for the exercise of voting rights by proxy on a poll at a general meeting are detailed in the notice of meeting and proxy cards issued in connection with the relevant meeting. Voting rights relating to the ordinary shares held by the Pharos EBT are not exercised. The Articles may only be amended by a resolution of the shareholders.

No shareholder, unless the Board decides otherwise, is entitled to attend or to vote either personally or by proxy at a general meeting or to exercise any other right conferred by being a shareholder if he or she or any person with an interest in ordinary shares has been sent a notice under section 793 of the 2006 Act (which confers upon public companies the power to require information with respect to interests in their voting shares) and he or she or any interested person failed to supply the Company with the information requested within 14 days after delivery of that notice.

The Board may also decide that no dividend is payable in respect of those default shares and that no transfer of any default shares shall be registered. These restrictions end seven days after receipt by the Company of a notice of an approved transfer of the shares or all the information required by the relevant section 793 notice, whichever is earlier.

The Directors may refuse to register any transfer of any share which is not a fully-paid share, although such discretion may not be exercised in a way which the Financial Conduct Authority regards as preventing dealings in shares of that class from taking place on an open or proper basis. The Directors may likewise refuse any transfer of a share in favour of more than four persons jointly.

The Company is not aware of any other restrictions on the transfer of ordinary shares in the Company other than certain restrictions that may from time to time be imposed by laws and regulations (for example, insider trading laws); and pursuant to the Listing Rules whereby certain employees of the Company require approval of the Company to deal in the Company's shares.

The Company is not aware of any agreements between shareholders that may result in restrictions on the transfer of securities or voting rights. Resolutions will be proposed at the 2020 AGM, as is customary, to authorise the Directors to exercise all powers to allot shares and approve a limited disapplication of pre-emption rights. This authority will be sought in line with institutional shareholder guidance, and in particular with the Pre-Emption Group's Statement of Principles published on 12 March 2015 (the "Pre-Emption Principles"), the authority sought for disapplication of pre-emption rights will be 10% on the basis that 5% of this is only intended to be used in accordance with the Pre-Emption Principles. Further information regarding these resolutions, which are based on template resolutions published by the Pre-Emption Group in May 2016, is set out in the circular to shareholders. A resolution will also be proposed at the 2020 AGM, as is also customary, to renew the Directors' existing authority to make market purchases of the Company's Ordinary Share capital, and to limit such authority to purchases of up to approximately 10% of the Company's issued Ordinary Share capital. Shares purchased under this authority may either be cancelled or held as treasury shares.

Auditor

A resolution to reappoint Deloitte LLP as the Company's auditor will be proposed by the Directors at the 2020 AGM. Deloitte also provide non-audit services to the Group, and details of the non-audit services provided in the year to 31 December 2019 are set out in Note 10 to the Financial Statements. All non-audit services are approved by the Audit and Risk Committee. The Directors are currently satisfied, and will continue to ensure, that this range of services is delivered in compliance with the relevant ethical guidance of the accountancy profession and does not impair the judgement or independence of the auditor. Further details of the Group policy on non-audit services are set out in the Audit and Risk Committee Report on pages 90-95.

The Directors at the date of approval of this report confirm that, so far as they are each aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor are unaware. Each Director has taken all steps that they ought to have taken as a Director, having made such enquiries of fellow Directors and the auditor and taken such other steps as are required under their duties as a Director, to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information. This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the 2006 Act.

Greenhouse gas emissions reporting

Reporting on emission sources, as required under the Companies Act 2006 (Strategic and Directors' Reports) Regulations 2013, is included in the Corporate Responsibility report on pages 56 to 73.

Tax governance

The Company is committed to high standards of tax governance and strives to meet its tax obligations. Tax contributions benefit the communities in which we operate by providing a framework within which the Company can grow. Pharos' Tax Strategy Statement, which the Board has approved, defines the key tax objectives of the Group and is available on the Company's website (www.pharos.energy).

Risk management

The Directors carried out a robust review of the principal and emerging risks facing the Group that could threaten the Company's business model, future performance, solvency and liquidity. The Risk Management report on pages 46 to 55 details how we manage and mitigate these risks.

Substantial shareholdings

As at 31 December 2019, the Company had been notified, in accordance with Chapter 5 of the Disclosure and Transparency Rules, of the voting rights as a shareholder of the Company shown in Table B of this report.

Table B: Substantial shareholdings in the Company

		% of voting rights[1]	
Name of holder	Number of Ordinary Shares	31-Dec-19	Nature of holding
Ettore Contini[2]	29,000,000	7.30	Direct and indirect
Blue Albacore Business Ltd	27,276,381	6.86	Direct
Globe Deals Ltd	27,444,382	6.90	Direct
Chemsa Ltd	24,136,925	6.07	Direct
Ed Story[3]	14,073,747	3.54	Direct and indirect

1 As at 31 December 2019, the total voting rights attached to the share capital in issue comprised 397,515,684 Ordinary Shares each of £0.05 nominal value, being 406,637,952 Ordinary Shares in issue, less 9,122,268 Ordinary Shares currently held in treasury.
2 Ettore Contini holds 29,000,000 shares, representing 7.30% of the total voting rights of the Company, of which 220,000 shares (0.07%) are held personally by Ettore Contini and 28,780,000 shares (8.67%) are held through Liquid Business Ltd, a closely associated person to Ettore Contini.
3 Ed Story holds 14,073,747 shares, representing 3.54% of the total voting rights of the Company, of which 12,398,747 (3.12%) shares are held personally by Ed Story and 1,675,000 (0.42%) shares are held through The Story Family Trust, a closely associated person to Ed Story.

During the period between 31 December 2019 and 10 March 2020, the Company did not receive any notifications under chapter 5 of the Disclosure and Transparency Rules. For further information on Directors' interests, please see page 112.

Requirements of the UK Listing Rules

Table C of this report provides references to where the information required by Listing Rule 9.8.4R is disclosed within this Annual Report:

Table C: Listing Rules requirements

Listing Rule requirement	
Details of any long term incentive schemes as required by Listing Rule 9.4.3 R.	Directors' Remuneration Report pages 96 to 117
Details of any arrangements under which a director of the company has waived or agreed to waive any emoluments from the company or any subsidiary undertaking. Where a director has agreed to waive future emoluments, details of such waiver together with those relating to emoluments which were waived during the period under review.	No such waivers
Details required in the case of any allotment for cash of equity securities made during the period under review otherwise than to the holders of the company's equity shares in proportion to their holdings of such equity shares and which has not been specifically authorised by the company's shareholders.	No such share allotments
Details of any contract of significance subsisting during the period under review: (a) to which the listed company, or one of its subsidiary undertakings, is a party and in which a director of the listed company is or was materially interested; and (b) between the listed company, or one of its subsidiary undertakings, and a controlling shareholder.	Note 35 page 154
Details of any arrangement under which a shareholder has waived or agreed to waive any dividends, where a shareholder has agreed to waive future dividends, details of such waiver together with those relating to dividends which are payable during the period under review.	Note 29 page 150

Whistleblowing procedure

The Board has reviewed, and is satisfied with, the Company's procedures for "whistleblowing", enabling employees to raise issues in confidence concerning improprieties which would be addressed with appropriate follow-up action. The Group has in place an Ethics Hotline using an independent confidential telephone service available to staff to report a suspected breach of the Group's Code of Business Conduct and Ethics.

Business Relationships

In order to foster relationships with suppliers and customers , Pharos ensures a robust engagement process before contracts are awarded. Every vendor is required to complete due diligence so that the company may ensure all corporate and banking details are recorded and checked before invoices are issued, this allows for prompt and accurate payment. Where possible, payment terms are 30 days from date of receipt of a validly submitted invoice. A comprehensive contracts register was set up during 2019 to ensure post award contract management is addressed to consider delivery of appropriate notices of renewal of termination.

In Egypt the standard contract terms for the Petrosilah joint venture were amended to reflect the integration into the Pharos business. These amendments have contributed to contract awards being more efficient and reflect a more international approach to those providers of goods and services in Egypt. Within these overall structures we seek to work constructively with our suppliers, customers and other business partners to build productive relationships.

Going concern

It should be recognised that any consideration of the foreseeable future involves making a judgement, at a particular point in time, about future events which are inherently uncertain. Nevertheless, at the time of preparation of these accounts and after making enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue operating for the foreseeable future. For this reason, and taking into consideration the additional factors in the Strategic Report on pages 2 to 73 including the Financial Review on pages 42 to 45, they continue to adopt the going concern basis in preparing the accounts.

Directors' responsibilities for the financial statements

The Directors are responsible for preparing the Annual Report and the Financial Statements in accordance with applicable United Kingdom law and IFRS as adopted by the European Union both for the Group and the Company. The Directors are required to prepare Financial Statements for each financial year that give a true and fair view of the financial position of the Company and of the Group and the financial performance and cash flows of the Group for that period. In preparing those accounts the Directors are required to select suitable accounting policies and then apply them consistently; present information and accounting policies in a manner that provides relevant, reliable and comparable information; and state that the Company and the Group have complied with applicable accounting standards, subject to any material departures disclosed and explained in the accounts.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the accounts comply with relevant legislation. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Information published on the internet is accessible in many countries with different legal requirements. Legislation in the United Kingdom governing the preparation and dissemination of Financial Statements may differ from legislation in other jurisdictions.

Directors' responsibility statement

The Directors confirm that, to the best of each person's knowledge:

a) the Financial Statements set out on pages 122 to 155, which have been prepared in accordance with applicable United Kingdom law and IFRS as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and loss of the Company and the Group taken as a whole;

b) this Directors' Report along with the Strategic Report, including each of the management reports forming part of these reports, includes a fair review of the development and performance of the business and the position of the Company and the Group taken as a whole, together with a description of the principal risks and uncertainties that they face and how these are being managed and mitigated as set out in the Risk Management Report on pages 46 to 55; and

c) the annual report and the Financial Statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for the shareholders to assess the Group's performance, business model and strategy.

Approved by the Board and signed on its behalf.

Jann Brown
Managing Director and Chief Financial Officer

10 March 2020

Report on the audit of the financial statements

1. Opinion

In our opinion:

- the financial statements of Pharos Energy plc (the 'parent company') and its subsidiaries (the 'group') give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2019 and of the group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation

We have audited the financial statements which comprise:

- the consolidated income statement;
- the consolidated statement of comprehensive income;
- the consolidated and parent company balance sheets;
- the consolidated and parent company statements of changes in equity;
- the consolidated and parent company cash flow statements; and
- the related notes 1 to 38.

The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

2. Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the group or the parent company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

3. Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: • Fair value acquisition accounting of Merlon; • Impairment of producing oil & gas assets; and • Going concern basis of accounting Within this report, key audit matters are identified as follows: Newly identified Increased level of risk Similar level of risk Decreased level of risk
Materiality	The materiality that we used for the group financial statements was $7 million which was determined on the basis of 1.4% of Net Assets.
Scoping	We focused primarily on the group's key business units, being Vietnam and the newly acquired Egyptian business, as well as the parent company which is based in London. These locations were all subject to a full scope audit and account for 98% of the group's total assets, 100% of the group's revenue, 100% of the profit before tax from profit making entities and 82% of the loss before tax from loss making entities. Specified audit procedures were then performed on the remaining 2% of the group's total assets and 18% of the loss before tax from loss making entities.
Significant changes in our approach	The fair value acquisition accounting of Merlon was identified as a new key audit matter in the current year, following the completion of this acquisition in April 2019. Our audit scope has consequently been adjusted to include Egypt, as outlined above. The applicability of the going concern basis of accounting was also identified as a new key audit matter, following the significant reduction in oil prices subsequent to year end. There have been no other significant changes in our approach in the current year.

4. Conclusions relating to going concern, principal risks and viability statement

4.1 Going concern

We have reviewed the directors' statement in Note 2 to the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the group's and company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements.

We considered as part of our risk assessment the nature of the group, its business model and related risks including where relevant the impact of Brexit, the requirements of the applicable financial reporting framework and the system of internal control. We evaluated the directors' assessment of the group's ability to continue as a going concern, including challenging the underlying data and key assumptions used to make the assessment, and evaluated the directors' plans for future actions in relation to their going concern assessment.

We are required to state whether we have anything material to add or draw attention to in relation to that statement required by Listing Rule 9.8.6R(3) and report if the statement is materially inconsistent with our knowledge obtained in the audit.

Going concern is the basis of preparation of the financial statements that assumes an entity will remain in operation for a period of at least 12 months from the date of approval of the financial statements.

We confirm that we have nothing material to report, add or draw attention to in respect of these matters.

4.2 Principal risks and viability statement

Based solely on reading the directors' statements and considering whether they were consistent with the knowledge we obtained in the course of the audit, including the knowledge obtained in the evaluation of the directors' assessment of the group's and the company's ability to continue as a going concern, we are required to state whether we have anything material to add or draw attention to in relation to:

- the disclosures on pages 46 to 55 that describe the principal risks, procedures to identify emerging risks, and an explanation of how these are being managed or mitigated;
- the directors' confirmation on pages 54 and 55 that they have carried out a robust assessment of the principal and emerging risks facing the group, including those that would threaten its business model, future performance, solvency or liquidity; or
- the directors' explanation on pages 54 and 55 as to how they have assessed the prospects of the group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We are also required to report whether the directors' statement relating to the prospects of the group required by Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.

Viability means the ability of the group to continue over the time horizon considered appropriate by the directors.

We confirm that we have nothing material to report, add or draw attention to in respect of these matters.

5. Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

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 do not provide a separate opinion on these matters.

5.1 Fair value acquisition accounting of Merlon

Key audit matters	The acquisition of Merlon Petroleum El Fayum Company ("Merlon") was completed on 2 April 2019 for a consideration of $215.2 million, settled through the payment of $136 million cash and the issuance of 65,561,041 new shares. The fair value of net assets acquired was considered equal to the consideration amount of $215.2 million and hence no goodwill was recognised on acquisition. This is considered a key audit matter due to the significant judgements and estimates involved in assessing the fair value of the assets acquired and liabilities assumed as part of the acquisition, in particular the fair value of the oil & gas property, plant and equipment ("PP&E"). Management have estimated the fair value of the oil & gas PP&E acquired using discounted post-tax cash flows. The key assumptions included: • oil price forecasts, being $65/bbl in 2020, plus inflation of 2% thereafter; • post-tax nominal discount rate of 12%; • reserves and resources estimates and associated production profiles. The reserve estimates used by Management were estimated 2P Reserves together with a share of estimated 2C Contingent Resources, with the underlying data for such reserves and resources based on the Competent Persons Report ("CPR") prepared for the purposes of the transaction. The CPR was prepared by a third party reservoir engineering expert as of 31 December 2018 using standard industry reserve estimation methods and definitions, which has then been adjusted by Management for production up to the date of acquisition. Management have highlighted oil and gas reserves as a key source of estimation uncertainty in note 4 to the financial statements. Further details of the key assumptions used by management in their fair value estimates for this transaction are provided in note 37 of the financial statements and in the Report of the Audit & Risk Committee on page 92.
How the scope of our audit responded to the key audit matter	For the fair valuation of net assets acquired and net liabilities assumed in relation to this acquisition, we performed the following procedures: • we obtained an understanding of controls relevant to the preparation of the fair value estimates; • we understood the process by which management has derived its fair value estimates; • we compared oil price assumptions with third party forecasts and publicly available forward curves; • we involved our internal valuation specialists to perform an independent recalculation of the discount rate used at the date of acquisition; • we understood the process used by management to derive their reserves estimates and associated production profiles and how they provide information to, and interact with, the third party expert; • we reviewed the third party expert's report on Merlon's reserves estimates and communicated directly with them to discuss and assess their scope of work, and evaluate their competence, capabilities and objectivity; • we assessed, with the involvement of Deloitte reserves experts, whether it was appropriate to include a share of estimated 2C Contingent Resources in the reserve estimates used in the fair value estimates; • we assessed the other assumptions used by Management by reference to third party information, our knowledge of Merlon and industry and also budgeted and forecast performance; • we tested management's fair value calculations for mechanical accuracy; and • we considered whether management's presentation and disclosures relating to the acquisition were appropriate and in accordance with IFRS 3 Business Combinations
Key observations	We are satisfied that the fair values recorded by the group are appropriate, and that no goodwill arose on the acquisition. We are satisfied that the presentation and disclosure of the acquisition in note 37 of the financial statements are in accordance with the requirements of IFRS 3 Business Combinations.

5.2. 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 2019 was $661.8 million (2018: $506.9 million). This is considered as a key audit matter due to the significant judgements and estimates involved in assessing whether any impairment has arisen at year-end, and in quantifying any such impairments. In addition, we considered that there was a risk of impairment due to the potential impact of climate change on long term oil prices. Given the importance of producing assets to the group and the judgemental nature of the inputs used in determining the recoverable amounts, we also considered there to be a potential for fraud in this area. Management reviewed its two producing assets in Vietnam, being Te Giac Trang ('TGT') and Ca Ngu Vang ('CNV'), and its one producing asset in Egypt, being El Fayum, for indicators of impairment. As a result of ongoing oil price volatility, Management concluded that there was an indicator of impairment for all three of these fields. Management has estimated the recoverable amount of each field, being its fair value less costs to sell, and compared this to its balance sheet carrying amount. The recoverable amount for each field was above the carrying amount and as such, Management considered that no impairment was required. Management's fair value estimates were based on key assumptions which included: • oil price forecasts, being $65/bbl in 2020, plus inflation of 2% thereafter; • reserves estimates and production profiles; • post-tax nominal discount rates , which were consistent with prior year at 10% for TGT and CNV, and for El Fayum were consistent with the acquisition date assumption of 12%; and • operating and capital expenditure In relation to reserves estimates Management have engaged third party reservoir engineering experts to provide an independent report on the group's reserves estimates using standard industry reserve estimation methods and definitions for each of the CNV, TGT and El Fayum fields. Consistent with the approach adopted in relation to the acquisition date fair values of Merlon, Management has included a share of estimated 2C Contingent Resources in their estimate of El Fayum reserves, based on underlying data in the third party reserves report for that field. Management have explained the scope of work of the third party experts and their findings in the operations review, as well as highlighting oil and gas reserves as a key source of estimation uncertainty in note 4 to the financial statements. Further details of the key assumptions used by management in their impairment evaluation are provided in note 16 of the financial statements and in the Report of the Audit & Risk Committee on page 94. The disclosures in note 16 include the sensitivity of the impairment assessments to changes in key assumptions, including the impact of adopting a long term oil price consistent with a scenario described as being compliant with achieving the 2015 COP 21 Paris agreement goal to limit temperature rises to well below 2^{0}C ("Paris 2^{0}C Goal").
How the scope of our audit responded to the key audit matter	For the TGT, CNV and El Fayum impairment assessments, we performed the following procedures: • we understood the basis for Management's conclusion as to the existence or otherwise of impairment triggers for TGT, CNV and El Fayum; • we obtained an understanding of controls relevant to the preparation of the fair value estimates; • we understood the process by which management has derived its estimate of fair value less costs to sell; • we compared oil price assumptions with third party forecasts and publicly available forward curves. This included comparison with a third party forecast described as being consistent with the Paris 2^{0}C Goal; • we understood the process used by management to derive their reserves estimates and associated production profiles and how they provide information to, and interact with, the third party experts; • we reviewed the third party expert's reports on Pharos' reserves estimates as summarised in the operations review and evaluated whether these estimates were used consistently throughout the accounting calculations reflected in the financial statements; • we communicated directly with the third party reserves experts to discuss and assess their scope of work, and evaluate their competence, capabilities and objectivity; • we involved our internal valuation specialists to perform an independent recalculation of the discount rates used for TGT, CNV and El Fayum; • we assessed management's other assumptions by reference to third party information, our knowledge of the group and industry and also budgeted and forecast performance; • we tested the fair value estimates for mechanical accuracy; and • we considered whether management's presentation and disclosures relating to impairment and associated estimation uncertainty were adequate
Key observations	We are satisfied that Management's decision that no impairment charge is required on TGT, CNV or El Fayum is appropriate. We are also satisfied that appropriate disclosures relating to Management's impairment assessment have been provided in note 16.

5.3. Going Concern

Key audit matter description	As a result of the significant (approximately 50%) reduction in oil prices subsequent to the balance sheet date, we consider the appropriateness of the going concern assumption and the adequacy of Management's disclosure in this area to be a key audit matter. Management have prepared a base case cash flow forecast for a period of at least 12 months from the date of approval of the financial statements and also considered a number of downside scenarios. The key assumptions used by management in their base case include: • oil price forecasts, being \$60/bbl in 2020, increasing to \$65/bbl from January 2021, adjusted for existing hedging positions in place; and • production and expenditure forecasts consistent with those used in their impairment tests for producing oil & gas assets. Management's downside scenarios include individual sensitivities relating to oil price, production and capital expenditure. They have also considered an aggregated downside scenario, with key assumptions including: • oil price forecast of \$30/bbl in 2020, increasing by \$5/bbl in each quarter in 2021; • 5% reduction in production for its Vietnam producing assets; and • 10% increase in capital expenditure. The aggregated downside scenario also includes a number of mitigating actions, of which the most significant is the removal of uncommitted capital expenditure in both Egypt and Vietnam, together with the associated reduction in future production volumes. Management's base case and downside scenarios forecast that the group will remain cash positive and in compliance with the financial covenants in its reserve based lending (RBL) facility for at least 12 months from the date of approval of the financial statements. Based on this, management has concluded that the going concern basis of accounting is appropriate. Further details of the key assumptions used by management are provided in the going concern section of note 16 to the financial statements.
How the scope of our audit responded to the key audit matter	We performed the following audit procedures: • obtained an understanding of the company's going concern assessment process as well as the control environment implemented by management; • confirmed that the forecasts incorporated in the base case model are consistent with the budget approved by the Board and the impairment tests for producing oil & gas assets; • assessed the historical accuracy of budgets prepared by Management; • compared the oil prices in the aggregated downside scenario with both the spot oil price and publically available forward curves as of the date of approval of the financial statements; • assessed and recalculated the impact of the aggregated downside scenario on the financial covenants included in the the RBL during the going concern period; • assessed the ability of management to execute the mitigating actions in its aggregated downside scenario, including the extent to which the adjustments made to capital expenditure are uncommitted as of the date of this report; • tested the going concern model for mechanical accuracy; and • considered whether the disclosures relating to going concern are appropriate
Key observations	Based on the cashflow forecasts prepared by Management, we are satisfied that it is appropriate to adopt the going concern basis of accounting in preparing the financial statements.

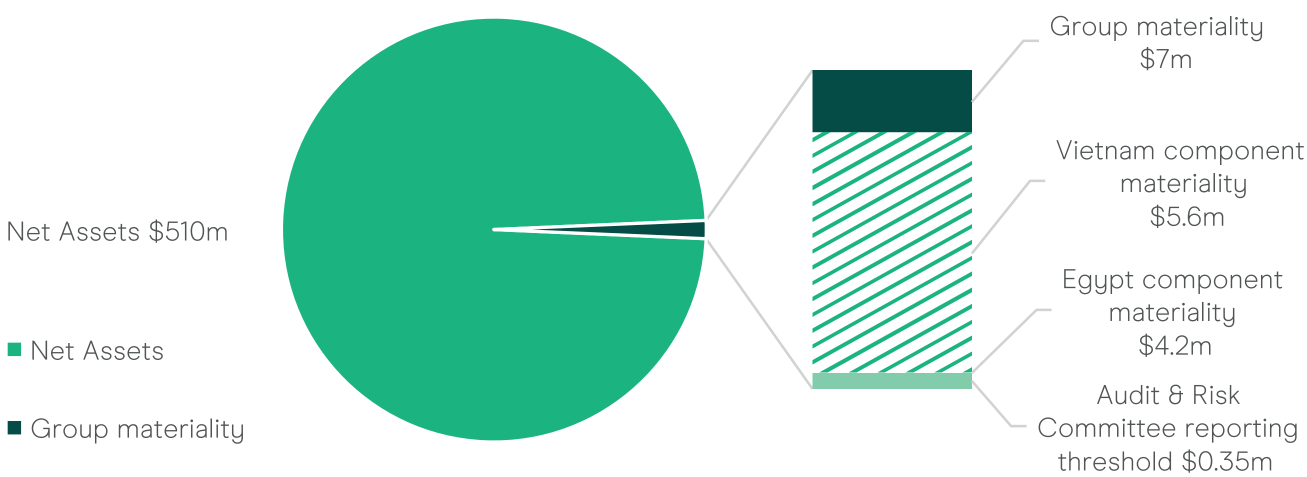
6. Our application of materiality

6.1. Materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Parent company financial statements
Materiality	$7 million (2018: $7 million)	$6.3 million (2018: $6.75 million)
Basis for determining materiality	1.4% (2018: 1.5%) of net assets	Parent company materiality equates to 1.1% (2018: 1.5%) of net assets
Rationale for the benchmark applied	The group's 2019 profit before tax from continuing operations is not considered to represent a stable basis for materiality or be representative of the underlying scale of the group due to: (a) the continued volatility in oil prices; (b) the uncertain outlook for future oil prices; and (c) 2019 production not being reflective of the underlying scale of the group's operations as a result of the newly acquired Egypt business unit only contributing for part of the year and at a relatively low daily rate due to the ongoing development programme in that country. Accordingly, consistent with the prior year, we have concluded that net assets represents the most appropriate benchmark which reflects the long term value of the group through its portfolio of production and exploration assets and their associated reserves and contingent resources.	Consistent with the prior year, as the primary nature of this holding company is to hold investments in subsidiaries, we have concluded that net assets represents the most appropriate benchmark.



6.2. Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole. Group performance materiality was set at 70% of group materiality for the 2019 audit (2018: 70%). In determining performance materiality, we considered the following factors:

a. the controls environment within which the group operates, including that related to IT, is not considered to be complex;

b. the responsibility for all key accounting judgements and critical sources of estimation uncertainty is centralised and conducted in the head office in London;

c. the limited number of changes to the business during the year, with the only significant development being the acquisition of Merlon;

d. the limited turnover of management and key accounting personnel;

e. our risk assessment did not identify a disproportionate number of significant risks of material misstatements; and

f. the history of a low number of corrected and uncorrected misstatements identified in previous periods.

6.3. Error reporting threshold

We agreed with the Audit & Risk Committee that we would report to the Committee all audit differences in excess of $0.35m (2018: $0.35m), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit & Risk Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

7. An overview of the scope of our audit

7.1. Identification and scoping of components

Our group audit was scoped by obtaining an understanding of the group and its environment, including group-wide controls, and assessing the risks of material misstatement at the group level. Based on that assessment, we scoped in the group's key business units, Vietnam and Egypt, which are accounted for partly in the local country of operation and partly in London, together with the parent company which is also accounted for in London. The Vietnamese component, the Egyptian component and the parent company, which were subject to full scope audits, accounted for 98% of the group's total assets, 100% of the group's revenue, 100% of the profit before tax from profit making entities and 82% of the loss before tax from loss making entities. Specified audit procedures have been performed on the remaining 2% of the group's total assets and 18% of the loss before tax from loss making entities. The Vietnamese component materiality was $5.6 million and the Egyptian component materiality was $4.2 million. We also audited the consolidation of the group's business units. In both the current and prior year, all of the key audit matters that had the greatest effect on our audit strategy, as described above, were audited directly by the group audit team in London.

7.2. Working with other auditors

The group audit team assesses each year how best to be appropriately involved in the audit work undertaken in Vietnam. In the current year, this was achieved by regular interaction and review through correspondence, telephone and other electronic media as well as performing a review of the underlying work of the component auditors in selected key areas by a senior member of the audit team.

Egypt is a new component in the current year as a result of the Merlon acquisition. The component team was visited during the year by the lead audit partner and other senior members of the engagement team. The group audit team has been directly involved in overseeing the Egypt component audit planning and execution, through frequent correspondence, telephone and other electronic media as well as performing a review of the underlying work of the component auditors in selected key areas in person by a senior member of the audit team.

In addition to our direct interactions, we sent detailed instructions to our component audit teams, and reviewed their audit working papers.

8. Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

In this context, matters that we are specifically required to report to you as uncorrected material misstatements of the other information include where we conclude that:

- Fair, balanced and understandable – the statement given by the directors that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the group's position and performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- Audit & Risk Committee reporting – the section describing the work of the audit & risk committee does not appropriately address matters communicated by us to the audit & risk committee; or
- Directors' statement of compliance with the UK Corporate Governance Code – the parts of the directors' statement required under the Listing Rules relating to the company's compliance with the UK Corporate Governance Code

containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

We have nothing to report in respect of these matters.

9. Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the parent company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

10. Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Details of the extent to which the audit was considered capable of detecting irregularities, including fraud and non-compliance with laws and regulations are set out below.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

11. Extent to which the audit was considered capable of detecting irregularities, including fraud

We identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and then design and perform audit procedures responsive to those risks, including obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion.

11.1. Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, we considered the following:

- the nature of the industry and sector, control environment and business performance including the design of the group's remuneration policies, key drivers for directors' remuneration, bonus levels and performance targets;
- the group's own assessment of the risks that irregularities may occur either as a result of fraud or error;
- results of our enquiries of management and the audit and risk committee about their own identification and assessment of the risks of irregularities;
- any matters we identified having obtained and reviewed the group's documentation of their policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
  - the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations;
- the matters discussed among the audit engagement team including significant component audit teams and involving relevant internal specialists, including tax and valuations specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in Management's assessment of the impairment of producing oil & gas assets. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory framework that the group operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the UK Companies Act and the UK Listing Rules.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the group's ability to operate or to avoid a material penalty. These included the group's operating licences and environmental regulations in both Egypt and Vietnam, the El Fayum concession agreement in Egypt and the TGT and CNV production sharing contracts in Vietnam.

11.2. Audit response to risks identified

As a result of performing the above, we identified impairment of producing oil & gas assets as a key audit matter related to the potential risk of fraud. The key audit matters section of our report explains the matter in more detail and also describes the specific procedures we performed in response to that key audit matter.

In addition to the above, our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- enquiring of management, the Audit & Risk Committee and in-house legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance and making enquiries regarding any relevant legal correspondence; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members, including internal specialists and significant component audit teams, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Report on other legal and regulatory requirements

12. Opinions on other matters prescribed by the Companies Act 2006

In our opinion the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements

In the light of the knowledge and understanding of the group and the parent company and their environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

13. Matters on which we are required to report by exception

13.1. Adequacy of explanations received and accounting records

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns

We have nothing to report in respect of these matters.

13.2. Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made or the part of the directors' remuneration report to be audited is not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

14. Other matters

14.1. Auditor tenure

Following the recommendation of the audit & risk committee, we were appointed by the directors on 1 August 2002 to audit the financial statements for the year ending 31 December 2002 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 18 years, covering the years ending 31 December 2002 to 31 December 2019.

14.2. Consistency of the audit report with the additional report to the audit & risk committee

Our audit opinion is consistent with the additional report to the audit & risk committee we are required to provide in accordance with ISAs (UK).

15. Use of our report

This report is made solely 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 this report, or for the opinions we have formed.

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

Consolidated Income Statement for the year to 31 December 2019

	Notes	2019 $ million	2018 $ million
Continuing operations			
Revenue	5, 6	**189.7**	175.1
Cost of sales	7	**(128.6)**	(104.6)
Gross profit		**61.1**	70.5
Administrative expenses		**(23.1)**	(28.4)
Reversal of impairment charge	16	**–**	37.8
Operating profit		**38.0**	79.9
Other/exceptional expense	8	**(16.7)**	–
Investment revenue	5	**1.9**	2.7
Finance costs	9	**(11.5)**	(2.5)
Profit before tax	6	**11.7**	80.1
Tax	6, 12	**(38.2)**	(56.0)
(Loss)/profit for the year from continuing operations		**(26.5)**	24.1
Discontinued operations	36		
Profit pre and post-tax for the year from discontinued operations	6	**2.0**	3.6
(Loss)/profit for the year		**(24.5)**	27.7
(Loss)/Earnings per share from continuing operations (cents)	14		
Basic		**(7.0)**	7.3
Diluted		**(7.0)**	7.0
(Loss)/Earnings per share from continuing and discontinued operations (cents)			
Basic		**(6.5)**	8.4
Diluted		**(6.5)**	8.1

Consolidated Statement of Comprehensive Income for the year to 31 December 2019

	Notes	2019 $ million	2018 $ million
(Loss)/profit for the year	30	**(24.5)**	27.7
Items that may be subsequently reclassified to profit or loss:			
Commodity hedge losses (pre and post-tax)	25	**(2.6)**	–
Unrealised currency translation differences	30	**–**	0.2
Total comprehensive (loss)/profit for the year		**(27.1)**	27.9

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

Balance Sheets as at 31 December 2019

		Group		Company	
	Notes	**2019 $ million**	2018 $ million	**2019 $ million**	2018 $ million
Non-current assets					
Intangible assets	15	**20.4**	5.8	**0.3**	–
Property, plant and equipment	16	**669.6**	507.2	**0.6**	0.3
Right-of-use assets	16, 33	**7.3**	–	**6.3**	–
Investments	17	**–**	–	**539.2**	396.7
Loan to subsidiaries		**–**	–	**16.8**	–
Other assets	18	**43.6**	40.6	**–**	–
		740.9	553.6	**563.2**	397.0
Current assets					
Inventories	19	**16.2**	4.1	**–**	–
Trade and other receivables	20	**41.2**	19.6	**0.5**	0.9
Tax receivables		**1.2**	0.6	**0.3**	0.6
Cash and cash equivalents	21	**58.5**	240.1	**4.5**	105.9
		117.1	264.4	**5.3**	107.4
Total assets		**858.0**	818.0	**568.5**	504.4
Current liabilities					
Trade and other payables	22	**(35.5)**	(22.9)	**(5.5)**	(9.5)
Borrowings	24	**(26.4)**	–	**–**	–
Lease liabilities	33	**(0.8)**	–	**(0.3)**	–
Tax payable		**(8.8)**	(5.2)	**(1.7)**	(0.7)
		(71.5)	(28.1)	**(7.5)**	(10.2)
Net current assets (liabilities)		**45.6**	236.3	**(2.2)**	97.2
Non-current liabilities					
Deferred tax liabilities	23	**(137.8)**	(141.8)	**–**	–
Borrowings	24	**(71.7)**	(95.6)	**–**	–
Lease liabilities	33	**(6.4)**	–	**(6.0)**	–
Long term provisions	26	**(60.5)**	(51.7)	**–**	–
		(276.4)	(289.1)	**(6.0)**	–
Total liabilities		**(347.9)**	(317.2)	**(13.5)**	(10.2)
Net assets		**510.1**	500.8	**555.0**	494.2
Equity					
Share capital	27	**31.9**	27.6	**31.9**	27.6
Share premium	27	**55.4**	–	**55.4**	–
Other reserves	28	**246.6**	246.6	**199.3**	196.7
Retained earnings	30	**176.2**	226.6	**268.4**	269.9
Total equity		**510.1**	500.8	**555.0**	494.2

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

The profit for the financial year in the accounts of the Company (Co number 3300821) was $24.4m inclusive of dividends from subsidiary undertakings (2018: $159.9m). As provided by section 408 of the Companies Act 2006, no income statement or statement of comprehensive income is presented in respect of the Company.

The financial statements were approved by the Board of Directors on 10 March 2020 and signed on its behalf by:

Rui de Sousa
Chairman

Jann Brown
Director

Statements of Changes in Equity for the year to 31 December 2019

Group

	Notes	Called up share capital (see Note 27) $ million	Share premium (see Note 27) $ million	Other reserves (see Note 28) $ million	Retained earnings (see Note 30) $ million	Total $ million
As at 1 January 2018		27.6	–	245.9	221.1	494.6
Profit for the year		–	–	–	27.7	27.7
Unrealised currency translation differences		–	–	(1.4)	0.2	(1.2)
Distributions		–	–	–	(23.3)	(23.3)
Share-based payments		–	–	3.0	–	3.0
Transfer relating to share-based payments		–	–	(0.9)	0.9	–
As at 1 January 2019		**27.6**	**–**	**246.6**	**226.6**	**500.8**
Loss for the year	30	**–**	**–**	**–**	**(24.5)**	**(24.5)**
Other comprehensive income	28	**–**	**–**	**(2.6)**	**–**	**(2.6)**
Unrealised currency translation differences	28, 30	**–**	**–**	**0.4**	**–**	**0.4**
Shares issued	27	**4.3**	**55.4**	**–**	**–**	**59.7**
Distributions	29, 30	**–**	**–**	**–**	**(27.4)**	**(27.4)**
Share-based payments	28	**–**	**–**	**3.7**	**–**	**3.7**
Transfer relating to share-based payments	28, 30	**–**	**–**	**(1.5)**	**1.5**	**–**
As at 31 December 2019		**31.9**	**55.4**	**246.6**	**176.2**	**510.1**

Company

	Notes	Called up share capital (see Note 27) $ million	Share premium (see Note 27) $ million	Other reserves (see Note 28) $ million	Retained earnings (see Note 30) $ million	Total $ million
As at 1 January 2018		27.6	–	195.8	157.3	380.7
Profit for the year		–	–	–	159.9	159.9
Unrealised currency translation differences		–	–	(1.4)	(24.8)	(26.2)
Distributions		–	–	–	(23.3)	(23.3)
Share-based payments		–	–	3.0	–	3.0
Transfer relating to share-based payments		–	–	(0.7)	0.8	0.1
As at 1 January 2019		**27.6**	**–**	**196.7**	**269.9**	**494.2**
Profit for the year	13, 30	**–**	**–**	**–**	**24.4**	**24.4**
Unrealised currency translation differences	28, 30	**–**	**–**	**0.4**	**–**	**0.4**
Shares issued	27	**4.3**	**55.4**	**–**	**–**	**59.7**
Distributions	29, 30	**–**	**–**	**–**	**(27.4)**	**(27.4)**
Share-based payments	28	**–**	**–**	**3.7**	**–**	**3.7**
Transfer relating to share-based payments	28, 30	**–**	**–**	**(1.5)**	**1.5**	**–**
As at 31 December 2019		**31.9**	**55.4**	**199.3**	**268.4**	**555.0**

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

Cash Flow Statements for the year to 31 December 2019

		Group		Company	
	Notes	**2019 $ million**	2018 $ million	**2019 $ million**	2018 $ million
Net cash from (used in) continuing operating activities	32	**72.3**	55.9	**(21.1)**	(23.2)
Net cash used in discontinued operating activities	32	**–**	(1.7)	**–**	–
Net cash from (used in) operating activities	32	**72.3**	54.2	**(21.1)**	(23.2)
Investing activities					
Purchase of intangible assets		**(9.9)**	(2.4)	**(0.3)**	–
Purchase of property, plant and equipment		**(50.2)**	(16.6)	**(0.6)**	(0.1)
Decrease in liquid investments[1]		**–**	25.3	**–**	–
Payment for acquisition of subsidiary, net of cash acquired	37	**(153.1)**	–	**(155.5)**	–
Payment to abandonment fund	18	**(3.3)**	(3.4)	**–**	–
Other investment (repayments) in subsidiary undertakings		**–**	–	**16.8**	(33.4)
Dividends received from subsidiary undertakings		**–**	–	**87.5**	187.0
Net cash (used in) from continuing investing activities		**(216.5)**	2.9	**(52.1)**	153.5
Net cash (used in) from discontinued investing activities		**(0.7)**	0.5	**–**	–
Net cash (used in) from investing activities		**(217.2)**	3.4	**(52.1)**	153.5
Financing activities					
Proceeds from borrowings		**–**	95.6	**–**	–
Interest paid on borrowings		**(7.7)**	**–**	**–**	**–**
Lease payments	33	**(1.2)**	**–**	**(0.9)**	**–**
Share-based payments		**0.1**	–	**0.1**	–
Proceeds from exercise of share options	31	**–**	–	**–**	(1.2)
Purchase of own shares into treasury		**–**	(1.3)	**–**	–
Dividends paid to company shareholders	29	**(27.4)**	(23.3)	**(27.4)**	(23.3)
Net cash (used in) from continuing financing activities		**(36.2)**	71.0	**(28.2)**	(24.5)
Net cash (used in) from financing activities		**(36.2)**	71.0	**(28.2)**	(24.5)
Net (decrease) increase in cash and cash equivalents		**(181.1)**	128.6	**(101.4)**	105.8
Cash and cash equivalents at beginning of year		**240.1**	112.4	**105.9**	1.0
Effect of foreign exchange rate changes		**(0.5)**	(0.9)	**–**	(0.9)
Cash and cash equivalents at end of year[1]	21	**58.5**	240.1	**4.5**	105.9

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

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

1 General information

Pharos Energy plc is a company limited by shares and incorporated in England and Wales under the Companies Act. The address of the registered office is given on the inside back cover. The nature of the Group's operations and its principal activities are set out in Note 6, in the Operations Review and Financial Review on pages 26 to 39 and 42 to 45, respectively. Pharos Energy plc is the ultimate parent company of the Group and except where otherwise indicated the following accounting policies apply to both the Group and the Company.

2 Significant accounting policies

(a) Basis of preparation

The Financial Statements have been prepared in accordance with, and comply with, IFRS adopted for use in the European Union ('EU') and therefore comply with Article 4 of the EU IAS Regulation and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The Financial Statements have also been prepared on a going concern basis of accounting for the reasons set out in the Annual Report of the Directors on page 118 and in the Financial Review on page 42.

The Financial Statements have been prepared under the historical cost basis, except for the valuation of hydrocarbon inventories and the revaluation of certain financial instruments. The Financial Statements are presented in US dollars as it is the functional currency of each of the Company's subsidiary undertakings and is generally accepted practice in the oil and gas sector.

Change of functional currency for the Company

IAS 21 'The effects of changes in foreign exchange rates' describes functional currency as 'the currency of the primary economic environment in which an entity operates'. Determining when the functional currency of an entity has changed is a matter of judgement as the determining factors may move gradually over time. However, the Board has concluded that the functional currency of the Company changed from GBP to US dollars with effect from 1 January 2019. The main reason for the change is due to the new financing activities being in US dollars.

The principal accounting policies adopted are set out below.

(b) New and amended standards adopted by the Group

IFRS 16 Leases

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

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

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

Lease liabilities were measured at the present value of the remaining lease payments, discounted using the interest rate implicit in the lease (if available), or the incremental borrowing rate as of 1 January 2019, or start of the lease, whichever is earlier. Refer to Note 33 for further detail.

(c) New standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2019 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 nor on foreseeable future transactions.

(d) Basis of consolidation

The Group Financial Statements consolidate the accounts of Pharos Energy plc and entities controlled by the Company (its subsidiary undertakings) drawn up to the balance sheet date. Control is achieved where the investor is exposed or has rights to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The results of subsidiaries acquired or sold are consolidated for the periods from or to the date on which control passed. Acquisitions are accounted for under the acquisition method whereby the assets, liabilities and contingent liabilities acquired and the consideration given are recognised in the Group accounts at their fair values as at the date of the acquisition.

(e) Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred. Assets acquired and liabilities assumed are recorded at their acquisition date fair values.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

2 Significant accounting policies continued

(f) Investments

Non-current investments in subsidiaries of the Company are shown at cost less provision for impairment. Liquid investments comprise short-term liquid investments of between three to six months maturity.

(g) Interests in Joint Arrangements

A joint arrangement is an arrangement where two or more parties have joint control. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. Joint arrangements where the Group has the rights to assets and obligations for liabilities of the arrangement are classified as joint operations and are accounted for by recognising the Group's share of assets, liabilities, income and expenses. Joint arrangements where the Group has the rights to the net assets of the arrangement are classified as joint ventures and are accounted for using the equity method of accounting.

(h) Revenue

Revenue represents the fair value of the Group's share of oil and gas sold during the year on a liftings basis and is recognised when the Group satisfies a performance obligation by transferring oil and gas to a customer. In accordance with the Group's sales agreements for oil and gas, the title to oil and gas typically transfers to a customer at the same time as the customer takes physical possession of the oil or gas. Typically, at this point in time, the performance obligations of the Group are fully satisfied.

Investment revenue is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

(i) Other/Exceptional items

Other/Exceptional items represents income and expenses that arise from events or transactions that are clearly distinct from the ordinary activities of the enterprise and, therefore, are not expected to recur frequently or regularly. Refer to Note 8 for further details.

(j) Intangible and Tangible non-current assets

Oil and gas exploration, evaluation and development expenditure

The Group adopts the successful efforts method of accounting for exploration and evaluation costs. Pre-licence costs are expensed in the period in which they are incurred. All licence acquisition, exploration and evaluation costs and direct administration costs are initially capitalised as intangible non-current assets in cost centres by well (most typically), field or exploration area, as appropriate. Interest payable is capitalised insofar as it relates to specific development activities.

These costs are then written off as exploration costs in the income statement unless commercial reserves have been established or the determination process has not been completed and there are no indicators of impairment.

All field development costs are capitalised as property, plant and equipment. Property, plant and equipment related to production activities is amortised in accordance with the Group's depletion and amortisation accounting policy.

Depreciation and depletion

Depletion is provided on oil and gas assets in production using the unit of production method, based on proven and probable reserves, applied to the sum of the total capitalised exploration, evaluation and development costs, together with estimated future development costs at current prices. Oil and gas assets which have a similar economic life are aggregated for depreciation purposes.

Impairment of value

Where there has been a change in economic conditions or in the expected use of a tangible non-current asset that indicates a possible impairment in an asset, management tests the recoverability of the net book value of the asset by comparison with the estimated discounted future net cash flows based on management's expectations of future oil prices and future costs. Any identified impairment is charged to the income statement.

Intangible non-current assets are considered for impairment at least annually by reference to the indicators specified in paragraphs 18 to 20 of IFRS 6. The impairment indicators in IFRS 6 for each exploration asset are:

- The period for which the entity has the right to explore in the specific area has expired during the period or will expire in the near future, and is not expected to be renewed;
- Substantive expenditure on further exploration for and evaluation of mineral resources in the specific area is neither budgeted nor planned;
- Exploration for and evaluation of mineral resources in the specific area have not led to the discovery of commercially viable quantities of mineral resources and the entity has decided to discontinue such activities in the specific area; and
- Sufficient data exist to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale.

Other tangible non-current assets

Other tangible non-current assets are stated at historical cost less accumulated depreciation. Depreciation is provided on a straight-line basis at rates calculated to write off the cost of those assets, less residual value, over their expected useful lives of three to seven years.

Decommissioning

The decommissioning provision is calculated as the net present value of the Group's share of the expenditure which is expected to be incurred at the end of the producing life of each field in the removal and decommissioning of the production, storage and transportation facilities currently in place. The cost of recognising the decommissioning provision is included as part of the cost of the relevant property, plant and equipment and is thus charged to the income statement on a unit of production basis in accordance with the Group's policy for depletion and depreciation of tangible non-current assets. Period charges for changes in the net present value of the decommissioning provision arising from discounting are included in finance costs.

(k) Changes in estimates

The effects of changes in estimates on the unit of production calculations are accounted for prospectively, from the date of adoption of the revised estimates, over the estimated remaining proven and probable reserves.

(l) Inventories

Inventories, except for inventories of hydrocarbons, are valued at the lower of cost and net realisable value.

Physical inventories of hydrocarbons are valued at net realisable value in line with well established industry practice. Underlifts and overlifts are valued at market value and are included in accrued income and prepayments, and accruals and deferred income, respectively. Changes in hydrocarbon inventories, underlifts and overlifts are adjusted through cost of sales.

(m) Leases

As explained in Note 2(b) above, the Group has changed its accounting policy for leases where the Group is the lessee. The new policy and the impact of the change are described in Note 33.

Until 31 December 2018, rentals payable under operating leases were charged to the income statement on a straight-line basis over the term of the lease. Benefits received and receivable as an incentive to enter into an operating lease were also spread on a straight-line basis over the lease term.

(n) Share-based payments

Equity-settled awards under share-based incentive plans are measured at fair value at the date of grant and expensed on a straight-line basis over the performance period along with a corresponding increase in equity. Fair value is measured using an option pricing model taking into consideration management's best estimate of the expected life of the option and the estimated number of shares that will eventually vest.

For cash-settled share-based payments, a liability is recognised measured initially at fair value. At each balance sheet date until the liability is settled, and at the date of settlement, the fair value of the liability is measured, with any changes in fair value recognised in profit or loss for the year.

(o) Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that sufficient taxable profits will be available to recover the asset. Deferred tax is not recognised where an asset or liability is acquired in a transaction which is not a business combination for an amount which differs from its tax value.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on tax rates that have been enacted or substantively enacted by the balance sheet date. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

2 Significant accounting policies continued

(p) Financial instruments

Financial assets and financial liabilities are recognised on the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

There are no material financial assets and liabilities for which differences between carrying amounts and fair values are required to be disclosed. The classification of financial instruments as required by IFRS 7 is disclosed in Notes 20, 21, 22, 24 and 33.

Financial asset at fair value through profit or loss

Where a financial instrument is classified as a financial asset at fair value through profit or loss it is initially recognised at fair value. At each balance sheet date the fair value is reviewed and any gain or loss arising is recognised in the income statement. Changes in the net present value of the financial asset arising from discounting are included in other gains and losses.

Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost, less loss allowance, when required.

Trade payables

Trade payables are generally stated at amortised cost using the effective interest rate.

Derivative and hedging instruments

Derivatives are initially recognised at fair value on the date that a derivative contract is entered into, and they are subsequently remeasured to their fair value at the end of each reporting period. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument and, if so, the nature of the item being hedged.

At inception of the hedge relationship, the Group documents the economic relationship between hedging instruments and hedged items, including whether changes in the cash flows of the hedging instruments are expected to offset changes in the cash flows of hedged items. The Group documents its risk management objective and strategy for undertaking its hedge transactions.

Pharos entered into different commodity (swap) hedges to protect its cash position and to ensure future compliance with its obligations under the RBL. Pharos has designated the swaps as cash flow hedges. For cash flow hedges, the portion of the gains and losses on the hedging instrument that is determined to be an effective hedge is taken to other comprehensive income and the ineffective portion is recognised in the income statement. The gains and losses taken to other comprehensive income are subsequently transferred to the income statement during the period in which the hedged transaction affects the income statement.

Bank borrowing

Interest-bearing bank loans are recorded at the proceeds received, net of direct issue costs. Finance charges, including any direct issue costs, are accounted for on an accrual basis in the income statement using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the year in which they arise.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs. Equity instruments repurchased are deducted from equity at cost.

(q) Foreign currencies

The individual financial statements of each Group company are stated in the currency of the primary economic environment in which it operates (its functional currency). Transactions in currencies other than the entity's functional currency (foreign currency) are recorded at the rate of exchange at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are recorded at the rates of exchange prevailing at that date, or if appropriate, at the forward contract rate. Any resulting gains and losses are included in net profit or loss for the period.

For the purpose of presenting consolidated financial statements the results of entities denominated in currencies other than US dollars are translated at the daily rate of exchange and their balance sheets at the rates ruling at the balance sheet date. Any resulting gains or losses are taken to other comprehensive income.

(r) Pension costs

The contributions payable in the year in respect of pension costs for defined contribution schemes and other post-retirement benefits are charged to the income statement. Differences between contributions payable in the year and contributions actually paid are shown either as accruals or prepayments in the balance sheet.

3 Financial risk management

The Board reviews and agrees policies for managing financial risks that may affect the Group. In certain cases the Board delegates responsibility for such reviews and policy setting to the Audit and Risk Committee. The principal financial risks affecting the Group are discussed in the Risk Management Report on pages 46 to 55.

4 Critical judgements and accounting estimates

(a) Critical judgements in applying the Group's accounting policies

In the process of applying the Group's accounting policies described in Note 2, management has made judgements that may have a significant effect on the amounts recognised in the financial statements. These are discussed below:

Oil and gas assets

Note 2(j) describes the judgements necessary to implement the Group's policy with respect to the carrying value of intangible exploration and evaluation assets.

Management considers these assets for impairment at least annually with reference to indicators in IFRS 6. Note 15 discloses the carrying value of intangible exploration and evaluation assets. Further, Note 2(j) describes the Group's policy regarding reclassification of intangible assets to tangible assets. Management considers the appropriateness of asset classification at least annually.

(b) Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, other than those mentioned above, that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Oil and gas reserves and DD&A

Note 2(j) sets out the Group's accounting policy on DD&A. Proven and probable reserves are estimated using standard recognised evaluation techniques and are disclosed on page 158. The estimate is reviewed at least twice a year and is audited at year end. Future development costs are estimated taking into account the level of development required to produce the reserves by reference to operators, where applicable, and internal engineers. As discussed in the Operations Review on page 26, the Vietnam fields, TGT and CNV proved and probable reserves estimates have been revised based on ongoing work of ERCE and audited by our Reserves Auditors, RISC Advisory Pty Ltd. Following completion of the acquisition in April 2019, the Egypt proved and probable reserves estimates have been reviewed and audited by McDaniels. Reserves estimates are inherently uncertain, especially in the early stages of a field's life, and are routinely revised over the producing lives of oil and gas fields as new information becomes available and as economic conditions evolve. Such revisions may impact the Group's future financial position and results, in particular, in relation to DD&A and impairment testing of oil and gas property, plant and equipment.

Impairment of producing oil and gas assets

If impairment indicators are identified in relation to a producing oil and gas field, management is required to compare the net carrying value of the assets and liabilities which represent the field cash generating unit (CGU) with the estimated recoverable amount of the field. Management generally determines the recoverable amount of the field by estimating its fair value less costs of disposal, using a discounted cash flow method. Calculating the net present value of the discounted cash flows involves key assumptions which include commodity prices, 2P reserves estimates and discount rates. Other assumptions include production profiles, future operating and capital expenditures. Further information relating to the specific assumptions and uncertainties relevant to impairment tests performed in the year are discussed in Note 16.

5 Total revenue

An analysis of the Group's revenue is as follows:

	2019 $ million	2018 $ million
Oil and gas sales (see Note 6)	**189.9**	175.1
Commodity hedge (see Note 6 and Note 25)	**(0.2)**	–
Investment revenue	**1.9**	2.7
	191.6	177.8

6 Segment information

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

					2019
	SE Asia $ million	**Egypt $ million**	Africa[2] $ million	**Unallocated $ million**	**Group $ million**
Oil and gas sales (see Note 5)	**155.5**	**34.4**	**–**	**–**	**189.9**
Commodity hedge (see Note 5 and Note 25)	**–**	**–**	**–**	**(0.2)**	**(0.2)**
Total revenue	**155.5**	**34.4**	**–**	**(0.2)**	**189.7**
Depreciation, depletion and amortisation - Oil and gas (see Note 7 and Note 16)	**60.3**	**14.1**	**–**	**–**	**74.4**
Depreciation, depletion and amortisation - Other (see Note 16)	**–**	**0.2**	**–**	**0.9**	**1.1**
Profit (loss) before tax from continuing operations[1]	**55.2**	**(10.1)**	**–**	**(33.4)**	**11.7**
Profit post-tax from discontinued operations	**–**	**–**	**2.0**	**–**	**2.0**
Tax charge (see Note 12)	**38.2**	**–**	**–**	**–**	**38.2**

					2018
	SE Asia $ million	Egypt $ million	Africa[2] $ million	Unallocated $ million	Group $ million
Oil and gas sales (see Note 5)	175.1	–	–	–	175.1
Depreciation, depletion and amortisation - Oil and gas (see Note 7 and Note 16)	51.8	–	–	–	51.8
Depreciation, depletion and amortisation - Other (see Note 16)	–	–	–	0.3	0.3
Reversal of impairment charge	37.8	–	–	–	37.8
Profit (loss) before tax from continuing operations[1]	107.7	–	–	(27.6)	80.1
Profit post-tax from discontinued operations	–	–	3.6	–	3.6
Tax charge (see Note 12)	56.0	–	–	–	56.0

1 Unallocated amounts included in profit before tax comprise corporate costs not attributable to an operating segment, investment revenue, other gains and losses and finance costs.
2 As of December 2018, Africa operations had been disposed.

The accounting policies of the reportable segments are the same as the Group's accounting policies as described in Note 2.

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

Geographical information

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

Revenue

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

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

Non-current assets

	2019 $ million	2018 $ million
United Kingdom	**7.2**	0.2
Vietnam	**482.7**	512.8
Egypt	**207.4**	–
	697.3	513.0

Excludes other assets.

7 Cost of sales

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

8 Other/exceptional expense

	2019 $ million	2018 $ million
Assignment Fee - Egypt acquisition cost (see Note 37)	**13.6**	–
Voluntary redundancy cost	**3.1**	–
	16.7	–

9 Finance costs

	2019 $ million	2018 $ million
Unwinding of discount on provisions (see Note 26)	**1.6**	1.4
Interest expense payable and similar fees (see Note 24)	**7.0**	**0.6**
Interest on lease liabilities (see Note 33)	**0.3**	–
Amortisation of capitalised borrowing costs (see Note 24)	**2.7**	–
Net foreign exchange (gains)/losses	**(0.1)**	0.5
	11.5	2.5

In 2019 $1.6m relates to the unwinding of discount on the provisions for decommissioning (2018: $1.4m). The provisions are based on the net present value of the Group's share of the expenditure which may be incurred at the end of the producing life of TGT and CNV (currently estimated to be 11-12 years) in the removal and decommissioning of the facilities currently in place (see Note 26).

10 Auditor's remuneration

The analysis of the auditor's remuneration is as follows:

	2019 $000s	2018 $000s
Fees payable to the Company's auditor and their associates for the audit of the Company's annual accounts	**254**	188
Fees payable to the Company's auditor and their associates for other services to the Group:		
Audit of the Company's subsidiaries	**79**	8
Total audit fees	**333**	196
Audit related assurance services – half year review	**88**	68
Taxation compliance services	**–**	–
Corporate finance services and other assurance services	**19**	583
Other services	**–**	–
Total non-audit fees	**107**	651

The non-audit fees during 2019 included the half year review and other assurance services associated primarily with agreed upon procedures relating to the Vietnam region as well as regulatory and other advice to management. All non-audit fees were fully approved by the Audit and Risk Committee, having concluded such services were compatible with auditor independence and were consistent with relevant ethical guidance in place. Non-audit fees during 2018 included the half year review, due diligence related corporate finance services and other assurance services associated primarily with reporting accountant services on two transactions that took place during 2018.

Details of the Company's policy on the use of auditors for non-audit services are set out in the Audit and Risk Committee Report on pages 90 to 95.

Fees payable to Deloitte LLP for non-audit services to the Company are not required to be disclosed separately because the consolidated financial statements disclose such fees on a consolidated basis.

11 Staff costs

The average monthly number of employees of the Group including Executive Directors was 58 (2018: 26), of which 52 (2018: 23) were administrative personnel and 6 (2018: 3) were operations personnel. Their aggregate remuneration comprised:

		Group
	2019 $ million	2018 $ million
Wages and salaries	**13.4**	9.1
Social security costs	**1.2**	1.7
Share-based payment expense (see Note 31)	**4.0**	2.0
Other pension costs under money purchase schemes	**1.8**	0.9
Other benefits	**1.7**	0.8
	22.1	14.5

In accordance with the Group's accounting policy $1.6m of the Group's staff costs above have been capitalised, of which $1.2m relates to our Vietnam assets and $0.4m relates to our Egypt assets (2018: $1.6m relating to Vietnam).

In 2019, the total staff costs of $22.1m (2018: $14.5m) reflects an addition of $6.2m for the Egypt assets (from the date of completion). Excluding this and the impact of IFRS 2 share-based payment expense, the underlying costs have decreased to $11.9m (2018: $12.5m).

12 Tax

	2019 $ million	2018 $ million
Current tax	**42.2**	46.8
Deferred tax (see Note 23)	**(4.0)**	9.2
	38.2	56.0

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

12 Tax continued

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

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

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

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

The Egypt concessions are subject to corporate income tax at the standard rate of 40.55%, however responsibility for payment of corporate income taxes falls upon EGPC on behalf of our local subsidiary Pharos El Fayum (PEF). The Group records a tax charge, with a corresponding increase in 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.

13 Profit attributable to Pharos Energy Plc

The profit for the financial year in the accounts of the Company was $24.4m inclusive of dividends from subsidiary undertakings (2018: profit of $159.9m). As provided by section 408 of the Companies Act 2006, no income statement or statement of comprehensive income is presented in respect of the Company.

14 Earnings per share

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

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

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

	Number of shares (million)	
	2019	2018
Weighted average number of ordinary shares	378.1	329.8
Effect of dilutive potential ordinary shares – Share awards and options	–	4.6
Weighted average number of ordinary shares for the purpose of diluted loss per share	378.1	334.4

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

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

15 Intangible assets

	Group		Company
	2019 $ million	2018 $ million	**2019 $ million**
Exploration and evaluation expenditure			
As at 1 January	**5.8**	**3.8**	**–**
Additions	**14.6**	**2.0**	**0.3**
As at 31 December	**20.4**	**5.8**	**0.3**

Intangible assets at 2019 year-end comprise the Group's exploration and evaluation projects which are pending determination. Included in the additions is Blocks 125 & 126 in Vietnam $10.1m, Egypt $4.2m of which $2.4m relates to North Beni Suef and $0.3m for the Israeli bid round licence fee. The outcome of ongoing exploration, and therefore whether the carrying value of E&E assets will ultimately be recovered, is inherently uncertain. 2018 additions were related to Blocks 125 & 126 in Vietnam.

16 Property, plant and equipment and right of use assets

	Group			Company
	Oil and gas properties $ million	Other $ million	Total $ million	Other $ million
Cost				
As at 1 January 2018	917.1	2.1	919.2	2.0
Additions	15.5	0.1	15.6	0.1
Currency exchange	–	(0.1)	(0.1)	(0.1)
As at 1 January 2019	**932.6**	**2.1**	**934.7**	**2.0**
Egypt assets acquired (see Note 37)	**183.8**	**0.9**	**184.7**	**–**
Additions	**45.6**	**7.7**	**53.3**	**7.5**
Revision in decommissioning asset	**7.2**	**–**	7.2	
As at 31 December 2019	**1,169.2**	**10.7**	**1,179.9**	**9.5**
Depreciation				
As at 1 January 2018	411.7	1.6	413.3	1.5
Charge for the year	51.8	0.3	52.1	0.3
Reversal impairment	(37.8)	–	(37.8)	
Currency exchange	–	(0.1)	(0.1)	(0.1)
As at 1 January 2019	**425.7**	**1.8**	**427.5**	**1.7**
Charge for the year	**74.4**	**1.1**	**75.5**	**0.9**
As at 31 December 2019	**500.1**	**2.9**	**503.0**	**2.6**
Carrying amount				
As at 31 December 2019	**669.1**	**7.8**	**676.9**	**6.9**
As at 31 December 2018	506.9	0.3	507.2	0.3

Property, plant and equipment	668.2	1.4	669.6	0.6
Right of use assets (see Note 33)	0.9	6.4	7.3	6.3
As at 31 December 2019	**669.1**	**7.8**	**676.9**	**6.9**

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

Vietnam

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

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

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

Egypt

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

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

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

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

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

17 Fixed asset investments and joint arrangements

Group Investments

The Company and the Group had investments in the following subsidiary undertakings as at 31 December 2019, all of which (unless indicated) are indirectly held.

	Country of incorporation	Country of operation	Principal activity	Percentage holding	Footnotes	Registered address
OPECO Vietnam Limited	Cook Islands	Vietnam	Oil and gas development and production	100	2,6	e
SOCO Vietnam Ltd	Cayman Islands	Vietnam	Oil and gas development and production	100	2,5	d
Pharos Exploration Limited	Jersey	–	Investment holding	100	1,4	a
Pharos Finance (Jersey) Limited	Jersey	–	Group financing	100	1	a
Pharos SEA Limited	Jersey	–	Investment holding	100	1	a
SOCO Exploration (Vietnam) Limited	Cayman Islands	Vietnam	Oil and gas exploration	100	2,7	d
SOCO DRC Limited	Cayman Islands	–	–	85	2,3,4	d
OPECO, Inc	USA	–	Investment holding	100	2,6	c
Pharos El Fayum	Cayman Islands	Egypt	Oil and gas development and production	100	1	d
Pharos Management Services, Inc.	USA	USA	Management services	100	2	c

Footnotes:

Group investments

1 Investments held directly by Pharos Energy Plc.
2 Investments held indirectly by Pharos Energy Plc.
3 Dormant pending voluntary dissolution.
4 Pharos Exploration Limited is the 85% shareholder of Pharos DRC Limited, which wholly owns Pharos Exploration & Production DRC SARL. The 15% non-controlling interest is held by Quantic group of companies, of which Rui de Sousa is a 50% beneficial interest holder (see Note 35).

Joint operations

5 SOCO Vietnam Ltd holds a 28.5% working interest in Block 16-1, TGT Field. The Field operational base is development/production and is operated by Hoang Long Joint Operating Company which is registered in Vietnam. SOCO Vietnam Ltd holds a 25% working interest in Block 9-2, CNV Field. The Field operational base is development/production and is operated by Hoan Vu Joint Operating Company which is registered in Vietnam.
6 OPECO Vietnam Limited holds a 2% working interest in Block 16-1, TGT Field. The Field operational base is development/production and is operated by Hoang Long Joint Operating Company which is registered in Vietnam.
7 SOCO Exploration (Vietnam) Limited holds a 70% working interest in Blocks 125 & 126 and is the Operator. The operating office is registered in Vietnam. The main activity is exploration.

Registered addresses

(a) 47 Esplanade, St Helier, Jersey, JE1 0BD, Channel Islands
(b) 48 Dover Street, London, W1S 4FF, United Kingdom
(c) Corporation Trust Center, 1209 Orange Street, Wilmington, DE 19801, USA
(d) Grand Pavilion, 802 West Bay Road, PO Box 1968, Grand Cayman, Cayman Islands, KY1-1104
(e) T&F Chambers, Main Road, Rarotonga, Cook Islands

Divestments:

The following subsidiary undertaking was liquidated during the year:

- SOCO Exploration & Production DRC SARL

The Company's investments in subsidiary undertakings include contributions to the Pharos Employee Benefit Trust (see Note 28) and are otherwise held in the form of share capital.

In 2019 the increase in investment value of $142.5m was due mainly to investment in the newly acquired Egypt subsidiaries of $215.2m (see Note 37) offset by an impairment to investment in subsidiaries of $39.1m and a reduction in investment due to repayment of investment loan of ($33.6m).

18 Other non-current assets

Other non-current assets comprise the Group's share of contributions made into two abandonment security funds which were established to ensure that sufficient funds exist to meet future abandonment obligations on TGT and CNV fields. The funds are operated by PetroVietnam and the JOC partners retain the legal rights to the funds pending commencement of abandonment operations. The Group doesn't expect to receive cash or another financial asset from PetroVietnam. During 2019, the Group has contributed $3.3m (2018: $3.4m). As at 31 December 2019 the Group's total contribution to the funds was $43.6m (2018: $40.6m, of which $0.3m was the non-current part of the fair value of the consideration for the sale of Congo).

19 Inventories

	Group		Company	
	2019 $ million	2018 $ million	**2019 $ million**	2018 $ million
Crude oil and condensate	**8.2**	4.1	**–**	–
Warehouse stocks and materials	**8.0**	–	**–**	–
	16.2	4.1	**–**	–

Crude oil and condensate are valued at net realisable value in line with well established industry practice with changes in hydrocarbon inventories adjusted through cost of sales (see Note 7). The warehouse stock and materials inventory of $8m are all related to Egypt.

20 Trade and other receivables

	Group		Company	
	2019 $ million	2018 $ million	**2019 $ million**	2018 $ million
Amounts falling due within one year				
Trade receivables	**31.5**	16.8	**–**	–
Other receivables	**0.7**	1.5	**–**	–
Prepayments and accrued income	**9.0**	1.3	**0.5**	0.9
	41.2	19.6	**0.5**	0.9

There is no material difference between the carrying amount of trade and other receivables and their fair value.

Included in trade and other receivables arising from South East Asia and Egypt at 31 December 2019 are trade receivables of $16.2m and $14.0m respectively, which arose from the Group's two largest customers (2018: $8.0m and $7.8m from the Group's two largest customers in South East Asia).

In Vietnam, there are no amounts overdue or allowances for doubtful debts in respect of trade or other receivables (2018: nil). In Egypt, the average credit period on sales is 180 days (the credit period as at acquisition date was 191 days). No interest is charged on outstanding trade receivables.

Trade and other receivables are financial assets and measured at amortised cost. The Group applies the IFRS 9 simplified approach to measuring expected credit losses ('ECL') which uses a lifetime expected loss allowance for all trade receivables. As mentioned above, 96% of our trade receivables are concentrated with two largest customers, one of them being a subsidiary of a government regulated entity and the other being a major global oil & gas company. As of 31 December 2019 and 2018, we have concluded that the ECL related to our trade receivables is immaterial.

21 Cash and cash equivalents and liquid investments

As at 31 December 2019, cash and cash equivalents of $58.5m (2018: $240.1m), which are presented as a single class of asset on the balance sheet, comprise cash at bank and other short-term highly liquid investments that are readily convertible to a known amount of cash and which are subject to an insignificant risk of change in value. Of this balance, $2.8m (2018: $157.3m) were in Money Market Funds that are valued at quoted prices of the funds in the active markets for the financial instruments. The Money Market Funds were recorded at fair value at the year end.

The cash and cash equivalents include $2.7m (2018: $0) of restricted cash, which is related to the bank guarantees in place for the Israeli offshore exploration licences.

22 Trade and other payables

	Group		Company	
	2019 $ million	2018 $ million	**2019 $ million**	2018 $ million
Trade payables	**11.9**	1.0	**–**	–
Other payables	**7.5**	8.1	**2.1**	1.6
Derivative financial instruments (see Note 25)	**3.0**	–	**–**	–
Accruals and deferred income	**13.1**	13.2	**3.4**	7.9
Liability for onerous commitments	**–**	0.6	**–**	–
	35.5	22.9	**5.5**	9.5

There is no material difference between the carrying value of trade payables and their fair value. The above trade and other payables are held at amortised cost and are not discounted as the impact would not be material.

Trade and other payables are financial liabilities and are therefore measured at amortised cost.

In Vietnam, the average credit period for settlement of trade payables is standard 30 days or later if this falls within the agreed terms. In Egypt, the average credit period for settlement of trade payables as at 31 December 2019 is 220 days (the credit period for settlement of trade payables as at acquisition date was 254 days).

The Group does not utilise any supplier financing (reverse factoring) arrangements. The Group has financial risk management policies in place to ensure that all payables are paid within the pre-agreed credit terms. Further information relating to financial risks and how the Group mitigate these risks are discussed in the Risk Management Report on pages 46 to 55.

23 Deferred tax

The following are the major deferred tax liabilities recognised by the Group and movements thereon during the current and prior reporting period:

	Accelerated tax depreciation $ million	Other temporary differences $ million	Group $ million
As at 1 January 2018	130.5	2.1	132.6
Charge to income	9.2	–	9.2
As at 1 January 2019	**139.7**	**2.1**	**141.8**
(Credit)/charge to income (see Note 12)	**(5.9)**	**1.9**	**(4.0)**
As at 31 December 2019	**133.8**	**4.0**	**137.8**

There are no unprovided deferred taxation balances at either balance sheet date except in relation to gross losses that are not expected to be utilised in the amount of $173.7m (2018: $151.1m). The gross losses have no expiry date.

24 Borrowings

		Group
	2019 $ million	2018 $ million
Borrowings:		
Fair value of bank loans	**100.0**	100.0
Less unamortised issue costs and debt arrangement fees	**(1.9)**	(4.4)
Carrying value of total debt	**98.1**	95.6

Current	**26.4**	–
Non-current	**71.7**	95.6
Carrying value of total debt	**98.1**	95.6

Movements in financing related liabilities

Carrying value of total debt as of 31 December 2018	**95.6**
Interest payable as of 31 December 2018 disclosed as part of Trade and other payables	**0.5**
	96.1
Amortisation of capitalised borrowing costs (see Note 9)	**2.7**
Interest payable and similar fees (see Note 9)	**7.0**
Interest paid during the year	**(7.7)**
Carrying value of total debt	**98.1**

In September 2018, the Group signed a new $125m Reserve Based Lending facility ('RBL') secured against the Group's producing assets in Vietnam. In addition to the committed $125m, a further $125m is available on an uncommitted accordion basis. The RBL has a five-year term, bears interest at 4% plus LIBOR up to Year 2, increasing to 4.15% for Year 3 and 4.25% for Year 4 and 5, and matures in September 2023. On 17 December 2018 $100m was drawn down against the facility to part fund the Egypt acquisition.

The maximum borrowing base available under the RBL is determined periodically via a redetermination process by the relevant banks, based on an estimate of the value of the Group's reserves from its producing interests in Vietnam. The $26.4m, categorised as current, is based on our latest understanding of the RBL redetermination criteria and will change following the June 2020 redetermination.

The RBL is subject to a number of financial covenants, all of which have been complied with during the 2019 reporting period.

25 Hedge transactions

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

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

26 Long-term provisions

Decommissioning

		Group
	2019 $ million	2018 $ million
As at 1 January	**51.7**	52.7
New provisions and changes in estimates	**7.2**	(2.4)
Unwinding of discount (see Note 9)	**1.6**	1.4
As at 31 December	**60.5**	51.7

The provision for decommissioning is 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 the TGT and CNV fields in Vietnam (currently estimated to be 11-12 years) in the removal and decommissioning of the facilities currently in place. No decommissioning obligations exist in Egypt under the terms of the concession agreement. The provision is calculated using an inflation rate of 2.0% (2018: 2.0%) and a discount rate of 1.9% (2018: 3%). The $7.2m increase in provision primarily resulted from the reduction in the discount rate in 2019.

27 Share capital

Ordinary Shares of £0.05 each

	2019 Shares	2018 Shares	**2019 $ million**	2018 $ million
Issued and fully paid	**406,637,952**	341,076,911	**31.9**	27.6

As at 31 December 2019 authorised share capital comprised 600 million (2018: 600 million) ordinary shares of £0.05 each with a total nominal value of £30m (2018: £30m). In 2019, as part of the consideration paid for the acquisition of Egypt Assets , 65,561,041 shares were issued at a price of £0.699 per share and converted at the exchange rate as of 02/04/19 of 1.3031. Of the total $59.7m consideration paid, $55.4m are disclosed as share premium (see Note 37). The Company did not issue any new ordinary shares during 2018.

28 Other reserves

Group

	Capital redemption reserve $ million	Merger reserve $ million	Own shares $ million	Hedging reserve $million	Share-based payments $ million	Total $ million
As at 1 January 2018	100.3	188.7	(47.1)	–	4.0	245.9
Currency exchange translation differences	–	–	–	–	(1.4)	(1.4)
Share-based payments	–	–	–	–	3.0	3.0
Transfer relating to share-based payments	–	–	–	–	(0.9)	(0.9)
As at 1 January 2019	**100.3**	**188.7**	**(47.1)**	**–**	**4.7**	**246.6**
Currency exchange translation differences	**–**	**–**	**–**	**–**	**0.4**	**0.4**
Other comprehensive income	**–**	**–**	**–**	**(2.6)**	**–**	**(2.6)**
Share-based payments	**–**	**–**	**–**	**–**	**3.7**	**3.7**
Transfer relating to share-based payments	**–**	**–**	**–**	**–**	**(1.5)**	**(1.5)**
As at 31 December 2019	**100.3**	**188.7**	**(47.1)**	**(2.6)**	**7.3**	**246.6**

Company

	Capital redemption reserve $ million	Merger reserve $ million	Own shares $ million	Share-based payments $ million	Total $ million
As at 1 January 2018	100.3	131.8	(40.3)	4.0	195.8
Currency exchange translation differences	–	–	–	(1.4)	(1.4)
Share-based payments	–	–	–	3.0	3.0
Transfer relating to share-based payments	–	–	–	(0.7)	(0.7)
As at 1 January 2019	**100.3**	**131.8**	**(40.3)**	**4.9**	**196.7**
Currency exchange translation differences	**–**	**–**	**–**	**0.4**	**0.4**
Share-based payments	**–**	**–**	**–**	**3.7**	**3.7**
Transfer relating to share-based payments	**–**	**–**	**–**	**(1.5)**	**(1.5)**
As at 31 December 2019	**100.3**	**131.8**	**(40.3)**	**7.5**	**199.3**

The Group's other reserves comprise reserves arising in respect of merger relief, upon the purchase of the Company's own shares held in treasury and held by the Trust, as well as hedging and share-based payments.

The number of treasury shares held by the Group and the number of shares held by the Trust at 31 December 2019 was 9,122,268 (2018: 9,122,268) and 2,897,094 (2018: 2,897,094) respectively. The market price of the shares at 31 December 2019 was £0.5320 (2018: £0.6890). The Trust, a discretionary trust, holds shares for the purpose of satisfying employee share schemes, details of which are set out in Note 31 and in the Directors' Remuneration Report on pages 96 to 117.

The trustees purchase shares in the open market which are recognised by the Company within investments and classified as other reserves by the Group as described above. When award conditions are met, an unconditional transfer of shares is made out of the Trust to Plan participants. The Group has an obligation to make regular contributions to the Trust to enable it to meet its financing costs. Rights to dividends on the shares held by the Trust have been waived by the trustees.

29 Distribution to shareholders

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

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

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

30 Retained earnings

			Group
	Retained profit $ million	Unrealised currency translation differences $ million	Total $ million
As at 1 January 2018	216.2	4.9	221.1
Profit for the year	27.7	–	27.7
Unrealised currency translation differences	–	0.2	0.2
Distributions	(23.3)	–	(23.3)
Transfer relating to share-based payments	0.9	–	0.9
As at 1 January 2019	**221.5**	5.1	**226.6**
Loss for the year	**(24.5)**	**–**	**(24.5)**
Unrealised currency translation differences	**–**	**–**	**–**
Distributions (see Note 29)	**(27.4)**	**–**	**(27.4)**
Transfer relating to share-based payments	**1.5**	**–**	**1.5**
As at 31 December 2019	**171.1**	**5.1**	**176.2**

			Company
	Retained profit $ million	Unrealised currency translation differences $ million	Total $ million
As at 1 January 2018	356.1	(198.8)	157.3
Profit for the year	159.9	–	159.9
Unrealised currency translation differences	–	(24.8)	(24.8)
Distributions	(23.3)	–	(23.3)
Transfer relating to share-based payments	0.8	–	0.8
As at 1 January 2019	**493.5**	**(223.6)**	**269.9**
Profit for the year	**24.4**	**–**	**24.4**
Unrealised currency translation differences	**–**	**–**	**–**
Distributions (see Note 29)	**(27.4)**	**–**	**(27.4)**
Transfer relating to share-based payments	**1.5**	**–**	**1.5**
As at 31 December 2019	**492.0**	**(223.6)**	**268.4**

31 Incentive plans

Details of the Group's employee incentive schemes are set out below. Additional information regarding the schemes is included in the Directors' Remuneration Report on pages 96 to 117. The Group recognised total expenses of $4.0m (2018: $2.0m) in respect of the schemes during the year, a proportion of which was capitalised in accordance with the Group's accounting policies.

Long Term Incentive Plan

The Company operates a LTIP for senior employees of the Group. Awards vest over a period of three years, subject to performance criteria which have been set with reference to the Company's TSR relative to a range of comparator companies. Consideration may also be given to assessment as to whether the TSR performance is consistent with underlying performance. Awards are normally forfeited if the employee leaves the Group before the award vests. Awards normally expire at the end of 10 years following the date of grant, subject to the requirement to exercise certain awards prior to 15 March of the year following vesting.

Awards would normally be part cash and part equity-settled through a transfer at nil consideration of the Company's ordinary shares. No awards were exercised during 2019. The Company has no legal or constructive obligation to repurchase or settle awards in cash. Details of awards outstanding during the year are as follows:

	2019 No. of share awards	2018 No. of share awards
As at 1 January	**12,727,674**	8,742,295
Adjustments[1]	**1,430,392**	553,501
Granted	**7,597,799**	4,983,108
Exercised	**–**	–
Forfeited during the year	**(3,075,108)**	(1,551,230)
As at 31 December	**18,680,757**	12,727,674
Exercisable as at 31 December	**–**	–

1 In accordance with Share Scheme rules, adjustments were made for the payment of dividends in 2019 and 2018.

Awards outstanding at the end of the year have a weighted average remaining contractual life of 1.5 (2018: 1.4) years. The weighted average market price and estimated fair value of the 2019 grants (at grant date) were £0.69 and £0.55, respectively.

The fair value of the LTIPs granted during 2019 and 2018 has been provided by FIT Remuneration Consultants, which estimates the Company's performance against the targets using a Monte Carlo Model. The future vesting proportion in 2019 was 55% (2018: 55%).

Previously, the fair value of awards at date of grant had been estimated using a binomial option pricing model, based on the market price at date of grant and a nil exercise price. The future vesting proportion in 2017 of 40% was estimated by calculating the expected probability of the Company's TSR ranking relative to its comparators based on modelling each company's projected future share price growth.

Other Share Schemes

The Company operates a discretionary share option scheme for employees of the Group. Awards vest over a three-year period, and are normally forfeited if the employee leaves the Group before the option vests. Vested options are exercisable at a price equal to the average quoted market price of the Company's shares on the date of grant and are expected to be equity-settled. The Company has no legal or constructive obligation to repurchase or settle options in cash. Unexercised options expire at the end of a 10-year period.

Other than to Directors, the Company can also grant options with a zero exercise price or with an exercise price which is set below the market price of the Company's shares on the date of grant. Such options, which are included in the table below, are granted by reference to the rules of the discretionary share option scheme and are expected to be equity-settled.

The Company can additionally grant awards under the Deferred Share Bonus Plan with a zero exercise price or with an exercise price which is set below the market price of the Company's shares on the date of grant. Awards vest over a two-year period, and are normally forfeited if the employee leaves the Group before the option vests. Such awards, which are also included in the table below, are expected to be cash-settled.

31 Incentive plans continued

	2019 No. of share awards	2019 Weighted average exercise price £	2018 No. of share awards	2018 Weighted average exercise price £
As at 1 January	**2,407,875**	**0.54**	2,836,050	0.46
Adjustments[1]	**125,552**	**–**	37,484	–
Granted	**1,358,175**	**–**	791,432	–
Forfeited during the year	**(31,567)**	**2.26**	(7,914)	1.05
Expired	**–**	**–**	–	–
Exercised	**(74,246)**	**–**	(1,249,177)	–
As at 31 December	**3,785,789**	**0.47**	2,407,875	0.54
Exercisable as at 31 December	**1,492,425**	**0.83**	867,836	1.29

1 In accordance with Share Scheme rules, adjustments were made for the payment of dividends in 2019 and 2018.

The weighted average market price at the date of exercise during 2019 was £0.65 (2018: £0.96). Awards outstanding at the end of the year have a weighted average remaining contractual life of 7.3 (2018: 6.3) years. The weighted average market price and estimated fair value of the discretionary share option scheme 2019 grants (at grant date) were £0.689 and £0.37, respectively. The weighted average market price and estimated fair value of the deferred share bonus scheme 2019 grants (at grant date) was £0.995 (2018: £0.995).

The fair value of awards granted during 2019 and 2018 has been provided by FIT Remuneration Consultants, which estimates the Company's performance against the targets using a Monte Carlo Model. Previously, the fair value of discretionary share option scheme awards at date of grant has been estimated using a binomial option pricing model, based on the market price at date of grant and the fair value of deferred share bonus scheme awards at date of grant was estimated based on the market price at date of grant.

32 Reconciliation of operating profit to operating cash flows

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

During the year, a total of $27.5m of trade receivables due from EGPC in Egypt were settled by way of non-cash offset against trade payables, including $13.6m related to the Merlon acquisition (see Note 37).

33 Lease arrangements

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

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

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

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

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

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

34 Capital commitments

At 31 December 2019 the Group had exploration licence commitments not accrued of approximately $40.2m (2018: $25.8m).

35 Related party transactions

During the year, the Company recorded a net cost of $0.2m (2018: net cost of $0.6m) in respect of services rendered between Group companies.

Remuneration of key management personnel

The remuneration of the Directors of the Company, who are considered to be its key management personnel, is set out below in aggregate for each of the categories specified in IAS 24 Related Party Disclosures. Further information about the remuneration of individual Directors is provided in the audited part of the Directors' Remuneration Report on pages 96 to 117.

	2019 $ million	2018 $ million
Short-term employee benefits	4.8	5.9
Post-employment benefits	0.3	0.3
Share-based payments	2.8	1.5
	7.9	7.7

Directors' transactions

Pursuant to a lease dated 20 April 1997, Comfort Storyville (a company wholly owned by Mr Ed Story) has leased to the Group, office and storage space in Comfort, Texas, USA. The lease, which was negotiated on an arm's length basis, has a fixed monthly rent of $1,000.

Under the terms of an acquisition approved by shareholders in 1999, the Company and its Investor Group, including Quantic group of companies, of which Mr Rui de Sousa is a 50% beneficial interest holder, jointly participated in certain regions in which the Investor Group utilised its long established industry and government relationships to negotiate and secure commercial rights in oil and gas projects. In the 2004 Annual Report and Accounts the form of participation to be utilised was set out to be through equity shareholdings in which the Investor Group holds a non-controlling interest in special purpose entities created to hold such projects. The shareholding terms were modelled after the Vietnam arrangement which was negotiated with third parties. The non-controlling holdings by Quantic group of companies in the subsidiary undertakings, which principally affected the profits or net assets of the Group, are shown in Note 17. The Group has entered into a consulting agreement, which is terminable by either party on 30 days' written notice, wherein Quantic Limited, which is part of the Quantic group companies, is entitled to a consulting fee in the amount of $50,000 per month in respect of such services as are required to review, assess and progress the realisation of oil and gas exploration and production opportunities in certain areas. As of February 2019, the consulting agreement with Pharos and Quantic has been terminated and no further consulting fees will be paid.

36 Disposal of Africa interest

Disposal of Congo interest

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

37 Acquisition of Egypt assets

On 2 April 2019, Pharos Energy announced the completion of the acquisition of 100% of Merlon Petroleum El Fayum Company ("Merlon") from Merlon International LLC (the "Seller"). Pharos Energy agreed to acquire Merlon in consideration for approximately $136m in cash and the issue of 65,561,041 new Pharos Energy ordinary shares of £0.05 each. In addition, debt of $19.4m due by Merlon was repaid.

Merlon's principal asset is a 100% working interest in the onshore El Fayum Concession in Egypt. The El Fayum Concession covers an area of 1,826 km^2 and is located c.80km south west of Cairo.

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

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

Acquisition-related costs

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

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

Consideration paid

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

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

The net cash paid for the acquisition was $153.1m, being $136.1m in cash, plus the repayment of $19.4m for the RBL, offset by the balance acquired of $2.4m.

The fair value of the 65,561,041 shares issued as part of the consideration paid was based on the published share price on 02/04/19 of £0.699 per share and converted at the exchange rate as of 02/04/19 of 1.3031.

Identifiable assets acquired and liabilities assumed

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

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

Measurement of fair value

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

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

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

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

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

38 Subsequent events

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

Non-IFRS measures

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

Cash operating costs per barrel

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

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

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

Cash operating cost per barrel by segment (2019)

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

* Vietnam only.
** Egypt from the date of acquisition to 31 December 2019.

DD&A per barrel

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

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

DD&A per barrel by segment (2019)

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

* Vietnam only.
** Egypt from the date of acquisition to 31 December 2019.

Net debt

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

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

EBITDAX

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

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

Net debt/EBITDAX

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

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

Gearing

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

	2019 $ million	2018 $ million
Total debt ($m)	**100.0**	100.0
Total equity ($m)	**510.1**	500.8
Debt to Equity	**0.20**	0.20

Operating cash per share

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

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

FIVE YEAR SUMMARY (UNAUDITED)

	Year to 31 Dec 2019 $ million	Year to 31 Dec 2018 $ million	(Restated)* Year to 31 Dec 2017 $ million	(Not Restated) Year to 31 Dec 2016 $ million	(Not Restated) Year to 31 Dec 2015 $ million
Consolidated income statement					
Oil and gas revenues	**189.9**	175.1	156.2	154.6	214.8
Gross profit	**61.1**	70.5	41.2	34.7	48.4
Operating profit	**38.0**	79.9	22.9	23.4	2.0
(Loss)/profit for the year	**(24.5)**	27.7	(157.3)	(4.2)	(33.8)

	2019 $ million	2018 $ million	(Restated) 2017 $ million	(Not Restated) 2016 $ million	(Not Restated) 2015 $ million
Consolidated balance sheet					
Non-current assets	**740.9**	553.6	546.6	738.6	1,001.5
Net current assets	**45.6**	236.3	133.3	142.5	134.6
Non-current liabilities	**(276.4)**	(289.1)	(185.3)	(209.9)	(243.6)
Net assets	**510.1**	500.8	494.6	671.2	892.5
Share capital	**87.3**	27.6	27.6	27.6	27.6
Other reserves	**246.6**	246.6	245.9	243.8	242.3
Retained earnings	**176.2**	226.6	221.1	399.8	622.6
Total equity	**510.1**	500.8	494.6	671.2	892.5

	Year to 31 Dec 2019 $ million	Year to 31 Dec 2018 $ million	(Restated) Year to 31 Dec 2017 $ million	(Not Restated) Year to 31 Dec 2016 $ million	(Not Restated) Year to 31 Dec 2015 $ million
Consolidated cash flow statement					
Net cash from operating activities	**72.3**	54.2	45.0	46.0	80.3
Capital expenditure	**63.4**	22.4	26.2	35.8	87.5
Distributions	**27.4**	23.3	21.0	17.5	51.1

*Restated in 2017 when adopted the successful efforts method.

RESERVES STATISTICS (UNAUDITED)

Net working interest, MMBOE

	TGT	CNV	Vietnam[3]	Egypt[4]	Group
Oil and Gas 2P Commercial Reserves[1,2]					
As at 1 January 2019	16.2	6.8	23.0	–	23.0
As at acquisition date	–	–	–	21.6	21.6
Production	(2.0)	(0.6)	(2.6)	(1.4)	(4.0)
Revision	1.2	(0.2)	1.0	8.3	9.3
2P Commercial Reserves as at 31 December 2019	**15.4**	**6.0**	**21.4**	**28.5**	**49.9**
Oil and Gas 2C Contingent Resources[1,2]					
As at 1 January 2019	12.2	4.2	16.4	–	16.4
As at acquisition date	–	–	–	22.3	22.3
Revision[5]	(3.7)	0.4	(3.3)	1.2	(2.1)
2C Contingent Resources as at 31 December 2019	**8.5**	**4.6**	**13.1**	**23.5**	**36.6**
Total of 2P Reserves and 2C Contingent Resources as at 31 December 2019	**23.9**	**10.6**	**34.5**	**52.0**	**86.5**

1 Reserves and Contingent Resources are categorised in line with 2018 SPE/WPC/AAPG/SPEE /SWLA Petroleum Resource Management System.
2 Assumes oil equivalent conversion factor of 6,000 scf/boe.
3 Reserves and Contingent Resources have been independently audited by Risc Advisory Pty Ltd.
4 Reserves and Contingent Resources have been independently audited by McDaniels.
5 Revisions to the assets come from the approach taken by the reserves auditor.
Risks associated with reserves evaluation and estimation uncertainty are discussed in Note 4(b) to the Financial Statements.

Disclosure

In accordance with the Financial Conduct Authority's Disclosure and Transparency Rule 4.3A in respect of payments made by the Company to governments for the year ended 31 December 2019 and in compliance with The Reports on Payments to Governments Regulations 2014 (SI 2014/3209), Pharos presents its disclosure for the year ending 31 December 2019.

Basis for preparation

Legislation

This report is prepared in accordance with the Reports on Payments to Governments Regulations 2014 as enacted in the UK in December 2014 and as amended in December 2015.

The Reports on Payments to Government Regulations (UK Regulations) were enacted on 1 December 2014 and require UK companies in extractive industries to publicly disclose payments they have made to Governments where they undertake extractive operations. The aim of the regulations is to enhance the transparency of the payments made by companies in the extractive sector to host governments in the form of taxes, bonuses, royalties, fees and support for infrastructure improvements. The UK Regulations came into effect on 1 January 2015.

The payments disclosed for 2019 are in line with the EU Directive and UK Regulations and we have provided additional voluntary disclosures on payroll taxes, export duty, withholding tax and other taxes.

In line with the UK Regulations, a payment of a series of related payments which do not exceed $112,780 (£86,000) has not been disclosed. Where the aggregate payments made in the period for a project or country are less than $112,780, payments are not disclosed for the project or country.

All of the payments disclosed in accordance with the EU Directive have been made to National Governments, either directly or through a Ministry or Department, or to a national oil company, who have a working interest in a particular licence.

Payment

The information is reported under the following payment types:

Production entitlements in barrels

These are the host government's total share of production in the reporting period derived from projects operated by Pharos. This includes the government's non-cash royalties as a sovereign entity or through its participation as an equity or interest holder in projects within its home country. The figures produced are on a paid lifting basis valued at realised sale prices.

Income Taxes

This represents cash tax calculated on the basis of profits including income or capital gains. Income taxes are usually reflected in corporate income tax returns. The cash payment of income taxes occurs in the year in which the tax has arisen or up to one year later. Income taxes also include any cash tax rebates received from the government or revenue authority during the year. Income taxes do not include fines and penalties. Consumption taxes including value adding taxes, personal income taxes, sales taxes and property taxes are excluded.

Royalties

These represent royalties during the year to governments for the right to extract oil or gas. The terms of these royalties are set within the individual Production Sharing Contracts & Agreements and can vary from project to project within a country. The cash payment of royalties occurs in the year in which the tax has arisen.

Dividends

These are dividend payments, other than dividends paid to a government as an ordinary shareholder of an entity, in lieu of production entitlements or royalties. For the year ending 31 December 2019, there were no reportable dividend payments to governments.

Bonuses

This represents any bonus paid to governments during the year on achievement of commercial milestones such as signing of a petroleum agreement or contract, achieving commercial discovery, or after first production.

Licence Fees

This represents licence fees, rental fees, entry fees and other consideration for licences and/or concessions paid for access to an area during the year (with the exception of signature bonuses which are captured within bonus payments).

Infrastructure improvement payments

This represents payments made in respect of infrastructure improvements for projects that are not directly related to oil and gas activities during the year. This can be a contractually obligated payment in a Production Sharing Contract or a discretionary payment for building/improving local infrastructure such as roads, bridges, ports, schools and hospitals.

Payroll Taxes

This represents payroll and employer taxes including PAYE and national insurance paid by Pharos as a direct employer.

Export Duty

This represents payments made to governments during the year in relation to the exportation of petroleum products.

Withholding Tax

This represents the amount of tax deducted at source from third party service providers during the year and paid to respective governments.

Other Taxes

This represents business rates paid during the year on non-domestic properties.

TRANSPARENCY DISCLOSURE 2019 (UNAUDITED)

	UK Regulations									Voluntary Disclosure				
	Production entitlements	Production entitlements	Income Taxes	Royalties	Dividends	Bonus Payments	Licence fees	Infrastructure improvement payments	Total EU Transparency Directive	Payroll Taxes	Export Duty	With-holding Tax	Other Taxes	Total
Licence/ Corporate/ Area	bbls (000)	$ 000's	$ 000's	$ 000's	$ 000's	$ 000's	$ 000's	$ 000's	$ 000's	$ 000's	$ 000's	$ 000's	$ 000's	$ 000's
Vietnam*														
Block 16–1	1,311	83,420	33,589	9,521	–	–	78	–	126,878	–	–	–	–	–
Block 9.2	622	30,072	6,744	1,699	–	–	75	–	38,590	–	–	–	–	–
Total Vietnam	**1,933**	**113,492**	**40,603**	**11,220**	**–**	**–**	**153**	**–**	**165,468**	**–**	**–**	**–**	**–**	**–**
Egypt**														
El Fayum	781	46,358	–	–	–	13,600	–	–	59,958	494	–	284	–	778
North Beni Suef						**2,380**			**2,380**					
Total Egypt	**781**	**46,358**	**–**	**–**	**–**	**15,980**	**–**	**–**	**62,338**	**494**	**–**	**284**	**–**	**778**
United Kingdom (UK)														
Corporate	–	–	–	–	–	–	–	–	–	3,131	–	–	299	3,430
Total UK	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**3,131**	**–**	**–**	**299**	**3,430**
United States of America (US)	–	–	–	–	–	–	–	–	–	**–**	**–**	–	–	–
Corporate	–	–	–	–	–	–	–	–	–	712	–	–	–	712
Total US	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**712**	**–**	**–**	**–**	**712**
Pharos Total	**2,714**	**159,850**	**40,603**	**11,220**	**–**	**15,980**	**153**	**–**	**227,806**	**4,337**	**–**	**284**	**299**	**4,920**

TRANSPARENCY DISCLOSURE 2019 (UNAUDITED)

	UK Regulations									Voluntary Disclosure				
	Production entitlements	Production entitlements	Income Taxes	Royalties	Dividends	Bonus Payments	Licence fees	Infrastructure improvement payments	Total	Payroll Taxes	Export Duty	With-holding Tax	Other Taxes	Total
Country/ Government	bbls (000)	$ 000's	$ 000's	$ 000's	$ 000's	$ 000's	$ 000's	$ 000's	$ 000's	$ 000's	$ 000's	$ 000's	$ 000's	$ 000's
Vietnam*														
Ho Chi Minh City Tax Dept	–	–	40,603	11,220	–	–	–	–	51,823	–	–	–	–	–
Customs Office	–	–	–	–	–	–	–	–	–	–	–	–	–	–
PetroVietnam E&P Corp (PVEP)	1,933	113,492	–	–	–	–	153	–	113,645	–	–	–	–	–
Total Vietnam	**1,933**	**113,492**	**40,603**	**11,220**	**–**	**–**	**153**	**–**	**165,468**	–	–	–	–	–
Egypt**														
Egyptian General Petroleum Corporation (EGPC)	781	46,358	–	–	–	15,980	–	–	62,338	–	–	–	–	–
Tax department	–	–	–	–	–	–	–	–	–	494	–	284	–	778
Total Egypt	**781**	**46,358**	**–**	**–**	**–**	**15,980**	**–**	**–**	**62,338**	**494**	**–**	**284**	**–**	**778**
United Kingdom (UK)														
Inland Revenue	–	–	–	–	–	–	–	–	–	3,131	–	–	–	3,131
City of Westminster	–	–	–	–	–	–	–	–	–	–	–	–	299	299
Total UK	–	–	–	–	–	–	–	–	–	**3,131**	**–**	**–**	**299**	**3,430**
United States of America (US)	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Internal Revenue Service	–	–	–	–	–	–	–	–	–	712	–	–	–	712
Total US	–	–	–	–	–	–	–	–	–	**712**	**–**	**–**	**–**	**712**
Pharos Total	**2,714**	**159,850**	**40,603**	**11,220**	**–**	**15,980**	**153**	**–**	**227,806**	**4,337**	**–**	**284**	**299**	**4.920**

* Joint Operating Company Project's tax payments reported on Pharos Net Working Interest Basis.
** Egypt from the date of acquisition to 31 December 2019.

A

ABC
Anti-Bribery and Corruption
AGM
Annual General Meeting

B

bbl
Barrel
blpd
Barrels of liquids per day
BMS
Business Management System
Bn
Billion
boe
Barrels of oil equivalent
BHCPP
Bach Ho Central Processing Platform
boepd
Barrels of oil equivalent per day
bopd
Barrels of oil per day
bwpd
Barrels of water per day

C

CASH or cash
Cash, cash equivalent and liquid investments
CAPEX or capex
Capital expenditure
CDP
Formerly the Carbon Disclosure Project
CEO
Chief Executive Officer
CFO
Chief Financial Officer
CNV
Ca Ngu Vang field located in Block 9-2
CO_2e
Carbon Dioxide Equivalent
Contingent Resources
Those quantities of petroleum to be potentially recoverable from known accumulations by application of development projects but which are not currently considered to be commercially recoverable due to one or more contingencies
CR
Corporate Responsibility

D

DD&A
Depreciation, depletion and amortisation

E

E&P
Exploration & Production
EBITDAX
Earnings before Interest, Tax, Depreciation, Amortisation and Exploration Expenses
EBT
Employee benefit trust
E&E
Exploration and Evaluation
EGP
Egyptian Pound
EGPC
Egyptian General Petroleum Corporation
EU
European Union

F

FFDP
Full Field Development Plan
FPSO
Floating, Production, Storage and Offloading Vessel
FY
Full year

G

G&A
General and administration
GHG
Greenhouse gas

H

HLHVJOC
Hoang Long and Hoan Vu Joint Operating Companies
HLJOC
Hoang Long Joint Operating Company
HSES
Health, Safety, Environmental and Security
HVJOC
Hoan Vu Joint Operating Company

I

IAS
International Accounting Standards
IFRS
International Financial Reporting Standards
IMF
International Monetary Fund
IOGP
The International Association of Oil & Gas Producers
IPIECA
The global oil and gas industry association for environmental and social issues

J

JOC
Joint Operating Company
JV
Joint venture

K

k
thousands
kbopd
Thousand barrels of oil per day
Km
Kilometre
km^2
Square kilometre

L

LTI
Lost Time Injury
LTIF
Lost Time Injury Frequency
LTIP
Long Term Incentive Plan

M

m
million
M&A
Mergers and Acquisitions
MENA
Middle East and North Africa region
Merlon
Merlon El Fayum Company subsequently name changed to Pharos El Fayum
mmbbl
Million barrels
mmboe
Million barrels of oil equivalent

O

OOIP
Original Oil in Place
OPECO Vietnam
OPECO Vietnam Limited
Opex
Operational expenditure

P

Petrosilah
An Egyptian joint stock company held 50/50 between the Pharos Group and the Egyptian General Petroleum Corporation
PSC
Production sharing contract or production sharing agreement
Petrovietnam
Vietnam Oil and Gas Group
PTTEP
PTT Exploration and Production Public Company Limited

R

Reserves
Reserves are those quantities of petroleum anticipated to be commercially recoverable by application of development projects to known accumulations from a given date forward under defined conditions. Reserves must further satisfy four criteria: they must be discovered, recoverable, commercial and remaining based on the development projects applied
RBL
Reserve Based Lending facility
RISC
RISC Advisory Pty Ltd

S

Shares
Ordinary Shares
STOIIP
Stock Tank Oil Initially In Place
TOR
Terms of Reference
TCFD
Task-Force for Climate-related Financial Disclosures

T

TGT
Te Giac Trang field located in Block 16-1
TSR
Total shareholder return
TIA
Tie-in Agreement

U

UK
United Kingdom
US
United States of America

W

WHP
Wellhead Platform

Y

YTD
Year-to-date

$
United States Dollar
£
UK Pound Sterling
1C
Low estimate scenario of Contingent Resources
1H
First half
1P
Equivalent to Proved Reserves; denotes low estimate scenario of Reserves
2C
Best estimate scenario of Contingent Resources
2C Contingent Resources
Best estimate scenario of Contingent Resources
2P Reserves
Equivalent to the sum of Proved plus Probable Reserves; denotes best estimate scenario of Reserves. Also referred to as 2P Commercial Reserves

Registered office:
Pharos Energy
48 Dover Street
London, W1S 4FF
United Kingdom
Registered in England
T +44 (0)20 7747 2000
F +44 (0)20 7747 2001
Company No. 3300821
www.pharos.energy

Company Secretary
Tony Hunter

Financial Calendar
Group results for the year to 31 December are announced in March. The Annual General Meeting is held during the second quarter. Interim Results to 30 June are announced in August.

Advisers Auditor:
Deloitte LLP
London, United Kingdom

Bankers:
J.P. Morgan
125 London Wall
London, EC2Y 5AY
United Kingdom

HSBC UK Bank plc
60 Queen Victoria Street
London
EC4N 4TR
United Kingdom

BNP Paribas – Singapore Branch
10 Collyer Quay
#33-01 Ocean Financial Center
049315
Singapore

Financial Adviser and Corporate Brokers:
Jefferies
100 Bishopsgate
London, EC2N 4JL
United Kingdom

J.P. Morgan Cazenove
25 Bank Street
London, E14 5JP
United Kingdom

Financial Adviser:
Evercore
15 Stanhope Gate
London, W1K 1LN
United Kingdom

Registrar:
Equiniti Limited
Aspect House
Spencer Road
Lancing, BN99 6DA
United Kingdom

Solicitors:
Clifford Chance LLP
10 Upper Bank Street
London, E14 5JJ
United Kingdom

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Pharos Energy
48 Dover Street
London, W1S 4FF
United Kingdom
Registered in England
T +44 (0)20 7747 2000
F +44 (0)20 7747 2001
Company No. 3300821

www.pharos.energy