Annual Report and Accounts 2020

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

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

www.pharos.energy

STRATEGIC REPORT

GOVERNANCE REPORT

FINANCIAL STATEMENTS

ADDITIONAL INFORMATION

ED STORY
PRESIDENT AND CEO

Our distinctive portfolio in the energy regions of Asia and MENA, together with a robust and disciplined capital allocation framework, supports our strategy of delivering long-term, sustainable growth. We have a range of opportunities in the portfolio to position us for a positive future. Our purpose is to continue to provide energy for communities around the world and fuel their lives and businesses.

PHAROS AT A GLANCE

2020 KEY FIGURES

1997
Founding year

71
Employees

3
Countries

14
Blocks & Licences

20,537
Acreage Km^2

12
Oil & Gas fields

2020 GROUP HIGHLIGHTS

$11.60
Cash operating costs * ($/boe)

$142.0m
Revenue ($m)

$24.6m
Cash & cash equivalents ($m)

0p
Return to shareholders
(Pence per ordinary shares)

($215.8m)
Net loss

11,373
Average net production (boepd)

* Read More
Non-IFRS measures on page 145

RESPONSIBLE, DISCIPLINED, FOCUSED

We have production, development and exploration assets in Egypt, Israel and Vietnam.

Read More
Operations review on page 24

EGYPT (D,P,E)

We have high quality oil production operations, development and exploration assets in Egypt. Production is from 10 oil fields in the El Fayum Concession located in the Western Desert south west of Cairo and close to local energy infrastructure. Pharos is also an operator with a 100% working interest in the North Beni Suef (NBS) Concession, which is located immediately south of the El Fayum Concession.

5,270bopd
2020 Average production

ISRAEL (E)

Pharos has a 33.33% interest in eight offshore licences over two contiguous zones (Zone A & C), each contain four licences (eight in total). Our acreage in Israel offers a low-cost option for potential material gas and neighbours several giant gas fields.

33.33%
Working interest

VIETNAM (D,P,E)

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

6,103boepd
2020 Average production (net)

D: Development P: Production E: Exploration

COMMITMENT TO DIVERSITY AND INCLUSION

Led by the Pharos Guiding Principles of ‘Openness and Integrity’ and ‘Empowerment and Capability’, we have demonstrated our commitment to maintaining and building a culture of diversity and inclusion in meaningful ways.

We believe in a workforce with a diversity of experience, nationalities, cultural backgrounds and gender, to support our business strategy of long-term sustainable growth. It is crucial to the success of our business that we retain and develop the diversity of our workforce and have diversity and inclusion at the heart of our recruitment, development and promotion processes.

In 2020, three out of four Group Heads of Function posts in the London office were managed by women and we are proud that women accounted for 58% of the team.

As part of this global approach, we ensured that leadership training during the year was made available to a fair representation of our global employees in terms of race, gender and ethnicity. We launched our Group wide Employee Engagement Survey the outcomes of which will allow us to improve our understanding of cultural differences and employee experience. Our Code of Business Conduct and Ethics and Policies and our Guiding Principles commit us to providing a workplace free of discrimination where all employees can fulfil their potential based on merit and ability. They also commit us to providing a fully inclusive workplace, while providing the right development opportunities to ensure existing staff have rewarding careers.

Regional knowledge and experience

We apply our expertise locally with operational teams in each region, working closely with joint operating companies. We encourage dialogue and co-operation between the different business assets to ensure new ideas and solutions are always being considered.

Further Board refreshment

In 2020, further changes were made to the Board to increase independence and bring deeper experience to the Group. Two new Non-Executive Directors joined the Board in 2020 with a wealth of experience and expertise, further adding to the Board’s strength and depth.

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 71

Corporate Responsibility Report page 50

ROBUST CAPITAL DISCIPLINE REMAINS CORE TO PHAROS

Read More Financial review page 35

As a business, our ability to deliver value is key to our investment case. Capital discipline and financial stability have always been key to the Company and continue to underpin the business. We take great care with our investors' money and use our expertise:

- To assess and develop high grade growth opportunities
- To focus on our cost base wherever we are
- To provide cash returns to shareholders
- To allocate capital to those assets which offer a combination of cash flow and growth

2020 saw an unprecedented drop in the oil price. The Company responded quickly and decisively by applying a "survive to thrive" strategy, the purpose of which was to defer all discretionary expenditure and reduce all G&A costs across the Group to preserve balance sheet strength. In addition, the difficult decision was taken that no dividend would be paid in 2020. A commitment to cash returns to shareholders remains a core element of our overall allocation framework. This has set the foundation for a return to the combination of annual dividends and capital growth. A small equity placing was completed in January 2021 to support a waterflood programme in Egypt; and a farm out of part of our interest in Egypt is well underway. With these measures, we believe that we are well placed to exploit the range of organic opportunities in our portfolio.

1. Responsible management

- Cost and balance sheet actively managed through the economic downturn
- Positive operational cash flow
- Active hedging programme
- Gearing remains low (net debt to EDITDAX 0.48)

Our history of shareholder returns

On 12 May, the Board announced that no dividend would be paid in 2020, given the continued uncertainty in the macro environment driven by the outbreak of COVID-19 and the pressure on oil price against this backdrop.

The Board will continue to use the well-documented capital allocation criteria to assess where and how to apportion any free cash flow generated. The key goals are to preserve balance sheet strength, to invest in growth opportunities in excess of the cost of capital and to generate sustainable returns to shareholders, as we have done since 2006.

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
2020	Dividend	$0

2. Flexibility in allocation

- Low level of commitments
- RBL facility in place

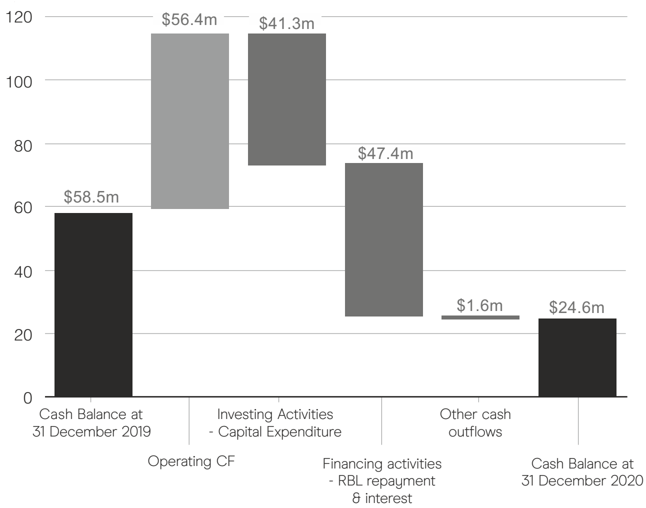
Capital allocation framework

- Focus on shareholder returns over the long term
- High-grade investment opportunities using a number of metrics
- Focus on near-term cash flow positive development opportunities

3. Returns to shareholder

- Integral part of approach to cost control
- Growth opportunities in all areas of the portfolio
- All opportunities screened for cash generation

Our cash position



PORTFOLIO OF LOW-COST GROWTH OPPORTUNITIES

E&P company focused on Asia and MENA region

EGYPT

Egypt is a dynamic and growing economy, providing a stable business environment. The El Fayum Concession is located in the 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). The North Beni Suef (NBS) Concession is located immediately south of the El Fayum Concession and has low-cost oil exploration potential as well as possible extensions into the block of producing properties within separate Development Leases held by a third party JV. We have expert operational teams in Egypt.

Operational Hiatus

- Under the survive to thrive strategy, designed to conserve the company's balance sheet during the oil price and COVID-19 related downturn, all drilling operations in the field were stopped and rigs released from contract. This operational hiatus meant that production peaked in April and wells declined by primary depletion throughout the rest of 2020.
- The company has been engaging with EGPC and has benefited from improved commercial terms with EGPC regarding the Western Desert discount and negotiated a reduction on the El Fayum discount. In addition, negotiations have progressed with EGPC concerning potential improvements in the Concession Agreement terms in order to support a return to operational investment.

Growth opportunities

- Commencement of the Phase 1B of the waterflood programme in the field in the El Fayum Concession in Q1 2021, following the successful equity placing in January 2021
- Formal farm-out process ongoing to seek investment partner for the Company's assets in Egypt to make the investment needed to accelerate the first phase of the full-scale development drilling programme at El Fayum and increase production. The farm-out is expected to complete in H2 2021

El Fayum in numbers

100%
Oil

100%
Working interest

40.8
MMBBL of 2P reserves

5,270
BOPD 2020 production

10
Oil fields at the El Fayum concession

6,880km²
Acreage (El Fayum and North Beni Suef)

PORTFOLIO MANAGEMENT

Over the past few years, we have created multiple growth opportunities in our diverse and complementary portfolio in Asia and MENA. Our current growth opportunities include fully funded near-term development drilling programme in Vietnam and significant sub-surface work to develop the resource base and energise the drive mechanism through a waterflood programme in Egypt.

We have used this hiatus in the drilling activity to carry out extensive technical work which has both deepened our understanding of the sub surface and led to improved development planning approaches. To support the funding of these multiple investment opportunities in Egypt, we believe now is the right time to bring in an industry partner and the Company has initiated a farm-out process that is expected to lead to a formal farm-out agreement in H2 2021.

VIETNAM

Our 20-year history with Vietnam has been a success story both for the company and the country. Over $1 billion was invested by the JOC in the exploration, appraisal and development of the oil and gas projects located offshore Vietnam, making Pharos one of the largest British investors in the country. Pharos's current producing interests, the Te Giac Trang and Ca Ngu Vang fields in the Cuu Long basin off the southern coast, together, are amongst Vietnam's largest oil producers. We have further potential for growth from two additional deep-water exploration blocks (Blocks 125 & 126) in the Phu Khanh basin off the eastern coast. We continue to have an excellent safety record in Vietnam, and are careful to maintain this.

Vietnam - Asia's top performing economy amid the COVID-19 pandemic

- 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 premium to Brent
- Current exploration activities in Blocks 125 & 126 in the Phu Khanh Basin

Growth opportunities

- Commencement of well-drilling programme in Q3 2021 in TGT Field
- Preparation for 3D seismic survey planned over certain high graded leads in the northern part of Block 125 in the undrilled Phu Khanh Basin offshore Vietnam.

$1billion
Over $1 billion invested in Vietnam by the JOC over 20 years

6,103boepd
Average net production in 2020 from the TGT and CNV fields

17.9
MMBOE of 2P reserves

12.2
MMBOE of 2C reserves

24
Years active in Vietnam since 1997

ISRAEL

Option on East Mediterranean gas play

Pharos has a 33.33% interest in eight offshore licences over two contiguous zones (Zone A & C), neighbouring several giant gas fields. During 2020, as part of the minimum work commitment, a contract for seismic processing was awarded and seismic processing is ongoing. The project aims to improve the imaging of existing seismic in order to identify and mature any prospectivity. This asset offers low-cost option for potential material gas and provides geographical as well as hydrocarbon diversification.

8
Licences

SUSTAINABILITY AT THE HEART OF OUR BUSINESS

Responsibility framework

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. Pharos continually monitors and reviews its approach to sustainability by engaging with and taking into account views of these stakeholders.

Environment

GHG emissions reduction initiatives through the launch of Project GOO (Greening Our Operations); a focus group to identify key sources of GHG emissions and methods which could be changed to reduce our GHG emissions. One of the ideas was to expand the utilisation of associated-gas powered electricity generators at El Fayum, something that had started in 2019. Both these initiatives have been interrupted by the impact of the pandemic and we will look to resume them at the appropriate time.

Society

$500,000 combined total training levies in Vietnam and Egypt for industry capacity building in 2020

$245,191 in community and charitable investments supporting 9 social projects in Vietnam through the HLHVJOC Charitable Donation Programme and 3 social projects in Egypt through Petrosilah in 2020

Business

~74% TGT/ CNV Oil and **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 by 02 February 2021

$150.9m taxes and royalties to host governments in 2020, which includes $113.7m host governments share of production entitlements

People

Zero Lost Time Injury Frequency Rate (number of lost time injuries per million man-hours) since incorporation in Vietnam for the past five years

One fatality in Egypt. Remedial actions taken to strengthen controls within subcontractors to minimise risk of any future recurrence

3/4 of UK Head of Department positions are managed by women

SOCIETY CASE STUDY

Engaging with host communities

Vietnam

Supported Ha Noi Private School for the Hearing Impaired for the project aimed at “Improving Integration Ability for Underprivileged Disabled Students”. The school is currently offering education to 100 students with autism and hearing-impairment.

Supported the water well-drilling programme in Hung Binh commune and Nguyen Trai’s secondary school in DakR’lap district, Dak Nong province to serve clean sources of water to locals.

Egypt

Donated medical equipment such as face masks, gloves, protection suits to the Nabawi General Hospital in Fayum which operates as an isolation hospital during the COVID-19 pandemic.

Disinfected all public/ service buildings and homes of the villages adjacent to the Company’s sites with disinfectants.

CHAIR'S WELCOME

JOHN MARTIN
Non-Executive Chair

A year of unprecedented change

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

Actions taken in the year

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

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

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

Cost reductions and Dividend

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

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

You may have noticed that the look of our Annual Report this year is also different. In 2020, we have re-examined the way that we work, what we produce, and how we produce it. We are committed to producing relevant, meaningful, and transparent information for all of our stakeholders, and to complying with our reporting obligations. Pharos recognises the balance between what should be accessible on the website and what should also be available in hard-copy reports. We are aware that our Annual Report and Accounts are most often accessed through our corporate website, and therefore, to reduce paper usage and further reduce G&A costs across the Group, the Board has approved a simpler look for the Annual Report & Accounts 2020. We believe the new style of presentation of the report is entirely in keeping with the present business climate.

Farm-out of Egyptian assets and successful equity raise

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

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

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

Health & Safety and wellbeing of staff and host communities

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

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

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

Remote working for head office staff

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

Workforce engagement in a remote working environment

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

Culture and our Guiding Principles

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

Diversity and Inclusion

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

Training and development

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

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

Environmental, Social and Governance (ESG) committee

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

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

Climate Change

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

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

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

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

Board changes

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

Brexit

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

Outlook

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

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

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

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

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

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

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

JOHN MARTIN
Non-Executive Chair

MARKET OVERVIEW

2020 was a year dominated by the COVID-19 pandemic and the significant and far-reaching effects it has had, and continues to have, around the world. The escalating pandemic, coupled with Saudi Arabia and Russia's reticence to restrict oil supplies, meant that Brent crude reached a low of $19/bbl in April before recovering through the remainder of the year to average $42/bbl for the period.

Economics and political

Back in January 2020 when COVID-19 was a primarily regional virus in China, few predicted that it would be the cause of an unprecedented and extremely challenging period for people, businesses, and economies. The crisis went on to cause the deepest peace time recession with extreme market volatility. The Dow Jones Industrial Average plunged 37% during the height of the pandemic in March, before staging a stunning recovery with a rebound of 62% in November to reach a record high as a result of stimulus packages and hope of the impact of vaccines.

Around the globe, economies saw business closures, job losses and rising government debt and while most made a start at resuming more normal life as restrictions were eased, many economies were once again affected with further waves of the virus and the associated restrictions returning towards the end of the year. Nevertheless, the end of the pandemic is potentially in sight for most as multiple vaccinations which have been proved to be effective will be rolled out throughout the year. This prospect, alongside continued technological innovation and a recovery in global economic growth, should provide a positive landscape for investors in 2021 and beyond.

Oil price

As a result of the drastic drop in oil consumption, Brent prices fell to a monthly average of $19/bbl in April (WTI even went below zero for a short while), the lowest monthly average price in real terms since February 1999. Restrictions started to be relaxed in the third quarter of 2020 which lead to an increase in oil demand. With production having contracted during the first half of the year, the increased demand caused global inventories to fall. These factors, and expectations of a future economic recovery, contributed to Brent prices rising to a monthly average of $50/bbl in December 2020. Brent prices in early January 2021 reached their highest levels in 10 months after Saudi Arabia announced a one-month unilateral cut to its crude oil production for February that is in addition to its OPEC+ commitments.

Pharos responded quickly to the turbulence seen in the global economy, and the associated impact on the oil price. In Vietnam, Pharos' low-cost production continued to command a significant premium to Brent and the business remained profitable at low oil prices, while the largely discretionary nature of planned investments in Egypt gave the Company considerable operational flexibility. Pharos management took decisive action to 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. These included a significant hedging position which protected it from much of the volatility seen in the first half of the year.

Pharos' strategy to mitigate this principal risk of commodity price instability is set out on page 45 in our discussion on principal risks. Pharos regularly evaluates whether the benefit of hedging its oil production is in the best interest of shareholders by considering the balance between protecting the Group in low oil price scenarios, set against the opportunity cost of being unhedged. In addition, Pharos continues to manage its overall portfolio to target a low break-even oil price, regardless of actual oil prices. 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 – are reviewed through the lens of full-cycle project economics in a range of oil price scenarios.

Most commentators see the outlook for oil prices is constructive and following the drastic impact of the COVID-19 pandemic on the global economy and world oil demand, OPEC and the Non-OPEC partner countries acted swiftly to adjust oil production to avoid a severe oil market imbalance. The OPEC and Non-OPEC Ministerial Meeting on 3 December 2020 reconfirmed the existing commitment to gradually return 2 mb/d of production, with the pace being determined according to market conditions. With continued cooperation between OPEC and non-OPEC countries, the outlook for 2021 is positive as supply remains tempered and the outcome for demand looks to be steadily increasing with the rapid rollout of global vaccination programmes.

For more information on the impact of climate change on the long-term oil prices and demand, please see pages 48 to 49 of the Viability Statement.

E&P Merger & Acquisition activities

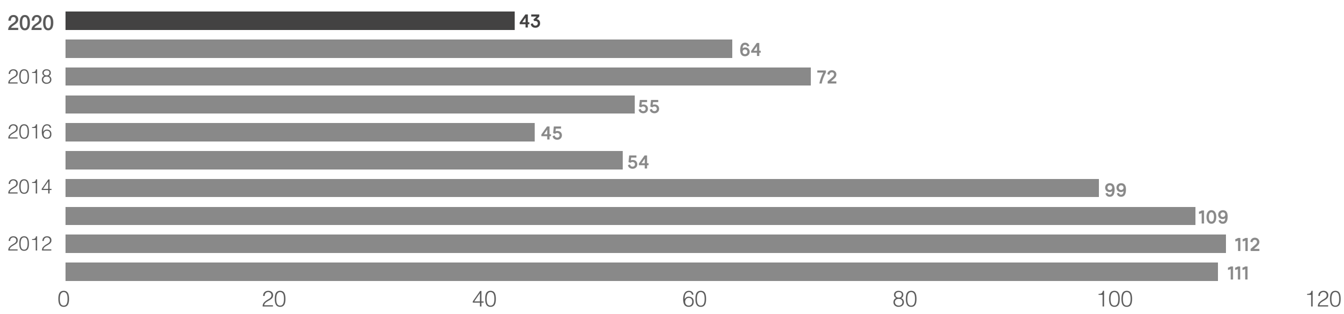
As with many aspects of the industry, the COVID-19 pandemic drastically disrupted the E&P M&A market with the value of deals falling by 49% from US$124bn in 2019 to US$64bn in 2020. The largest deal of the year was Chevron's all-share purchase of Noble at an enterprise value of US$13bn. Other notable transaction included the merger of Chrysaor and Premier Oil in the UK, which is expected to result in a combined entity valued at US$4.5bn.

Climate change regulation

Climate change regulation and wider ESG concerns continued to be at the forefront of thinking for the wider global economy in 2020. Instead of ESG and climate concerns fading during the COVID-19 pandemic, as many assumed they would, ESG and climate change awareness has increased. There has been a particular focus on the "S", as shareholders urged company bosses to focus on employees, suppliers, and wider stakeholder groups during global lockdowns, even if this meant cutting or suspending dividend payments. While the global slowdown in travel and general energy consumption was seen through lowered emissions and pollution, the focus on climate debate was unwavering with election of Joe Biden in the US seen as being a catalyst for increased efforts to tackle climate change from one of the world's leading economies.

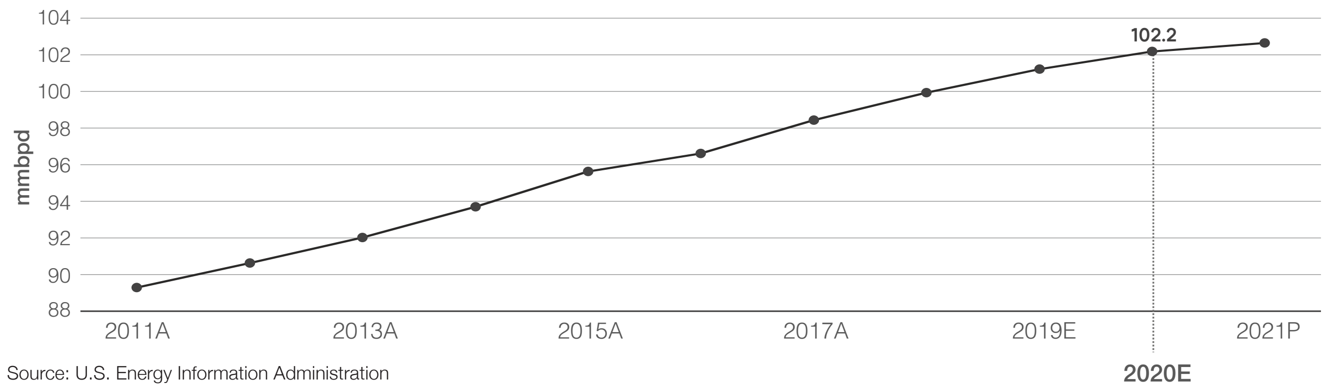
Pharos has continued to review emissions with the objective of reducing them wherever possible. We seek to be transparent in our emissions performance reporting and in 2020 we continued to report our emissions and disclose them in accordance with UK industry requirements and standards. Pharos participated 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. Work to ensure we are prepared to report in line with the TCFD recommendations progressed well in 2020 with Phase 1 completed and the adoption of our new Climate Change policy. Phase 2 of this work was impacted by the pandemic and we look to resume at the appropriate time.

BRENT CRUDE 2011-2020 ($BBL)



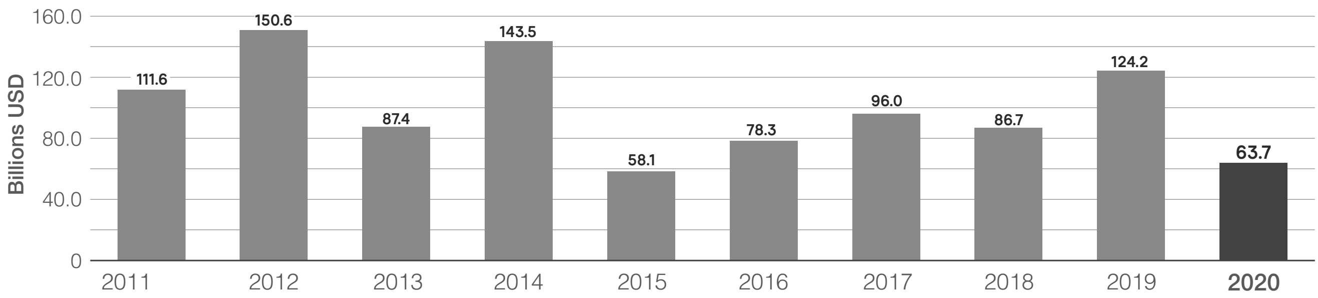
Source: Bloomberg, Code: CO1 Commodity

GLOBAL CRUDE OIL CONSUMPTION 2011-2021E



Source: U.S. Energy Information Administration

GLOBAL E&P M&A, 2011-2020



Source: IHS Herold

CHIEF EXECUTIVE OFFICER'S STATEMENT

ED STORY
President and Chief Executive Officer

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

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

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

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

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

Q2 2021 with completion in H2 2021. In January 2021, Pharos announced the successful completion of an equity Placing. The funds raised have allowed us to restart our investment in the water flood programme in the El Fayum oil fields in Egypt.

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

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

Social investment with host communities

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

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

The JOCs have invested over $1 billion into its oil and gas projects located offshore southern Vietnam, making Pharos one of the largest UK investors in the country. Pharos' current producing interests in the TGT and CNV fields together place Pharos amongst Vietnam's largest oil producers. In 2020 Pharos' joint operations continued to achieve an outstanding record of safety and have contributed to national economic growth through, employment, training, and industry upskilling.

I am also pleased to say our social investment in Vietnam through the HLHVJOC Charitable Donation programme continued. During 2020, a total of nine projects in Vietnam were approved. These donations have been used to assist the overall development of underprivileged rural areas in Vietnam, and were specifically designated for healthcare, education, environmental development, and the assistance of flood victims in the Central Highlands region. For example, this year, donations were made to Tran Hung Dao Commune's Medical Clinic in Ly Nhan district, Ha Nam province to buy medical equipment such as endoscope and ultrasound machines. The programme continued its annual support to the Ha Noi Private School for the Hearing Impaired for the project aimed at improving integration ability for underprivileged disabled students. The school is currently offering education to 100 students with autism and hearing-impairment. Additionally, the programme provided financial support to Tho Hai Commune's People Committee, Thanh Hoa province to renovate buildings built before the year 2000, with 10 classrooms that had serious degradation, and for the construction of new secondary school classrooms. Further information about our community projects can be found in our Corporate Responsibility Report on page 50.

Our people

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

Outlook

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

In Vietnam

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

In Egypt

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

ED STORY
President and Chief Executive Officer

NAVIGATING THROUGH CHALLENGING TIMES

1. Responsible & Flexible stewards of capital

A culture of prudent financial management, capital allocation and capital return.

We exhibit capital discipline through a focus on cost management and control. 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.

Activities in 2020

- Disciplined capital investment and allocation. Flexibility on capital allocation due to low commitments development through drilling with facilities already in place
- Responsible and decisive actions to preserve balance sheet strength. Agility in deferring discretionary expenditure, reviewing and reducing all G&A costs across the Group
- Revenue stability through active hedging programme – approximately 71% of production hedged in 2020, providing continuity to underpin capital programmes and preserve upside exposure
- Modest gearing

Priorities in 2021

- Continue to actively manage our cost base capital allocation and investments
- Maintain financial strength through bringing in an industry partner to support the next stage of development in Egypt
- The hedging positions in place at balance sheet date and additional hedging taken out since then continue to provide solid protection with approximately 42% of the Group's forecast production from April until December 2021, hedged at an average price of $50.6 /bbl.
- Focus on opportunities already in the portfolio

Risks

- Commodity price risk; Further lock-down dampening oil demand
- Insufficient funds to finance growth plans and maintain dividends

Mitigation

- Oil price 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 and deferred where possible

2. Focus on stakeholders

Dialogue with shareholders, local communities, host governments, employees, contractors, and others in the supply chain.

We continue to consult and engage, through formal and informal processes, in an open dialogue with our stakeholders. These conversations consider matters that are important both to our stakeholders, and to the successful delivery of our corporate objectives.

Activities in 2020

- Further Board refreshment and increased independence
- Active engagement by the Chair with UK, Egypt and Vietnam employees
- The launch of a staff survey, the first ever in the Company's history, with a 92% response rate.
- Open and active dialogue with shareholders throughout the year
- Engagement across our supply chain to identify and address red-flag areas of concern
- Continued social engagement with local communities in Egypt during the pandemic to offer support through providing disinfection and sanitisation services for community areas and donation of medical equipment such as face masks, gloves, bodysuits
- Transparent disclosure of ESG-related metrics. Continued oversight of ESG Action Plan and approval of the Climate Change policy by the ESG Committee and ESG Working Group

Priorities in 2021

- Continued implementation of Task Force on Climate-related Financial Disclosures (TCFD) recommendations
- Continue workforce and stakeholder engagement, building on work done in 2020
- Regular staff training and development
- Build on and improve new ways of remote working and communication to make the business base fit for the workforce going forward

Risks

- HSES reputational and operational risk
- Climate change –speed of the energy transition and physical risks from extreme weather events
- Human resource risk
- Political and regional risks
- Business conduct and bribery
- Partner alignment risk

Mitigation

- 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 where we have control
- Comply with all legislative/regulatory frameworks and focus on a goal based approach to improve 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

3. Enhanced growth potential

Creating and building low-cost growth opportunities in our portfolio.

Building and enhancing growth opportunities in our current portfolio. Actively managing our portfolio through investments and divestments. Focusing on near-term development opportunities to create value for stakeholders whilst maintaining high operational and safety standards using local staff and suppliers.

Activities in 2020

Egypt

- Benefited from improved commercial terms with EGPC regarding the Western Desert discount. Negotiated a six-month reduction on the El Fayum discount and fees
- Progressed negotiations with EGPC concerning potential improvements in the Concession Agreement terms
- Reprocessed the 3D seismic data across El Fayum, for better subsurface definition
- Conducted a waterflood evaluation for the phase implementation of a secondary recovery programme
- Updated the sub-surface static model and created field dynamic models to optimise the location of future wells
- Identified a number of low-risk prospects as well as potential producing field extensions from third-party Development Leases into the North Beni Suef Exploration Concession

Vietnam

- Completed upgrade work on the Gas Turbine compressors for the Leased FPSO in TGT Field in April 2020 ahead of schedule and under budget
- Acquired approval from the Prime Minister of Vietnam for the TGT Full Field Development Plan (FFDP)
- Granted two-year extensions to both the TGT and CNV field licences from the Ministry of Industry and Trade in Vietnam

Priorities in 2021

- Commencement of waterflood programme in the field in the El Fayum Concession in Q1 2021, following the successful equity placing in January 2021
- Continued formal farm-out process for the Company's assets in Egypt, expected completion in H2 2021
- Commencement of well-drilling programme approved in the Full Field Development Plan (FFDP) in TGT Field
- Preparation for 3D seismic survey planned over certain high graded leads in Block 125
- Continued evaluation work to reprocess all of the existing 3D seismic vintages previously acquired across the eight licences in Israel by various contractors,
in order to provide a uniform data set
- Continued interpretation of the large pre-existing 3D seismic survey on the North Beni Suef Concession

Risks

- Insufficient funds to meet commitments
- Commodity price volatility, volatility in production levels – sub-optimal well performance
- Partners' alignment

Mitigation

- Regular review of funding options
- Stress testing forecasts
- Down side protection through hedging
- Proactive dialogue with banks
- Focus on best prospects
- Active participation in dialogue with JOCs

OUR BUSINESS MODEL IS TO BUILD FOR THE FUTURE

VALUE INPUTS

Our people

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

Assess

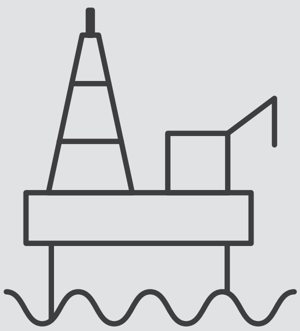
Our assets

- Mix of complementary assets
- Mature, short payback in Vietnam
- Development drilling in Vietnam
- Low-cost onshore drilling in Egypt
- Longer term gas potential in Israel

Invest

Our capital

- Low operating cost
- Low breakevens in Vietnam
- Financial prudence
- Modest gearing
- Strict capital allocation process



Develop & produce

We are building a business focused on generating sustainable returns. We look to grow Pharos through the responsible management of our current portfolio and 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 an increase in exploration acreage growth leading to value growth.

Growth opportunities

- Development of existing discovered resources
- New prospects and leads in Egypt, Vietnam 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
- Return to shareholders
- Local capability
- In-country economic contribution and social investment
- Employment and training

Our production increases through the 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

> * Read more
Non-IFRS measures on page 145

Financial measures

LOW CASH OPERATING COST
$/BOE *

11.60

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 levels.

Objective
To be profitable at lower oil prices.

Performance
Pharos achieved an operating cost of $11.60/boe in 2020, an increase over 2019, largely due to fixed costs such as the FPSO and other facilities being spread over few produced barrels.

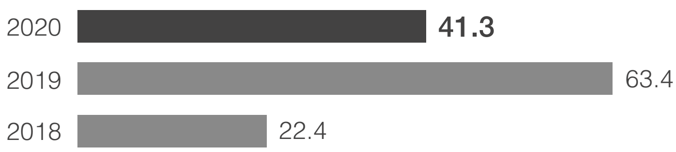
Outlook
We continue to target improvements in 2021 and beyond though managing costs and increasing production.

Links to strategy
- Deliver value through growth

Associated risks
- Partner alignment risk
- Political and regional risk

Links to Remuneration Report (See page 87)

CAPITAL EXPENDITURE
CASH $M (includes abandonment funding)



41.3

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 returns in excess of cost of capital.

Performance
The 2020 cash capital expenditure was lower than 2019 due to the reduced drilling programme following the macroeconomic circumstances.

Outlook
Pre farm-out, the cash capex is forecast as $31.7m

Links to strategy
- Deliver value through growth
- Investment growth

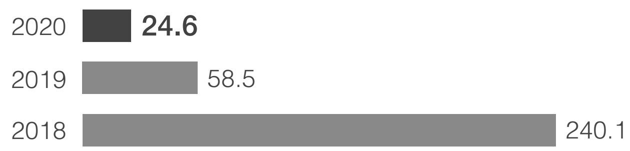
Associated risks
- Commodity price risk
- Partner alignment risk

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

CASH AND CASH EQUIVALENTS

$M

24.6



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

Objective
The key goals are to maintain financial strength through preserving the balance sheet, to invest in growth opportunities in excess of the cost of capital and to generate sustainable returns to shareholders

Performance
Pharos has a cash balance of $24.6m.

Outlook
Capital discipline and financial stability have always been key to the Company and continue to underpin the business.

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

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

RETURNS TO SHAREHOLDERS

PENCE PER ORDINARY SHARES

0

Description
Commitment to cash returns to shareholders remains a core element of our overall allocation framework

Objective
Sustainable cash returns to shareholders.

Performance
On 12 May 2020, it was with regret that the Board announced that no dividend would be paid in 2020, given the continued uncertainty in the macro environment driven by the outbreak of COVID-19 and the pressure on oil price against this backdrop.

Outlook
An annual dividend is a key aspect of the Company's capital discipline and investment thesis and the Board will keep this under review.

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

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

Operational measures

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

0.34

Description
Safety of our workforce remains our number one priority. 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
Our Joint Operations in Vietnam continue to achieve an exceptional record of safety, reporting zero LTIs since operational inception. In Egypt, we are sad to report the loss of one of our assistant crane operators in Q4 2020, following an accident during a rig move operation where the crane ran off the road into a ditch. Following the accident, there was immediate reinforcement of safe driving and manoeuvring practices, increased supervision of rig moves,and increased awareness of potentially unsafe road conditions. The safety of our workforce remains our number one priority and Pharos has reinforced the use of stop cards and safety training across all operations.

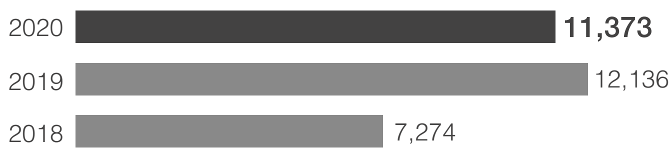
Outlook
Continue to work with the Joint Operating Companies to maintain high safety standards and training with the aim of driving continuous improvement year-on-year.

Links to strategy
- Focus on stakeholders

Associated risks
- HSES and social risk
- Partner alignment risk

Links to Remuneration Report (See page 87)

GROUP NET PRODUCTION
BOEPD



11,373

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 6,103 boepd net. Egypt production 5,270 bopd.

Outlook
2021 guidance in Vietnam is 5,200-6,200 boepd, in Egypt is 4,000-4,400 bopd.

Guidance for Egypt is given before the allocation of any investment from a farm-in partner.

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 87)

SOCIAL AND ECONOMIC INVESTMENT
$

745,191

Description
In Vietnam, a training levy of $150,000 for each joint operating company goes into a fund which is ring-fenced to support the development of future talent in the industry. A further $236,754 was invested in community and charitable investments through the HLHVJOC Charitable Donation Programme. 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. Additionally, a further $8,437 was invested in three community projects in Egypt by Petrosilah.

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

Performance
In 2020, the HLHVJOC Charitable Donation Programme invested in nine community and charitable partnerships and investment projects in Vietnam. These donations have been used to assist the overall development of poor rural areas in Vietnam. In Egypt, Petrosilah has been engaging with the local communities during the pandemic. Field staff continue dialogue and social engagement with the villages adjacent to the El Fayum and have carried out disinfection and sanitisation services for community areas such as schools, post offices, ambulance units and police stations, along with homes of the villages adjacent to the El Fayum fields.

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

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

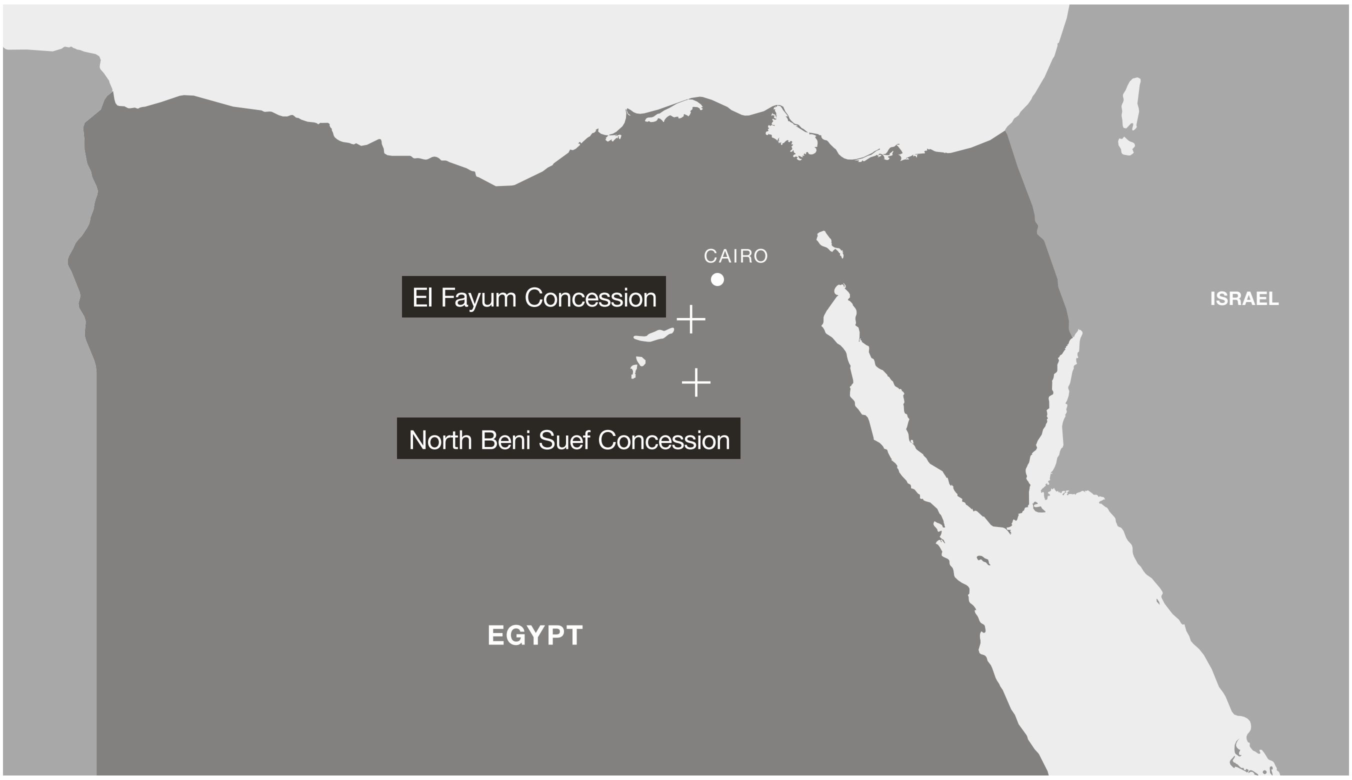
Pharos has two concessions in Egypt - El Fayum and North Beni Suef.

In Egypt, Pharos holds a 100% working interest in the El Fayum Concession in the Western Desert, c.80km south west of Cairo and in proximity to local energy infrastructure. It is operated by Petrosilah, a Joint Operating Company jointly controlled by Pharos and Egyptian General Petroleum Corporation (EGPC). The concession has 10 oil fields, the largest three of which form the Greater Silah Area.

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.

5,270boepd
2020 Egypt production

10
Oil fields



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 25

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 26

1 El Fayum

Located in the Western Desert of Egypt

Full Field Development Plan provides detailed runway to growth

- Longer-term strategy
- Flexible and scalable drilling program maximises field economic returns
- Expand water floods across the fields
- Add new reserves and open new production hubs
- Focus on field economics/ high-return investment

Egypt production

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

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

100%

Working interest; operated by Petrosilah JOC

40.8

MMBBL of 2P reserves

19.0

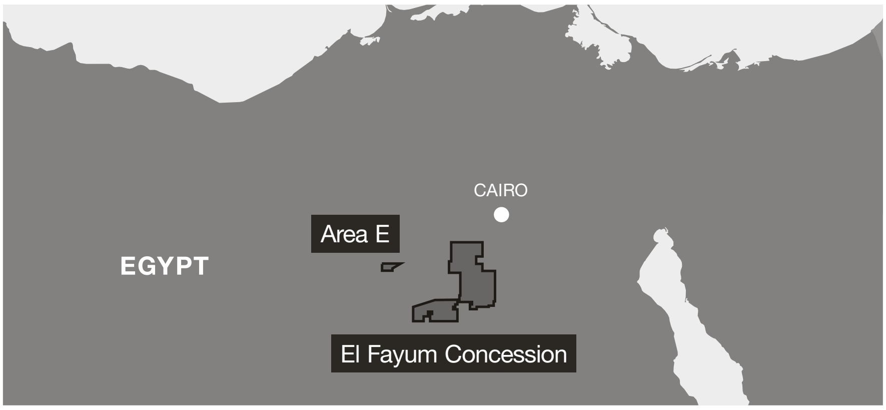
MMBBl of 2C resources

Egypt development and operations

El Fayum

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

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



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

2021 work programme

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

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

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

El Fayum exploration

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

Egypt outlook

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

2 North Beni Suef

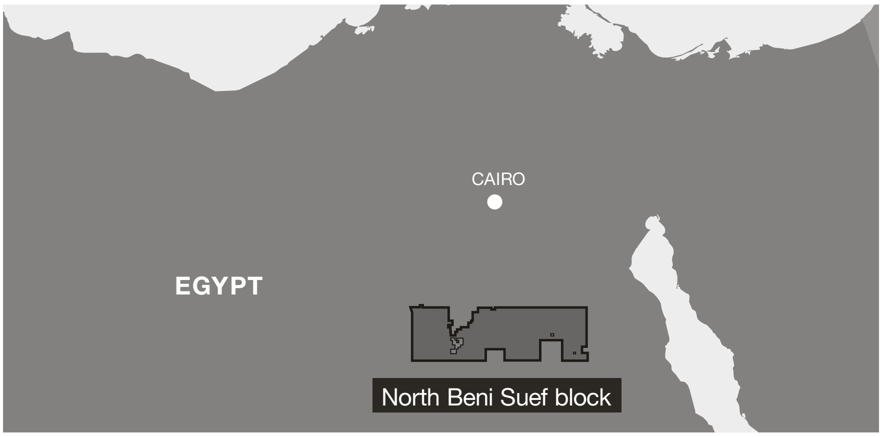
Located south of the El Fayum Concession

Existing data base

5,060km^2
Acreage

1,788km^2
3D Seismic

8
Wells



Egypt – North Beni Suef

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

ISRAEL

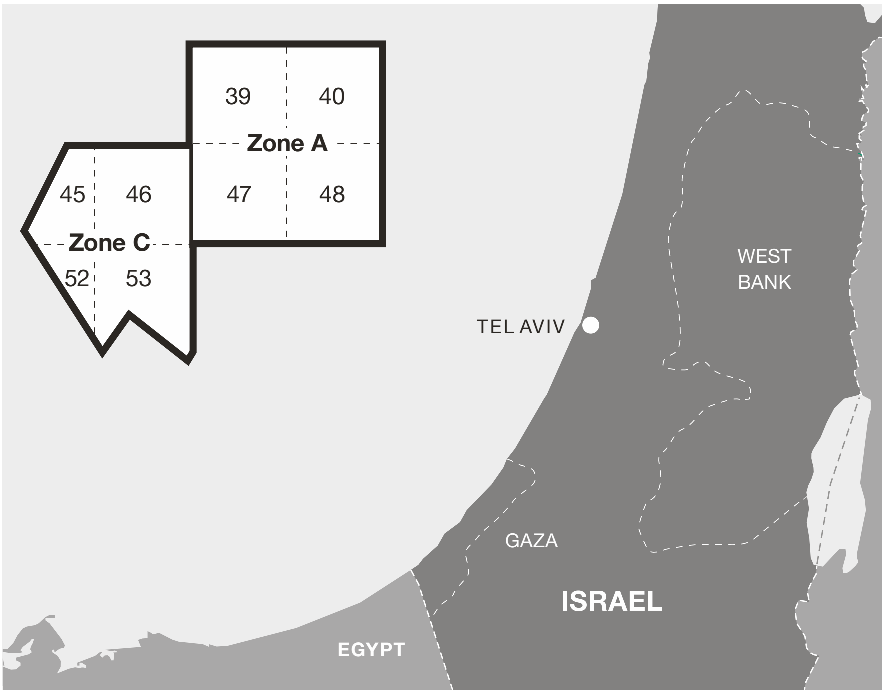
Option on East Mediterranean gas play

8 licences

Two contiguous zones, A & C, each containing four licences (eight in total). The work programme commitment for 3.5 years is to reprocess all of the existing 3D seismic vintages previously acquired across the eight licences by various contractors, in order to provide a uniform data set.

Zone A & Zone C (E)

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



8
Licences

33.33%
Working interest

VIETNAM

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 which contains 97% of the Te Giac Trang (TGT) field and is operated by the Hoang Long Joint Operating Company. Pharos' unitised interest in the TGT field is 29.7%. Pharos also has a 25% working interest in the Ca Ngu Vang (CVN) field located in Block 9-2, which is operated by the Hoan Vu Joint Operating Company. 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 2020 from the TGT and CNV fields net to the Group's working interest averaged 6,103 boepd. This is in line with the 2020 production guidance of 5,500 to 6,500 boepd.

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

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

24

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

Production by field	FY 2020	FY 2019
TGT production	**4,547**	5,382
Oil	**4,185**	5,034
Gas[1]	**362**	348
CNV production	**1,556**	1,699
Oil	**988**	1,106
Gas[1]	**568**	593
Total production	**6,103**	7,081
Oil	**5,173**	6,140
Gas[1]	**930**	941

Figures in boepd.

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

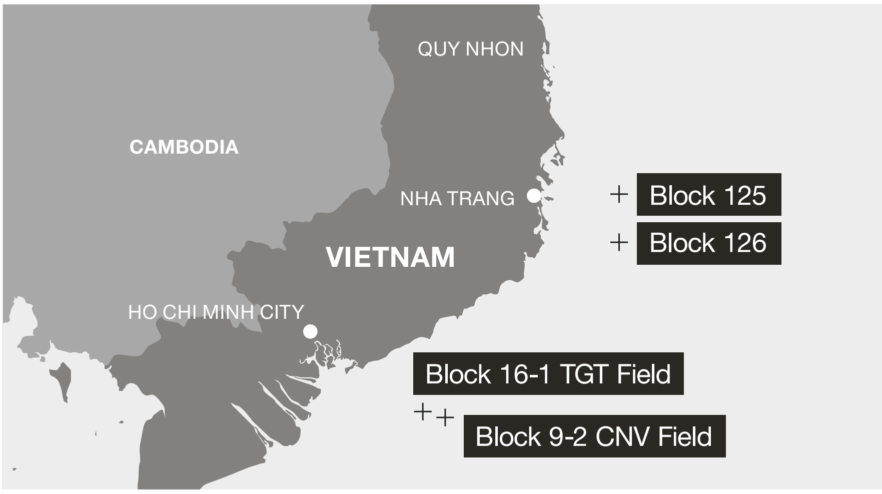
VIETNAM - CONTINUED

A valued asset with future growth opportunities.
Supportive relationships developed at the highest levels of government.

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 28



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 multi-stacked sandstone reservoirs.

+ See page 29

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.

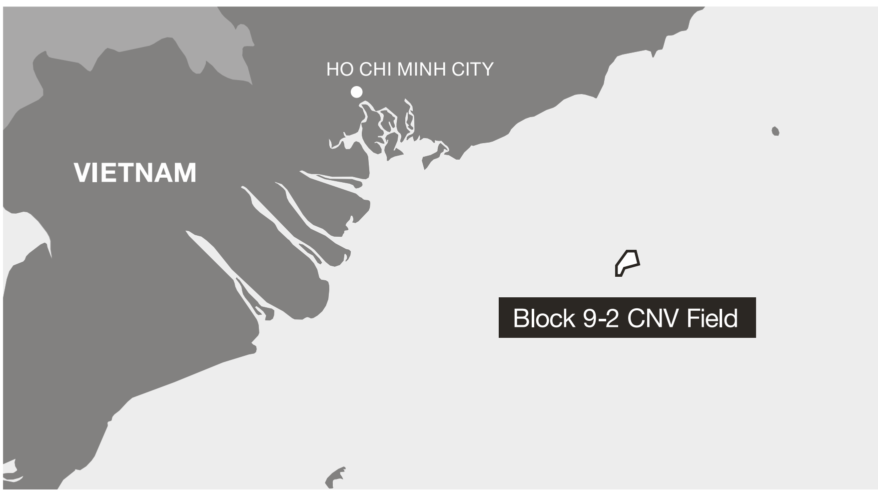
+ See page 30

Block 9-2 CNV Field

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

CNV 2020 production averaged 6,223 boepd gross and 1,556 boepd net to Pharos (2019: 6,793 boepd gross and 1,699 boepd net to Pharos).

The 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.

2020 activity on CNV

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

25% Working interest; operated by HVJOC

1,556 boepd net

2020 Production averaged 6,223 boepd gross and 1,556 boepd net to pharos

Block 16-1 TGT Field

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

TGT 2020 production averaged 15,296 boepd gross and 4,547 boepd net to Pharos (2019: 17,847 boepd gross and 5,382 boepd net to Pharos).

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.

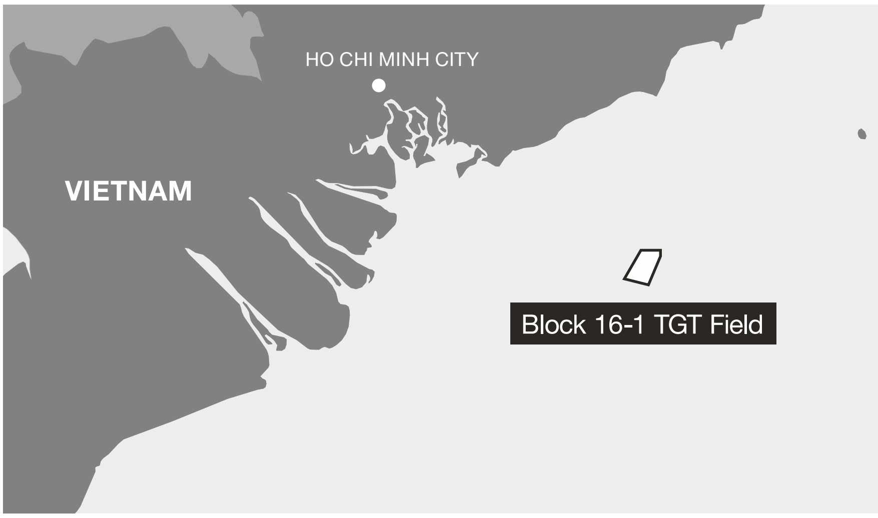
2020 activity on TGT

Production wells

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

TGT Compressors and FPSO Tie-In Agreement (TIA)

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



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

TGT Full Field Development Plan

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

Vietnam License Extension

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

2021 work programme

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

30.5%

Working interest; operated by HLJOC

4,547 boepd net

2020 Production averaged 15,296 boepd gross and 4,547 boepd net to pharos

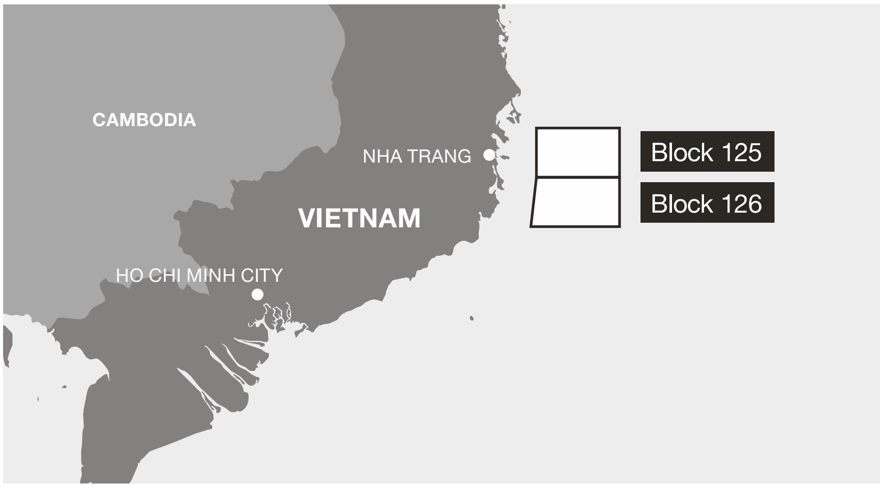
Strategic Report
Governance Report
Financial Statements
Additional Information

VIETNAM - CONTINUED

Blocks 125 & 126

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.

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

Vietnam outlook

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

Group reserves and contingent resources

The Group Reserves Statistics table on page 31 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)

Vietnam reserves and contingent resources

In accordance with the requirements of its Reserve Base Lending Facility, the company commissioned RISC to provide an independent audit of gross (100% field) reserves and contingent resources for TGT and CNV as of 31 December 2020. (SEE FIG 2)

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

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

Egypt reserves and contingent resources

On El Fayum, better than expected field performance, improved understanding of the subsurface, demonstration of the successful impact on production of the pilot water flood projects in the Silah Field and the adoption of an optimised field development plan (57 well Investment Case) have resulted in an upward revision of the 2P reserves. El Fayum contingent resources have been revised downwards as some volumes have been re-categorised from 2C to 2P. (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, 2020	15.4	6.0	21.4	28.5	49.9
Production	(1.7)	(0.6)	(2.3)	(1.9)	(4.2)
Revision	(0.7)	(0.5)	(1.2)	14.2	13.0
2P Commercial Reserves as of 31 December 2020	**13.0**	**4.9**	**17.9**	**40.8**	**58.7**
Oil & Gas 2C Commercial Reserves [1,2]					
As of 1 January, 2020	8.5	4.6	13.1	23.5	36.6
Revision	(0.2)	(0.7)	(0.9)	(4.5)	(5.4)
2C Contingent Resources as of 31 December 2020	**8.3**	**3.9**	**12.2**	**19.0**	**31.2**
Total Group 2P Reserves & 2C Contingent Resources[3,4] as of 31 December 2020	**21.3**	**8.8**	**30.1**	**59.8**	**89.9**

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

FIG 2. VIETNAM RESERVES STATISTICS

Net Working Interest, MMBOE	TGT	CNV	Total Vietnam
Oil & Gas 2P Commercial Reserves [1,2]			
As of 1 January, 2020	15.4	6.0	21.4
Production	(1.7)	(0.6)	(2.3)
Revision	(0.7)	(0.5)	(1.2)
2P Commercial Reserves as of 31 December 2020	**13.0**	**4.9**	**17.9**
Oil & Gas 2C Commercial Reserves [1,2]			
As of 1 January, 2020	8.5	4.6	13.1
Revision	(0.2)	(0.7)	(0.9)
2C Contingent Resources as of 31 December 2020	**8.3**	**3.9**	**12.2**
Total Vietnam 2P Reserves & 2C Contingent Resources[3] as of 31 December 2020	**21.3**	**8.8**	**30.1**

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

FIG 3. EGYPT RESERVES STATISTICS

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

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

FIG 4. GROUP'S WORKING INTEREST RESERVES AND RESOURCES

TABLE A: EL FAYUM FIELD AT 31 DECEMBER 2020 (MMBOE)

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

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

TABLE B: TGT FIELD AT 31 DECEMBER 2020 (MMBOE)

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

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

TABLE C: CNV FIELD AT 31 DECEMBER 2020 (MMBOE)

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

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

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, and 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 its s.172 obligations during the year in line with current 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.

Illustration of how s.172 factors have been applied by the Board can be found throughout the strategic report.

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

During its meetings and discussions, the Board considers decisions with keen regard to consequences in the long term for the business, for example, the decision to defer all discretionary spend in Egypt in order to preserve the group's balance sheet and position it for the longer term. Board papers are drafted to promote discussion and provide options for the Board to hold an informed and balanced debate.

For more information on how the Board consider decisions with regards to the long-term consequences for the business, see page 40 of the Risk Management report for all principal risk.

b) The interests of the employees

The interests of the Company's employees is a key element of the statutory duty under s. 172(1). As we have demonstrated, our Chair, as NED responsible for employee engagement meets with the workforce to ensure open lines of communication and dialogue. The Company has managed its operations carefully in light of COVID-19, and the Group is adhering to the procedures and restrictions put in place by its host countries to protect the health and safety of its employees. All Cairo and London office staff have been working from home since March 2020 in line with UK governmental guidelines with negligible disruption to the business. In Cairo, office staff work in the office on a rotation basis. In Vietnam, office staff have returned to office following government guidelines and easing of lockdown restrictions.

For more information on the Board's engagement with employees, see page 57 of our Corporate Responsibility report, page 10 of our Chair's Welcome, and page 71 of our Corporate Governance Report.

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

The Company's business relationships with suppliers, customers and others are subject to regular review and consideration through vendor due diligence and active contracts management. Vendor due diligence is actively undertaken before a service provider of any size is engaged. 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.

The Board regularly monitors the Company's business activities, financial position, cash flows and liquidity through detailed forecasts. Scenarios and sensitivities are 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.

For more information on how the Company foster relationships with suppliers and business partners, see page 53 of our Corporate Responsibility report. For more information on Board oversight on business activities and financial position, see page 40 of the Risk Management report.

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

The organisation has provided robust evidence of its commitment to ESG in the sector through its ESG Committee and ESG Working Group. Verisk Maplecroft has been engaged to provide advisory support with our climate change disclosure, and our ambition to align this approach with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). Furthermore, in December 2020, the ESG Committee approved a Climate Change Policy for the Company.

For more information on the Board's commitment to ESG and considerations on the community and the environment, see pages 76 to 78 for the ESG Committee report and pages 50 to 64 for the Corporate Responsibility report.

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

Our Anti-Bribery and Corruption ('ABC') Policy and Code of Business Conduct and Ethics Code have been followed rigorously in 2020, ensuring that our engagements with government officials in all countries are recorded and monitored internally. This demonstrates that our Company understands its Code of Business Conduct and Ethics and places it at the forefront of our engagement with public officials. Our Whistleblowing Policy and Procedure ensures that employees are protected from possible reprisals when raising concerns in good faith. In addition to internal reporting channels, we have a confidential ethics hotline supported by EthicsPoint with numbers displayed in local offices available 24 hours a day all year round.

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. In 2020 the Company undertook a rapid and responsible response to COVID-19 and the oil price fall, thereby protecting people, cutting costs and deferring capex. Production operations have continued in both Vietnam and Egypt in light of COVID-19, with strict health and safety measures in place.

For more information on the Company's commitment to maintaining high standards of business conduct, see pages 51 to 57 of the Corporate Responsibility report and pages 9 to 10 of the Chair's Welcome.

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

We believe in a workforce with a diversity of experience, nationalities, cultural backgrounds and gender, to support our business strategy of long-term sustainable growth. It is crucial to the success of our business that we retain and develop the diversity of our workforce and have diversity and inclusion at the heart of our recruitment, development and promotion processes. As part of this global approach, we ensured that leadership training during the year was made available to a fair representation of our global employees in terms of race, gender and ethnicity. We launched our Group wide Employee Engagement Survey the outcomes of which will allow us to improve our understanding of cultural differences and employee experience.

Our Code of Business Conduct and Ethics and Policies and our Guiding Principles commit us to providing a workplace free of discrimination where all employees can fulfil their potential based on merit and ability. They also commit us to providing a fully inclusive workplace, while providing the right development opportunities to ensure existing staff have rewarding careers.

For more information on our commitment to act fairly as between members of the company, see page 4 of the Investment Case and pages 56 to 57 of the Corporate Responsibility report.

The Company is committed to good governance and will continue to review the balance and effectiveness of the Board with a view to maintaining the right skills, experience and diversity to align with the Group's strategic goals.

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:

- Robust process to refresh Board members, using independent search consultants Korn Ferry
- Rapid and responsible response to COVID-19 and oil price fall - protecting people, cutting costs and deferring capex
- Verisk Maplecroft engaged to provide ESG advisory support
- Climate Change Policy introduced and available on our website https://www.pharos.energy/responsibility/policy-statements/
- Peel Hunt engaged as Joint Broker to assist with market communications
- 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 embraced by John Martin as Chair of the ESG Committee

Focus on stakeholder 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.
- UK-based independent NED nominated as the Director to represent the employee voice at Board level, conducted annual meetings with UK, Egypt and Vietnam staff without Executive colleagues present
- Monthly focus groups held with staff to hear their views on any issues arising
- Group wide Employee Engagement Survey, the first in the company's history was launched in 2020, to allow the Board to improve on their understanding of cultural differences and employee experience
- Feedback from employee engagements are reported back to the Board in a quarterly Human Resources (HR) report from the Head of HR
- Confidential ethics hotline supported by EthicsPoint with numbers displayed in local offices available 24 hours a day all year round
- Open and active dialogue with its institutional, private and retail shareholders throughout the year via website, Twitter and LinkedIn, email communications and roadshows
- Engagement with the local community to offer support during the pandemic, such as provided disinfection services for all public and service buildings in Egypt

FINANCIAL REVIEW

JANN BROWN
Managing Director and
Chief Financial Officer

Finance strategy

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

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

In this current period of turmoil, with oil prices at a multi-year low, these three core areas come into sharp focus and are guiding the business firstly, to preserve capital and balance sheet strength at this time, then moving on to access the capital needed to invest to deliver near term returns.

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

Operating performance

Revenues

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

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

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

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

Operating costs

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

DD&A

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

Administrative Expenses

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

Operating Profit

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

Other/exceptional Expenses

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

Finance Costs

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

CASH OPERATING COST PER BARREL*

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

DD&A PER BARREL*

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

CASH OPERATING COST PER BARREL BY SEGMENT

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

DD&A PER BARREL BY SEGMENT

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

MOVEMENTS IN THE PROPERTY, PLANT AND EQUIPMENT

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

* Cash operating cost per barrel and DD&A per barrel are alternative performance measures. See page 145
** Egypt from the date of acquisition

Taxation

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

The Group's effective tax rate approximates to the statutory tax rate in Vietnam of 50%, after adjusting for non-deductible expenditure and tax losses not recognised.

The Egypt concessions are subject to corporate income tax at the standard rate of 40.55%, however responsibility for payment of corporate income taxes falls upon EGPC on behalf of Pharos El Fayum (PEF). The Group records a tax charge, with a corresponding increase in revenue, for the tax paid by EGPC on its behalf. Due to accumulated tax-deductible balances, there is no tax due on PEF this period.

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

Loss post tax

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

Cash flow

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

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

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

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

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

Tax strategy and total tax contribution

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

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

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

During 2020, the total payments to governments for the Group amounted to $150.9m (2019: $232.7m), of which $104.9m or 70% (2019: $165.5m or 71%) was related to the Vietnam producing licence areas, of which $72.5m (2019: $113.5m) was for indirect taxes based on production entitlement. Egypt was paid a total of $42.2m (2019: $63.1m) of which $41.3m (2019: $46.4m) relates to indirect taxes based on production entitlement. The breakdown of other contributions, including payroll taxes and other taxes is contained within the additional information on page 149.

Balance sheet

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

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

Impairment

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

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

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

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

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

Right of use asset

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

Balance sheet continued

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

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

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

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

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

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

Own shares

The Pharos EBT holds ordinary shares of the Company for the purposes of satisfying long-term incentive awards for senior management. At the end of 2020, the trust held 2,181,655 (2019: 2,897,094), representing 0.54% (2019: 0.71%) of the issued share capital.

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

Going concern

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

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

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

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

Our business in Vietnam remains robust with a breakeven price of less than $26/bbl. We have limited capital expenditure outside of the 4 TGT wells in Vietnam over the rest of the business with most falling outside 2021. All of our debt is secured against the Vietnam assets. Finally, our business in Egypt provides a high degree of flexibility through the use of short-term drilling contracts, which can be terminated with 60 days notice.

The forecasts outlined above show that the Group will have sufficient financial headroom for the 12 months from the date of approval of the 2020 Accounts. Based on this analysis, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Therefore, they continue to use the going concern basis of accounting in preparing the annual Financial Statements.

Annual dividend and Company distributable reserves

As announced in May, the Board decided to withdraw dividend payments during 2020 (2019: $27.4m), given the continued uncertainty in the macro environment. The decision to re-instate the dividend will be kept under review and the Board will continue to use the well documented capital allocation criteria to assess where and how to spend any free cash flow generated. The key goals are to balance the preservation of balance sheet strength with investing in growth opportunities where returns exceed the risked cost of capital, in order to generate sustainable returns for shareholders.

Financial outlook

Pharos' financial strength is founded on our long-term approach to managing capital to provide risk adjusted full cycle returns, which has allowed us to return significant amounts of capital to shareholders.

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

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

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

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

Placing

In January 2021 the company raised $10.9m (net of fees and expenses) in an equity placing to support the ongoing reservoir pressure and production levels in the El Fayum field(s) through a small scale waterflood programme. The issuance was oversubscribed with strong support from the board and from existing shareholders, both institutional and individuals, and from new institutional investors. Work on the waterflood programme is underway and additional information on the waterflood programme on can be found in the Operations Review on page 25.

Egypt El Fayum farm-out

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

Concession agreement amendment

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

JANN BROWN
Managing Director and
Chief Financial Officer

RISK MANAGEMENT REPORT

Risk Management Framework at Pharos

Pharos carried out regular and robust risk assessments to identify and manage its Principal and Emerging risks during 2020 and continues to monitor closely the evolving risk landscape during the COVID-19 pandemic and the global macroeconomic environment. Our management undertook a number of deep-dive exercises as the pandemic unfolded to gauge its risk appetite and recalibrate its risk tolerance to ensure the appropriate mitigating actions were implemented. The Board has closely considered the potential impact and probability of these risks and related events on its corporate strategy, objectives and stakeholders' perspectives of the Group.

Control environment

Pharos' control environment is based primarily on its Code of Conduct and Business Ethics, which carries a number of fundamental values, including openness and integrity, safety and care for the environment and respect for human rights. The control environment is also supported by a series of corporate policies, which form part of the Group's Business Management System. These documents are distributed to all employees, followed up with training as required and are available on the Intranet. As part of the compliance programme, all employees have to do an anti-bribery and corruption training and assessment at least once a year.

Governance, authorities and accountability

The Board of Directors, supported by its various Committees, ensures that the internal control functions are operating properly. The Audit and Risk Committee oversees that Pharos' Senior Management Team implements internal control and risk management procedures based on the risks identified to support the Group's objectives.

MANAGING OUR RISKS

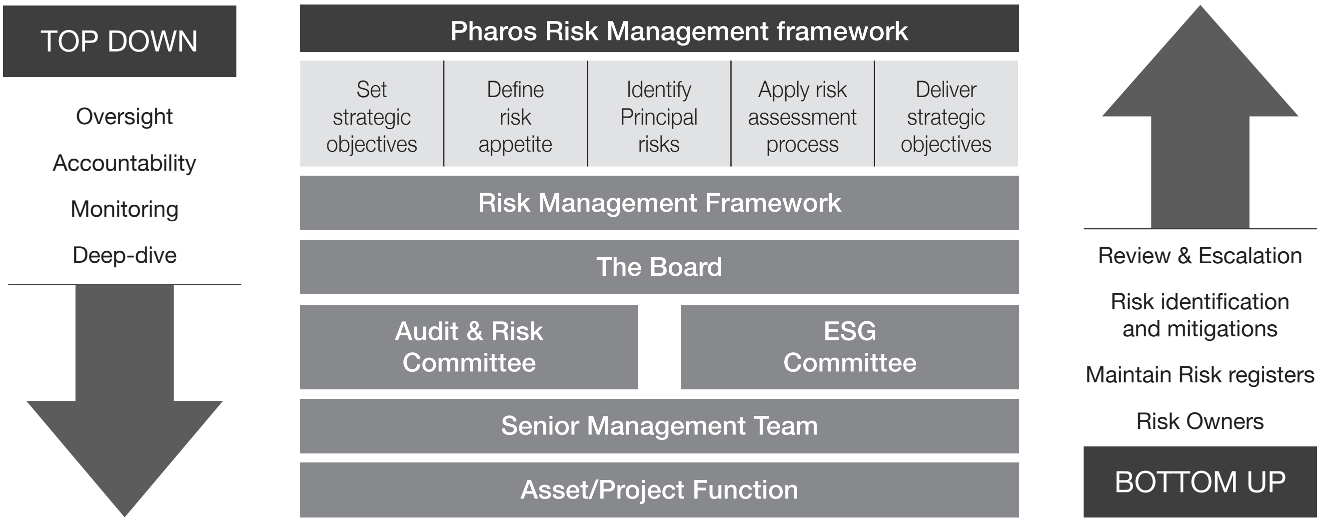
Principal risks in 2020

- Lack of growth due to insufficient funds to meet work programmes
- Volatility in Production levels
- HSE & Social
- Climate Change
- Commodity Price volatility
- Financial Discipline & Governance
- Partners' alignment
- Reserves downgrades
- Cyber security
- Human Resources
- Sub-optimal capital allocation
- Political and Regional
- Business Conduct and Bribery

Principal and Emerging risks in 2021

- Further lockdowns dampening oil demand
- Insufficient funds to meet commitments
- Commodity Price volatility
- Volatility in Production levels
- Climate Change and speed of energy transition
- HSE & Social
- Unsuccessful Farm-out of Egypt assets
- Partners' alignment
- Reserves downgrades
- Cyber security
- Human Resources
- Sub-optimal capital allocation
- Political and Regional
- Business Conduct and Bribery

RISK MANAGEMENT FRAMEWORK



Pharos' Risk Management process requires that all business units within the Group conduct on-going risk management and reporting to the Audit and 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 governance 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 risks and devise preventive / mitigating measures or develop alternate strategies
- Meet regulatory requirements

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 ensure 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 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 will focus 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.

An unsettled world

The risk landscape has worsened across most industries since the World Health Organization declared the outbreak of COVID-19 a pandemic on the 11 March 2020. The energy sector, particularly the oil and gas industry, has been affected by the drop in the oil price and the future outlook for Brent price remains uncertain well into 2021 due to a number of factors:

- OPEC + world geopolitics
- Overcapacity at refineries
- Potential for renewed lockdowns further reducing demand for oil
- Oil futures trading and speculations
- Large investors and banks avoiding fossil fuel investments
- IEA's sustainable outlook where fossil fuels' share may reduce in the overall energy mix
- New legislation piling more costs for heavy CO_2 polluters

Impact of COVID-19

According to World Health Organisation (COVID-19 Tracking Project at January 2021) the human cost of COVID-19 has continued to mount with nearly 97m infections confirmed globally and more than 2m people known to have died from it - the virus has spread to more than 200 countries, with severe public health and economic consequences. The pandemic has disrupted factories, supply chains and demand for goods and services. This has affected industrial production and consumer patterns of consumption, leading to reduced demand for oil and gas products. The rollouts of a number of effective vaccines from late 2020 has provided some hope for a return to normality.

How has Pharos responded?

Throughout the COVID-19 crisis, Pharos continued to focus on two challenges:

- enabling its workforce to work safely either remotely or on sites (both onshore and offshore) to keep operations running, and
- ensuring the Group has the financial resilience to survive

The appropriate precautionary measures, including social distancing continue to be implemented at all locations. This strategy has been successful so far, with no major disruption through ill-health of the workforce.

Pharos embarked on a cash-conservation project given the uncertainty around the recovery of Brent crude oil price, by deferring its discretionary capital spending and cutting operational and corporate costs for the rest of 2020/21. The regular stress-testing of the company's cash flows has become a daily exercise. Pharos maintained close discussions with its RBL lenders and continued to comply with the RBL covenants.

The Group also brought in additional capital through an equity placing in January 2021 and is now focused on bringing in an industry partner to support the investment needed in our Egyptian interests.

How is Pharos tackling this crisis?

During these difficult times, Pharos' management remained focused on:

- Managing the business, to survive and thrive later
- Managing the remote teams
- Leading through the crisis
- "Don't Hide Bad News" in times of crisis

The Group reviewed closely its key supply chains and identified the critical goods and services it requires to keep operations running. All legal obligations and key contracts have been re-visited to identify possible risks of defaults. All staff in Head Office accepted a salary cut for a 9-month period which meant no layoffs. As with all other organisations, there has been an increased reliance on technology via virtual meetings. Communication through the COVID-19 crisis and during lockdown has been maintained among all teams and countries and the supporting actions and messages were tailored appropriately to ensure the right balance on precautionary measures and staff well-being were being disseminated. External communications have also been a key focus, with transparency about both challenges and opportunities at the forefront of our objectives.

Commodity price uncertainty persists and is factored into all stages of our planning processes

Climate change risk remains present across all industries with fund managers, banks and governments targeting heavy polluting industries in particular.

As depicted in our Risk Governance Framework above, Pharos has initiated a number of measures to tackle climate change risks:

- formed an ESG Committee reporting directly to the Board
- continues to participate in the CDP process
- started implementation of the TCFD recommendations and published its first Climate Change Policy (available on our website at https://www.pharos.energy/responsibility/policy-statements/)

Opportunities

The distressed oil and gas market sector, lack of liquidity and increased scrutiny from investors on fossil fuel producers to decarbonise may create investment opportunities for oil and gas independents like Pharos which have a lower cost base than the oil majors. In the short term, capital allocation and discipline will be rigorously maintained while at the same time exploring opportunities to reduce our carbon footprint by adopting different methods / processes to power our operations, including the possibilities of solar power, and carbon capture technologies in the longer term. Our asset base is operated by separate independent Joint Operating Companies, leaving our role in both Egypt and Vietnam one of joint, rather than unilateral, control.

Risk and insurance management policy

Pharos' risk and insurance management policy is to work closely with our JV partners, our operations teams, country managers and insurance brokers to ensure the Group assets and activities are adequately covered having assessed and evaluated the respective country and situational needs, the insurance market availability and costs of insurance cover. Scenarios of major disaster risks (estimated maximum loss) and the potential financial impact on the Group has been assessed should a catastrophic or prolonged business interruption event occur. Pharos has purchased some LOPI cover (Loss of Production Income) on some of its producing assets to ensure its breakeven costs and RBL covenants will be met in the event of a major field disruption.

Emerging Risks

The speed of energy transition away from fossil fuels are watched closely by oil and gas independents. Environmental concerns, changes in public perceptions, investors' attitudes, energy and climate policy, carbon pricing and the development of new technologies to reduce CO_2 emissions are all combining to change the landscape for all oil and gas companies and this emerging risk is a subset of Climate change:

The IEA World Energy Outlook Special Report "Sustainable Recovery" - July 2020 highlights amongst other things these challenges:

- Fossil fuels will play a diminished role in the energy mix
- Acceleration of investment in green projects, supplanting oil and gas in the energy mix over time
- Government legislation - leading to potential cost increases

The COVID-19 pandemic has been a catalyst for many changes and other areas of emerging risks will be around digital transformation, remote working, the role of the board in crisis.

Similar to principal risks, emerging risks are identified via our bottom up approach with our regular risk assessments with risk owners and reporting to and discussing the emerging trends at the quarterly management risk meetings and the Audit and Risk Committee meetings. Pharos is also actively engaged with the industry via organisations such as Brindex and receiving news alerts from subscriptions such as Oil & Gas UK, Refinitiv (FT, Eikon and Worldcheckone) and Bloomberg Green.

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 back 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 and emerging 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 to the Financial Statements. The Group's Risk Management policies and procedures are further discussed in the Corporate Governance Report on pages 73 to 74 and in the Audit & Risk Committee Report on pages 83 to 86, where the significant issues related to the 2020 Financial Statements are also reported. Pharos Energy's Business Management System, which includes Health, Safety, Environmental and Social Responsibility ('HSES') Management System ('MS'), which comprises the Company's internal controls 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 50 to 64.

The Board has carried out a review of the uncertainties surrounding the Group's principal and emerging risks and recognised that a potential adverse event on Pharos Energy can 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 closely for the Group. Flash events are happening more frequently from international trade tensions, geopolitical tensions, sudden outbreak of diseases, speed of climate change transition and physical risks which may require changes to our corporate price assumptions and productions outlook which in turn may trigger impairment of assets. Pharos has reduced our long term oil price assumptions from $72 to $62 and that this has been a key factor in the impairment charges that have been recorded this year.

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

Principal risks	Change in likelihood	Causes	Risk Mitigation
1. Further lockdowns dampening oil demand • Sub-optimal pricing on commodity sales • Reduced revenue to finance operations	N	• Global vaccine rollouts less effective than expected and new variants spread • COVID-19 infections continue to go up • The virus maintains its pandemic status throughout 2021 • Emergence of other infectious diseases	• Continue to maintain and promote precautionary measures to minimise disruption to business • Procure long lead items as early as possible from reliable suppliers / contractors • Tight cash management and forecasting • Hold back on discretionary spend • Oil price hedging • The bulk of our output sold on the local markets where demand remains strong • Closely follow and comply with all respective legislations on preventing the spread
2. Insufficient funds to meet commitments • Inability to invest in line with growth strategy	↑	• Reallocation of capital away from Oil and Gas • Fluctuating oil prices • Depressed economic conditions • Global debt crises emerging • Inadequate cost control • Poor technical data to support allocations • Resourcing limitations	• Regular review of funding options • Proactive dialogue with banks and other providers of capital • Opportunity Screening • Effective project management and resourcing • Farm-out options • Thorough capital allocation process

Principal risks	Change in likelihood	Causes	Risk Mitigation
3. Volatility in Production levels • Sub-Optimal well performance	↑	• Inadequate waterflood responses • Incorrect well placements • Development wells uncommercial • Poor reservoir models • Lack of financing for drilling programme	• 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 • Explore farm-out opportunities
4. Health, Safety, Environmental & Social Risk • Reputational • Operational outages leading to lower production	↑	• Business disruption due to workforce affected by COVID-19 • Health and safety and environmental risks of major explosions, leaks or spills • Face O&G 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 • 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 • Increased disparities and societal risks in health, technology or workforce opportunities	• Implement precautionary measures based on WHO guidance, restrict business travel and facilitate working from home • 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 • Enhance 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 - Carry out scenario exercises to improve preparedness • Put in place an adequate Energy insurance programme for the Group

Principal risks	Change in likelihood	Causes	Risk Mitigation
5. Climate Change Concerns • Lack of Capital • Reputational • Increased operating costs • Physical Damage to Assets • Potential pressure on commodity prices • Risk of additional impairment of assets	↑	• Pressure on investors to divest / avoid fossil fuel companies / projects • Inability to find economically viable CO_2 reduction solutions • Potential additional compliance obligations • Global transition to a lower carbon intensity economy • Increased climate regulation and disclosure • Increase in carbon taxes / decarbonisation charges • Eco-consumers are on the march, 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 • Increased frequency of extreme weather occurrences	• Transparent reporting and participation in Carbon Disclosure Project (CDP) • Embrace the TCFD recommendations, prepare and align Pharos' growth strategy to tackle climate concerns • Embed Climate change scenarios and Evaluate "strategic fit" of climate change decisions on key business operations / directions • Continuous improvement of GHG emissions management and persuade JOCs to accept CO_2 emissions reduction initiatives • "Making Climate Change risk visible" - factoring in climate hazards when investing in exploration / development projects so that corporate models embed resilience into projects • Embrace the Group's Climate Change Policy and keep it up-to-date and in line with evolving developments in carbon footprint reduction • Comprehensive insurance cover for Physical Damage • Close monitoring of extreme weather developments so that evacuation or shut-down are activated on time

FINANCIAL*

Principal risks	Change in likelihood	Causes	Risk Mitigation
6. Commodity Price Risk • Uncertainty on planning • Inability to fund work programme / dividend	↑	• On-going oil market volatility • Geo-political factors, including pressure on investors to divest / avoid fossil fuel companies / projects • Lower long-term prices tighten the margin of error for investments • 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 • Slower than expected economic and social recovery from the COVID-19 pandemic	• 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

* Note: Financial discipline and Governance was reported as a principal risk of last year but for 2021, this risk has been removed as it is adequately captured in two of the other principal risks in this section: no.2 - Insufficient funds to meet commitments and risk no.11 - sub-optimal capital allocation.

Principal risks	Change in likelihood	Causes	Risk Mitigation
7. Egypt Farm-out • Insufficient funds to finance operations • Unable to grow the assets	N	• Prolonged uncertainty in oil price • Long process with a number of execution challenges • Shareholder and EGPC approval required	• Robust investment case for future prospects • Extensive network of interested parties • Egypt currently attractive destination for oil and gas investment

OPERATIONAL

Principal risks	Change in likelihood	Causes	Risk Mitigation
8. Reserves Risk • Future cash flows and value depend on producing our reserves	↔	• Inaccurate reserves estimates • Pharos Energy 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 • Increased DD&A costs • Lower than expected well performances and drilling results	• Improve Reserves Reporting by adhering to three key considerations: consistency, transparency and utility - Disclose movements in reserves on a country-by-country basis - Subjective judgments are moderated - Material projects disclosed • On-going evaluation of projects in existing and potential new areas of interest and pursue development opportunities • Regular reviews of Reserves estimates by independent consultants (Lloyds Registered) • Ensure 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
9. Partner Alignment Risk **Vietnam** • Misalignment at JV/ JOC level can delay investment • Adverse impact on Production and Cash flow	↑	**Vietnam** • Co-venturers divergent views on Drilling and Upgrade programme 2021/22 • FPSO Tie-in Agreement from other Operator • Delay in the Field Development Plans	**Vietnam** • Active Participation in JOC management • Direct secondment • Build Senior Management level relationship with local Partners • Continue good relationship with other Foreign Partner • 2021 TGT Work Programme agreed in principle and preliminary preparation of bid packages
Egypt • Technical Misalignment of JV Company • Adverse impact on Production and Cash flow		**Egypt** • Technical disagreement caused by quality of JV staff, work ethic, low productivity, competency issues • Geological Modeling differences resulting in sub-optimal well locations • Divergent views on waterflooding, and difference in value-drivers.	**Egypt** • Support JV training initiatives. • Engage with new JV Exploration Manager. Achieve technical buy-in to ERCE model • Waterflood analogue success education

Principal risks	Change in likelihood	Causes	Risk Mitigation
10. Cyber Risk • Major cyber security breach may result in loss of key confidential data • Unavailability of key systems	↑	• Sophistication and frequency of cyber attacks increasing • Heavy reliance on and disruption to critical business systems • Infiltration of spam emails corrupting our systems • Critical reliance on remote working	• Offsite Installation of back-up system and Business Recovery Plan in place • Enhance our Cloud back-up data and solutions • Prevention & detection of cyber threats via a programme of effective continuous monitoring • Plan for staged integration (new acquisition) and upgrade of IT systems
11. Human Resource Risk • Good skilled people are essential to ensure success	↔	• 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 • Weakened Corporate culture due to remote working	• Remuneration Committee retains independent advisors to test the competitiveness of compensation packages for key employees • On-going succession planning • Maintain a competitive remuneration mix re bonus, long-term incentive and share option plans • Build and use people networks in each country and advertise vacancies in these networks • Maintain a programme for staff wellbeing • Facilitate and encourage workforce communication

REPUTATION

Principal risks	Change in likelihood	Causes	Risk Mitigation
12. Sub-optimal capital allocation • Adverse reaction from current / future stakeholders • Investment decisions based on realistic / achievable economic assumptions	↑	• 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	• 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 Energy always seeks to maximize its influence to promote best practice • Garners 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

Principal risks	Change in likelihood	Causes	Risk Mitigation
13. Political and Regional risk • Energy sector exposed to a wide range of political developments which may impact adversely on operating costs, compliance and taxation	↑	• 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	• Canvass support in risk management by using both international and in-country professional advisors • 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
14. Business Conduct and Bribery • Reputational damage and exposure to criminal charges	↔	• 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	• 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 Energy's ABC policies for all employees and associated persons • Gifts and Hospitality declaration • Whistleblowing facility in place • CCO risk assessment and on-going implementation of adequate procedures to prevent facilitation of tax evasion across all operations • Comply with 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 38 of the Financial Statements. The Audit & Risk Committee reapproved in December 2020 that the appropriate length which the viability statement ("VS") should cover is 3 years. A significant factor in the Group's forward cash position is the oil price assumption, and as most of the source data relates to a 3 year period this is considered the appropriate lookout period for the VS.

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 operating cost base
- Flexibility in the capital expenditure programme
- Operating cash flows in line with oil prices and supported by hedging programme
- Focus on capital discipline
- Excellent HSES standards
- Repayment of current RBL loan in the 3 year period of the VS

Strategy & business model

- Long-term strategy focusing on access to capital including asset farm down in Egypt, refinancing of the RBL and equity raise
- Business model drawing on geoscience, engineering, financial and commercial talent
- Responsible and Flexible stewards of capital
- Focus on stakeholders

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, its near term drilling programmes and Full Field Development Plans (FFDPs).

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 working assumption is that Group will be dependent on its two cash generating assets in Vietnam and the El Fayum concession in Egypt. There is a process underway to farm out the assets in Egypt, with a view to providing fresh capital to invest, with the consideration structured to minimise our own outlays over the peak investment period. Although the process is progressing well it is not appropriate at this stage to assume that it concludes successfully.

The underlying oil and gas reserves in both Vietnam and Egypt have been certified by Reserves Auditors, RISC (for Vietnam) and McDaniel (for Egypt). In our model, we have used management's best estimate of future commodity prices, resulting in a base oil price prior to scenario testing of $54.8/bbl in 2021, $57/bbl in 2022 and $59/bbl in 2023. The base model also includes the Group's latest life of field production models and expenditure forecasts.

The company has a Reserves Based Lending (RBL) facility of $125 million over its Vietnam producing assets taken out in September 2018. The current borrowing levels and the repayment schedules in the model is based on the RBL's economic and technical assumption as of the December 2020 redetermination. In the current VS period, the entire RBL loan is forecast to be repaid.

Stress testing linked to Principal Risks

As well as the base model, the Group also considers other scenarios and has stress tested the forecast for a combination of a number of severe but plausible events (linked to the majority of the Group's principal risks) 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 reduction in the oil price putting pressure on the Group's capital available for investment
- A material reduction in production
- An unfavourable event resulting in lost production and oil price shock

The oil price sensitivity reflects a level of price reductions broadly similar to 2020 as a result of the global outbreak of the COVID-19 virus, to reflect the risk of a further oil price crash due to the pandemic during the 3 year VS period.

Base Forecast flexed for combinations of the following scenarios	Link to Principal Risks and Uncertainties	Level of Severity Tested	Conclusion
Sustained and sharp drop in oil price	1, 5, 6	Sharp drop in the oil price, down to $35/bbl rising $5/bbl every 2 months till in line with base price	Company remains viable with mitigating actions
Reduction in production	2,3,4,7,8,9,12,13	5% drop in production over the period of testing	Company remains viable with mitigating actions
Unfavourable event leading to lost production and price shock	1,2,3,4, 5, 6,7, 8,9,12,13	Combination of tests above	Company remains viable with mitigating actions

Climate Change

We have also taken into consideration the risk that climate change pressures could reduce oil prices during the 3 year VS window. In doing so, we have considered the average of a number of third party forecasts described as being consistent with achieving the 2015 COP 21 Paris agreement goal to limit temperature rises to well below 2 degrees Celsius. The nominal Brent prices used in this scenario were as follows; 2021: $49/bbl, 2022:$54/bbl, 2023:$56/bbl, Although marginally lower than our base case oil price assumptions, we have concluded that the stress testing outlined above adequately takes into consideration the risk of downside adjustments to our revenue base over the 3 year VS period due to climate change pressures.

It should be noted that as the existing RBL facility is within the 3-year viability statement window, we currently have some protection from the risk that Climate Change concerns begin to restrict the availability of capital.

In all combinations tested, the Group had access to mitigating actions, including hedging, deferring non-committed capital expenditure beyond the 3-year window of the VS and agreeing with host governments to defer exploration commitments.

Directors have reviewed the realistic mitigating actions that could be taken to reduce the impact of the underlying risk. 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.

The potential impact of each of the other principal 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, Cyber risk and Business Conduct and Bribery risk. 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.

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 2023.

RESPONSIBILITY FRAMEWORK

DR MIKE WATTS
Managing Director

Business

100%
Working interest

c.74%
TGT/CNV Oil

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

Ethics

$150.9m
Taxes and royalties to host governments, includes $113.7m host governments share of production entitlements

100%
Percentage of staff receiving anti-bribery and corruption training by 02 February 2021

People

1
Fatality for both employees and contractors in Egypt. Remedial actions taken to strengthen controls within subcontractors to minimise risk of any future recurrence

0
Fatality for both employees and contractors in Vietnam

Environment

254
Tonnes CO_2e per 1,000 tonnes of hydrocarbon produced

4
Oil/chemical spills (quantities greater than 100 litres)

Society

$500,000
Combined total training levies in Vietnam and Egypt for investment in industry capacity building

$ 245,191
Community and charitable investments supporting 9 partnerships and projects in Vietnam through the HLHVJOC Charitable Donation Programme and 3 community projects in Egypt through Petrosilah

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 an ESG Committee and the group has an ESG working group, which meets once a quarter, made of representatives from head offices Egypt and Vietnam, to discuss, implement and share ideas on ESG matters. In 2020, the group also released it Climate Change Policy, available on its corporate website.

Structure of CR/ HSES Management System

1. Code of Business Ethics

2. Key CR policies

- Human Rights Policy
- Health, Safety and Environment Policy
- Security Policy
- Social Responsibility Policy
- Biodiversity and Conservation Policy
- Code of Business Conduct and Ethics Code
- Tax Strategy Statement
- Prevention of Modern Slavery and Human Trafficking Policy
- Climate Change 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.

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 capability building Environmental management Health and safety
Employees and contractors	Promote adherence to WHO COVID-19 guidelines and respective governments' guidelines Regular dialogue and grievance mechanisms Employee Survey – the first launched in 2020 Employee Focus Groups	Keep workforce safe during COVID-19 pandemic Local capacity building Contractor management
Shareholders	Regular dialogue	Climate risk/energy transition HSES Health and Safety Management System Preventing corruption
International community	Responding to inquiries and media scanning	Climate risk/energy transition GHG emissions Preventing corruption Human rights

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 2020 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.

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, regular reviews of material ESG factors relevant to the oil and gas sector were carried out during 2020 and will be on-going in 2021. The purpose of these regular reviews is to recalibrate 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 Financial Reporting Council (FRC) Climate Thematic review. The Pharos Board will further reinforce the integration of climate considerations into its governance frameworks by implementing the principles stated in our Climate Change Policy.

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 2021.

Our approach on environmental and social reporting in 2020 has taken into account the Voluntary Sustainability Reporting guidance (4th edition, published March 2020)" 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 2021 we are reviewing best practice to further guide our reporting. We report on jointly operated companies in Egypt and Vietnam.

DR MIKE WATTS
Managing Director

BUSINESS

Our objective is to provide responsible and sustainable development throughout our operations.

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 pages 40 to 49.

Global energy transition is a factor that impacts many of the Group's principal risks including those associated with commodity price, access to capital, 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.

Pharos is cognisant of the potential diminished role of fossil fuels in the global energy mix as depicted in the IEA Sustainable Recovery Plan. However, at the same time, we also recognise that energy demand for oil and gas will continue to be an important component of the global energy mix for many decades to come.

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

We report transparently and have participated in the CDP (formerly Climate Disclosure Project) Climate Change Questionnaire over the past four years. In 2020, we maintained our score (C) since 2019. Our greenhouse gas emissions ("GHG") are reported in the Environment section on pages 58 to 60 and page 64.

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 to achieve this with the support of an outside consultant. The Project is on-going and consists of two phases. Phase 1, which is now completed, consisted of a thorough peer benchmarking, internal document review and gap analysis and culminated in the development and approval by the Board of Pharos Climate Change Policy in December 2020. Phase 2 will aim to assess the company climate impact, define its 2020 baseline and develop a set of KPIs to better manage and monitor its GHG emissions. Phase 2 was interrupted by the impact of the pandemic and we will too look resume at the appropriate time.

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.

VIETNAM INTERESTS AND OPERATIONS

Degree of influence	Blocks	Country	Pharos ownership	Pharos role	2020 field 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)	Production of oil and gas Well interventions and gas lift optimisation Restaging of FPSO Gas Turbine compressors	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 Routine well maintenance	

* Pharos has a 30.5% working interest in Block 16-1 which contains 97% of the Te Giac Trang (TGT) field and is operated by the Hoang Long Joint Operating Company. Pharos' unitised interest in the TGT field is 29.7%

EGYPT INTERESTS AND OPERATIONS

Degree of influence	Blocks	Country	Pharos ownership	Pharos role	2020 field 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)	Technical and investigative work on wells previously drilled	Influence to bring alignment to the Pharos HSES MS

ISRAEL INTERESTS

Degree of influence	Blocks	Country	Pharos Ownership	Pharos role	2020 field activity	Target HSES outcome
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

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 2020, a total of 277 HSES training sessions took place across Vietnam and Egypt throughout the year and 107 emergency response drills also took place across the Group.

During 2020, Petrosilah passed the annual surveillance Audit of ISO 14001-2015 for Environmental Management system.

KEY PERFORMANCE INDICATORS

KPI	Target	2020	2019	2018
HSES regulatory non-compliances	Zero	0	0[1]	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.

Hours worked in Vietnam and Egypt assets	Percentage of total
Company staff: 755,687	25%
Contractors: 2,213,964	75%

Overall objective

To provide responsible and sustainable development

2020 Objectives	2020 Outcomes	2021 Objectives
Each asset to develop their own HSES training programme.	Regular HSES training sessions organised throughout the year.	Each asset to further enhance their own HSES training programme.
Confirm that recommendations from gap analysis of Merlon HSES MS against Pharos HSES MS requirements have been closed.	90 per percent closed	Complete gap analysis during 2021.
Confirm that recommendations from gap analysis of Joint Operated Company (JOC) Management system in Vietnam against PHAROS Corporate HSES MS	On-going	Implement recommendations from gap analysis of Joint Operated Company (JOC) Management system in Vietnam against Pharos HSES MS requirements.
Complete Corporate HSES audit programme according to the 2020 Audit plan.	On-going	Further enhance in-country respective Emergency Response Teams interface with Head Office Crisis Management Response Team.

ETHICS

Our objective is to conduct our business in an honest and ethical manner.

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 104 out of 180 countries in the 2020 CPI. Egypt is ranked at 117 on the same CPI. Israel is ranked at 35 on the CPI, indicating a lower risk of corruption.. 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 pages 82 to 86. 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 all businesses that are conducted in an honest and ethical manner 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.

Our Whistleblowing Policy and Procedure ensures that employees are protected from possible reprisals when raising concerns in good faith. In addition to internal reporting channels, we have a confidential ethics hotline supported by EthicsPoint with numbers displayed in local offices available 24 hours a day all year round. Zero calls were made to the Expolink hotline in 2020.

100%

Employees and relevant contractors have undertaken anti-bribery and corruption training by 02 February 2021

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 2020, the total payments to governments for the Group amounted to $150.9m (2019: $232.7m), of which $104.9m or 70% (2019: $165.5m or 71%) was related to the Vietnam producing licence areas, of which $72.5m (2019: $113.5m) was for indirect taxes based on production entitlement. Egypt was paid a total of $42.2m (2019: $63.1m) of which $41.3m (2019: $46.4m) relates to indirect taxes based on production entitlement. The breakdown of other contributions, including payroll taxes and other taxes is contained within the additional information on page 149. Our Code prohibits contributions to political parties, candidates or other political organisations.

Overall objective

To conduct our business in an honest and ethical manner

2020 Objectives	2020 Outcomes	2021 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
Continue to 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.

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

One of the key issues in 2020 was keeping our workforce safe during the global pandemic.

On-going monitoring and precautionary / preventive measures under COVID-19

As soon as COVID-19 was declared a pandemic, Pharos took all the necessary measures to ensure the safety of our workforce without stopping our operations.

The Group monitored closely the COVID-19 situation via the WHO website, Public Health England advices, travel alerts from foreign travel advice and media outlets on what other companies are implementing to mitigate its risks of spread. The group has put in place the following:

- A working group - discuss and issue guidance on new measures as the situation evolves;
- Maintain regular communication with in-country managers and their HSES teams;
- Working from home options given;
- Regular updates to staff on hygiene measures and action in case of symptoms; and
- Travel guidance / restriction if appropriate
- Adhere to all in-country governmental guidelines on COVID-19 prevention.

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 Egypt, we are sad to report the loss of one of our assistant crane operators in Q4 2020, following an accident during a rig move operation where the crane ran off the road into a ditch. Following the accident, there was immediate reinforcement of safe driving and manoeuvring practices, increased supervision of rig moves,and increased awareness of potentially unsafe road conditions.

Safety of our workforce remains our number one priority and Pharos has reinforced the use of stop cards and safety training across all operations.

SAFETY RECORD

		2020		2019		2018	
KPI	Target rates	Pharos	IOGP[4]	Pharos	IOGP	Pharos	IOGP*
Fatal Accident Frequency Rate [1]	Zero	34		0	0.82	0	1.01
Lost Time Injury ("LTI") Frequency Rate [2]	Zero	0.34		0	0.24	0	0.26
Total Recordable Injury Rate[3]	<0.42	0.34		0.42	0.92	0.42	0.99
Million-man hours worked		2.97		2.35		1.29	

1 Fatal accident frequency rate : Number of fatal accidents per hundred million man-hours for both employees and contractors
2 Lost time injury frequency rate : Number of lost time injuries per million man-hours for both employees and contractors
3 Total Recordable Injury rate ; Number of recordable injuries per million man-hours for both employees and contractors
4 International Association of Oil and Gas Producers ("IOGP") - Statistics not yet available for 2020.

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 50 Emergency Response Drills and 38 HSES training sessions and on TGT we had 55 Emergency Response Drills and 185 HSES training sessions. We ensure asset integrity and control operations in order to effectively manage all significant risks during all stages of the operations.

During 2020, there were no Process Safety Events classified Tier 1 or Tier 2 to be reported. All incidents were investigated and lessons learned as appropriate and actions to prevent recurrence were implemented.

Safety indicators (for both Pharos employees and contractors)

Indicator	2020
Lost Time Injury frequency rate ("LTI")	0.34
Fatal Accidents	1
Medical Treatment Cases	0
First Aid Cases	2
Number of Motor Vehicle Crashes	3
Roll-over	3
HSES Near Miss	37
HSES Inspections	765
HSES Audits	1,019
HSES Toolbox Talks	7,752
HSES Meetings	1,354

Safety indicators

Indicator	2020
Emergency Response Drills	107
Process Safety Events (Tier 1 or Tier 2)	0
Other minor events	47

Diversity and Inclusion

Our Code and Policies and our Guiding Principles commit us to providing a workplace free of discrimination where all employees can fulfil their potential based on merit and ability. They also commit us to providing a fully inclusive workplace, while providing the right development opportunities to ensure existing staff have rewarding careers.

As part of this global approach we ensured that leadership training was made up of a fair representation of our global employees in terms of race, gender and ethnicity.

Our corporate head office in London has 26 staff and we are very proud of the number of women we have in the London office, which is 58% and three out of four Group Heads of Function posts are filled by women.

In 2020 we had a team of over 42 employees based in Egypt and a team of three employees in Vietnam. Our size of direct employees facilitates daily direct interaction and multidisciplinary dialogue amongst personnel and Executive Directors.

We launched our Group wide Employee Engagement Survey the outcomes of which will allow us to improve our understanding of cultural differences and employee experience.

We demonstrated our ability to work flexibly and supportively throughout the COVID-19 lockdowns, with 92% of employees reporting, in the recent Employee Engagement Survey, that they felt supported by the Company and that they appreciated their Manager's focus on the health and well-being of our employees.

Average corporate employees

Local capability building

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

In Egypt, we have maintained a gender neutral recruitment process and, wherever possible, are ensuring that we first look to fill any vacancy internally with a local Egyptian candidate, thus ensuring career progression and succession planning are established for local staff. We recruit directly from the local universities and surrounding villages. 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. Work has continued on establishing a KPI based staff performance appraisal scheme.

In Vietnam, as part of the HLHVJOC, we contribute to local capability building. Out of 114 people, only 3 are expatriate staff members. 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.

Overall objective

To ensure the health, safety, security and welfare of our employees and those with whom we work; to sustain and grow a global cultural of diversity and inclusion such that diversity is at the core of who we are and where inclusion drives innovation and solutions.

2020 Objectives

Employee Engagement Survey

2020 Outcomes

Completed at end of December 2020 and initial review of results is extremely positive with staff report they are aligned with the Pharos Guiding Principles.

2021 Objectives

Build an action plan based on the areas that employees identified as requiring improvement.

Further enhance understanding of different cultures and sharing of ideas through training sessions and focus groups made up of cross country groups

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.

Greenhouse gas emissions (“GHG”)

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

In 2020, we continued to monitor our emissions and disclose them in accordance with industry requirements and standards, participated in the Carbon Disclosure Project (“CDP”), with further work to be done on implementing the TCFD recommendations in 2021.

GHG reported

Pharos reports carbon dioxide (CO_2), methane (CH_4), and nitrous oxide (N_2O) combined into carbon dioxide equivalent (CO_2e) based on the gases’ 100-year Global Warming Potential (GWP). These three gases are produced through combustion, although N_2O quantities produced via combustion is relatively small.

The other greenhouse gases, HFCs, PFCs and SF6, are not closely associated with the petroleum industry. Their respective emitting activities are not core parts of Pharos operations. 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 has elected to report its emissions of GHGs from Egypt and Vietnam operations, as well as its London office on the basis of equity share.

Under equity share, Pharos reports a pro-rata share of the emissions from partnerships over which it has operational control (i.e., Vietnam Blocks 125 &126) and a pro-rata share of the emissions from partnerships it does not control (i.e., Vietnam Blocks 9-2 and 16-1 and Egypt) according to its ownership interest.

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, 2020) 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 of a blend of TGT and Hai Su Trang Den (HSTD) export gas for the TGT field, and of the CNV Field by the Vietnam Petroleum Institute in 2020, 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).

In 2020 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 flaring and use of associated gas as fuel to generate power on our offshore production sites in Vietnam and likewise for our onshore production in Egypt. In 2020, gas fuel and gas flaring in TGT remain the largest single contributor to Pharos total emissions.

The total CO_2e emissions for 2020 is 359,288 tonnes of CO_2 equivalent (114,776 tonnes of CO_2 equivalent based on equity share). A decrease of 18 percent compared to 2019 (19 percent based on equity share). This is explained in particular by the fact that no drilling activities took place between May and December. However, the restaging of the FPSO Gas Turbine compressor in Vietnam completed in April 2020 also contributed to a decrease in overall emissions.

Activity data pertaining to GHG emissions by the HLHVJOC and Egypt is reported to Pharos. Telos NRG assisted with data collation and GHG emissions calculations. Verification was undertaken by RPS Planning and Environment.

Approaches to reducing emissions

The restaging of two gas compressors on the TGT FPSO was completed in 1H 2020 and this has contributed to better gas flaring management.

The Company is looking at ways it can reduce GHG emissions across its operations

Pharos launched Project GOO (Greening Our Operations) in Q1 2020 which the objective of focusing on the key sources of GHG emissions and working closely with the in-country Operations and HSES teams to identify processes and methods which can be changed, or using cleaner fuels such as electricity or solar to reduce our GHG emissions. The project has been interrupted by the impact of the pandemic and we will look to resume them at the appropriate time.

Annual Environmental Measurements - in accordance with the requirements of the Egyptian Environmental Law 4 for year 1994, the Company carried out annual environmental measurements, and all environmental measurements resulted in less than the threshold limit in the law.

Environmental permit non-compliances - the company achieved zero Legal Environmental Violation during 2020 and did not obtain any violations from Environment Authority in Egypt in 2020. The Company obtained 12 Environmental Approvals from Ministry of Environment during 2020.

GHG emissions and activity data

The Group's energy use from grid electricity was 309,942 kWh in 2020; 24,559 KWhs for London and 285,383 KWh for oversea.

In 2020, 40 tonnes of gas were flared for every 1,000 tonnes of total hydrocarbon production on a gross basis (not equity share adjusted). This is a slight increase from 39 tonnes in 2019.

Effluents and waste

During 2020, Pharos maintained its record of no spills into the environment in Vietnam. In Egypt, there were four environmental spills as follows:

Date	Location	Description	Quantity (bbls)
Jan 2020	Egypt - N. Silah-3x	Over flow crude oil storage tank - clean up completed	7
Jun 2020	Egypt - 115km from EF on the regional road	Crude oil shipping truck overturned and fire on regional road - no injury.	408
Jun 2020	Egypt - Aboud-1x	Crude oil spill from the oil truck in Aboud-1x while shipping process - clean up completed	320
Sep 2020	Egypt - Silah 1x Station	High salinity water drained on the ground. A full cleaning up of the contaminated soil and disposal by Petrotrade company.	15

Water is extracted along with hydrocarbon reservoir fluids as part of normal production operations. In 2020 we generated 5.6 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 now all disposed of in disposal wells. During 2019, many open drain pits were cleaned and backfilled, resulting in the disposal of a significant volume of hydrocarbon contaminated soil. In 2020, no further open drain pits required cleaning and the open drain system has been replaced with a closed drain system (collecting the drain water in steel tanks instead of open water pits). This explains the significant decrease in solid hazardous waste compared to 2029 is the result of putting the produced water in dedicated disposal wells. The company has three Produced Water Treat Facilities, PWTF, two of them are in-service at SILAH GS & N. Silah Deep GS and the third is yet to be used at N. ETersa-1. The produced water is being collected in both PWTF (SILAH & NSD) and then disposed into A/R "E" formation in (+/- 3,500 bbl water disposed into SILAH-15 & +/-5,000 bbl water disposed into NSD-1-1) disposal wells respectively and stopped sending any amount of water for water treatment to contractor factory. Disposal of waste water in water disposal well instead of sending to contractor is environmentally better and saving cost and safer due to avoiding waste water trucking.

In Vietnam, waste is generated from both our production operations as well as from our offshore drilling activities. Drilling waste includes 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. Freshwater is used to support our operations. In 2020 this amounted to 102,820 cubic metres. Our use of freshwater has been halved compared to 2019, due to the fact that all drilling activities were deferred from March 2020, as the business responded to the low oil price and impact of COVID-19. We only had one work-over rig in service, whilst we had three in 2019.

Tonnes (t) of CO_2e equivalent for 2020 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)	6	6	–	–
Israel		No activity	–	–	–	–
Egypt	Office	Administration support for exploration	331	141	–	–
	El Fayum Concession	Production	66,025	28,127	241	241
		Field development	3,931	1,675		
Vietnam Cuu Long Basin (offshore)	Office	Administration (electricity usage)	1	1	–	–
	Blocks 125 & 126	Seismic exploration	0	0		
	Block 9-2 – Ca Ngu Vang (CNV) field	Production	21,368	5,342	70	258
		Field development	0	0		
	Block 16-1 – Te Giac Trang (TGT) field	Production	257,148	76,373	318	
		Field development	10,478	3,112	–	
Total			**359,288**	**114,776**	**254**	**–**

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.

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. 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.

Non-Financial KPIs (HSES)	Target	2020	2019	2018
Spills to the environment*	0	**4**	2	0

*Number of spills reported.

KPI	Target	2020	2019	2018
Solid non-hazardous waste produced (tonnes)	Set per project	**94**	104	102
Percentage of non-hazardous waste reused or recycled	Set per project	**25**	15	20
Solid hazardous waste (tonnes)	Set per project	**41**	3,112	96
Percentage of hazardous waste reused or recycled	Set per project	**4**	<1	10

Overall objective

To protect the environment and conserve biodiversity

2020 Objectives	2020 Outcomes	2021 Objectives
Carry out EIA in line with Pharos internal standards as well as country operations requirements prior to any activity	Completed	Commission all necessary EIAs before start of activities or projects
Review of the Merlon EIA against Pharos standards ahead of field activities.	WIP - 80% completed	Complete gap analysis and fully implement Pharos standards
ESOS Compliance assessment	n/a*	–
Implementation of the New Entry Procedure when a new project arises, including an assessment of risk of impact on the environment.	On-going	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	Completed	Flaring in Vietnam is better managed with re-staged compressors
Start implementation of TCFD recommendations	Phase 1 completed Climate Change Policy in place	Look to resume at the appropriate time Continue Phase 2 TCFD implementation Project GOO - Greening our Operations

* London HO was empty since Mach 2020 as the HO workforce is working from home under the COVID-19 pandemic.

SOCIETY

Our Social Responsibility and Human Rights Policies set our requirements for social responsibility, community engagement and human rights.

Human rights

The Human Rights 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.

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 is available on the Company's website at https://www.pharos.energy/modern-slavery-act/.

In early 2020, as previously reported, 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.

Pharos New Entry Procedure

The process of identifying and addressing environmental, biodiversity, social and human rights (Environmental and Social Governance – ESG) issues and corporate business risks is an integral part of Pharos's approach to new entry. It consists of three key stages: preliminary assessment (risk screening and issues identification), due diligence and deal closure. It is a means by which Pharos demonstrates its commitment to environmental and social performance to internal and external stakeholders as well as reducing exposure to financial, legal, operational and reputation risk. It is designed to enable the business to prevent harm, make better financial and operational decisions and to meet commitments vis-à-vis Pharos's stakeholders

Community and social investment

Pharos remains committed to creating value for host countries and local communities as well as for staff and shareholders. 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 Vietnam, in 2020, we continue to invest in the local community through the HLHVJOC Charitable Donation Programme. In addition to the training levy of $300,000 per year in a ring-fenced fund to support developing future Vietnamese expertise in the industry, a further $236,754 was invested in 9 community and social projects. These donations have been used to assist the overall development of underprivileged rural areas in Vietnam, and were specifically designated for healthcare, education, environmental development and the assistance of flood victims in the Central Highlands region. For example, this year, donations were made to Tran Hung Dao Commune's Medical Clinic in Ly Nhan district, Ha Nam province to buy medical equipment such as endoscope and ultrasound machines. The programme continued its annual support to the Ha Noi Private School for the Hearing Impaired for the project aimed at improving integration ability for underprivileged disabled students. The school is currently offering education to 100 students with autism and hearing-impairment. Additionally, the programme provided financial support to Tho Hai Commune's People Committee, Thanh Hoa province to renovate buildings built before the year 2000, with 10 classrooms that had serious degradation, and for the construction of new secondary school classrooms.

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

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 in Vietnam 2020 via the HLHVJOC Donation Programme

While the yearly contributions from HLHVJOC Foreign Partners for community and social projects are always $200,000, historically, HLHVJOC charitable donations are always in excess of this. The additional contributions in 2020 were raised by staff through fundraising event and from various donations by expat members, anytime during the year when there are unforeseen typhoons or national disasters that cause widespread devastation, such as flooding and landslides destroying infrastructure, houses, livestock, and crops. Additionally, staff's donations are matched by HLHVJOC and then added to the total budget.

We look to replicate this in the future with our social programmes in Egypt.

$236,754

Total invested in community and charitable investments in Vietnam through the HLHVJOC Charitable Donation Programme

Education

- Continued annual support to Ha Noi Private School for the Hearing Impaired for the project aimed at "Improving Integration Ability for Underprivileged Disabled Students"
- Financial support to Tho Hai Commune's People Committee to renovate 4 buildings built before the year 2000, with 10 classrooms that had serious degradation, and for the construction of new secondary school classrooms in Tho Xuan district, Thanh Hoa province
- Financial support of school supplies for students in Quang Tri province

Rural livelihoods & Infrastructure

- Donation to support 100 low-income families in Nhan Dao commune, Ly Nham district, Ha Nam province in 2020 Lunar New Year
- Financial support for flood victims in the Central Highlands region of Vietnam
- Matching donations to the JOC staff's charity contributions for underprivileged children in Bu Dang District, Binh Phuoc province
- Financial support for the drilling well systems serving clean water in Hung Binh commune and Nguyen Trai's secondary school in DakR'lap district, DakNong province.

Healthcare

- Financial support to Tran Hung Dao Commune's People Committee to buy medical equipment for Tran Hung Dao Commune's Medical Clinic, Ly Nhan District, Ha Nam Province

Other charitable projects

- Financial support to buy furniture for the Culture House of Ha Son Binh Commune, Ha Tinh Province

Community projects in Egypt in 2020 via Petrosilah

$8,437

Total invested in three community projects in Egypt by Petrosilah

Healthcare

- Disinfection of all public and service buildings (schools, mosques, post offices, radiology centers, ambulance units, fire extinguishers, police stations) and homes of the villages adjacent to the company's sites with disinfectants and chlorine. Distribution of face masks to people in the local villages
- Donation and delivery of medical equipment such as 100 sets of face masks and 100 protection suits to the Nabawi General Hospital in Fayoum, which is one of the Ministry of Health hospitals that operates as an isolation hospital during the pandemic

Infrastructure

- Provided assistance to neighbouring local units, such as supplying them with concrete pipes and equipment to repair some main roads

CASE STUDY - VIETNAM

Financial support for Tho Hai commune's People Committee, Thanh Hoa Province

In 2020, through the HLHVJOC Donation Programme, Pharos has donated $100,000 to Tho Hai Commune's People Committee to renovate 4 buildings built before the year 2000, with 10 classrooms that had serious degradation, and for the construction of new secondary school classrooms in Tho Xuan district, Thanh Hoa province.

9

Social projects supported in Vietnam through the HLHVJOC Donation Programme

CASE STUDY - EGYPT

Medical support for Nabawi General Hospital - Fayum

In June 2020, PetroSilah, our JV partner in Egypt, inquired, donated and delivered medical equipment such as 100 sets of face masks and 100 protection suits to the Nabawi General Hospital in Fayoum, which is one of the Ministry of Health hospitals that operates as an isolation hospital during the pandemic. This is in addition to field staff's continued dialogue, assistance and social engagement with the villages adjacent to the El Fayum fields in COVID-19 measures. In April 2020, Petrosilah provided disinfection and sanitisation services for all public and service buildings such as schools, post offices, ambulance units and police stations, along with homes of the villages adjacent to the company's sites.

3

Community projects supported in Egypt through Petrosilah

Overall objective

To consult with and contribute into our host communities

2020 Objectives	2020 Outcomes	2021 Objectives
Each asset to develop their own HSES training programme	Completed and on-going	Each asset to develop their own HSES training programme
Carry out human rights due diligence exercise for countries where we have a continued presence and country manager to implement recommendations	On -going	Carry out human rights due diligence exercise for countries where we have a continued presence and country manager to implement recommendations
Honour social obligations under production sharing agreements. Set up education initiatives across Egypt, Vietnam and London	On target	Honour social obligations under production sharing agreements.
Review and implement recommendation from human rights due diligence report for Israel	On target	Review and implement recommendation from human rights due diligence report for Israel
Update and streamline new country entry procedure.	On-going	Ongoing review.

CORPORATE RESPONSIBILITY NON-FINANCIAL INDICATORS

	2020	2019	2018
Hours worked (million)	**2.97**	2.35	1.29
Lost Time Injury Frequency Rate (number of lost time injuries per million man-hours)	**0.34**	0	0
Fatal Accident Frequency Rate (number of fatal accidents per hundred million man-hours)	**34**	0	0
Fatal Accidents	**1**	0	0
Total Recordable Injury Rate (number of recordable injuries per million hours worked)	**0.34**	0.42	0.42
Total GHG emissions (tCO_2e) by equity	**114,776**[1]	141,234[1]	105,643
Scope 1 total GHG emissions (tCO_2e) by equity	**114,709**[1]	141,160[1]	105,612
Scope 2 total GHG emissions (tCO_2e) by equity	**67**[1]	75[1]	32
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)	**254**[1]	274[1]	See Note 1
Total hydrocarbons flared (Tonnes of hydrocarbons flared for every 1,000 tonnes of production on a gross basis)	**33**[1]	36[1]	See Note 1
Energy use (grid electricity kWh)	**309,942**	335,873	100,638
Non-hazardous waste (tonnes)	**94**	103.53	102.08
Hazardous waste (tonnes)	**41**	3,112.38[2]	95.89
Percentage non-hazardous waste recycled	**25**	15.05	19.52
Percentage hazardous waste recycled	**4**	0.12	9.97
Spills to the environment (>100 litres)	**4**	2	0
Oil in produced water content (Vietnam Blocks 16-1/9-2)	**29**	28	31
Freshwater use (cubic metres)	**102,820**	202,453	23,209
HSES regulatory non-compliance	**0**	0[3]	0
Community investment spend ($)	**245,191**	245,379	209,408

Note 1: Pharos assets in 2019 were different to its assets in 2018. On that basis, trends between 2018 and 2019 are not meaningful. Pharos equity in Vietnam TGT field changed from 30.04 % in 2019 to 29.7 % in 2020. Therefore, numbers in 2019 and 2020 have been adjusted to reflect the correct equity share of 29.7%. The equity variation is not significant compared to Pharos total emissions, and therefore data of 2019 and 2020 provide a meaningful comparison.

Note 2: During 2019, many open drain pits were cleaned and backfilled, resulting in the disposal of a significant volume of hydrocarbon contaminated soil.

Note 3: Although three regulatory non-compliances were reported in our Egyptian assets in 2019, these occurred in January, prior to the completion of our acquisition.

Approval of the Strategic Report

This report was approved by the Board of Directors on 6 April 2021 and is signed on its behalf by

JANN BROWN
Managing Director and Chief Financial Office

RESILIENCE IS KEY TO SUCCESS FOR PHAROS

JOHN MARTIN
Chair

Dear shareholders

2020 was a challenging year for Pharos, yet through both the resilience and adaptability of the Board, the executive team, and the global workforce. Pharos is continuing to survive the global COVID-19 pandemic and oil price crash and is well placed to thrive once the market recovers.

The Board has placed strong emphasis on protecting people and conserving cash through implementing enhanced health and safety and cost-cutting measures across the Group. Pharos continues to manage its operations carefully in light of COVID-19 and the Group is adhering to the procedures and restrictions put in place by its host countries.

Throughout the year, the Board has devoted considerable time to supporting and challenging the executive team in assessing cost saving 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 strategic, operational, ESG and corporate matters.

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 2020 were oversight of the response to the oil price downturn, succession planning, effective implementation of Group strategy, review and challenge of portfolio management and funding options and oversight of operational, financial and exploration project performance and KPIs.

Safety has remained a top priority for the Group. There was regrettably one fatality in Egypt this year, and the incident was addressed and remedial actions taken to help avoid future recurrences. We are pleased that in Vietnam Pharos has achieved yet another year with no LTIs, and we intend to maintain that position by staying current with international performance standards.

The new ESG Committee has already achieved a significant impact. Work to ensure that we are prepared to report in line with the TCFD recommendations progressed well in 2020. Phase 1 of this work resulted in the adoption of our first Climate Change Policy. Phase 2 of this work was interrupted by the Pandemic and we look to resume this work at the appropriate time.

During the COVID-19 pandemic we have continued to offer support to the local communities s in which we operate. In Egypt, Petrosilah has been engaging with the local communities during the pandemic to offer support. In April 2020, Petrosilah provided disinfection services for all public and service buildings such as schools, post offices, ambulance units and police stations, along with homes of the community adjacent to the company's sites. Medical equipment such as 100 sets of face masks, face shields and protection suits were donated and delivered to the Nabawi General Hospital in Fayum, a Ministry of Health hospital which operates as an isolation hospital during the pandemic.

During 2020 the Nominations Committee (see report page 79) focused on finalising new NED appointments, confirming the retirement of Ettore Contini, succession planning for key roles at Executive and Senior Management level, a review of annual Board evaluation, and annual Director reappointments. The Board's refreshments this year ensure full compliance with the 2018 Corporate Governance Code. I am also delighted that we have managed to replace our CFO with an internal candidate and Sue Rivett will step up to take on this role from 1 July 2021. It is doubly gratifying that we can replace one female CFO with another.

The Remuneration Committee agreed that no bonuses would be paid in 2020. Upon my appointment on 13 March 2020, as incoming Chair, I volunteered to reduce the Chair fee by 25%. Subsequently and in addition, myself as Chair and the Independent Non-Executive Directors voluntarily agreed a further 25% reduction in their 2020 fees. The Executive Directors voluntarily agreed a reduction in base salary of 25% for 2020 effective 1 May 2020 and then went further and took an additional 10% reduction, giving a total reduction of 35% from 1 August 2020. The Executive Directors then offered to increase that to a 50% reduction from 1 April 2021. All UK employees and country managers agreed to a 10% salary reduction from May 2020 to July 2020, and subsequently agreed to a 20% salary reduction since August 2020.

Peel Hunt LLP was engaged as a Joint Broker to the Company and opportunities for growth in Asia and the MENA region continued to be monitored particularly in the earlier parts of the year. In the present economic downturn, the Company's priority has been and will continue to be to protect its balance sheet through careful and considered reductions in its cost base across the organisation and in delaying discretionary investment expenditure. All exploration has been deferred and any investigative M&A activity, which requires significant upfront due diligence or preparatory costs to participate in auction processes, has been curtailed. Our producing assets remain significantly geared to a recovery in the oil price and, with modest leverage and limited committed expenditure, the company is well positioned to return to investing for growth in the wide range of organic opportunities which have been created across the portfolio and, at the right time, to return to pursuing value accretive M&A.

I wish to thank Ettore Contini for his remarkable eighteen years' service to the Company as a Non-Executive Director, having stepped down in May 2020. I also wish to thank Rui de Sousa for his long service as Chair to the Company. We wish Ettore and Rui all the very best for the future.

I am delighted to welcome Geoffrey Green and Lisa Mitchell as Independent Non-Executive Directors. Geoffrey has brought a wealth of experience and expertise that will help the Company deliver on our principal strategy of sustainable long-term growth, and Lisa's strategic, financial, taxation and treasury expertise has already proved to be an invaluable and important asset to the Board, adding to its strength and depth as we continue to grow the business.

Finally, I have been honoured to serve as Chair for most of 2020, having already 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 a return to growth built on all of the work that has been done to refresh the Company's portfolio, its governance and its Board. In particular, a priority for 2021 will be to bring in a suitable partner to support the next stage of our development in Egypt, following which we intend to focus on the existing assets in our portfolio. Throughout 2021 we also intend to continue to carefully manage the cost base and capital structure to balance the need for efficiency in the short term with the need for investment in the long term. I am excited about the prospects for Pharos and look forward to the year ahead.

JOHN MARTIN
Chair

Board Members

John Martin*

Non-Executive Chair and Chair of Nominations Committee from 13 March 2020. ESG Committee Chair. Audit and Risk Committee member until 13 March 2020. Remuneration Committee member until 25 August 2020.

Ed Story

President and Chief Executive Officer, Nominations Committee member and ESG Committee member

Jann Brown

Managing Director and Chief Financial Officer, ESG Committee member

Dr Mike Watts

Managing Director, ESG Committee member (from 25 August 2020)

Rob Gray*

Deputy Chair, Non-Executive Director and Senior Independent Director, Audit and Risk Committee member, Remuneration Committee member, Nominations Committee member and ESG Committee member

Geoffrey Green*

From 20 May 2020 Independent Non-Executive Director, Nominations Committee member, Audit and Risk Committee member, ESG member and Remuneration Committee member. From 25 August 2020 Remuneration Committee Chair.

Lisa Mitchell *

From 1 April 2020 Non-Executive Director, Chair of Audit and Risk Committee, member of Nominations Committee, member of ESG Committee

Marianne Daryabegui*

Non-Executive Director, Audit and Risk Committee member, Remuneration Committee member, Nominations Committee member. From 25 August 2020 ESG Committee member

Ettore Contini *

(retired 20 May 2020) Non-Executive Director

Rui de Sousa

(retired 13 March 2020) Non-Executive Chair and 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 6 April 2021, the Group had a Board of eight Directors.

Meeting attendance

During each Director's respective term of office during 2020

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
John Martin	++++	++++++++++++	+##	+#	++	++++	
Ed Story	++++	++++++++++++	####	##	++	++++	
Jann Brown	++++	++++++++++++	####	#	##	++++	
Dr Mike Watts	++++	++++++++++++	##	#	##	#+++	
Rob Gray	++++	+++++++++++-	++++	++	++	++++	
Geoffrey Green	++++	+++*	+++	+	+	+++	
Lisa Mitchell	++++	++**	+++	#	+	+++	
Marianne Daryabegui	++++	++++++++----***	++++	++	++	#+++	
Rui de Sousa (retired 13 March 2020)	+		#	#	+	#	
Ettore Contini (retired 23 May 2019)	+						

+ Attended as member

Attended as invitee

- Not attended

In addition to the four scheduled quarterly meetings, the Board met in 2020 on an additional twelve occasions all of which were by video conference in line with UK Government COVID-19 guidelines. The Board also regularly held additional update calls throughout the year to closely monitor progress. If any Director was unable to attend, full comments on papers were received from that Director in advance of the meeting.

Notes:

* Geoffrey Green was appointed to the Board on 20 May 2020 but was invited to attend two Board meetings prior to this date.

** Lisa Mitchell was appointed to the Board on 1 April 2020 but was invited to attend one Board meeting prior to this date.

*** Marianne Daryabegui recused herself from attending four Board meetings as a result of a personal conflict of interest. She recused herself from discussions on the evaluation of an opportunity for Pharos to purchase, as part of a consortium, certain onshore assets in Egypt from Royal Dutch Shell plc, on account of the fact that she is employed by a financial institution that was being considered as a provider of finance for that purchase. On 21 April 2020 Pharos announced that the Company had withdrawn from the consortium that was evaluating the opportunity.

As announced on 17 April 2020, as a result of the requirements of the UK Government with regard to social distancing, and in order to protect the health and safety of our shareholders and employees, the Board decided that the AGM this year would be convened with only one Director and another Pharos designated shareholder representative to be in attendance at the venue for quorum purposes to conduct the business of the meeting. In line with the UK Government Stay at Home Measures, shareholders were not permitted to attend the Company's AGM in person.

Management

Board of Directors

Management Committees

Further support the Board and comprise the following key committees:

- Disclosure
- Treasury
- Bid Defence

Executive leadership team

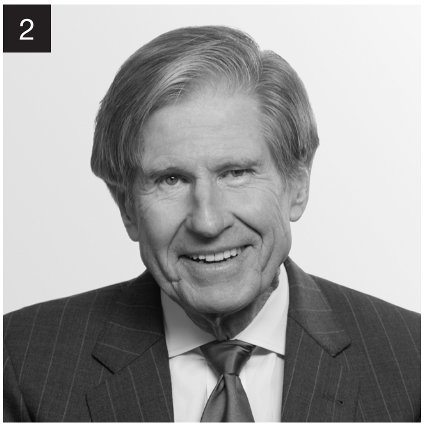
Responsible for day-to-day management of our business and operations and for monitoring detailed performance of all aspects of our business.

Principal Committees of the Board

Audit and Risk Committee	Remuneration Committee	Nominations Committee	Environmental, Social and Governance Committee
L Mitchell (Chair)	**G Green (Chair)**	**J Martin (Chair)**	**J Martin (Chair)**
R Gray	M Daryabegui	E Story	R Gray
M Daryabegui	R Gray	R Gray	E Story
Geoffrey Green		M Daryabegui	M Watts
		L Mitchell	J Brown
			M Daryabegui
			L Mitchell
			G Green
Responsible for the integrity of the Financial Statements and narrative reporting, including annual and half year reports.	Responsible for the design, development and implementation of the Company's remuneration policy.	Responsible for ensuring the leadership needs of the Company are sufficiently appropriate to ensure continued ability to compete effectively in the marketplace.	Responsible for defining the Group's strategy related to 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

1


2


3


4


5


6


7


8


1: John Martin

Non-Executive Chair
Appointed: October 2019

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.

2: Ed Story

President and Chief Executive Officer
Appointed: April 1997

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

Jann qualified as a Chartered Accountant in 1990 and as a Chartered Tax Adviser in 1991. Jann currently serves as an Independent Non-Executive Director and Chair of the Audit Committee of Troy Income and Growth Trust plc and of 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. Jann 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.

5: Rob Gray

Deputy Chair, Non-Executive Director and Senior Independent Director
Appointed: December 2013

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: Marianne Daryabegui

Non-Executive Director
Appointed: March 2019

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.

7: Lisa Mitchell

Non-Executive Director
Appointed: April 2020

Lisa is currently the Chief Financial Officer of San Leon Energy plc. Lisa is an experienced CFO with over 25 years' international experience, across the oil and gas, mining and the pharmaceutical industries. She was most recently CFO and Executive Director of Lekoil Limited the African focused oil and gas exploration and production company with interests in Nigeria. Previously, Lisa was CFO and Executive Director at Ophir Energy plc, formerly a FTSE 250 company where she was responsible for contributing to the overall business strategy of Ophir; leading the finance function including all financial, taxation, treasury and funding requirements and investor relations. Lisa's previous roles include CSL Limited, and Mobil Oil Australia. Lisa is a Fellow Certified Practicing Accountant (CPA Australia) and holds a Bachelor of Economics (major in Accounting) from La Trobe University, Melbourne and a Graduate Diploma in Applied Corporate Governance from the Governance Institute of Australia.

8: Geoffrey Green

Non-Executive Director
Appointed: May 2020

Geoffrey currently serves on the Board of Vedanta Resources Limited where he is also Chair of the Remuneration Committee. Geoffrey has many years of legal and commercial experience in advising major UK listed companies on corporate and governance issues, mergers and acquisitions and corporate finance. Geoffrey retired as a partner of Ashurst LLP in 2013, a leading international law firm, after 30 years as a partner and 10 years of service as the senior partner and chair of its management board. He served as head of Ashurst's Asia practice from 2009 to 2013, based in Hong Kong, and was responsible for leading the firm's strategy and business development for the region. Until 31 December 2020 Geoffrey was also the Non-Executive chair of the Financial Reporting Review Panel, one of the main subsidiary bodies of the Financial Reporting Council. He has a degree in law from Cambridge University and qualified as a solicitor at Ashurst LLP.

CORPORATE GOVERNANCE REPORT

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

Statement of compliance with the 2018 Code

The Company was in compliance with the Provisions of 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 previous Chair. A new independent Chair was appointed in March 2020 in compliance with provision 19 of the 2018 Code after a robust process led by Korn Ferry as search consultants to identify a successor to Rui de Sousa, who had previously indicated his intention to retire and culminated in the appointment of John Martin. Rob Gray, the Deputy Chairman and senior Independent Director recused himself from consideration as Chair and led the process with Korn Ferry. The search for a new Chair of the Audit and Risk Committee to replace John was also led by Korn Ferry, culminating in the appointment of Lisa Mitchell as Chair of the Audit and Risk Committee.

The section below demonstrates our application of the Principles of the 2018 UK Corporate Governance Code.

Board Leadership and Company Purpose

Purpose and 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. Our purpose is to continue to provide energy for communities around the world and fuel their lives and businesses.

Stakeholder engagement

- **Colleague engagement**

  In December 2020, John Martin, being the UK-based independent NED nominated as the Director to represent the employee voice at Board level, conducted the annual meeting with UK, Egypt and Vietnam staff without Executive colleagues or Human Resources representative present. This engagement has proved an effective communication route for the employees and demonstrates the values of openness and integrity to which we are committed. Staff based outside head office are provided with a forum to communicate directly with the appointed Director representative via video conference, giving them a platform where they could share their feedback and views about the company. Following feedback from the previous year's session, one of the significant changes made was the hiring of a dedicated Head of HR. No remuneration matters/ feedback was raised by staff to the Director. In the next engagement, the Board hopes to improve on this by raising awareness of remuneration as a topic of discussion to prompt and encourage two-way dialogue with staff. Monthly focus groups held with staff to hear their views on any issues arising from new working environments have been especially important. A Group wide Employee Engagement Survey, the first in the company's history was launched in 2020, with a 92% response rate, the outcomes of which will allow the Board to improve on their understanding of cultural differences and employee experience. The feedback from all of these engagements are reported back to the Board in a quarterly Human Resources (HR) report from the Head of HR. Additionally, there has been other forms of engagement 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.

- **Shareholder engagement**

  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.

  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. The official Twitter and LinkedIn accounts of Pharos continue to be used actively. 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. In 2020, the Board and Head of Investor Relations had met and engaged with 70 institutions.

  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.

Additionally, 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.

- **Local communities, governments and employees**

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

- **Conflicts of interests & Ethics hotline**

  Our Whistleblowing Policy and Procedure ensures that employees are protected from possible reprisals when raising concerns in good faith. In addition to internal reporting channels, we have a confidential ethics hotline supported by EthicsPoint with numbers displayed in local offices available 24 hours a day all year round. Zero calls were made to the Expolink hotline in 2020.

Division of Roles & Responsibilities

Responsibilities of the Board

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 March 2020.

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.

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.

Board composition

During the year, the Board comprised eight Directors including the Chair, made up of three Executives and five NEDs. For the first Board meeting of the year, ten Directors were in attendance, ahead of the subsequent retirement of Rui de Sousa on 13 March 2020 and the retirement of Ettore Contini on 20 May 2020.

John Martin took over as non-executive Chair of the Board with effect from 13 March 2020. He also became Chair of the Nominations Committee and stepped down from the Audit and Risk Committee on 13 March 2020. John Martin stepped down from the Remuneration Committee on 25 August 2020.

Geoffrey Green was appointed as an Independent Non-Executive Director with effect from the conclusion of the 2020 AGM on 20 May 2020. Geoffrey was also appointed as a member of the Nominations, Audit and Risk, ESG and Remuneration Committees on 20 May 2020. On 25 August 2020, Geoffrey became Remuneration Committee Chair.

Lisa Mitchell was appointed as an Independent NED with effect from1 April 2020. Lisa serves as Chair of the Audit and risk Committee, a member of the Nominations Committee and a member of the ESG Committee.

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

Responsibilities & Composition of the 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 TOR as well as the Committee members are available on the Company's website at https://www.pharos.energy/about-us/governance/committees/.

Time commitment

The Board has four scheduled meetings a year although additional meetings are scheduled as required. In 2020 there was one additional meeting. The Board also met via videoconference on eleven other occasions and in addition had regular update calls during the course of the year to closely monitor progress.

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 and ESG Committees in 2020.

Composition, succession and evaluation

Board composition and succession

The Nominations Committee ensures the leadership needs of the Company are met and maintained appropriately to allow it to compete effectively in the marketplace. 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.

The Directors' roles are established in writing and approved by the Board. Biographical details are provided on page 70.

Diversity and Inclusion

We believe in a workforce with a diversity of experience, nationalities, cultural backgrounds and gender, to support our business strategy of long-term sustainable growth.

As part of this global approach, we ensured that leadership training during the year was made available to a fair representation of our global employees in terms of race, gender and ethnicity. We launched our Group wide Employee Engagement Survey the outcomes of which will allow us to improve our understanding of cultural differences and employee experience. Our Code of Business Conduct and Ethics and Policies and our Guiding Principles commit us to providing a workplace free of discrimination where all employees can fulfil their potential based on merit and ability. They also commit us to providing a fully inclusive workplace, while providing the right development opportunities to ensure existing staff have rewarding careers.

For more information on the gender balance of our corporate employees and senior management, please see page 57 of the Corporate Responsibility report.

Annual re-election of Directors

All Directors annually retire and seek re-election by shareholders at the Company's AGM. The Nominations 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 Committee formed its recommendations regarding re-election following assessments of Board balance, composition and independence.

Board effectiveness and evaluation

The Nominations 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 2020 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.

Remuneration

Remuneration principles

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. Appropriate advice on best practice is taken from an independent advisor.

Remuneration Policy

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 the requirements of applicable law, requiring us to review our Directors' remuneration policy every 3 years, the policy was reviewed and proposed at the 2020 AGM and will next be put to shareholders for approval at the 2023 AGM. Few changes were proposed to the policy, principally relating to developments in best practice guidelines including the introduction of post-cessation shareholder guidelines. The new policy was approved by 92.6% of our shareholders.

Pension and benefits

All eligible employees have the same access to the same pension contribution rate (15% of salary) and access to a similar level of benefits.

Directors' shareholdings and share interests

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.

Audit, Risk and Internal Control

Significant reporting and accounting matters

During the first half of 2020, the Group's accounting policies, in accordance with best practice, were reviewed by management and the Audit and Risk 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.

Fair, balanced and understandable

The Audit and Risk 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 108 of the Directors' Report.

Viability statement and going concern

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 38 of the Financial Statements. The Audit & Risk Committee reapproved in December 2020 that the appropriate length which the Viability Statement should cover is 3 years. A significant factor in the Group's forward cash position is the oil price assumption, and as most of the source data relates to a 3 year period this is considered the appropriate lookout period for the Viability Statement.

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.

Management completed their Going Concern assessment which was challenged and reviewed by the Audit and Risk 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, giving particular regard to the impact of COVID-19 on the business.

Risk management and internal controls

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.

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 Audit and Risk 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 audit

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 in 2020, 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 that following the curtailment of its growth plans in 2020 caused by COVID-19 that the detailed audit plan for 2020 should be rescheduled for 2021. This audit plan will be complementary but separate to the audit work undertaken by the Group's external auditor, Deloitte.

In 2020, internal assurance has been handled by the Group management. The lack of an Internal Audit function in 2020 had no impact on the work of the external auditors.

External auditor

The Audit and Risk Committee 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.

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 2024 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.

Principal and emerging risks

On page 40, we set out our assessment of the principal risks facing the business. Pharos' Risk Management process requires that all business units within the Group conduct on-going risk management and reporting to the Audit and 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 governance framework.

CHANGES DURING THE YEAR 2020

The Board

Members	8
Execs	3
NEDs	5
Independent NEDs	Rob Gray John Martin Geoffrey Green Lisa Mitchell Marianne Daryabegui
Appointed	Lisa Mitchell (1 April 2020) Geoffrey Green (20 May 2020)
Retired	Rui de Sousa (13 March 2020) Ettore Contini (20 May 2020)

Audit and Risk Committee

Members	4
Appointed	Lisa Mitchell (Chair) (1 April 2020)
Retired	John Martin (13 March 2020)

Remuneration Committee

Members	3
Appointed	Geoffrey Green (25 August 2020)
Retired	John Martin (25 August 2020)

Nominations Committee

Members	5
Appointed	John Martin (Chair) 13 March 2020) Lisa Mitchell (1 April 2020) Geoffrey Green (20 May 2020)

Environmental, Social and Governance Committee

Members	8
Appointed	John Martin (Chair) Lisa Mitchell (1 April 2020) Geoffrey Green (20 May 2020) Mike Watts (25 August 2020) Marianne Daryabegui (25 August 2020)

ACCOUNTABILITY STATEMENT PAGE REFERENCES

Accountability statements	Report	Page(s)
Business model and Strategic objectives	Strategic Report	16 to 19
Directors' responsibility statement	Directors' Report	108
Auditor's statement	Independent Auditor's Report	110 to 118
Going concern statement	Financial Review	38
	Directors' Report	108
Viability statement	Risk Management Report	48, 49
Critical judgements and accounting estimates	Note 4 to the Financial Statements	126
Risk Management and Internal Control	Risk Management Report	40 to 48
	Corporate Governance Report	74
	Audit and Risk Committee Report	83, 84
Audit and Risk Committee	Corporate Governance Report	73, 74
	Audit and Risk Committee Report	82 to 86
Nominations Committee	Corporate Governance Report	72, 73
	Nominations Committee Report	79 to 81

ENVIRONMENTAL, SOCIAL AND GOVERNANCE ('ESG') COMMITTEE REPORT

JOHN MARTIN
ESG Committee Chair

MEETING ATTENDANCE

Committee member	2020 attendance
John Martin (Chair)*	++++
Rob Gray (Deputy Chair) *	++++
Ed Story (President & CEO)	++++
Jann Brown (Managing Director & CFO)	++++
Mike Watts (Managing Director)[4]	++++
Marianne Daryabegui *[4]	++++
Lisa Mitchell *[1]	+++
Geoffrey Green *[2]	+++
Rui de Sousa *[3]	+

\+ Attended.

* Independent NED.

1 Appointed as a Director 01 April 2020.

2 Appointed as a Director 20 May 2020.

3 Retired as a Director 13 March 2020.

4 Mike Watts and Marianne Daryabegui became members of the ESG Committee on 25 August 2020.

DEAR SHAREHOLDERS,

Membership and responsibilities

During most of 2020, the Environmental, Social and Governance ('ESG') Committee was comprised of myself as Chair, Rob Gray, Ed Story, Jann Brown, Mike Watts, Marianne Daryabegui, Lisa Mitchell and Geoffrey Green who replaced Ettore Contini from 20 May 2020. Rob, Marianne, Lisa, are Geoffrey are all Independent Non-Executive Directors each having recent and relevant financial and legal 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 ESG Committee has a formal document outlining its responsibilities, which is reviewed and updated as appropriate by the Board on an annual basis.

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

Key responsibilities

The Committee is constituted by the Board 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;
- Oversee 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.

ESG Committee meetings in 2020

The Committee met four times during 2020. These meetings were regularly scheduled Committee meetings held in March, August, October and December. The Committee examines and discusses at each meeting:

- Detailed review of inventory of current Environmental, Social and Governance (ESG) projects and proposed investment projects in Egypt, Vietnam, and the UK
- Detailed review of HSES policies and procedures, climate change reporting, annual Corporate Responsibility ("CR") Report, Annual Health, Safety, and Environmental and Social ("HSES") Plan
- Review of the development of ESG KPIs including climate change and health and safety metrics.

In addition to members of the Committee, additional non-committee members, such as Group Head of Investor Relations and Risk Manager were invited to attend all of the Committee meetings. An internal ESG working group meeting was held every quarter. There was noted to be buy-in on ESG matters across the Group.

During 2020, the following additional areas were discussed at meetings of the Committee:

March

Review and discussion on:

- Group's COVID-19 precautions, safety measures and business interruption insurance across the assets
- Group's HSES matters, noting improvements being targeted in Vietnam and Egypt
- Approval for engagement with a third party to begin work to align Pharos with recommendations by the TCFD
- Inventory of the Group's current ESG projects and discussion on proposed social investment projects, specifically targeting education investment in Vietnam and the UK, with final proposals for investments in Egypt ongoing
- Committee's Terms of Reference
- Corporate KPIs for the Committee to be considered and reported in future meetings

August

Review and discussion on:

- Group's HSES performance, including progress to reduce GHG emissions to date and plans to identify further reduction going forward
- Progress of TCFD work
- Review and submission of Pharos's CDP Climate Change Questionnaire

October

Review and discussion on:

- Climate Change policy statement as part of the TCFD reporting framework, including ownership, tone, ambition, review, oversight, industry best practices
- Group's HSES matters, including the Group's first fatality in Egypt and actions taken to prevent a recurrence and ongoing work to reduce flaring to mitigate climate change impact
- Update on COVID-19 precautionary measures in place at each site

December

Review and discussion on:

- Approval of the Climate Change policy
- Group's HSES matters, including continued COVID-19 precautionary measures across the business and increased actions to prevent oil spills with local management
- Update on social projects ongoing in Vietnam and Egypt
- Committee's Annual Performance Evaluation, including performance evaluation of the Committee Chair, John Martin.

During the year the Committee focused on the following matters:

The Committee and its Working Group focused on its stakeholders' health and safety during the COVID-19 pandemic; the development of an ESG Action Plans for Egypt, Vietnam and the UK; the internal gathering and discussion 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; the development and approval of the Group's Climate Change policy; and a review and updated audit of the Group's fully disclosed GHG emissions and discharges.

Impact of COVID-19

In Q1 2020, Pharos managed its operations carefully in light of COVID-19 and the Group immediately deployed the precautionary measures recommended by the WHO and adhered to the safety procedures and restrictions, in line with the government directives in Egypt, Vietnam and the UK.

The Group's production operations in Egypt and Vietnam were not disrupted by COVID-19 and, measures are in place to minimise the risk of any outbreak occurring both in the field in for office staff. In Vietnam, in addition to following government guidelines, the HLHVJOC has implemented a policy of testing all staff for COVID-19 before transfer to offshore operations. In the event that a case of COVID-19 is identified offshore, personnel evacuation plans and other mitigation measures are in place to ensure that the impact of any outbreak is quickly contained and operations are maintained. In Egypt, at the El Fayum base camp, Petrosilah has implemented robust health and safety and social distancing measures to mitigate the risk of any cases of COVID- 19 arising. Field staff continue dialogue and social engagement with the villages adjacent to the El Fayum fields through the continued disinfection and sanitisation of community areas.

The Committee and Company were fully engaged and in consultation with staff on remote working practices. Office staff in Vietnam and Egypt have been following governmental guidelines, which has meant a combination of working remotely and/or in the office with negligible disruption to the business. The London head office staff have been working remotely since March and after consultation with and feedback from employees will continue to work remotely for the foreseeable future.

Health & Safety

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

Environmental

In 2020, the ESG activities focused on various social projects through our Joint Operating Companies and material ways to reduce greenhouse gas (GHG) emissions in our operations. We recognise the need to reduce any impact of our operations on the environment and are continually assessing initiatives to reduce GHG in our operations. Further details of these initiatives can be found in the Corporate Responsibility Report on pages 50 to 64. In Vietnam, we work closely with our state-owned partners and the Government to mitigate the impacts of our joint operations on climate change.

The Committee also considered the risks associated to climate change and recognise that it is a principal risks facing the business. Further details can be found in the Risk Management Report on pages 40 to 49. We will continue to support our host governments as they seek to use oil revenues to promote sustainable and inclusive economic development, and we will align with the actions that they take to manage climate change. The Committee oversaw and approved the full disclosure of the Group's emissions, discharges and water usage. In August, the Committee discussed and approved the submission of the Group's CDP (formerly Climate Disclosure Project) Climate Change Questionnaire. The Group has maintained its score of C since 2019.

Climate change and TCFD

Pharos fully supports the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD). A working group consisting of personnel from Head Office and the respective business units was set up to start work on aligning Pharos with TCFD's recommendations, with the support of an external consultant. The Project is on-going and consists of two phases. Phase 1, which is now completed, consisted of a thorough peer benchmarking, internal document review and gap analysis and culminated in the development and approval by the Board of Pharos Climate Change Policy in December 2020. Phase 2 of the work is interrupted by the pandemic and we look to resume this work at the appropriate time.

Pharos manages climate change risks through the development and implementation of an appropriate mitigation response that recognises the need to adopt new processes, whilst supporting the long-term resilience of the company's strategy and business operations. This response includes integrating climate change considerations into key business decisions in the short-term, particularly in relation to new business opportunities and using our relationships and influence as a JV partner and our role in the Joint Operating Companies to identify key performance indicators (KPIs) to help measure, monitor and reduce the energy consumption and greenhouse gas intensity of our operations, ensuring our business strategy responds to evolving climate-related risks. The Climate Change Policy is available on the Group's corporate website at https://www.pharos.energy/responsibility/policy-statements/.

Social

In Vietnam, the ESG Committee and its Working Group continued the Group's commitment to local sourcing, employment, training and industry capacity building through a training levy of $300,000 per year in a ring-fenced fund to support developing future Vietnamese expertise in the industry. Discussion on social plans also focused on long-term social projects, specifically through the HLHVJOC Charitable Donation Programme. During 2020, a total of 9 projects in Vietnam were approved. These donations have been used to assist the overall development of underprivileged rural areas in Vietnam, and were specifically designated for healthcare, education, environmental development and the assistance of flood victims in the Central Highlands region. For example, this year, donations were made to Tran Hung Dao Commune's Medical Clinic in Ly Nhan district, Ha Nam province to buy medical equipment such as endoscope and ultrasound machines. The programme continued its annual support to the Ha Noi Private School for the Hearing Impaired for the project aimed at improving integration ability for underprivileged disabled students. The school is currently offering education to 100 students with autism and hearing-impairment. Additionally, the programme provided financial support to Tho Hai Commune's People Committee, Thanh Hoa province to renovate buildings built before the year 2000, with 10 classrooms that had serious degradation, and for the construction of new secondary school classrooms.

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. Furthermore, Petrosilah has been engaging with the local communities during the pandemic to offer support. Field staff continue dialogue and social engagement with the villages adjacent to the El Fayum fields and assisted with COVID-19 measures. In April 2020, Petrosilah provided disinfection and sanitisation services for all public and service buildings such as schools, post offices, ambulance units and police stations, along with homes of the community adjacent to the company's sites. Medical equipment such as 100 sets of face masks, face shields and protection suits were donated and delivered to the Nabawi General Hospital in Fayum, a Ministry of Health hospital which operates as an isolation hospital during the pandemic. Further information about our community projects can be found in our Corporate Responsibility Report on pages 61 to 63.

Pharos embraces the UN Sustainable Development Goals and directly contributes to improving a number of these goals where it has a presence such as good health and well-being of its workforce, gender equality, creating decent work and economic growth by selling the bulk of its hydrocarbon for local consumption.

Terms of Reference

In March, the Committee reviewed its ESG Committee Terms of Reference to reflect the addition of new Committee members, Lisa Mitchell and Geoffrey Green, who joined the Board in April and May 2020.

Focus for 2021

- Continue to work with , and use our influence with JOC's for continued improvements and trainings with respect to GHG's emissions reductions, initiative's to reduced emissions and spillages
- Maintain current work programme through the JOC's social project investment and review outcomes of local indicative's that benefit local communities and host countries
- Following completion of phase one of TCFD, review proposal and timing for implementation of phase two at the appropriate time
- Continue engagement and dialogue with the ESG working group as it progresses during 2021

JOHN MARTIN
ESG Committee Chair

NOMINATIONS COMMITTEE REPORT

JOHN MARTIN
Nominations Committee Chair

The Committee has continued to ensure that Board independence was evident during 2020 and will continue into 2021 taking into account the Board composition requirements of the 2018 UK Corporate Governance Code.

MEETING ATTENDANCE

Committee member	2020 attendance
John Martin * (Chair)	++
Ed Story (President and CEO)	++
Rob Gray * (Deputy Chair and Senior Independent Director)	++
Marianne Daryabegui*	++
Lisa Mitchell * (appointed 1 April 2020)	+
Rui de Sousa (retired 13 March 2020)	+

+ Attended.

* Independent NED.
Jann Brown, Mike Watts and Geoffrey Green attended as non-committee members

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.

Membership

During the year, the Committee comprised Rui de Sousa as Chair followed, on his retirement, by John Martin as Chair, the Chief Executive Officer and the three Independent Non-Executive Directors ('NEDs'), Rob Gray, Marianne Daryabegui and, following her appointment as a Director on 1 April 2020, Lisa Mitchell

Rui de Sousa retired on 13 March 2020 and was replaced by John Martin.

The qualifications of each of the Chair and members are set out on page 70.

Meetings

The Committee conducted its duties through two meetings held during 2020. The Chair additionally led discussions before the full Board on certain matters within the Committee's Terms of Reference. During the year the following areas were discussed at the Committee meetings:

Meeting	Matter
Q1	No meeting but finalisation of the appointment of Geoffrey Green as a new NED and confirmation of the retirement of Ettore Contini from the Board
Q2	Review and approval of Nominations Committee report for inclusion in the 2019 Annual Report and Accounts Update on search for Chair of ARC process and recommendation to the Board appointment of Lisa Mitchell as new ARC Chair Annual Director reappointment Annual review of conflicts of interest register
Q3	No meeting
Q4	Annual review of Board balance, structure, independence and composition Succession planning for key roles at Executive and Senior Management level

As at 31 December 2020, the Board comprised three Executives and five NEDs, including the Chair. All of those NEDs were considered independent for the purposes of the 2018 UK Corporate Governance Code ('2018 Code'). Geoffrey Green assumed the role of Chair of the Remuneration Committee and Lisa Mitchell assumed the role of Chair of the Audit and Risk Committee. On becoming Chair of the Board, John Martin resigned from the Audit and Risk Committee and subsequently also from the Remuneration Committee. John Martin remains Chair of the ESG Committee, and has assumed the role of Chair of the Nominations Committee replacing Rui de Sousa in that role, who also retired from the Board on 13 March 2020.

Board refreshment and succession planning

Board refreshment and succession planning continue as ongoing processes. In 2020 the priority was to maintain the independent component of the Board and to fully comply with the 2018 Code.

The Committee engaged the search consultancy firm Korn Ferry, which has no other connections with the Company or its Directors to conduct a formal process, as a result of which it identified Geoffrey Green and Lisa Mitchell as suitable candidates for Independent NEDs. Geoffrey was appointed to the Board with effect from 20 May 2020 and Lisa was appointed with effect from 1 April 2020. Both Lisa and Geoffrey have extensive experience.

In March 2021 we announced the appointment of Sue Rivett to the Board as Chief Financial Officer ("CFO") effective 1 July 2021. Jann Brown, who is currently Managing Director ("MD") and CFO, will remain as MD, focused on delivering the next phase of the Group's strategic plan.

Appointments process

During 2020, the Committee assessed the suitability of Marianne Daryabegui for reappointment as an Independent NED, taking into account her previous 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.

Independence

All NEDs are independent in full compliance with the provisions of the 2018 Code.

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 2020 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 pages 68 and 70.

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 2020, 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 2019, 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 2021 including:

- Review of risks in M&A activity to be assessed
- Operational updates to the Board are important and encourage commitment to the business
- 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 2020, with the exception of Ettore Contini who stepped down from the Board with effect from close of that meeting. All Directors were duly re-elected at the 2020 AGM, each receiving more than 92% of the proxy votes submitted in advance of the meeting.

All Directors will retire and will offer themselves for re-election at the 2021 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

In December 2020, John Martin met with head office staff in an informal dedicated video conferencing session at which staff members were able to discuss matters of interest. This engagement has proved an effective communication route for the employees and demonstrates the values of openness and integrity to which we are committed.

Board development, information and support

Throughout 2020, 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.

JOHN MARTIN
Nominations Committee Chair

AUDIT AND RISK COMMITTEE REPORT

LISA MITCHELL
Audit and Risk Committee Chair

MEETING ATTENDANCE

Committee member	2020 attendance
Lisa Mitchell *[1]	+++
John Martin*	+
Rob Gray*	++++
Marianne Daryabegui*	++++
Geoffrey Green *[2]	+++

\+ Attended.

* Independent NED.

1 Appointed as a Director and Chair of the Audit and Risk Committee on 1 April 2020.

2 Appointed as a Director 20 May 2020.

Ed Story, Jann Brown, Mike Watts, John Martin and Rui de Sousa also attended most of the meetings as non-committee members/ guests

DEAR SHAREHOLDERS,

Membership and responsibilities

During most of 2020, the Audit and Risk Committee was comprised of myself as Chair, Rob Gray, Marianne Daryabegui and Geoffrey Green. Marianne, Rob, Geoffrey and I are all Independent Non-Executive Directors each having recent and relevant financial experience in the energy sector. I took over the Chair of the Audit and Risk Committee from John Martin the Chairman of the Board in April 2020.

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 2020

The Committee met four times during 2020. These meetings were regularly scheduled Committee meetings held in March, May, August and December. The Committee examines and discusses at each meeting:

- 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 2020, the following additional areas were discussed at meetings of the Committee:

March

- Update to the Modern Slavery Statement
- Finance update including the Internal Controls Report, Reserves Update, Impairment Analysis, IFRS 3 "Business Combination" for the Egypt acquisition, Treasury review and review of Climate Change
- Review and approval of 2019 financial statements, including reviews that they were fair, balanced and understandable, reviews of Going Concern and Viability Statements
- Review of 2019 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

May

- Review and update of Internal Controls Report including Financial review and status update on Treasury activities,
- A deeper dive review on the progress of savings and curtailment of capital expenditure programmes caused by the impact of COVID-19
- Review of HSES performance
- Review and assessment of Risks and mitigations, particularly around the impact of COVID-19 on the business
- Review and update on IT systems, disaster recovery and security

August

- Review and update and various approvals including: Impairment of producing assets – CNV, TGT and El Fayum Concession, Exploration and Evaluation paper, and review of Insurance renewals
- Review and Approval of 2020 Interim Accounts, including presentation by external auditor, Deloitte, and Audit and Risk Committee comments
- Review and approval of the Going Concern Paper, including stress testing and mitigations, an update on financing, covenant compliance monitoring and commodity hedging

December

- Review and update on Internal Controls and Risk Report including: Finance review and Treasury update
- Annual Review and Approval of Terms of Reference of the Audit and Risk Committee
- Review of 2020 year-end planning
- Review and discussion of Significant Risks particularly around the impact of COVID-19 and Climate Change and their impact on Going Concern and Impairment of assets
- Review and discussion on Section 172 and impact of exit from the European Union
- Review of external audit scope, review of audit quality and 2020 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

Financial reporting and significant accounting issues

During the first half of 2020, 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.

Significant issues related to the 2020 Financial Statements

The Committee met twice in March to go through the significant issues that should be taken into consideration in relation to the Financial Statements for the year ended 31 December 2020, being key issues which may be subject to heightened risk of material mis-statement. These key issues are set out below.

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 108 of the Annual Report of Directors.

Going Concern

Management completed their Going Concern assessment which was challenged and reviewed by the Committee. 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, giving particular regard to the impact of COVID-19 on the business. A further assessment was also undertaken to show the potential impact of a farm down of the Egyptian concessions.

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 2020 financial statements.

Following its review of management's Committee paper and in-depth walk through of assumptions, the Committee are satisfied that it is appropriate to prepare financial statements on a Going Concern basis.

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 pages 40 to 49 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 2020 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 31 and 32.

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.

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 2020, the Group continued to carry out comprehensive reviews of the overall effectiveness of its internal controls framework and continued to work on improvements.

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.

Reserve Based Lending Facility (RBL)

During 2018, the Group entered into a 5 year RBL facility for $125m based on the Vietnam assets, of which $53.7m was drawn at December 2020.

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 145.

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 2020, the hedged positions helped to protect the cash inflows bringing in $23.7m which would have been lost because of the impact of COVID-19 on the commodity prices.

In 2021, 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.

KEY JUDGEMENTS AND ESTIMATES IN FINANCIAL REPORTING

Key judgements and estimates in financial reporting	Audit and Risk Committee review	Outcomes
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 short and long-term price assumptions were reduced inline with the impact of COVID-19 and climate change
	Upstream impairment charges were reviewed twice during the year	Impairment of assets
Significant risks that could potentially impact on financial statements – including DD&A estimates, override management controls	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	Impairment of assets
	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 2020

Exploration and evaluation assets and impairment review

The Committee reviewed the Group's intangible exploration and evaluation assets individually in Egypt, Israel 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 2020, 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. Following the impairment testing, the Committee recommended to the Board that following the impact of COVID-19 there was no significant planned expenditure in either Egypt or Vietnam and that the assets should be impaired. The minor planned programme of work in Israel continues and no impairment has been triggered.

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 2020, 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 24 to 30.

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 impairments were made on all 3 fields.

On our CNV field in Vietnam, a pre-tax impairment charge of $23.3m has been reflected in the Income Statement with an associated deferred tax credit of $8.7m. As at 31 December 2020, the carrying amount of the CNV oil and gas producing property is $91.2m.

On our TGT field in Vietnam, a pre-tax impairment charge of $81.8m has been reflected in the Income Statement with an associated deferred tax credit of $28.0m. As at 31 December 2020, the carrying amount of the TGT oil and gas producing property is $239.3m.

For our El Fayum concession in Egypt, an impairment charge of $105.4m, no tax applicable, is reflected in the Income Statement. As at 31 December 2020, the carrying amount of the El Fayum oil producing property is $104.1m, this FV is based on NPV14, which reflects considerations for the allocation of capital and costs to sell.

Internal controls focus for 2021

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 in 2020, 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 that following the curtailment of its growth plans in 2020 caused by COVID-19 that the detailed audit plan for 2020 should be rescheduled for 2021. This audit plan will be complementary but separate to the audit work undertaken by the Group's external auditor, Deloitte.

In 2020, internal assurance has been handled by the Group management. The lack of an Internal Audit function in 2020 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 pages 71 to 74. 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 2020. These will be reviewed again during 2021.

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. The pressure to move to a low carbon future have been brought to the forefront during the pandemic.

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.

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 2024 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.

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. The committee also assesses the independence of the external auditor once a year and the lead partner is required to be rotated every five years. David Paterson acts as the external audit partner. David is due to stand down following the audit of the 2020 financial accounts and will be replaced by Anthony Matthews as external audit partner. Other senior audit staff are also rotated every five to seven years.

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 2020 were $0.4m and $0.1m respectively. The Committee approved all non-audit services provided by the external auditor in 2020.The principal non-audit fees during 2020 were $0.1m 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.

LISA MITCHELL
Audit and Risk Committee Chair

DIRECTORS' REMUNERATION REPORT

GEOFFREY GREEN
Remuneration Committee Chair

TABLE A: REMUNERATION COMMITTEE MEETING ATTENDANCE DURING 2020

Committee member	2020 attendance
Rob Gray*	++
John Martin*	+
Marianne Daryabegui*	++
Geoffrey Green *1	+

+ Attended.

* Independent NED.

1 Appointed as Director and member of Remuneration Committee on 20 May 2020

Ed Story, Rui De Sousa, Jann Brown, Mike Watts, John Martin and Lisa Mitchell attended as non-committee members

Role of the 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.

DEAR SHAREHOLDERS,

I am writing to you for the first time in my capacity as Chair of the Remuneration Committee. As I progress in this role I look forward to working with shareholders, but unfortunately due the current COVID-19 restrictions this will have to be conducted remotely for the time being.

On behalf of the Board, we are pleased to present the Directors' Remuneration Report for the financial year ended 31 December 2020. 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).

Before I go into the detail of the Directors' Remuneration I want to highlight the three most important aspects of this for 2020;

1. **Reduction in Salary** – All Directors took a voluntary reduction in salary of 25% from 1 May 2020 and then the three Executive Directors went further and took an additional 10% reduction, giving a total reduction of 35%, from 1st August 2020. These reductions have remained in place until Q2 2021 following which a 50% reduction in Executive Director salaries will come into effect.
2. **Annual Bonus** - The Executive Directors have not taken any bonus payment for 2020.
3. **LTIP** – The Executive Directors volunteered to reduce their LTIP award granted in 2020 to approximately 50% of their salary compared to 200% of salary granted in previous years.

The Directors' Remuneration Policy review

In line with the requirements of applicable law, requiring us to review our Directors' remuneration policy every 3 years, the policy was reviewed and proposed at the 2020 AGM. Few changes were proposed to the policy, principally relating to developments in best practice guidelines, including the introduction of post-cessation shareholder guidelines. I was pleased that the new policy was approved by 92.6% of our shareholders.

However, the second resolution on the 2019 remuneration report to shareholders, while clearly passed, secured a lower level of support at 79.2%. From discussions with our shareholders and their representatives, we understand that this was in response to our decision to equalise the salaries of the three Executive Directors. This equalisation was carried out as a result of the CEO voluntarily reducing his salary to finance increases to the other two directors and was therefore essentially implemented at zero cost to the Company. Nonetheless, some shareholders were opposed to this equalisation on the basis that it may limit the Company's ability to reduce long-term costs as and when succession occurs. It should be noted that this was undertaken pre-COVID-19 and that all three executives are currently waiving their salaries by 35% in response, so all salaries are currently below the pre-adjusted levels.

How performance was reflected in the pay of our Executive Directors

As reported throughout the Strategic Report, the performance of the Company in 2020 has been hugely impacted by the COVID-19 virus and the subsequent dramatic drop in oil prices in the first few months of 2020. The Committee is extremely proud of how all employees have adapted to the new ways of working and have continued to work collaboratively with each other. Through the strong management of the Company by Executives and Senior Managers we have not had to furlough any staff, nor have we borrowed any Government money and, in order to protect staff we made the decision to leave London prior to the Government announcement of the lockdown in March. In December we completed negotiations to assign the leases for the London Office; the assignment included a payment equal to 2 years rent. Ultimately this will result in a reduction in costs of more than £700,000 per annum.

In April 2020 it was recognised that further measures were required and all Directors made the decision to take a 25% cut in salary, effective from May 2020. As the crisis continued through the year the Executive Directors took a further

10% cut in August 2020. To summarise, the Executive Directors have therefore taken a 35% cut in salary continuing until at least Q2 2021.

The challenging market conditions were also reflected in the KPI assessment and pay out-turn for 2020; while management delivered on a number of the KPIs including integration of Egyptian operations and meeting of various output targets which resulted in a formulaic bonus outturn of 61% of max, the Committee and Executives felt that the overall performance and the experience of stakeholders did not warrant such a bonus and therefore no bonuses were paid for 2020.

In previous years the LTIP grant level for Executives had been 200% of salary, but this was reduced to approximately 50% of salary for 2020, to reflect the downturn in the share price.

The 2018 LTIP which was due to vest in January/February 2021 will lapse through a failure to meet the required relative TSR performance conditions.

Outlook for 2021

The reduction in salaries detailed above has remained in place for at least the first quarter of 2021 and the Executive Directors have offered to reduce their salaries by 50% with effect from 1 April 2021, helping to bring the Company's cost base into line with the current scale of the business. The Committee welcomes this positive commitment.

The main elements of the 2021 bonus plan will be unchanged as regards structure, measures for performance (safety and environment, operational, financial, governance) and deferral requirements. The Committee intends to develop and update certain specific objective criteria during the course of the year, given the changing structure of the business.

The LTIP grant level for 2020 was reduced substantially and the Committee will take this and all other relevant circumstances into account in considering the appropriate grant level for 2021. Performance metrics will continue to be based on relative TSR performance which is considered to be the most meaningful metric for the Company at this stage of maturity. The use of other performance measures, such as ROCE, will be kept under review for future awards but is not considered appropriate at the current time.

An additional resolution is being proposed at the AGM to renew the LTIP for a further 10 years as it has now reached the end of its 10 year life. No material changes are proposed to the rules and the renewal is consistent with the policy approved last year except that, consistent with other companies of this size, the rules include a 10% in 10 year dilution limit only. The Committee will actively manage dilution across our share plans.

Conclusion

Given the COVID-19 pandemic the financial year has proved extremely difficult, not just for Pharos but for many other companies and I would like to recognise the hard work and commitment of all our employees. The Remuneration Committee feels that the remuneration outcomes for 2020 are a fair reflection of the context in which decisions had to be made.

We look forward to receiving your support at the upcoming AGM and to working with you face to face when circumstances allow.

Finally, this is my first report as the Chair of the Committee after I took over its chairmanship from Rob Gray. I want to thank him on your behalf for his hard work in leading this Committee.

GEOFFREY GREEN
Remuneration Committee Chair

POLICY REPORT (UNAUDITED)

This Remuneration Policy became effective from the date of the 2020 AGM. The Policy is intended to apply for a period of three years from that date. 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 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 previous 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

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
• 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

BENEFITS

Purpose and link to strategy

To provide Executive Directors with market competitive benefits consistent with the role.

Operation	Maximum	Performance criteria
• 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

PENSION

Purpose and link to strategy

To provide retirement benefits consistent with the role

Operation	Maximum	Performance criteria
• 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

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
• 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.

LTIP

Purpose and link to strategy

Incentivises and rewards for the Company's strategic plan of building shareholder value

Operation	Maximum	Performance criteria
• 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

SHAREHOLDING GUIDELINES

Purpose and link to strategy

Further increases alignment between Executive Directors and shareholders.

Operation	Maximum	Performance criteria
• 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

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 showing the illustration of Policy were presented in last year's Directors' Remuneration Report which can be accessed via our corporate website at https://www.pharos.energy/media/g05lf5vo/pharos-energy-2019-ara.pdf.

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.

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)

Plan	Automatic good leaver	Treatment for good leaver	Treatment for all other reasons
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 eligible 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 2020. It also provides comparative figures for 2019:

2020	Fees/salary $000's	Benefits[1] $000's	Bonus $000's	LTIP $000's	Pension $000's	Total $000's	Total Fixed Remuneration $000's	Total Variable Remuneration $000's
Executive[3]								
E Story	556	188	–	–	83	827	639	188
J Brown[2]	544	48	–	–	82	674	626	48
M Watts[2]	544	54	–	–	82	680	626	54
Non-Executives			–	–				
R de Sousa*	59	1	–	–	–	60	59	1
E Contini*	29	-	–	–	–	29	29	
R Gray	145	1	–	–	–	146	145	1
J Martin	161	–	–	–	–	161	161	–
M Daryabegui	64	–	–	–	–	64	64	–
L Mitchell*	64	–	–	–	–	64	64	–
G Green*	46	–	–	–	–	46	46	–
Total	**2,212**	**292**	**–**	**–**	**247**	**2,751**	**2459**	**292**

The benefits receivable by Executive Directors include private medical insurance, permanent health insurance, life assurance cover, critical illness cover, travel and car benefits. E Story also receives expatriate benefits including tax protection or equalisation for any travel to the UK . 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 1.28 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.
3. Executive Directors agreed to a reduction of 25% of their salary from 1 May 2020 and a further 10% from 1 August 2020. Non-Executive Directors agreed to a 25% reduction of their fee from 1 May 2020. The figures above reflect the reductions in salary and fees

* Fees paid to the Executive and Non-Executive Directors are in proportion with their dates of service.

2019	Fees/salary $000's	Benefits[1] $000's	Bonus $000's	LTIP $000's	Pension $000's	Total $000's	Total Fixed Remuneration $000's	Total Variable Remuneration $000's
Executive								
E Story	924	182	693	–	139	1,938	1,063	875
J Brown[2]	561	46	428	–	84	1,119	645	474
M Watts[2]	561	51	428	–	84	1,124	645	479
Non-Executives			–	–				
R de Sousa	250	14	–	–	–	264	250	14
E Contini	75	–	–	–	–	75	75	–
R Gray	150	2	–	–	–	152	150	2
A Monteiro*	37	3	–	–	–	40	37	3
J Martin	100	–	–	–	–	100	100	–
M Daryabegui*	59	–	–	–	–	59	59	–
Total	**2,717**	**298**	**1,549**	**–**	**307**	**4,871**	**3,024**	**1,847**

The benefits receivable by Executive Directors include private medical insurance, permanent health insurance, life assurance cover, critical illness cover, travel and expatriate benefits including tax protection or equalisation 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 $2.8m.

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. The performance measures and targets for 2020 were set prior to the full impact of the coronavirus being evident. No subsequent adjustments have been made to the targets.

2020 Annual bonus measures and out-turns

Metric	Weight	Performance	Bonus awarded
SAFETY AND ENVIRONMENT	15%		5%
Zero LTIs	6%		0%

Link to strategy	Target	Performance	Outcome
• Safety of our people • Sound oil field practices	• Zero LTIs	• On 13 October 2020, the workover rig contractor to Petrosilah announced the loss of life of the assistant crane operator during a rig move operation, as a result of the crane running off-road into a ditch • This fatality will be reported in the Q4/ year-end HSES report	• Not Achieved

Metric	Weight	Performance	Bonus awarded
TRIR Target of 0.8	3%		3%

Link to strategy	Target	Performance	Outcome
• Safety of our people • Sound oil field practices	• 0.8	• 0.34 TRIR recorded to date	• Achieved

Metric	Weight	Performance	Bonus awarded
Zero environmental spills	3%		0%

Link to strategy	Target	Performance	Outcome
• Sound oil field practices • Management of our carbon footprint wherever we work	• Zero environmental spills	• 4 environmental spills recorded in Egypt – 3 oil spills and 1 environmental violation regarding discharge of high salinity water on the ground	• Not Achieved

Metric	Weight	Performance	Bonus awarded
Carbon footprint improvements	3%		2%

Link to strategy	Target	Performance	Outcome
• Management of our carbon footprint wherever we work	• Establish a baseline of group GHG emissions • Initiate the work towards compliance with the G20 Financial Stability Board's Task Force on Climate related Financial Disclosures (TCFD) • Crisis response readiness maintained	• 2020 was the first full year of measuring emissions following Merlon acquisition in 2019 • Climate change policy prepared and up for Board approval at December meeting • Crisis Management Plan Training to take place in Q4 2020 and Q1 2021	• Achieved • Achieved in part • Achieved in part

Metric	Weight	Performance	Bonus awarded
OPERATIONAL/PORTFOLIO MANAGEMENT	40%		20%
Production	20%		10%

Link to strategy	Target	Performance	Outcome
• Replace produced reserves and add to reserve base • Fund exploration activity at a rate of up to 30% of annual capex	• Vietnam production volumes 5,500 – 6,500 boepd * • Egypt production volumes 5,000 – 6,000 boepd * * In light of the global macroeconomic circumstances in 2020, Egypt production guidance issued on 8 January 2020 for the full year 2020 (Egypt: 6,500 to 7,500 bopd) was updated to 5,000 – 6,000 bopd on 12 May 2020, to take account of the capex deferral programme. The production guidance for Vietnam remains unchanged for the 2020 full year (5,500 to 6,500 boepd net)	• Vietnam production turnout was 6,103 boepd • Egypt production at the end of the financial year was 5,270 boepd.	• Achieved for Vietnam • Achieved for Egypt

Metric	Weight		Bonus awarded
Egypt	10%		10%

Link to strategy	Target	Performance	Outcome
• Prudent Management in a low oil price environment	• Engagement with Regulator/ Government to investigate and secure improved contractual terms and reduction in oil price discount • Engage with Regulator/ Government bodies to secure deferral of all commitment work as long as possible • Ensure cancellation of all discretionary work until further notice	• 6 months terms eased and dialog ongoing • Pharos got a 6 month extension period approved for the Batran well. • Following the oil price crash and to preserve balance sheet and liquidity drilling was stopped	• Achieved • Achieved • Achieved

Metric	Weight		Bonus awarded
Farm Out	10%		0%

Link to strategy	Target	Performance	Outcome
• Fund exploration activity	• Farm out at least one exploration asset	• Ongoing and carried over to 2021	• Not achieved

Metric	Weight		Bonus awarded
FINANCIAL	30%		25%
Opex per bbl for each producing asset	10%		5%

Link to strategy	Target	Performance	Outcome
• Control expenditure	• Vietnam cash opex bbl <$14 • Egypt cash opex bbl <$10	• Vietnam cash opex bbl $11.9 • Egypt cash opex bbl $11.3	• Achieved for Vietnam • Not achieved for Egypt

Metric	Weight	Performance	Bonus awarded
Overall reduction in cost base	10%		10%

Link to strategy	Target	Performance	Outcome
• Control expenditure • Maintain strong balance sheet	• Overall reduction in cost base of at least 10%	• Full year figure c.23% including both deferral and absolute deductions	• Achieved

Net debt	10%		10%

Link to strategy	Target	Performance	Outcome
• Access affordable sources of funding • Return to shareholders	• Net debt/EDITDAX of <2 • All Bank Covenants met • Funding plan in place for all activities covered by cash/available debt plus headroom of $10m	• Net debt/EDITDAX of 0.48 • All bank covenants have been met • Low oil price environment necessitated change in drilling programme to ensure suitable headroom of $10m	• Achieved • Achieved • Achieved

Metric	Weight	Performance	Bonus awarded
GOVERNANCE/LICENCE TO OPERATE	15%		11%
Code of Ethics	4%		4%

Link to strategy	Target	Performance	Outcome
• Way of working that is strong on governance and personal codes of conduct	• Code of ethics approved and implemented	• Code implemented across the group.	• Achieved

Talent Management	4%		2%

Link to strategy	Target	Performance	Outcome
• Develop talent throughout our business	• Talent Management in place to address all skills gaps	• Skills gap analysis on-going and will be carried forward to 2021	• Achieved in part

Social Investment	4%		2%

Link to strategy	Target	Performance	Outcome
• Strong governance and personal codes of conduct	• Social investment plan approved and implemented	• Continued support to HLHVJOC Charitable Donation Programme in Vietnam • Petrosilah donated face masks, face shields and protection suits to the El Fayum General Hospital in Egypt • All other discretionary programmes in both countries was stalled due to budget constraints	• Achieved in part

Procurement	3%		3%

Link to strategy	Target	Performance	Outcome
• Strong governance and personal codes of conduct	• Procurement policies approved and implemented in all locations	• Group comprehensive on-boarding process in place which has been cascaded to all business units	• Achieved

OVERALL	100%	Total assessment	61%
		Discretionary adjustment	(61%)
		Final outturn	Nil

As noted in the Chair's statement, notwithstanding that the Executive Directors delivered a number of the KPIs in challenging circumstances, the Committee felt that the overall performance and the experience of stakeholders in 2020 did not warrant a bonus. Therefore, discretion was used to reduce the bonus to zero.

LTIP vesting in respect of January/ February 2018 awards

The LTIP awards granted in January/ February 2018, which would have vested in January/ February 2021, 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, albeit that for awards granted from 2020 onwards the maximum vesting is met for a ranking of upper quartile or higher.

LTIP award grants

The LTIP awards are usually made in March, however, in 2020 they were not granted until May, following the Executive Directors volunteering to reduce their LTIP award to approximately 50% of their salary due to the low share price, compared to the 200% of salary in previous years. It is anticipated that future grants, including the grant to be made in 2021, 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 2020

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 2020 and any subsequent changes to their beneficially owned shares are shown as at the date of this report:

	Shareholding requirement		Beneficially owned shares as at 31 December 2020	Beneficially owned shares as at the date of this report	Awards subjectto performance conditions as at 31 December 2020[1,2]	Awards vested as at 31 December 2020	Awards subject to service conditions as at 31 December 2020[1]
	(% of salary)	Achieved (Yes/No)					
Executive							
E Story	200%	Yes	14,320,188[3]	16,087,407[3]	3,765,173	-	701,763
J Brown[7]	200%	No	573,236	716,612	2,968,652	-	438,171
M Watts[7]	200%	No	708,157	851,533	2,968,652	-	438,171
Non-Executive							
J Martin	–	–	–	130,000	130,000		
M Daryabegui	–	–	–	36,757	36,757		
R Gray	–	–	–	–	–		
G Green[6]	–	–	–	–	95,000		
L Mitchell[5]	–	–	–	–	51,958[4]		

1. Figures include accrued dividend equivalents.
2. LTIP awards potentially vesting in March 2021 in respect of awards made in 2018 lapsed and are excluded from the above table.
3. Of these shares,1,675,000 Shares are held through The Story Family Trust, a closely associated person to Ed Story.
4. These shares are held by Alexander Barblett (husband of Lisa Mitchell), and a closely associated person to Lisa Mitchell.
5. Appointed to the Board on 1 April 2020.
6. 6Appointed to the Board on 20 May 2020
7. 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 SOCO 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 2020 other than as set out above and as described in the notes to the table above.

SHARE AWARDS OUTSTANDING AT 31 DECEMBER 2020

	Type of award[7]	As at 1 Jan 2020	Granted/ awarded[1]	Adjusted[2]	Lapsed	Released	As at 31 Dec 2020	Date potentially vested[3,4,5]	Expiry date
E Story[6]	LTIP	1,132,535	–	–	1,132,535	–	–	–	–
	LTIP	1,564,899	–	–	–	–	1,564,899	23.03.21	–
	LTIP	2,214,318	–	–	–	–	2,214,318	31.03.22	-
	LTIP	–	1,550,855	–	–	–	1,550,855	12.05.23	–
	DSBP	245,681	–	–	–	245,681	–	26.04.20	–
	DSBP	383,792	–	–	–	–	383,792	03.01.21	–
	DSBP	–	317,971	–	–	–	317,971	09.01.22	–
J Brown[6]	LTIP	1,420,326	–	–	1,420,326	–	–	–	06.02.27
	LTIP	1,078,649	–	–	–	–	1,078,649	23.03.21	23.03.28
	LTIP	1,417,797	–	–	–	–	1,417,797	31.03.22	31.03.29
	LTIP	–	1,550,855	–	–	–	1,550,855	12.05.23	12.05.30
	DSBP	152,760	–	–	–	152,760	–	26.04.20	26.04.28
	DSBP	235,469	–	–		–	235,469	03.01.21	03.01.29
	DSBP	–	202,702	–	–		202,702	09.01.22	09.01.22
M Watts[6]	LTIP	1,420,326	–	–	1,420,326	–	–	–	06.02.27
	LTIP	1,078,649	–	–	–	–	1,078,649	23.03.21	23.03.28
	LTIP	1,417,797	–	–	–	–	1,417,797	31.03.22	31.03.29
	LTIP	–	1,550,855	–	–	–	1,550,855	12.05.23	12.05.30
	DSBP	152,760	–	–	–	152,760	–	26.04.20	26.04.28
	DSBP	235,469	–	–		–	235,469	03.01.21	03.01.29
	DSBP	–	202,702	–	–	–		09.01.22	09.01.22

1. The face value of awards granted to E Story, J Brown and M Watts in the year was c.50% of 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 2021 did not achieve the performance threshold and lapsed.
5. In accordance with market regulation, DSBP awards vested on 21 March 2021, 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

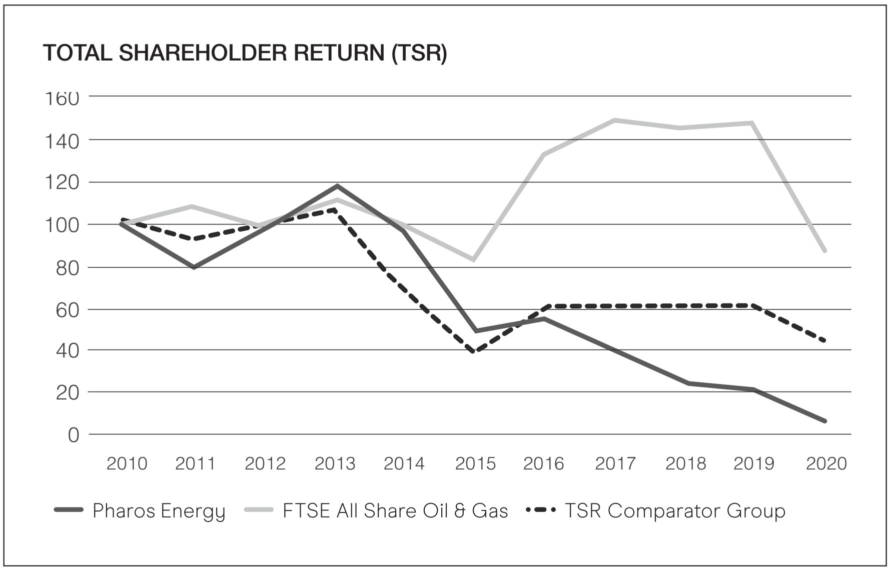
There have been no payments for loss of office during the year nor any payments to former Directors.

UNAUDITED SECTION

Historical TSR performance and CEO outcomes

TSR performance

The chart below illustrates Pharos' ten-year TSR performance against the FTSE All Share Oil & Gas Index, being a broad market index which is sector specific. In addition we have shown a comparison against the current TSR comparator group used for the LTIP award. Note that this does not represent either the comparator group or time period against which performance is assessed under the LTIP which was assessed in relation to the performance period ending in January/February 2021.



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:

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	**2020**
CEO single figure of remuneration ($000s)[1]	1,466	2,362	2,992	3,154	3,659	2,875	2,018	2,122	2,262	1,938	**827**
Annual bonus payout (% of maximum)	25%	100%	100%	100%	80%	75%	35%	65%	105%	50%	**0%**
LTIP vesting (% of maximum)	34%	53%	71%	66%	100%	96%	46%	0%	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 Directors

The table below illustrates the percentage change in salary, benefits and annual bonus for each Director and all other employees.

	% change in salary (2020/2019)	% change in benefits (2020/2019)[1]	% change in annual bonus (2020/2019)[2]
E Story	-39.9%	4.4%	-100.0%
M Watts	-5.9%	4.5%	-100.0%
J Brown	-5.9%	3.3%	-100.0%
E Contini	-62.6%	0.00%	–
J Martin	38.9%	0.00%	–
M Daryabegui	5.2%	–0.00%	–
R de Sousa	-79.5%	-95.0%	–
R Gray	-16.7%	-31.1%	–
L Mitchell	100.0%	0.00%	-
G Green	100.0%	0.00%	-
All other employees	-4.4%	10.0%	-100.0%

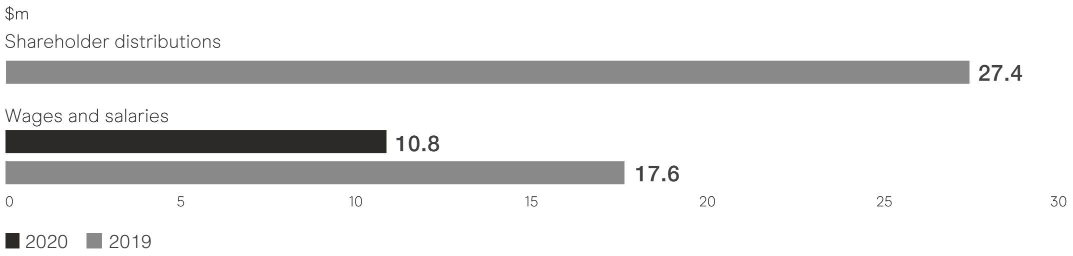
1. The increase in benefits for CEO is due to an increase in the UK Tax protection or equalisation payments
2. Bonuses are normally awarded in respect of the calendar year. However, no bonuses have been awarded in relation to 2020
3. The figures detailed above reflect the temporary salary reductions that have been taken by both the Directors and all other staff. All Directors took a 25% reduction, effective from 1st May 2020 and the Executives took a further 10%, effective from 1st August 2020, giving 35% in total. All other staff took a reduction of 10%, effective from 1st May and a further 10%, effective from 1st August, giving a total of 20%.
4. J Martin was appointed as Chair in March 2020 on a lesser remuneration of £150,000 per annum.

Chief Executive Officer's pay ratio

The Company currently has 26 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 2020 in the amount of $79,995 (2019: $79,363); and
- Jann Brown serves on the board of Troy Income and Growth Trust for which she retained associated fees for 2020 in the amount of £28,297 (2019: £77,863, includes pro-rated amount for Wood plc board till September 2019).

IMPLEMENTATION FOR 2021

Base salary

Executive Directors' salaries have not been increased for 2021.

	2021 Base salary 000s	2020 Base salary 000s*	Increase from 2020 %
E Story	**$702**	$702	–%
J Brown	**£535**	£535	–%
M Watts	**£535**	£535	–%

* The figures given above do not include the 35% temporary reduction in salary that the Executive Directors volunteered to take in 2020 and which will continue to apply to Q2 2021 at least. 25% reduction was effective from 1st May 2020 and a further 10% was effective from 1st August 2020

The above figures are before the impact of any waivers. As statements in the chairman's report on page 87, the executives are currently waiving 35% of these amounts and which will become a 50% waiver following Q2.

Benefits

For 2021, 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.

The above figures are before the impact of any waivers. As statements in the chairman's report on page 87, the executives are currently waiving 35% of these amounts and which will become a 50% waiver following Q2.

Pension

For 2021, 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 2021. 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 2021, and identifies the link from each of these measures to our core strategy of:

2021 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.		• Zero LTIs • TRIR target – 0.8 • 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 in a way which value and/or cashflow accretive.		• Production volumes for all producing assets • Complete farm down of Egypt • Complete farm down of 125 & 126 Vietnam
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 • Maintain cost base reductions achieved in 2020 • Net debt to EBITDAX • All bank covenants met • Funding plan in place to cover all activities post farm out of Egypt
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.		• Complete skills gap analysis to map and deliver forward strategy • Social investment plan approved and implemented • Complete independent review of key policy compliance across the Group

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

A resolution will be proposed at the AGM to renew the LTIP, as it has now reached the end of its 10 year life. We are looking to develop one share incentive scheme for the entire organisation rather than the previous arrangement whereby we had different schemes for different levels. We would do this by adapting the current LTIP scheme rather than developing something completely new. The LTIP grant level for 2020 was reduced substantially and the Committee will take this and all other relevant circumstances into account in considering the appropriate grant level for 2021.

By having one scheme for everyone we will ensure that the scheme is significantly easier to manage and the allocation levels easier to monitor.

The proposed scheme will build in the flexibility to work for all staff; to ensure that the stringent performance conditions and grant levels expected by the market for the executive directors can be maintained, but allow for alternative targets and significantly lower grant levels for staff.

There is one other difference being brought in with the new scheme. All schemes must set out the dilution limits they will adhere to, the most common being 10% over 10 years. Our existing LTIP also includes an inner limit of 5% over 10 years and the intention is to dispense with this to allow for the wider use as set out above.

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).

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 2021	Fee from 1 January 2020
Chair of the Company*	**£150,000**	£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

(** Reduced from £200,000 to £150,000 in March 2020 on the appointment of John Martin)

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 2021, 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 106

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 (until August 25 2020), Marianne Daryabegui and Geoffrey Green (from 25 August 2020).

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 £25,880 were paid in 2020 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 (2020 AGM)		Remuneration report (2020 AGM)	
	Votes	%	Votes	%
Votes in favour	186,249,683	79.21%	**217,778,159**	**92.62%**
Votes against	48,882,501	20.79%	**17,354,025**	**7.38%**
Total votes	235,132,184	100.00%	**235,132,184**	**100.00%**
Votes withheld	3,773	–	**3,773**	**–**

This report was approved by the Board of Directors and signed on its behalf by:

GEOFFREY GREEN
Remuneration Committee Chair

06 April 2021

DIRECTORS' REPORT

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 2020.

The following sections of this report are incorporated herein by reference and form part of this Directors' report.

Developments following the 2020 reporting period

An indication of the likely future developments in the business of the Group is included in the Strategic Report on pages 01 to 64.

In January 2021, the Company successfully completed an equity Placing, Subscription and Retail Offering which raised gross proceeds of approximately $11.7m. Proceeds are being used to fund Phase 1B of the waterflood programme in Egypt, which is now underway.

In March 2021, the Company has received provisional approval for an amendment of the fiscal terms from EGPC on the El Fayum Concession. Under the terms, the cost recovery percentage will be increased from 30% to 40% allowing Pharos a significantly faster recovery of all its past and future investments.

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

In March 2021, the Company announced the appointment of Sue Rivett to the Board as Chief Financial Officer ("CFO") effective 1 July 2021. Jann Brown, who is currently Managing Director ("MD") and CFO, will remain as MD, focused on delivering the next phase of the Group's strategic plan.

Results and dividends

The audited Financial Statements for the year ended 31 December 2020 are set out on pages 110 to 144. The Company announced in January of this year its intention to withdraw dividend payments during 2021, given the continued uncertainty in the macro environment. The Company also announced that it will continue to use the well documented capital allocation criteria to assess where and how to spend any free cash flow generated. The key goals are to preserve balance sheet strength, to invest in growth opportunities in excess of the cost of capital and to generate sustainable returns to shareholders.

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 2021 AGM and, being eligible, offer themselves for reappointment. Rui de Sousa stepped down from the Board on 13 March 2020 and John Martin took on the role of Chair going forward. Ettore Contini did not offer himself for reappointment and retired from the Board on 20 May 2020. Lisa Mitchell was appointed as an NED effective from 1 April 2020 and Geoffrey Green was appointed as an NED effective from 20 May 2020. Relevant details of the Directors, which include their Committee memberships, are set out in the section headed 'Board of Directors' on pages 69 to 70.

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 87.

Table A: Directors holding office during 2020

Director	Date of contract
John Martin Chair*	7 June 2019
Edward Story President and Chief Executive Officer	14 May 1997
Jann Brown	6 December 2017
Managing Director and Chief Financial Officer	6 December 2017
Mike Watts	7 June 2019
Managing Director	6 December 2017
Rob Gray* Deputy Chair and Senior Independent Director	9 December 2013
Rui de Sousa	12 July 1999
Ettore Contini	11 December 2001
Marianne Daryabegui *	15 March 2019
Geoffrey Green*	20 May 2020
Lisa Mitchell*	1 April 2020

* Denotes those determined by the Board to be Independent Non-Executive Directors as described in the Corporate Governance report on pages 71 to 74.

Contributions

The Group's policies prohibit political donations. In early 2020, Pharos, through the Ministry of Foreign Affairs of Vietnam, contributed $0.1m towards the repatriation cost of the Vietnamese victims involved in a tragic event that occurred in Essex, UK.

AGM

An explanation of the resolutions to be proposed at the 2021 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 2021 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 2021 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 2021 AGM. Deloitte also provide non-audit services to the Group, and details of the non-audit services provided in the year to 31 December 2020 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 82 to 86.

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 50 to 64.

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 40 to 49 details how we manage and mitigate these risks.

Substantial shareholdings

As at 31 December 2020, 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

	No of Ordinary Shares held as at 31 December 2020	% of voting rights as at 31 December 2020[1]	No of Ordinary Shares held as at 6 April 2021	% of voting rights as at 6 April 2021[2]	Nature of holding
Ettore Contini[3]	29,000,000	7.30	32,613,577	7.37	Direct and indirect
Blue Albacore Business Ltd	27,615,840	6.95	31,617,359	7.15	Direct
Globe Deals Ltd	27,444,382	6.90	27,444,382	6.21	Direct
Aberforth Partners LLP	-	-	25,883,843	5.85	Direct
Chemsa Ltd	24,336,925	6.12	24,336,925	5.50	Direct
Yorktown Energy Partners VII, LP	22,982,393	5.78	22,982,393	5.20	Direct
Lombard Odier Asset Management (Europe) Limited	20,838,707	5.24	22,006,010	4.98	Direct
Ed Story[4]	14,320,188	3.60	16,087,407	3.64	Direct and indirect

1) As at 31 December 2020, the total voting rights attached to the share capital in issue comprising 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) As at 6 April 2021, the total voting rights attached to the share capital in issue comprising 442,177,174 Ordinary shares each of £0.05 nominal value, being 451,299,442 Ordinary shares in issue less 9,122,268 Ordinary shares currently held in treasury.

3) The Company has been notified that, of these shares 28,780,000 shares are held through Liquid Business Ltd, a closely associated person to Ettore Contini.

4) Of these shares,1,675,000 Shares are held through The Story Family Trust, a closely associated person to Ed Story, and the balance are held by Mr Story personally.

During the period between 31 December 2020 and 6 April 2021, the Company did not receive any notifications under chapter 5 of the Disclosure and Transparency Rules other than as shown in the table above. For further information on Directors' interests, please see page 99.

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 87 to 104
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 143
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 139

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 is maintained to ensure that post award contract management is addressed to consider delivery of appropriate notices of renewal of termination.

We strive to work constructively with all our suppliers, customers and other business partners to build and maintain productive relationships. In 2020, as a result of the COVID-19 pandemic, the Company conducted a thorough review and consultation process of all contracts with such suppliers, customers and other business partners to reduce cost wherever possible.

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 1 to 64 including the Going Concern section of the Financial Review on page 38, 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 international accounting standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union. The financial statements have also been prepared in accordance with International Financial Reporting Standards as issued by the IASB. 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 110 to 144, which have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union and in accordance with International Financial Reporting Standards as issued by the IASB, 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 40 to 49; 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 position, performance, business model and strategy.

Approved by the Board and signed on its behalf.

JANN BROWN
Managing Director and
Chief Financial Officer

6 April 2021

FINANCIAL STATEMENTS

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PHAROS ENERGY PLC

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 2020 and of the group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006, International Financial Reporting Standards (IFRSs) as adopted by the European Union and IFRSs as issued by the International Accounting Standards Board (IASB);
- the parent company financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

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 36.

The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law, international accounting standards in conformity with the requirements of the Companies Act 2006 and IFRSs as adopted by the European Union and as issued by the IASB. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and international accounting standards in conformity with the requirements 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:

- 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 $3 million which was determined on the basis of 1% of Net assets and 4.4% of earnings before interest, tax, depreciation, depletion and amortisation, impairment of PP&E and intangibles, exploration expenditure and other exceptional expenses (EBITDAX). Management's calculation of EBITDAX is provided on page 146 to the financial statements.

Scoping

We focused primarily on the group's key business units, being Vietnam and Egypt, as well as the parent company which is based in London. These locations were all subject to full scope audit and account for 98% of the group's total assets, 83% of the group's revenue and 100% of the group's loss before tax from loss making entities. Specified audit procedures were then performed on the remaining 2% of the group's total assets, 17% of the group's revenue and 100% of the group's profit before tax from profit making entities.

Significant changes in our approach

The fair value acquisition accounting for Merlon was not included as a key audit matter in the current year, as the acquisition occurred in 2019 and therefore the risk is no longer applicable in 2020.

We have changed the materiality benchmark from Net assets in 2019 to Net assets and EBITDAX in 2020. See section 6.1 below for details.

No other changes were noted to the key audit matters or our overall audit approach as compared to the prior year.

4. Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our evaluation of the directors' assessment of the group's and parent company's ability to continue to adopt the going concern basis of accounting is discussed in section 5.2.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group's and parent company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In relation to the reporting on how the group has applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

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. Impairment of producing oil & gas assets

Key audit matter description

The value of property, plant and equipment relating to the group's producing oil and gas assets as at 31 December 2020 was $434.6 million (2019: $668.2 million). This is considered as a key audit matter due to the significant judgements and estimates involved in assessing whether any impairment has arisen at year-end, and in quantifying any such impairments. In addition, we considered that there was a risk of impairment due to the potential impact of climate change on long term oil prices. Given the importance of producing assets to the group and the judgemental nature of the inputs used in determining the recoverable amounts, we also considered there to be a potential for fraud in this area. We have assessed an increased risk in 2020 as compared to 2019 as a result of significant oil price volatility.

Management reviewed its two producing assets in Vietnam, being Te Giac Trang ('TGT') and Ca Ngu Vang ('CNV'), and its one producing asset in Egypt, being El Fayum, for indicators of impairment. As a result of the significant falls in the oil price which occurred in 2020 and ongoing oil price volatility, Management revised their oil price assumption downwards during 2020 compared to the prior year assumptions, as set out in Note 16 on page 133. Given the significance of the revision, together with changes to estimates of oil & gas reserves, Management concluded that there was an indicator of impairment for all three of those fields. Management have estimated the recoverable amount of each field, being its fair value less costs to sell, and compared this to its balance sheet carrying amount.

Management recorded pre-tax impairment charges of $23.3 million on CNV, $81.8 million on TGT and $105.4 million on El Fayum. No impairment charges were recorded in 2019.

Management's fair value estimates were based on key assumptions which included:

- oil price forecasts, being $54/bbl in 2021, $57/bbl in 2022, $59/bbl in 2023, $61/bbl in 2024 plus inflation of 2% thereafter;
- reserves estimates and production profiles;
- post-tax nominal discount rates of 11% for TGT and CNV, and 14% for El Fayum, being 1% and 2% higher respectively than the previous year; and
- operating and capital expenditure.

In relation to reserves estimates, Management have engaged third party reservoir engineering experts to provide an independent report on the group's reserves estimates using standard industry reserve estimation methods and definitions for each of the CNV, TGT and El Fayum fields. Management have explained the scope of work of the third party experts and their findings in the operations review, as well as highlighting oil and gas reserves as a key source of estimation uncertainty in note 4 to the financial statements.

As referenced in note 4 of the financial statements, the impairment of producing oil & gas assets is considered by management as a key source of estimation uncertainty.

Further details of the key assumptions used by management in their impairment evaluation are provided in note 16 of the financial statements and in the Report of the Audit & Risk Committee on pages 82 to 86. The disclosures in note 16 include the sensitivity of the impairment charges to changes in key assumptions, including the impact of adopting oil prices consistent with the average of a number of third party forecasts described as being compliant with achieving the Paris agreement goal to limit temperature rises to well below 2°C ("Paris 2°C Goal").

How the scope of our audit responded to the key audit matter	For the TGT, CNV and El Fayum impairment assessments, we obtained an understanding of management's key internal controls over the estimation of oil and gas prices, discount rates and reserve estimates, as well as the overall process by which management has derived its estimates of fair value less cost to sell. In addition, we conducted the following substantive procedures: **Oil and gas prices:** • We independently developed a reasonable range of forecasts based on external data obtained, against which we compared management's oil and gas price assumptions in order to challenge whether they are reasonable. • In developing this range, we obtained a variety of reputable and reliable third party forecasts, peer information and other relevant market data. • In challenging management's price assumptions, we considered the extent to which they reflect the impact of lower oil and gas demand due to climate change, the energy transition and COVID-19. This included consideration of third party forecasts stated as being consistent with achieving the Paris 2°C Goal. **Discount rates:** • We involved our internal valuation specialists to independently develop a reasonable range of discount rates for TGT, CNV and El-Fayum and compared those to the rates used by management. **Reserves estimates:** • We understood the process used by management to derive their reserves estimates and associated production profiles and how they provide information to, and interact with, the third party experts. • We reviewed the third party experts' reports on Pharos' reserves estimates as summarised in the operations review and evaluated whether these estimates were used consistently throughout the accounting calculations reflected in the financial statements. • We communicated directly with the third party reserves experts to discuss and assess their scope of work, and evaluate their competence, capabilities and objectivity. • We compared the production forecasts used in the impairment tests with management's approved reserves and resources estimates. **Other procedures:** • We assessed management's other assumptions by reference to third party information, our knowledge of the group and industry and also budgeted and forecast performance. • We assessed that Pharos' impairment methodology was acceptable under IFRS and tested the integrity and mechanical accuracy of the impairment models. • We assessed whether management's presentation and disclosures relating to impairment and associated estimation uncertainty were adequate.
Key observations	We are satisfied that the impairment charges recorded by management are appropriate. We are also satisfied that appropriate disclosures relating to Management's impairment assessment and sensitivities have been provided in Note 16.

5.2. Going concern basis of accounting

Key audit matter description	As a result of the significant fall in the oil price which occurred in 2020 and ongoing oil price volatility, we consider the appropriateness of the going concern basis of accounting and the appropriateness of Management's disclosure in this area to be a key audit matter. Management have prepared a base case cash flow forecast for a period of at least 12 months from the date of approval of the financial statements and also considered a number of downside scenarios. The key assumptions used by management in their base case include: • oil price forecasts, being $54.8/bbl in 2021 and $57/bbl in 2022; • production and expenditure forecasts for TGT and CNV consistent with management's latest life of field production models; and • production and expenditure forecasts for El Fayum based on an assumption of no further drilling, in contrast to the full field development plan (FFDP) case used for the (fair value based) impairment test, as the proposed farm-out process to provide funding for the FFDP has not yet completed. Management's downside scenarios include individual sensitivities relating to oil price and production. They have also considered an aggregated downside scenario, with key assumptions including: • oil price forecast of $35/bbl in March 2021, increasing by $5/bbl every 2 months until the oil price forecast is back in line with the base case by October 2021; and • 5% reduction in production for its Vietnam and Egypt producing assets. The aggregated downside scenario also includes a number of mitigating actions, of which the most significant is the deferral of uncommitted capital expenditure at TGT. Management's base case forecasts that the group will remain cash positive and in compliance with the financial covenants in its reserve based lending (RBL) facility for at least 12 months from the date of approval of the financial statements. In the downside scenario, the group is forecast to remain cash positive but there is a risk that liquidity falls below a minimum threshold specified under the terms of the RBL facility. However, management have identified additional mitigations, including the impact of recently agreed improvements in the fiscal terms of the concession agreement in Egypt and further expenditure reductions, which result in them forecasting to remain in compliance with the RBL liquidity threshold for the 12 month period. A reverse stress test has also been performed to show the extent to which oil prices would need to fall before the group breached its RBL liquidity covenant. Based on the analysis outlined above, management have concluded that the going concern basis of accounting is appropriate. Further details of the key assumptions used by management are provided in the going concern section of note 4(a) to the financial statements and page 38 in the Financial Review section of the Annual Report.
How the scope of our audit responded to the key audit matter	We obtained an understanding of management's key internal controls over the going concern basis of accounting process. In addition, we conducted the following substantive procedures: • assessed that the forecasts incorporated in the base case model are consistent with the budget approved by the Board; • compared the key assumptions in the base case forecast to those used in the impairment models for oil & gas producing assets and understood the basis for any differences; • assessed the historical accuracy of budgets prepared by Management; • compared the oil prices in the aggregated downside scenario with both the spot oil price and publically available forward curves as of the date of approval of the financial statements; • assessed and recalculated the impact of the aggregated downside scenario on the financial covenants included in the RBL during the going concern period; • assessed the ability of management to execute the mitigating actions in its aggregated downside scenario, including the extent to which the adjustments made to capital expenditure are uncommitted as of the date of this report; • assessed the results of the oil price reverse stress test, by comparing to currently prevailing prices; • tested the going concern model for mechanical accuracy; and • assessed whether the disclosures relating to going concern are appropriate.
Key observations	Based on the cash flow forecasts prepared by Management, we are satisfied that it is appropriate to adopt the going concern basis of accounting in preparing the financial statements.

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	$3 million (2019: $7 million)	$2.7 million (2019: $6.3 million)
Basis for determining materiality	1% of net assets and 4.4% of EBITDAX (2019: 1.4% of net assets)	0.8% of net assets (2019: 1.1% of net assets)
Rationale for the benchmark applied	In the prior year, materiality was based on net assets. This metric is still considered relevant as it is reflective of the long term value of the group through its portfolio of producing and exploration assets. However, in the current year we concluded that consideration should also be given to an income statement metric, as the majority of the group's oil & gas assets are now at the producing stage and the group has had its first full year of operations in Egypt. As the group has been loss making in the year, the most relevant income statement metric was considered to be EBITDAX, noting that this is also an input to one of the covenants under the group's reserve based lending (RBL) facility.	Consistent with 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 financial statements	Parent company financial statements
Performance materiality	70% (2019: 70%) of group materiality	70% (2019: 70%) of parent company materiality
Basis and rationale for determining performance materiality	In determining the 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; d) the limited turnover of management and key accounting personnnel in 2020; and e) 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 $0.15 million (2019: $0.35 million), 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 are all subject to full scope audits, accounted for 98% (2019: 98%) of the group's total assets, 83% (2019: 100%) of the group's revenue and 100% (2019: 82%) of the group's loss before tax from loss making entities. Specified audit procedures were then performed on the remaining 2% (2019: 2%) of the group's total assets, 17% (2019: 0%) of the group's revenue and 100% (2019: 100%) of the group's profit before tax from profit making entities. The Vietnamese component materiality was $1.575 million (2019: $5.6 million) and the Egyptian component materiality was $1.155 million (2019: $4.2 million). We also audited the consolidation of the group's business units. In both the current and the 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.

At the group level, we also tested the consolidation process, impairment of producing oil & gas assets, going concern, accounting for leases, borrowings and intercompany. We also carried out analytical procedures to support our conclusion that there were no significant risks of material misstatement of the aggregated financial information of the remaining components not subject to audit or audit of specified account balances.

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 and Egypt. In the current year, as a result of travel restrictions due to the Covid-19 pandemic, this was achieved by regular interaction and review through correspondence, telephone and other electronic media as well as performing a remote review of the underlying work of the component auditors in selected key areas 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 other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report.

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.

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 course of 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 this gives rise to a material misstatement in the financial statements themselves. 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.

We have nothing to report in this regard.

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.

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

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

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 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, the Listing Rules and tax legislation in the UK, Vietnam and Egypt.

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 and risk committee and in-house and external 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. Corporate Governance Statement

The Listing Rules require us to review the directors' statement in relation to going concern, longer-term viability and that part of the Corporate Governance Statement relating to the group's compliance with the provisions of the UK Corporate Governance Code specified for our review.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the financial statements and our knowledge obtained during the audit:

- the directors' statement with regards to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified set out on page 38;
- the directors' explanation as to its assessment of the group's prospects, the period this assessment covers and why the period is appropriate set out on pages 48, 49;
- the directors' statement on fair, balanced and understandable set out on page 83;
- the board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on page 40;
- the section of the annual report that describes the review of effectiveness of risk management and internal control systems set out on page 85; and
- the section describing the work of the audit & risk committee set out on pages 82 to 86.

14. Matters on which we are required to report by exception

14.1. 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.

15. Other matters which we are required to address

15.1. 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 19 years, covering the years ending 31 December 2002 to 31 December 2020.

15.2. 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).

16. 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

DAVID PATERSON ACA (Senior statutory auditor)

For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom

6 April 2021

Consolidated Income Statement for the year to 31 December 2020

	Notes	2020 $ million	2019 $ million
Continuing operations			
Revenue	5, 6	142.0	189.7
Cost of sales	7	(123.8)	(128.6)
Gross profit		18.2	61.1
Administrative expenses		(14.7)	(23.1)
Impairment charge – Intangibles	6, 15	(24.3)	–
Impairment charge – PP&E	6, 16	(210.5)	–
Operating (loss)/profit		(231.3)	38.0
Other/exceptional expense	8	(5.8)	(16.7)
Investment revenue	5	0.1	1.9
Finance costs	9	(4.2)	(11.5)
(Loss)/Profit before tax	6	(241.2)	11.7
Tax	6, 12	25.6	(38.2)
Loss for the year from continuing operations		(215.6)	(26.5)
Discontinued operations			
(Loss)/profit pre and post-tax for the year from discontinued operations	6	(0.2)	2.0
Loss for the year	30	(215.8)	(24.5)
Loss per share from continuing operations (cents)	14		
Basic		(54.6)	(7.0)
Diluted		(54.6)	(7.0)
Loss per share from continuing and discontinued operations (cents)			
Basic		(54.6)	(6.5)
Diluted		(54.6)	(6.5)

Consolidated Statement of Comprehensive Income for the year to 31 December 2020

	Notes	2020 $ million	2019 $ million
Loss for the year	30	(215.8)	(24.5)
Items that may be subsequently reclassified to profit or loss:			
Fair value gain/(loss) arising on hedging instruments during the year	25	20.0	(2.8)
Less: Cumulative (gain)/loss arising on hedging Instruments reclassified to profit or loss	25	(23.7)	0.2
Total comprehensive loss for the year		(219.5)	(27.1)

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 2020

		Group		Company	
	Notes	**2020 $ million**	2019 $ million	**2020 $ million**	2019 $ million
Non-current assets					
Intangible assets	15	**1.5**	20.4	**–**	0.3
Property, plant and equipment	16	**435.7**	669.6	**–**	0.6
Right-of-use assets	16, 33	**0.1**	7.3	**–**	6.3
Investments	17	**–**	–	**268.1**	539.2
Loan to subsidiaries		**–**	–	**21.1**	16.8
Other assets	18	**45.9**	43.6	**–**	–
		483.2	**740.9**	**289.2**	**563.2**
Current assets					
Inventories	19	**17.7**	16.2	**–**	–
Trade and other receivables	20	**22.9**	41.2	**1.6**	0.5
Tax receivables		**0.6**	1.2	**0.6**	0.3
Cash and cash equivalents	21	**24.6**	58.5	**3.5**	4.5
		65.8	**117.1**	**5.7**	**5.3**
Total assets		**549.0**	**858.0**	**294.9**	**568.5**
Current liabilities					
Trade and other payables	22	**(35.6)**	(35.5)	**(2.7)**	(5.5)
Borrowings	24	**(12.7)**	(26.4)	**–**	–
Lease liabilities	33	**(0.4)**	(0.8)	**–**	(0.3)
Tax payable		**(6.7)**	(8.8)	**(0.4)**	(1.7)
		(55.4)	(71.5)	**(3.1)**	(7.5)
Net current assets (liabilities)		**10.4**	**45.6**	**2.6**	**(2.2)**
Non-current liabilities					
Deferred tax liabilities	23	**(85.5)**	(137.8)	**–**	–
Borrowings	24	**(41.0)**	(71.7)	**–**	–
Lease liabilities	33	**–**	(6.4)	**–**	(6.0)
Long term provisions	26	**(73.4)**	(60.5)	**–**	–
		(199.9)	(276.4)	**–**	(6.0)
Total liabilities		**(255.3)**	**(347.9)**	**(3.1)**	**(13.5)**
Net assets		**293.7**	**510.1**	**291.8**	**555.0**
Equity					
Share capital	27	**31.9**	31.9	**31.9**	31.9
Share premium		**55.4**	55.4	**55.4**	55.4
Other reserves	28	**243.0**	246.6	**197.6**	199.3
Retained (deficit)/earnings	30	**(36.6)**	176.2	6.9	268.4
Total equity		**293.7**	**510.1**	**291.8**	**555.0**

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

The loss for the financial year in the accounts of the Company (Co number 3300821) was $264.5m inclusive of dividends from subsidiary undertakings (2019: $24.4m profit). 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 6 April 2021 and signed on its behalf by:

JOHN MARTIN
Chairman

JANN BROWN
Director

Statements of Changes in Equity for the year to 31 December 2020

Group

	Notes	Called up share capital (see Note 27) $ million	Share premium $ million	Other reserves (see Note 28) $ million	Retained earnings (see Note 30) $ million	Total $ million
As at 1 January 2019		27.6	–	246.6	226.6	500.8
Loss for the year	30	–	–	–	(24.5)	(24.5)
Other comprehensive loss	28	–	–	(2.6)	–	(2.6)
Currency exchange translation differences	28	–	–	0.4	–	0.4
Shares issued		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 1 January 2020		**31.9**	**55.4**	**246.6**	**176.2**	**510.1**
Loss for the year	30	**–**	**–**	**–**	**(215.8)**	**(215.8)**
Other comprehensive loss	28	**–**	**–**	**(3.7)**	**–**	**(3.7)**
Currency exchange translation differences	28	**–**	**–**	**0.8**	**–**	**0.8**
Share-based payments	28	**–**	**–**	**2.3**	**–**	**2.3**
Transfer relating to share-based payments	28, 30	**–**	**–**	**(3.0)**	**3.0**	**–**
As at 31 December 2020		**31.9**	**55.4**	**243.0**	**(36.6)**	**293.7**

Company

	Notes	Called up share capital (see Note 27) $ million	Share premium $ million	Other reserves (see Note 28) $ million	Retained earnings (see Note 30) $ million	Total $ million
As at 1 January 2019		27.6	–	196.7	269.9	494.2
Profit for the year	13, 30	–	–	–	24.4	24.4
Currency exchange translation differences	28	–	–	0.4	–	0.4
Shares issued		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 1 January 2020		**31.9**	**55.4**	**199.3**	**268.4**	**555.0**
Loss for the year	13, 30	**–**	**–**	**–**	**(264.5)**	**(264.5)**
Currency exchange translation differences	28	**–**	**–**	**0.8**	**–**	**0.8**
Share-based payments	28	**–**	**–**	**2.3**	**–**	**2.3**
Transfer relating to share-based payments	28, 30	**–**	**–**	**(4.8)**	**3.0**	**(1.8)**
As at 31 December 2020		**31.9**	**55.4**	**197.6**	**6.9**	**291.8**

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 2020

		Group		Company	
	Notes	**2020 $ million**	2019 $ million	**2020 $ million**	2019 $ million
Net cash from (used in) operating activities	32	**56.4**	72.3	**(16.9)**	(21.1)
Investing activities					
Purchase of intangible assets		**(3.5)**	(9.9)	**–**	(0.3)
Purchase of property, plant and equipment		**(35.5)**	(50.2)	**–**	(0.6)
Payment for acquisition of subsidiary, net of cash acquired		**–**	(153.1)	**–**	(155.5)
Payment to abandonment fund	18	**(2.3)**	(3.3)	**–**	–
Other investment in subsidiary undertakings		**–**	–	**(5.4)**	16.8
Dividends received from subsidiary undertakings		**–**	–	**21.8**	87.5
Net cash (used in) from continuing investing activities		**(41.3)**	(216.5)	**16.4**	(52.1)
Net cash used in discontinued investing activities		**–**	(0.7)	**–**	–
Net cash (used in) from investing activities		**(41.3)**	(217.2)	**16.4**	(52.1)
Financing activities					
Repayment of borrowings	24	**(42.8)**	–	**–**	–
Interest paid on borrowings	24	**(4.6)**	(7.7)	**–**	–
Lease payments	33	**(1.1)**	(1.2)	**(0.5)**	(0.9)
Share-based payments		**–**	0.1	**–**	0.1
Dividends paid to company shareholders	29	**–**	(27.4)	**–**	(27.4)
Net cash used in financing activities		**(48.5)**	(36.2)	**(0.5)**	(28.2)
Net decrease in cash and cash equivalents		**(33.4)**	(181.1)	**(1.0)**	(101.4)
Cash and cash equivalents at beginning of year		**58.5**	240.1	**4.5**	105.9
Effect of foreign exchange rate changes		**(0.5)**	(0.5)	**–**	–
Cash and cash equivalents at end of year	21	**24.6**	58.5	**3.5**	4.5

The above consolidated cash flow statements should be read in conjunction with the accompanying notes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 24 to 32 and 35 to 39, 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 international accounting standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union. The financial statements have also been prepared in accordance with International Financial Reporting Standards as issued by the IASB.

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 108 and in the Financial Review on page 38.

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.

The principal accounting policies adopted are set out below.

b) New and amended standards adopted by the Group

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

- IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors (Amendment – Disclosure Initiative - Definition of Material)
- IFRS 3 Business Combinations (Amendment – Definition of Business)
- Conceptual Framework for Financial Reporting (Revised)
- IBOR Reform and its Effects on Financial Reporting – Phase 1

c) New standards and interpretations not yet adopted

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

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.

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 Group 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 depreciation, depletion and amortisation accounting policy.

Depreciation, depletion and amortisation

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 of 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 in the period in which it is identified.

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

On inception of a contract, the Group assesses whether the contract is, or contains, a lease. The contract is, or contains, a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To determine whether the contract conveys the right to control the use of an identified asset, the Group assesses whether the contract involves the use of an identified asset, the Group has the right to obtain substantially all of the economic benefits from the use of the asset throughout the period of use, and the Group has the right to direct the use of the asset.

For short-term leases (lease term less than 12 months) and leases for which the underlying asset is of low value assets, the Group has opted to recognise a lease expense on a straight-line basis.

Right-of-use assets are 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 are 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 at start of the lease.

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 be applied 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.

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 income and expense. As at 31 December 2020 and 2019 no financial assets were classified at fair value through profit or loss.

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 the Brent component of forecast oil sales 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.

Borrowings

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) Provisions

A contingent liability is disclosed unless the possibility of an outflow of resources embodying economic benefits is remote or the amount of the liability cannot be measured with sufficient reliability.

Contingent liabilities may develop in a way not initially expected. Therefore, they are assessed continually to determine whether an outflow of resources embodying economic benefits has become probable. If it becomes probable that an outflow of future economic benefits will be required for an item previously dealt with as a contingent liability, a provision is recognised in the financial statements of the period in which the change in probability occurs.

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

r) 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.

s) 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 40 to 49.

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 along with details of impairment charges that arose during the year. 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.

Going concern

The Financial Statements have been prepared on the going concern basis of accounting. A number of judgements were taken in concluding that this basis of preparation was appropriate and that there were no material uncertainties in this regard. These included applying appropriate estimates of future production and oil price together with ensuring that the forecasts included all expenditure that was either committed or expected to be incurred in relation to estimated production volumes. Consideration was also given to the potential ongoing impact of the COVID-19 pandemic. During 2020, the pandemic did not cause any interruptions to the group's producing assets in Vietnam and Egypt and accordingly the primary impact to the group's cash generating ability due to the pandemic in the next 12 months is considered to be the risk of further oil price reductions due to global supply and demand dislocations. This risk has been taken into consideration through downside oil price sensitivities, including the application of a reverse stress test. Further details in this area are provided in the Annual Report of the Directors on page 108 and in the Financial Review on page 38.

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 148. The estimate is reviewed at least twice a year and is audited by third party reservoir engineers 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 30, 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. Egypt proved and probable reserves estimates have been revised based on ongoing work of ERCE 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.

Climate change and the energy transition

Climate change and the transition to a low carbon economy were considered in preparing the consolidated financial statements. In particular, the energy transition is likely to impact future oil and gas prices which in turn may affect the recoverable amount of the group's property, plant and equipment (PP&E). Management's best estimate of future oil prices was revised down significantly in 2020, in part due to expectations of the impact of the energy transition. In developing these price assumptions, consideration was given to a range of third party forecasts, including a number that were described as being consistent with achieving the 2015 COP 21 Paris agreement goal to limit temperature rises to well below 2 degrees Celsius (the "Paris compliant scenarios"). Management's best estimate of oil prices, although higher, was within $5/bbl of the average of the Paris compliant scenarios. Further details of the key assumptions in this area have been provided in Note 16, including sensitivity analysis outlining the impact on the impairment charges of using the average of the Paris compliant scenarios. In addition to impairment, climate change pressures could curtail the expected useful lives of the group's oil and gas PP&E, thereby accelerating depreciation charges. However, the group's producing fields are likely to be fully depreciated within 15 years, during which timeframe it is expected that global demand for oil will remain robust. Accordingly, the impact of climate change on expected useful lives is not considered to be a significant judgement or estimate.

In addition to PP&E, climate change could: (1) adversely impact the future development or viability of exploration and evaluation (E&E) prospects. However, materially all of the group's E&E assets were impaired during the year, for the reasons described in Note 15, and therefore the impact of climate change in this area is not considered to be a significant judgement or estimate; (2) bring forward the date of decommissioning of the group's producing oil and gas assets in Vietnam, thereby increasing the net present value of the associated provision. However, decommissioning is currently forecast to occur within the next 10-11 years and, due to the relatively short timeframe, it is not considered that any reasonably possible acceleration in the timing of decommissioning will have a material impact on the provision, assuming the underlying cost estimates remain unchanged.

5. Total revenue

An analysis of the Group's revenue is as follows:

	2020 $ million	2019 $ million
Oil and gas sales (see Note 6)	**118.3**	189.9
Realised gains/(losses) on commodity hedges (see Note 6 and Note 25)	**23.7**	(0.2)
Investment revenue	**0.1**	1.9
	142.1	191.6

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 in previous years. There are no inter-segment sales. South East Asia and Egypt form the basis on which the Group reports its segment information.

					2020
	SE Asia $ million	Egypt $ million	Africa[2] $ million	Unallocated $ million	Group $ million
Oil and gas sales (see Note 5)	**87.7**	**30.6**	**–**	**–**	**118.3**
Realised gain on commodity hedges (see Note 5 and Note 25)	**–**	**–**	**–**	**23.7**	**23.7**
Total revenue	**87.7**	**30.6**	**–**	**23.7**	**142.0**
Depreciation, depletion and amortisation - Oil and gas (see Note 7 and Note 16)	**(47.8)**	**(15.5)**	**–**	**–**	**(63.3)**
Depreciation, depletion and amortisation - Other (see Note 16)	**–**	**(0.5)**	**–**	**(0.7)**	**(1.2)**
Impairment charge – Intangibles (see Note 15)[3]	**(19.0)**	**(5.3)**	**–**	**–**	**(24.3)**
Impairment charge – PP&E (see Note 16)	**(105.1)**	**(105.4)**	**–**	**–**	**(210.5)**
(Loss)/profit before tax from continuing operations[1]	**(121.8)**	**(124.6)**	**–**	**5.2**	**(241.2)**
Loss (post-tax) from discontinued operations	**–**	**–**	**(0.2)**	**–**	**(0.2)**
Tax charge on operations (see Note 12)	**(11.1)**	**–**	**–**	**–**	**(11.1)**
Tax credit on impairment (see Note 12)	**36.7**	**–**	**–**	**–**	**36.7**

					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
Realised loss on commodity hedges (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)

1) Unallocated amounts included in profit/(loss) before tax comprise corporate costs not attributable to an operating segment, investment revenue, other gains and losses and finance costs.

2) As of December 2018, Africa operations had been disposed.

3) Includes $1.1m write off of Block 125&126 tax receivable (other receivable - current) which was dependent on the E&E being developed.

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

Geographical information

The Group's oil and gas revenue and non-current assets (excluding other receivables) by geographical location are separately detailed below where they exceed 10% of total revenue or non-current assets, respectively:

Revenue

All of the Group's oil and gas revenue is derived from foreign countries. The Group's oil and gas revenue by geographical location is determined by reference to the final destination of oil or gas sold.

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

Non-current assets

	2020 $ million	2019 $ million
Vietnam	**330.5**	482.7
Egypt	**105.3**	207.4
Israel	**1.5**	–
United Kingdom	**–**	7.2
	437.3	697.3

Excludes other assets.

7. Cost of sales

	2020 $ million	2019 $ million
Depreciation, depletion and amortisation	**63.3**	74.4
Production based taxes	**7.0**	12.3
Production operating costs	**51.2**	45.4
Inventories	**2.3**	(3.5)
	123.8	128.6

8. Other/exceptional expense

	2020 $ million	2019 $ million
Egypt acquisition cost - assignment fee	**–**	13.6
Egypt acquisition cost – royalty (see Note 26)	**4.9**	–
Redundancy (gain)/loss	**(0.1)**	3.1
Premium – lease transfer (see Note 33)	**1.0**	–
	5.8	16.7

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

9. Finance costs

	2020 $ million	2019 $ million
Unwinding of discount on provisions (see Note 26)	**0.8**	1.6
Interest expense payable and similar fees (see Note 24)	**4.5**	7.0
Interest on lease liabilities (see Note 33)	**0.3**	0.3
Amortisation of capitalised borrowing costs (see Note 24)	**(1.5)**	2.7
Net foreign exchange losses/(gains)	**0.1**	(0.1)
	4.2	11.5

In 2020 $0.8m relates to the unwinding of discount on the provisions for decommissioning (2019: $1.6m). The provisions are based on the net present value of the Group's share of the expenditure which may be incurred at the end of the producing life of TGT and CNV (currently estimated to be 10-11 years) in the removal and decommissioning of the facilities currently in place (see Note 26).

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

10. Auditor's remuneration

The analysis of the auditor's remuneration is as follows:

	2020 $000s	2019 $000s
Fees payable to the Company's auditor and their associates for the audit of the Company's annual accounts	**317**	254

Fees payable to the Company's auditor and their associates for other services to the Group:		
Audit of the Company's subsidiaries	**107**	79
Total audit fees	**424**	333

Audit related assurance services – half year review	**129**	88
Other assurance services	**16**	19
Total non-audit fees	**145**	107

The non-audit fees during 2020 and 2019 included the half year review and other assurance services associated primarily with agreed upon procedures relating to the Vietnam region. 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.

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 82 to 86.

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 71 (2019: 49), of which 66 (2019: 43) were administrative personnel and 5 (2019: 6) were operations personnel. Their aggregate remuneration comprised:

	Group	
	2020 $ million	2019 $ million
Wages and salaries	**6.9**	10.6
Social security costs	**0.6**	1.1
Share-based payment expense (see Note 31)	**2.2**	4.0
Other pension costs under money purchase schemes	**0.8**	1.4
Other benefits	**0.3**	0.5
	10.8	17.6

In accordance with the Group's accounting policy $1.3m (2019: $1.6m) of the Group's staff costs above have been capitalised, of which $0.9m (2019: $1.2m) relates to our Vietnam assets and $0.4m (2019: $0.4m) relates to our Egypt assets.

In 2020, the total staff costs were $10.8m (2019: $17.6m). Excluding the impact of IFRS 2 share-based payment expense, the underlying costs have decreased to $8.6m (2019: $13.6m).

The staff costs of $10.8m (2019: $17.6m) include the costs of head office and Pharos' subsidiary employees. The 2019 comparatives have been restated to exclude the staff costs of the Egyptian joint operating company of $4.5m as these are not borne by the Group. This disclosure correction has no impact on the Group's results for 2019.

12. Tax

	2020 $ million	2019 $ million
Current tax charge	**26.7**	42.2
Deferred tax credit on operations (see Note 23)	**(15.6)**	(4.0)
Deferred tax credit on impairment (see Note 16 and 23)	**(36.7)**	–
Total tax (credit) / charge	**(25.6)**	38.2

The Group's corporation tax is calculated at 50% (2019: 50%) of the estimated assessable profit for the year in Vietnam. In Egypt, under the terms of the concession any local taxes arising are settled by EGPC. During 2020 and 2019 both current and deferred taxation have arisen in overseas jurisdictions only.

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

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

The prevailing tax rate in Vietnam, where the Group produces oil and gas, is 50%. The tax charge in future periods may also be affected by the factors in the reconciliation above.

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

Non-deductible expenses, primarily relate to Vietnam DD&A charges for costs previously capitalised, which are non-deductible for Vietnamese tax purposes of $6.1m (2019: $8.9m) and Vietnam net impairment of $15.9m (2019: Nil). A further $2.0m (2019: $5.1m) relates to non-deductible corporate costs including share scheme incentives.

The Egypt concessions are subject to corporate income tax at the standard rate of 40.55%, however responsibility for payment of corporate income taxes falls upon EGPC on behalf of our local subsidiary Pharos El Fayum (PEF). The Group records a tax charge, with a corresponding increase in revenues, for the tax paid by EGPC on its behalf. However, this is only valid if PEF is in a profit making position and no such tax has been recorded this year.

The effect from tax losses not recognised relates to costs, primarily of the Company, deductible for tax in the UK but not expected to be utilised in the foreseeable future. It also includes losses arising in Egypt for which no future benefit can be obtained under the terms of the concession agreement.

13. (Loss) / profit attributable to Pharos Energy Plc

The loss for the financial year in the accounts of the Company was $264.5m inclusive of dividends from subsidiary undertakings (2019: profit of $24.4m). 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	
	2020 $ million	2019 $ million
Loss from continuing and discontinued operations for the purposes of basic loss per share	**(215.8)**	(24.5)
Effect of dilutive potential ordinary shares – Cash settled share awards and options	**–**	–
Loss from continuing and discontinued operations for the purposes of diluted loss per share	**(215.8)**	(24.5)

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

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

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

15. Intangible assets

	Group		Company	
	2020 $ million	2019 $ million	**2020 $ million**	2019 $ million
Exploration and evaluation expenditure				
As at 1 January	**20.4**	5.8	**0.3**	–
Additions	**4.3**	14.6	**–**	0.3
Impairment – Intangibles[1]	**(23.2)**	–	**–**	–
Transfer to subsidiary	**–**	–	**(0.3)**	–
As at 31 December	**1.5**	20.4	**–**	0.3

1) Excludes $1.1m write off of Block 125&126 tax receivable (other receivable - current) which was dependent on the E&E being developed.

Intangible assets at 2020 year-end comprise the Group’s exploration and evaluation projects which are pending determination. Included in the additions is Blocks 125 & 126 in Vietnam $2.0m (2019: $10.1m), Egypt $1.1m (2019: $4.2m) of which $0.3m (2019: $2.4m) relates to North Beni Suef and $1.2m (2019: $0.3m) for Israel. At June 2020 and December 2020 an impairment indicator of IFRS 6 was triggered following the Group’s decision to defer all non-essential investment in Vietnam and Egypt at this point. No substantive expenditure for its exploration areas in Vietnam and Egypt is either budgeted or planned in the near future. Exploration costs including costs associated with Blocks 125 & 126 in Vietnam of $17.9m and costs associated with Egypt projects in the amount of $5.3m were written off in the income statement in accordance with the Group’s accounting policy on oil and gas exploration and evaluation expenditure.

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

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 2019	932.6	2.1	934.7	2.0
Egypt assets acquired	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 1 January 2020	**1,169.2**	**10.7**	**1,179.9**	**9.5**
Additions	**32.8**	**0.7**	**33.5**	**–**
Revision in decommissioning asset	**6.6**	**–**	**6.6**	**–**
Disposal of other assets	**–**	**(2.5)**	**(2.5)**	**(2.5)**
De-recognition of right-of-use asset (see Note 33)	**–**	**(7.0)**	**(7.0)**	**(7.0)**
As at 31 December 2020	**1,208.6**	**1.9**	**1,210.5**	**–**
Depreciation				
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 1 January 2020	**500.1**	**2.9**	**503.0**	**2.6**
Charge for the year	**63.3**	**1.2**	**64.5**	**0.7**
Impairment charge	**210.5**	**–**	**210.5**	**–**
Disposal of other assets	**–**	**(2.0)**	**(2.0)**	**(2.0)**
De-recognition of right-of-use asset (see Note 33)	**–**	**(1.3)**	**(1.3)**	**(1.3)**
As at 31 December 2020	**773.9**	**0.8**	**774.7**	**–**
Carrying amount				
As at 31 December 2020	**434.7**	**1.1**	**435.8**	**–**
As at 31 December 2019	669.1	7.8	676.9	6.9
Property, plant and equipment	**434.6**	**1.1**	**435.7**	**–**
Right of use assets (see Note 33)	**0.1**	**–**	**0.1**	**–**
As at 31 December 2020	**434.7**	**1.1**	**435.8**	**–**
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 a result of the oil price volatility and movements in 2P reserves, we have tested each of our oil and gas producing properties for impairment. The results of these impairment tests are summarised below. For each producing property, the recoverable amount has been determined using the fair value less costs of disposal method which constitutes a level 3 valuation within the fair value hierarchy. The recoverable amount is supported by the fair value derived from a discounted cash flow valuation of the 2P production profile.

Vietnam

The key assumptions to which the fair value measurement is most sensitive are oil price, discount rate and 2P reserves (2019: oil price, discount rate and capital spend). As at 31 December 2020, the fair value of the assets was estimated based on a post-tax nominal discount rate of 11% (2019: 10%) and a nominal Brent oil price of $54.0/bbl in 2021, $57.0/bbl in 2022, $59.0/bbl in 2023, $61.0/bbl in 2024 plus inflation of 2.0% thereafter (2019: Brent oil price of $65.0/bbl in 2020, plus inflation of 2.0% thereafter).

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

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

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

Testing of sensitivity cases indicated that a $5/bbl reduction in long-term oil price used when determining the fair value less costs of disposal method would result in additional post-tax impairments of $30.3m on TGT and a $5.7m on CNV. A 1% increase in discount rate would result in additional post-tax impairments of $4.9m on TGT and $1.7m on CNV. We have also run sensitivities utilising the average of a number of third party forecasts described as being consistent with achieving the 2015 COP 21 Paris agreement goal to limit temperature rises to well below 2 degrees Celsius (the "Paris oil price scenario"). The nominal Brent prices used in this scenario were as follows; 2021: $49/bbl, 2022:$54/bbl, 2023:$56/bbl, 2024:$57/bbl, 2025:$58/bbl, 2026: $61/bbl, 2027:$64/bbl, 2028:$65/bbl, 2029:$66/bbl. Using these prices and an 11% discount rate would result in additional post-tax impairments of $17.8m on TGT and $3.0m on CNV.

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

Egypt

The key assumptions to which the fair value measurement is most sensitive are oil price, discount rate, capital spend and 2P reserves. As at 31 December 2020, the fair value of the assets are estimated based on a post-tax nominal discount rate of 14% (2019: 12%) and a nominal Brent oil price of $54.0/bbl in 2021, $57.0/bbl in 2022, $59.0/bbl in 2023, $61.0/bbl in 2024 plus inflation of 2.0% thereafter (2019: Brent oil price of $65.0/bbl in 2020, plus inflation of 2.0% thereafter).

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

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

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

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

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 2020.

	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	2,5	e
SOCO Vietnam Ltd	Cayman Islands	Vietnam	Oil and gas development and production	100	2,4	d
Pharos Exploration Limited	Jersey	–	Investment holding	100	1	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	2,6	d
OPECO, Inc	USA	–	Investment holding	100	2,5	c
Pharos El Fayum	Cayman Islands	Egypt	Oil and gas development and production	100	1	d
SOCO Management Services, Inc.	USA	USA	Management services	100	2	c
Pharos Energy Israel Limited	UK	Israel	Extraction of crude petroleum	100	1	b
Pharos Oil and Gas Limited	UK	–	Extraction of crude petroleum	100	1,3	b
Pharos Energy NBS Limited	UK	–	Extraction of crude petroleum	100	1,3	b

Footnotes:

Group investments

1) Investments held directly by Pharos Energy Plc.
2) Investments held indirectly by Pharos Energy Plc.
3) Dormant
4) 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) Eastcastle House, 27/28 Eastcastle Street, London W1W 8DH, 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) c/o Portcullis (Cook Islands) Ltd ,T&F Chambers, Main Road, Rarotonga, Cook Islands

Divestments:

The following subsidiary undertaking was dissolved during the year:

SOCO DRC Limited

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 2020 the decrease in investment value of $271.1m was due mainly to an impairment to investments in subsidiaries of $270.7m.

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 2020, the Group has contributed $2.3m (2019: $3.3m). As at 31 December 2020 the Group's total contribution to the funds was $45.9m (2019: $43.6m)

19. Inventories

	Group		Company	
	2020 $ million	2019 $ million	**2020 $ million**	2019 $ million
Crude oil and condensate	**5.6**	8.2	**–**	–
Warehouse stocks and materials	**12.1**	8.0	**–**	–
	17.7	16.2	**–**	–

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 $12.1m (2019: $8.0m) are all related to Egypt.

20. Trade and other receivables

	Group		Company	
	2020 $ million	2019 $ million	**2020 $ million**	2019 $ million
Amounts falling due within one year				
Trade receivables	**14.8**	31.5	**–**	–
Other receivables	**1.6**	0.7	**–**	–
Prepayments and accrued income	**6.5**	9.0	**1.6**	0.5
	22.9	41.2	**1.6**	0.5

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 2020 are trade receivables of $5.9m and $6.5m respectively, which arose from the Group's two largest customers (2019: $16.2m and $14.0m from the Group's two largest customers in South East Asia and Egypt respectively).

In Vietnam, there are no amounts overdue or allowances for doubtful debts in respect of trade or other receivables (2019: nil). In Egypt, the average credit period on sales is 126 days (2019: 180 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, 84% (2019: 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 2020 and 2019, we have concluded that the ECL related to our trade receivables is immaterial.

Included in prepayments is $1.2m held by Sheppard & Wedderburn LLP on a 'quasi escrow' basis to be released to the new London office tenant over the next 12 months as the tenant makes payments to the landlord (see Note 33).

21. Cash and cash equivalents

As at 31 December 2020, cash and cash equivalents was $24.6m (2019: $58.5m). Of this balance, $0.1m (2019: $2.8m) 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 in the Group and the Company include $2.7m (2019: $2.7m) 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	
	2020 $ million	2019 $ million	**2020 $ million**	2019 $ million
Trade payables	**18.4**	11.9	**–**	–
Other payables	**2.2**	7.5	**1.1**	2.1
Derivative financial instruments (see Note 25)	**6.8**	3.0	**–**	–
Accruals and deferred income	**8.2**	13.1	**1.6**	3.4
	35.6	35.5	**2.7**	5.5

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 2020 is 223 days (2019: 220 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 40 to 49.

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 2019	139.7	2.1	141.8
(Credit)/charge to income (see Note 12)	(5.9)	1.9	(4.0)
As at 1 January 2020	**133.8**	**4.0**	**137.8**
Credit to income (see Note 12)	**(51.2)**	**(1.1)**	**(52.3)**
As at 31 December 2020	**82.6**	**2.9**	**85.5**

The credit to income includes a deferred tax credit of $36.7m (2019: $0) that arises from the impairment of the TGT and CNV producing assets as discussed in Note 16.

There are no unrecognised 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 $181.5m (2019: $173.7m). The gross losses have no expiry date.

24. Borrowings

	Group	
	2020 $ million	2019 $ million
Borrowings:		
Fair value of bank loans	**57.2**	100.0
Less unamortised issue costs and debt arrangement fees	**(3.5)**	(1.9)
Carrying value of total debt	**53.7**	98.1
Current	**12.7**	26.4
Non-current	**41.0**	71.7
Carrying value of total debt	**53.7**	98.1

Movements in borrowing liabilities

	2020 $ million	2019 $ million
Carrying value of total debt as of 1 January	**98.1**	96.1
Principal payments	**(42.8)**	–
Amortisation of capitalised borrowing costs (see Note 9)	**(1.5)**	2.7
Interest payable and similar fees (see Note 9)	**4.5**	7.0
Interest paid during the year	**(4.6)**	(7.7)
Carrying value of total debt as of 31 December	**53.7**	98.1

See Note 33 for movements in lease liabilities which, together with borrowings, represent the Group's financing related liabilities.

In September 2018, the Group signed a $125m Reserve Based Lending facility (RBL) secured against the Group's producing assets in Vietnam. 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.

The Group has started discussions with the RBL banking group to amend the USD LIBOR loan, so that the reference benchmark interest rate will change to the Secured Overnight Financing Rate (SOFR). The Group aims to finalise this amendment in the second half of 2021.

The maximum borrowing base available under the RBL is revised every six months 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 significant decrease in the oil price in H1 2020 led to a much reduced borrowing base amount in the 30 June 2020 redetermination, resulting in principal repayments during the year totalling $42.8m, exceeding the $26.4m repayments anticipated at 31 December 2019 and classified as current liabilities at that balance sheet date. At the redetermination, at 31 December 2020, the borrowing base was calculated as $56.3m resulting in a principal repayment of $0.9m being made in January 2021.

The $12.7m, categorised as current, is based on the outcome of the December 2020 RBL redetermination criteria and will likely change following the June 2021 redetermination.

The RBL is subject to a number of financial covenants, all of which have been complied with during the 2020 and 2019 reporting periods.

25. Hedge transactions

During 2020, Pharos entered into different commodity (swap) hedges to protect the Brent component of forecast oil sales and to ensure future compliance with its obligations under the RBL over the producing assets in Vietnam. The commodity hedges run until December 2021 and are settled monthly. The hedging positions in place at the balance sheet date cover 42% of the Group's forecast production until December 2021, securing an average price for this hedged volume of $44.7 per barrel (2019: cover was 57% of the Group's forecast H1 2020 entitlement volumes securing a minimum price for this hedged volume of $60.7 per barrel).

Pharos has designated the swaps as cash flow hedges. This means that the effective portion of unrealised gains or losses on open positions will be reflected in other comprehensive income. Every month, the realised gain or loss will be reflected in the revenue line of the income statement. For the year end 31 December 2020 a gain of $23.7m was realised (2019: loss of $0.2m). The outstanding unrealised loss on open position as at 31 December 2020 amounts to $6.3m (2019: loss of $2.6m).

The carrying amount of the swaps is based on the fair value determined by a financial institution. As all material inputs are observable, they are categorised within Level 2 in the fair value hierarchy. It is presented in "Trade and other receivables" or "Trade and other payables" in the consolidated statement of financial position. The liability position as of December 2020 was $6.8m (2019: liability position $3.0m).

26. Long-term provisions

	Group		Company	
	2020 $ million	2019 $ million	2020 $ million	2019 $ million
Decommissioning provision	**68.0**	60.5	**–**	–
Royalty provision	**5.4**	–	**–**	–
	73.4	60.5	**–**	–

Movement in decommissioning

	Group	
	2020 $ million	2019 $ million
As at 1 January	**60.5**	51.7
New provisions and changes in estimates	**6.7**	7.2
Unwinding of discount (see Note 9)	**0.8**	1.6
As at 31 December	**68.0**	60.5

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 10-11 years) in the removal and decommissioning of the facilities currently in place. The provision is calculated using an inflation rate of 2.0% (2019: 2.0%) and a discount rate of 0.9% (2019: 1.9%). The $6.7m increase in provision primarily resulted from the reduction in the discount rate in 2020 offset by the change in JOC parties' interest from 98.8822% to 97.2127%. No decommissioning obligations exist in Egypt under the terms of the concession agreement.

The royalty provision relates to a historical arrangement granting a 3% royalty on Pharos's share of profit oil and excess cost recovery from El Fayum in Egypt. At both the date of acquisition of the Egypt assets (April 2019) and 31 December 2019 the risk of a material outflow in relation to this arrangement was, based on legal advice, considered remote and therefore no provision was recorded. As a result of additional legal advice obtained during 2020, it is now considered probable that amounts are due under this arrangement and accordingly a provision of $5.4m has been recognised, which is anticipated to be settled in 1 to 3 years. Of this amount, $4.9m relates to the period up to the acquisition date and has been recorded within Other/exceptional expense, with the balance arising since acquisition recorded within cost of sales.

27. Share capital

Ordinary Shares of £0.05 each

	Group and Company			
	2020 Shares	2019 Shares	**2020 $ million**	2019 $ million
Issued and fully paid	**406,637,952**	406,637,952	**31.9**	31.9

As at 31 December 2020 authorised share capital comprised 600 million (2019: 600 million) ordinary shares of £0.05 each with a total nominal value of £30m (2019: £30m).

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 2019	100.3	188.7	(47.1)	–	4.7	246.6
Currency exchange translation differences	–	–	–	–	0.4	0.4
Other comprehensive loss	–	–	–	(2.6)	–	(2.6)
Share-based payments	–	–	–	–	3.7	3.7
Transfer relating to share-based payments	–	–	–	–	(1.5)	(1.5)
As at 1 January 2020	**100.3**	**188.7**	**(47.1)**	**(2.6)**	**7.3**	**246.6**
Currency exchange translation differences	**–**	**–**	**–**	**–**	**0.8**	**0.8**
Other comprehensive loss	**–**	**–**	**–**	**(3.7)**	**–**	**(3.7)**
Share-based payments	**–**	**–**	**–**	**–**	**2.3**	**2.3**
Transfer relating to share-based payments	**–**	**–**	**1.8**	**–**	**(4.8)**	**(3.0)**
As at 31 December 2020	**100.3**	**188.7**	**(45.3)**	**(6.3)**	**5.6**	**243.0**

					Company
	Capital redemption reserve $ million	Merger reserve $ million	Own shares $ million	Share-based payments $ million	Total $ million
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 1 January 2020	**100.3**	**131.8**	**(40.3)**	**7.5**	**199.3**
Currency exchange translation differences	**–**	**–**	**–**	**0.8**	**0.8**
Share-based payments	**–**	**–**	**–**	**2.3**	**2.3**
Transfer relating to share-based payments	**–**	**–**	**–**	**(4.8)**	**(4.8)**
As at 31 December 2020	**100.3**	**131.8**	**(40.3)**	**5.8**	**197.6**

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 2020 was 9,122,268 (2019: 9,122,268) and 2,181,655 (2019: 2,897,094) respectively. The market price of the shares at 31 December 2020 was £0.1800 (2019: £0.5320). 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 87 to 104.

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

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

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

30. Retained (deficit) / earnings

			Group
	Retained (loss)/profit $ million	Unrealised currency translation differences $ million	Total $ million
As at 1 January 2019	221.5	5.1	226.6
Loss for the year	(24.5)	–	(24.5)
Distributions (see Note 29)	(27.4)	–	(27.4)
Transfer relating to share-based payments	1.5	–	1.5
As at 1 January 2020	**171.1**	**5.1**	**176.2**
Loss for the year	**(215.8)**	**–**	**(215.8)**
Transfer relating to share-based payments	**3.0**	**–**	**3.0**
As at 31 December 2020	**(41.7)**	**5.1**	**(36.6)**

	Company		
	Retained (loss)/profit $ million	Unrealised currency translation differences $ million	Total $ million
As at 1 January 2019	493.5	(223.6)	269.9
Profit for the year	24.4	–	24.4
Distributions (see Note 29)	(27.4)	–	(27.4)
Transfer relating to share-based payments	1.5	–	1.5
As at 1 January 2020	**492.0**	**(223.6)**	**268.4**
Loss for the year	**(264.5)**	**–**	**(264.5)**
Transfer relating to share-based payments	**3.0**	**–**	**3.0**
As at 31 December 2020	**230.5**	**(223.6)**	**6.9**

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 87 to 104. The Group recognised total expenses of $2.2m (2019: $4.0m) 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 employees of the Group. Awards vest over a period of three years, subject to criteria based on their individual performance (2019: subject to performance criteria which have been set with reference to the Company's TSR relative to a range of comparator companies). 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 2020. 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:

	2020 No. of share awards	2019 No. of share awards
As at 1 January	**18,680,757**	12,727,674
Adjustments[1]	**–**	1,430,392
Granted	**6,349,803**	7,597,799
Exercised	**–**	–
Forfeited during the year	**(7,034,553)**	(3,075,108)
As at 31 December	**17,996,007**	18,680,757
Exercisable as at 31 December	**–**	–

1) In accordance with Share Scheme rules, adjustments were made for the payment of dividends in 2019.

Awards outstanding at the end of the year have a weighted average remaining contractual life of 1.4 (2019: 1.5) years. The weighted average market price and estimated fair value of the 2020 grants (at grant date) were £0.16 and £0.11, respectively.

The fair value of the LTIPs granted during 2020 have been estimated using a Black Scholes model, based on the market price at date of grant and a nil exercise price. The fair value of the LTIPs granted during 2019 had 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 2020 was 68% (2019: 55%).

The main assumptions for the calculation are as follows:	**2020**	2019
Volatility	**49.07%**	35.00% - 35.60%
Risk free rate of interest	**1.10%**	0.92% - 0.95%
Correlation with comparator group	**n/a**	100%

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.

	2020		2019	
	No. of share awards	Weighted average exercise price £	No. of share awards	Weighted average exercise price £
As at 1 January	**3,785,789**	**0.47**	2,407,875	0.54
Adjustments[1]	–	–	125,552	–
Granted	**963,105**	–	1,358,175	–
Forfeited during the year	**(250,386)**	**4.85**	(31,567)	2.26
Expired	–	–	–	–
Exercised	**(1,322,113)**	–	(74,246)	–
As at 31 December	**3,176,395**	**0.46**	3,785,789	0.47
Exercisable as at 31 December	**2,151,638**	**1.10**	1,492,425	0.83

1) In accordance with Share Scheme rules, adjustments were made for the payment of dividends in 2019.

The weighted average market price at the date of exercise during 2020 was £0.17 (2019: £0.65). Awards outstanding at the end of the year have a weighted average remaining contractual life of 7.5 (2019: 7.3) years. The weighted average market price and estimated fair value of the discretionary share option scheme 2020 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 2020 grants (at grant date) was £0.995 (2019: £0.995).

The fair value of the awards granted during 2020 have been estimated using a Black Scholes model, based on the market price at date of grant and a nil exercise price. The fair value of the awards granted during 2019 had been provided by FIT Remuneration Consultants, which estimates the Company's performance against the targets using a Monte Carlo Model.

The main assumptions for the calculation are as follows:

	2020	2019
Volatility	**n/a**	35.60%

32. Reconciliation of operating profit to operating cash flows

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

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

33. Lease arrangements

For short-term leases (lease term less than 12 months) and leases for which the underlying asset is of low value, the Group has opted to recognise a lease expense on a straight-line basis as permitted under IFRS 16.

	$ million
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

	$ million
Lease liability recognised as at 1 January 2020	**7.2**
Derecognition of lease during 2020	(6.0)
Interest expense (see Note 9)	0.3
Principal repayments	(1.1)
Lease liability recognised as at 31 December 2020	**0.4**
Of which are:	
Current lease liabilities	0.4
Non-current lease liabilities	–

Right of use assets recognised as at 1 January 2020	**7.3**
Depreciation	(1.0)
Net derecognition of lease during 2020	(5.7)
Impairment of right of use asset	(0.5)
Right of use assets recognised as at 31 December 2020	
Oil & Gas properties	0.1
Other assets	–

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

34. Capital commitments

At 31 December 2020 the Group had exploration licence commitments not accrued of approximately $40.9m (2019: $40.2m).

35. Related party transactions

During the year, the Company recorded a net cost of $0.1m (2019: net cost of $0.2m) 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 87 to 104.

	2020 $ million	2019 $ million
Short-term employee benefits	**2.7**	4.8
Post-employment benefits	**0.3**	0.3
Share-based payments	**1.8**	2.8
	4.8	7.9

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.

36. Subsequent events

Placing

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

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

El Fayum Farm-out

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

Concession Agreement Amendment El Fayum area

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

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

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 RBL covenant compliance, three Non-IFRS measures are included: Net debt, EBITDAX and Net debt/EBITDAX.

Cash operating costs per barrel

Cash operating costs are defined as cost of sales less DD&A, production based taxes, movement in inventories and certain other immaterial cost of sales.

Cash operating costs for the period is then divided by barrels of oil equivalent produced. This is a useful indicator of cash operating costs incurred to produce oil and gas from the Group's producing assets.

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

Cash operating cost per barrel by segment (2020)

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

* 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.

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

* Egypt from the date of acquisition to 31 December 2019.

DD&A per barrel by segment (2020)

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

Net debt

Net debt comprises interest-bearing bank loans, less cash and cash equivalents.

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

EBITDAX

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

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

Net debt/EBITDAX

Net Debt/EBITDAX ratio expresses how many years it would take to repay the debt, if net debt and EBITDAX stay constant.

	2020 $ million	2019 $ million
Net Debt	**(32.6)**	(41.5)
EBITDAX	**68.0**	113.5
Net Debt/EBITDAX	**0.48**	0.37

Gearing

Debt to equity ratio is calculated by dividing interest-bearing bank loans by stockholder equity. The debt to equity ratio expresses the relationship between external equity (liabilities) and internal equity (stockholder equity).

	2020 $ million	2019 $ million
Total Debt	**57.2**	100.0
Total Equity	**293.7**	510.1
Debt to Equity	**0.20**	0.20

Operating cash per share

Operating cash per share is calculated by dividing net cash from (used in) continuing operations by number of shares in the year.

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

Five Year Summary (unaudited)

	Year to 31 Dec 2020 $ million	Year to 31 Dec 2019 $ million	Year to 31 Dec 2018 $ million	(Restated) Year to 31 Dec 2017 $ million	Year to 31 Dec 2016 $ million
Consolidated income statement					
Oil and gas revenues	**118.3**	189.9	175.1	156.2	154.6
Commodity hedge gains/(loss)	**23.7**	(0.2)	–	–	–
Gross profit	**18.2**	61.1	70.5	41.2	34.7
Operating (loss) / profit	**(231.3)**	38.0	79.9	22.9	23.4
(Loss) / profit for the year	**(215.8)**	(24.5)	27.7	(157.3)	(4.2)

	2020 $ million	2019 $ million	2018 $ million	(Restated) 2017 $ million	2016 $ million
Consolidated balance sheet					
Non-current assets	**483.2**	740.9	553.6	546.6	738.6
Net current assets	**10.4**	45.6	236.3	133.3	142.5
Non-current liabilities	**(199.9)**	(276.4)	(289.1)	(185.3)	(209.9)
Net assets	**293.7**	510.1	500.8	494.6	671.2
Share capital	**87.3**	87.3	27.6	27.6	27.6
Other reserves	**243.0**	246.6	246.6	245.9	243.8
Retained earnings	**(36.6)**	176.2	226.6	221.1	399.8
Total equity	**293.7**	510.1	500.8	494.6	671.2

	Year to 31 Dec 2020 $ million	Year to 31 Dec 2019 $ million	Year to 31 Dec 2018 $ million	(Restated) Year to 31 Dec 2017 $ million	Year to 31 Dec 2016 $ million
Consolidated cash flow statement					
Net cash from operating activities	**56.4**	72.3	54.2	45.0	46.0
Capital expenditure	**41.3**	63.4	22.4	26.2	35.8
Distributions	**–**	27.4	23.3	21.0	17.5

* 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 2020	15.4	6.0	21.4	28.5	49.9
Production	(1.7)	(0.6)	(2.3)	(1.9)	(4.2)
Revision	(0.7)	(0.5)	(1.2)	14.2	13.0
2P Commercial Reserves as at 31 December 2020	**13.0**	**4.9**	**17.9**	**40.8**	**58.7**
Oil and Gas 2C Contingent Resources[1,2]					
As at 1 January 2020	8.5	4.6	13.1	23.5	36.6
Revision[5]	(0.2)	(0.7)	(0.9)	(4.5)	(5.4)
2C Contingent Resources as at 31 December 2020	**8.3**	**3.9**	**12.2**	**19.0**	**31.2**
Total of 2P Reserves and 2C Contingent Resources as at 31 December 2020	**21.3**	**8.8**	**30.1**	**59.8**	**89.9**

1) Reserves and Contingent Resources are categorised in line with 2018 SPE/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.

Report on Payments to Governments (unaudited)

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 2020 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 2020.

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 2020 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 added 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 2020, 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 2020 (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	1,158	52,930	20,463	5,772	-	-	78	-	79,243	-	807	-	-	807
Block 9.2	595	19,523	4,195	1,061	-	-	75	-	24,854	-	-	-	-	-
Total Vietnam	**1,753**	**72,453**	**24,658**	**6,833**	**-**	**-**	**153**	**-**	**104,097**	**-**	**807**	**-**	**-**	**807**
Egypt														
El Fayum	1,113	41,253	-	-	-	-	-	-	41,253	659	-	187	-	846
North Beni Suef	-	-	-	-	-	-	-	-	-	34	-	-	-	34
Total Egypt	**1,113**	**41,253**	**-**	**-**	**-**	**-**	**-**	**-**	**41,253**	**693**	**-**	**187**	**-**	**880**
United Kingdom (UK)														
Corporate	-	-	-	-	-	-	-	-	-	3,340	-	-	-	3,340
Total UK	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**3,340**	**-**	**-**	**-**	**3,340**
United States of America (US)														
Corporate	-	-	-	-	-	-	-	-	-	508	-	-	-	508
Total US	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**508**	**-**	**-**	**-**	**508**
Pharos Total	**2,866**	**113,706**	**24,658**	**6,833**	**-**	**-**	**153**	**-**	**145,350**	**4,541**	**807**	**187**	**-**	**5,535**

Transparency disclosure 2020 (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	-	-	24,657	6,834	-	-	-	-	31,491	-	-	-	-	-
Customs Office	-	-	-	-	-	-	-	-	-	-	807	-	-	807
PetroVietnam E&P Corp (PVEP)	1,753	72,453	-	-	-	-	153	-	72,606	-	-	-	-	-
Total Vietnam	**1,753**	**72,453**	**24,657**	**6,834**	**-**	**-**	**153**	**-**	**104,097**	**-**	**807**	**-**	**-**	**807**
Egypt														
Egyptian General Petroleum Corporation (EGPC)	1,113	41,253	-	-	-	-	-	-	41,253	-	-	-	-	-
Tax department	-	-	-	-	-	-	-	-	-	693	-	187	-	880
Total Egypt	**1,113**	**41,253**	**-**	**-**	**-**	**-**	**-**	**-**	**41,253**	**693**	**-**	**187**	**-**	**880**
United Kingdom (UK)														
Inland Revenue	-	-	-	-	-	-	-	-	-	3,340	-	-	-	3,340
City of Westminster	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total UK	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**3,340**	**-**	**-**	**-**	**3,340**
United States of America (US)														
Internal Revenue Service	-	-	-	-	-	-	-	-	-	508	-	-	-	508
Total US	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**508**	**-**	**-**	**-**	**508**
Pharos Total	**2,866**	**113,706**	**24,657**	**6,834**	**-**	**-**	**153**	**-**	**145,350**	**4,541**	**807**	**187**	**-**	**5,535**

* Joint Operating Company Project's tax payments reported on Pharos Net Working Interest Basis.

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, DD&A, impairment of PP&E and intangibles, exploration expenditure and other/exceptional items in the current year

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&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

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

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

N

NPV
Net Present Value

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

T

TOR
Terms of Reference

TCFD
Task-Force for Climate-related Financial Disclosures

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

WHP
Wellhead Platform

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

27/28 Eastcastle Street, London W1W 8DH, 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 April. 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

Peel Hunt

120 London Wall, London EC2Y 5ET United Kingdom

Registrar:

RD:IR Limited

9 Bridewell Place, London EC4V 6AW United Kingdom

Solicitors:

Clifford Chance LLP

10 Upper Bank Street London, E14 5JJ United Kingdom

Pharos Energy (Head Office)
Eastcastle House
27/28 Eastcastle Street
London
W1W 8DH
United Kingdom

Registered in England
Company No. 3300821

T +44 (0)20 7747 2000
F +44 (0)20 7747 2001

www.pharos.energy