

PHAROS
ENERGY

Annual Report and Accounts

2022

An abstract graphic consisting of several overlapping, wavy bands of varying shades of teal and blue, flowing from the bottom left towards the top right, creating a sense of movement and depth.

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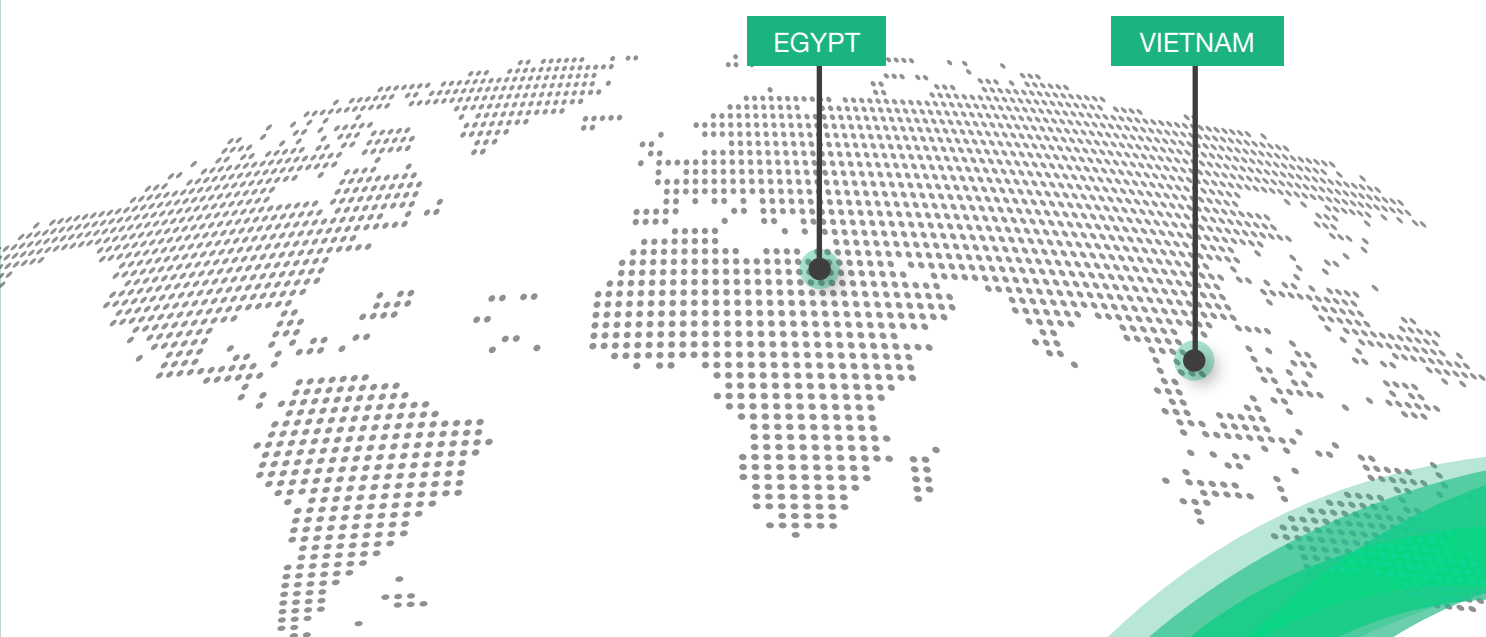
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Who we are

Pharos Energy is an independent energy company with a focus on delivering long-term sustainable value for all stakeholders through regular cash returns and organic growth, underpinned by a robust cash flow and resilient balance sheet.

With a registered office in London and listed on the premium segment of the main market of the London Stock Exchange, we have production, development and exploration interests in Egypt and Vietnam.

Our purpose is to provide energy to support the development and prosperity of the countries, communities and families wherever we work, in line with recognised social and environmental practices.



www.pharos.energy

Pharos Energy at a Glance

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

2022 KEY FIGURES

1997

Listed on London
Stock Exchange



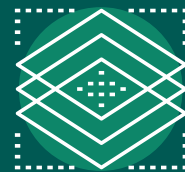
17,839

Acreage km²



6

Blocks



2022 GROUP HIGHLIGHTS

Cash operating costs * (\$/boe)



\$16.36/boe

(2021: \$16.05/boe)

Operating Cash Flow (\$m)



\$53.4m

(2021: \$10.8m)

Cash & cash equivalents (\$m)



\$45.3m

(2021: \$27.1m)

Revenue (\$m)

Prior to hedging loss of \$22.5m

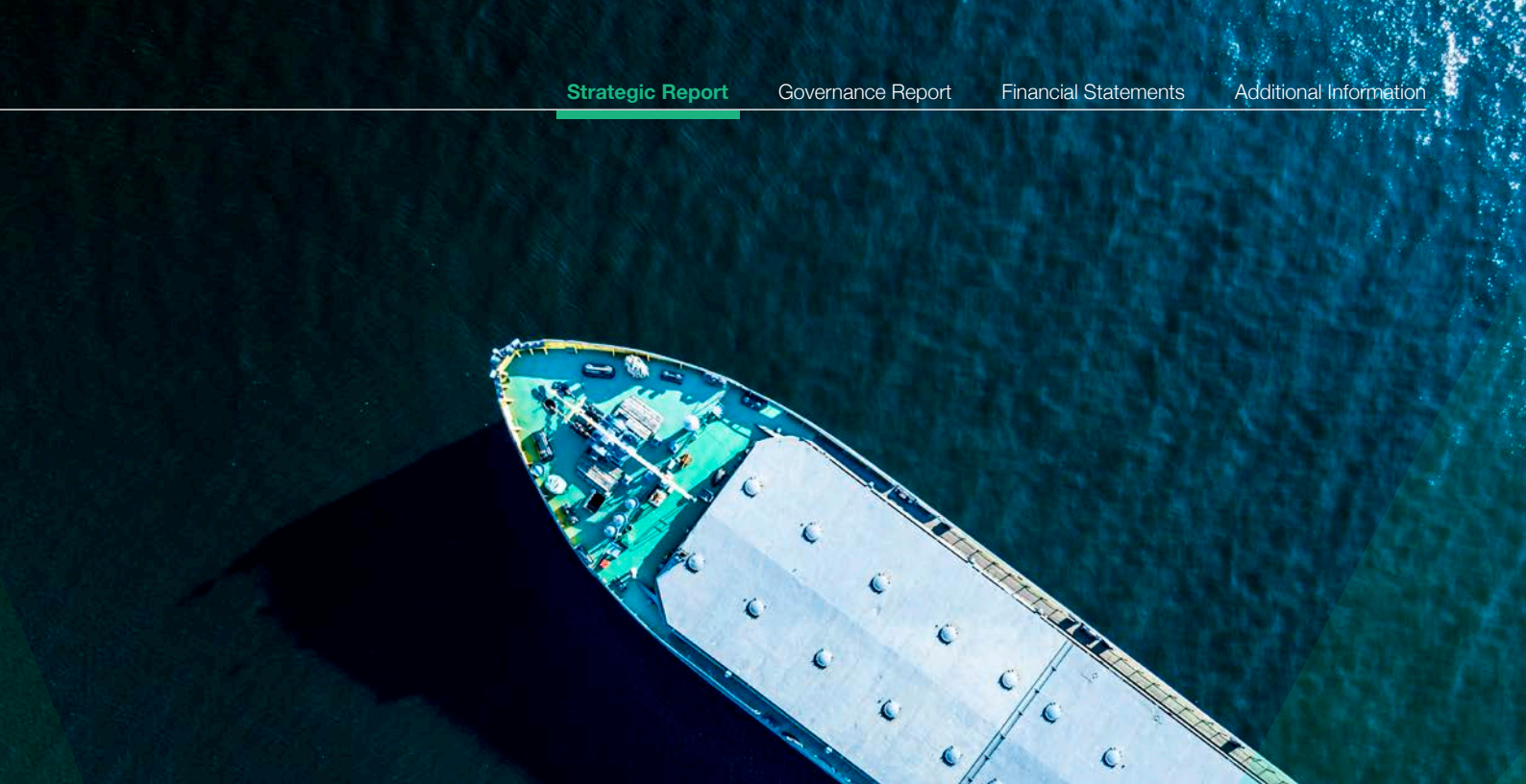


\$221.6m

(2021: \$163.8m, prior to hedging loss of \$29.7m)

[* Read More](#)

Non-IFRS measures on page 203



12

Oil & Gas fields



36

Global Employees
(2021: 65 employees)



2

Countries



RETURN TO SHAREHOLDERS

Share Buybacks



\$3m

(2021: 0p)

First Dividend Proposed on 2022 Earnings
(Subject to shareholder approval at 2023 AGM)



1p per share

(2021: 0p)

Average net production (boepd)



7,166 boepd

(2021: 8,878 boepd net, 7,533 boepd net on a comparative basis)

Focused portfolio of complementary assets

We have a diversified mix of onshore and offshore producing, development and exploration assets in two territories - Egypt and Vietnam.



EGYPT (D,P,E)

We have high quality onshore, low-cost oil production operations, development and exploration assets in Egypt. Production is from 10 development leases in the El Fayum Concession located in the Western Desert south west of Cairo and close to local energy infrastructure. We hold further low-risk low-cost near-term exploration opportunities in the North Beni Suef Concession to the south of El Fayum. In March 2022, Pharos completed a farm-out transaction with IPR, following which IPR now holds a 55% working interest and operatorship in each of the El Fayum and North Beni Suef Concessions, with the Group holding the remaining 45% non-operated working interest.

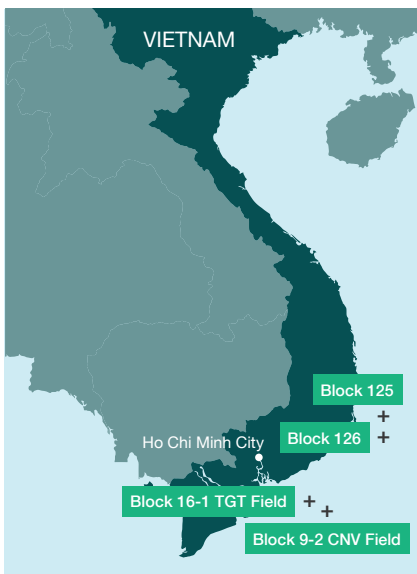
1,748 bopd*

2022 Average Production (net)

(2021: 3,318 bopd; or 1,973 bopd on a comparative basis*)

* The farm-down transaction and transfer of operatorship of the Group's Egyptian assets to IPR completed on 21 March 2022. Although the economic date of the transaction was 1 July 2020, working interest production for Egypt in 2022 is reported as 100% through to completion and 45% thereafter. The comparative basis for 2021 is also given as 100% working interest until 21 March 2022 and then 45% for the remainder of the year.

D: Development P: Production E: Exploration



VIETNAM (D,P,E)

We have valuable and long-established producing fields in Vietnam, with the first discovery in 2004 and first oil production in 2008. Production is from two fields (TGT in Block 16-1 and CNV in Block 9-2) in the Cuu Long basin. There is further potential for organic growth from a basin-opening frontier play with a number of potentially world class prospects and leads already identified in two exploration blocks in the Phu Khanh basin (Blocks 125 & 126).

5,418 boepd

2022 Average Production (net)

(2021: 5,560 bopd)

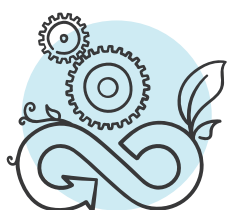
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Operational Review on page 28

OUR STRATEGY & PURPOSE

A focused strategy to fulfil our purpose

Our strategy has positioned the business for long-term value creation, whilst building on a track record of 20+ years of shareholder returns.



Our Purpose

Our purpose is to provide energy to support the development and prosperity of the countries, communities and families wherever we work, in line with recognised social and environmental practices.



Our Strategy

We are committed to deliver long-term, sustainable value for all our stakeholders through regular cash returns and organic growth, underpinned by a robust cash flow and resilient balance sheet.

We invest in a balance of near-term potential and longer-term value, with the aim of enhancing value creation for all stakeholders.

To achieve this, we focus on maximising reserves from existing producing oil and gas fields, such as from our EI Fayum Concession in Egypt and TGT & CNV fields in Vietnam, through flexible capital investment across oil price cycles to unlock reserves upside and improve operating performance. This is complemented by organic growth activity through further extensions in existing fields and developments & explorations offshore Vietnam on Blocks 125 and 126 and onshore Egypt on both the EI Fayum and NBS Concessions, to unlock longer-term value.



Our Stakeholders

To our investors:

Creating and returning value to shareholders through a combination of annual dividends and organic growth.

To our host countries:

Creating shared prosperity & helping countries use oil revenues to promote sustainable, inclusive economic development, manage the impact of climate change and achieve their COP and other domestic and international commitments.

To our people:

Providing an inclusive and diverse workplace, empowering people with differing backgrounds, skills, and experiences to do meaningful work based on the Pharos Way principles of openness, safety and care, and mutual trust and respect.

To all stakeholders:

Engaging and dealing with stakeholders in a transparent and constructive manner in accordance with applicable local and international laws and otherwise aspiring to the highest ethical standards of business conduct.

Our Strategic Objectives



OUR STRATEGIC OBJECTIVES - CONTINUED

Complementary portfolio

Over the past years, we have built a distinctive and complementary portfolio in the energy regions of Asia and MENA, with multiple organic growth opportunities and value-adding activities that have potential to generate near-term free cash flow.

Rigorous approach to cost control

We focus on our cost base wherever we are. As we have gone about reshaping our business for the future, we have kept a rigorous approach to drive down costs and created a new, leaner Board and organisational structure. This positions us well to thrive throughout the commodity price cycle.

Operational efficiency & production growth

We apply our expertise locally with operational teams in each region, working closely with partners and joint operating companies to achieve operational efficiency and grow production. We encourage dialogue and co-operation between the different business assets to ensure new ideas and solutions are shared. Our stable operational performance in 2022 has laid a strong foundation for our future work programmes to move forward with the growth potential of our assets and support delivery of our strategy.

Value creation per share

Our goal is to deliver a combination of regular cash returns plus growth potential for shareholders. We aim to maximise value per share for all shareholders, and we are not chasing scale for its own sake. We are committed to delivering value on all sides of the equation.

Responsible & flexible stewards of capital

Capital discipline and financial stability have always been key to the Group and continue to underpin the business. The Board and senior management team maintain a clear focus on our capital allocation goals: to balance regular returns to shareholders with investment in our assets to generate sustainable value and cash flow, while preserving the resilience of the balance sheet.

Mutually beneficial partnerships

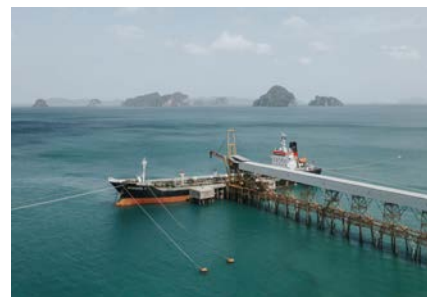
The operational successes the Company had over the years would not have been possible if not for the supportive relationships we have with our valued partners and stakeholders. Our assets are operated predominantly through JOCs, but we are actively involved in JOC management and work collaboratively with our partners to identify areas of mutual sustainable benefits. A combination of long-standing in-country presence and focus on building relationships with both host governments and regulatory authorities have cultivated many successes for the Group, our partners, the JOCs and the local economies. We also maintain good relationships with our valued group of lenders to ensure financial stability in times of uncertainties.

Transparency in sustainability

Sustainability is a key value in our business. In 2022, we made a formal commitment to achieve Net Zero on our Scope 1 (direct) and Scope 2 (indirect) GHG emissions from all our current and future assets by no later than 2050. We recognise that the journey to Net Zero and a more sustainable future will not be simple nor straightforward, but we remain committed to transparency in our reporting and to keeping stakeholders updated on our progress.

Strong balance sheet

In this prolonged period of uncertainty in the macroeconomic environment, a major priority for the Group has been the preservation of cash in order to protect balance sheet strength. Costs and the balance sheet are actively managed through maintaining positive operational cash flow combined with a focused approach to capital allocation, an active hedging programme, a mix of debt instruments in place, and a modest gearing level.



Our Investment Case



INVESTMENT CASE – CAPITAL DISCIPLINE IN THE DNA

CASE 1

Capital discipline in the DNA

We have a culture of prudent financial management, capital allocation and capital return.

We exhibit capital discipline through a focus on cost management and control, a part of our DNA, underpinned and enhanced by our commitment to annual cash returns to shareholders. Capital allocation decisions are taken to make investments where they will generate risk-adjusted full-cycle returns, with a focus on near term cash generation.

We use our expertise to:

ALLOCATE

capital to those assets which offer a combination of cash flow, growth and sustainability

FOCUS

on our cost base wherever we are

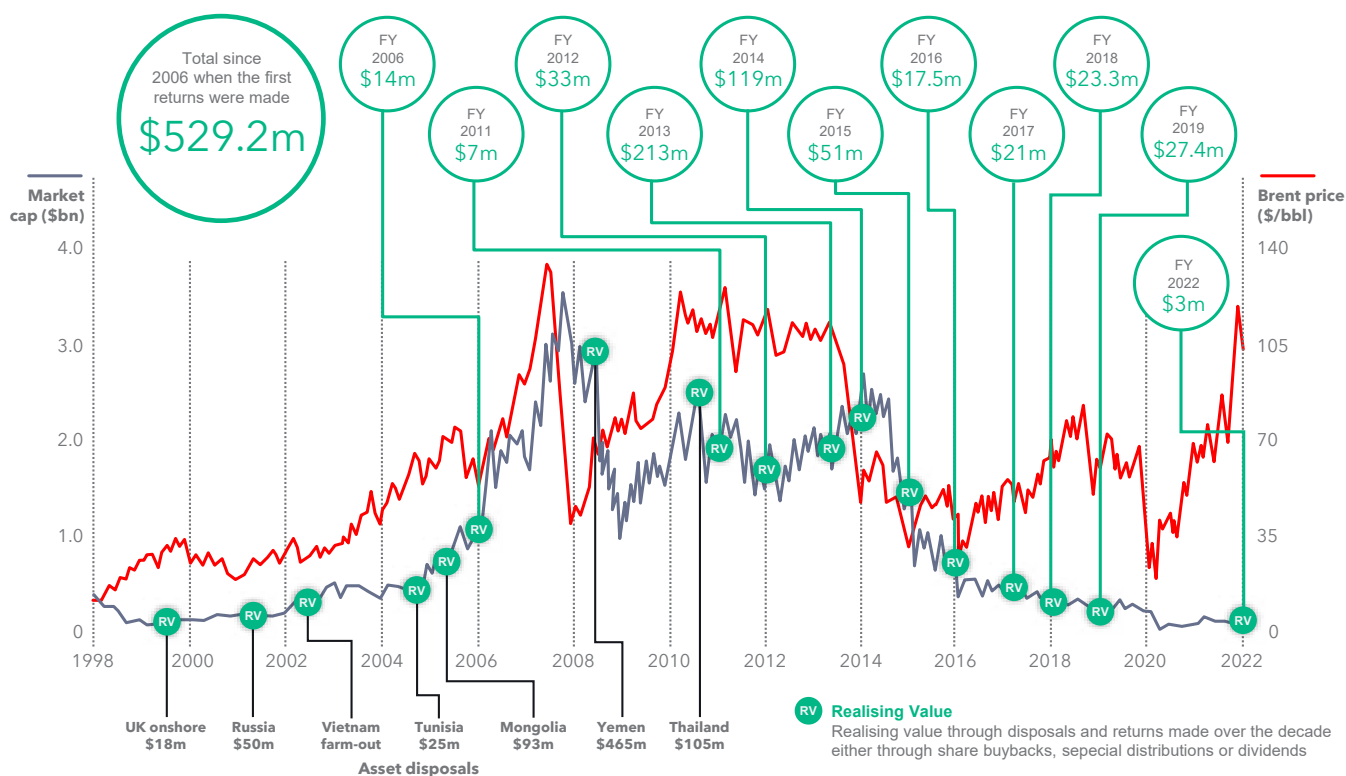
ASSESS

and develop high grade growth opportunities

PROVIDE

cash returns to shareholders

A commitment to cash returns to shareholders remains a core element of our overall allocation framework. We aim to create value per share, not chasing scale for its own sake. It is this approach that has allowed us to return significant amounts of capital to shareholders since 2006, through a combination of dividends, share buybacks and capital growth.



Read More

Chief Financial Officer's statement on page 39

CASE 2

Focused portfolio of diverse organic opportunities

Over the past years, we have reshaped the portfolio into a unique and complementary mix of Asia-MENA assets, with a range of near-term organic growth opportunities, ranging from low-cost low-risk onshore producing assets to basin-opening world-class potential offshore exploration.

EGYPT

Onshore, low cost, in-fill drilling path to grow production with exploration upside

Egypt is a growing economy, hungry for the energy provided by its domestic oil and gas sector, which operates within a well-established regulatory framework. In 2022, Pharos completed a farm-down transaction and transfer of operatorship over our Egyptian assets to IPR. The Group now has a 45% working interest in two concessions in Egypt - El Fayum and North Beni Suef. In 2022, a number of factors combined to put us in a good place to deliver cash flow from these assets: IPR's long track-record of success in Egypt, the enhanced fiscal terms awarded to us over the El Fayum Concession early in 2022, a rig secured on long-term contract to ramp up activities in El Fayum, plus the carry over our remaining 45% interest all helped to support our revenues. However, the Egyptian economy suffered during 2022 with high inflation and a currency devaluation, which has led to an increase in the level of our receivables due from the sale of El Fayum crude to the EGPC owned Suez refinery. The working capital facility which we have in place with National Bank of Egypt has helped to alleviate this situation and there is now an IMF package in place for Egypt which we expect to flow through during 2023.

Upcoming catalysts in 2023

- Multi-well development drilling in El Fayum continues in 2023, with nine wells planned for the year.
- Two commitment exploration wells expected to be drilled in the El Fayum Concession.
- Drilling of first commitment exploration well on NBS underway, with the additional commitment exploration well to follow later in the year. An additional extension of the exploration period until September 2023 was granted by EGPC in March 2023.
- Acquisition of the c.110 km² of additional 3D seismic at NBS has started.

1,748 bopd

NET 2022 PRODUCTION FROM EL FAYUM

(2021: 3,318 bopd; 1,973 bopd on a comparative basis)

15 mmboe

2P RESERVES AS AT YEAR END 2022

(2021: 37.8 mmboe)

10

DEVELOPMENT LEASES AT THE EL FAYUM CONCESSION

45%

PHAROS WORKING INTEREST AFTER TRANSACTION WITH IPR

(2021: 100%)

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INVESTMENT CASE – FOCUSED PORTFOLIO OF DIVERSE ORGANIC OPPORTUNITIES - CONTINUED

VIETNAM

High net back producing assets with further significant exploration potential

The Group's current producing interests in Vietnam, the Te Giac Trang (TGT) and Ca Ngu Vang (CNV) fields in the Cuu Long basin off the southern coast, together, are amongst Vietnam's largest oil producers. Most notably, in June 2022, TGT officially reached a production milestone of 100 million barrels of crude oil produced. We have further potential for growth from two deep-water basin-opening exploration positions in Blocks 125 & 126 in the Phu Khanh basin off the eastern coast, where we see material world-class frontier exploration potential, and we are in discussions with a number of parties interested in partnering with us in our plans for drilling.

Upcoming catalysts in 2023

- Work on submitting Revised Field Development Plans (RFDPs) for two wells on TGT and one on CNV is progressing, with all wells remaining in contingent budget until approval.
- Application for extensions to TGT & CNV licences submitted to partners for approval.
- Application for extension to Blocks 125 & 126 licence submitted in December 2022, as no suitable rigs were available for drilling in 2023, and is now with the Prime Minister's office for approval.
- Discussions ongoing with a number of interested parties to secure a farm-in partner before drilling the commitment well on Block 125.

5,418 boepd

NET 2022 PRODUCTION
FROM TGT & CNV

(2021: 5,560 boepd)

12.2 mmboe

2P RESERVES AS AT YEAR
END 2022

(2021: 15.2 mmboe)

4

BLOCKS IN VIETNAM

25+

YEARS ACTIVE IN
VIETNAM

CASE 3

Operational capability

Amidst ongoing global uncertainty, Pharos continues to deliver consistent operational results, thanks to the efforts of our teams, our partners and the local JOCs, who have managed to navigate the macroeconomic challenges without compromising our operational capability.

Long operational history in Asia-MENA

Our 26-year history with Vietnam has been a success story both for the company and the country. As at 2022, Pharos has invested over \$1 billion in the exploration, appraisal and development of oil and gas projects located offshore Vietnam since inception, making Pharos one of the largest British investors in the country. In Egypt, IPR has a long-standing in-country presence and relationships with the Egyptian government and regulatory authorities, which position them well to support the expansion of operational activity needed to develop the resource base.

Our long operational history provides a strong foundation for our future work programmes to manage both the cash generation and the growth potential of our assets, and to deliver on the core pillars of our strategy.

Excellent safety record in Vietnam

The health & safety of the Group's workforce is the highest priority for Pharos. We are proud to report an exceptional safety record of 0 lost time injuries and 0 fatal incidents in our Vietnam assets since our operational inception in 1996. This is thanks to the JOCs' consistent effort to provide and champion workers' health, safety and well-being, and we look to support IPR and Petrosilah to replicate this success with the assets in Egypt.


[Read More](#)

Corporate Responsibility on page 61

INVESTMENT CASE – DIVERSE & INCLUSIVE WORKFORCE

CASE 4

Diverse & inclusive workforce

Greater diversity and inclusivity brings greater understanding of people. 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.

Diversity in all dimensions

We operate in a global industry, and it is vitally important to ensure that we benefit from the diverse perspectives that people can bring. For this reason, equality, diversity and inclusion sit at the heart of our recruitment, development and promotion processes. Across all of our assets, we acknowledge diversity in all its dimensions and welcome people with differing backgrounds, skills, nationalities, gender and experiences to help us deliver our business strategy of long-term sustainable growth. The board now has four female directors out of a reduced board size of six, with both executive positions held by women.

We recruit talents from diverse backgrounds across our entire organisation. Most notably our UK-based staff comprises 16 people from 9 different nationalities, of which women accounted for c.65%.

Our Code of Business Conduct and Ethics, associated policies and the Pharos Guiding Principles commit us to providing a workplace free of discrimination where all employees can fulfil their potential based on merit and ability, and we will continue to align our Company with this ethos.

Regional knowledge and experience

We apply our expertise locally with operational teams in each region, working closely with partners and JOCs. We encourage dialogue and co-operation between the different business assets to ensure new ideas and solutions are always being considered. We are committed to providing meaningful opportunities for training and capacity building in host countries. We have maintained a gender-neutral recruitment process and, wherever possible, we first look to fill any vacancy internally with a local candidate in London, Vietnam and Egypt.

[Read More](#)

Corporate Responsibility on page 61





JOHN MARTIN
Non-Executive Chair

Chair's statement

“

A strong culture to deliver sustainable value.

”

2022 has been an extraordinary year for the energy sector globally. An extended period of volatility has driven pivotal changes for Pharos. The Company's response to the dynamic environment during the year has included the reshaping of its portfolio, balance sheet, Board, and its worldwide organisation.

As a result of strong operational performance, completion of the IPR transaction, securing the improved fiscal terms over El Fayum, and with the support of continuing high oil prices resulting from the easing of pandemic restrictions, Pharos now stands in a much stronger financial position than where we were just a year ago. This has allowed us to commence a share buyback programme, which has continued into 2023, and to announce a new dividend policy focused on making sustainable annual cash returns to shareholders. The last twelve months saw us take key steps in our effort to transform the Company, and I strongly believe that we are now well positioned for a positive and sustainable future, with a robust capital structure and exciting organic opportunities in a refocused portfolio.

Board changes

Underpinned by the financial discipline in our corporate DNA, Pharos has remained relentlessly focused on cost control, starting from the Board and moving throughout the organisation. In 2022, as Non-Executive Chair of the Board, I oversaw the reshaping of the Board from nine to six Directors and salary reductions for myself and both of the two Executives, a decision that is commensurate with the scale of the business and the strategic challenges ahead of us as the Company reframes its portfolio. Following the completion of the farm-down of our assets in Egypt to IPR, on 23 March 2022, Jann Brown assumed the role of Chief Executive

Officer. On the same date, Ed Story and Dr Mike Watts resigned as Directors of Pharos, with Ed now serving as President of the Group's Vietnam business. Senior Non-Executive Director and Deputy Chair, Rob Gray, also stepped down in May 2022. On behalf of the Board, I would like to thank Ed, Mike and Rob for their long and valued service to the Company as Directors. Going forward, I believe we now have a reshaped Board fit for purpose, which will provide the necessary governance and oversight to support our strategic framework.

Diversity in all forms

Across our entire business, we acknowledge the benefits of diversity in all its dimensions and welcome people with differing backgrounds, skills, and experiences. Our commitment to inclusion and diversity remained strong in 2022. As at year-end, I am pleased to report that the Company has four female Directors, representing two thirds of the Board. We are proud that we are able to recruit talent from diverse backgrounds and ethnicities across our entire organisation. Most notably, our UK-based staff comprises 16 people from 9 different nationalities, of which women accounted for c.65%. We operate in a global industry, and it is important to ensure that we benefit from the diverse perspectives that people bring, and we will continue to align our Company with that ethos.

CHAIR'S STATEMENT - CONTINUED

People & Culture

I would like to express my gratitude to all our colleagues whose hard work, professionalism and dedication has ensured Pharos' resilience, delivery and efficiency during a challenging year. 2022 saw the departure of many of our longstanding talented Egyptian colleagues following the transfer of operatorship of our Egyptian assets to IPR, but I am delighted that so many of them have found new positions so quickly. The team who have stayed with us have all risen to the challenge, and I am impressed by their commitment to maintain open communication and trust, welcoming constructive changes while adapting to new working practices. They have demonstrated that the culture of our workforce is strong and resilient. It is built on the Group's guiding principles of openness and integrity, safety and care, and mutual trust and respect.

The in-person feedback sessions which I conducted during the year with staff has informed the development of our hybrid working programme in the UK. We no longer maintain a permanent office space in London, with UK-based staff now having access to a modest serviced office space in central London. This arrangement, in addition to significantly reducing costs, provides greater flexibility in how and where employees work. We have found this approach has contributed positively to both our cost base and our productivity, and we will maintain an active dialogue with our workforce to adapt to changing situations as we go forward and ensure that this remains the case. We have also introduced initiatives to address staff isolation and promote team building by hosting in-person meet-ups throughout the year.

Strategy Day & Stakeholder engagement

In October 2022, the Board held a Strategy Day to focus on where and how we can offer value to our stakeholders. On the day, we had presentations and inputs from a number of key parties, including shareholders. Despite the volatility we have experienced in the global macro-economic environment, our strategy to deliver long-term sustainable value for all our stakeholders through regular cash returns to shareholders and organic growth, remains unchanged. The results of our Strategy Day reinforced our commitment to pursue a combination of growth and cash returns per share, and the resumption of the dividend in a clear policy framework has been particularly appreciated. We are grateful to our shareholders who have been crucial to our growth and transformation throughout the years, and I thank you for your encouragement and patience as we navigate through challenging times and move towards a new phase of growth.

Sustainability

In a year when energy security has been at the top of the agenda for governments worldwide, I firmly believe that oil and gas will continue to play an essential role in the global energy mix for many years to come, and that the importance of producing this energy in a safe, environmentally sustainable and socially responsible way will continue to grow. During my role as Senior Vice President of the World Petroleum Council (WPC), I witnessed the transformational impacts of the oil and gas industry, particularly where it replaces coal, on countries that suffer from energy poverty. I strongly believe that there are real opportunities in the energy transition, especially for countries such as Egypt and Vietnam, to benefit from the responsible and sustainable development of their natural resources. Pharos stands ready to play our part in this transition and will continue to support our host governments as they seek to use oil revenues to promote sustainable, inclusive economic development, manage the impact of climate change and achieve their COP commitments.

Sustainability has always been a key value in Pharos' purpose and business strategy. In 2022, we brought this even more to the foreground. In September 2022, we made a formal commitment to achieve a Net Zero target on Scope 1 (direct) and 2 (indirect) GHG emissions from all our existing and future assets by no later than 2050, with a detailed Net Zero roadmap to come in late 2023. We have also established an Emissions Management Fund to provide support for emissions management projects in line with our climate goals. We are committed to transparency in our reporting and will keep stakeholders updated on our progress.

Outlook

2022 was a year of change for Pharos, and I am honoured to be the Chair of the Company at such a pivotal stage in its history. Thanks to the effort, ingenuity and hard work of all of our colleagues, the Company is now well-positioned to deliver sustainable value, with a stable balance sheet and a clear strategy, underpinned by a commitment to Net Zero by 2050 and to safe and responsible operations. We enter 2023 with a more confident outlook. On behalf of the Board, I would like to thank our shareholders for their support through the year, as well as our staff, partners, suppliers and advisers, all of whom have helped to provide stability through this period of uncertainty and volatility.


JOHN MARTIN

Non-Executive Chair

Market overview

Economics and political

Energy independence, security and the pace of the energy transition emerged as major themes for the energy markets in 2022 following Russia's invasion of Ukraine which plunged Europe into an energy crisis. Many countries responded by looking at ways to reduce or eliminate Russian oil and gas imports, imposing different forms of sanctions and leading to significant volatility in the oil prices during the first half of the year.

Alongside geopolitical conflicts, the macroeconomic environment was challenging with record debt levels, declining investment rates, and high inflation, leading in turn to political instability and a cost of living crisis. While COVID-19 was not the key driver of market changes, as it has been the last few years, China's attempt to manage the virus with a zero COVID-19 policy contributed to supply side inflation.

From a market perspective, the S&P 500 in the US finished the year down 19.44%, its worst year since 2008, with energy the only sector to finish 59.05% up on the year. The MSCI World index also finished down 17.7% for the year with inflation a primary macroeconomic concern for the markets during this period and a weaker economic growth outlook. The slowdown of global economic activity, high inflation, the cost of living crisis and the war in Ukraine continues to weigh heavy on the outlook for 2023. The IMF forecasts global growth to slow from 3.4 percent in 2022 to 2.9 percent in 2023 then rebound to 3.1 percent in 2024.

Oil price

The oil price climbed on tight supplies following Russia's invasion of Ukraine, peaking at US\$123.58 in June 2022 with an average Brent crude price over the year of US\$101, an increase of 39.5% from the average price in 2021.

Demand for oil grew modestly by 2.3mmbbls/d versus the previous year as a result of these higher oil prices and the decline of the economy. High commodity prices have delivered record cash flows for oil and gas companies with many countries introducing windfall taxes as they face fiscal pressures to support an

economic recovery and reduce the burden of individuals impacted by the high energy prices.

The average realised crude oil price for Vietnam was \$106.44/bbl (2021: \$72.61/bbl), representing a premium to Brent of just over \$4/bbl on average (2021: just under \$2/bbl). For Egypt, the average realised crude oil price was \$96.03/bbl (2021: \$65.12/bbl), representing a discount of over \$5/bbl to Brent for the year (2021: \$5/bbl).

The Board's strategy to mitigate the principal risk of commodity price instability is set out on pages 53 to 60. Our approach to hedging is partly dictated by the minimum requirements of our RBL facility and the maximum of our RWC support, but is otherwise regularly reviewed to evaluate whether the benefit of hedging its oil production is in the best interest of shareholders. The Board considers the balance between protecting the Group in low oil price scenarios and 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. Cost efficiencies are maintained, even in higher oil price environments, as a result of our strong capital discipline with all operational decisions – including new country entry, production optimisation and acquisitions. Operational decisions are reviewed through the lens of full-cycle project economics in a range of oil price scenarios.

The IEA forecasts global oil demand to rise by 1.9 million barrels a day in 2023, to a record 101.7 million barrels a day, with nearly half of the demand driven by China lifting its COVID-19 restrictions, which depressed economic activity in 2022. The loosening of restrictions is expected to drive global growth and support oil prices in the year ahead. Global supply growth is set to slow to 1 million barrels a day versus last year's OPEC+ led growth of 4.7 million barrels a day, with western sanctions on Russia impacting supply. Looking forward, with interest rate increases and concerns remaining about a global recession, crude oil prices will remain under pressure with EIA forecasting an average Brent crude price of US\$83.

For more information on the impact of climate change on the long-term oil prices and demand, please see page 59 of the Viability Statement.

Egypt

Egypt's economic recovery gained momentum in 2022, although high levels of public and domestic debt and delayed reforms persisted. The country suffered from the Russia-Ukraine war, which impacted the Egyptian economy in various ways. A foreign capital outflow from Egypt, coupled with a drop in tourism revenues, plus a sharp increase in the prices of wheat (Egypt is the world's biggest importer of wheat, with Russia and Ukraine its two main suppliers) and crude oil triggered a liquidity crisis.

As a result, foreign exchange reserves dropped from c. US\$41 billion (in February) to c. \$33 billion (in August), weakening Egypt's ability to meet its debt repayment obligations and its ability to import products. Consequentially, the Egyptian pound fell to record lows in 2022, with 1 USD selling for 15.7 Egyptian pounds (EGP) in January and 24.7 EGP in December (with further devaluation to > 30 EGP in early January 2023), and restrictions were placed on outgoing USD transfers by the Central Bank of Egypt, with inflation rising from 7.3% in January to 21.3% in December (and then to 25.8% in January 2023).

In late October 2022, the IMF approved a US\$3 billion, 46-month extended facility financial support package, with the Egyptian Government committing to critical structural economic reforms, with permanent full floating of the currency and a privatisation programme as the main pillars.

In 2023, the Egyptian economy is expected to stabilise, with the IMF forecast GDP growth of 4% in the year ahead, albeit continued high inflation and significant debt repayment obligations are likely to remain prominent through the year.

Vietnam

Despite relatively high inflationary pressure which rose to 4.55% in December 2022, the highest level since March 2020,

MARKET OVERVIEW - CONTINUED

Vietnam's economy was the fastest growing in Asia this year, following the easing of COVID-19 restrictions, with GDP rising 8.02% in the year ahead of forecast, driven by the manufacturing sector with supply chains relocating out of China. Vietnam maintained a stable macro-economy during 2022 and the IMF forecasts GDP growth to slow to 5.8% in 2023.

Driven by its robust manufacturing industry, the country's demand in conventional energy remains high in the foreseeable future. Additionally, the government's efforts to promote investment and maintain economic stability will contribute to its economy's strength, making the country a popular destination for foreign capital.

E&P Merger & Acquisition activities

M&A activity within the industry slowed down during the year, with deal value down 41% compared to 2021 and just over US\$53 billion allocated towards activity in the E&P sector. Despite high oil prices and strong cash generation across the sector, geopolitical unrest and macroeconomic uncertainty weighed heavily on M&A activity, and will likely continue to impact 2023.

Climate change regulation

The 2022 United Nations Climate Change Conference (the Conference of the Parties or COP27) was held in Sharm El-Sheikh last year. The issue of loss and damage was firmly on the agenda for 2022, focusing attention on the challenges facing the global south as it adjusts to the very real effects of climate change. This proved to be a contentious issue, and perhaps detracted attention away from the targets set at COP26 in Glasgow to keep global temperatures below 1.5°C. It was however, successful in creating a mechanism for advanced economies to pay for the carbon emissions they create as a result of growth, which is to be invested in less advanced economies to help them to adapt to climate change and accelerate their net zero transition.

The International Energy Agency (IEA) 2022 Energy Outlook report presents a price curve as an output of Net Zero Emissions (NZE). The scenario outlines a pathway to 1.5 °C stabilisation in global average temperature rise and a transition to an energy system with net zero CO₂ emission by 2050. To achieve the NZE target, it is necessary to transition away from fossil fuels and towards cleaner, renewable energy sources. This transition will likely lead to a decrease in demand for oil and a corresponding decrease in oil prices. Therefore, according to the IEA,

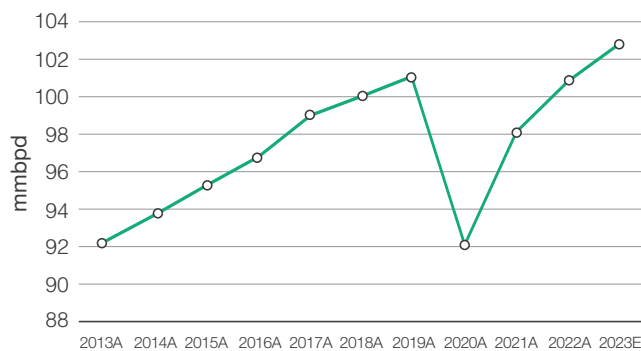
the price curve for oil is expected to be in backwardation with a gradual decline through to 2050. Pharos takes this into consideration and utilises it as a reference for estimating future value and making predictions.

In September 2022, the Company announced a commitment to achieve Net Zero on Scope 1 (direct) and Scope 2 (indirect) GHG emissions from all of its assets by no later than 2050. This Net Zero target underscores the principle that sustainability is a key value in our purpose and business strategy. Further detail can be found in our Corporate Responsibility Report on pages 61 to 107.

Pharos seeks transparency in its emissions performance reporting and in 2022 we continued to report our emissions and disclose them in accordance with UK industry requirements and standards. We continued to ensure the Group is prepared to report in line with the TCFD recommendations and, during the first half of 2022, carried out physical climate and transition risk analysis to identify risks / opportunities for the business under different climate scenarios and pathways. Details of this analysis can be found in the Corporate Responsibility Report on pages 61 to 107.

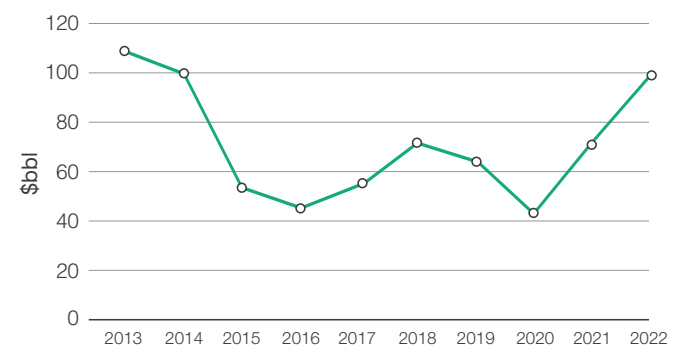
Global Crude Oil Consumption 2013-2023E

Source: Bloomberg



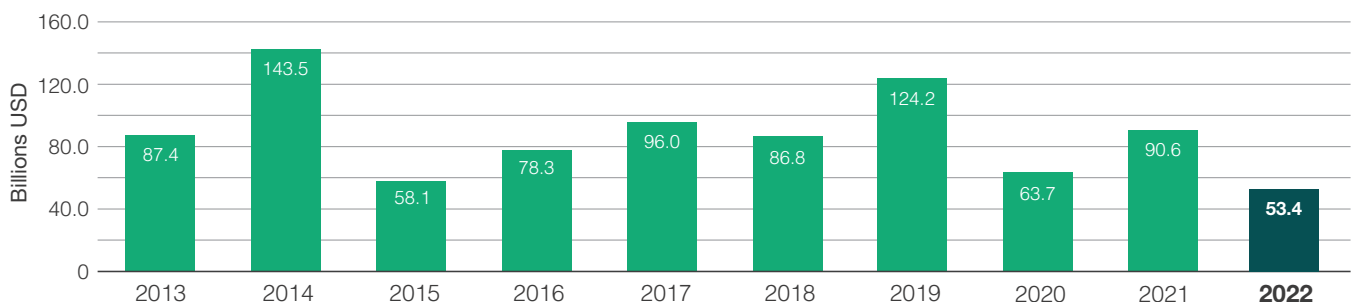
Brent crude 2013-2022 (\$bbl)

Source: EA



Global E&P M&A, 2013-2022

Source: IHS





JANN BROWN
Chief Executive Officer

CEO's statement

“
Delivering value to all stakeholders.”

2022 was a year of significant change for Pharos. Amidst the challenges and ongoing volatility facing the industry, we delivered crucial milestones that have allowed us to rebuild resilience in the balance sheet and helped us deliver on our strategy of offering long term, sustainable value to our shareholders via both regular cash returns and organic growth.

- **January 2022**

The Company received presidential approval on the El Fayum Third Amendment which increased Contractor share of revenues from c.42% to c.50%, thus improving fiscal terms in Egypt.

- **March 2022**

We completed the farm-out transaction and transfer of operatorship of our Egyptian assets to IPR. The combination of IPR's long track-record in Egypt, the enhanced fiscal terms, the Egyptian rig secured on a long-term contract, plus the carry over our remaining 45% interest through 2022 and into 2H 2023, all combined to support delivery of the full potential of these assets, despite the current challenges in the Egyptian economy.

- **July 2022**

We initiated a \$3m share buyback programme to return value to shareholders at a time where the share price was trading at a material discount and to enhance NAV, earnings and dividends per share to shareholders over time. The programme took around six months to complete and, in January of this year, we announced its continuation with a further \$3m committed.

- **September 2022**

We announced a clear policy for the recommencement of regular dividend payments, the first of which will be put to the AGM in May 2023 and, subject to shareholder approval, paid in July 2023.

Also in September 2022 we set out a formal commitment to achieve a Net Zero target on Scope 1 (direct) and 2 (indirect) GHG emissions from all our existing and future assets by no later than 2050, which we recognise is a key component for stakeholders.

These key steps, combined with the operational performance set out below, have reset the dial for Pharos. The Group now has a refreshed portfolio, a reduced cost base, and a more resilient balance sheet to allow us to invest in the organic growth opportunities in the portfolio. These opportunities range from near-term developments and exploration potential in Egypt to world-class potential basin-opening exploration in Vietnam.

CHIEF EXECUTIVE OFFICER'S STATEMENT - CONTINUED

Strong operational performance in 2022 ...

In Vietnam, the Group continued to deliver high netback, stable production. Production in 2022 from the TGT and CNV fields net to the Group's working interest averaged 5,418 boepd, in line with guidance. To sustain production levels, the JOCs carried out a drilling programme comprising two development wells at TGT and one at CNV, which was completed on time and under budget. In 2022, the crude produced from the fields in Vietnam commanded a premium to Brent of just over \$4/bbl, achieved a netback of c.\$50 per barrel and a forecast payback period for the wells drilled of less than 12 months, making investment in these fields an attractive proposition.

In Egypt, we completed the farm-out to IPR in March 2022, and production from the El Fayum Concession averaged 3,128 bopd gross, 1,748 bopd net to the Group,

in line with guidance announced in May 2022. A multi-well development drilling programme on El Fayum was undertaken, with a total of seven wells drilled and put on production in 2022. Most notably, in July 2022, the JOC (Petrosilah) secured a rig on a long-term contract, one year firm plus an option for a second year, from December 2022. This rig is expected to provide a stable platform for a continuous drilling campaign which is essential to adding new barrels to production, subject to improving macroeconomic position in Egypt.

The health and safety of our workforce remains our number one priority and we are committed to operating safely and responsibly at all times. We continue to have an excellent safety record in Vietnam, and I am pleased to report that the Company reported zero LTIs and zero fatal incidents in Vietnam for the past 26 years. This is thanks

to the JOCs' consistent efforts to provide and champion workers' health, safety and well-being, and we are careful to maintain this achievement as we have done since 1996. In Egypt, we regret to report one LTI and one environmental spill in 2022, details of which are set out in our Corporate Responsibility report on page 61. We are working with our partner IPR and JOC Petrosilah to investigate and address the underlying issues behind the safety measurements and precautions in operations in order to return to our track record of zero safety and environmental incidents across all assets.

Our operational performance in 2022 has laid a strong foundation for our 2023 work programme to move forward with the growth potential of our assets, supporting delivery of our strategy.



... Helping us deliver our strategy

As we navigate the many challenges throughout the year, the Board and senior management team maintain a clear focus on our capital allocation goals: to balance regular returns to shareholders with investment in our assets to generate sustainable value and cash flow, while preserving the resilience of the balance sheet. As the Company reshapes its portfolio and financial position, our strategy of creating and returning value to shareholders through a combination of annual dividends and organic growth, underpinned by robust cash flow and strengthened balance sheet, stays consistent through changing times. We are committed to delivering value and invest where we see near term cash flow and longer term value per share. We keep each asset in our portfolio under review to ensure that they are delivering the expected value and we have a track record of monetising at the right point in the cycle.

1. Shareholder Returns

We have established a sustainable shareholder return framework via share buybacks and dividends. Our initial \$3m share buyback programme announced in July 2022 has completed and we have announced a further commitment of \$3 million to continue the programme in 2023. Additionally, in September 2022, we announced our intention to recommence dividend payments starting in 2023. Our policy is set at returning not less than 10% of Operating Cash Flow (OCF) and accordingly takes account of volatility in the market, such as movements in Brent price, tax, and working capital movements. Based on the 2022 results, where OCF of \$53.4m (£43.2m) was achieved, the first dividend under this policy will amount to 1p per share, and will be put to shareholders at the AGM in May 2023. Payment of the 2022 dividend is scheduled for July 2023, and the Board expects to pay an interim dividend based on forecast results for 2023 in early January 2024.

2. Organic growth opportunities

We have a portfolio of organic growth opportunities in both Vietnam and Egypt, with options continuously being explored and development work progressed to maximise the potential of these complementary assets. In Vietnam, 3D seismic processing is complete on Block 125, a basin-opening frontier play with world-class potential, and a variety of interesting Prospects have been identified. We are in discussions with a number of parties interested in farming in to support the funding of a commitment well on this Block. Lastly, we are progressing work to submit licence extension requests across our asset base to extend the periods over which we can continue our work. In Egypt, we have infrastructure-led exploration (ILX) opportunities in both the North Beni Suef (NBS) and El Fayum Concessions, which are being developed with our partner IPR in the 2023 work programme.

3. Cash flow protections

We have run cash flow projections over a number of different scenarios and have a balance of hedged and free-floating Group production, with 71% of forecast production unhedged at 31 December 2022, thus providing exposure to the oil price. We also operate in two very different jurisdictions, which provides diversification and resilience in a volatile world. Additionally, to mitigate the impact of the current late payment issues in Egypt, we have a working capital facility with the National Bank of Egypt (NBE) to smooth out payment cycles there. Under this arrangement, Pharos is able to access USD cash from the facility of up to 60% of sales invoices outstanding, with a cap of \$18m.

4. Capital allocation

We have a culture of prudent financial management, capital allocation and capital return. We exhibit capital discipline through a focus on cost management and control, a part of our DNA. Capital allocation decisions are taken to make investments where they will generate risk-adjusted full-cycle returns and it is this approach that has allowed us to return significant amounts of capital to shareholders in the past. We retain a flexible approach to our portfolio and look to time acquisitions and divestments to optimise cash flow and value per share.

CHIEF EXECUTIVE OFFICER'S STATEMENT - CONTINUED

Stakeholder engagement

The operational successes the Company had during the year, as well as the strategic building blocks towards reshaping the business, would not have been possible if not for the supportive relationships we have with our stakeholders.

After an extended period of travel restrictions due to the pandemic, in 2022, I was able to travel to Egypt and Vietnam to meet with many of our colleagues and key stakeholders in-person. I am personally very grateful to have been able to reconnect and refresh relationships with our partners after a long period of remote working, and have been greatly encouraged by the supportive and open engagement with our colleagues, JV/JOC partners, regulators, and governments. I met the Chair of EGPC, the industry regulator and state oil company in Egypt, in H2 2022, whose support was a crucial step towards the approval for the improvement in our fiscal terms. In Vietnam, I had the opportunity to meet with both our partners and the regulator to discuss the Revised Field Development Plans and licence extensions for TGT and CNV, and the exploration potential and licence extension for Block 125/126. Closer to home, we also hosted an extensive delegation from Vietnam to contribute our thoughts and experiences as they prepared to take a new petroleum law through the National Assembly, which has now been approved and will take effect from 1 July 2023, helping to expedite some of the approval processes in country. Finally, in December 2022, John Martin and I were honoured to be granted a private audience with the Prime Minister of Vietnam to discuss the proposed licence extensions on our assets in country, highlighting the important benefits that these bring not just to Pharos but also to Vietnam. Most recently, in January 2023, the Company held a lunch to engage with analysts, both those covering and not covering the Company, to foster open and communicative relationships with key figures in the industry. We will continue to engage in a personal and meaningful way with our various stakeholders in 2023 and beyond.

Sustainability & Net Zero

Sustainability is a key value in our purpose and business strategy. We are committed to providing energy to support the development and prosperity of the countries, communities and families wherever we work, in line with recognised social and environmental practices. The use of oil and gas in developing economies, particularly where it replaces coal, can provide the energy needed to drive GDP growth as a foundation for long-term economic and social benefits, as long as those resources are developed efficiently, safely and responsibly. In this way, we can create sustainable value for all of our stakeholders: investors, host countries, business and communities.

This year, we have taken an important step with regard to our environmental responsibilities to society and the countries in which we operate. In September 2022, we announced a commitment to achieve Net Zero on our Scope 1 (direct) and Scope 2 (indirect) GHG emissions from all our current and future assets by no later than 2050. We look to achieve this by progressing operational efficiencies, reducing flaring and venting where possible, replacing the power consumption of our facilities with less impactful energy sources and eventually procuring nature-based carbon offset projects for hard-to-abate, residual emissions. As we develop our emissions reduction plans, we will look to accelerate this 2050 target whenever we can. We have also established an Emissions Management Fund in 2022 to provide support for emissions management projects in line with our climate goals. Additionally, we also pledge to publish a detailed Net Zero roadmap in late 2023, to include a baseline emissions inventory for all our assets, asset-level emission reduction frameworks, and introducing interim targets over the short and medium term as well as the capital expenditure and resourcing needed to achieve targets.

We recognise that the journey to Net Zero will be neither simple nor straightforward. Nevertheless, we remain committed to transparency in our reporting and to keeping stakeholders updated on our progress. For more details on our Net Zero commitment, Emissions Management Fund, our emission impact and how we deliver value to the local community, please refer to our Corporate Responsibility Report on page 61.

Outlook

The key steps we have taken to reshape our business have taken Pharos to a stronger place. After a year of delivery, we now have a combination of assets which offer resilience in difficult times, strong cash returns even at low oil prices, plus valuable organic growth potential when investment capital is available. Having taken over the reins at Pharos a year ago, I am confident that we have the assets, plan, team, capital structure and financial discipline to deliver long-term sustainable return to all stakeholders. I would like to thank our global colleagues, investors, government and JV/JOC partners for their continued support through these changes as we navigated through a year of challenges and uncertainties, and I look forward to working with all of them to steer Pharos on a path towards a new phase of growth.



JANN BROWN
Chief Executive Officer

How our business model creates sustainable value

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 organic opportunities, particularly those with near-term low-cost development and exploration assets with transformative potential within Asia and MENA.

VALUE INPUTS

Our people

- Extensive industry experience
- Technical expertise & commercial acumen
- Relationship-driven
- Diverse & inclusive workforce



Assess

We assess opportunities which offer near term cash generation and longer term growth. We generate opportunities from within our existing asset base and balance the value of investing in the business with the value of cash returns to shareholders.

VALUE INPUTS

Our assets

- Mix of complementary assets
- Low-cost onshore drilling in Egypt
- Mature, short payback in Vietnam
- Basin-opening frontier offshore exploration in Vietnam



Invest

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.

VALUE INPUTS

Our capital

- Rigorous approach to cost
- Low breakeven oil price in Vietnam
- Modest gearing
- Disciplined capital allocation process



Develop & Produce

Our production increases through the development of existing discovered resources. We seek to maximise margins through optimising production at low operating costs. We are committed to responsible and safe operations at all times.

VALUE OUTPUTS

Organic growth opportunities

- Development of existing discovered resources
- New exploration prospects and leads in both Concessions in Egypt and in Block 125/126 in Vietnam
- Conventional and unconventional + exploration potential

VALUE OUTPUTS

Stakeholders

- Net Asset Value (NAV) per share growth
- Regular cash return to shareholders
- Local capability & trusted partnerships
- In-country economic contribution and social investment
- Local employment and capability training

VALUE OUTPUTS

Growth metrics

- Safe and responsible operations
- Development of discovered Egyptian resources through onshore, low cost, in-fill drilling
- Continued development of Vietnam producing assets through licence extensions and revised field development plans
- Farm-in partner to support the funding of a commitment well and develop the full potential of Block 125

KEY METRICS

Reporting on our performance

We use both financial and non-financial metrics to manage long-term performance and deliver on our responsible business plans. They are kept under review and regularly tested for relevance against our strategies and policies.

[* Read More](#)

Non-IFRS measures on page 203

2022 Financial Measures

LOW CASH OPERATING COST
\$/BOE *

16.36



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 \$16.36/boe in 2022, an increase over 2021, largely due to higher variable costs as a result of an upsurge in the fuel price, offset by the significant devaluation of EGP against the US dollar during the year.

Outlook

We continue to target improvements in 2023 and beyond through 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 134)

CAPITAL EXPENDITURE CASH
\$M (includes abandonment funding)

29.8



Description

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

Objective

To achieve returns in excess of cost of capital.

Performance

The 2022 cash capital expenditure was lower than 2021. In 2022, the TGT drilling programme for two development wells completed in H2 2022, on time and under budget. For CNV Field, one development well commencing in H2 2022 and has now been completed (most of CNV cash capex was deferred from 2022 to 2023). In Egypt, seven wells were put on production in 2022 (including one well drilled in 2021), and one additional well drilled in Q4 2022 is due for completion in Q1 2023.

Outlook

The cash capex forecast for 2023 is expected to be c.\$38m (c.\$23m after Egyptian carry by IPR).

Links to strategy

- Deliver value through growth
- Investment growth

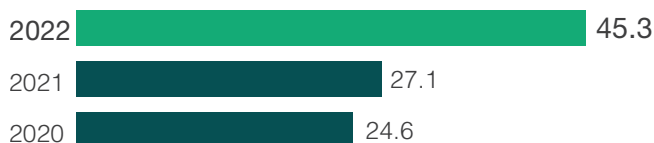
Associated risks

- Commodity price risk
- Partner alignment risk

2022 Financial Measures - Continued

CASH AND CASH EQUIVALENTS \$M

45.3



Description

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

Objective

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 \$45.3m, an increase of 67% on prior year, mainly driven by net cash flows from operating activities of \$53.4m (2021: \$10.8m) as a result of higher commodity prices during the year, offset by lower production.

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

1



Description

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

Objective

To provide sustainable cash returns to shareholders.

Performance

In 2022, the Board recommended commencement of regular dividend payments starting in 2023, subject to shareholder approval at AGM 2023, returning no less than 10% of Operating Cash Flow (OCF). The Board have recommended a final dividend of 1p per share based on 2022 Operating Cash flow.

Also completion of the initial \$3m share buyback programme, completed early January 2023, with a further \$3m committed for 2023.

Outlook

We are committed to deliver long term, sustainable value to our shareholders via both regular cash returns yield and organic growth. An annual dividend remains a key aspect of the Company's capital discipline and investment thesis.

Links to strategy

- Deliver value through growth
- Return to shareholders

Associated risks

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

KEY METRICS - CONTINUED

Operational measures

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

0.42



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

To achieve zero LTIF across the Group's operations.

Performance

In Vietnam, our Joint Operations continue to deliver an exceptional record of safety, reporting zero LTIs since operational inception in 1996. In Egypt, we regret to report one LTI in 2022, details of which are set out in our Corporate Responsibility report on page 61, and we are working with the operator IPR to investigate and address the underlying issues behind the safety measurements and precautions in our operations in order to return to our track record of zero LTI across all assets.

Outlook

Continue to work closely 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 134)

GROUP NET PRODUCTION
BOEPD

7,166



Description

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

Objective

To optimise production from the Group's asset base.

Performance

Vietnam 2022 production was 5,418 boepd net (2021: 5,560 boepd net) and Egypt 2022 production was 1,748 bopd net.

Outlook

Group working interest 2023 production guidance is 6,050 – 7,500 boepd net. Vietnam 2023 production guidance is 4,700 – 5,700 boepd net, and Egypt 2023 production guidance is 1,350 – 1,800 bopd net.

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 134)

Operational measures - Continued

SOCIAL AND ECONOMIC INVESTMENT \$

698,600



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. 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.

Objective

To continue supporting local capability building and social investments in Vietnam and Egypt.

Performance

In 2022, in addition to the aforementioned training levy funds (which totals to \$500,000), a further \$198,600 was invested in 9 community and charitable partnerships and investment projects.

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

- Focus on stakeholders

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

To have all Group personnel complete the annual ABC programme including training, testing and self-declaration statement.

Performance

100% of personnel completed the ABC training as at year end 2022.

Outlook

Maintain 100% completion rate for the ABC training and testing. 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

OPERATIONAL REVIEW

Egypt

The Group has a 45% non-operating interest in two concessions in Egypt - El Fayum and North Beni Suef. *

1,748 bopd

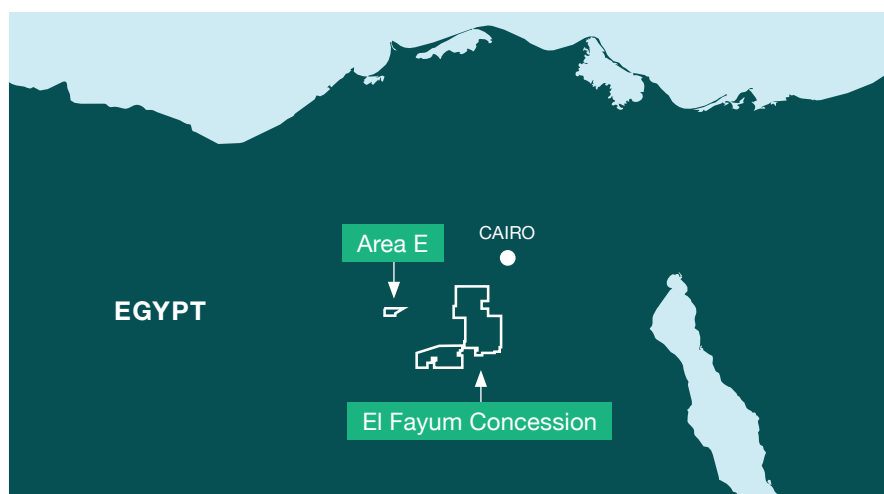
2022 EGYPT PRODUCTION (NET)

10

DEVELOPMENT LEASES IN EL FAYUM

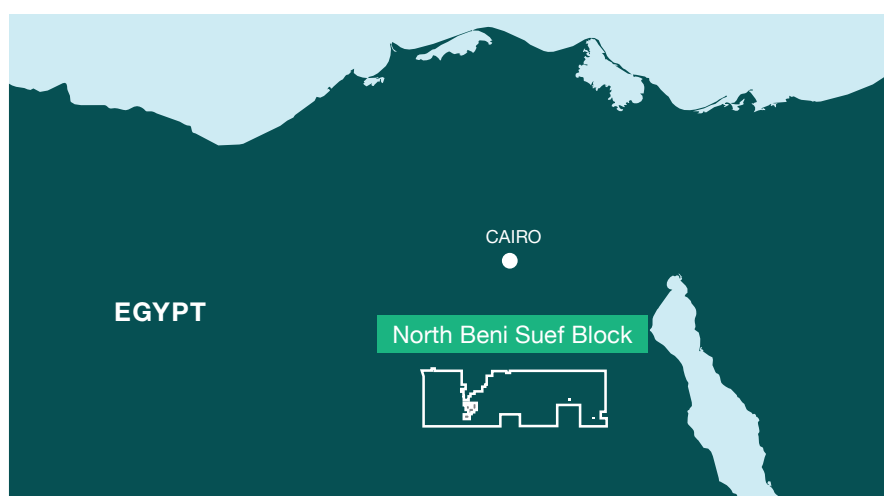
El Fayum (D&P)

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.



North Beni Suef (E)

The North Beni Suef (NBS) Concession is also located in the Western Desert, to the south of the El Fayum Concession. It is currently in the first exploration period, during which the Contractor parties are committed to drill two exploration wells and acquire new seismic.



* The farm-down transaction and transfer of operatorship of Pharos' Egyptian assets to IPR completed on 21 March 2022. Although the economic date of the transaction was 1 July 2020, working interest production for Egypt in 2022 is reported as 100% through to completion and 45% thereafter. The comparative basis for 2021 also assumes 100% working interest until 21 March 2021 and then 45% for the remainder of the year.

Egypt Production in 2022

The transaction with IPR and transfer of operatorship completed on 21 March 2022. Although the economic date of the transaction was 1 July 2020, operatorship remained with Pharos until March 2022. Accordingly, working interest production in 2022 is reported in the Financial Statements as 100% through to completion of the farm-down and 45% thereafter.

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

Egypt Development and Operations in 2022

Following the transaction with IPR in March 2022, the main El Fayum multi-year and multi-well development programme commenced in Q2 2022. Seven wells were put on production in 2022 (including one well drilled in 2021), and one additional well was drilled in Q4 2022 and completed in Q1 2023.

In July 2022, the El Fayum JOC, Petrosilah, secured a rig on a long-term contract, one year firm plus an option for a second year, which started drilling in December 2022. This rig is expected to provide a stable platform for a continuous drilling campaign, which we consider essential to adding new barrels to production.

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

Egypt Commercial in 2022

In January 2022, the Company received approval on the Third Amendment to the El Fayum Concession. The agreement, and the improved fiscal terms, were retroactively effective from November 2020.

As a result of the changes introduced by the Third Amendment, the Contractor parties' share of revenue while in full cost recovery mode increases from c.42% to c.50% as from November 2020, (corresponding to additional net revenues to the Contractor of c.\$7 million to the date of signature) significantly lowering the development project break-even. The Third Amendment also grants Contractor a three-and-a-half-year extension to the exploration term of the El Fayum Concession, with an additional obligation on Contractor to drill two exploration wells and acquire a 3D seismic survey in the northern area of the concession.

The Group is cognisant of the current macroeconomic situation in Egypt, and will continue to review its investment programme in light of recovery of the receivable position.

Egypt Exploration in 2022

North Beni Suef (NBS) exploration

In Q4 2022, the Company was granted a short extension on North Beni Suef (NBS) to allow additional time to drill high-ranked prospects and all work programme commitments, including the first of two commitment exploration wells, originally planned for Q4 2022. Several prospects have been identified from the existing 3D seismic.

2023 Work Programme

El Fayum

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

In El Fayum, multi-well development drilling continues in 2023, with nine wells planned for the year.

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

The drilling of the first NBS exploration commitment well, originally planned for Q4 2022, has started in Q1 2023. In March 2023, a further extension to the exploration period was granted by EGPC. These two extensions, which run until September 2023, provide additional time to fulfil the Contractor parties' commitment to drill this commitment well. The second commitment exploration well on NBS is planned to be drilled later in 2023, dependent on rig availability. Several prospects have been identified from the existing 3D seismic and acquisition of c.110 km² of additional 3D seismic has started in Q1 2023.

OPERATIONAL REVIEW - CONTINUED

Vietnam

Pharos has two producing assets, Te Giac Trang (TGT) and Ca Ngu Vang (CNV), and two exploration blocks (Blocks 125 & 126) in Vietnam.

5,418 boepd

2022 VIETNAM PRODUCTION (NET)

4

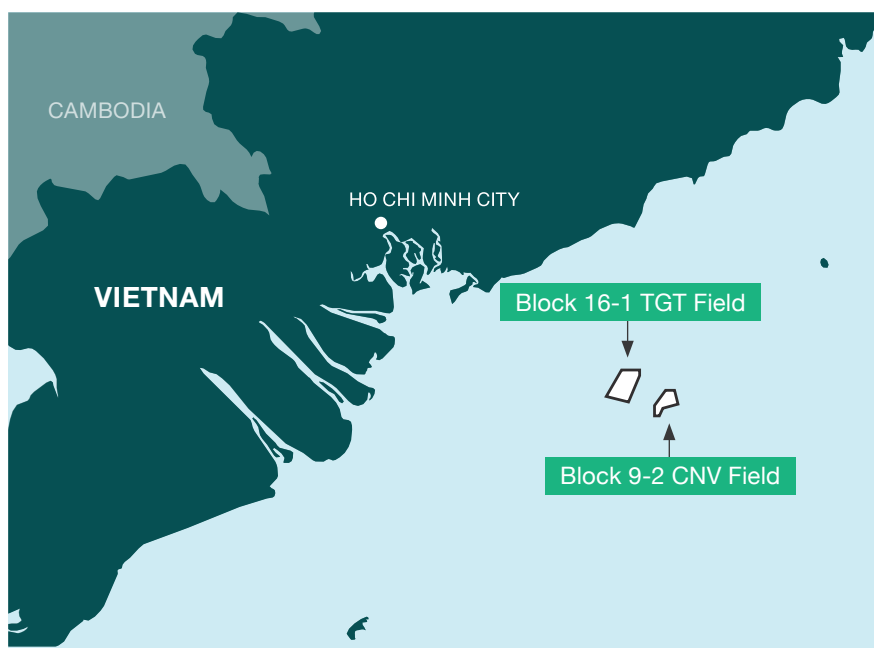
BLOCKS IN VIETNAM

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.

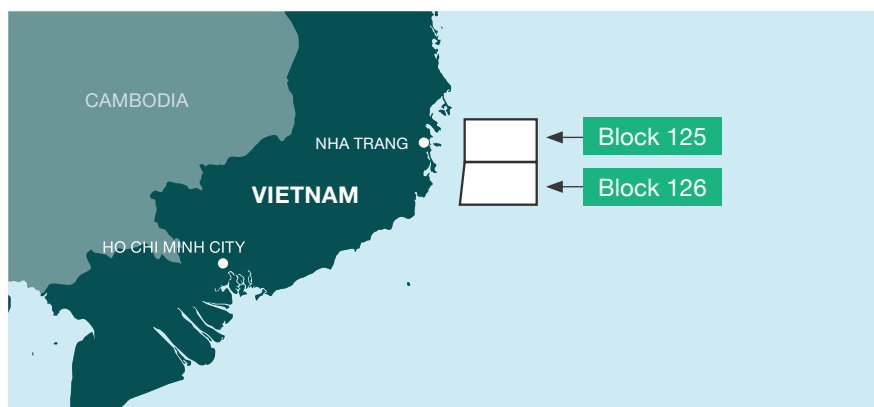
Block 16-1 TGT Field (D&P)

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



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.



Vietnam Production in 2022

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

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

Vietnam Development and Operations in 2022

TGT & CNV Fields

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

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

On Block 9-2 – CNV Field, one development well, CNV-2PST1, started drilling in H2 2022 and completed in Q1 2023 on time and under budget.

Vietnam Exploration in 2022

Blocks 125 & 126

On Block 125, the 3D seismic processing was completed in November 2022 and the ongoing interpretation of this data has resulted in the mapping of a variety of world class Prospects in this relatively unexplored basin.

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

2023 Work Programme

TGT & CNV Fields

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

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

The official licence extension requests have been sent to partners for approval, prior to submission to PVN for their approval before being put to the Prime Minister for final assent.

Blocks 125 & 126

As noted, the ongoing interpretation of 3D seismic data has highlighted greater prospectivity in the deeper water section of Block 125. In order to drill one of these deeper water prospects as the commitment exploration well under the current exploration phase of the PSC, a Drillship or Dynamically-Positioned (DP) Semi-Submersible Rig is needed. Due to limited regional availability the Group has been unable to source a suitable drilling unit for 2023 on acceptable terms. We therefore submitted an application in December 2022 for an extension of the current exploration phase of the PSC which is now with the Prime Minister's office for approval.

We will use the time to optimise drilling locations and well planning for this deeper water well, to source a Drillship or DP Semi-Submersible Rig and other long-lead procurement items and to find a partner to support the funding of this well. A number of parties have been invited to review data and discussions are ongoing.

In addition, we are now engaged in updating our 3D Hydrocarbon Modelling of the area and in fully analysing the 3D seismic data for amplitude anomalies – spectral decomposition for reservoir facies distribution patterns and AVA/AVO analysis for the presence of hydrocarbons. We have also started a detailed Peer Review study of all our technical work with a leading Energy Subsurface consultancy (ERCE), who will also perform an Independent Resource assessment of our key Prospects.

OPERATIONAL REVIEW - CONTINUED

Group Reserves and Contingent Resources

The Group Reserves Statistics table below summarises our reserves and contingent resources based on the Group's unitised net working interest in each field. Gross reserves and contingent resources have been independently audited by RISC Advisory Pty Ltd (RISC) for Vietnam and McDaniel & Associates Consultants Ltd. (McDaniel) for Egypt.

Group Reserves Statistics

Net Working Interest (mmboe)	TGT	CNV	Vietnam ³	Egypt ⁴	Group
Oil & Gas 2P Commercial Reserves^{1,2}					
As of 1 January, 2022	10.9	4.3	15.2	37.8	53.0
Production	(1.5)	(0.5)	(2.0)	(0.6)	(2.6)
Revision	(0.6)	(0.4)	(1.0)	(1.5)	(2.5)
Change in net working interest ⁵	-	-	-	(20.7)	(20.7)
2P Commercial Reserves as of 31 December 2022	8.8	3.4	12.2	15.0	27.2
Oil & Gas 2C Contingent Resource^{1,2}					
As of 1 January, 2022	7.6	3.8	11.4	18.6	30.0
Revision	(0.2)	(0.4)	(0.6)	0.5	(0.1)
Change in net working interest ⁵	-	-	-	(10.2)	(10.2)
2C Contingent Resources as of 31 December 2022	7.4	3.4	10.8	8.9	19.7
Total Group 2P Reserves & 2C Contingent Resources^{3,4} As of 31 December 2022	16.2	6.8	23.0	23.9	46.9

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.

5) Pharos Energy net working interest in El Fayum is 45% post completion of farm-down transaction to IPR on 21 March 2022

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 2022.

Vietnam Reserves Statistics

Net Working Interest (mmboe)	TGT	CNV	Total Vietnam
Oil & Gas 2P Commercial Reserves^{1,2}			
As of 1 January, 2022	10.9	4.3	15.2
Production	(1.5)	(0.5)	(2.0)
Revision	(0.6)	(0.4)	(1.0)
2P Commercial Reserves as of 31 December 2022	8.8	3.4	12.2
Oil & Gas 2C Contingent Resource^{1,2}			
As of 1 January, 2022	7.6	3.8	11.4
Revision	(0.2)	(0.4)	(0.6)
2C Contingent Resources as of 31 December 2022	7.4	3.4	10.8
Total Vietnam 2P Reserves & 2C Contingent Resources³ As of 31 December 2022	16.2	6.8	23.0

1) Reserves and contingent resources are categorised in line with 2018 SPE standards.

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

3) Reserves and contingent resources have been independently audited by RISC.

On TGT, 2P reserves were revised downwards due to lower than expected performance from one of the new infill wells and a slow production ramp-up following the annual maintenance shutdown. 2C contingent resources were revised as volumes from two future infill wells were moved into the reserves category.

On CNV, the 2P reserves and 2C contingent resources were revised downwards due to lower performance from the existing wells and delayed dewatering of well 5PST2.

Egypt Reserves and Contingent Resources

Egypt Reserves Statistics

Net Working Interest (mmboe)

Egypt

Oil 2P Commercial Reserves¹

As of 1 January, 2022	37.8
Production	(0.6)
Revision	(1.5)
Change in net working interest ³	(20.7)
2P Commercial Reserves as of 31 December 2022	15.0

Oil 2C Contingent Resource¹

As of 1 January, 2022	18.6
Revision	0.5
Change in net working interest ³	(10.2)
2C Contingent Resources as of 31 December 2022	8.9

Total Egypt 2P Reserves & 2C Contingent Resources²

As of 31 December 2022	23.9
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1) Reserves and contingent resources are categorised in line with 2018 SPE standards.

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

3) Pharos Energy net working interest in El Fayum is 45% post completion of farm-down transaction to IPR on 21 March 2022

On El Fayum, the delay in the execution of the field development plan have resulted in a downward revision of the 2P reserves, pushing some volumes into the contingent resources category.

Group's Net Working Interest Reserves and Contingent Resources

El Fayum Fields at 31 December 2022 (mmboe)

Reserves	1P	2P	3P
Oil	7.3	15.0	20.0
Contingent Resources	1C	2C	3C
Oil	3.3	8.9	18.0
Sum of Reserves and Contingent Resources ^{1,2}	1P & 1C	2P & 2C	3P & 3C
Total	10.6	23.9	38.0

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

2) The summation of Reserves and Contingent Resources has been prepared by the Company.

TGT Field at 31 December 2022 (mmboe) (net to Group's working interest)

Reserves ³	1P	2P	3P
Oil	6.7	8.1	9.2
Gas ¹	0.4	0.7	0.9
Total	7.1	8.8	10.1

Contingent Resources³

	1C	2C	3C
Oil	4.7	7.1	9.0
Gas ¹	0.1	0.3	0.5
Total	4.8	7.4	9.5

Sum of Reserves and Contingent Resources²

	1P & 1C	2P & 2C	3P & 3C
Oil	11.4	15.2	18.2
Gas ¹	0.5	1.0	1.4
Total	11.9	16.2	19.6

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.

OPERATIONAL REVIEW - CONTINUED

CNV Field at 31 December 2022 (mmboe) (net to Group's working interest)

Reserves ³	1P	2P	3P
Oil	1.8	2.1	2.5
Gas ¹	1.1	1.3	1.5
Total	2.9	3.4	4.0

Contingent Resources ³	1C	2C	3C
Oil	1.3	2.1	3.0
Gas ¹	0.8	1.3	1.8
Total	2.1	3.4	4.8

Sum of Reserves and Contingent Resources ²	1P & 1C	2P & 2C	3P & 3C
Oil	3.1	4.2	5.5
Gas ¹	1.9	2.6	3.3
Total	5.0	6.8	8.8

- 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 section 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 ("s.172(1)"), the Directors of the Company have a statutory duty to promote the success of the Company. The Board of 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(1) 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(1) 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(1) factors have been applied by the Board are set out below and can also be found throughout the Strategic Report of which this statement forms part.

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, in October 2022, the Board held a Strategy Day to assess and evaluate our strategy to deliver long-term, sustainable value for all our stakeholders, and its implications on our decision-making process. This involved, amongst other things, presentations and other inputs from a number of key external parties, including shareholders and advisers. At all meetings and discussions of the Board and committees of the Board ("Board Committees"), several papers are presented 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 53 of the Risk Management report for all principal risk and page 47 of the Risk Management report. For more information on the Strategy Day, see page 15 of the Chair's Statement.

SECTION 172(1) - CONTINUED

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). Throughout the year, we have run a dedicated Monday weekly meeting to ensure all colleagues are continuously informed about important business developments in the Company and the Group, and have channels through which they can ask questions and provide input. We have continued to make extensive use of video conferencing facilities during calls and meetings to maintain visibility and connection. The recent reorganisation of the Group has instituted a flatter organisational structure, allowing for shorter lines of management and more direct, accessible channels of communication with leadership.

The Executive Directors receive regular updates on colleague engagement to understand any complaints or troubles from the hybrid work environment. At the beginning and end of each calendar year, every employee is encouraged to set their own personal and professional development objectives and appraisal for the upcoming year, and to discuss this with their line managers who can provide any additional support where needed and to remediate any troubles that each employees might face. Additionally, Jann Brown, the Company's CEO, held virtual and in person one-to-one meetings with employees in the UK, Vietnam and Egypt to understand their concerns over the past years. Feedbacks from these sessions have resulted in several solutions being proposed and implemented going forward, such as: off-site away days/ in-person meetings monthly to avoid staff isolation and promote team culture, learning sessions on technology and public capital markets, and a discussion on how best to ask others for info/help/support when working from home. During the year, John Martin, as Non-Executive Chair of the Board and designated Non-Executive Director responsible for workforce engagement, carried out in-person town hall meetings, during which staff were invited to share their feedback and views about the Company without the presence of any Executive Directors to provide an open, honest and safe space for all employees to express any concerns they might have. Feedback from these sessions were then taken into account and communicated back to the Board and Executive Directors as suggestions for improvements.

For more information on the Board's engagement with employees, see page 115 for the 2018 UK Corporate Governance Code.

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

The Group's business relationships with stakeholders, such as suppliers, service providers, vendors and joint venture partners 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 Directors and the Board, or relevant Board Committee, supported by papers outlining impact and consequences of potential decisions. All significant contracts and other commitments are also thoroughly reviewed by the Group General Counsel.

Our relationships with our joint venture partners, shareholders and analysts are the foundation to support the success of our business. In 2022, Jann Brown met with the President of EGPC, the industry regulator and state oil company in Egypt, and met with both our JOC partners and with the regulator in Vietnam to discuss the Revised Field Development Plans and licence extensions for TGT and CNV and the licence extension for Block 125/126. Additionally, during the Strategy Day held in London in October 2022, the Board had presentations and inputs from a number of key parties, including shareholders. The results of our Strategy Day were then communicated to key investors as part of our overarching objective of maintaining open and constructive two-way dialogues with our stakeholders. Most recently, in January 2023, the Company held an analyst lunch to engage with media journalists and analysts, both covering and not covering the Company, to foster open and communicative relationships with key figures in the industry.

We plan to continue to engage in a personal and meaningful way with our stakeholders, such as suppliers, joint venture partners, shareholders, and others in the future.

For more information on how the Company foster relationships with stakeholders, see page 19 of our CEO's Statement and page 115 of our Corporate Governance report.

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

The organisation has provided robust evidence of its commitment to ESG in the sector through its ESG Committee and ESG Working Group. Over the past five years, we have participated in the CDP (Climate Disclosure Project) Climate Change Questionnaire and have maintained our score (C), which is also the industry average. 2022 also marks the first year that the Company was graded on their water usage disclosure in the CDP Water Security Questionnaire, which also received a score of (C). As a Company, we continue to work to bring our disclosures in line with the requirements of the TCFD. Most notably, in September 2022, the Company made a formal commitment to achieve Net Zero on all Scope 1 and 2 GHG emissions across all assets by no later than 2050, with plans to publish a Net Zero roadmap later in 2023.

In addition to this, the Company has always remained committed to creating value in a sustainable manner for host countries and local communities as well as for staff. In recent years, we have structured our social investment programme to align more with the United Nations Sustainable Development Goals (UN SDGs). We've worked closely with our local partners and joint ventures in order to make sure that our social initiatives continue to bring more positive impacts to the region. In 2022, \$198,600 was invested in 9 long-term community projects, and a further \$500,000 was invested in ring-fenced funds for training to develop future talents in the industry in Egypt and Vietnam.

The Board regularly monitors the Group's business activities, financial position, cash flows and liquidity, and operating environment through detailed forecasts. Scenarios and sensitivities are carefully researched and prepared by the Group's Business Intelligence Analyst and 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 the Board's commitment to ESG and considerations on the community and the environment, see pages 122 to 124 for the ESG Committee report, pages 15 to 16 for the Chair's Statement, and pages 61 to 107 for the Corporate Responsibility report.

For more information on Board oversight on business activities, financial position and the environment of the Group's operations, see page 47 of the Risk Management report.

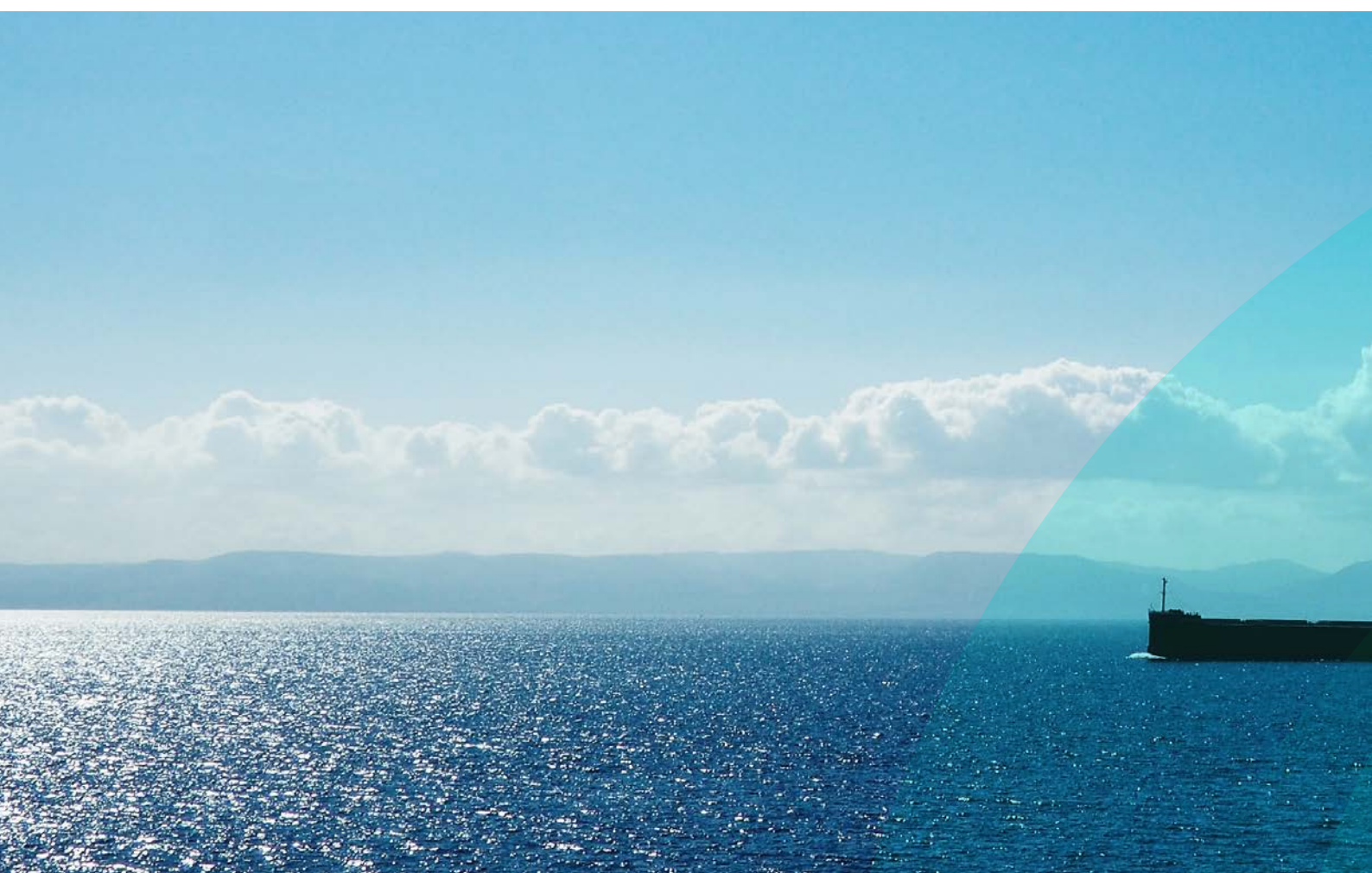
e) The desirability of the Company maintaining a reputation for high standards of business conduct

The Group's Code of Business Conduct and Ethics and associated policies and procedures have been followed rigorously in 2022. In H2 2022, the Group's Risk Manager hosted a virtual sessions on anti-bribery and corruption ("ABC") for the global workforce to reiterate the importance for every employee to understand the Code of Business Conduct and Ethics and to place it at the forefront of our engagement with suppliers, vendors, partners, and public officials. It is also a requirement for all employees and the Board to complete and successfully pass their ABC and Criminal Finance E-Learning modules every year to ensure we hold the Company to the highest standard of business conduct. Our Whistleblowing Policy 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 year also saw the Russian invasion of Ukraine in February 2022 and the introduction of an unprecedented suite of international sanctions and export controls in response to Russia's aggression. The Group's own response to the situation, and the prospect of a protracted conflict, included the establishment of dedicated cross-functional Pharos working group in March 2022 and the adoption of a new Group Sanctions Policy in May 2022. At an operational level, the Group continues to work with the JOCs on contingency planning and mitigation in the event that the sanctions of the conflict has a direct impact on the Group's business.

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. The Executive Directors communicate regularly with the Board 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. For more information on this, please refer to point a) and b) above.

For more information on the Company's commitment to maintaining high standards of business conduct, see pages 47 to 60 of the Risk Report, pages 61 to 107 of the Corporate Responsibility report.



SECTION 172(1) - CONTINUED

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.

Our Code of Business Conduct and Ethics, associated policies and the Pharos Guiding Principles commit us to providing a workplace free of discrimination where all employees can fulfil their potential based on merit and ability. We remain respectful and accepting in our relationships with current and future employees without discrimination or prejudice on grounds of age, disability, gender, marital status, sexual orientation, colour, race, religion or any other characteristic protected by applicable laws. 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 14 of the Investment Case, pages 61 to 107 of the Corporate Responsibility report, or visit our website at <https://www.pharos.energy/responsibility/policy-statements/> for our Human Rights statement.

Conclusion

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 other stakeholders, delivering our plan and working closely to consider the best opportunities for the Company. Detailed Board and Board 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), the Board has also continued to consult with, and take account of, the views of our investors, employees, partners, governments, suppliers and other stakeholders throughout the year.

Other stakeholder engagement initiatives, which were not mentioned above, included but not limited to:

- Robust process to refresh Board members and reduce Board size.
- Agile and responsible response to continue the implementation of a flexible working model for UK staff, with the option but not the obligation to work primarily from home – protecting people, accommodating diverse working preference, cutting costs and deferring capex.
- Open and active dialogue with its institutional, private and retail shareholders via website, Twitter and LinkedIn, email communications, and online meeting with Q&A to allow the wider public a free platform to raise questions directly to the Executive Directors.
- Frequent meetings between Executive Directors and in-country regulators and partners, both in-person and virtual, reported to the Board.
- 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 firm on feedback from investors and research analysts.



SUE RIVETT
Chief Financial Officer

Chief Financial Officer's Statement

“

I am pleased to report the strengthening of our balance sheet and a considerable improvement in the liquidity of the business.”

The steps we took in previous periods to streamline our business are showing results, with improved fiscal terms in Egypt and reduced costs throughout the Group. Our finance strategy continues to underpin our business model and our commitment to building shareholder value through organic growth and sustainable returns to shareholders. We have continued with our infield development programme in Vietnam, allowing us to sustain production levels in these highly attractive fast payback wells. The successful completion of the farm down in Egypt in March brought in a small initial cash payment on completion, but more significantly allowed us to benefit from a full carry of all contractor costs for G&A, opex and the capital programme into 2023. This activity has all been supported by improved oil prices and has allowed us to deliver strong positive cash flow and growth in value. As a direct result, we were able to announce returns to shareholders with the \$3m share buyback programme in July and also announce our proposal to recommence regular dividend payments, the first based on 2022 Operating Cash Flow.*

*Subject to shareholder approval at 2023 AGM

Operating performance

Revenues

Group revenues were up 35% at \$221.6m prior to realised hedging loss of \$22.5m (2021: \$163.8m prior to realised hedging loss of \$29.7m).

Revenues for Vietnam of \$184.8m (2021: \$131.0m) increased significantly year on year. The average realised crude oil price was \$106.44/bbl (2021: \$72.61/bbl), a 47% increase year on year, and the premium to Brent was over \$4/bbl on average (2021: just under \$2/bbl). Production was largely flat at 5,418 boepd (2021: 5,560 boepd).

The revenue for Egypt of \$36.8m (2021: \$32.8m) increased largely due to an additional \$7m following the improvement in the fiscal terms with

the Third Amendment to the El Fayum Concession, increasing cost recovery oil from 30% to 40% from November 2020. This was combined with higher average realised crude oil price, up 47% to \$96.03/bbl (2021: \$65.12/bbl), though offset by reduced production of 1,748 bopd from 3,318 bopd, following the farm-down of 55% interest and transfer of operatorship of the Group's Egyptian assets to IPR completed on 21 March 2022. 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 and combined stayed consistent at over \$5/bbl for the year.

CHIEF FINANCIAL OFFICER'S STATEMENT - CONTINUED

Hedging

A number of hedges were put in place in 2021 for the 2022 year to support our stress testing for going concern and the working capital test required for the prospectus for the Egyptian farm down. We were hedged more than required under our RBL and higher than we would normally commit to in order to support this. For full year 2022, Pharos entered into different commodity (swap and zero collar) hedges to protect the Brent component of forecast oil sales and to ensure future compliance with its obligations under the reserve based lending facility (RBL) over

the producing assets in Vietnam. The commodity hedges run until December 2023 and are settled monthly. The majority of hedged production volumes (61%) were in H1 2022, leading to realised losses of \$17.3m out of total realised losses of \$22.5m for the year, in order to meet requirements under the RBL and also going concern and working capital tests in relation to the Egypt farm out deal.

For 2022, 30% of the Group's total production was hedged, securing an average realised price for the hedged

volumes of \$73.1/bbl. The Group's RBL requires the Company to hedge at least 35% of Vietnam RBL production volumes and the current hedging programme meets this requirement through to December 2023, leaving 71% of Group production unhedged as at 31 December 2022.

Please see below a summary of hedges outstanding as at 31 December 2022, which are all zero cost collar.

	1Q23	2Q23	3Q23	4Q23
Production hedge per quarter – 000/bbls	180	180	180	45
Min. Average value of hedge - \$/bbl	65.33	65.33	63.33	63.33
Max. Average value of hedge - \$/bbl	102.88	102.88	102.23	107.80

Operating costs

Group cash operating costs, defined in the Non-IFRS measures section on page 203, were \$42.8m (2021: \$52.0m). Vietnam increased marginally by 2% from \$31.0m to \$31.7m in 2022, which equates to \$16.03/bbl (2021: \$15.28/bbl). The increase is due to higher costs relating to the FPSO as a result of lower Thang Long Joint Operating Company (TLJOC) production (TLJOC has 14.5% cost share in 2022 compared to 22.7% in 2021) throughput, which increased the HLJOC's share of the costs.

Cash operating costs in Egypt were \$11.1m in 2022 (2021: \$21.0m), which equates to \$17.40/bbl (2021: \$17.34/bbl). Cash operating costs from 1 January 2022 up to 20 March 2022 are 100% share and from 21 March 2022 includes the Group's remaining 45% share. The increase in cash operating costs relates largely to higher variable costs as a result of an upsurge in the fuel price, offset by the significant devaluation of EGP against the US dollar during the year.

DD&A

Group DD&A associated with producing assets increased to \$55.1m (2021: \$51.0m) driven by a higher depreciating cost base following 2021 and June 2022 impairment reversals taken on both Vietnam and Egypt, partially offset by the decrease in group production year on year. DD&A per bbl is currently \$25.79/boe for Vietnam (2021: \$21.19/boe). DD&A per bbl for Egypt is \$6.43/boe for the full year production entitlement, as the Company had 100% share of Egypt production

for the period through to completion of the farm-down, 1 January 2022 to 20 March 2022, and then 45% share for the remainder of the year. At 31 December 2021, 55% of El Fayum property, plant and equipment (PP&E) was re-categorised to assets classified as held for sale. The remaining 45% PP&E cost base was depreciated over 45% share of production for the period through to completion of the farm-down, giving a comparable DD&A per bbl of \$7.98/boe (2021: \$6.61/boe), which reflects the impairment reversals previously noted.

Administrative Expenses

Administrative expenses in 2022 of \$10.0m (2021: \$13.2m) are substantially lower than prior year due to our restructuring efforts. After adjusting for the non-cash items under IFRS 2 Share Based Payments of \$1.3m (2021: \$2.2m), the administrative expense is \$8.7m (2021: \$11.0m). Following completion of the farm down to IPR in March 2022 and the AGM in May 2022, the Board was reduced from 9 to 6 Directors. The remaining non-executives' fees were restated to the levels prior to the reductions taken during 2020 and 2021. As previously noted in the 2021 Annual Report & Accounts, the incoming CEO took a 21% reduction in base salary on assuming the role. The Egypt office was also restructured following the farm down.

Operating Profit

Operating profit from continuing operations for the year was \$72.3m (2021: \$6.3m) excluding the net impairment reversal of \$27.9m (2021: \$42.0m net impairment reversal), reflecting the higher commodity price environment throughout the year, offset by 19% reduction in production volumes.

Other/Restructuring Expenses and Loss on Disposal

Other/restructuring expenses for the year totalled \$0.8m (2021: \$3.3m) and included restructuring costs for both the head office in London and the Egypt office in Cairo (\$0.1m). In addition, there was \$0.7m charge relating to the premium on the transfer of the lease on the London office.

Loss on disposal for the year totalled \$6.3m (2021: \$nil) and related to the farm-down transaction, where 55% of the Group's operated interest in each of our Egyptian Concessions, El Fayum and North Beni Suef, were acquired by IPR on 21 March 2022. Pharos is entitled to contingent consideration depending on the average Brent Price each year from 2022 to the end of 2025 (with floor and cap at \$62/bbl and c.\$90/bbl respectively). The contingent consideration is calculated yearly and is capped at a maximum total payment of \$20.0m (please refer to Note 37 for further details). The first payment of the contingent consideration, being \$5 million in respect of the Brent price during 2022, is due from IPR in June 2023.

CHIEF FINANCIAL OFFICER'S STATEMENT - CONTINUED

Finance Costs

Finance costs increased to \$12.7m (2021: \$6.4m), mainly relating to a one-off charge of \$2.6m following a change in estimated future cash flows following the December 2022 RBL redetermination and amortisation of capitalised borrowing costs of \$1.5m (2021: \$2.4m), interest expense payable and similar fees of \$6.1m primarily due to higher interest rates charged on the RBL and NBE (2021: \$3.8m), unwinding of discount on provisions of \$1.3m (2021: \$0.8m) and foreign exchange losses of \$1.2m primarily driven by the devaluation of EGP against USD (2021: foreign exchange gains of \$0.6m).

Cash operating cost per barrel*

	2022 \$m	2021 \$m
Cost of sales	116.8	114.6
Less		
Depreciation, depletion and amortisation	(55.1)	(51.0)
Production based taxes	(14.7)	(10.1)
Export duty	(3.2)	-
Inventories	1.8	0.1
Trade Receivable risk factor provision	(1.5)	-
Other cost of sales	(1.3)	(1.6)
Cash operating costs	42.8	52.0
Production (BOEPD)	7,166	8,878
Cash operating cost per BOE (\$)	16.36	16.05

DD&A per barrel*

	2022 \$m	2021 \$m
Depreciation, depletion and amortisation	(55.1)	(51.0)
Production (BOEPD)	7,166	8,878
DD&A per BOE (\$)	21.07	15.74

* Cash operating cost per barrel and DD&A per barrel are alternative performance measures. See page 203.

Cash operating cost per barrel by Segment

	Vietnam \$m	Egypt Up to 20/03/22 ¹ \$m	Egypt From 21/03/22 to 31/12/22 ¹ \$m	Egypt Total \$m	Total \$m
Cost of sales	99.6	4.9	12.3	17.2	116.8
Less					
Depreciation, depletion and amortisation	(51.0)	(0.6)	(3.5)	(4.1)	(55.1)
Production based taxes	(14.5)	-	(0.2)	(0.2)	(14.7)
Export duty	(3.2)	-	-	-	(3.2)
Inventories	1.6	-	0.2	0.2	1.8
Trade Receivable risk factor provision	-	(0.5)	(1.0)	(1.5)	(1.5)
Other cost of sales	(0.8)	(0.2)	(0.3)	(0.5)	(1.3)
Cash operating costs	31.7	3.6	7.5	11.1	42.8
Production (BOEPD)	5,418	2,857	1,441	1,748	7,166
Cash operating cost per BOE (\$)	16.03	15.94	18.21	17.40	16.36

1) movements from 1 January 2022 up to 20/03/22 are 100% share and from 21/03/22 includes the Group's remaining 45% share. 100% cash operating costs for period from 21/03/22 to 31/12/22 amounts to \$16.7m.

CHIEF FINANCIAL OFFICER'S STATEMENT - CONTINUED

Cash flows and accounting for Egypt

Following the completion of the farm-out transaction of Egyptian assets to IPR, the accounting for the assets reflect the following:

The effective date of the transaction was 1 July 2020, with completion on 21 March 2022.

The Group, through its subsidiary PEF, owned and managed the business up to completion. On completion an adjustment to compensate IPR for 55% of net cash flows, revenue offset by costs since the effective date has been adjusted for in the level of carry to be provided by IPR to Pharos.

In the Financial Statements, for the period post completion, the Group's 45% share of field costs – capex, opex and G&A – are accounted for as incurred by the Group, although all such costs are paid by IPR and set off against the carry. Please see Note 37 for more details on the disposal of asset held for sale.

All revenues earned are paid direct to the Group.

DD&A per barrel by Segment

	Vietnam \$m	Egypt \$m	Total \$m
Depreciation, depletion and amortisation	51.0	4.1	55.1
Production (BOEPD)	5,418	1,748	7,166
DD&A per BOE (\$) *	25.79	6.43	21.07

* Calculation based on full production entitlement for the year. Actual DD&A charges were calculated on 45% share of production for the full year, giving a revised DD&A per bbl metric of \$7.98/boe.

Movements in the Property, Plant and Equipment

	2022 \$m	2021 \$m
As at 1 Jan	399.8	435.8
Capital spend	23.2	24.7
Revision in decommissioning assets	(13.9)	(1.9)
Recognition of right-of-use assets	0.8	-
Re-classification of assets held for sale	-	(62.0)
DD&A- Oil and gas properties	(55.1)	(51.0)
DD&A – Other assets	(0.1)	(0.4)
Impairment reversal/(charge) – PP&E	27.1	54.6
As at 31 Dec	381.8	399.8
Property, Plant and Equipment	381.0	399.8
Right-to-use-Asset (IFRS 16 Impact)	0.8	-
As at 31 Dec	381.8	399.8

Taxation

The overall net tax charge of \$56.2m (2021: \$43.3m) relates to tax charges in Vietnam of \$47.9m plus the deferred tax charge on impairment reversal of \$8.3m (2021: Vietnam tax charges of \$24.8m plus the deferred tax charge on impairment reversal of \$18.5m).

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 PEF. The Group

records a tax charge, with a corresponding increase in revenue, for the tax paid by EGPC on its behalf. However, this is only valid if PEF is in a tax paying position and no such tax has been recorded this year.

One of the Group's companies entered into commodity swaps designated as cash flow hedges. In accordance with IAS 12, a deferred tax asset has not been recognised in relation to the hedging losses of \$22.5m recorded in the year as it is unlikely that the UK tax group will generate sufficient taxable profit in the future, against which the deductible temporary differences can be utilised.

Profit/(loss) post-tax

The post-tax profit for the year from continuing operations and prior to the impairment reversal of \$27.9m, impairment tax charge of \$8.3m, exceptional costs of \$0.8m and loss on disposal of \$6.3m was \$11.9m (2021: post tax loss for the year of \$24.9m from continuing operations and prior to the impairment reversal of \$42.0m, impairment tax charge of \$18.5m and exceptional costs of \$3.3m). The overall profit for the year was \$24.4m (2021: \$4.7m loss).

Cash flow

Operating cash flow (before movements in working capital) was \$128.8m (2021: \$60.1m). After tax charges of \$54.7m (2021: \$39.9m), restructuring and exceptional expenses \$2.7m (2021: \$0.7m) and working capital adjustments of \$18.1m (2021: \$8.6m), the cash generated from operations was \$53.4m (2021: \$10.8m). Cash generated from operations, after tax charges, exceptional expenses and working capital movements, will form the basis of our dividend framework going forward.

Operating cash flow (before movements in working capital) adjusted for the impact of the hedging positions of \$22.5m loss (2021: \$29.7m loss) gives an underlying operational performance of \$151.3m (2021: \$89.8m), which is consistent with the significant improvement seen in commodity prices offset by the production decrease year on year.

The increase in receivables was \$7.7m (2021: increase in receivables of \$7.2m). The movement in 2022 is primarily driven by \$16.1m increase from Egypt, which was mainly due to the increase in EGPC receivables inclusive of \$7m catch-up invoice for improved fiscal terms under the Third Amendment to the El Fayum Concession and the lack of hard currency in country. As noted in previous updates to the market, the Group has opted not to accept the payment of PEF's receivables balance in EGP unless required for operations. PEF is entitled under contract to be paid for hydrocarbon sales in US dollars. The progressive devaluation of EGP against USD means that it is preferable to continue to hold USD denominated receivables. The International Monetary Fund (IMF) recently announced that its Executive Board had approved the provision of a \$3 billion, 46-month extended fund facility to Egypt, which the IMF expects to catalyse additional financing of approximately \$14 billion from Egypt's international and regional partners. In addition, Egypt is seeking access to up to a further \$1 billion from the IMF's newly created resilience and sustainability facility to support climate-related policy goals. Taken together, these developments are widely anticipated to improve Egypt's FX reserves and overall liquidity in the first half of 2023. The Company therefore remains optimistic that outstanding receivables with EGPC will start to be recovered during 2023. The increase in Egypt receivables was partially offset by timing differences on the Vietnam cargoes, leading to a decrease in receivables of \$6.9m despite higher commodity prices.

Capital expenditure on continuing operations for the year was lower at \$31.9m (2021: \$41.8m). On Block 16-1 – TGT Field, the drilling programme for two development wells completed in H2 2022, on time and under budget. The first well, H1-35P, commenced production on 21 October 2022, and the second well, 11XPST, commenced production on 10 November 2022. On Block 9-2 – CNV Field, one development well, CNV-2PST1, commencing in H2 2022 and has now been completed. In El Fayum, seven wells were put on production in 2022 (including one well drilled in 2021), and one additional well drilled in Q4 2022 is due for completion in Q1 2023.

Net cash outflows from financing activities of \$19.8m (2021: \$31.1m inflow) included outflows in relation to the RBL of \$0.2m in June 2022 and \$12.9m in December following the half year and year end redetermination processes and the amount drawn stood at \$65.0m at year end.

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

Financing activities also included net \$2.7m outflow in relation to the NBE revolving credit facility, which allows PEF to draw down 60% of the value of each El Fayum invoice in USD. The amount drawn under the NBE facility as at 31 December 2022 was \$9.2m. A further \$2.9m outflow was due to the share buyback programme that was initiated in July 2022. The first phase of that programme, completed in January 2023, resulted in a total of 10.3 million shares being purchased, at a daily average price of 24.4p.

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 the Group's sustainable business model.

The Group's Code of Business Conduct and 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 2022, the total payments to governments for the Group amounted to \$245.3m (2021: \$198.2m), of which \$211.5m or 86% (2021: \$151.9m or 77%) was related to the Vietnam producing licence areas, of which \$140.7m (2021: \$102.6m) was for indirect taxes based on production entitlement. In Egypt payments to government totalled \$31.3m (2021: \$44.7m), of which \$28.8m (2021: \$44.1m) related to indirect taxes based on production entitlement.

Balance sheet

Intangible assets increased during the period to \$16.5m (2021: \$12.4m). Additions for the year related to Blocks 125 & 126 in Vietnam \$3.1m (2021: \$10.6m), Egypt \$1.0m (2021: \$3.9m) and \$0.2m (2021: \$0.7m) for the Israeli bid round licence fee. The Group has written off \$0.2m (2021: \$2.2m) relating to the Israel asset as no substantive expenditure has been identified under IFRS 6. In 2021, \$2.1m of intangible assets relating to the Egypt concessions were re-classified as assets held for sale.

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

CHIEF FINANCIAL OFFICER'S STATEMENT - CONTINUED

Impairment reversals

As a result of previously recognised impairment losses, combined with ongoing oil price volatility, economic uncertainty leading to an increase in inflation and discount rates, 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 value in use 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.

Summary of Impairments - Oil and Gas properties

	TGT \$m	CNV \$m	Egypt \$m	Total \$m
2022				
Pre-tax impairment reversal	19.7	3.6	3.8	27.1
Deferred tax charge	(6.9)	(1.4)	–	(8.3)
Post-tax impairment reversal	12.8	2.2	3.8	18.8
Reconciliation of carrying amount:¹				
As at 1 Jan 2022	266.0	84.2	49.2	399.4
Additions	7.0	3.2	13.6	23.8
Changes in decommissioning asset ²	(11.1)	(2.8)	–	(13.9)
DD&A	(39.2)	(11.8)	(4.1)	(55.1)
Impairment reversal	19.7	3.6	3.8	27.1
As at 31 Dec 2022	242.4	76.4	62.5	381.3
2021				
Pre-tax impairment reversal	49.1	3.8	1.7	54.6
Deferred tax charge	(17.1)	(1.4)	–	(18.5)
Post-tax impairment reversal	32.0	2.4	1.7	36.1
Reconciliation of carrying amount:¹				
As at 1 Jan 2021	239.3	91.2	104.1	434.6
Additions	11.4	0.3	12.9	24.6
Reclassified as assets held for sale	–	–	(1.4)	(1.4)
Changes in decommissioning asset ²	(1.0)	(0.9)	–	(1.9)
DD&A	(32.8)	(10.2)	(8.0)	(51.0)
Impairment reversal	49.1	3.8	1.7	54.6
Sub-total	266.0	84.2	109.3	459.5
Reclassified as assets held for sale	–	–	(60.1)	(60.1)
As at 31 Dec 2021	266.0	84.2	49.2	399.4

1) Egypt carrying value reflects 45% share (2021: 100%).

2) Changes in decommissioning asset for TGT is due to changes in discount rate and the field abandonment plan, whereas CNV reflects the change in discount rate only (2021: change in discount rate only for both TGT and CNV)

It should be noted that the TGT impairment reversal for full year 2022 has been restricted to reflect the remaining balance of historic impairment charges previously recorded against the field. Further details of these impairment charges, including key assumptions in relation to oil price and discount rate are provided in Note 16 of the financial statements.

CHIEF FINANCIAL OFFICER'S STATEMENT - CONTINUED

Cash is set aside into abandonment funds for both TGT and CNV. These abandonment funds are controlled 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 the Financial Statements.

Oil inventory was \$7.2m at 31 December 2022 (2021: \$5.9m), of which \$7.0m related to Vietnam and \$0.2m to Egypt. Trade and other receivables increased to \$60.9m (2021: \$28.1m) of which \$11.4m (2021: \$18.2m) relates to Vietnam and \$49.0m (2021: \$8.5m) relates to Egypt. For Egypt, the closing balance includes \$20.9m of carry (2021: \$nil), which reflects the remaining disproportionate funding contribution from IPR to compensate for net cash flows since the economic date of the farm down transaction, 1 July 2020, and the completion date of 21 March 2022. The carry decreases every month by the cash calls received from IPR. In addition, Egypt trade receivables include \$24.2m from EGPC where collection has been delayed by the devaluation of EGP and ongoing restrictions on outgoing USD transfers by the Central Bank of Egypt previously highlighted.

Cash and cash equivalents at the end of the year were \$45.3m (2021: \$27.1m) mainly driven by net cash flows from operating activities of \$53.4m (2021: \$10.8m) as a result of higher commodity prices during the year, offset by lower production.

Trade and other payables were \$14.0m (2021: \$30.6m), of which \$6.3m (2021: \$14.5m) relates to the Egypt payables, inclusive of Stratton royalty obligation and following re-classification of Petrosilah working capital balances to joint venture receivables following the farm-down transaction. \$4.8m (2021: \$4.8m) relates to Vietnam payables, \$0.5m (2021: \$6.5m) net hedging liability and \$1.9m (2021: \$4.4m) Head Office payables. Tax payables decreased to \$5.2m (2021: \$5.4m) which is linked to the timing of cargoes from TGT.

Borrowings were \$74.2m (2021: \$80.5m), a decrease of \$6.3m with \$13.1m related to repayments following the RBL redeterminations in June and December, partially offset by \$4.1m amortisation of capitalised borrowing costs and one-off charges in relation to the redeterminations. This was offset by a net increase in the NBE credit facility of \$2.7m during the year.

Long-term provisions comprise the Group's decommissioning obligations and, for 2021, the royalty over the El Fayum asset. In Vietnam, the decommissioning provision decreased from \$66.9m at 2021 year-end to \$54.3m at 2022 mainly due to an increase in discount rate from 1.51% to 3.83% as a result of an increase in prevailing risk-free market rates, partially offset by the TGT infill wells programme completed during the year. The amounts set aside into the abandonment funds total \$50.2m (2021: \$48.1m). No decommissioning obligation exists under the El Fayum Concession.

The royalty provision relates to a historical arrangement granting a 3% royalty on PEF's share of profit oil and excess cost recovery from El Fayum in Egypt. At 31 December 2022, the long-term provision was \$nil (2021: \$2.2m) and the amount disclosed in current payables is \$2.5m (2021: \$3.4m)

Own shares

The Pharos Employee Benefit Trust ("EBT") holds ordinary shares of the Company for the purposes of satisfying long-term incentive awards for senior management. At the end of 2022, the trust held 2,126,857 (2021: 1,767,757), representing 0.48% (2021: 0.40%) of the issued share capital.

In addition, as at 31 December 2022, the Company held 9,122,268 (2021: 9,122,268) treasury shares, representing 2.06% (2021: 2.02%) of the issued share capital. All shares purchased under the on-market buyback programme originally announced in July 2022 and extended in January 2023 have been or will be cancelled rather than retained in treasury.

Dividend Framework

The Company intends to recommence dividend payments starting in 2023. Our policy is now set at returning no less than 10% of Operating Cash Flow (OCF).

OCF has been selected as the most appropriate measure as it automatically takes account of:

- movements in Brent price;
- tax, which is the main form of government take in Vietnam; and
- working capital movements.

The first dividend will therefore be a final dividend for the 2022 financial year. The Board have recommended a final dividend of 1.00 pence per share (based on a minimum 10% OCF of \$5.34m at the average rate of exchange for 2022) subject to approval of the shareholders at the Company's 2023 AGM. The final dividend will be paid in full on 12 July 2023 in Pounds Sterling to ordinary shareholders on the register at the close of business on 16 June 2023. Going forward, we expect the payment pattern will move to a conventional pattern of an interim and a final dividend. As is normally the case with interim dividends, and unlike the final dividend for 2022 to be proposed at the 2023 AGM, the interim dividend will not be conditional on separate shareholder approval.



CHIEF FINANCIAL OFFICER'S STATEMENT - CONTINUED

Going concern

Pharos continuously 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 that utilises oil prices of \$88.3/bbl in 2023 and \$84.8/bbl in 2024. The key assumptions and related sensitivities include a "Reasonable Worst Case" (RWC) scenario, where the Board has taken into account the risk of an oil price crash broadly similar to what occurred in 2020. It assumes the Brent oil price down by a third to \$59/bbl in May 2023 and gradually recovers to base price in next 12 months, concurrent with 5% reductions in Vietnam and Egypt production compared to our base case from June 2023. Both the base case and RWC take into account effect of hedging that has already been put in place at 31 December 2022 and subsequent hedges placed in 2023, now covering c.33% for the full year 2023 and 6% of Q1 2024. We have therefore secured an average floor price and ceiling price of c.\$64/bbl and c. \$100/bbl, respectively, for the entire hedged volumes. Under the RWC scenario, we have identified appropriate mitigating actions, which could look to defer capital expenditure programme as required.

In addition, we have conducted a reverse stress test sensitivity analysis that indicates the magnitude of oil price decline required to breach our financial headroom, assuming all other variables remain unchanged.

Our business in Vietnam remains robust, with breakeven price of c.\$30/bbl. We have limited capital expenditure in Vietnam which includes the delay of CNV 2PST1 well. The cash flows have also been tested in the unlikely event that an extension for the 125/126 is not secured. The majority of our debt is secured against the Vietnam assets under the RBL, only \$9.2m drawn on an uncommitted revolving credit facility on the Egypt revenue invoices.

In Egypt, we have 9 wells in 2023 and the Base case assumes a full investment scenario.

On the basis of the forecasts provided above, the Group is expected to have sufficient financial headroom for the 12 months from the date of approval of the 2022 Accounts. Based on this analysis, the Directors have a reasonable expectation that the Group has adequate resources to continue its operations in the foreseeable future. Therefore, the Financial Statements have been prepared using the going concern basis of accounting.

Financial outlook

We have a lot to look forward to as we move forward in 2023 and beyond.

- A strong and stable balance sheet, improved liquidity, improved fiscal terms in Egypt, stable production with a solid USD cash flow from our Vietnam portfolio and a reduced cost base throughout the Group.
- Continued development drilling and carry in Egypt, extra \$5m contingent consideration payment in 2023 and potentially for the next 3 years (oil price dependent). We are encouraged by the intervention from the IMF and hope to see an improved position in our Egyptian receivables.
- Strong support from our RBL lenders over the Vietnam assets as we continue in 2023 to pay down this facility and a renewal of our uncommitted revolving credit facility with the National Bank of Egypt.

Further returns to shareholders are anticipated in 2023, with the announcement in January of an additional \$3m committed to an extension of the Company's on-market share buyback programme, and the resumption of sustainable dividends based on OCF to be proposed at the 2023 AGM.


SUE RIVETT

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 2022. The Group's risk management activities during the year focused on the ramifications of the war in Ukraine with increased uncertainties and volatilities on world commodity markets and the ensuing Western sanctions on Russia and vice versa which have negatively impacted on the recoveries of many economies, particularly Egypt. Our management undertook a number of deep-dive exercises 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

The Group's control environment is based primarily on its Code of Business Conduct and Ethics, which carries a number of fundamental values, including openness and integrity, safety and care 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 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 operate properly. The Audit and Risk Committee oversees the implementation by the senior management team of the internal control and risk management procedures based on the risks identified to support the Group's objectives.

MANAGING OUR RISKS



Principal risks in 2022

- Prolonged War in Ukraine / ensuing sanctions
- Risk of rising inflation and stagflation
- Inability to repatriate cash earned from Egypt
- Further devaluation of the Egyptian pound
- Legal risks – Sanctions related
- Climate Change
- Commodity price volatility
- Volatility in production levels
- HSE & Social
- Partner alignment
- Sub-optimal capital allocation
- Political and Regional
- Cyber security
- Reserves downgrades
- Insufficient funds to meet commitments

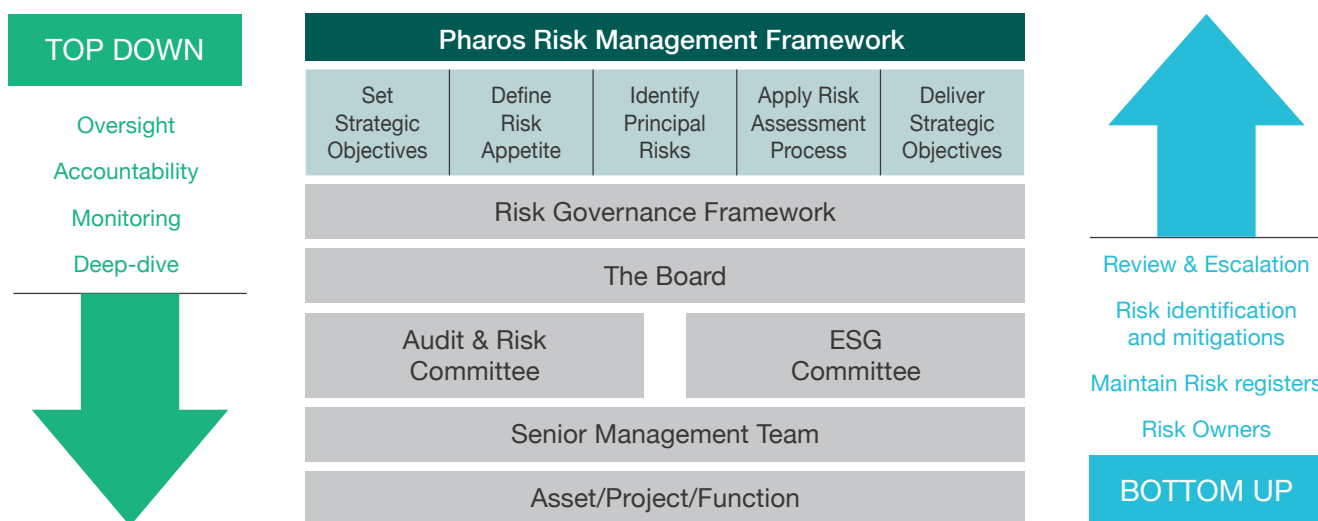


Principal and Emerging risks in 2023

- Prolonged War in Ukraine / ensuing sanctions
- Risk of rising inflation and stagflation
- Inability to repatriate cash earned from Egypt
- Further devaluation of the Egyptian pound
- Legal risks – Sanctions related
- Climate Change
- Commodity price volatility
- Volatility in production levels
- HSE & Social
- Partner alignment
- Sub-optimal capital allocation
- Political and Regional
- Cyber security
- Reserves downgrades
- Insufficient funds to meet commitments

RISK MANAGEMENT - CONTINUED

Risk Management Framework



The Pharos Risk Management Framework requires that all business units within the Group conduct on-going risk management and report to the Audit and Risk Committee and the Board. The Group's Risk Management Policy defines the specifics of the risk management process, describes the risk tools (for example, the preparation and maintenance of a Group 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 those risks 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 and develop alternate strategies
- Better manage the business by anticipating potential risks and devise preventive / mitigating measures
- Meet regulatory requirements
- Promote sustainability and help build more resilient systems

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 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. The internal control framework and risk management process under the BMS seeks to ensure that risk identification, assessment and mitigation are all properly embedded throughout the organisation. Whilst the Group's approach to risk management 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. The Group's 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.

A challenging future - The war in Ukraine and its ramifications

Repercussions of the Russian invasion of Ukraine and ensuing sanctions continue to reverberate globally and will test the resilience of the financial system.

Serious impacts on the Egyptian economy

The impact of the war on Egypt's economy is especially significant. Egypt is the world's top wheat importer; before the invasion of Ukraine, around 80 percent of its wheat imports came from Russia and Ukraine. Since the beginning of the war, food prices have risen significantly, more than doubled.

Egypt has faced economic and financial difficulties due to the impact of COVID-19 and now the impact of the war in Ukraine is putting a severe strain on the country.

- Inability to receive cash revenue's in USD in order to repatriate to the UK
- Inability to convert Egyptian Pound (EGP) into USD
- Further devaluation of the Egyptian pound

The recent global macroeconomic volatility has seen both a significant devaluation of the Egyptian Pound and continued restrictions on outgoing USD transfers by the Central Bank of Egypt. Pharos have opted not to accept the payment of our receivables balance in EGP unless required for operations. The progressive devaluation of EGP against USD means that it is preferable to continue to hold USD denominated receivables.

The International Monetary Fund (IMF) announced in December 2022 that its Executive Board had approved the provision of a \$3 billion, 46-month extended fund facility to Egypt, which the IMF expects to catalyse additional financing of approximately \$14 billion from Egypt's international and regional partners. In addition, Egypt is seeking access to up to a further \$1 billion from the IMF's newly created resilience and sustainability facility to support climate-related policy goals. In addition, the Government has officially launched a multi-year privatisation programme whereby it intends to sell stakes in 32 companies, which are currently fully or partially owned by the State (or the Military), with a target to raise c. \$40 billion in four years. The Government's plan is to kick-start the programme with a round of sales to strategic buyers, which will be followed by the offer of smaller stakes on the Egyptian Stock Exchange. In fact, the first 11 (of the 32) companies have just been transferred to a pre-IPO fund that will manage strategic sales worth an expected \$6 billion over the coming few months.

Taken together, these developments are widely anticipated to improve Egypt's FX reserves and overall liquidity in H1 2023. We therefore remain optimistic that outstanding receivables with EGPC will start to be recovered during 2023.

In the event of continued delays in our El Fayum invoices being paid, we have access to our revolving credit facility with the National Bank of Egypt (NBE), which allows us to draw down 60% of the value of each invoice in USD. As announced in our January 2023 trading and operations update, we agreed with NBE to extend the current \$18m facility on the same terms to 31 March 2024.

The conflict in Ukraine and international sanctions

The extensive sanctions and export controls introduced by the US, EU and UK on key Russian industries, entities and individuals following the invasion of Ukraine on the 24 February 2022 remain an important consideration for the Group and its approach to risk management.

Throughout 2022 and in early 2023 the scope of international sanctions and controls has expanded incrementally. To date, neither the conflict in Ukraine nor the sanctions themselves have had a material impact on the Group's business. Despite this, the Group continues to be prepared to act swiftly in the event that an existing counterparty were to become a sanctioned entity or otherwise affected. The dedicated cross-functional Pharos working group covering sanctions and the impact of the conflict in Ukraine established in March 2022 remains active. The working group reports to the Audit and Risk Committee and also contributes to regular risk management reporting. The Group Sanctions Policy was adopted in May 2022 and is available on the Pharos website with the Group's other principal corporate policies. At an operational level, the Group continues to work with the JOCs on contingency planning and mitigation.

Inflation and risks of stagflation

After the double shock of COVID-19 and the Russian invasion of Ukraine, inflation rates have surged, surging to the highest levels in decades in many countries and triggering many currencies devaluation while economic growth forecasts are rapidly deteriorating. At the start of 2022, most economists were expecting 2022 to be a period of strong economic rebound but the start of the war in Ukraine led to higher commodity prices which fuelled further inflation. Geopolitics and macroeconomic factors are causing disruptions in commodity markets, leading to increased counterparty risk exposures, poor market liquidity and funding strains further down the line.

Egypt devalued its pound by 14% on 21 March 2022 after Russia's invasion of Ukraine prompted foreign investors to pull billions of dollars out of Egyptian treasury markets, putting pressure on the currency. The Egyptian pound fell to record lows in 2022, with 1 USD selling for 15.7 EGP in January and 24.7 EGP in December (with further devaluation to > 30 EGP in early January 2023). Pharos crude receivables in early 2022 from EGPC were being settled mostly in EGP which creates currency exchange risk due to the devalued Egyptian pounds and repatriating cash earned requires currency transfer to USD which was taking much longer than previously to arrange. Since Q2 2022 the Group has only been accepting USD with the impact that the receivables position has grown significantly.

RISK MANAGEMENT - CONTINUED



Climate Change risks

During 2022 a number of trends peppered the energy sector; the energy price inflation crisis, the war in Ukraine ramifications, the questioning by activist of companies on overpromising and under delivering on climate and the recovery of oil price.

The COP27 summit in Egypt in November 2022 culminated with a historic agreement on a fund to compensate developing countries for losses and damage caused by the climate crisis. These countries, which suffer the most extreme impacts despite small carbon footprints, have called for loss and damage to be addressed for the past 30 years.

Although discussed and questioned by several participants and big emitters, the commitments made in Paris (COP21) and Glasgow (COP26) were renewed, however no stronger climate goals and ambitions were put into work.



Summary of COP27 results:

- Major breakthrough on loss and damage funding for vulnerable developing countries suffering the most from the effects of climate change
- Agreements on mitigation measures only include a coal phase down (instead of a phase out) and ignore emissions from the use of gas and oil
- Mitigation commitments from Paris and Glasgow were renewed but not strengthened or ambitions increased
- To be able to reach net zero emissions by 2050 about \$4 trillion per year needs to be invested in renewable energy

As the outcome of COP27 is debated, a number of ESG topics have been elevated and will likely dominate 2023:

- Focus on reporting and reducing Scope 3 emissions
- How private capital can influence and assist the energy transition journey?
- Carbon markets - how to set a globally acceptable price and ensure carbon offsets are verifiable?
- The rise of sustainability accounting
- Focus on diversity, equity and inclusion

Climate Risk and Resilience

Climate change risks, both arising from energy transition and the physical effects of changes in climate, are identified and assessed as part of the Group's integrated risk management approach and mitigated within the remit of a diverging set of key stakeholders' aspirations and calibrated within the Group's risk appetite and corporate strategy. Climate change and the transition to a low carbon economy were also considered in preparing the consolidated financial statements, more details of which can be found on page 59 of our Viability Statement and Note 4 of the financial statements.

In Q1 2022, Pharos advanced its alignment with the four TCFD pillars and disclosures on Governance, Strategy, Risk Management and Metrics and Targets. A detailed analysis was commissioned with the help of a Climate Change and TCFD specialist consultancy which produced in-depth assessments of the transition and physical climate risks followed by a hi-grading risk exercise based on the Group internal risk matrix. These assessments were then discussed with the Senior Management team and submitted to the ESG committee of the Board. Throughout the year, these risks, along with every other principle and emerging risks presented on page 53 of the Risk Report, are discussed and reviewed by the Audit and Risk Committee every quarter to ensure they are up to date and remain dynamic to the changing nature of the macroeconomic environment and the business. In Q1 2023, a deeper analysis into Group's transitional and physical risk assessment was conducted with the Management team to update the hi-grading risk assessment and ensure its severity and likelihood grading are in line with the Group's latest risk matrix. For a full list of our transitional and physical climate risks, please see page 94 for our full TCFD reporting.

The physical risk assessment focused on screening our operational interests in Vietnam and Egypt using the consultant's physical risks datasets to quantify changes in key climate variables (e.g. drought, rainfall, wave height) over a 5 and 10 year timeframe under the three emissions scenarios – Representative Concentration Pathways (RCPs). The transition analysis focused on the potential impacts of different future scenarios on the key transition risks facing the Group and the oil and gas sector more broadly over the next 5-10 years. By undertaking these assessments, Pharos is in a better position to formulate strategies which will increase its resilience to climate related risks - and

better cope with the uncertainty, speed and extent of the energy transition. The transition risk analysis conducted by the independent Climate Change and TCFD specialist consultant was assessed under the International Agency (IEA) Sustainable Development Scenario (SDS) and Stated Policies Scenario (STEPS). Additionally, Pharos has considered the risk that climate change pressures could reduce oil prices during the 3-year Viability Statement window under the recommended IEA's Net Zero Emissions scenario. For more information, please see pages 59 to 60 for the Viability Statement and page 79 for our full TCFD reporting.

Commodity Price risk

Brent and WTI oil spot prices climbed during the first half 2022 because of supply concerns following the Russian invasion of Ukraine. The increase in commodity prices causing geo-political and economic tensions among some governments forcing them to tap into their oil / gas strategic reserves and boost supplies to avoid excessive petrol rises at the pump and further inflationary pressures. Europe and Asia in the meantime faced a severe gas shortage causing gas prices to shoot up. Prices then declined during the second half back to the levels at the start of the year.

In its most recent publication, the IMF painted a reasonably gloomy picture of the world economy, with high inflation, rising interest rates, continuing impacts of the Russia-Ukraine conflict and the COVID-19 pandemic, all weighing down on near-term growth. Despite the expected slowdown in global growth, oil demand growth is still expected to be well within the positive territory, driven mainly by China's reopening and the continuing recovery in international air travel.

A buoyant oil market and price is sometimes perceived as an unconditional positive for the oil and gas sector, but the costs of material and services in this capital intensive industry can lead to big changes to predicted returns and stifle cash flows.

Carbon Tracker, a London-based not-for-profit think tank researching the impact of climate change on financial markets, warned oil producers they should not let high prices today lure investments into pricey new projects that will lose money when the fever breaks and the energy transition cripples fossil fuel demand over coming years.

Commodity price uncertainty persists and is factored into all stages of the planning process. Please refer to the Viability

Statement on page 59 for more details of how the Group has stress tested its assets and projected cash flows against its principal risks.

Cyber risks

Cyber attacks remain a critical threat as the war in Ukraine has raised acute concerns about cyber operations. WFH also creates an increased dependence on cloud-deployed services and thus opening more vulnerabilities to cyber-attacks.

Pharos continues its focus on the robustness of its business continuity and collaborate closely with its IT partners to minimise disruption to our business. Specific cyber training was carried out across the Group in 2022.

Insurance costs / pollution liability

At the time of writing, it remains unclear whether energy insurance premiums for the renewal of the Group's cover this year will increase broadly in line with inflation, as was the case with the 2022 renewal. As noted in last year's report, the energy insurance markets are increasingly difficult to access for oil and gas exploration and production businesses. Climate change risks and broader ESG objectives remain at the forefront of insurers' attitudes to oil and gas assets, with prominent insurers already taking steps to rebalance their portfolios. By way of example, the major reinsurer Munich Re, a current underwriter of the Group's oil and gas package policy, announced in October 2022 that it will no longer invest in or insure contracts or projects relating to new oil and gas fields not already producing on 31 December 2022 or new midstream infrastructure related to oil.

This trend of oil and gas businesses suffering reduced access to the insurance market is likely to continue, resulting in significant premium increases ahead of inflation over time. While the Group may be able to mitigate the impact of premium increases by agreeing to more restrictive terms of cover or reduced financial cover limits, this strategy will inevitably result in increased exposure to risk elsewhere.

More positively, but with a smaller financial impact on the Group, there are indications that the cost of directors' and officers' liability insurance (D&O) has stabilised, after increasing dramatically over the last two years due to reduced availability of D&O cover in the market and an increase in liability claims during the COVID-19 pandemic.

RISK MANAGEMENT - CONTINUED

Operational Cost risk

Rising operational costs may become a big risk because they are directly impacted by the other factors, particularly our ability to meet capex commitments. Generally speaking, the larger a project, the greater the legal and regulatory burden and associated costs. In addition, higher oil prices result in services companies increasing prices, creating further inflationary pressure. With the unpredictability of oil and other commodity prices and owing to global manufacturing beyond any one company's control, there are genuine cost concerns.

Additionally, many oil and gas firms struggle to find and keep skilled employees during boom periods. Thus payroll can rapidly grow to add another expense to the total picture. The cost of training employees in the oil and gas sector has increased, reducing the number of firms in the industry. As a result, oil and gas have become a very capital-intensive business with fewer participants each year. Out-sourcing is becoming more common in the industry, and while this offers flexibility to operators, it also results in greater exposure to increases in daily rates for essential services, such as drilling and well services, when the oil price rises.

With heightened scrutiny on environmental, social, and governance (ESG) transparency, there will be continuous and more onerous regulatory challenges which oil and gas companies must handle to sustain their growth and purpose.

Following the completion of the farm-out transaction to IPR in March and AGM in May the Board was reduced from nine Directors to six (two Executive Directors and four Non-Executive Directors). The remaining non-executives' fees were restated to the levels prior to the reductions taken during 2020 and 2021. The incoming CEO took a c.21% reduction in base salary on assuming the role. The headcount reduction will contribute to lower G&A costs.

Emerging Risks

Areas of emerging risks will be around regulatory changes, digital transformation, remote working, risks of social disorders and the role of the Board in crisis situations.

Similar to our principal risks, emerging risks are identified using our bottom up approach with the 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 engaged with the industry with organisations such as BRINDEX and assesses news alerts from such sources as Oil & Gas UK, FT, Refinitiv (Eikon and Worldcheckone) Bloomberg Green and the World Economic Forum. Pharos also conducts internal benchmarking analyses with its industry peers to better understand emerging trends in the sector.

Opportunities

For the oil and gas sector the lack of liquidity and increased scrutiny from investors on fossil fuel producers to decarbonise may create investment opportunities for oil and gas independents which are more able to adapt to a rapidly changing risk landscape. 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, wind power and other carbon reduction 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.

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 regularly 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 & Note 36 to the Financial Statements. The Group's Risk Management Framework, Policy and associated procedures are further discussed in the Corporate Governance Report on pages 109 to 160 and in the Audit and Risk Committee Report on pages 127 to 133, where the significant issues related to the 2022 Financial Statements are also reported. The Group's Business Management System, which includes the Health, Safety, Environmental and Social Responsibility ('HSES') Management System, incorporating the Group's internal control mechanisms of policies, procedures and guidelines through which it assesses, manages and mitigates its HSES risks and impacts, is described more fully in the Corporate Responsibility Report on pages 61 to 107.

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 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.

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  New Risk


Principal risks	Change in likelihood	Causes	Risk Mitigation
STRATEGIC			
<p>1. Further lockdowns dampening oil demand</p> <ul style="list-style-type: none"> Sub-optimal pricing on commodity sales Reduced revenue to finance operations 		<ul style="list-style-type: none"> Emergence of new variants or other viruses Waning efficacy of vaccinations and boosters COVID-19 infections continue to go up The virus maintains its pandemic status throughout 2023 Social disorder as poorer nations / populations fall behind on vaccination programmes 	<ul style="list-style-type: none"> 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 applicable law, regulation and public health guidance relating to the COVID-19 pandemic
<p>2. Insufficient funds to meet commitments</p> <ul style="list-style-type: none"> Inability to invest in line with growth strategy 		<ul style="list-style-type: none"> Reallocation of capital away from oil and gas Huge swings in oil and other commodity prices Assets bubble bursts Global debt crises emerging Inadequate cost control Poor technical data to support allocations High inflation 	<ul style="list-style-type: none"> Regular review of funding options Stress testing forecast Proactive dialogue with banks and other providers of capital Opportunity screening Effective project management and resourcing Cost carry by farm-in partner(s) Thorough capital allocation process

RISKS - CONTINUED

Principal risks	Change in likelihood	Causes	Risk Mitigation
<p>3. Production levels below expectation</p> <ul style="list-style-type: none"> • Sub-Optimal well performance • Reduced drilling 		<ul style="list-style-type: none"> • Inadequate waterflood responses • Incorrect well placements • Development wells uncommercial • Poor reservoir models • Lack of financing for drilling programme 	<ul style="list-style-type: none"> • 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 • Implement planned drilling programmes • Active participation in dialogue with JVs/ JOCs
<p>4. Health, Safety, Environmental and Social Risk</p> <ul style="list-style-type: none"> • Reputational • Operational outages leading to lower production 		<ul style="list-style-type: none"> • Business disruption due to workforce affected by COVID-19 • Health, safety and environmental risks of major explosions, leaks or spills • High-risk operating conditions and HSES risks • Climate change impacts on the sector, such as extreme weather, sea level rise and water availability affecting production • Gas venting and flaring hazards and risks - well blow outs, 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 	<ul style="list-style-type: none"> • 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 transition 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 Assessments relating to, for example: <ul style="list-style-type: none"> - 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 <ul style="list-style-type: none"> - 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 - Active participation in dialogue with JOC to influence them on best work practices • Maintaining adequate energy insurance for our assets and operations

Principal risks	Change in likelihood	Causes	Risk Mitigation
<p>5. Climate Change – transition and physical risks</p> <ul style="list-style-type: none"> • Lack of Capital • Reputational • Increased capex and operating costs • Physical damage to assets • Lower oil prices • Stranded assets • Regulatory changes – potential taxes 		<ul style="list-style-type: none"> • Pressure on investors to divest / avoid fossil fuel companies / projects • Inability to find economically viable CO₂ reduction solutions • Lack of alignment between our key stakeholders’ priorities and climate change concerns • Global transition to a lower carbon intensity economy • Increased climate regulation and disclosure • Increase in carbon taxes / decarbonisation charges • Transformational shifts leading to reduced demand for fossil fuels • Climate activists pressing prominent institutions and investors to abandon fossil investments - “greening” the financial system • Increased frequency of extreme weather events • Supply chain disruptions causing delay/shutdowns to operations • Lack of partner alignment on decarbonisation initiatives 	<ul style="list-style-type: none"> • Net Zero commitment on all assets by 2050, detailed roadmap coming in 2023 • Establishment of an Emission Management Fund, under which we will set aside \$0.25 for each barrel sold at an oil price above \$75/bbl to support emissions management projects • Transparent reporting and participation in Carbon Disclosure Project (CDP) Climate Change and Water Security questionnaires • Continue alignment with TCFD recommendations • Further integrate climate risk management within Pharos Risk Management Framework • Stress test our going concern scenarios under a Net Zero Emissions price scenario and carbon tax • Embed Climate change scenarios and evaluate decisions on key business operations / directions • Continuous improvement of GHG emissions management and get JOCs to support CO₂ emissions reduction initiatives • Update our Climate Change Policy and keep it fit for purpose and in line with evolving decarbonisation developments • Comprehensive insurance cover for Physical Damage • Regional close monitoring of extreme weather developments so that evacuation or shut-down are activated in good time • Regular and timely control of inventories to ensure essential spares are sourced in advance • Prepare business case or back study to support decarbonisation initiatives

FINANCIAL

<p>6. Commodity Price risk</p> <ul style="list-style-type: none"> • Uncertainty on planning • Inability to fund work programme / dividend 		<ul style="list-style-type: none"> • On-going market volatility and uncertainties from COVID-19 • Geo-political factors and international conflicts • 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 as market dynamics are influenced by the speed of recovery from COVID-19 and growing ESG pressures • Negative cash flows & earnings degradation • Market speculation and trading in oil futures • Resurgence of new COVID-19 variants • Repercussions of the Russian invasion of Ukraine 	<ul style="list-style-type: none"> • Oil commodity Hedging <ul style="list-style-type: none"> - 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 risk analysis to ensure a level of robustness to downside price scenarios • Capital discipline with focus on controlling and managing costs • Discretionary spend actively managed • Maintain and cultivate good relationships with lenders
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RISKS - CONTINUED

Principal risks	Change in likelihood	Causes	Risk Mitigation
<p>7. Rising operational costs</p> <ul style="list-style-type: none"> Reduced profits Strain on cash flows Shortages in skilled labour 		<ul style="list-style-type: none"> Global inflation Turmoil in the energy markets causing sharp price hikes Sudden unplanned rate increases for oil and gas services 	<ul style="list-style-type: none"> Regular updates to yearly budgets and forecasts Focus in discretionary spend Secure long-term contracts where appropriate without lock-ins Explore applying new technological advances, focus on prevention and early detection
<p>8. Egyptian economy</p> <ul style="list-style-type: none"> The impact of the war on Egypt's economy is especially significant 		<ul style="list-style-type: none"> Inability to repatriate cash earned from Egypt Further devaluation of the Egyptian pound 	<ul style="list-style-type: none"> Pharos have opted not to accept the payment of our receivables balance in EGP unless required for operations. Revolving credit facility with the National Bank of Egypt (NBE), which allows us to draw down 60% of the value of each invoice in USD (extended the current \$18m facility on the same terms to 31 March 2024)



OPERATIONAL


<p>9. Reserves Risk</p> <ul style="list-style-type: none"> Future cash flows and value depend on producing our reserves 		<ul style="list-style-type: none"> Inaccurate reserves estimates Subcontracting certain reserves estimation work to independent reserve engineers outside the direct control of the Group Earlier impairment triggers due to low commodity price 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 Slower drilling programmes 	<ul style="list-style-type: none"> Monitor and maintain standards of reserves reporting by adhering to three key considerations: consistency, transparency and utility, including disclosure of movements in reserves on a country-by-country basis, disclosure of material projects and moderation of subjective judgements 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 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 facility compliance - Vietnam Reserves are audited independently by reserves consultants approved by lenders
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RISKS - CONTINUED

Principal risks	Change in likelihood	Causes	Risk Mitigation
<p>10. Partner Alignment Risk</p> <p>Vietnam</p> <ul style="list-style-type: none"> Misalignment at JV/ JOC level can delay investment Adverse impact on Production and Cash flow <p>Egypt</p> <ul style="list-style-type: none"> Technical Misalignment at JV/ JOC level can delay investment Adverse impact on Production and Cash flow 		<ul style="list-style-type: none"> FPSO Tie-in Agreement from other Operator Delay in the Field Development Plans Technical disagreement caused by quality of JV staff, work ethic, low productivity, competency issues Geological Modeling differences resulting in sub-optimal well locations JOC partner (IPR and EGPC) divergent views on investments, and difference in value-drivers. 	<ul style="list-style-type: none"> Active Participation in JOC management Direct secondment Build Senior Management level relationship with local Partners Continue good relationship with other Foreign Partner Close collaboration with JOCs partners Support JV training initiatives Engage with JV Exploration Manager. Achieve technical buy-in to ERCE model Waterflood analogue success education
<p>11. Cyber risk</p> <ul style="list-style-type: none"> Major cyber security breach may result in loss of key confidential data Unavailability of key systems 		<ul style="list-style-type: none"> 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 in light of COVID-19 pandemic and expectation of longer term hybrid working practices The war in Ukraine has raised acute concerns about cyber operations 	<ul style="list-style-type: none"> Update Service level agreement with IT providers Offsite Installation of back-up system and Business Recovery / continuity 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 Cyber Security and Phishing training for all our workforce globally in 2022
<p>12. Human Resource Risk</p> <ul style="list-style-type: none"> Good skilled people are essential to ensure success 		<ul style="list-style-type: none"> 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 any new acquisition Negative view of the oil and gas industry amongst younger professionals, particularly in light of climate change impacts High costs of recruiting experienced workforce Weakened corporate culture and collegiate responsibility due to remote working Restructuring workforce Board re-composition and retirements 	<ul style="list-style-type: none"> Remuneration Committee retains independent advisors to test the competitiveness of compensation packages for key employees On-going succession planning Maintain a competitive remuneration mix regarding 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 via employee surveys and shared feedback The Board was reduced from 9 to 6 (two Executive Directors and four Non-Executive Directors)

RISKS - CONTINUED

Principal risks	Change in likelihood	Causes	Risk Mitigation
REPUTATION			
<p>13. Sub-optimal capital allocation</p> <ul style="list-style-type: none"> Adverse reaction from current / future stakeholders Investment decisions based on realistic / achievable economic assumptions 		<ul style="list-style-type: none"> Scarcity of capital for investment projects A volatile macroeconomic environment resulting in significant differences to key assumptions underpinning investment decisions Pressure to invest and produce growth and returns in the short term to maintain dividend payments Shareholder focus on increasing returns in conflict with wider strategic considerations Inability to “switch-off” drilling / investment commitments if economic assumptions change rapidly Lack of partner/stakeholder alignment on decarbonisation initiatives 	<ul style="list-style-type: none"> 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 Seeking to maximise influence to promote best practice in non-operated ventures Seek the views of stakeholders through direct and indirect engagement Maintain a balanced investment portfolio which allows a degree of resilience in adjusting short-term investment commitments Prepare business case or back pay study to support decarbonisation initiatives
<p>14. Political and Regional risk</p> <ul style="list-style-type: none"> Energy sector exposed to a wide range of political developments which may impact adversely on operating costs, compliance and taxation 		<ul style="list-style-type: none"> Operations in challenging regulatory and political environments Changes to fiscal regimes without robust stabilisation protections Protracted approval processes causing delays Government reform, political instability and/or civil unrest Impact of financial sanctions, export controls and other trading restrictions on industry counterparties and sectors (in particular, Russian state-controlled entities, or certain other connected entities or Individuals, arising from the continuing conflict in Ukraine) 	<ul style="list-style-type: none"> Canvas 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 Maintain political risk insurance at appropriate levels of cover Maintain USD as the main currency of our business Active working group monitoring sanctions arising from conflict in Ukraine and assessing/managing associated risk to Group Adoption in May 2022 of new standalone Group Sanctions Policy, to supplement existing Group Code of Business Conduct and Ethics Develop and maintain mitigation planning in relation to certain counterparties with potential to come within the future scope of sanctions

Principal risks	Change in likelihood	Causes	Risk Mitigation
<p>15. Business Conduct and Bribery</p> <ul style="list-style-type: none"> • Reputational damage and exposure to criminal charges 		<ul style="list-style-type: none"> • Present in countries with below average score on the Transparency International Corruption Index • Lack of transparent procurement and investment policies • Non-compliance with Criminal Crime Offences (CCO) and/or UK Bribery Act • Corruption and human rights issues 	<ul style="list-style-type: none"> • Ensure adequate due diligence prior to on-boarding with a risk based approach, including independent “Red flags” checks • Annual training, testing and compliance certifications by all associated persons • Increase awareness of the Group’s Code of Business Conduct and Ethics and related policies for all employees and associated persons • Mandatory Gifts and Hospitality declaration and register • Group Whistleblowing Policy and confidential ethics 24 hour hotline supported by EthicsPoint with numbers displayed in all offices • CCO risk assessment and on-going implementation of adequate procedures to prevent facilitation of tax evasion across all operations • Comply with 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 179 of the Financial Statements. The Audit & Risk Committee reapproved in December 2022 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 as 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, with particular attention given to the principal and emerging risks.

Our strategy and associated principal and emerging risks underpin both the Group’s 3-year base forecast and scenario testing, as well as 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 in Vietnam
- Repayment of current RBL loan in the 3-year period of the VS

Strategy & business model

- 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 considered in assessing the Group’s prospects, are the same as those used to stress test our viability over the 3-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 3-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 3-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.

RISKS - CONTINUED

Key Assumptions

During the 3-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.

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 \$87.3/bbl in 2023, \$84.8/bbl in 2024 and \$79.4/bbl in 2025. 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 \$100 million over its Vietnam producing assets,

with a further US\$50m available on an uncommitted "accordion" basis. It has a four-year term that matures in July 2025 and has been subject to amortisation since July 2022. As of December 2022, the facility amount was \$87.5m, with \$65m drawn. The current borrowing level and the repayment schedules in the model are based on the RBL's economic and technical assumption as of the December 2022 redetermination. In the current VS period, the RBL loan is expected to be repaid by 2025.

Pharos El Fayum have an uncommitted revolving credit facility through to 31 March 2024 for up to \$18m with the National Bank of Egypt (UK). This facility was implemented to help mitigate the risk of late payment from debtors. Under this arrangement, Pharos is able to access cash from the facility for up to 60% of the value of each El Fayum oil sales invoice.

Stress testing linked to Principal Risks

As well as the base model, the Group also evaluates other scenarios and has stress-tested the forecast for a combination of severe but plausible events (linked to the majority of the Group's principal risks) that could potentially 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

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	1,2,5,6	Sharp drop in the oil price, down by a third to \$59/bbl in May 2023, then rising gradually over a year till in line with base price	Company remains viable with mitigating actions
Reduction in production	2,3,4,7,9,10,12,13,14	5% drop in production from June 2023 over the period of testing	Company remains viable with mitigating actions
Unfavourable event leading to lost production and price shock	1,2,3,4,5,6,7,8,9,12,13,14	Combination of tests above	Company remains viable with mitigating actions

Climate Change

We have also factored in the risk of potential price reductions due to climate change pressures during the 3-year VS window. We have therefore considered the price curve as an output of a Net Zero Emissions by 2050 (NZE) based on IEA's World Outlook 2022 report, which is consistent with achieving 1.5 °C stabilisation in global average temperatures and a net zero CO₂ emission by 2050. The nominal Brent prices used in this scenario are comparable to our base case oil price assumptions over the 3-year VS period. Nevertheless, we have concluded that the stress testing outlined above adequately accounts for the risk of any downside adjustments to our revenue base over the 3-year VS period due to climate change pressures.

To date, there is no official carbon tax established in either jurisdictions where our operations are located i.e. Vietnam and Egypt. Furthermore, the imposition of carbon taxes would likely to uplift the Brent prices as some of the burden will be passed to the consumer.

As a sensitivity test, we have run the effect of carbon tax from 2025 on Base case without assuming any increment in Brent price and the Group remains viable over the 3-year VS period (see TCFD report for more information).

It should be noted that majority of the existing RBL facility will be repaid within two years, falling within the 3-year viability statement window. This provides us certain level of protection against the risk of capital availability being constrained by concerns related to climate change.

In all combinations of scenarios that were tested, the Group had implemented mitigating actions including hedging and deferring non-committed capital expenditure beyond the 3-year window of the VS. 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 undertake any necessary mitigating actions.

The potential impact of other principal risks on the group's viability during the assessment period were also 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 in place are sufficient to reduce the impact of each risk, making it unlikely to jeopardise the Group's viability during the 3-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 hold 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 2025.

Responsibility framework

Business



100%

El Fayum oil

100%

CNV oil

Oil sold domestically in Egypt and Vietnam in 2022, contributing to host country development goals and access to energy

Ethics



\$245.3m

Taxes and royalties to host governments, includes host governments share of production entitlements in 2022

100%

Percentage of staff receiving anti-bribery and corruption training by 31 December 2022

People



1 LTIs

One Lost Time Injury event in Egypt in 2022

Zero Lost Time Injury event in Vietnam in 2022

c.65%

Female employees at corporate level in London in 2022

Environment



340

Tonnes CO₂e per 1,000 tonnes of hydrocarbon produced in 2022

1

Oil/chemical spills (quantities greater than 100 litres) in Egypt in 2022

Society



\$500,000

Combined total training levies in Vietnam and Egypt for investment in industry capacity building in 2022


\$198,600

Community and charitable investments supporting 9 social projects in Vietnam through the HLHVJOC Charitable Donation Programme in 2022

CORPORATE RESPONSIBILITY - CONTINUED

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.

Stakeholder groups and corporate responsibility topics


Structure of the Group's Corporate Responsibility and HSES Management System

1. Code of Business Conduct and Ethics

✓

2. Key Corporate Responsibility (CR)/HSES policies supporting the Code

Climate Change Policy

Code of Business Conduct and Ethics Code

Human Rights Policy

Security Policy

HSE Policy

Social Responsibility Policy

Biodiversity Conservation Policy

Water Resource Management Policy

Prevention of Slavery and Human Trafficking Policy

Sanctions Policy

Tax Strategy Statement

Non-Audit Services

✓

3. Standards, procedures and guidance supporting the policies

See <https://www.pharos.energy/responsibility/policy-statements/> for the full text of each of these policies.

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	<ul style="list-style-type: none"> • Community investment • Effluents and waste management • Biodiversity • Transparency
National and host governments	Regular dialogue	<ul style="list-style-type: none"> • Payments to governments • Local capability building • Environmental management • Health and safety
Employees and contractors	<p>Promote adherence to WHO COVID-19 guidelines and respective governments' guidelines</p> <p>Regular dialogue and grievance mechanisms</p> <p>Annual feedback sessions with all staff members</p>	<ul style="list-style-type: none"> • Keep workforce safe during COVID-19 pandemic • Local capacity building • Contractor management • Staff wellbeing
Shareholders	Regular dialogue	<ul style="list-style-type: none"> • Climate risk/energy transition and other ESG risks • Health and Safety • HSES Management System • Preventing corruption
International community	Responding to inquiries and media scanning	<ul style="list-style-type: none"> • Climate risk/energy transition • GHG emissions • Preventing corruption • Human rights

Corporate Responsibility 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.

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 2022. The Board's objective is to be recognised for its high standard for 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 Group CR and HSES policies described above support our Code.

Our corporate standards, procedures and guidelines support the policies. Project-specific operational plans, programmes and procedures set out the specific approach to CR and HSES issues and risks 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 Board takes overall responsibility for our Net Zero climate goal, ESG strategy and climate-related risk and opportunities, overseeing executive management in developing the approach, execution, associated reporting and climate disclosures. Progress against our ESG ambitions is reviewed through Board discussion at quarterly Board meetings and review of key topics such as updates on GHG/HSES performance and decarbonisation projects. The Chief Executive Officer is accountable to the Board for implementation of CR policies and HSES performance.

Given the wide-ranging remit of climate-related matters, the governance activities are managed interdisciplinary through a combination of different committees.

- The Audit & Risk Committee (ARC) oversees all principle and emerging risks in our risk management process, in which climate risk is considered a principle risk. It also oversees the adequacy and effectiveness of our policies, standards and management system for HSES.
- The ESG Committee oversees the Group's management of ESG matters and compliance with legal and regulatory climate-related reporting and disclosure requirements, as well as assists the Board in defining and implementing the Group's strategy relating to ESG matters.
- The Remuneration Committee oversees the level of management incentives attached to improvements in climate-related performance in order to further encourage action on this agenda.

For each Committee's Terms of Reference (ToR), please visit <https://www.pharos.energy/about-us/governance/committees/>.

Corporate Responsibility objectives are defined annually and reviewed quarterly in relation to: our business, our ethics, our people, environment and society.

Stakeholder engagement & materiality screening

We engage with our stakeholders on a regular basis and receive feedback through a range of formal and informal processes, which we set out in more detail in the UK Governance Code report on pages 115 to 121. We listen to their concerns and feedbacks when determining our corporate responsibility strategy and use the information they provide us to identify the issues that are most important to the successful delivery of our corporate objectives and most important to our stakeholders.

The Board, the ARC and the ESG Committee also regularly discuss, at each quarterly Board/Committee meetings, the new and existing themes and issues that matter to our stakeholders. Our management team then uses this insight and other applicable disclosure laws and regulations to choose what we measure and publicly report in our Annual Report.

Following an earlier screening of material ESG factors relevant to the oil and gas sector, in 2022 Pharos has been referring to the Sustainability Accounting Standards Board (SASB) materiality map for Oil & Gas - Exploration and Production, to ensure that the material issues of importance to its activities are appropriately managed and reported. Our approach on environmental and social reporting in 2022 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. We report on jointly operated companies in Egypt and Vietnam.

We are also informed by the London Stock Exchange listing and disclosure rules in areas where we have operations, and are held accountable by our auditors and Company Secretary. The Board will further reinforce the integration of climate considerations into its governance frameworks by implementing the principles stated in our Climate Change Policy and continuing the Company's alignment with TCFD recommended disclosures.

We know that what is important to our stakeholders evolves over time and we plan to continue to assess our approach to ensure we remain relevant in what we measure and publicly report.

CORPORATE RESPONSIBILITY - CONTINUED

Business

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



Climate risks and global energy transition

Climate change is considered a principal risk to the Group and its business over the medium and long term, and this is discussed in more detail in the Risk Management report on page 47.

Both transition and physical climate risks may further impact many of the Group's principal risks including those associated with commodity price, access to capital, reserves, operations, political, stakeholders' and reputational risks. We recognise that the global energy transition to a lower carbon intensity world in response to climate change could result in reduced demand for fossil fuels, lower oil prices and increased operating cost, increased capital cost, further regulation and carbon taxation which may significantly increase our operating costs and reduce our revenue. Our overall risk management framework integrates climate change and carbon related risks by stress-testing key a number of our principal risks on key variables for the Going Concern and Viability Testing. Established management processes include any physical risks associated with climate change and our energy insurance programmes cover to a large extent our asset portfolio against the risks of extreme weather events.

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, we also recognise that oil and gas will continue to play an essential role in the global energy mix for many years to come, and that the importance of producing this energy in a safe, environmentally sustainable and socially responsible way will continue to grow. We believe that there are real opportunities in the energy transition, especially for countries such as Egypt and Vietnam, to benefit from the responsible and sustainable development of their natural resources. Pharos stands ready to play our part in this transition and will continue to support our host governments as they seek to use oil revenues to promote sustainable, inclusive economic development, manage the impact of climate change and achieve their COP commitments.

We report transparently and have participated in the CDP (formerly Climate Disclosure Project) Climate Change Questionnaire over the past five years. In 2022, we maintained our score of (C), originally awarded in 2019. 2022 also marks the first year that the Company received a score (C) for our disclosure to the CDP Water Security Questionnaire. Our greenhouse gas emissions ("GHG") are reported in the Environment section on page 71. Our commitment to align our reporting to TCFD recommended disclosures are set out on page 79.

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 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 and JOCs 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 or part of a JOC, 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.

CORPORATE RESPONSIBILITY - CONTINUED

Vietnam interests and operations

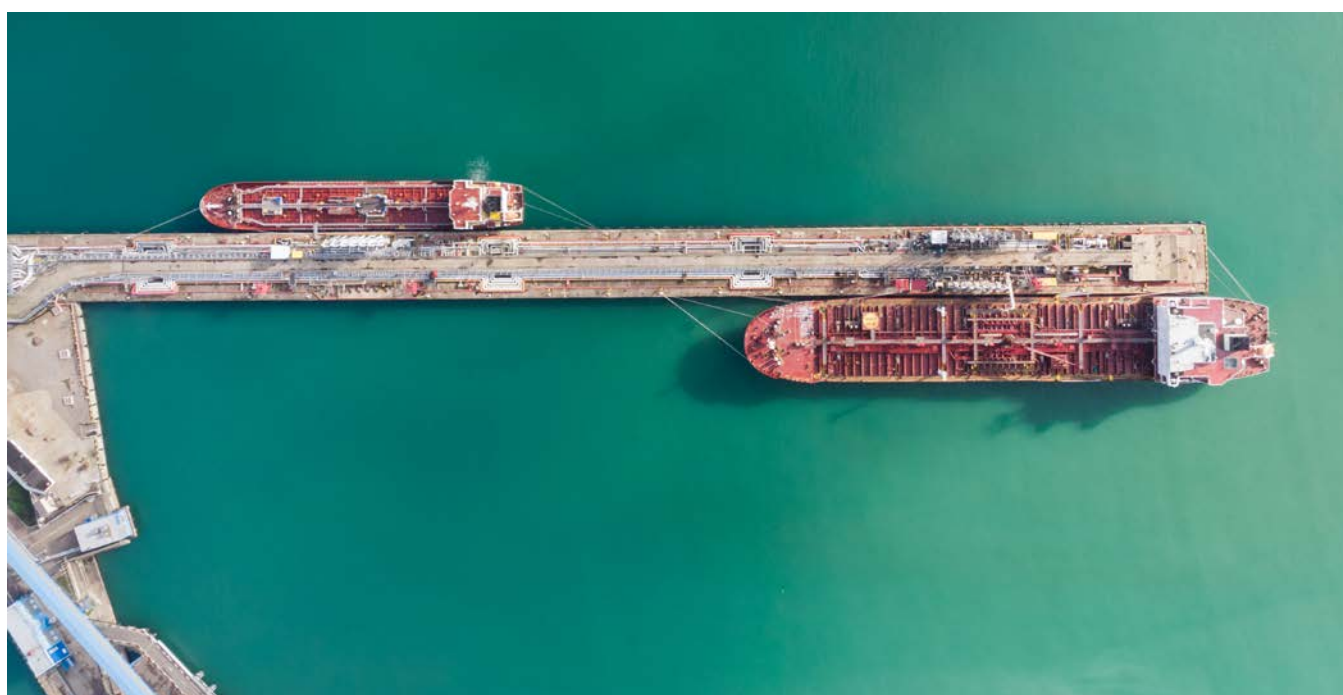
Degree of influence	Blocks	Country	Pharos ownership	Pharos role	2022 field activity	Target HSES outcome
High	Blocks 125 & 126	Vietnam	70%	Operator	Block 125 3D seismic processing completed. Interpretation underway	Full application of the Pharos HSES MS
Moderate	Block 16-1	Vietnam	30.5%*	Joint operating partner (in Hoang Long Joint Operating Company)	Completion of Phase 2 of TGT Revised Field Development Plan. 2 well development drilling and intervention campaigns	Influence to bring alignment to the Pharos HSES MS
Moderate	Block 9-2	Vietnam	25%	Joint operating partner (in Hoan Vu Joint Operating Company)	Development drilling of one additional sidetrack underway	Influence to bring alignment to the Pharos HSES MS

* 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. The Group's unitised interest in the TGT field is 29.7%

Egypt interests and operations

Degree of influence	Blocks	Country	Pharos ownership*	Pharos role *	2022 field activity	Target HSES outcome
Moderate	El Fayum Concession	Egypt	45%	Joint operating partner (in Petrosilah)	Continuation of development drilling and waterflood programme	Influence to bring alignment to the Pharos HSES MS
Moderate	North Beni Suef Concession	Egypt	45%	Joint operating partner (in Petrosilah)	Interpretation of pre-existing 3D seismic survey. Several low risk drillable prospects identified.	Influence to bring alignment to the Pharos HSES MS

* In September 2021, Pharos announced the farm-out and sale of a 55% working interest and operatorship in each of the El Fayum and North Beni Suef Concessions to IPR Lake Qarun Petroleum Co, a wholly owned subsidiary of IPR Energy AG. The transaction was completed on 21 March 2022.



CORPORATE RESPONSIBILITY - CONTINUED

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 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.

HSE trainings and exercises

In Vietnam, the HLHVJOCs continued HSE induction to new staff, maintained its HSE Training Matrix such as travel safety by boat, firefighting and rescue, working at height and also conducted training for offshore production team such as Personal Protective Equipment training, refresh safety induction for contractors, behavioural safety and tank inspection procedure.

In Egypt, HSES training focused on increasing the staff's capabilities and competence on ISO 14001 and 45001 management systems, safety at rig, firefighting, lifesaving rules, permit to work, hot work hazards and safety requirements in confined space entry and working at height.

Overall objective

To provide responsible and sustainable development

Key Performance Indicators

KPI	Target	2022	2021	2020
HSES regulatory non-compliances	0	0	0	0

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 its contractors are in alignment with our requirements.

Hours worked in Vietnam and Egypt assets	Percentage of total
Company staff: 734,620	22%
Contractors: 2,614,898	78%

2022 Objectives**2022 Outcomes****2023 Objectives**

Further alignment with Pharos HSES Management System.	Pharos Energy continued to work towards full implementation of our HSES Management System across our business.	Further alignment with Pharos HSES Management System.
Work closely with new partner HSES department to ensure a similar HSES approach is shared.	Pharos Energy worked closely with IPR to achieve good alignment between our respective HSES Management Systems.	Close any outstanding gaps between HSES procedures with a focus on land transport and environmental risks.
Update Pharos HSES Management System.	HSES Management System policies and procedures have been updated and will be submitted to the board for approval in March 2023. Updates include the role of the ESG Committee and embedding ESG considerations into daily work.	Review implementation of updated HSES Management System across business functions.
Pharos Energy to consider creating a single easily accessible online repository for accessing emergency response and relevant project documentation to ensure this can be readily sourced following an emergency.	Emergency response procedures have been updated and an online repository containing all relevant documentation created.	Further training on crisis management and emergency response to be held in 2023.

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 77 (87 in 2021) out of 180 countries in the 2021 CPI. Egypt is ranked at 130 on the same CPI (117 in 2021). 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 of the Group's risk management and internal control systems, see the Audit Committee and Risk report page 127. 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 hotlines supported by EthicsPoint with numbers displayed online and in local offices available 24 hours a day all year round. Zero calls were made to the EthicsPoint hotlines in 2022.

100 %

EMPLOYEES AND RELEVANT CONTRACTORS HAVE UNDERTAKEN ANTI-BRIBERY AND CORRUPTION TRAINING BY 31 DECEMBER 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 2022, the total payments to governments for the Group amounted to \$245.3m (2021: \$198.2m), of which \$211.5m or 86% (2021: \$151.9m or 77%) was related to the Vietnam producing licence areas, of which \$140.7m (2021: \$102.6m) was for indirect taxes based on production entitlement. In Egypt payments to government totalled \$31.3m (2021: \$44.7m), of which \$28.8m (2021: \$44.1m) related to indirect taxes based on production entitlement. Our Code prohibits contributions to political parties, candidates or other political organisations.

Overall objective

To conduct our business in an honest and ethical manner

2022 Objectives

2022 Outcomes

2023 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.

No updates required.

Continue to review ABC programme and update as required.

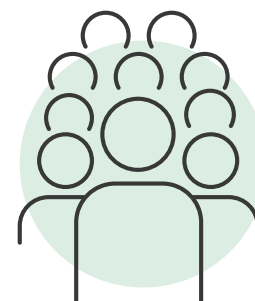
Update and republish the Modern Slavery annual statement and all other corporate policy statements.

The annual statement on Modern Slavery has been reviewed by the Board and republished on the Pharos website.

Update and republish the Modern Slavery annual statement and all other corporate policy statements.

CORPORATE RESPONSIBILITY - CONTINUED

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.

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

The Group adhered to the requisite precautionary procedures and restrictions, in line with the government directives in Egypt, Vietnam and the UK.

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 2022 in which we were the operator, we continued to work with our partners in Vietnam where the HLHVJOCs 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 lost time injury target is maintained. One medical treatment case was however recorded, when one catering crew accidentally stepped and broke a drinking glass on a bedside table, causing him to trip and fall, lacerating the back of his head and a toe in the process.

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 recorded one lost time injury in 2022. On the 30/08/2022, when the ECDC drilling crew assembled the mast parts at Silah-2-6, the support beam under the crown block was broken and the mast warped. One person fractured his knee bone and sustained a partial cut in the ligament, with treatment taking over two months. Two other people were injured but were able to return to work and were recorded as First Aid Cases.

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

Safety record

KPI	Target rates	2022		2021		2020	
		Pharos	IOGP ⁴	Pharos	IOGP ⁴	Pharos	IOGP
Fatal Accident Frequency Rate ¹	0	0		0	0.75	0.34	0.55
Lost Time Injury ("LTI") Frequency Rate ²	0	0.30		0	0.22	0.34	0.22
Total Recordable Injury Rate ³	<0.34	0.60		0	0.77	0.34	0.70
Million-man hours worked		3.35		3.17	2,679	2.97	2,544

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 2022.

Critical Incident Risk Management

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. We ensure asset integrity and control operations in order to effectively manage all significant risks during all stages of the operations.

During 2022, 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	2022
Lost Time Injury ("LTI") Cases	1
Fatal Accidents	0
Medical Treatment Cases	1
First Aid Cases	3
Number of Motor Vehicle Crashes	1
Roll-over	1
HSES Near Miss	15
HSES Inspections	776
HSES Audits	913
HSES Toolbox Talks	5,688
HSES Meetings	568

Safety indicators

Indicator	2022
Emergency Response Drills	98
Process Safety Events (Tier 1 or Tier 2)	0
Other minor events	39

Diversity and Inclusion

Greater diversity and inclusivity brings greater understanding of people. Through our 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.

Our Code of Business Conduct and Ethics, associated Policies and the Pharos 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.

The spirit of diversity, inclusion and trust lies behind everything we do. Our commitment to inclusion and diversity remains strong in 2022. As at year-end 2022, the Company has four female Directors, representing two thirds of the Board. We are proud that we are able to recruit talents from diverse backgrounds and ethnicities across our entire organisation. Most notably, our UK-based staff comprises 16 people from 9 different nationalities, of which women accounted for c.65%, which ensures that we cultivate a culture that recognises and promotes diversity in all forms and where every voice is heard.



CORPORATE RESPONSIBILITY - CONTINUED

2022 Corporate Employees (*)

(*) Figures correct as at 31 December 2022.

Non-Executive Directors



Executive Directors



Senior Management



Other Employees



Local capability building

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

In Egypt, under the El Fayum and North Beni Suef Concession Agreements, the Contractor party commits to a total of \$200,000 split equally between the two Concessions for training and development of employees. In Vietnam, as part of the HLHVJOCs, a training levy of \$150,000 for each JOC goes into a fund which is ring-fenced to support the development of future talent in Vietnam in the industry. The HLHVJOCs also invest 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

2022 Objectives

Close gaps and initial improvements identified in employee surveys

2022 Outcomes

Established new routine post COVID for Directors to travel internationally and engage with teams.
Reinstated weekly Head office business focus meetings to further improve staff engagement.
Regular in person Head office events to continue building a cohesive team.
Extended the performance appraisal system to the global business.

2023 Objectives

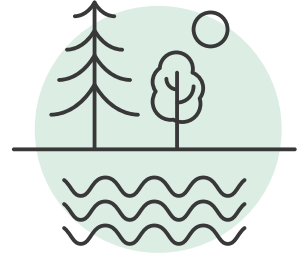
Further develop, deliver and refine Head office options of hybrid or home working, following learnings from COVID remote working practices.
Develop and deliver company wide global team engagement events, uniting colleagues from Egypt, Vietnam, US and UK for business review and updates.
Further embed and develop the performance appraisal system globally.

Focus on maintaining safe working environment

Safety workshops are routinely held at our field locations to raise awareness. Where incidents occurred, thorough investigations were carried out and lessons learned were captured and communicated.

Ensure worker health and safety is maintained to a high standard during both desk-based and operational activities.
Engage with the teams about workplace wellbeing schemes.

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 the Group's corporate responsibility priorities, our objective is to protect the environment and conserve biodiversity.

Greenhouse gas emissions ("GHG")

GHGs associated with energy use, natural gas flaring and venting are a key issue for the Group.

In 2022, we continued to monitor our emissions and disclose them in accordance with industry requirements and standards. Additionally, we also participated in the Carbon Disclosure Project ("CDP"), details of which can be found in the Business section of the this report on page 64, and continue to align our disclosure with TCFD recommended disclosures, details of which can be found in our TCFD report on page 79.

GHG reported

Pharos reports carbon dioxide (CO₂), methane (CH₄), and nitrous oxide (N₂O) combined into carbon dioxide equivalent (CO₂e) based on the gases' 100-year Global Warming Potential (GWP). These three gases are produced through combustion and included in the emissions calculations, although N₂O quantities produced via combustion is relatively small.

In addition to emissions resulting from combustion, Pharos reports its direct methane emissions from routine venting and has been doing so since 2021.

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, as well as venting). 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 our Cairo office (Egypt) and in Ho Chi Minh City (Vietnam). No Scope 3 emissions (indirect emissions created in the value chain) are reported for this financial year due to limitations of data collection & concerns around double-counting/ integrity of data. Reporting of Scope 3 emissions would involve voluntary disclosure of usage from end-user and consumers, which provides limitation in data integrity & data collection. The company is cognisant that TCFD advocates the reporting of scope 3 and the Group will endeavour to review and follow this route where possible to be in line with TCFD recommendations.

Reporting boundary

Pharos has elected to report its emissions of GHGs from Egypt and Vietnam operations on the basis of equity share.

Under equity share reporting, Pharos reports a pro-rata share of the emissions from partnerships or assets over which the Group has operational control (i.e., Vietnam Blocks 125 & 126) and a pro-rata share of the emissions from partnerships or assets it does not control (i.e., Vietnam Blocks 9-2 and 16-1 and Egypt, all of which are operated through JOCs) according to its ownership interest. Since the middle of July 2021, Pharos has

rented flexible office space consisting of six desks at WeWork based in Soho, London. The electricity consumption from this office is not included in the figures discussed thereafter.

Pharos Energy commits to making all efforts to minimise all GHG Emissions during its ongoing exploration activities in Blocks 125 & 126, where it has operational control. Where we are a joint operating partner, we seek to influence and ensure alignment with our systems to promote best practice. 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 and TCFD recommendations.

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, 2022) 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 for the TGT and the CNV fields as per a January 2023 gas daily report. For the calculation of gas consumed, vented and flared in Egypt, the emissions factors were calculated based on the carbon content of gas analysed at the North Silah Deep, North East Tera, South Silah and Silah Base Separators (EPRI Central Analytical Labs, 2018).

CORPORATE RESPONSIBILITY - CONTINUED

In 2022, we have again reported our GHG emissions intensity in 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 2021, in addition to our emissions from combustion which had been the focus of Pharos' reporting until then, we have started to report our direct methane emissions resulting from venting, and we have continued to do so in 2022. In 2022, gas fuel and gas flaring in TGT remain the largest single contributor to Pharos' total emissions. Venting in Egypt represented over 12 percent of our gross emissions.

The Group's total CO₂e emissions for 2022 is 376,915 tonnes of CO₂ equivalent (109,539 tonnes of CO₂ equivalent based on equity share). This corresponds to a decrease of 0.3 percent compared to 2021 (approximately 2 percent decrease based on equity share). It can therefore be considered that Pharos' emissions have remain relatively stable compared to last year despite some variations per source.

Activity data pertaining to GHG emissions by the HLHVJOCs and Egypt is reported to Pharos. Telos NRG assisted with data collation and GHG emissions calculations. Verification was undertaken by RPS Consulting UK & Ireland with the following limits:

- Activity data completeness, accuracy and data collection and control procedures have not been verified due to the majority of GHG emissions arising from activity in operations not under Pharos' direct operational (and data collection) control.
- Activity data from Pharos' Egypt operations is considered to have a higher risk of uncertainty.
- There is inherent variability and uncertainty associated with the available methods for calculation of GHG emissions from activity data; reported emissions and the assurance statement should be understood in that context.

Approaches to reducing emissions

In Vietnam, we continue to manage gas flaring by carefully monitoring and optimising the processing facilities in the TGT FPSO. Unfortunately, an extended repair and maintenance in the receiving facilities resulted in disruptions to gas export and increased flaring levels in the first quarter of 2022. The focus for the

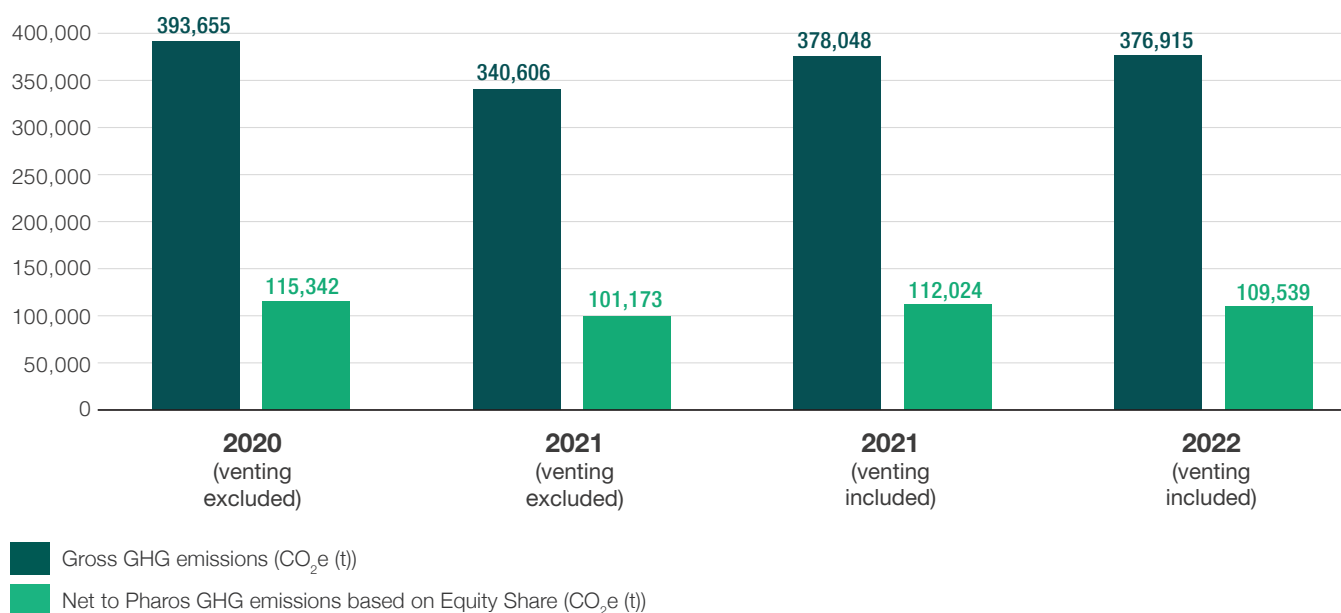
next year will be on exploring opportunities and technologies to reduce gas venting in Egypt, which can potentially reduce our Scope 1 emissions while also resulting in economic gains, such as solar photovoltaic powered pumping systems, increased used of gas generators at wellsites and further deployment of flare stacks, among other gas utilisation opportunities. In terms of energy efficiency, the usage of a WeWork office is an initiative to reduce both our cost base and our energy usage. This is a continuation of our energy-saving initiative from the previous year. Additionally, in 2022, we moved to a smaller office in Egypt as part of our effort to reduce our cost base, thus conserving more energy.

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.

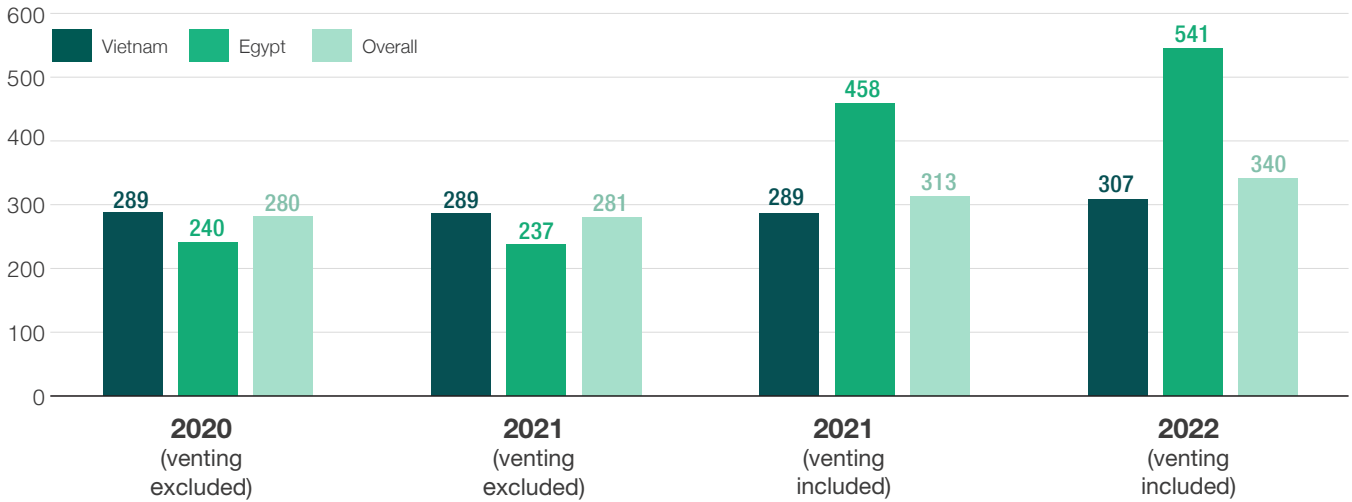
Environmental permit non-compliances - the company achieved zero Legal Environmental Violation during 2022 and did not obtain any violations from the Environment Authority in Egypt in 2022. The Company obtained 9 Environmental Approvals from the Ministry of Environment during 2022.

GHG emissions and activity data

GHG Data - tonnes of CO₂ equivalent for 2020 to 2022

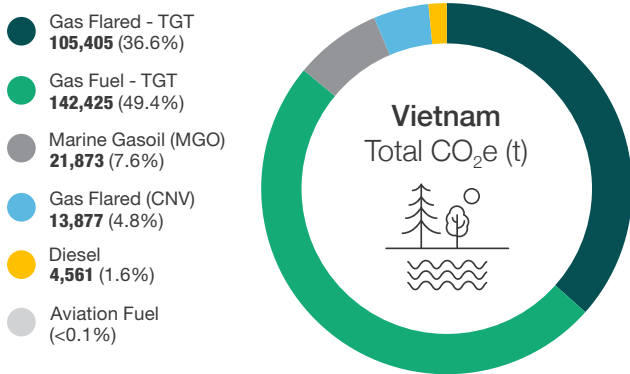


Carbon intensity of production (tCO₂e per 1,000 tonnes of oil equivalent produced)

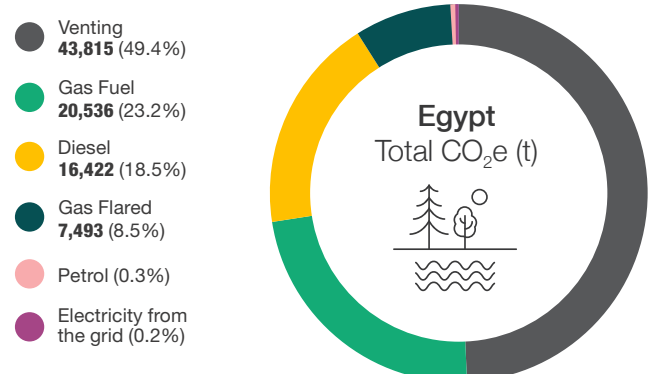


Charts: Scope 1 and 2 emissions from the Group's operated and joint-operated projects on an equity share basis calculated pro-rata to its ownership interest.

Greenhouse Gas Emissions Contributors (Total CO₂e (t) for 2022 – Vietnam (Based on total field emissions)



Greenhouse Gas Emissions Contributors (Total CO₂e (t) for 2022 – Egypt (Based on total field emissions, including venting)



In 2022, 35 tonnes of gas were flared for every 1,000 tonnes of total hydrocarbon production from Group assets on a gross basis (not equity share adjusted). This is a slight increase from 32 tonnes in 2021.

Venting

Routine venting emissions have been included for the second year in GHG report in 2022. Routine venting only occurs in Egypt. Although there is no routine venting in Vietnam, accidental leaks can occur. In addition, some activities do occasionally require depressurisation of differing process systems. In these instances, the system(s) will be isolated, and depressurised to as low as possible, and then drained to a closed drain tank. A minor amount of gas commingled with liquid will evacuate out through cold vent line to a safe area. Associated emissions are negligible (8 tCO₂e) but for the sake of completeness have been included within the report for 2022.

Although venting in Egypt was not recorded before 2020, quantities involved are likely to have been lower, as the oil production decrease in 2021 meant the amount of gas produced had become insufficient to operate flare or power gas generators at some locations and had been vented instead. In 2022, the amount of associated gas used as fuel in gas generators in Egypt was 234 mmscf, which resulted in 20,536 tCO₂e (gross). However, had this associated gas been vented it would have resulted in additional emissions in the order of 51,630 tCO₂e, or 14% of the Group's total emissions on a gross basis.

The Group's energy use from grid electricity was 323,492 kWh in 2022 for overseas offices in Egypt and Vietnam. In 2021, the Group's energy use was 311,692 kWh. Since the middle of July 2021, Pharos has rented a flexible six-desk office space in London, the electricity consumption of which is not included in the report.

CORPORATE RESPONSIBILITY - CONTINUED

Effluents and waste

During 2022, Pharos maintained its record of no spills into the environment in Vietnam. In Egypt, there was one environmental spill as follows:

Date	Location	Description	Estimated Quantity (bbls)
August 2022	Egypt - El Fayum fields to Suez oil processing company, about 2 km away from Suez city	Following a collision with a gravel truck, a crude oil shipping truck overturned causing a leak in tank- no injury	362

Water is extracted along with hydrocarbon reservoir fluids as part of normal production operations; in Egypt, water is also withdrawn from deep saline aquifers and injected into hydrocarbon-bearing formations to enhance production. In 2022 we generated 6.3 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 all disposed of in disposal wells. The company has three Produced Water Treatment Facilities (PWTF), two of them are in-service at the gathering stations (GS) in Silah and North Silah Deep (NSD)

and the third is yet to be used at North East Tersa. The produced water is being collected in both PWTF (Silah & NSD) and then disposed of by injecting it into the Abu Roash "E" formation through disposal wells at each location (approximately 5,000 bbls/d of water disposed into SILAH-15 & 6,500 bbls/d of water into NSD-1-1).

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 2022, freshwater consumption for both Vietnam and Egypt amounted to 70,582 cubic metres. Our use of freshwater has increased by 21 percent compared to 2021, due to an increase in the number of drilling activity carried out through the year.

Tonnes (t) of CO₂e equivalent for 2022 Operations

Country	Reported operations	Operational phase	CO ₂ e (t)		CO ₂ e (t) per 1000 tonnes of oil produced by equity share ³	
			Overall ¹	Based on equity share ^{1,2}	Per field	Per country
UK	Rented flexible office space - not reported	Administration (office – electricity usage)	–	–	–	–
Israel		No activity	–	–	–	–
Egypt	Office	Administration support for exploration	328	95	–	–
	El Fayum Concession	Production	84,592	23,652	541	541
		Field development	3,746	1,069		
Vietnam Cuu Long Basin (offshore)	Office	Administration (electricity usage)	2	2	–	–
	Blocks 125 & 126	Seismic exploration	–	–		
	Block 9-2 – Ca Ngu Vang (CNV) field	Production	16,130	4,033	83	307
		Field development	2,790	698		
	Block 16-1 – Te Giac Trang (TGT) field	Production	262,640	78,004	368	
Field development		6,687	1,986	–		
Total			376,915	109,539	340	

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) GHG emission intensity is calculated, per field, and at country level, based on equity share, and gross/net boepd produced in 2022 in the CNV and TGT fields as well as in El Fayum Concession. Calculations have been made using the following constants: 1 m³ = 6.2898 barrels of oil, specific gravities of 0.8283, 0.728 and 0.8527 for El Fayum, CNV and TGT respectively.

Tonnes (t) of CO₂e equivalent for 2022 Operations

Biodiversity

The Group's 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 habitats. 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. Consistent with the Biodiversity and Conservation 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 (as defined by UNESCO) of these sites.

In Vietnam, safe practices were adhered to ensure the surrounding environment is protected at all times:

- The oil in water content of produced water were continuously monitored
- Hazardous wastes have been strictly managed, with hazardous wastes manifests completed and submitted to the relevant authorities
- All waste waters and sewage generated on the drilling rigs, supply vessels and FPSO have been treated before discharge
- All solid wastes were collected, segregated and transported to shore and sent to the appointed contractors who provided waste treatment system

In Egypt, similar safe practices were in place:

- For normal waste, handling and disposal was undertaken in compliance with applicable environmental law and regulatory requirements, involving contracting with local units.
- Handling, transportation and disposal of hazardous waste was undertaken as follows:
 - solid hazardous waste to approved governmental landfill in El Nasrya in Alexandria
 - liquid and solid hydrocarbon waste to approved landfill by contractor Petrotrade
 - water-based mud cutting waste to the Fayum Governorate landfill.

An annual environmental monitoring was conducted over Petrosilah work locations by IMS Company to assess compliance with applicable environmental law and regulation.

We are committed to developing site-specific biodiversity action plans 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)

KPI	Target - 2022	2022	2021	2020
Spills to the environment	0	1	3	4

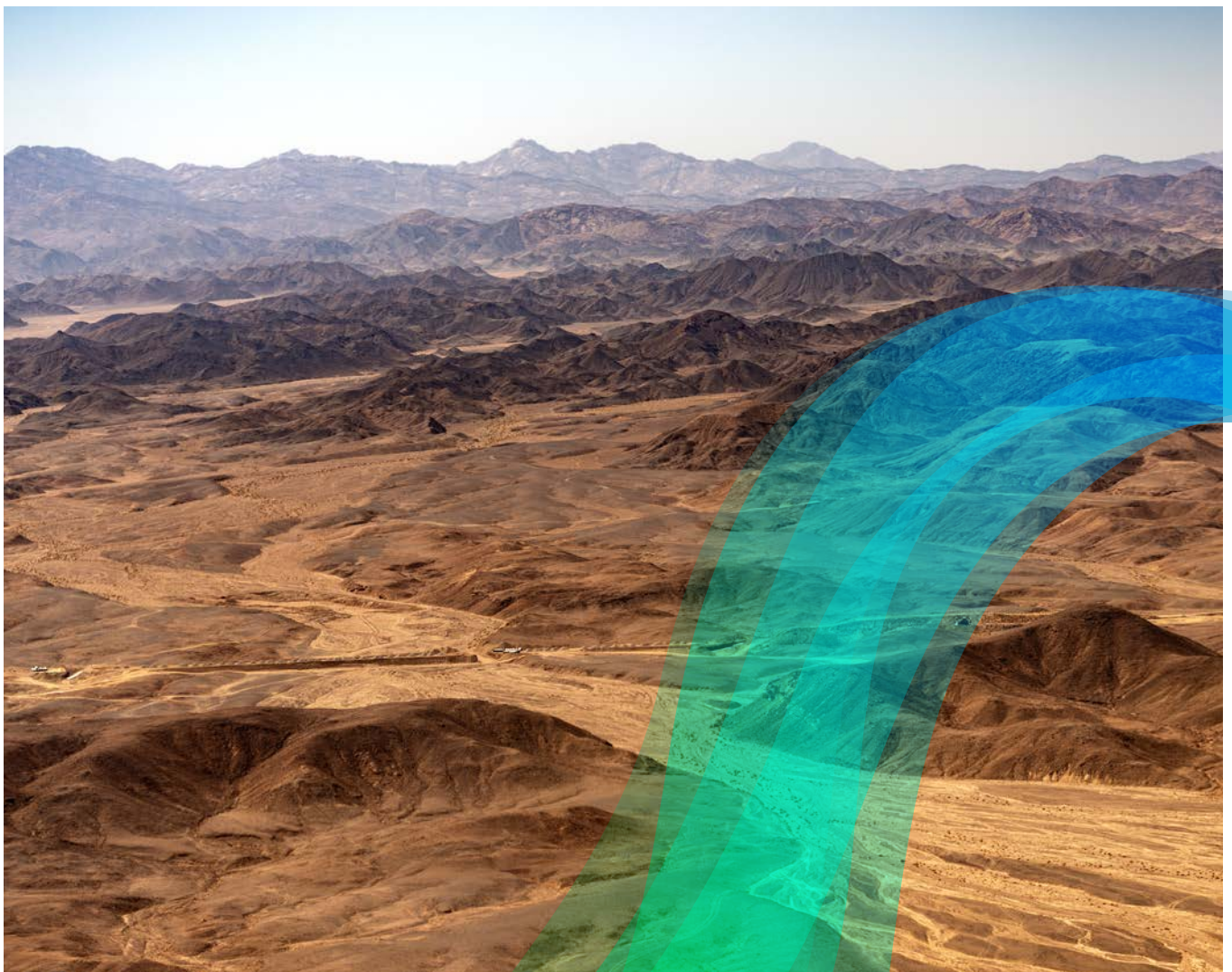
KPI	Target	2022	2021	2020
Solid non-hazardous waste produced (tonnes)	Set per project	109	111	94
Percentage of non-hazardous waste reused or recycled	Set per project	15	24	25
Solid hazardous waste (tonnes)	Set per project	60	48	41
Percentage of hazardous waste reused or recycled	Set per project	11	<1	4

CORPORATE RESPONSIBILITY - CONTINUED

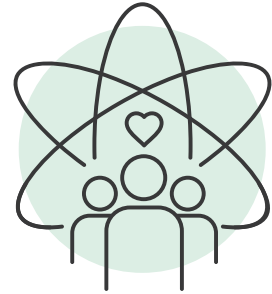
Overall objective

To protect the environment and conserve biodiversity

2022 Objectives	2022 Outcomes	2023 Objectives
Obtain all necessary environmental permits for all drilling programmes / seismic studies.	All necessary permits for our 2022 field development operations were obtained successfully.	Obtain all necessary environmental permits for all drilling programmes / seismic studies.
Improve methane emissions management and reporting.	In progress. Pharos has been reporting methane emissions from venting following established industry procedures. In 2023 we plan to focus on improving the reliability of these estimates through better measurements.	Improve methane emissions management and reporting.
Carry out further feasibility studies / cost benefit analysis on CO ₂ reduction technologies.	Ongoing. Partly achieved in Vietnam where we have conducted a review of potential technology to reduce GHG emissions. Focus will now shift to evaluate technologies to reduce venting in Egypt.	Carry out further feasibility studies / cost benefit analysis on CO ₂ reduction technologies.
Continue with TCFD alignment - disclosure & reporting Map out Pharos decarbonisation plan.	Ongoing. Net-zero emissions roadmap to be published in 2023.	Produce net-zero GHG emissions roadmap.



Society



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

Human rights

The Group 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 Social Responsibility 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 Group corporate policies including the Human Rights Policy and the Social Responsibility Policy, 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. The Group's Statement on Modern Slavery is available on the Company's website at <https://www.pharos.energy/modern-slavery-act/>.

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 countries and communities. In recent years, we have structured our social investment programme to align more with the United Nations Sustainable Development Goals (UN SDGs).

Pharos works closely with our local partners and joint ventures in order to make sure that our social initiatives continue to bring more positive impacts to the region. In Vietnam in 2022, 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 \$198,600 was invested in 9 community projects. The JOCs actively inquired and listened to locals to identify which areas of the country would need the greatest assistance in order to ensure that we were investing in local projects that would bring the most sustainable positive impact to the community. For instance, in H1 2022, the Group provided financial support towards physical improvement education programme for children with disabilities at Khanh Tam Specialised Educational Centre and An Tue Social Assistance Centre (UN SDG 3: Good health & wellbeing and UN SDG 4: Quality education). In H2 2022, the Donation Programme helped fund the renovation of classrooms for primary school in Tien Cau village, which will bring about positive impacts on the development and education of children in the area for years to come (UN SDG 4 Quality education and UN SDG 9: Industry, innovation and infrastructure).

In Egypt, under the El Fayum and North Beni Suef Concession Agreements, the Company contributes a total of \$200,000 split equally between the two Concessions to support long-term training and development of talents within the industry (UN SDG 9: Industry, innovation and infrastructure). Additionally, in cooperation with the Ministry of Higher Education and Scientific Research, Petrosilah holds an annual summer training programme for all students applying from public and private Egyptian universities for training in the administrative office and the company's fields, of which they can obtain a training certificate from the company (UN SDG 4: Quality education).

Social projects like these have been part of Pharos since inception, and we have always sought to invest sustainably so that the initiatives that we helped set up stay in place, and have lasting impacts for many generations.

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.

CORPORATE RESPONSIBILITY - CONTINUED

Community projects in Vietnam 2022 via the HLHVJOC Donation Programme



\$198,600
TOTAL



UN SDG 1 – No poverty

End poverty in all its forms everywhere

- Financial Support for House of Grace orphanage in Thu Duc city
- Financial support towards Saigon Children Charity to help children orphaned by COVID-19 in Vietnam
- Financial support to Agent Orange victims in Thai Binh province
- Financial support for flood victims with difficult family situation in Phu Luu commune, Ha Tinh province



UN SDG 4 – Quality education

Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all

- Financial support for the physical improvement education program for children with disabilities for Khanh Tam Specialised Education Centre
- Financial support for therapy for children with disabilities at An Tue Social Assistance Center – Thua Thien Hue province
- Financial support to purchase computer equipment for English labs in Tan Thanh commune’s middle school, Kim Son district, Ninh Binh province
- Financial support to renovate classrooms for primary school in Tien Cau village, Hiep Cuong commune, Kim Dong district, Hung Yen province
- Financial support for school facilities for lab teaching at Nguyen Van Troi secondary school, Hoang Quy commune, Hoang Hoa district, Thanh Hoa province

SOCIETY CASE STUDY

Engaging with host communities to provide sustainable positive impacts

Vietnam

- **\$95,000** in financial support from the HLHVJOCs to renovate classrooms for primary school in Tien Cau village, Hiep Cuong commune, Kim Dong district, Hung Yen province.
- **\$15,000** in charitable donation to provide support for physical therapy treatments for children with disabilities at An Tue Social Assistance Center – Thua Thien Hue province.
- **\$7,000** in financial support towards Saigon Children Charity to help children orphaned by COVID-19 in Vietnam.

Egypt

- In cooperation with the Ministry of Higher Education and Scientific Research, Petrosilah holds an annual summer training programme for all students applying from public and private Egyptian universities for training in the administrative office and the company’s fields, of which they can obtain a training certificate from the company.

Overall objective

To consult with and contribute into our host communities

2022 Objectives	2022 Outcomes	2023 Objectives
Continuation of the social investment programme in Vietnam, with further alignment to UN SDGs	On target	Continuation of the social investment programme in Vietnam
Improvement in social investment programmes in Egypt and London	Ongoing	Social investment programmes in Egypt and London implemented

Task Force on Climate-related Financial Disclosure

Our approach on TCFD disclosure

Pharos is in the early stages of our climate-related financial reporting journey and therefore always aim to improve our disclosure in order to better align the Group with the TCFD recommendations.



Approach:

- Build a roadmap
- Adopt an integrated approach
- Approach as cyclical process

Benefits:

- Demonstrates awareness of growing importance of climate-related issues to key stakeholders
- Staying ahead of mandatory disclosure requirements
- Creates efficiencies and relieves reporting burden

Overview of TCFD recommended disclosures

The table below sets out our climate-related financial disclosures and summarises where additional information can be found. As at 31 December 2022, Pharos is fully consistent with 8 out of 11 TCFD recommended disclosures. There are certain areas where we are not yet aligned with the TCFD recommendations, a summary of these are set out below:

Strategy: b) Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy and financial planning

The TCFD recommends that organisations should describe their plans for transitioning to a low-carbon economy, which should include GHG emissions targets and specific activities intended to reduce GHG emissions in their operations and value chain. All of this information will be part of Pharos' Net Zero Roadmap, which will be published later in 2023 and therefore we consider ourselves to be not fully aligned with Strategy (b) as at year end 2022. Partial disclosure of our progress towards this Roadmap, such as the GHG emission targets in the Company's KPI, emission reduction opportunities already explored such as the gas generators, carbon pricing and operational cessation sensitivity analyses, business impact of transitional

and physical risks, definition of resilience over different time timeframes and more are discussed in the below sections of the report to help readers understand other aspects of our consideration towards climate-related risks and opportunities over the short, medium and long-term.

Metrics & Targets: b) Disclose scope 1, scope 2 and, if appropriate, scope 3 greenhouse gas emissions and the related risks

We currently only disclose Scope 1 and Scope 2 greenhouse gas emissions and its related risks. While the Group have taken into considerations the assessment of Scope 3 reporting as recommended by the TCFD guidelines, Scope 3 emissions are currently not being reported in our reports due to limitations of data collecting, concerns around double-counting and integrity of data. We are non-operator in Vietnam and Egypt and do not have a line of sight through to end-user energy consumption and usage. Nevertheless, the Company is cognisant that TCFD advocates the reporting of scope 3 and therefore will look to disclose our Scope 3 reporting within the next 2 years.

Metrics & Targets: c) Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets

For measurement of our GHG performance as part of the determination of our corporate KPI and LTIP, we have set reduction targets on both absolute and intensity. Details can be found in the Directors' Remuneration Report. For targets on longer-term climate-related risks, we are in the process of developing a Net Zero roadmap, which will include short and medium term targets we need to achieve in order to meet our climate ambition of achieving Net Zero by 2050 and manage our climate risks. This will be published in late 2023.

Pharos Net Zero target measures Scope 1 (direct) and 2 (indirect) GHG emissions from all our existing and future assets by no later than 2050, against a baseline of 2020 GHG emissions. Our GHG emissions from Egypt and Vietnam operations are reported 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 Block 9/2 and Block 16/1 and Egypt) according to its ownership interest.

TCFD - CONTINUED

Where we have not included climate-related financial disclosures consistent with all of the TCFD Recommendations and Recommended Disclosures, we have added icons to highlight disclosures where we are partially or non-compliant and included our reasons in the Response column in the table.

Disclosure Level: ● Full ● Partial ○ Omitted

Recommendation	Response	Disclosure location
GOVERNANCE		
a) Describe the Board's oversight of climate-related risks & opportunities ●		
Board governance process and frequency	<ul style="list-style-type: none"> The Board takes overall responsibility for our Net Zero climate goal, ESG strategy and climate-related risk and opportunities, overseeing executive management in developing the approach, execution, associated reporting and climate disclosures, with the help of multiple committees such as the Audit & Risk Committee, the ESG Committee, and the Remuneration Committee. The Board takes into account climate-related issues when reviewing and guiding the Group's strategy via a number of considerations, such as the risk management process and its risk grading (in which climate risk is considered a principal risk), Going Concern and Viability Statement which includes NZE curve stress testing and carbon pricing sensitivity analysis, and the Remuneration Committee's ESG and climate-related KPIs. Given the wide-ranging remit of climate-related matters, the governance activities are managed through a combination of different committees, detailed below. Climate-related matters, as well as progress against our ESG performance and Net Zero ambitions, are reviewed and discussed at each committees meetings. Information are then flown to the main Board for considerations when they review the Group's strategy at quarterly Board meetings. The Chief Executive Officer is accountable to the Board for implementation of Corporate Responsibility (CR) policies and HSES performance. 	<ul style="list-style-type: none"> See page 112 for the Board & Principal Committees structure See page 63 of the Corporate Responsibility Report in the Strategic Report for Board governance process in regards to ESG and climate-related matters
Sub-committee accountability, processes and frequency	<ul style="list-style-type: none"> The Audit & Risk Committee (ARC) oversees all principal and emerging risks in our risk management process, in which climate risk is considered a principal risk. It also oversees the adequacy and effectiveness of our corporate policies, standards and management system for HSES. The ESG Committee oversees the Group's management of ESG matters and compliance with legal and regulatory climate-related reporting and disclosure requirements, as well as assists the Board in defining and implementing the Group's climate strategy relating to ESG matters. The Remuneration Committee oversees the level of management incentives attached to improvements in climate-related performance in order to further encourage action on this agenda. In 2022, each Committee meets four times, as scheduled. All the sub-committees then reports to the main Board, which meets every quarter, as scheduled. In 2022, the Board meet four times. 	<ul style="list-style-type: none"> See page 112 for the Board & Principal Committees structure See pages 122 to 124 for the ESG Committee report See pages 127 to 133 for the ARC Committee report See pages 137 to 140, and pages 145 to 146 of the Remuneration Report for more details on how the Committee measure remuneration progress in regards to ESG and climate-related KPIs
Skills/competency/training of the board/management regarding climate matters	<ul style="list-style-type: none"> The Board takes an active approach to ensure Board members are aware of key climate matters. In 2022, the Board invited an ESG specialist to educate Board members on key issues regarding industry's expectation on Net Zero commitment, GHG Scope 1,2,3 disclosures across peers, and emerging climate regulatory trends. In 2022, Mike Watts who was a member of the Board at the time, also presented his research to Management and the UK staff on a Company offsite day to help educate and raise awareness on important climate matters. 	<ul style="list-style-type: none"> See pages 122 to 124 for the ESG Committee report

Recommendation	Response	Disclosure location
Examples of the Board and relevant Board committees taking climate into account	<ul style="list-style-type: none"> The Board considers climate-related issues when reviewing and guiding the Group's strategy and any major action plans. For example, climate risks' impacts, mitigation, the Going Concern and Viability of our business, and our emissions data were all taken into consideration when the Group made its commitment to achieve Net Zero on Scope 1 and 2 GHG emissions across all of its assets by no later than 2050, including all future business decisions and developments. This commitment was discussed at the ESG Committee meetings and Board meetings and approved by the Board. During the Board's Strategy Day in October, climate-related risks were presented to the Board when they reviewed our future strategy. The ARC also monitor the Group's sensitivity analysis for stress testing, NZE scenario analysis, and carbon tax analysis as part of our Viability Statement and Going Concern. The Remuneration Committee continues to set GHG reduction target as a 2023 KPI. 	<ul style="list-style-type: none"> See pages 122 to 124 for the ESG Committee report See pages 127 to 133 for the ARC Committee report See pages 137 to 140, and 145 to 146 of the Remuneration Report for more details on how the Committee measure remuneration progress in regards to ESG and climate-related KPIs See pages 61 to 78, and page 107 for our Corporate Responsibility report and our Corporate Responsibility Non-Financial Indicators See pages 47 to 60 for more details on climate risks' impacts and mitigations, which were taken into consideration when the Board reviewed and guided the Group's strategy


b) Describe management's role in assessing and managing climate-related risks and opportunities

Who manages climate-related risks and opportunities	<ul style="list-style-type: none"> The Group's Chief Executive Officer and Chief Financial Officer manage our climate progress and is responsible for the delivery of our Net Zero climate commitment, with management responsibilities integrated into the relevant business and functional areas, such as HSE, Operations, Risk, ESG. They oversee and direct the climate-related opportunities. They were involved in every ARC and ESG Committee meetings in 2022 and oversaw the Net Zero Working Group, which meets monthly since May 2022. The Group's Head of Operations supports the Executives in the development of emission reduction projects and provides oversight and management on HSE performance & activities. The Group's Heads of Risk and Business Intelligence support the Executives in managing principal and emerging risks, including climate-related risks, by providing detailed scenario analysis and stress testing updates throughout the year. 	<ul style="list-style-type: none"> See page 112 for the Board & Principal Committees structure See pages 122 to 124 for the ESG Committee report See pages 47 to 60 for the Risk Report
How management reports to the Board	<ul style="list-style-type: none"> The Group's Chief Executive Officer and Chief Financial Officer provided regular updates to the Board. In 2022, they provided updates to the Board, which met every quarter during the year. The sub-committees regularly report to the Board on climate-related issues at every Board meeting. 	<ul style="list-style-type: none"> See pages 109, 110 for Chair's Introduction to Governance See page 112 for the Board & Principal Committees structure See pages 122 to 124 for the ESG Committee report
Processes used to inform management	<ul style="list-style-type: none"> Ahead of each Board meeting, Board papers are prepared and approved by the Executives before submission to the Board. At each Board meeting, management and related Head of functions will provide additional verbal updates and answer questions when challenged. 	<ul style="list-style-type: none"> See pages 35 to 38 for the s.172 (1) on how the Board is informed in their decision-making process

TCFD - CONTINUED

Recommendation	Response	Disclosure location
STRATEGY		
a) Describe the climate-related risks and opportunities the organisation has identified over the short, medium and long term ●		
Processes used to determine material risks and opportunities	<ul style="list-style-type: none"> We use scenario analysis conducted both internally and by a third-party climate consultant to help us identify and understand climate-related risks. We use an internal risk matrix to grade the risks identified in order to determine their impact and materiality on the business. We conduct sensitivity analysis to outline the impact on the impairment charges using the average of the NZE (Net Zero Emissions) scenarios. As part of our business risk management guideline and risk management policy, we consider all risks with potential cash impacts above \$5m as material. These guidelines and policies are reviewed and re-approved every year by the Board. 	<ul style="list-style-type: none"> See below for more details on the process used to determine material risks and opportunities
Relevant short, medium, and long term time horizons	<ul style="list-style-type: none"> We are committed to achieve net zero on all Scope 1 and 2 GHG emissions across all our assets by no later than 2050. We use our license period, plus any potential extensions, as determination of useful life of assets. We consider a short term horizon to be 3 years, which is the same time horizon we use in our Going Concern & Viability Statement. We consider medium terms to be 5 years, as our most cash-generative asset in Vietnam, if not granted the licence extension, would expire in 2026 and 2027. We consider long-term to be 10 years, as our producing licences in Vietnam are currently due to expire within the next 10 years, and have therefore set 'long-term' as 10 years. In identifying short-term climate-related risks, we are in regular conversation with our stakeholders, such as our RBL lenders, on their commitments around climate change and how those might impact our business. In the short term (3-year period), we take this into account when running our Going Concern and Viability Statement, and NZE stress testing. Short-term climate risks and its impacts are also linked to our capital financing risk which is considered in the Risk Report. We aim to address and mitigate these short-term risks by looking at decarbonisation projects as part of our Net Zero roadmap, which is currently being developed. Climate-related risks and opportunities were identified across 5-year and 10-year timeframes. While these time-horizons may be on the longer side of a 'typical' business strategy, they are designed to highlight the importance of sustainability and climate-related issues in the longer-term. Also, many climate-related risks are likely to manifest in the medium- and long-term, so longer time-horizons ensure these risks are not excluded from consideration. 	<ul style="list-style-type: none"> See pages 59 to 60 for the Viability Statement See pages 47 to 60 for the Risk Report See below for more details on the risks identified over 5 and 10-years
Transition or physical climate-related issues identified	<ul style="list-style-type: none"> Details of the transition and physical-climate related issues identified are set out below. Overall, based on risk high-grading and scenario analysis, we believe that transition risk is material for Pharos. 	<ul style="list-style-type: none"> See below for more details on the risks identified

Recommendation	Response	Disclosure location
Climate-related opportunities identified	<ul style="list-style-type: none"> While many climate-related opportunities are being explored by the Group as part of the development of our Roadmap, we have identified one notable emission-reduction opportunity, which is the associated gas-powered electricity generators in Egypt. This is part of a broader plan to utilise produced associated gas instead of diesel for power generation, along with flare reductions. The generators reduce CO₂e emission by using the associated gas that otherwise would have been flared, and turn them into electricity to be used for field operations in Egypt. This opportunity directly improves our expenditure, as we reduce the purchase of diesel to power operations in the field. More information on the usage of gas-powered generators in Egypt can be found on pages 72 and 73 of the Corporate Responsibility Report. 	<ul style="list-style-type: none"> See pages 61 to 78 & page 107 for our Corporate Responsibility report and our Corporate Responsibility Non-Financial Indicators
Risks and opportunities by sector and/ or geography	<ul style="list-style-type: none"> Both transition and physical risks have been assessed by geography of operations (Vietnam and Egypt). 	<ul style="list-style-type: none"> See below for more details on the risks identified

b) Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy and financial planning 

Impact on strategy, business, and financial planning	<ul style="list-style-type: none"> We considered the impact of climate-related issues on our businesses and strategy through the severity and likelihood high-grading process of all transition and physical risks identified, plus the feedbacks from our stakeholders. We also assess the significance of certain transitional risks, such as carbon tax and stranded assets, by evaluating their potential financial impact on cash in different time periods if no mitigating actions are taken. The Assessment is based on NZE scenario analysis. We explain the business and financial impacts of each risks in the sections below. Climate-related issues are considered in our financial planning, as we conduct sensitivity analyses bi-annually, which involves analyses on carbon pricing and stress testing using the NZE scenario, in order to evaluate the Group's going concern and viability. Climate-related risks and opportunities are also considered when we hold regular conversation with our RBL lenders, on their commitments around climate change and how those might impact on our business. We also consider climate-related issues when financially planning any potential new business opportunities, as evident in our NZ statement in September which includes NZ emissions commitment on all assets, including the development of new asset such as Block 125 in Vietnam. Therefore, the Group takes into account the cost and benefits of projects/technologies that can reduce our carbon footprints. Additionally, our Net Zero commitment is also a part of the Board's decision making process when considering new business ventures. 	<ul style="list-style-type: none"> See below for more details on the risks identified and its potential financial impact See pages 59, 60 for the Viability Statement See Note 16 for details on NZE sensitivity Carbon pricing in the GC
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TCFD - CONTINUED

Recommendation	Response	Disclosure location
Impact on products and services	<ul style="list-style-type: none"> Details set out below from page 94 	
Impact on supply chain and/or value chain	<ul style="list-style-type: none"> Details set out below from page 94 	
Impact on adaptation and mitigation activities	<ul style="list-style-type: none"> Details set out below from page 94 	
Impact on operations	<ul style="list-style-type: none"> Details set out below from page 94 	
Impact on investment in research and development	<ul style="list-style-type: none"> As part of our Net Zero commitment, we are developing a Net Zero roadmap, in which we are investigating new technologies that can be developed and employed to help us reduce our carbon emissions and lessen climate-related impacts on our business. In December 2022, we have contracted a third-party ESG specialist company to provide the additional expertise needed to help us develop our Roadmap. As at the publication date of this report, we have verified the baseline emission, mapped emissions across the business and reviewed existing emission reduction initiatives. Our next step of the roadmap is to calculate the remaining emission reduction required to achieve Net Zero by 2050, and explore and rank emission reduction options based on cost, impact, maturity, and start to map emission reduction targets along a Net Zero timeline. As we explore technology to reduce our GHG emissions, we prioritise those that can help us reduce emissions directly from operations, either by improving efficiency in current facilities, reducing flaring and venting, or replacing the power consumption of our facilities with less impactful energy sources. We will only look to procure nature-based carbon offset projects for hard-to-abate, residual emissions. The outcome of this work will be published in our Net Zero roadmap later in 2023. 	<ul style="list-style-type: none"> See pages 122 to 124 for the ESG Committee report
How we are striving to meet investor expectations	<ul style="list-style-type: none"> We are committed to transparency in our climate-related disclosure and reporting. We strive to achieve a balance of delivering value to all stakeholders via cash returns & organic growth while minimising climate-related impacts on our long-term business model, while providing energy security for host countries in which we operate and helping local government achieve their economic development goals and prosperity using oil revenues from our operations. As part of our NZ by 2050 commitment to all stakeholders, we aim to reconcile our commitment to existing FPSO facilities in our operations with future business endeavours, such as exploration commitments on Block 125 in Vietnam, in order to minimise environmental impacts and achieve our climate goals. 	<ul style="list-style-type: none"> See the Chair's Statement (pages 15, 16) and CEO's statement (pages 19 to 22) for our strategy, purpose, and commitment to transparent climate disclosure and reporting See pages 122 to 124 for the ESG Committee report

Recommendation	Response	Disclosure location
c) Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario		
Business resilience	<ul style="list-style-type: none"> We consider our business to be resilient when we can continue our business when stress-tested. This is in line with our assumptions in the Going Concern and Viability Statement. 	<ul style="list-style-type: none"> See pages 59, 60 for the Viability Statement
Embedding climate into scenario analysis	<ul style="list-style-type: none"> Climate-related issues are always taken into consideration when we conduct scenario analysis. Our sensitivity test is conducted based on International Energy Agency's (IEA) NZE curve, which is more conservative than the Sustainable Development Scenario (SDS), in order to showcase our resilience, viability and going concern. The Climate change price used is based on Brent which is estimated to reach \$35/bbl in 2030 in real terms as of 2021 (\$43/bbl in nominal terms as of 2030). Pharos YE 2022 Brent price forecast was extrapolated from 2026 to reach the NZE price in 2030. 	<ul style="list-style-type: none"> See pages 59, 60 for the Viability Statement and the NZE consideration in our financial reporting below
Key drivers of performance and how these have been taken into account	<ul style="list-style-type: none"> Key drivers of the Group's performance include operational/ production stability, reputational risks, financial risks and legal risks, all of which are set out on page 94 below. 	<ul style="list-style-type: none"> See below for more details on the risks identified
Scenarios used and how they factored in government policies	<ul style="list-style-type: none"> While every company may use a different curve, Pharos uses NZE as we believe it is the most conservative measure to demonstrate our resilience. Additionally, we also review carbon tax policies in host countries in which we have operations. Currently there is no active carbon tax policy. Impairments, have also been run on the NZE curve, which we believe take into account carbon pricing. Nonetheless, we've still conducted carbon tax sensitivity analysis at group level, covering all assets. Our scenario analyses on the financial impact of carbon tax and operational cessation is detailed in the table below. 	<ul style="list-style-type: none"> See pages 59, 60 for the Viability Statement and the NZE consideration in our financial reporting below See below for more details on the financial impact of carbon tax and operational cessation scenario analysis
How our strategies may change and adapt	<ul style="list-style-type: none"> We aim to regularly review and enhance our own selection process and design standards to help these reflect the potential impacts of climate change. While we are proud of our role in the energy transition as an oil & gas provider to help developing countries, like Vietnam and Egypt, develop their natural resources in a responsible and sustainable manner in order to achieve their economic development goals and prosperity, we also understand the complex nature of climate-related issues. As our approach to climate-related reporting becomes more refined over time, we will look to broaden the energy portfolio. 	<ul style="list-style-type: none"> See the Chair's Statement (pages 15, 16) and CEO's statement (pages 19 to 22) on how our strategy and purpose take into account climate considerations

TCFD - CONTINUED

Recommendation

Response

Disclosure location

RISK MANAGEMENT

a) Describe the organisation's processes for identifying and assessing climate-related risks

Process

- We use scenario analysis conducted both internally and by a third-party climate consultant to help us identify and assess climate-related risks.
- The process to assess to size, scope and significance of climate-related risks and opportunities is integrated into the business. Climate risks, along with other principal risks, are considered as part of the Group's Risk Management Process (RMP), which is regularly reviewed by the Board and ARC. In determining the significance of each risk, the Group Head of Risk will discuss the risk grading, its impacts and mitigations with Country Managers & Head of Operations. Challenges on all risks, its grading and mitigation actions are welcomed and are documented in every ARC meeting.
- In identifying climate-related physical and transition risks, the Group and its third-party climate consultant also consider regulatory requirements and emerging trends related to climate change of each host government, such as assessing Vietnam and Egypt's national energy plans as well as STEPS and SDS.

- See below for more details on the risks identified
- See pages 47 to 60 for the Risk Report

Integration into policies and procedures

- Our Climate Change policy is available on our website and is subjected to annual review by the Board.
- Our Risk Policy is reviewed and re-approved by the Board every year. In addition, quarterly risk reports, conducted by the Group's Head of Risk, is also submitted to the Board ahead of every Board meeting throughout the year.
- Climate risk is integrated into the supporting policies, processes and controls and we will continue to update these as our climate risk management capabilities mature over time.

- See pages 127 to 133 for the ARC Committee report

b) Describe the organisation's processes for managing climate-related risks

Process and how we make decisions

- We carefully consider the environmental performance of assets and opportunities as part of our decision-making process, underpinned by our net zero commitment.
- The Group's ARC receives quarterly scheduled updates on all principal and emerging risk.
- Our risk matrix helps the Group determine its appetite for all risks, thus supporting the Board in their decision-making process, oversight and management of the Group's financial health and business strategy.
- The Board and management team believes that the Group's risk matrix is a living/ ever-evolving dynamic document, and thus additional risk-assessment meetings, aside from the quarterly-scheduled ARC meetings, can be called if a new emerging risk is deemed significant.
- Our approach to climate risk management is continually developing and how we manage these risks will vary by risk type. For examples on how we manage mitigation actions for different climate-related risks types, please see our risk table below. We will continue to review our risk management framework when determining the materiality of its exposure to climate-related risks.

- See below for more details on the risks identified
- See pages 47 to 60 for the Risk Report
- See pages 127 to 133 for the ARC Committee report

Recommendation	Response	Disclosure location
c) Describe how processes for identifying, assessing and managing climate-related risks are integrated into the organisation's overall risk management framework ●		
How we have aligned and integrated our approach	<ul style="list-style-type: none"> Climate risk is a principal risk, which is integrated into the Group's Risk Management Process (RMP). The RMP is regularly reviewed by the Board and ARC. 	<ul style="list-style-type: none"> See pages 47 to 60 for the Risk Report See pages 127 to 133 for the ARC Committee report
How we take into account interconnections between entities, functions	<ul style="list-style-type: none"> Our RMP takes into account relevant interconnections within global businesses, functions and entities. In all of our risk meetings, we invite staff from all functions, entities and locations to participate and contribute to the risk matrix. 	<ul style="list-style-type: none"> See pages 47 to 60 for the Risk Report See pages 127 to 133 for the ARC Committee report

METRICS AND TARGETS

a) Disclose the metrics used by the organisation to assess climate-related risk and opportunities in line with its strategy and risk management process ●


Metrics and targets used to assess the impact of climate-related risks	<ul style="list-style-type: none"> Our considerations & disclosure on 7 cross-industry metrics categories recommended by the TCFD are detailed below. Our GHG emissions is recorded on Scope 1 & 2 CO₂e absolute and intensity. We also measure total hydrocarbon flared as part of our Corporate Responsibility Non-Financial Measure. Both of these metrics is directly related to our commitment to achieve Net Zero emissions across all assets by 2050. We also measure other industry metrics such as energy consumption, process emissions, combustion, venting, waste usage and recycled, freshwater use, and oil spills, which we track as part of our HSE performance. We do not measure fugitive emissions as they are not considered material. We measure the impact of climate-related risks by risk-grading its severity and likelihood across a 5-10 year timeframe. We evaluated transition and physical risks, including policy, market and long-term chronic effects of global warming and used NZE price testing and carbon pricing as metrics to assess the impact of climate-related risks on business viability and financial planning. We also conduct scenario analysis to assess the financial impacts of carbon tax and operational cessation across 3, 5 and 10 year timeframe, more details of which can be found below. 	<ul style="list-style-type: none"> See pages 61 to 78 and 107 for our Corporate Responsibility report and our Corporate Responsibility Non-Financial Indicators See below for our considerations on materiality and its impacts over different time periods
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TCFD - CONTINUED

Recommendation	Response	Disclosure location
Metrics and targets used to assess progress against opportunities	<ul style="list-style-type: none"> We use GHG % reduction against the 2020 baseline as the main metrics to identify projects and opportunities with the most impact to reduce our environmental impact. We are in the process of developing our NZ roadmap and are looking at all carbon reduction projects and opportunities. Results of this will be published in 2023. Additionally, the transition and physical risk assessment conducted by the third party consultant have strengthened our position to look at further carbon-reduction opportunities. 	<ul style="list-style-type: none"> See pages 61 to 78 and 107 for our Corporate Responsibility report and our Corporate Responsibility Non-Financial Indicators
Board or senior management incentives	<ul style="list-style-type: none"> We use a number of sustainability and climate-related metrics for our KPI (applicable for all staff & Board members) & LTIP (applicable only to Board members), details are set out in the Directors' Remuneration Report. 	<ul style="list-style-type: none"> See pages 137 to 140 and 145, 146 of the Remuneration Report for more details on how the Committee measure remuneration progress in regards to ESG and climate-related KPIs

b) Disclose scope 1, scope 2 and, if appropriate, scope 3 greenhouse gas emissions and the related risks 

Our operations	<ul style="list-style-type: none"> We report scope 1 and 2 greenhouse gas emissions as calculated following the ISO 14064 guidelines which are considered acceptable in line with the GHG protocol, on a location/geographical basis. We report on jointly operated companies in Egypt and Vietnam. The Company have taken into considerations the assessment of Scope 3 reporting as recommended by the TCFD. Scope 3 emissions are currently not being reported due to limitations of data collecting, concerns around double-counting and integrity of data. We are non-operator in Vietnam and Egypt and do not have a line of sight through to end-user energy consumption and usage. Nevertheless, the Company is cognisant that TCFD advocates the reporting of scope 3 and therefore will look to start our Scope 3 reporting within the next 2 years. 	<ul style="list-style-type: none"> See pages 61 to 78 and 107 for our Corporate Responsibility report and our Corporate Responsibility Non-Financial Indicators
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c) Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets 

Details of targets set and whether they are absolute or intensity based	<ul style="list-style-type: none"> For measurement of our GHG performance as part of the determination of our corporate KPI and LTIP, we have set reduction targets on both absolute and intensity. Details can be found in the Directors' Remuneration Report. For targets on longer-term climate-related risks, we are in the process of developing a Net Zero roadmap, which will include short and medium term targets we need to achieve in order to meet our Net Zero target. 	<ul style="list-style-type: none"> See pages 137 to 140 and 145, 146 of the Remuneration Report for more details on how the Committee measures remuneration progress in regards to ESG and climate-related KPIs See page 107 for our Corporate Responsibility Non-Financial Indicators for more details on absolute and intensity-based GHG emissions (Scope 1 & 2) and comparative data to our baseline (2020)
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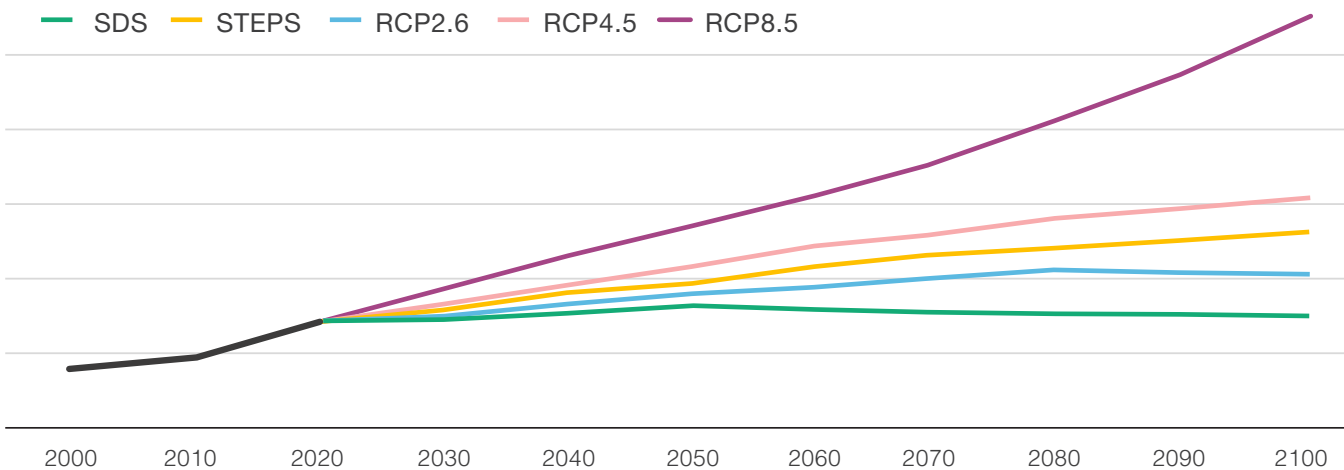
Recommendation	Response	Disclosure location
Other key performance indicators used	<ul style="list-style-type: none"> We also report on energy consumption, waste produced and recycled, freshwater usage, environmental spills. Details are set out in the CR report and Non-Financial Indicators. 	<ul style="list-style-type: none"> See pages 61 to 78 and 107 for our Corporate Responsibility report and our Corporate Responsibility Non-Financial Indicators

In 2022, throughout the year, these key climate risks, along with every other principal and emerging risks presented on page 47 of the Risk Report, are discussed and reviewed by the Audit and Risk Committee every quarter to ensure they are up to date and remain dynamic to the changing nature of the macroeconomic environment and the business. In Q1 2023, a deeper analysis into Group's transitional and physical risk assessment was conducted with the Management team to update the hi-grading risk assessment and ensure its severity and likelihood grading are in line with the Group's latest risk matrix. For a full list of our transitional and physical climate risks, please see below for our full TCFD reporting.

Our approach on Physical Climate Risk Scenario analysis:

This analysis adopted a data-driven approach to identify and analyse the most material physical climate risks facing Pharos Energy's activities in Egypt and Vietnam and how those risks may manifest differently under three emissions scenarios - Representative Concentration Pathways (RCPs) 2.6, 4.5, and 8.5:

- RCP2.6:** Aggressive mitigation assumes that global annual GHG emissions peak immediately, with emissions declining substantially thereafter
- RCP4.5:** Strong mitigation assumes that emissions peak around 2040, then decline
- RCP8.5:** Business-as-usual assumes that emissions continue to rise throughout the 21st century.



It assesses current climate extreme, such as flooding, heat stress and storms, as well as how long-term shifts if climate features will affect these events.

The information provided will help Pharos understand the inherent risk profile of the locations and identify current and future operational weaknesses, vulnerabilities and opportunities and inform strategic decision around resilience building. Furthermore, the assessment can inform climate risk disclosures in line with the recommendations of the Taskforce on Climate-related Financial Disclosure (TCFD).

Key findings:

- Common to all onshore and offshore oil and gas activities, projected increases in the frequency, duration, and intensity of extreme heat events will pose threats to the health of workers and heat-sensitive equipment, which in some cases could result in reduced efficiencies and even operational downtime.
- Offshore sites will experience increases in sea level of between 18cm and 22cm under all emissions scenarios considered with direct implications of offshore activities as well as onshore infrastructure.
- Onshore Egyptian operations are found in locations which already experience extremely hot and dry conditions, climate change will marginally raise risks of disruption from rare extreme rainfall and flash flooding events.
- Offshore sites in the Eastern Mediterranean currently have low exposure to climate-related disruption risks. A reduction in average wind speeds and wave heights is projected under all emission scenarios, suggesting that these threats could weaken further by 2045.
- The southern offshore Vietnamese blocks are more exposed to higher wind speeds than the northern blocks and these are projected to increase in the future under all emission scenarios, creating more challenging operating environments for oil and gas activities. However, wave heights are projected to fall under most emission scenarios in the South China Sea due to shifts in the prevailing wind direction, reducing disruption risks to platforms and service vessels.

TCFD - CONTINUED

Our approach on Transition Risk Scenario Analysis

The aim of this analysis is to supplement the work that Pharos has already undertaken by assessing the potential impacts of different future scenarios on the key transition risks facing the company, and the oil and gas industry more broadly, over the next 5-10 years.

By assessing how a range of transition risks manifest differently under these contrasting scenarios, Pharos can demonstrate how it tests portfolio resilience amid the uncertainty of the speed and extent of the energy transition in line with the recommendations of the TCFD. As Pharos has already used the International Energy Agency (IEA) Sustainable Development Scenario (SDS) and NZE to benchmark its Reasonable Worst Case price curve, the same scenario is used here. This is supplemented by the IEA's Stated Policies Scenario (STEPS). Under SDS, it is assumed that there is a rapid implementation of clean energy policies that set the planet on course to meet the objectives of the Paris Climate Agreement. Meanwhile STEPS is a more conservative view of the future, in which only current and planned policies are enacted, and oil and gas play a greater role in the energy system for longer.

To tackle the climate and environmental challenges Pharos will continue to focus on the following:

- Measuring and assessing our environmental footprints
- Conducting climate scenario analysis
- Evaluating our alignment with market frameworks and regulations designed to support the transition to a low carbon, sustainable and equitable future
- Continuing on our TCFD commitments and alignment
- Exploring partnerships with effective CO₂ reduction solutions
- Build an emissions reduction framework, as part of our Net Zero roadmap in 2023, to achieve our Net Zero by 2050 commitment

Identifying the costs of mitigating climate risks

One of the most important considerations in assessing climate risk is the cost of mitigation action and solutions. As part of our Net Zero roadmap due to be published in 2023, we are exploring the capital expenditure required to mitigate climate risks and achieve our climate goals by 2050, based on findings conducted from our emissions reduction framework. We are committed to transparency and will keep our stakeholders updated on our progress.

In addition the Net Zero roadmap, to support our efforts to mitigate climate risks, we have also established an Emissions Management Fund in September 2022. For every barrel sold at an oil price above \$75 in 2023, we will set aside \$0.25 into this Fund. The capital accumulated from the Fund will be used to invest in worthwhile emissions management projects for Pharos and our operational partners, in line with our climate commitments. We are also in the process of developing our Net Zero Roadmap, which will help us identify the projects and technology to invest in to reduce our climate impacts, the funding of which will come from this Fund.

Climate change, the energy transition and its consideration in our financial reporting

Climate change and the transition to a low carbon economy were considered in the preparation of our Annual Report, including 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). 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. When the field is transferred from exploration to development stage; (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 8-9 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.

The International Energy Agency (IEA) 2022 Energy Outlook report presents a price curve as an output of a Net Zero Emissions (NZE). The scenario outlines a pathway to limiting the global average temperature rise to 1.5 °C, the Paris Agreement objective, by achieving net zero CO₂ emissions by 2050. Our sensitivity test is conducted based on IEA's NZE curve, which is more conservative than SDS, in order to showcase our resilience, viability and going concern.

To achieve the NZE target, it is necessary to transition away from fossil fuels and towards cleaner, renewable energy sources. This transition will likely lead to a decrease in demand for oil and a corresponding decrease in oil prices. Therefore, according to the IEA, the price curve for oil is expected to be in backwardation with a gradual decline through to 2050.

Fossil fuel prices by scenario

Real terms (USD 2021)	2010	2021	Net Zero Emissions by 2050		Announced Pledges		Stated Policies	
			2030	2050	2030	2050	2030	2050
IEA crude oil (USD/barrel)	96	69	35	24	64	60	82	95

The Climate change price used in the sensitivity test is based on IEA's NZE scenario, in which Brent is estimated to reach \$35/bbl in 2030 in real terms as of 2021 (\$37/bbl in real terms and \$43/bbl in nominal terms as of 2030). Pharos YE 2022 Brent price forecast was extrapolated from 2026 to reach the NZE price in 2030.

Nominal price (\$/bbl)	2023	2024	2025	2026	2027	2028	2029	2030
Pharos Net Zero Brent	88.3	84.8	79.4	72.7	65.6	58.3	50.7	42.7

More details on this can be found in our Viability Statement on pages 59, 60.

Materiality assessment - How we decide what to measure

We engage with our stakeholders on a regular basis and receive feedback through a range of formal and informal processes, which we set out in more detail in the UK Governance Code report on pages 115 to 121 of our Governance Report. We listen to their concerns and feedbacks when determining our Corporate Responsibility strategy and use the information they provide us to identify the issues that are most important to the successful delivery of our corporate objectives and most important to our stakeholders.

The Board, the ARC and the ESG Committee also regularly discuss, at each quarterly meetings, the new and existing themes and issues that matter to our stakeholders. Our management team then uses this insight and other applicable disclosure laws and regulations to choose what we measure and publicly report in our Annual Report.

Following an earlier screening of material ESG factors relevant to the oil and gas sector, in 2022 Pharos has been referring to the Sustainability Accounting Standards Board (SASB) materiality map for Oil & Gas - Exploration and Production, to ensure that the material issues of importance to its

activities are appropriately managed and reported. Our approach on environmental and social reporting in 2022 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. We report on jointly operated companies in Egypt (IPR and Petrosilah) and Vietnam (HLHVJOCs).

In identifying short-term climate-related risks and opportunities, we are in regular conversation with our stakeholders, such as our RBL lenders, on their commitments around climate change and how those might impact our business. In the short term (3-year period), we take this into account when running our Going Concern and Viability Statement, and NZE stress testing. Short-term climate risks and its impacts are also linked to our capital financing risk which is considered in the Risk Report. Medium term and longer term climate-related risks and opportunities, which were conducted with the help of a third-party climate consultant, were

evaluated for severity and likelihood over 5 and 10 year timeframes. Based on this framework, the Group considered each risk's 'materiality' whilst bearing in mind operational continuity and their importance to our investors and other stakeholders. This allows Pharos to prioritise resources in managing the most material climate-related impacts, determine the best management response or highlight areas requiring further investigation.

We are also informed by the London Stock Exchange disclosure and listing rules in areas where we have operations, and are held accountable by our auditors and Company Secretary. The Board will further reinforce the integration of climate considerations into its governance frameworks by implementing the principles stated in our Climate Change Policy and continuing the Company's alignment with TCFD recommended disclosures.

We know that what is important to our stakeholders evolves over time and we plan to continue to assess our approach to ensure we remain relevant in what we measure and publicly report.

TCFD - CONTINUED

Summary of high-level quantitative assessment

For those risks and opportunities where we have undertaken high-level quantitative assessments, the results are shown in the tables below. These assessments show the gross impact on cash before any mitigation action which Pharos might take to respond. We undertook scenario analysis based on NZE's 1.5°C scenario.

Financial quantification of the assessed transitional & physical risks

Risks	Potential financial impact on cash in the year if no actions to mitigate risks are taken (NPV)			Key assumptions (calculations based on forecasted level of production)
	2025	2027	2032	
Carbon tax	-\$1.8m	-\$5.8m	-\$11.3m	<ul style="list-style-type: none"> Although there is currently no carbon tax in Egypt and Vietnam, we still conduct a sensitivity test where carbon tax is effective from 2025 at \$20/tonne CO₂ gradually incrementing to \$40/tonne at 2030. This results in a carbon tax of around \$1.8m (NPV) in 2025. In Base case scenario, the low point in cash balance is \$32.3m in 2025. The present value of total carbon tax is estimated to be c. \$11.3m (NPV) until 2032.
Operational cessation	-\$132.5m	-\$59.1m	-\$1.7m	<ul style="list-style-type: none"> Operational cessation scenario analysis is an extreme scenario analysis that takes into account a scenario of all operational cessation, i.e. no operational, drilling, exploration, development, etc. activities from the Company, which can be considered as a result of all other climate-related risks identified in the table below, regardless of transitional or physical risks (regulatory, market, legal, physical risks, any external or internal risks, etc.)

Financial quantification of the assessed opportunities

Opportunities	Potential financial gains in the year if actions to capitalise on opportunities are taken (NPV)			Key assumptions (calculations based on forecasted level of production)
	2025	2027	2032	
Gas-powered electricity generator	\$1.1m	\$1.6m	\$2.4m	<ul style="list-style-type: none"> For our field operations in Egypt, we employ gas-powered electricity generator units. This is part of a broader plan to utilise produced associated gas instead of diesel for power generation, along with flare reductions. The generators reduce CO₂e emission by using the associated gas that otherwise would have been vented, and turn them into electricity to be used for field operations in Egypt. For more details on the gas generators, please see pages 72, 73 of our Corporate Responsibility Report. The potential financial savings gained from the usage of these generators are based on savings earned from the rental cost of the diesel generators that otherwise would have been employed to generate electricity, as well as the cost of diesel that otherwise would have been used.

Cross-industry metrics

Metric Category	Measurement	Explanation
GHG Emissions	<ul style="list-style-type: none"> Metric tonnes of CO₂e produced 	Our GHG emissions are recorded on Scope 1 & 2 CO ₂ e absolute and intensity. We also measure total hydrocarbon flared as part of our Corporate Responsibility Non-Financial Measure. We also measure other industry metrics such as energy consumption, waste usage and recycled, freshwater use, and oil spills which we track as part of our HSE performance. Details of this can be found in our Corporate Responsibility Non-Financial Disclosures on page 107.
Transition Risks	<ul style="list-style-type: none"> Risk grading by levels of severity & likelihood Amount (\$m) of potential financial impact on cash if no mitigation actions were taken Carbon tax analysis & NZE price testing 	<p>We monitor and report on a variety of transition risks, such as regulatory, financial, legal, technological and reputational, as part of our climate-related reporting. We measure the impact of these transition risks by risk-grading its severity and likelihood across a 5-10 year timeframe. We also use NZE price testing and carbon pricing as a metrics to assess the impact of climate-related risks on business viability and financial planning.</p> <p>We also conduct scenario analysis to measure the potential financial impacts of carbon tax and operational cessation across 3, 5 and 10 year timeframe.</p> <p>Details can be found in our TCFD report above and below.</p>
Physical Risks	<ul style="list-style-type: none"> Risk grading by levels of severity & likelihood Amount (\$m) of potential financial impact on cash if no mitigation actions were taken 	<p>Similar to above, we also monitor and report on our physical risks, which were analysed over 3 emission scenarios and measure the impact of these physical risks by risk-grading its severity and likelihood across different time frames. We also conduct scenario analyses to measure the potential financial impacts of carbon tax and operational cessation across 3, 5 and 10 year timeframe.</p> <p>Details can be found in our TCFD report above and below.</p>
Climate-Related Opportunities	<ul style="list-style-type: none"> Metric tonnes of CO₂e reduced 	While many climate-related opportunities are being explored by the Group as part of the development of our Roadmap, we have identified one notable emission-reduction opportunity, which is the associated gas-powered electricity generators in Egypt. This is part of a broader plan to utilise produced associated gas instead of diesel for power generation, along with flare reductions. The generators reduce CO ₂ e emission by using the associated gas that otherwise would have been flared, and turn them into electricity to be used for field operations in Egypt. More details on how much venting has reduced is available in our Corporate Responsibility Report from pages 71 to 76 and 107.
Capital Deployment	<ul style="list-style-type: none"> Percentage of revenue 	As part of our commitment towards Net Zero, in September 2022, we announced the establishment of an Emissions Management Fund. For every barrel sold at an oil price above \$75 in 2023, we will set aside \$0.25 into this Fund. The intended purpose of the fund is to provide support for emissions management projects for Pharos and our operational partners in line with our climate goals. Details of this can be found in our CEO's and Chair's Statement in the Annual Report.
Internal Carbon Price	<ul style="list-style-type: none"> \$ per metric tonne of CO₂e 	<p>Pharos currently uses the NZE prices to stress test, which we believe is the most conservative price curve compared to SDS and STEPS, at a targeted price of \$35 per barrel by 2030. We believe that the NZE price curve has already incorporated carbon tax considerations into their price deck.</p> <p>Although there is currently no carbon tax in Egypt and Vietnam, we still conduct a sensitivity test where carbon tax is effective from 2025 at \$20/tonne CO₂ gradually incrementing to \$40/tonne at 2030. Details can be found in our Viability Statement and in our Risk table below.</p>
Remuneration	<ul style="list-style-type: none"> Percentage weighting as part of Group's annual KPI 	The Remuneration Committee continues to set GHG reduction target as a 2023 KPI, details of which can be found in our Directors' Remuneration Report.

TCFD - CONTINUED

Summary of climate-related risks & opportunities identified (YE2022)

Key – Risk Type

Transition

REGULATION

FINANCIAL

TECHNOLOGY

LEGAL

MARKET

REPUTATION

Physical

CHRONIC

ACUTE

TRANSITION

RISK TYPE: REGULATION

Risk	Regulatory changes
Description	Emerging regulations and disclosure requirements
Business element impacted	Legal and compliance
Financial impact	Expenditure
Financial impact pathway	Emerging regulations and disclosure requirements may result in increased baseline costs
Mitigation	Engage with industry bodies and track development of strategies
Severity (5 year)	Moderate
Likelihood (5 year)	Likely (60%-85%)
Severity (10 year)	Moderate
Likelihood (10 year)	Very likely (>85%)
Analysis for risk rating	<ul style="list-style-type: none"> Under all scenarios, disclosure requirements will continue to become more stringent. All UK listed companies will be subject to mandatory climate reporting by 2025 under current government plans. Pharos is already implementing climate reporting.

Risk	Carbon price
Description	Increased price of carbon through national and international schemes
Business element impacted	Operations, market
Financial impact	Costs
Financial impact pathway	Higher cost of operating. Reduced demand due to rising product prices
Mitigation	Use a carbon tax in stress-testing for viability & going concern
Severity (5 year)	Moderate
Likelihood (5 year)	Very unlikely (< 15%)
Severity (10 year)	Major
Likelihood (10 year)	Medium likelihood (40%-60%)
Analysis for risk rating	<ul style="list-style-type: none"> By 2030, SDS assumes that developing countries and emerging economies with Net Zero pledges will have implemented an effective carbon price of \$40 per tonne CO₂ - Under STEPS it is assumed that operations Egypt and Vietnam will not be subject to a carbon price within 5 years. Pharos currently uses the NZE prices to stress test, which we believe is the most conservative price curve compared to SDS and STEPS, at a targeted price of \$35 per barrel by 2030. We believe that the NZE price curve has already incorporated carbon tax considerations into their price deck. Although there is currently no carbon tax in Egypt and Vietnam, we still conduct a sensitivity test where carbon tax is effective from 2025 at \$20/tonne CO₂ gradually incrementing to \$40/tonne at 2030. More details can be found in our Viability Statement on pages 59, 60.

TCFD - CONTINUED

Risk	Stranded assets
Description	Asset suffers unanticipated or pre-mature write-downs
Business element impacted	Operations
Financial impact	Assets and liabilities, Revenue
Financial impact pathway	Full potential of asset not realised; therefore, restricted revenue and potential project level null payback
Mitigation	<ul style="list-style-type: none"> • Diversification of assets by location, technology, fuel source • Increase proportion of natural gas in portfolio
Severity (5 year)	Severe
Likelihood (5 year)	Very unlikely (< 15%)
Severity (10 year)	Severe
Likelihood (10 year)	Very unlikely (< 15%)
Analysis for risk rating	<ul style="list-style-type: none"> • In a push to decarbonise power generation, Egypt and Vietnam both have plans to increase the proportion of gas, and decrease the proportion of oil, in the energy mix. While under both SDS and STEPS, energy demand per capita continues to increase through to 2030 in many developing countries, pursuit to net zero pledges under SDS, the likelihood of stranding the most carbon intensive oil assets is slightly elevated. • The Egyptian government is expanding its natural gas electricity generation capacity and intends to phase out the use of heavy fuel oil by increasing domestic gas production and imports. As Pharos no longer has gas assets in Israel, this remains a high severity risk. • However, this remains unlikely in the 5 to 10-year timeframe, as it would take time for Vietnam & Egypt to completely phase out oil & gas.

Risk	Restriction on use of carbon intensive assets
Description	Countries may place caps on imports / use of carbon intensive fuels
Business element impacted	Market
Financial impact	Revenue
Financial impact pathway	Demand will reduce due to restrictions of use result in a loss of revenue
Mitigation	Engage with ministries to keep track of developments
Severity (5 year)	Major
Likelihood (5 year)	Unlikely (15%-40%)
Severity (10 year)	Major
Likelihood (10 year)	Medium likelihood (40%-60%)
Analysis for risk rating	<ul style="list-style-type: none"> • Our analysis is the same as the above

TCFD - CONTINUED

Risk	International measures to limit fossil fuel use
Description	Net-zero commitments will result in a decreased demand of fossil fuels
Business element impacted	Market
Financial impact	Capital and financing, Revenue
Financial impact pathway	Restriction of use or investment in carbon intensive fuel will result in reduced demand
Mitigation	<ul style="list-style-type: none"> Investment in greener technology Build in reduced market share into company strategy to limit stranded assets
Severity (5 year)	Major
Likelihood (5 year)	Medium likelihood (40%-60%)
Severity (10 year)	Major
Likelihood (10 year)	Likely (60%-85%)
Analysis for risk rating	<ul style="list-style-type: none"> Pharos is likely to be somewhat insulated to the impacts of this risk given that 100% El Fayum & CNV Oil is sold domestically. During 2022, TGT sales were exported in H1 2022, however, we will look to prioritise domestic sales going forward, thus mitigating this risk. While Vietnam have made net zero pledge, we believe fossil fuels will continue to play a major role in energy production in these countries under both SDS and STEPS.

Risk	Reduced access
Description	New oil fields prohibited access due to environmental pressure
Business element impacted	Market
Financial impact	Assets and liabilities / Capital and financing
Financial impact pathway	Investments in new oil fields are seeing opposition from political and environmental groups. This may limit access or have a negative impact on investor confidence
Mitigation	Build resilience and capacity within existing locations
Severity (5 year)	Moderate
Likelihood (5 year)	Medium likelihood (40%-60%)
Severity (10 year)	Major
Likelihood (10 year)	Medium likelihood (40%-60%)
Analysis for risk rating	<ul style="list-style-type: none"> Under SDS a drop in oil and natural gas demand means that there is a limited additional development of oil fields required beyond those that have already been approved. However, we believe the phasing out of oil & gas usage will have a longer time horizon than what we measured here (5 to 10-year).

RISK TYPE: FINANCIAL	
Risk	Challenges in raising capital
Description	Pressure on investors to divest / avoid fossil fuel companies / projects
Business element impacted	Assets, Market
Financial impact	Capital and financing, Expenditure
Financial impact pathway	Pressure from investors and other stakeholders may result in divestment from O&G projects
Mitigation	<ul style="list-style-type: none"> Set a Net Zero target Set interim targets and a decarbonisation strategy
Severity (5 year)	Major
Likelihood (5 year)	Medium likelihood (40%-60%)
Severity (10 year)	Major
Likelihood (10 year)	Likely (60%-85%)
Analysis for risk rating	<ul style="list-style-type: none"> Oil demand rebounded quite rapidly in 2022-23. At the same time gas demand, particularly in South East Asia is projected to grow significantly. As such, capital is likely to continue to be available to oil & gas companies. The SDS assumes that there is a near term surge in clean energy investment in order that all net zero pledges are achieved, diverting investment from the oil and gas sector, but not eliminating it completely. For Pharos, we recently negotiated the NBE loan, thus limiting the impact of this risk to a certain extend. We also got existing borrowing facilities in place, which decreases the impact of this risk, at least in the 5-year horizon.

Risk	Divestment
Description	Questioning of long-term viability of oil and gas market participants by institutional and retail investors
Business element impacted	Group
Financial impact	Capital and financing
Financial impact pathway	This could have a negative impact on share price and limit the ability to attract further investment
Mitigation	<ul style="list-style-type: none"> Set a Net Zero target and communicate it widely to the public Transparent carbon emission reporting Offsetting residual emissions
Severity (5 year)	Moderate
Likelihood (5 year)	Unlikely (15%-40%)
Severity (10 year)	Moderate
Likelihood (10 year)	Medium likelihood (40%-60%)
Analysis for risk rating	<ul style="list-style-type: none"> Fossil-fuel divestment is not explicitly captured within the STEPS and SDS parameters, but the likelihood is implicitly greater under these scenarios as governments implement increasingly punitive emissions policies and encourage investment in renewables. However, for Pharos, we are still receiving interests from potential partners looking to invest/farm-in on our assets in Vietnam. The Company also recently completed the farm-out transaction in Egypt with IPR and completed the equity placing in January 2021, thus demonstrating various long-term interests from investors.

TCFD - CONTINUED

Risk	Increased cost of insurance
Description	Insurance costs increase due to higher frequency of extreme weather events
Business element impacted	Insurance (Business costs)
Financial impact	Expenditure
Financial impact pathway	Cost of insuring assets increases. In extreme cases assets may be uninsurable
Mitigation	<ul style="list-style-type: none"> Stress tests of impacts of climate change on existing a proposed asset
Severity (5 year)	Moderate
Likelihood (5 year)	Medium likelihood (40%-60%)
Severity (10 year)	Moderate
Likelihood (10 year)	Likely (60%-85%)
Analysis for risk rating	<ul style="list-style-type: none"> Unlikely to be directly affected by the different parameters modelled under STEPS and SDS. However, we recognise that there is potential for growing costs and/or difficulties in getting insurance covering oil & gas assets. While there likely will be a surge in clean energy investment, thus diverting investment from the oil and gas sector, the sector will not be eliminated completely, therefore capital (and insurance coverage) is likely to continue to be available to oil & gas companies in the 5 to 10 year time horizon.

RISK TYPE: TECHNOLOGY

Risk	Lack of portfolio diversification
Description	Transition towards low-carbon economy will see a reduced demand for oil
Business element impacted	Capital projects / Research and development
Financial impact	Revenue
Financial impact pathway	Not making meaningful investments into a lower-carbon portfolio will increase exposure to the impact of stranded assets and also overlook the opportunities of potential revenue from other energy sources
Mitigation	<ul style="list-style-type: none"> Diversification of assets by; location, technology, fuel source Investment in low-carbon technology
Severity (5 year)	Major
Likelihood (5 year)	Medium likelihood (40%-60%)
Severity (10 year)	Major
Likelihood (10 year)	Medium likelihood (40%-60%)
Analysis for risk rating	<ul style="list-style-type: none"> Oil demand rebounded quite rapidly in 2022-23, with prices rising slowly in and then plateauing. However, Egypt & Vietnam both all have current plans to increase the proportion of gas, and decrease the proportion of oil, in the energy mix. On balance, these factors may offset each other under STEPS. Meanwhile, under SDS, the drop in oil demand poses a threat to Pharos' operating model. However, we believe that, while the impact of this risk can be major, the likelihood of completely phasing out of oil & gas usage in Vietnam & Egypt will have a longer time horizon than 5 to 10 years. For the 10-year timeframe, we are working towards a Net Zero roadmap that is exploring options towards investment in low-carbon technology in the longer term.

Risk	Accelerating electrification of the transport & heating sectors & advances in plastic recycling
Description	Could result in lower demand for hydrocarbons
Business element impacted	Market
Financial impact	Revenue
Financial impact pathway	Could result in lower demand for hydrocarbons
Mitigation	<ul style="list-style-type: none"> Benchmark against peer group carbon intensity Monitor competitor's decarbonisation strategies; adoption of low-carbon technology, technology advancements
Severity (5 year)	Moderate
Likelihood (5 year)	Medium likelihood (40%-60%)
Severity (10 year)	Moderate
Likelihood (10 year)	Likely (60%-85%)
Analysis for risk rating	<ul style="list-style-type: none"> Neither Egypt nor Vietnam have announced plans for a nationwide electrification of the transport sector. Nevertheless, transport is the biggest contributor to GHG emissions in Vietnam and would likely be a key target for reductions under SDS and STEPS in order to meet its Net Zero pledge. Likewise, Egypt is already eyeing the decarbonisation of the transport sector through electrifying rail and building Electric Vehicles (EV) charging infrastructure. However, while it is assumed that the global uptake in e-mobility will be the key driver of this risk, the pandemic have slowed down this progress. Furthermore, Egypt is experiencing a high level of inflation and suffering from liquidity issues due to the devaluation of its currency, which we believe will hinder the facilitation of electrification of carbon-intensive sectors.

Risk	Low carbon technology maturity
Description	Low carbon technology becomes more mature and cost-competitive could reduce the demand for fossil fuels, which could result in lower prices and reduced revenue for oil and gas companies
Business element impacted	Market
Financial impact	Financing
Financial impact pathway	Technology maturity in other field will serve as a competitive alternative for investors
Mitigation	<ul style="list-style-type: none"> Monitor competitors and assess opportunities for adoption of low carbon technology Set a net zero target
Severity (5 year)	Moderate
Likelihood (5 year)	Unlikely (15%-40%)
Severity (10 year)	Moderate
Likelihood (10 year)	Medium likelihood (40%-60%)
Analysis for risk rating	<ul style="list-style-type: none"> Uptake in EVs and renewable energy coupled with renewable energy costs projected to drop significantly under SDS as current trends in technology and battery storage are accelerated will present a competitive alternative to fossil fuel. While this remains a risk for Pharos, we believe that green technology will continue to be tried and tested, but not yet mature enough to completely phase out oil & gas in the next 5 years. This risk is increased in the 10-year timeframe, as renewable technology would be more advanced then.

TCFD - CONTINUED

Risk	Lack of investment in innovation
Description	Lack of innovation in equipment of conventional fossil fuel-based technology
Business element impacted	Research and Development / Operations
Financial impact	Expenditure
Financial impact pathway	Not able to capitalize on opportunity to reduce operational inefficiencies
Mitigation	<ul style="list-style-type: none"> Development of new products or services through R&D and innovation
Severity (5 year)	Moderate
Likelihood (5 year)	Unlikely (15%-40%)
Severity (10 year)	Moderate
Likelihood (10 year)	Medium likelihood (40%-60%)
Analysis for risk rating	<ul style="list-style-type: none"> While Pharos is limited in terms of development and innovation of equipment to reduce carbon emissions due to its commitment to existing facilities, we believe there is an opportunity here to explore, as Pharos is looking to develop Block 125 in Vietnam, which provides options to employ newer facilities/ platforms/ equipment that improves efficiency & limits our carbon footprint, if proven commercially successful.

RISK TYPE: LEGAL

Risk	Non-compliance with standards or targets
Description	Not able to comply with TCFD recommendations / Global Reporting Initiative / SASB Sustainable Accounting Standard Board
Business element impacted	Reputation
Financial impact	Investment / Costs
Financial impact pathway	Non-compliance with climate change policies could result in lower level of investor trust. This could also result in fines or additional taxes
Mitigation	<ul style="list-style-type: none"> Transparent disclosure of climate risks and carbon accounting Development of decarbonisation strategy
Severity (5 year)	Moderate
Likelihood (5 year)	Unlikely (15%-40%)
Severity (10 year)	Moderate
Likelihood (10 year)	Medium likelihood (40%-60%)
Analysis for risk rating	<ul style="list-style-type: none"> As more climate-related disclosures, policies, frameworks and standards became mandatory, especially for UK-listed companies, there is a risk of non-compliance with these requirements, which would result in a lower level of trust between stakeholders and the Company. Additionally, companies will have to face fines or spend additional resources to meet the extra level of disclosures required. While growing climate regulations and policies remains a risk to the sector, Pharos remains committed to comply with all regulations, and have demonstrated this through our disclosures for many years.

TCFD - CONTINUED

Risk	Liability exposure
Description	Acts or omissions that result in suits against the organization
Business element impacted	Reputation
Financial impact	Expenditure / Financing
Financial impact pathway	Liability exposure could result in high legal fees and lead to a risk of access to capital finance
Mitigation	Transparent disclosure of climate risks and carbon accounting
Severity (5 year)	Moderate
Likelihood (5 year)	Unlikely (15%-40%)
Severity (10 year)	Major
Likelihood (10 year)	Unlikely (15%-40%)
Analysis for risk rating	<ul style="list-style-type: none"> Our analysis is the same as the above.

RISK TYPE: MARKET

Risk	Shift in consumer demand
Description	The conscious-consumer may demand a shift from fossil fuels
Business element impacted	Sales of product
Financial impact	Revenue
Financial impact pathway	Increased demand for renewable energy tariffs coupled with and increased penetration of low-carbon energy sources in the energy mix undermine the competitiveness of fossil fuels. Resulting in a negative impact on share price
Mitigation	<ul style="list-style-type: none"> Set a Net Zero target Set interim targets and a decarbonisation strategy
Severity (5 year)	Moderate
Likelihood (5 year)	Unlikely (15%-40%)
Severity (10 year)	Major
Likelihood (10 year)	Medium likelihood (40%-60%)
Analysis for risk rating	<ul style="list-style-type: none"> Global consumer demand for EVs and renewable energy is significantly greater under SDS than STEPS. However, trends in Pharos' key markets in Egypt and Vietnam are likely to lag global trends, and especially those in the EU. Under both SDS and STEPS energy demand per capita continues to increase through to 2030 in many emerging economies, with consumers likely to be more price sensitive than in developed countries and unlikely to immediately phase out oil & gas from the energy mix, thus mitigating the risk for Pharos given its current markets. Additionally, Pharos is currently developing its Net Zero roadmap, and is actively exploring emission reduction technology to be a more sustainable oil & gas producers.

TCFD - CONTINUED

Risk	Commodity prices
Description	Oil and gas price volatility
Business element impacted	Operations
Financial impact	Revenue
Financial impact pathway	A lower market cost of oil and will have a negative impact on revenue
Mitigation	<ul style="list-style-type: none"> Hedging programmes Diversification of asset portfolio
Severity (5 year)	Major
Likelihood (5 year)	Medium likelihood (40%-60%)
Severity (10 year)	Major
Likelihood (10 year)	Likely (60%-85%)
Analysis for risk rating	<ul style="list-style-type: none"> Egypt & Vietnam have plans to decrease the carbon intensity of domestic energy production by increasing the proportion of natural gas in the energy mix. At the same time energy demand in these countries is expected to grow to 2030, placing pressure on national governments to balance decarbonisation aims with economic and development agendas. Based on Vietnam and Egypt's NZ and COP commitments, in order that these goals are achieved, oil demand must drop significantly in the 2020s with a commensurate uptick energy generation from gas and renewables. The Egyptian government is expanding its natural gas electricity generation capacity and intends to phase out the use of heavy fuel oil by increasing domestic gas production and imports. However, these goals are proving to be more challenging than expected given the economic challenges both countries, especially Egypt, are facing.

Risk	Uncertainty in energy market
Description	Shift in demand to less carbon intensive primary energy sources
Business element impacted	Market
Financial impact	Revenue
Financial impact pathway	Uncertainty in energy market dynamics as demand changes in fossil fuel costs pose a challenge for the industry
Mitigation	<ul style="list-style-type: none"> Stress test asset portfolio with lower demand
Severity (5 year)	Moderate
Likelihood (5 year)	Unlikely (15%-40%)
Severity (10 year)	Moderate
Likelihood (10 year)	Medium likelihood (40%-60%)
Analysis for risk rating	<ul style="list-style-type: none"> Our analysis is the same as the above.

RISK TYPE: REPUTATION	
Risk	Shareholder activism
Description	This may arise due to the carbon emissions produced from the organisation and the wider sector
Business element impacted	Reputation
Financial impact	Capital and financing
Financial impact pathway	This could have a negative impact on share price and limit the ability to attract investment
Mitigation	<ul style="list-style-type: none"> Set a net zero target and communicate it widely to the public Transparent carbon emission reporting
Severity (5 year)	Minor
Likelihood (5 year)	Unlikely (15%-40%)
Severity (10 year)	Moderate
Likelihood (10 year)	Medium likelihood (40%-60%)
Analysis for risk rating	<ul style="list-style-type: none"> Under SDS, the assumption is that organisations that are not perceived to be contributing to the global decrease in GHG emissions will come under greater scrutiny from shareholders. To address this, Pharos engage with stakeholders on a regular basis to understand their concerns. We also report transparently on our emissions. Additionally, we are actively exploring options to reduce our carbon emissions and will publish our NZ roadmap in 2023. We also announced the establishment of our Emissions Management Fund as part of our effort to be a sustainable & responsible producer.

Risk	Internal frustration from employees
Description	Careers in oil and gas E&P are considered less attractive
Business element impacted	Recruitment / Retention
Financial impact	Expenditure
Financial impact pathway	Impact ability to attract and retain talent
Mitigation	<ul style="list-style-type: none"> Set a net zero target and invest in low carbon technologies
Severity (5 year)	Moderate
Likelihood (5 year)	Unlikely (15%-40%)
Severity (10 year)	Moderate
Likelihood (10 year)	Medium likelihood (40%-60%)
Analysis for risk rating	<ul style="list-style-type: none"> The assumption is made that under SDS global GHG emissions drop significantly and careers in oil and gas E&P are considered less attractive. For Pharos, we recognize the importance of climate action throughout the organization. ESG is embedded in different parts of the organization and includes involvement from a lot of the workforce. Furthermore, Chair of the Company and Chair of the ESG Committee, John Martin, also host annual town-hall meetings with the global workforce to address any concerns or frustrations.

TCFD - CONTINUED

PHYSICAL

RISK TYPE: CHRONIC	
Risk	Water stress
Description	Limited freshwater availability due to shifting hydrological regimes
Business element impacted	Assets / Operations
Financial impact	Assets and liabilities
Financial impact pathway	Conflict over local water resources between domestic / agricultural / business users may limit ability to source water and / or impact social license to operate
Mitigation	<ul style="list-style-type: none"> • Business continuity and crisis management planning • Local engagement
Severity (5 year)	Minor
Likelihood (5 year)	Unlikely (15%-40%)
Severity (10 year)	Minor
Likelihood (10 year)	Medium likelihood (40%-60%)
Analysis for risk rating	<ul style="list-style-type: none"> • Pharos operations only uses fresh water from the national grid for domestic use by workers. Groundwater used directly for injection during extraction activity is of very high salinity and unsuitable for municipal or agricultural use, is not therefore a scare resource.

Risk	Sea level rise
Description	Inundation and enhanced erosion rates due to rising sea levels
Business element impacted	Operations
Financial impact	Expenditure / Assets and liability
Financial impact pathway	Infrastructure may be impacted by flooding or near-shore erosion. Supporting infrastructure may experience increasingly frequent disruption and / or damage
Mitigation	<ul style="list-style-type: none"> • Identification of assets in flood zones • Assessment of reliance on critical infrastructure in coastal zones • Build in flood resilience protection
Severity (5 year)	Minor
Likelihood (5 year)	Very unlikely (< 15%)
Severity (10 year)	Moderate
Likelihood (10 year)	Unlikely (15%-40%)
Analysis for risk rating	<ul style="list-style-type: none"> • Offshore sites will experience increases in sea level of between 18cm and 22cm by 2045 under all emissions scenarios considered with direct implications of offshore activities as well as onshore infrastructure. Pharos do not foresee this becoming a high-severity and likely issue within the 5 to 10-year timeframe.

RISK TYPE: ACUTE	
Risk	Flash flooding
Description	Infrastructure may be impacted by heavy rainfall and flooding
Business element impacted	Assets / Operations
Financial impact	Assets and liabilities
Financial impact pathway	Flash flooding may damage infrastructure increasing expenditure on replacement and maintenance
Mitigation	<ul style="list-style-type: none"> • Identification of assets in flood zones • Build in flood resilience protection
Severity (5 year)	Minor
Likelihood (5 year)	Very unlikely (< 15%)
Severity (10 year)	Moderate
Likelihood (10 year)	Unlikely (15%-40%)
Analysis for risk rating	<ul style="list-style-type: none"> • Intensive flash floods can occur due to high levels of surface run-off. Under low and moderate emission scenarios (RCP2.6 and RCP4.5) there is likely to be a moderately higher risk of more frequent disruption from flash flooding.

Risk	Coastal flooding
Description	The physical threat of extreme sea levels along global coastlines
Business element impacted	Operations
Financial impact	Expenditure / Assets and liability
Financial impact pathway	Infrastructure may be impacted by flooding
Mitigation	<ul style="list-style-type: none"> • Identification of assets in flood zones • Build in flood resilience protection
Severity (5 year)	Minor
Likelihood (5 year)	Very unlikely (< 15%)
Severity (10 year)	Moderate
Likelihood (10 year)	Unlikely (15%-40%)
Analysis for risk rating	<ul style="list-style-type: none"> • Offshore sites will experience increases in sea level of between 18cm and 22cm by 2045 under all emissions scenarios considered with direct implications of offshore activities as well as onshore infrastructure. Pharos do not foresee this becoming a high-severity and likely issue within the 5 to 10-year timeframe.

Risk	Heat waves
Description	Rising temperatures and more frequent and intense heat waves will result in increased operational costs
Business element impacted	Operations
Financial impact	Expenditure / Assets and liability
Financial impact pathway	Exposure to high temperatures and humidity can lead to a reduction in productivity Heat extremes can impact infrastructure
Mitigation	<ul style="list-style-type: none"> • Reinforce key infrastructure to be resilient in future climate scenarios
Severity (5 year)	Minor
Likelihood (5 year)	Unlikely (15%-40%)
Severity (10 year)	Minor
Likelihood (10 year)	Medium likelihood (40%-60%)
Analysis for risk rating	<ul style="list-style-type: none"> • Common to all onshore and offshore oil and gas activities, projected increases in the frequency, duration, and intensity of extreme heat events will pose threats to the health of workers and heat-sensitive equipment, which in some cases could result in reduced efficiencies and even operational downtime.

TCFD - CONTINUED

Risk	Storm frequency
Description	Operations impacted from high winds (and waves if offshore)
Business element impacted	Operations
Financial impact	Expenditure
Financial impact pathway	Storms may delay operations or cause damage to existing assets
Mitigation	<ul style="list-style-type: none"> • Build in suitable storm protection • Business continuity and crisis management planning
Severity (5 year)	Minor
Likelihood (5 year)	Unlikely (15%-40%)
Severity (10 year)	Moderate
Likelihood (10 year)	Medium likelihood (40%-60%)
Analysis for risk rating	<ul style="list-style-type: none"> • Shifting storm, wave and wind characteristics will impact on the uptime of processing platforms and affect service vessels.

Risk	Global extreme weather events
Description	Suppliers adversely affected by extreme weather events, such as flood, storms, wildfires
Business element impacted	Supply chain
Financial impact	Expenditure
Financial impact pathway	Extreme weather events cause direct damage to supplier manufacturing facilities or impact ability of employees to get to work. Reduced / delayed supply can drive up pricing and cause project delays
Mitigation	<ul style="list-style-type: none"> • Diversify supplier base • Conduct risk assessment of suppliers • Supplier engagement to understand mitigation strategies
Severity (5 year)	Moderate
Likelihood (5 year)	Unlikely (15%-40%)
Severity (10 year)	Major
Likelihood (10 year)	Medium likelihood (40%-60%)
Analysis for risk rating	<ul style="list-style-type: none"> • In Egypt, under all climate change scenarios, extreme temperatures will rise, precipitation will decline, and extreme heat events will become more frequent and intense. In Vietnam, both heatwave events and extreme temperatures will become more frequent and longer in duration. Heat related hazards will become more severe under the highest emissions scenario, with heatwaves expect to last almost five times longer in that scenario.

Corporate Responsibility

Non-Financial Indicators

	2022	2021 ⁵	2020 ⁵
Hours worked (million)	3.35	3.17	2.97
Lost Time Injury Frequency Rate (number of lost time injuries per million man-hours)	0.3	0	0.34
Fatal Accident Frequency Rate (number of fatal accidents per hundred million man-hours)	0	0	34
Fatal Accidents	0	0	1
Total Recordable Injury Rate (number of recordable injuries per million hours worked)	0.6	0	0.34
Total GHG emissions (tCO ₂ e) by equity ⁴	109,539	112,024	115,342 ¹
Scope 1 total GHG emissions (tCO ₂ e) by equity	109,491	111,977	115,294 ¹
Scope 2 total GHG emissions (tCO ₂ e) by equity	48	46	48 ¹
Scope 3 total GHG emissions (tCO ₂ e) by equity		Not measured	
GHG intensity by production (tonnes of CO ₂ e per 1,000 tonnes of oil produced by equity share)	340	313 ¹	280 ²
Total hydrocarbons flared (Tonnes of hydrocarbons flared for every 1,000 tonnes of production on a gross basis)	35	32	41 ²
Energy use (grid electricity kWh)	323,492	311,692	309,942
Total energy consumption (from fuel combustion, other operations and purchased electricity) in MWh ³	257,246	285,942	256,913
Non-hazardous waste produced (tonnes)	109	111	94
Hazardous waste produced (tonnes)	60	48	41
Percentage non-hazardous waste recycled	15	24	25
Percentage hazardous waste recycled	11	<1	4
Spills to the environment (>100 litres)	1	3	4
Oil in produced water content (Vietnam Blocks 16-1/9-2)	28	28	29
Freshwater use (cubic metres)	70,582	58,525	102,820
HSES regulatory non-compliance	0	0	0
Community investment spend (\$)	198,600	265,000	245,191

- 1) Pharos normalised emissions in 2021 and 2022 include emissions from venting in Egypt, whilst they were not included in 2020.
- 2) Pharos unitised net working interest in Vietnam TGT field changed from 30.16 % in 2019 to 29.67 % in 2020. The equity variation is not significant compared to Pharos total emissions, and therefore data of 2020 provide a meaningful comparison.
- 3) In line with the UK government's Streamlined Energy and Carbon Reporting (SECR) policy, energy consumption from fuel combustion
- 4) Under Section 385(2) of the Companies Act 2006 (Strategic Report and Directors' Report) Regulations, 2013 and in line with the requirements of the Climate Change Act (2008), carbon reporting for UK-listed companies in Directors' Annual Report is mandatory for reports published after 30 September 2013. The regulations cover the six Kyoto Protocol GHG cited in Section 92 of the Climate Change Act: carbon dioxide (CO₂), methane (CH₄), nitrous oxide (N₂O), hydrofluorocarbons (HFC), perfluorocarbons (PFC) and sulphur hexafluoride (SF₆). The Companies Act 2006 regulation does not state which methodology a company has to use but requires that this methodology is clearly disclosed.
- 5) On the 21 of March 2022 Pharos net revenue entitlement in Egypt decreased from 42.60 to 22.86%. This corresponds to a weighted average of 28.98% for the year. According to section 5 of the GHG protocol on base year recalculation following an acquisition, GHG emissions for the years 2020 and 2021 have been recalculated using this weighted average.

Approval of the Strategic Report

This report was approved by the Board of Directors on 21 March 2023 and is signed on its behalf by



JANN BROWN

Chief Executive Officer

Governance Report

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JOHN MARTIN
Non-Executive Chair

A year of significant change

Dear shareholders

On behalf of the Board, I am pleased to present the Pharos Corporate Governance Report for the financial year ended 31 December 2022. The Company was in full compliance with the UK Corporate Governance Code throughout the year.

The role of the Board

The Board as a whole is responsible for the determination of the Group's strategy and objectives, the approval of overall financial budgets and financing agreements, the approval of key corporate relationships with operators and other joint venture partners and for corporate governance.

The Board provides leadership to the Group by monitoring culture across the organisation, ensuring its alignment with Group strategy, objectives and values, and overseeing its implementation by management. The Directors are expected to act at all times with integrity and honesty, to lead by example and to promote the Pharos Way principles of openness, safety, care and mutual trust and respect. The Board also ensures there are appropriate processes in place to assess and manage risk, including the overall appetite for risk across the Group, and monitors the Group financial and operational performance against objectives and KPIs. The Board is committed to ensuring the Group complies with applicable law, regulation, rules and requirements in all host countries and other relevant jurisdictions.

The authority for implementing Group strategy, including the taking of decisions and the making of financial and other commitments, is generally delegated by the Board to the executive Directors and the senior management team. This delegation by the Board includes the authority to approve expenditure in relation to any budgeted item. However, certain matters are not delegated and require approval by the Board itself, and these are set out in the Group Delegation of Authority, a key corporate policy document issued and maintained by the Board that sets out in detail the financial and non-financial authority held by individuals within the Group.

Overview of 2022

2022 was a year of significant change for Pharos. The restructuring of the Board and the wider organisation, the completion of the farm-out in Egypt and the continuing drive to reduce costs across the Group have challenged the robustness and durability of our governance systems and structure. I am gratified to say that these challenges have been met, and I believe we are now in a much stronger position across all fronts than we were at the start of the year.

In particular, we are seeing the benefits of in a materially improved financial position for the Group, allowing the Board to announce an initial \$3 million share buyback programme in July 2022 and then to reward shareholder patience with the announcement of a return to a regular dividend in September 2022. We are proposing a final dividend of 1p per share in respect of the 2022 financial year, subject to the passing of the relevant resolution at the AGM on 25 May 2023. We announced completion of the initial \$3 million buyback programme in January 2023 and, at the same time, we committed a further \$3m to an extension of the programme. The Board believes that the Company's shares are still trading at a material discount to their underlying net asset value, despite improved performance across the Group, and remains of the view that share buybacks are an appropriate means of returning value to shareholders in the circumstances. The Board engaged with shareholders regularly throughout the year and, based on those interactions, remains committed to capital discipline and regular shareholder returns as core elements of the overall shareholder offering.

CHAIR'S INTRODUCTION TO GOVERNANCE - CONTINUED

External factors also tested the Group's approach to governance during the year, with the continuing impact of the COVID-19 pandemic on supply chain and other logistical issues. Russia's invasion of Ukraine in February 2022, and the extensive international sanctions packages introduced in response, have brought new challenges for our operations, particularly in Egypt. The Egyptian economy, reliant to a significant degree on Russian and Ukrainian trade and tourism, has suffered thought the year, with consequences including high inflation, devaluation of the Egyptian pound and greatly reduced availability of US dollars in country. This has constrained our ability to conduct normal business in Egypt, evidenced most clearly by the large unpaid balance for sale of the Group's share of production from El Fayum. Improving this situation, and the development and implementation of mitigation strategies, is an important area of focus for the Board and the executive team.

Throughout the year, the Board devoted considerable time to supporting and constructively challenging the executive team. The Board received regular detailed updates from the executive Directors and other key members of management and staff during the year and, in pursuit of the best interests of shareholders, the non-executive Directors (NEDs) brought constructive challenge to the executives' proposals and strategy, offering direction and support. Key areas of focus for the NEDs' discussions in 2022 were overseeing the farm-out of the Egypt assets to IPR, the share buyback programme, succession planning, ESG, effective implementation of Group strategy, portfolio management, capital allocation and oversight of operational, financial performance and KPIs. The NEDs also regularly meet without the executive Directors present.

Board Committees

The Board is assisted in its role by four permanent committees of the Board: the Audit and Risk Committee, the ESG Committee, the Nominations Committee and the Remuneration Committee. Reports from these committees follow this introduction, but I will briefly summarise some of their key activities in 2022.

The health and safety of the Group's workforce remains our number one priority, and the ESG Committee (see the report on pages 122 to 124) is committed to ensuring that the Group operates safely and responsibly at all times. In 2022, the JOCs in Vietnam continued to deliver an exceptional record of safety, reporting

zero LTIs since operational inception, representing ten production years on TGT and 13 production years on CNV. In Egypt, however, the ESG Committee had to address an LTI and an environmental spill in 2022. Further details of these incidents are set out in our Corporate Responsibility report on page 61. With the oversight of the ESG Committee, Group personnel are working with the operator IPR and the JOC Petrosilah to address the underlying issues identified in the incident investigation reports and safety assessments. We look forward to re-establishing our track record of zero safety and environmental incidents across all assets.

In September 2022, following discussion at previous ESG Committee meetings, the Company announced our commitment to achieve Net Zero Scope 1 and Scope 2 GHG emissions from all our assets by no later than 2050. In further support of these climate goals, I am particularly proud, in my capacity as chair of the ESG Committee, of the establishment of our innovative Emissions Management Fund. Under this scheme, Pharos will contribute \$0.25 for each Group barrel sold at an oil price above \$75/bbl to the Fund. The Fund will be available to support emissions management projects approved by the Committee.

During 2022 the Nominations Committee (see the report on page 125) focused on reviewing Board composition, succession planning for key roles throughout the company, a review of annual Board evaluation, and annual Director re-appointments. This included the changes to the Board announced on 13 January 2022, and which took effect following completion of the Egyptian farm-out transaction with IPR in March. These changes saw Jann Brown assume the role of CEO as one of two executive Directors alongside CFO Sue Rivett, while Ed Story and Dr Mike Watts stepped down as executive Directors. At the conclusion of the 2022 AGM in May, Rob Gray stepped down from the Board, having served for nearly 9 years as Senior Independent NED and Deputy Chairman. The size of the Board has thus reduced from nine Directors (four Executives and five NEDs) to six (two Executives and four NEDs), commensurate with the size and profile of the Group.

The Remuneration Committee's activities in 2022 centred on the updated remuneration structure following completion of the farm-out transaction with IPR to reflect the scale of the business. This included significant reductions in the base salary for the CEO and CFO. These salaries have dropped by c.40%

since 2019, with the CEO salary reducing from c. £660,000 to £420,000 and the CFO salary decreasing from £450,000 to £280,000. The Remuneration Committee has also agreed with the Directors that there will be no increases in salary or NEDs fees in 2023, while the salaries for non-Director UK staff, have increased 10% to counteract the current inflationary factors and cost of living crisis. Further details are set out in the Directors' Remuneration Report from pages 134 to 155. In addition, as the three-year term of the current Directors' Remuneration Policy is due to expire in 2023, we will be submitting a new Policy to shareholders for approval at the 2023 AGM. The Remuneration Committee oversaw the Policy revision, which included an extensive review and consultation with large shareholders. Following this consultation process, the Policy submitted for approval to the 2023 AGM is in largely similar terms to the current Policy. The two principal changes proposed to the Policy are a reduction in the maximum LTIP awards from 400% to 200% and an increase the post-cessation of holding shares to 200% of salary for the full two years following cessation. The proposed terms of the updated Policy are set out on page 135.

Board Priorities for 2023

In 2023 the Board expects to work closely with senior management to focus on overseeing the delivery of efficiencies, controlling costs and making prudent investments to maximise the value of our portfolio. Particular priorities are expected to include the continuation of the share buyback programme and the broader strategy to deliver value to our shareholders, improving our payment situation in Egypt, seeking to return to zero safety and environment incidents and finding the right farm-in partner to fund our commitment well on Block 125.

In closing, I would like to thank all of our employees, shareholders, partners, JOCs and other stakeholders for their continued support. The Board looks forward to building on the progress made last year, supported by the strong foundations of our culture of governance.



JOHN MARTIN
Non-Executive Chair

Leadership & Governance

Board Members * Independent Non-Executive Directors. ~ Retired from Board in 2022

John Martin*

Non-Executive Chair and Chair of Nominations Committee and ESG Committee

Jann Brown

Chief Executive Officer (from March 2022 following completion of Egyptian farm-out transaction, previously Managing Director), ESG Committee member and Nominations Committee member (from March 2022)

Sue Rivett

Chief Financial Officer and ESG Committee member

Geoffrey Green*

Non-Executive Director and Senior Independent Director (from May 2022), Chair of Remuneration Committee, Nominations Committee member (from March 2022), Audit and Risk Committee member and ESG Committee member

Lisa Mitchell *

Non-Executive Director, Chair of Audit and Risk Committee, Remuneration Committee member (from March 2022) Nominations Committee member and ESG Committee member

Marianne Daryabegui*

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

Ed Story~

President and Chief Executive Officer, Nominations Committee member and ESG Committee member (until March 2022; retired from the Board and Board committees following completion of Egyptian farm-out transaction)

Dr Mike Watts~

Managing Director and ESG Committee member (until March 2022; retired from the Board and Board committees following completion of Egyptian farm-out transaction)

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 (until May 2022; retired from Board and Board committees at the conclusion of the 2022 AGM)

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 31 December 2022, the Board comprised six Directors.

Meeting attendance

During each Director's respective term of office during 2022

Director	Board meeting (scheduled quarterly) x4	Board meeting (additional) x3	Audit and Risk Committee meeting x4	Remuneration Committee meeting x3	Nominations Committee meeting x4	Environmental, Social and Governance Committee meeting x4
John Martin (Chair)*	■ ■ ■ ■	■ ■ ■	■ ■ ■ ■	■ ■ ■	■ ■ ■ ■	■ ■ ■ ■
Jann Brown (appointed CEO 21 March 2022)	■ ■ ■ ■	■ ■ ■	■ ■ ■ ■	■ ■ ■	■ ■ ■ ■	■ ■ ■ ■
Sue Rivett (CFO)	■ ■ ■ ■	■ ■ ■	■ ■ ■ ■	■ ■ ■	■ ■ ■ ■	■ ■ ■ ■
Geoffrey Green*	■ ■ ■ ■	■ ■ ■	■ ■ ■ ■	■ ■ ■	■ ■ ■ ■	■ ■ ■ ■
Lisa Mitchell *	■ ■ ■ ■	■ ■ ■	■ ■ ■ ■	■ ■ ■	■ ■ ■ ■	■ ■ ■ ■
Marianne Daryabegui ⁽¹⁾ *	■ ■ ■ ■	■ ■ ■	■ ■ ■ ■	■ ■ ■	■ ■ ■ ■	■ ■ ■ ■
Ed Story (retired 23 March 2022) ^{(2) (4)}	■	■			■	■
Dr Mike Watts (retired 23 March 2022) ⁽²⁾	■			■	■	■
Rob Gray (retired 19 May 2022) ⁽³⁾	■	■	■ ■	■	■ ■	■ ■

KEY

* Independent Directors

■ Attended as member

■ Attended as invitee

■ Not attended

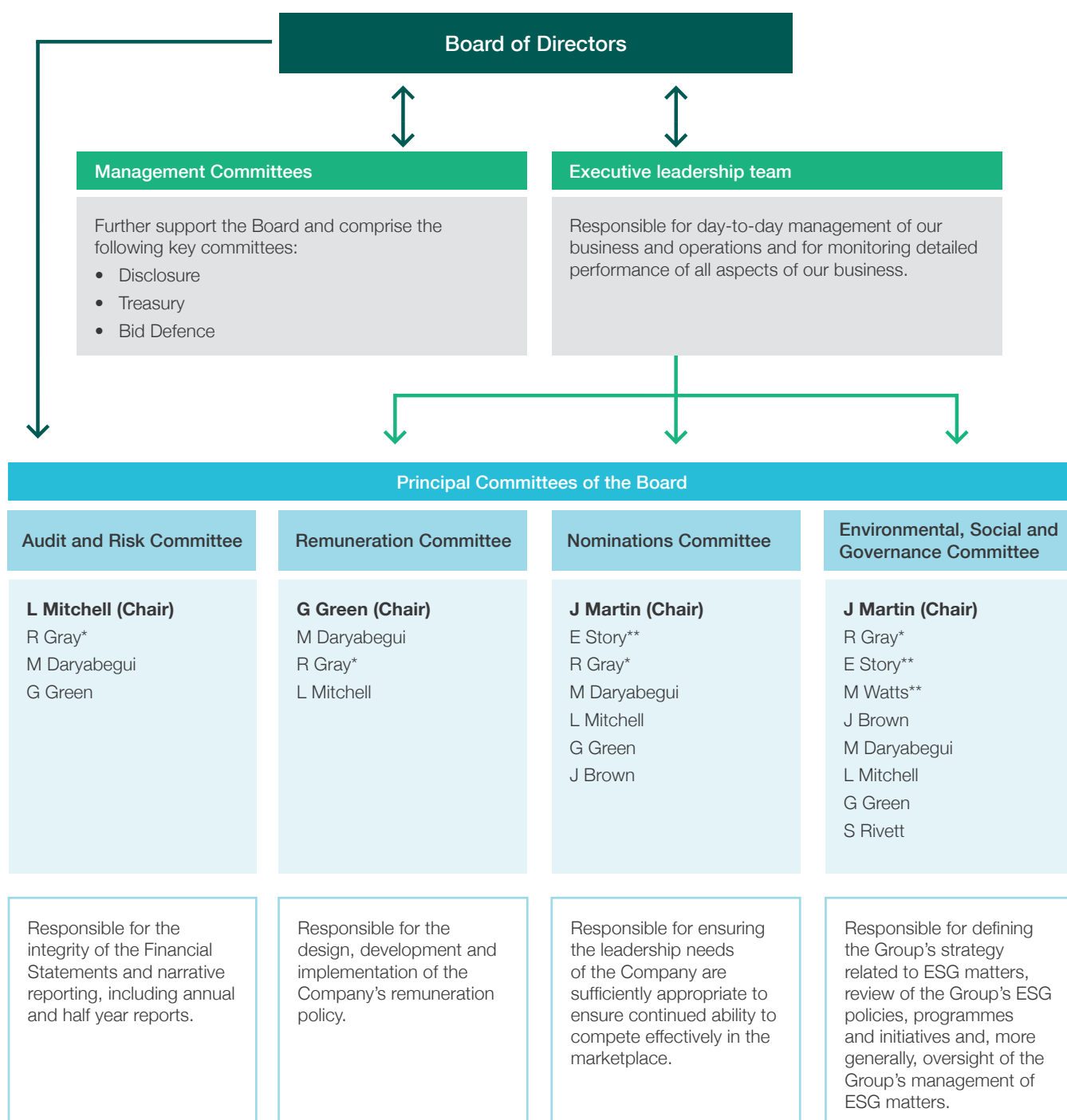
LEADERSHIP & GOVERNANCE - CONTINUED

- 1) Marianne was not in attendance at the December ESG Committee meeting due to unforeseen family illness.
- 2) Ed Story and Dr Mike Watts retired from the Board following completion of the Egyptian farm-out transaction with IPR.
- 3) Rob Gray retired from the Board at the conclusion of the 2022 AGM.
- 4) Ed Story recused himself from the March meetings.

In addition to the four scheduled quarterly meetings, the Board met in 2022 on an additional three occasions to deal with specific business matters which required Board approval. One of the additional meetings included a Board strategy meeting in October 2022, which was fully attended by all members of the Board at that time.

Whilst the impact and unpredictability of the COVID-19 situation was still being taken into account when planning for the 2022 AGM, shareholders were offered the opportunity to attend in person if they wished to do so. All Directors on the Board at that time attended the AGM. Shareholders were also invited to submit questions relevant to the business of the AGM in advance of the meeting and responses were provided by email as appropriate.

Management



* Retired from Board and all Board committees with effect from the conclusion of the 2022 AGM

** Retired from Board and all Board committees following completion of the Egyptian farm-out transaction with IPR.

Experienced leaders guiding our future



JOHN MARTIN

Non-Executive Chair

Appointed: June 2018 (Non-Executive Director from June 2018 – March 2020; Non-Executive Chair from March 2020)

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.



JANN BROWN

Chief Executive Officer

Appointed: November 2017 (Managing Director and Chief Financial Officer from November 2017 – July 2021; Managing Director from July 2021 – March 2022)

Jann was appointed to the role of Chief Executive Officer with effect from 21 March 2022 following a period as CFO from 2017 to 2021. Jann currently serves as an Independent Non-Executive Director of RHI Magnesita N.V. and previously served as an Independent Non-Executive Director and Chair of the Audit Committee of Troy Income & Growth Trust plc and of John Wood Group P.L.C. She was Chief Financial Officer and Executive Director of Cairn Energy plc from 2006 to 2014. Jann is also a Past President of the Institute of Chartered Accountants of Scotland.



SUE RIVETT

Chief Financial Officer

Appointed: July 2021

Sue, previously Group Head of Finance and UK General Manager, has been with the Company for over seven years. Prior to joining Pharos, Sue held senior finance roles with Conoco, ARCO British (subsidiary of Atlantic Richfield Company), JKC Oil & Gas plc and Seven Energy. Sue's various roles have included heading up full FTSE finance functions including finance, taxation, treasury, IT, corporate planning and Company Secretary. She was Head of ARCO British trading arm's back office and mid office and has considerable joint venture experience and numerous years M&A experience. Sue is a Fellow of the Chartered Institute of Management Accountants ("FCMA") with international experience and nearly 40 years in the energy business.

BOARD OF DIRECTORS - CONTINUED

**GEOFFREY GREEN**

Non-Executive Director and Senior Independent Director

Appointed: May 2020 (Non-Executive Director from May 2020; Senior Independent Director from May 2022)

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. He served on the Board of Vedanta Resources Limited, (formerly Vedanta Resources plc, a London Stock Exchange listed company) from 2012 to 2021 and was Chair of the Remuneration Committee. Geoffrey was the non-executive Chair of the Financial Reporting Review Panel, one of the main subsidiary bodies of the Financial Reporting Council, from 2015 to 2022, and is also a non-executive director of a Hong Kong based investment fund. He has a degree in law from Cambridge University and qualified as a solicitor at Ashurst LLP.

**LISA MITCHELL**

Non-Executive Director

Appointed: April 2020

Lisa is currently the Chief Financial Officer of Orca Energy Group Inc. a TSX-V listed company. 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 of San Leon Energy plc and was previously CFO and Executive Director of Lekoil Limited, the African-focused oil and gas exploration and production company with interests in Nigeria. Prior to this, 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 Certified Practising Accountant (FCPA 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.

**MARIANNE DARYABEGUI**

Non-Executive Director

Appointed: March 2019

Marianne is currently the Chief Financial Officer of Lithium de France, an energy transition company focused on geothermal energy and lithium extraction. She was Head of Natural Resources at BNP Paribas and then Managing Director at Natixis in the Energy and Natural Resources sector. She has extensive experience in corporate transactions and capital markets and has advised majors, independent E&Ps and national oil companies. Prior to leading the Oil and Gas Corporate Finance Team in 2006 at BNP Paribas, Marianne 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.

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

2022 statement of compliance with the 2018 Code

We are committed to the highest standards of corporate governance and compliance with the UK Corporate Governance Code 2018, which sets out the principles that emphasise the value of good corporate governance to long-term sustainable success. The Company was in full compliance with the provisions of the 2018 Code throughout the year.

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

Board Leadership and Company Purpose

Purpose and Culture

At Pharos, our purpose is to provide energy to support the development and prosperity of the countries, communities and families wherever we work, in line with recognised social and environmental practices. We have a focused strategy of delivering long-term, sustainable value for all our stakeholders through regular cash returns and organic growth that, together with a strong corporate culture, help us fulfil our purpose.

It has been important to the Board to preserve and enhance the strong and resilient culture of our workforce. It is built on our guiding principles of openness, safety and care, and mutual trust and respect. The Board monitors adherence to these principles through a number of different engagements, both formal and informal, ensuring that they are evidenced in behaviours not simply as words on a page.

Stakeholder engagement

Colleague engagement

The Board understand that the strategy and long-term success of the Group is dependent on a strong culture and set of values that is clear and guide everything we do. Our approach is driven by the strength, skills and imagination of our people, and our shared purpose to make a positive impact. The way we work and do business is based on five guiding principles which we call the Pharos Way: Safety & Care, Energy & Challenge, Openness & Integrity, Empowerment & Accountability, and Pragmatism & Focus. They are reinforced by our Code of Conduct and Business Ethics. The

Board has responsibility for assessing and monitoring the culture of the Group and ensuring that the Group's policies and practices are aligned with this. There are a number of ways in which the Board monitor and assess the culture, which is detailed in our colleague engagements below.

The Board placed great importance on the level of engagement with senior management and other colleagues. The Board remains passionate about workforce engagement and fostering a genuine dialogue between the Company and staff. All staff are kept informed about important business developments in the Company and have channels through which they can ask questions and provide input. The now well practised route of using video calls facilitates more frequent engagement across our offices worldwide and the reorganisation of the Group has instituted a flatter organisational structure, allowing for shorter lines of management and more direct, accessible channels of communication with leadership.

The Executive Directors receive regular updates on colleague engagement to understand any complaints or troubles from the hybrid work environment. At the beginning and end of each calendar year, every employee is encouraged to set their own personal and professional development objectives and appraisal for the upcoming year, and to discuss this with their line managers who can provide any additional support where needed and to remediate any troubles that each employees might face. Additionally, Jann Brown, the Company's CEO, held virtual and in person one-to-one meetings with employees in the UK, Vietnam and Egypt to understand their concerns over the past years, from which feedbacks from these sessions have resulted in several solutions being proposed and implemented going

forward, such as: off-site away days/ in-person meetings monthly to avoid staff isolation and promote team culture, learning sessions on technology and public capital markets, and a discussion on how best to ask others for info/help/ support when working from home. During the year, John Martin, as Non-Executive Chair of the Board and designated Non-Executive Director responsible for workforce engagement, carried out in-person town hall meetings, during which staff were invited to share their feedback and views about the Company without the presence of any Executive Directors to provide an open, honest and safe space for all employees to express any concerns they might have. Feedback from these sessions were then taken into account and communicated back to the Board and Executive Directors as suggestions for improvements.

Additionally, there have been other forms of engagement including extending participation in the Company's share schemes, participation for all in the bonus scheme and other feedback channels, including through the Group's Whistleblowing Policy and access to a dedicated, anonymous and confidential ethics hotline.

2018 UK CORPORATE GOVERNANCE CODE - CONTINUED

Shareholder engagement

The Board as a whole has responsibility for ensuring that a satisfactory dialogue with shareholders takes place. The Executive Directors 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 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. Additionally, a section of the agenda for each regularly scheduled meeting of the Board are dedicated to investor and stakeholder considerations.

In 2022, Pharos had several opportunities to engage in 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 communications 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. Additionally, the Company also provide a platform for everyone to access an analyst research feed via its corporate website at <https://www.pharos.energy/investors/analyst-research/>. This allowed for a wider audience of private and retail shareholder to freely access to analyst research notes about the Company. Also in 2022, the Company engaged with online platform Investor Meet Company to host online meetings with a Q&A session in April and September to allow the wider public a free platform to raise questions directly to the Executive Directors. Most notably, during our Strategy Day held in London in October 2022, the Board had presentations and inputs from a number of key external parties, including shareholders and advisers. The results of our Strategy Day were then communicated to key investors as part of our overarching objective of maintaining open and constructive two-way dialogues with our stakeholders. During the year, the Executive Directors and investor relations

colleagues met and engaged with c.20 different institutional investors, family offices, media journalists and analysts in c.30 meetings.

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

Additionally, both before and after the formal proceedings of each AGM, and subject to any applicable travel or public gathering restrictions, all Directors and senior management, including the Chairs of the Audit and Risk, Remuneration and Nominations Committees, make themselves available to 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, suppliers, partners and shareholders, and we engage with them on a regular basis. Additionally, the requirements in the Modern Slavery Act are dealt with through our due diligence and on boarding processes with suppliers.

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 Suf Concession Agreements, the Contractor parties contribute a total of \$200,000 per year split equally between the two Concessions to support training and development in industry.

In recent years, we have structured our social investment programme to align more with the United Nations Sustainable Development Goals (UN SDGs). In Vietnam, in 2022, in addition to the training levy mentioned above, a further \$198,600 was invested in 9 community projects. The JOCs actively inquired and listened to locals to find out which areas of the country would need the greatest assistance in order to ensure that we were investing in local projects that would bring the most sustainable positive impact to the community. For instance, in H1 2022, the Group provided financial support for therapy for children with disabilities at the An Tue Social Assistance Center – Thua Thien Hue province, with additional donations towards supporting

the construction of an English teaching lab for Middle School in Tan Thanh commune, Kim Son district, Ninh Binh province (UN SDG 3: Good health & wellbeing and UN SDG 4: Quality education). In H2 2022, the Donation Programme helped fund the renovation of classrooms for a secondary school in Tien Cau village, Hiep Cuong commune, Kim Dong district, Hung Yen province which will bring about lasting positive impact to the children in the area for years to come (UN SDG 4 Quality education and UN SDG 9: Industry, innovation and infrastructure).

For full details of all the projects the JOCs have invested in 2022, please see our Corporate Responsibility report on pages 61 to 107.

Whistleblowing, Ethics and Business Conduct

Our Whistleblowing Policy and associated procedures ensure that employees are protected from possible reprisals when raising concerns in good faith. In addition to internal reporting channels, we have a dedicated, anonymous and 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 EthicsPoint hotline in 2022.

Additionally, our Anti-Bribery and Corruption ('ABC') Policy and Code of Business Conduct and Ethics have been followed rigorously in 2022. In H2 2022, the Group's Risk Manager hosted a virtual sessions on Anti-Bribery and Corruption for the global workforce to reiterate the importance for every employee to understand the Code of Business Conduct and Ethics and to place it at the forefront of our engagement with suppliers, vendors, partners, and public officials. It is also a requirement for all employees and the Board to complete and successfully pass their ABC and Criminal Finance E-Learning modules every year to ensure we hold the Company to the highest standard of business conduct.

The year also saw the Russian invasion of Ukraine in February 2022 and the introduction of an unprecedented suite of international sanctions and export controls in response to Russia's aggression. The Group's own response to the situation, and the prospect of a protracted conflict, included the establishment of dedicated cross-functional Pharos working group in March 2022 and the adoption of a new Group Sanctions Policy in May 2022. At an operational level, the Group continues to work with the JOCs on contingency planning and mitigation.

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 committees of the Board, including 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 Executive Directors' 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. The CEO leads the Executive Directors 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 Executive Directors' 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

As of December 2022, the Board comprised six Directors, being the Chair, the two Executive Directors and three independent Non-Executive Directors.

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 Environmental, Social and Governance (ESG) Committee - responsible for defining the Group's strategy related to ESG matters.
- 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 Remuneration Committee – responsible for the design, development and implementation of the Directors' Remuneration Policy

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 TORs for each Committee, as well as the current 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 2022, in addition to the four scheduled quarterly meetings, the Board also met on an additional three occasions to deal with specific business matters which required Board approval. One of the additional meetings included a Board Strategy Day meeting in October 2022, which was fully attended.

Only Committee members are required 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, Nominations and ESG Committees in 2022.

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 pages 113, 114.

2018 UK CORPORATE GOVERNANCE CODE - CONTINUED

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. Our Code of Business Conduct and Ethics, associated policies and procedures, and the Pharos 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 70 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 the re-election resolutions at the 2023 AGM 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 2022 included consideration of the Company's leadership needs within the context of growth, portfolio diversification and long-term strategy. The discussions determined that following the recent changes in the business the current balance is appropriate and sufficient to effectively promote the long-term success of the Company.

Remuneration

Remuneration principles

The Remuneration Committee is responsible for the design, development and implementation of the Directors' 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.

Directors' Remuneration Policy

Our overarching aim is to operate a Directors' 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 applicable law, we are required to review and propose to shareholders the Directors' Remuneration Policy at least once every 3 years. As the policy was last reviewed and proposed at the 2020 AGM, a revised policy will be put to shareholders for approval at the 2023 AGM. Consultation on the revised Directors' Remuneration Policy commenced in December 2022, and the policy takes into account input from shareholders during that process. The terms of the revised policy are set out on pages 134 to 155 of this report.

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 2022, 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 2022 Financial Statements

The Committee met 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 2022, being key issues which may be subject to heightened risk of material misstatement. These key issues are set out below.

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 pages 156 to 160 of the Directors' Report.

Viability statement and 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 continuing impact of commodity price volatility. A further assessment was also undertaken on the impact of climate change on commodity prices and a sensitivity on carbon taxes.

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 2022 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 the 2022 Financial Statements on a Going Concern basis.

For more information, please see the Viability Statement in the Strategic Report on pages 59 to 60.

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 2022, 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.

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, the Committee recommended and the Board approved the appointment of KPMG to carry out various internal audits. No audits were conducted during 2021 in order to preserve cash following the impact of the COVID-19 pandemic but work did commence in 2022. The Committee discussed and approved an internal audit plan which is complementary but separate to the audit work undertaken by the Group's external auditor, Deloitte. The programme of work for 2022 included Group Treasury and Corporate Model.

The Treasury Committee 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 Code in the Corporate Governance Report on page 115. 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 2022. These will be reviewed again during 2023.

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 COVID-19 pandemic. During 2022 we made our commitment to achieve Net Zero on Scope 1 and Scope 2 GHG emissions across all assets by 2050.

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.

External auditor

Deloitte LLP was originally appointed as external auditor to the Company in 2002. The Statutory Auditors and Third Country Auditors Regulations 2016 (the "2016 Regulations"), amending the Companies Act 2006, introduced a requirement for all public interest entities, including listed companies, to conduct a tender for external audit services no less frequently than every 10 years and rotate auditors no less frequently than every 20 years. For engagements starting in a financial year beginning on a date between 17 June 1994 and 17 June 2003, as is the case with the Company's engagement of Deloitte LLP, the last permitted year of the engagement under the 2016 Regulations is the last financial year to begin before 17 June 2023.

Accordingly, the financial year commencing 1 January 2023 is the final year for which Deloitte LLP can act as external auditor to the Company. In view of this, the Committee conducted a competitive tender process for a new external auditor during 2022. The process followed the guidance set out in the Financial Reporting Council's paper entitled "Audit Tenders: Notes on Best Practice" published in February 2017 (the "FRC Audit Tender Guidance"). The Company prepared a request for proposal (RFP) document and, following initial approaches, prepared a shortlist of audit firms to whom the RFP document was sent. Firms receiving the RFP document

2018 UK CORPORATE GOVERNANCE CODE - CONTINUED

were invited to review data relating to the Group and given an extended period to ask questions, seek clarifications and hold a number of meetings or calls with the Committee, members of the Group's management and various teams and disciplines across the Group's business in the UK, Vietnam and Egypt. Following that period, participating firms were invited to submit written proposals to the Company by a specified deadline.

The Committee evaluated the proposals received from participating firms based on criteria set out in the RFP document. Although there was a financial component to the evaluation, the process extended to a number of important non-financial criteria. Non-financial criteria considered in the evaluation process included the strength and experience of the proposed audit team and their understanding of the oil and gas exploration and production industry, each firm's intended approach to the audit, their ability to build respected working relationships and the extent to which they could add value and provide important insight to the role.

Following this process, and consistent with the FRC Audit Tender Guidance, the Committee submitted the proposals to the Board, with one of those proposals, from Ernst & Young LLP, being the Committee's recommendation. In early 2023, the Board agreed to adopt the Committee's recommendation. The Company then announced in its preliminary results statement on 22 March 2023 that it had agreed in principle to appoint Ernst & Young LLP to succeed Deloitte LLP as external auditor with effect from the financial year commencing 1 January 2024. During the financial year commencing 1 January 2023, Ernst & Young LLP will "shadow" Deloitte's work as external auditor, with a view to preserving know-how and experience and encouraging a seamless transition.

Principal and emerging risks

On page 47, we set out our assessment of the principal risks facing the business. The Group Risk Management framework 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 Group Risk Management Policy defines the specifics of the risk management process, describes the risk tools (for example, the preparation and maintenance of a Group risk matrix and risk register) and outlines the reporting process and responsibilities in order to meet the Group's risk governance framework.

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Changes during the year 2022

The Board

Members	6 (from May 2022, previously 9)
Execs	2 (from March 2022, previously 4)
NEDs	4 (from May 2022, previously 5)
Independent NEDs	John Martin (Chair, independent on appointment) Geoffrey Green Lisa Mitchell Marianne Daryabegui
Appointed	0
Retired	3

Audit and Risk Committee

Members	3
Appointed	0
Retired	1

Remuneration Committee

Members	3
Appointed	1
Retired	1

Nominations Committee

Members	5
Appointed	2
Retired	2

Environmental, Social and Governance Committee

Members	6
Appointed	0
Retired	3

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



JOHN MARTIN
ESG Committee Chair

Environmental, Social & Governance ('ESG') Committee report

Meeting attendance

Committee member	2022 attendance
John Martin (Chair)*	■ ■ ■ ■
Jann Brown	■ ■ ■ ■
Sue Rivett	■ ■ ■ ■
Marianne Daryabegui*	■ ■ ■ ■
Lisa Mitchell *	■ ■ ■ ■
Geoffrey Green*	■ ■ ■ ■
Rob Gray	■ ■
Ed Story	■
Mike Watts	■

* Independent Directors

Attended as member

Attended as invitee

Not attended

Note: Marianne was not in attendance at one meeting due to unforeseen family illness. Ed Story recused himself from the meeting.

Dear shareholders,

Membership and responsibilities

During 2022, the Environmental, Social and Governance ('ESG') Committee was comprised of myself as Chair, Rob Gray (retired May 2022), Ed Story, Jann Brown, Sue Rivett, Mike Watts, Marianne Daryabegui, Lisa Mitchell and Geoffrey Green.

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 and implementing the Group's strategy relating to ESG matters;
- Review the policies, programmes, practices and initiatives of the Group relating to ESG matters ensuring they remain effective and up to date;
- Oversee the 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, and in achieving ESG targets.

ESG Committee meetings in 2022

The Committee met four times during 2022. These meetings were regularly scheduled Committee meetings held in March, May, September and December. The Committee examines and discusses at each meeting:

- Review of HSES quarterly performance reports, which includes review of KPIs for both safety and environmental matters, and all HSES plans, policies and procedures.
- Review of current GHG emissions (including venting) and main sources of GHG emitters in Egypt and Vietnam.
- Review and discussion on proposed carbon-reduction initiatives in Egypt and Vietnam, as part of the Group's Decarbonisation plan.
- Review of TCFD recommendations, CDP climate change reporting and annual Corporate Responsibility ("CR") Report.
- Review and discussion on the Group's Net Zero commitment and Emissions Management Fund.
- Review and discussion on the development of environmental regulations and COP events.
- Review of procedures in place to ensure a COVID-safe workplace and practices.

In addition to members of the Committee, additional non-committee members, such as the Group Risk Manager, Reservoir Engineer, Group Head of Technical, General Counsel and Investor Relations Analyst were invited to attend Committee meetings. Internal ESG & Net Zero working group meetings were also held separately from ESG Committee meetings. There was noted to be buy-in on ESG matters across the Group.

During 2022, the following additional areas were discussed at meetings of the Committee:

March

Review and discussion on:

- Q4 2021 HSES performance report, including procedures being maintained to ensure a COVID-safe workplace
- KPIs for both safety and environmental matters, noting no LTIs in 2021 and a slight increase in GHG emissions.
- Draft ESG Committee report to be included in the Annual Report
- Group's GHG emissions reporting compared to peer groups

- Gas venting, specifically the methodology used for measuring and how to address this issue
- Inventory of social charitable projects to date
- Vietnam and Egypt's national power development plan, noting each government's Net Zero commitments at COP26
- TCFD alignment & reporting

May

Review and discussion on:

- Q1 2022 HSES performance report, including Process Safety Events ("PSE") in Vietnam
- GHG emissions and gas venting, noting the reasons for increased venting from TGT
- Progress on decarbonisation plan and carbon-reduction projects
- TCFD reporting in the Annual Report

September

Review and discussion on:

- H1 2022 HSES performance report, noting ongoing investigations into third-party HSE incident in Egypt
- GHG emissions reporting
- Operational control on ESG matters, as the Group is now non-operator in Egypt
- Proposal of an Emissions Management Fund, noting its benefits to stakeholders in the long term and demonstrated the Group's commitment to invest in carbon reduction initiatives

December

Review and discussion on:

- Q3 2022 HSES performance report, noting one LTI and 1 environmental spill in Egypt following investigation after September ESG Committee meeting
- GHG emissions reporting, noting a decrease in Egypt due to decreased venting but an increase in Vietnam due to gas export stopping for maintenance, resulting in increased flared gas
- Progress on the Net Zero roadmap to be published in 2023, noting engagement with third-party consultant to assist with development of roadmap
- Progress on potential decarbonisation projects and technologies in Egypt and Vietnam

During the year the Committee focused on the following matters:

COVID-19 precautionary measures

The health, safety and welfare of our staff, contractors and host communities across our business remains the highest priority on the Board agenda. The Group adhered to the requisite precautionary procedures and restrictions, in line with the government directives in Egypt, Vietnam and the UK. At Petrosilah and Pharos El Fayum, a vaccination campaign for all employees in the main offices and fields started in Q2 2021 and culminated to 97% of the workforce being double vaccinated at the end of December 2022. In Vietnam, 100% of our workforce are double vaccinated. For the London office, the Executives continued to monitor 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 in place the following precautions:

- Maintain regular communication with in-country managers and their HSES teams;
- Working from home options given;
- Travel guidance / restriction if appropriate.

Health & Safety

In 2022, the JOCs in Vietnam continue to deliver an exceptional record of safety, reporting zero LTIs since operational inception, representing ten production years on TGT and 13 production years on CNV. In Egypt, we regret to report one LTI and one environmental spill in 2022, details of which are set out in our Corporate Responsibility report on page 61, and we are working with the operator IPR and the JOC Petrosilah to address the underlying issues identified behind the safety measurements and precautions in our operations in order to return to our track record of zero safety and environmental incidents across all assets.

In Vietnam, the JOCs conducted over 200 HSE training sessions and 100 emergency response drills respectively during 2022 to ensure safety and preparedness remain a top priority. In Egypt, we continually reinforce and implement safe working procedures such as inspection of all instruments and equipment, obtaining the requisite permit to work applications, providing training and awareness sessions and above all implementing checks to

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

ensure risks are reduced to acceptable levels and encourage the immediate use of stop-cards.

HSES performance of the Group was reviewed and discussed at every ESG Committee meetings in 2022. All spillage incidents during the year were investigated and lessons learned as appropriate and actions to prevent recurrence were implemented.

KPIs

KPIs for both safety and environmental matters were reviewed and discussed at all four ESG Committee meetings in 2022. Whilst safety results were excellent in Vietnam, continuing with our zero LTI's since operations began, there were two safety and environmental incidents in Egypt which have meant the bonus outcomes for these elements were zero. For more details of 2022 safety and environmental KPIs, please see page 145 of the Directors Remuneration Report.

TCFD

The Company commenced Phase 2 of the project to bringing our disclosures in line with the requirements of the Task Force on Climate-Related Financial Disclosures ("TCFD") in Q4 2021, results of which were concluded in Q1 2022 and can be found in the Corporate Responsibility Report on page 79 to 106. As at year end 2022, Pharos is compliant with 8 out of 11 of TCFD recommendations, and we will continue to work on improving our climate-related reporting and disclosure to align with all 11 of TCFD recommendations.

CDP

Over the past five years, the Company have participated in the CDP Climate Change Questionnaire. In 2022, we have maintained our score of (C), originally awarded in 2019 and which is also the industry average. Most notably, 2022 marks the first year that the Company got graded for their water usage disclosure in the Water Security Questionnaire, which was also rewarded a score of (C).

Both Questionnaires were completed through collaborative efforts across multiple disciplines and functions within the Group and after thorough discussions within the ESG working group, with oversight and approval from the ESG Committee before submission

Social

In recent years, we have structured our social investment programme to align more with the United Nations Sustainable Development Goals (UN SDGs).

Pharos works closely with our local partners and joint ventures in order to make sure that our social initiatives in the region continue to bring more positive impacts to the region. In 2022, \$198,600 was invested in 9 long-term community projects, and a further \$500,000 was invested in ring-fenced funds for training to develop future talents in the industry in Egypt and Vietnam.

For full details of all the projects the JOCs have invested in 2022, please see our Corporate Responsibility report on pages 77 to 78.

Net Zero commitment by 2050, Emissions Management Fund & Net Zero roadmap

In September 2022, following various discussions with and approval from the ESG Committee and Board members, Pharos announced our commitment to achieve Net Zero GHG emissions from all our assets by no later than 2050. Our Net Zero target includes Scope 1 (direct) and Scope 2 (indirect) emissions from all our assets. In addition, our Net Zero target applies to our existing as well as our future assets. As we evaluate any potential development of our business, such as licence extensions and acquisitions, we will take this commitment into account in our decision-making and it will fall under our Net Zero target. We will look to advance our Net Zero target date which will depend on achieving operational efficiencies, reducing flaring and venting, replacing the power consumption of our facilities with less impactful energy sources and eventually procuring nature-based carbon offset projects for hard-to-abate, residual emissions.

This will require investment by Pharos and its operational partners, which is why, following approval from the ESG Committee, the Company also announced the establishment of an Emissions Management Fund. For every barrel sold at an oil price above \$75, we will set aside \$0.25 into this Fund. The intended purpose of the fund is to provide support for emissions management projects for Pharos and our operational partners in line with our climate goals.

Additionally, in 2022, Pharos also pledged to publish a detailed Net Zero roadmap in 2023. This will include the following:

- A baseline emissions inventory for all our assets
- Asset-level emission reduction frameworks
- Interim targets over the short and medium term
- Capital expenditure and resourcing to achieve targets

The Committee recognise that the journey to Net Zero will not be straightforward, for Pharos and for the wider industry, with a stream of new ideas and solutions emerging to be tested. As new technologies become established, they will be reviewed by the ESG Committee as well as its Working Group and brought into use where relevant. We are committed to transparency in our reporting and to keeping stakeholders updated on our progress.



JOHN MARTIN
ESG Committee Chair



JOHN MARTIN
Nominations Committee Chair

Meeting attendance

Committee member	2022 attendance
John Martin (Chair)*	■ ■ ■ ■
Jann Brown	■ ■ ■ ■
Marianne Daryabegui*	■ ■ ■ ■
Lisa Mitchell *	■ ■ ■ ■
Geoffrey Green*	■ ■ ■ ■
Rob Gray	■ ■
Ed Story	■

* Independent Directors

Attended as member

Attended as invitee Not attended

Note: Jann Brown, Mike Watts and Sue Rivett attended as non-committee members for the first meeting of the year. Sue attended meetings in Q1, 2 and 4. Ed Story recused himself from the meeting. Jann Brown and Geoffrey Green were appointed to committee on 15 March 2022.

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.

The Committee has continued to ensure that Board independence was evident during 2022 and will continue into 2023 taking into account the Board composition requirements of the 2018 UK Corporate Governance Code.

Nominations Committee report

Membership

During the year, the Committee comprised John Martin as Chair, the outgoing Chief Executive Officer Ed Story (retired March 2022), the incoming Chief Executive Officer Jann Brown (joined March 2022), and the four Independent Non-Executive Directors ('NEDs'), Rob Gray (retired May 2022), Marianne Daryabegui, Lisa Mitchell and Geoffrey Green.

The qualifications of each of the Chair and members are set out on pages 113 to 114

Meetings

The Committee conducted its duties through four meetings held during 2022. During the year the following areas were discussed at the Committee meetings:

Meeting	Matter
Q1	Review and approval of Nominations Committee report for inclusion in the 2022 Annual Report and Accounts Annual review of conflicts of interest register Annual Committee Performance Evaluation Annual Director reappointment
Q2	Confirmation of appointment of Senior Independent Director
Q3	Board Composition / Ongoing succession planning
Q4	Succession planning continued

As at 31 December 2022, the Board comprised two Executive Directors and four NEDs, including the Chair. All of those NEDs (discounting the Chair, who was independent on appointment) were considered independent for the purposes of the 2018 Code. John Martin remains Chair of the ESG Committee, and Chair of the Nominations Committee.

Board refreshment and succession planning

Board refreshment and succession planning continue as ongoing processes. In 2022, the priority was to maintain the independent component of the Board and to fully comply with the 2018 Code.

In January 2022 we announced the appointment of Jann Brown as CEO effective 21 March 2022 on the completion of the Egyptian farm-out transaction with IPR. Jann was previously on the Board as Managing Director and CFO.

Appointments Process

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

Independence

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

Although Marianne Daryabegui has served for a shorter period than 9 years in total in two phases (October 2013 to 20 October 2016 and March 2019 to present), there has been some discussion that she should be regarded as having 8 years of service. The Board continue to regard Marianne as independent because of the 30 month gap between two periods of office and the fact that her total service will only amount to 7 years.

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 2022 included consideration of the Company's leadership needs within the context of growth, portfolio diversification and long-term strategy. The discussions determined that following the recent changes in the business the current balance is appropriate and sufficient to effectively promote the long-term success of the Company.

The Board's current balance and composition are shown on page 111.

NOMINATIONS COMMITTEE REPORT - CONTINUED

Diversity

Our 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.

At present the Board composition scores highly on gender diversity, with 67% female representation. The average age of the Board is 64, which is a little higher than the average for listed companies, but not dramatically so. There is no minority ethnic representation on the Board although, as noted in this report the Group's staff as a whole has significantly more ethnic diversity. In theory this organisational diversity should, in the longer term, filter upwards to senior management and potentially to executive representative on the Board.

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

At the end of 2022, in line with the UK Corporate Governance Code, the Board carried out its annual evaluation of its own performance and effectiveness and that of its principal Committees, the Chair and the individual Directors. In doing so, the outcomes of last year's review were also considered. The Committee Chair led the process which was facilitated by the Company Secretary and followed a similar format to that of prior years. Directors completed confidential questionnaires covering the key areas as set out below. The questions were structured to encourage full, in-depth responses on each area of focus.

- Strategy
- Risk
- Shareholder and stakeholder relations
- Succession planning
- The Chair's effectiveness
- Board effectiveness and operation
- The operation of each of the principal Board committees
- Board training and development needs
- Any other general matters Directors wished to raise

The results were reported on an unattributed basis and discussed by the Committee, led by the Committee Chair, then 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. Following the evaluation process, a number of areas were identified for ongoing focus in 2023 including:

- Ongoing strategy discussions
- Continued review of risk
- Assets and operations
- Maintaining shareholder engagement
- Future succession planning
- ESG considerations

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.

Ed Story and Dr Mike Watts retired as Directors following completion of the farm-out transaction with IPR in March 2022. In addition, Rob Gray did not seek re-appointment as a Director at the 2022 AGM and retired with effect from the close of that meeting. The remaining six Directors retired and offered themselves for re-election at the 2022 AGM. All Directors were duly re-elected at the 2022 AGM, each receiving more than 94% of the proxy votes submitted in advance of the meeting.

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 November 2022, in my role as Independent Non-Executive Director responsible for workforce engagement I joined head office staff for a dedicated offsite staff meeting, at which staff members were able to discuss matters of interest. In addition to this meeting I have regularly attended company functions and remain approachable to all staff.

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 2022, 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



LISA MITCHELL
Audit and Risk Committee Chair

Audit and Risk Committee report

Dear shareholders,

Membership and responsibilities

During 2022, the Audit and Risk Committee comprised me as Chair, Marianne Daryabegui and Geoffrey Green. Rob Gray attended the March and May Committee's before stepping down from the Board at the close of the 2022 AGM in May.

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 2022

The Committee met four times during 2022. These meetings were the regularly scheduled Committee meetings held in March, May, September 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, including updates on Russian sanctions, a full paper also goes to the Board.
- In addition to members of the Committee, all members of the Board, the finance management team, operational management and the Group's external auditor, Deloitte, attended each of the Audit and Risk Committee meetings.

During 2022, the following additional areas were discussed at meetings of the Committee:

March

Update and review of Modern Slavery and Human Trafficking Statement, HSE Policy, Social Responsibility Policy, Biodiversity and Conservation Policy, Human Rights Policy and Code of Business Conduct and Ethics

Finance update including the Internal Controls Report, Reserves Update, Impairment Analysis, review of the Asset Held for Sale paper, RBL Refinancing and Treasury review

Review and approval of 2021 financial statements, including reviews that they were fair, balanced and understandable, reviews of Going Concern and Viability Statements

Review of 2021 external audit status, including analyses of findings of the external audit and key judgemental areas

Meeting attendance

Committee member	2022 attendance
Lisa Mitchell (Chair) *	■ ■ ■ ■
Marianne Daryabegui *	■ ■ ■ ■
Geoffrey Green *	■ ■ ■ ■
Rob Gray	■ ■

* Independent Directors

Attended as member

Attended as invitee

Not attended

Note: Jann Brown, Sue Rivett and John Martin also attended all of the meetings as non-committee members.

AUDIT AND RISK COMMITTEE REPORT - CONTINUED

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 mitigations, a separate report on Russian sanctions was presented to the full Board

May

Review and update of Internal Controls Report including Financial review

Internal audit update

Review of the Egyptian Farm out paper

Review of the Russian sanctions paper and recommendation of new Group Sanctions Policy

Status update on Treasury activities including the RBL and hedging status

Review and assessment of Risks and mitigations

September

Finance update including the Internal Controls Report, Reserves Update, Impairment Analysis, review Egyptian farm out paper, Distributable Reserves position, internal audit update and insurance review

Review and Approval of 2022 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 Treasury, financing, covenant compliance monitoring and commodity hedging with particular attention on the increasing receivables position in Egypt and the currency devaluation

Presentation by our 3rd party advisor, Commodities Trading Corporation on commodity hedging

Reviewing the response to the FRC on their question regarding abandonment disclosures

December

Review and update on Internal Controls and Risk Report including: Finance review and Treasury update

Review of the Group Forecast 2022 and 2023 Budget and capital allocation

Annual Review and Approval of Terms of Reference of the Audit and Risk Committee

Review of 2022 year-end planning

Review and discussion of Significant Risks particularly around the impact of Climate Change, impact on Going Concern and Impairment of assets and the Egyptian receivables position, currency devaluation and the IMF approved loan coming into Egypt

Review of recent developments in relation to FRC requirements, proposed developments in relation to external auditors' responsibilities, and other related regulatory and compliance matters

Review the Tax Strategy Statement and Provision of Non-Audit Services by the External Auditors

Review the results of the external audit tender

Financial reporting and significant accounting issues

During the first half of 2022, 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 2022 Financial Statements

The Committee met 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 2022, being key issues which may be subject to heightened risk of material misstatement. 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 160 of the Directors' Report.

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 continuing impact of commodity price volatility. A further assessment was also undertaken on the impact of climate change on commodity prices and a sensitivity on carbon taxes.

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 2022 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 the 2022 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 page 56 are calculated using best practice and industry evaluation techniques which have uncertainties in their application.

The Committee reviewed, in conjunction with management, the results of independent third party assessments conducted by ERCE for Vietnam assets TGT and CNV, and subsequently audited by the Group's reserves auditor, RISC Advisory Pty Ltd ("RISC").

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 reserves are described in the review of operations on pages 32 to 34.

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.

Deloitte also engaged their in-house Reserves Evaluation and Advisory team in Canada to understand and challenge management processes in determining the year end reserves estimates. This included performing procedures over the future production forecasts to the approved budgets and to the reserves auditors' CPRs, comparing historical prior year forecasts and impairment models to understand variances and reviewing of the technical reserves revisions in the year.

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 2022, 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)

The RBL facility was refinanced in 2021, providing access to a committed \$100m facility based solely on the Vietnam assets. As at 31 December 2022 an amount of \$65.0m was drawn (2021: \$78.1m). A further \$50m is available on an uncommitted accordion basis. The refinanced facility matures in July 2025.

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 203.

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

Commodity hedging – treasury management

The Group actively managed its exposure to commodity price risk by entering into an ongoing programme of hedging. The objectives of the hedging programme are mainly to comply with the requirements under the RBL and to protect the Group's Reasonable Worst Case Scenario. Pharos was hedged more than required under the conditions of the RBL and higher than the Company would normally commit to in order to support stress testing for going concern and the working capital test required for the prospectus for the Egypt farm down.

A Treasury Committee, comprising the Chief Financial Officer as Chair and senior members of the Group's finance team, convene on a very 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 2022, the hedged positions were out of the money by \$22.5m (2021: \$29.7m), the hedge position having been taken out to satisfy the 35% minimum Vietnam production hedge required under the RBL and hedges to mitigate the impact on Reasonable Worst Case for Going Concern and the Working Capital Test for the Egypt farm down during 2021.

In 2022, 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.

AUDIT AND RISK COMMITTEE REPORT - CONTINUED

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 commodity price assumptions were reviewed and reduced accordingly
	Upstream impairment charges were reviewed twice during the year	Impairment reversal 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 risks of override of management controls	Under ISA 240 management override of controls is presumed significant risk. No breaches were found
	Reviewed the Group's guidelines and policy for compliance with oil reserves disclosure regulations; including governance and control	
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 exploration costs	Costs held in Vietnam pending future work programme and costs in Israel impaired due relinquishment of the blocks In Egypt, further activities are due to take place on NBS and El Fayum in 2023, therefore no impairment triggers have occurred
	Reviewed at each Committee meeting the status of all updated estimates	Updated third party estimates and independent audit completed, with results disclosed in the 2022 Financial Statements



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". Please refer to Note 4 (b) to the Financial Statements for more information on climate change and energy transition.

At both the half year and year end 2022, 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 3D seismic acquisition on Block 125 in Vietnam and the forward programme of work that no impairment had been triggered. The minor commitment programme of work in Israel has been completed in 2022 and the blocks relinquished, the Group have therefore impaired the assets. In Egypt, on NBS, further drilling and 3D activity is due to take place in 2023 and on El Fayum the next phase will be to test the well. Therefore with the forward programme of work no impairment triggers have occurred.

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 2022, 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 28 to 34.

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 impairment reversals were made on the two Vietnam fields, and on the El Fayum Concession in Egypt.

On our CNV field in Vietnam, a pre-tax impairment reversal of \$3.6m has been reflected in the Income Statement with an associated deferred tax charge of \$1.4m. As at 31 December 2022, the carrying amount of the CNV oil and gas producing property is \$76.4m.

On our TGT field in Vietnam, a pre-tax impairment reversal of \$19.7m has been reflected in the Income Statement with an associated deferred tax charge of \$6.9m. As at 31 December 2022, the carrying amount of the TGT oil and gas producing property is \$242.4m.

For our El Fayum concession in Egypt, an impairment reversal of \$3.8m, no tax applicable, is reflected in the Income Statement. As at 31 December 2022, the carrying amount of the El Fayum oil producing property is \$62.5m.

Disposal of Asset Held for Sale (AHFS)

In December 2021, we classified 55% of the Group's operated interest in each of our Egyptian Concessions, El Fayum and North Beni Suef, as assets classified as held for sale (Net assets classified as held for sale as 31 December 2021: \$53.5m). Following the completion of the farm-out transaction of Egyptian assets to IPR, the accounting for the assets reflect the following:

- The economic date of the transaction was 1 July 2020, with completion on 21 March 2022
- Pharos owned and managed the business up to completion
- On completion, an adjustment to compensate for net cash flows since the economic date has been adjusted for in the level of carry to be provided by IPR to Pharos
- In the financial statements, for the period post completion, Pharos 45% share of field costs – capex, opex and G&A – are accounted for as incurred by Pharos, although all such costs are paid by IPR and set off against the carry
- All revenues earned are paid direct to Pharos

The firm consideration was received in two tranches, \$2.0m in September 2021 and \$3.0m on 30 March 2022.

The carry of \$36.3m is disproportionate funding contribution from IPR adjusted for working capital and interim period adjustments from the effective economic date of 1 July 2020 and completion date.

The carry decreases every month against the cash calls received from IPR. The total amount utilised as at 31 December 2022 amounts to \$15.4m, which has been disclosed in "Consideration received on farm out of Egyptian assets" in the cash flow as part of investing activities (combined with \$3.0m firm consideration received on 30 March 2022). No cash outflow is required until we utilise the whole amount.

The Group is entitled to contingent consideration depending on the average Brent Price each year from 2022 to the end of 2025 (with floor and cap at \$62/bbl and c.\$90/bbl respectively). The contingent consideration is calculated yearly and is capped at a maximum total payment of \$20.0m. As at 31 December 2022, the contingent consideration amounts to \$13.9m (\$5.0m current and \$8.9m non-current). Testing of sensitivity for a \$5/bbl reduction in long term oil price used would result in \$1.3m decrease in contingent consideration to \$12.6m.

El Fayum Concession Third Amendment

On 19 January 2022, the Third Amendment to the El Fayum Concession Agreement was signed by His Excellency Eng. Tarek El Molla (Minister of Petroleum & Mineral Resources of the Arab Republic of Egypt), EGPC and the Company.

Signature of the Third Amendment was a key Condition Precedent for the transfer of a 55% participating interest (and operatorship) in the El Fayum and North Beni Suef Concessions to IPR Lake Qarun.

Under the terms, the cost recovery percentage increased from 30% to 40% allowing Pharos a significantly faster recovery of all its past and future investments. In return, Pharos has agreed to waive its rights to recover a portion of the past costs pool (\$115m) and reduce its share of Excess Cost Recovery Petroleum from 15% to 7.5%. While in full cost recovery mode, Contractor's share of revenue increases from 42.6% to 50.8% as from November 2020 (corresponding to additional net revenues to Contractor of \$7.0m to the date of signature).

AUDIT AND RISK COMMITTEE REPORT - CONTINUED

Egypt Foreign Currency Risk

In the Egypt business, the recent global macroeconomic volatility has seen both a significant devaluation of the Egyptian Pound and continued restrictions on outgoing US Dollar transfers by the Central Bank of Egypt. The Company has opted not to accept the payment of trade receivables balance in Egyptian Pounds unless required for operations. The progressive devaluation of EGP against USD means that it is preferable to continue to hold USD denominated receivables. As a result, Pharos' receivables have increased to \$24.2m at 31 December 2022, inclusive of c.\$7m catch-up invoice for improved fiscal terms under the Third Amendment and stated prior to a risk factor provision of \$1.8m (2021: \$7.4m receivables).

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

The Company therefore remain optimistic that outstanding receivables with EGPC will start to be recovered during 2023.

Internal controls focus for 2022

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, the Committee recommended and the Board approved the appointment of KPMG to carry out various internal audits. No audits were conducted during 2021 in order to preserve cash following the impact of the COVID-19 pandemic but work did commence in 2022. The Committee discussed and approved an internal audit plan which is complementary but separate to the audit work undertaken by the Group's external auditor, Deloitte. The programme of work for 2022 included Group Treasury and Corporate Model.

The Treasury Committee 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 Code, in the Corporate Governance Report on page 115. 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 2022. These will be reviewed again during 2023.

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 COVID-19 pandemic. During 2022 we made our commitment to Net Zero by 2050.

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.

We continue to recognise the ongoing sad situation in Ukraine. We have no direct business in the region. We have set up a working project team who carried out due diligence checks to assess parts of our business that might be affected and came up with mitigating actions.

External auditor

Deloitte LLP was originally appointed as external auditor to the Company in 2002. The Statutory Auditors and Third Country Auditors Regulations 2016 (the "2016 Regulations"), amending the Companies Act 2006, introduced a requirement for all public interest entities, including listed companies, to conduct a tender for external audit services no less frequently than every 10 years and rotate auditors no less frequently than every 20 years. For engagements starting in a financial year beginning on a date between 17 June 1994 and 17 June 2003, as is the case with the Company's engagement of Deloitte LLP, the last permitted year of the engagement under the 2016 Regulations is the last financial year to begin before 17 June 2023.

Accordingly, the financial year commencing 1 January 2023 is the final year for which Deloitte LLP can act as external auditor to the Company. In view of this, the Committee conducted a competitive tender process for a new external auditor during 2022. The process followed the guidance set out in the Financial Reporting Council's paper entitled "Audit Tenders: Notes on Best Practice" published in February 2017 (the "FRC Audit Tender Guidance"). The Company prepared a request for proposal (RFP) document and, following initial approaches, prepared a shortlist of audit firms to whom the RFP document was sent. Firms receiving the RFP document were invited to review

data relating to the Group and given an extended period to ask questions, seek clarifications and hold a number of meetings or calls with the Committee, members of the Group's management and various teams and disciplines across the Group's business in the UK, Vietnam and Egypt. Following that period, participating firms were invited to submit written proposals to the Company by a specified deadline.

The Committee evaluated the proposals received from participating firms based on criteria set out in the RFP document. Although there was a financial component to the evaluation, the process extended to a number of important non-financial criteria. Non-financial criteria considered in the evaluation process included the strength and experience of the proposed audit team and their understanding of the oil and gas exploration and production industry, each firm's intended approach to the audit, their ability to build respected working relationships and the extent to which they could add value and provide important insight to the role.

Following this process, and consistent with the FRC Audit Tender Guidance, the Committee submitted the proposals to the Board, with one of those proposals, from Ernst & Young LLP, being the Committee's recommendation. In early 2023, the Board agreed to adopt the Committee's recommendation. The Company then announced in its preliminary results statement on 22 March 2023 that it had agreed in principle to appoint Ernst & Young LLP to succeed Deloitte LLP as external auditor with effect from the financial year commencing 1 January 2024. During the financial year commencing 1 January 2023, Ernst & Young LLP will "shadow" Deloitte's work as external auditor, with a view to preserving know-how and experience and encouraging a seamless transition.

In each year, the Committee assesses the performance of the external auditor based on their experience, the quality of their written and oral communication and input from management, prior to making any recommendations as to the re-appointment of the external auditor 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. The current Deloitte LLP lead partner is Anthony Matthews, who is compliant with the rotation requirements and will continue to be compliant during Deloitte's final year as external auditor. Other senior audit staff are 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 2022 were \$0.6m and \$0.1m respectively. The Committee approved all non-audit services provided by the external auditor in 2022. The principal non-audit fees during 2022 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 Code and associated guidance.



LISA MITCHELL

Audit and Risk Committee Chair

DIRECTORS' REMUNERATION COMMITTEE REPORT

**GEOFFREY GREEN**

Remuneration Committee Chair

Meeting attendance

Committee member	2022 attendance
Geoffrey Green (Chair) *	■ ■ ■
Marianne Daryabegui *	■ ■ ■
Lisa Mitchell *	■ ■
Rob Gray*	■

* Independent Directors

Attended as member

Attended as invitee

Not attended

Note: Jann Brown, John Martin and Sue Rivett attended all of the meetings as non-committee members.

Mike Watts attended one of the meetings as non-committee member.

Lisa was appointed to the committee on 15 March 2022.

Directors' Remuneration Committee report

Role of Committee

The Remuneration Committee is responsible for setting the remuneration of the Chair and the Executive Directors, has oversight of pay more generally, and is responsible for appointing any consultants it may engage in carrying out its duties.

Dear shareholders,

On behalf of the Board, we are pleased to present the Directors' Remuneration Report for the financial year ended 31 December 2022. 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).

Highlights of Committee actions in 2022

The year has seen significant progress with our strategy. Activities undertaken by the Committee include:

- Board changes. Following completion of the transaction with IPR, Ed Story and Mike Watts stepped down from the Board on 23 March 2022 and Jann Brown assumed the role of Chief Executive Officer. Jann's base salary was reset to £420,000, which represented a c.21% reduction on her previous salary as Managing Director, reflecting the new size of the business.
- Review of the Directors' Remuneration Policy ahead of its proposed renewal at the 2023 AGM.

How performance was reflected in the pay of our Executive Directors

As reported throughout the Strategic Report, 2022 was a year of significant change for the business, not least in managing the completion of the farm-out of our Egyptian assets. Continued strong leadership of the Company by the Executive Directors and other senior management has meant that once again we have not had to furlough any staff, nor have we borrowed any Government money under any loan schemes.

As part of our commitment to help employees deal with rising cost of living, the Company made early interim payments of c.25% of the bonus potential in October 2022, with the balance paid in December as usual. Employees will also be supported with their travel expenses from 2023.

Strategic

We continue to focus our efforts on driving efficiencies, controlling costs and making judicious investments to maximise the value of our portfolio. The \$3m share buyback programme, which we announced in July, continues as part of the Company's broader strategy to deliver value to our shareholders and will continue during 2023 up to an additional \$3m.

Pharos is now in a materially improved financial position, has an accelerating programme in Egypt and significant growth potential in Vietnam. Together, these put us in a strong position. We were pleased to be able to reward shareholder patience with the announcement of a return to a regular dividend, based on operating cash flow, with the first payment set for 2023.

Operational

On an operational basis, the Company performed well across a broad range of metrics. Production levels in both Vietnam and Egypt were in line with guidance. Multi-well development drilling in El Fayum continues in 2023 under the operatorship of IPR, with nine wells planned for the year ahead.

Financial performance was strong, with cost control, cash generation and funding ahead of expectations. Whilst safety results were excellent in Vietnam, continuing with our zero LTIs since operations began, there were two safety and environmental incidents in Egypt which have meant the bonus outcomes for these elements were zero.

Following a robust assessment of the performance criteria the Committee determined the formulaic outturn for bonuses at 66.1% of the maximum potential. The Committee considered the wider stakeholder experience and agreed that the formulaic outcome was appropriate. As a reminder the Committee used its discretion to reduce the 2021 bonus outcome by 20% for Executives but not staff. Bonus outcomes for the wider workforce also reflect corporate KPIs achieved as well as their personal performance. The 2020 LTIP awards, whose performance criteria is based on TSR, are due to vest in May 2023 but are expected to lapse through failure to meet the required relevant performance target.

Directors' Remuneration Policy

Our current Directors' Remuneration Policy was approved at the 2020 AGM with 92.6% of votes cast in favour. As the three year term of the current Policy is due to expire in 2023, we are required to submit a new Policy to shareholders at the 2023 AGM.

During 2022, the Remuneration Committee reviewed the current Policy. The Committee believes that the Policy remains fit for purpose and continues to support the business strategy. The current Policy is well understood by participants and investors. It is also considered to be aligned to market practice and already includes standard corporate governance best practice features such as pension alignment and the use of post-cessation shareholding requirements. We therefore propose to submit the Policy for renewal at the 2023 AGM with relatively minor revisions, following a consultation process.

These are to remove the ability to award a maximum LTIP award of 400% of salary "in exceptional circumstances" to reduce that maximum to 200% and to increase the post cessation requirement for holding shares from 200% of salary for one year and 200% of salary for a further year to 200% of salary for the full two years.

Approach for 2023

Base salaries for the Executive Directors and Non Executive Directors will be frozen for 2023. Across the UK employee population, the average increase for 2023 is 10%.

The current annual bonus and LTIP maximum awards will remain unchanged. The annual bonus will continue to be subject to a scorecard of measures including safety, financial, operations, capital structure, sustainability and culture and governance reflecting the key priorities of the business and disclosed on a retrospective basis.

The LTIP measures and targets will be based on relative TSR (35% weighting), absolute TSR (20% weighting), cash flow from operations (15% weighting), ROCE (15% weighting) and an ESG condition (15% weighting).

Conclusion

The Remuneration Committee believes that the remuneration outcomes for 2022 are a fair reflection of the context in which decisions had to be made. We believe that the continuation of the current Policy in all material respects maintains the link between strategy and incentives, as well as being closely aligned to the market.

We look forward to receiving your support at the upcoming AGM.



GEOFFREY GREEN
Remuneration Committee Chair

DIRECTORS' REMUNERATION COMMITTEE REPORT - CONTINUED

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 2022. It also provides comparative figures for 2021:

2022	Fees/salary £000's	Benefits £000's	Bonus Cash ³ £000's	Bonus Deferred ³ £000's	Pension £000's	Total £000's	Fixed £000's	Variable £000's
Executive Directors								
E Story ^{1,2}	59	11	73	37	9	189	68	121
J Brown ²	389	39	294	147	58	927	447	480
M Watts ²	68	12	75	37	10	202	78	124
S Rivett	277	16	182	91	41	607	318	289
Non-Executive Directors								
R Gray	45	-	-	-	-	45	45	-
J Martin	162	-	-	-	-	162	162	-
M Daryabegui	57	-	-	-	-	57	57	-
L Mitchell	80	-	-	-	-	80	80	-
G Green	89	2	-	-	-	91	89	2
Total	1,226	80	624	312	118	2,360	1,344	1,016

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 received 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 other benefits, and the tax payable thereon, in accordance with HMRC guidance.

- Executive Director fees and salary of Ed Story is set in US dollars and is reported in GB pounds at the average exchange rate for the period 1 January 2022 to 22 March 2022, reflecting the period he served on the Board.
- Ed Story and Dr Mike Watts stepped down from the Board on 23 March 2022 following completion of the Egyptian farm-out transaction. At the same time, Jann Brown was appointed to the role of Chief Executive Officer. Prior to that date, Messrs Story and Watts and Ms Brown had been waiving 50% of their salary and the reported numbers include such waivers.
- The total Directors' bonuses include the following: a) Cash bonus paid in December 2022 of £624k; b) Deferred bonus of £312k granted under the Deferred Share Bonus Scheme.

* Fees and/or salaries paid to the Directors are in relation to their dates of service as a Director during the year.

2021	Fees/salary £000's	Benefits £000's	Bonus Cash ⁴ £000's	Bonus Deferred ⁴ £000's	Pension £000's	Total £000's	Fixed £000's	Variable £000's
Executive Directors								
E Story ^{1,2}	275	44	215	231	41	806	316	490
J Brown ²	288	40	225	240	43	836	331	505
M Watts ²	288	53	225	240	43	849	331	518
S Rivett ³	127	4	55	58	20	264	147	117
Non-Executive Directors								
R Gray	100	-	-	-	-	100	100	-
J Martin	126	-	-	-	-	126	126	-
M Daryabegui	45	-	-	-	-	45	45	-
L Mitchell	62	-	-	-	-	62	62	-
G Green	62	-	-	-	-	62	62	-
Total	1,373	141	720	769	147	3,150	1,520	1,630

DIRECTORS' REMUNERATION COMMITTEE REPORT - CONTINUED

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) Executive Director fees and salary of Ed Story is set in US dollars and is reported in GB pounds at the annual average exchange rate.
- 2) Ed Story, Jann Brown and Dr Mike Watts agreed to a reduction of 35% of their salary from 1 August 2020 and a further 15% reduction from 1 April 2021 for the remainder of the year. Non-Executive Directors agreed to a 25% reduction of their fee throughout 2021. The figures above reflect the reductions in salary and fees.
- 3) Sue Rivett was appointed to the Board on 1 July 2021.
- 4) The total Directors' bonuses include the following: a) Cash bonus paid in December 2021 of £720k; b) Deferred bonus of £358k granted under the Deferred Share Bonus Scheme; c) Deferred bonus paid on completion of the Egypt farm-out (£274k of which was paid in cash and £137k of which was granted under the DBSP).

* Fees and/or salaries paid to the Directors are in proportion with their dates of service.

The aggregate emoluments of all Directors during the year was £2.4m (2021: £3.2m).

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 the Group'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 2022 were set prior to the full impact of the COVID-19 pandemic becoming evident. No subsequent adjustments have been made to the targets.

2022 annual bonus measures and out-turns

Metric	Weight	Performance	Bonus awarded
SAFETY AND ENVIRONMENT	18%		6%
Zero LTIs	6%		0%
Link to strategy <ul style="list-style-type: none"> • Safety of our people • Sound oil field practices 	Target <ul style="list-style-type: none"> • Zero LTIs 	Performance <ul style="list-style-type: none"> • An LTI occurred in Egypt with a 3rd party rig contractor when rigging up the mast • An environmental spill in Egypt due to an overturned truck 	Outcome <ul style="list-style-type: none"> • Not achieved
TRIR Target of 0.8	3%		3%
Link to strategy <ul style="list-style-type: none"> • Safety of our people • Sound oil field practices 	Target <ul style="list-style-type: none"> • 0.8 	Performance <ul style="list-style-type: none"> • 0.42 TRIR recorded 	Outcome <ul style="list-style-type: none"> • Achieved
Zero environmental spills	3%		0%
Link to strategy <ul style="list-style-type: none"> • Sound oil field practices • Management of our carbon footprint wherever we work 	Target <ul style="list-style-type: none"> • Zero environmental spills 	Performance <ul style="list-style-type: none"> • 1 environmental spill recorded in Egypt 	Outcome <ul style="list-style-type: none"> • Not achieved.

DIRECTORS' REMUNERATION COMMITTEE REPORT - CONTINUED

Metric	Weight	Performance	Bonus awarded
Carbon footprint improvements	6%		3%
Link to strategy <ul style="list-style-type: none"> Management of our carbon footprint wherever we work 	Target <ul style="list-style-type: none"> Maintain or reduce GHG emissions against 2021 baseline as this included venting for the first time Implement second stage of work towards compliance with the G20 Financial Stability Board's Task Force on Climate -Related Financial Disclosures (TCFD) 	Performance <ul style="list-style-type: none"> GHG intensity increased by 9% in 2022 Phase 2 TCFD alignment Transition risks were assessed over a 5-10 year period under IEA's recommended SDS and STEPS scenarios Physical risks were assessed against physical risk datasets under the three emissions scenarios over a 5 and 10 year timeframe. Continued commitment to disclose and report in line with TCFD recommendations. 	Outcome <ul style="list-style-type: none"> Not achieved Achieved
OPERATIONAL/PORTFOLIO MANAGEMENT	37%		21.6%
Portfolio management	6%		2%
Link to strategy <ul style="list-style-type: none"> Deliver value through growth 	Target <ul style="list-style-type: none"> Seek farm-in partner for 125 commitment well 	Performance <ul style="list-style-type: none"> A number of interested parties have been reviewing the physical data 	Outcome <ul style="list-style-type: none"> Part Achieved
Production	12.5%		6.9%
Link to strategy <ul style="list-style-type: none"> Prudent Management in a low oil price environment 	Target <ul style="list-style-type: none"> Vietnam production volumes 5,000 – 6,000 boepd Egypt production volumes 1,350 – 1,800 bopd 	Performance <ul style="list-style-type: none"> Vietnam production outturn was 5,418 boepd Egypt production outturn year was 1,748 bopd 	Outcome <ul style="list-style-type: none"> Achieved for Vietnam, within guidance Achieved for Egypt, within guidance
Secure extension on NBS and drill of wells	6%		2%
Link to strategy <ul style="list-style-type: none"> Continued development of Vietnam assets 	Target <ul style="list-style-type: none"> Secure extension on NBS and drill 2 wells 	Performance <ul style="list-style-type: none"> Small extension secured allowing the drilling to move to 2023 	Outcome <ul style="list-style-type: none"> Part achieved
Farm Out	6%		4.2%
Link to strategy <ul style="list-style-type: none"> Effective portfolio management 	Target <ul style="list-style-type: none"> Execute phase 1 of the farm down dev drilling - 10 wells 	Performance <ul style="list-style-type: none"> Phase 1 commenced with 7 development wells drilled 	Outcome <ul style="list-style-type: none"> Part achieved
Operational development	6.5%		6.5%
Link to strategy <ul style="list-style-type: none"> Continued development of Vietnam assets 	Target <ul style="list-style-type: none"> Development drill of 2 wells TGT and 1 CNV 	Performance <ul style="list-style-type: none"> The 3 well development programme commenced in H2 2022 	Outcome <ul style="list-style-type: none"> Achieved

DIRECTORS' REMUNERATION COMMITTEE REPORT - CONTINUED

Metric	Weight	Performance	Bonus awarded
FINANCIAL	30%		25%
Opex per bbl for each producing asset	5%		0%
Link to strategy <ul style="list-style-type: none"> Control expenditure 	Target <ul style="list-style-type: none"> Vietnam cash opex bbl <\$15 Egypt cash opex bbl <\$16 	Performance <ul style="list-style-type: none"> Vietnam cash opex bbl \$16.03 Egypt cash opex bbl \$17.40 	Outcome <ul style="list-style-type: none"> Not Achieved for Vietnam Not Achieved for Egypt
Overall reduction in cost base	10%		10%
Link to strategy <ul style="list-style-type: none"> Control expenditure Maintain strong balance sheet 	Target <ul style="list-style-type: none"> Maintain cost base reductions achieved in 2021 	Performance <ul style="list-style-type: none"> Full year administrative expenses lower by 24%, reflecting restructuring of the business in 2021, reduction in the Board from 9 to 6 Directors post-Egypt farm-down and 21% reduction in base salary of new CEO Cash at bank has increased from \$27.1m to \$45.3m due to strong operating performance 	Outcome <ul style="list-style-type: none"> Achieved
Net debt	15%		15%
Link to strategy <ul style="list-style-type: none"> Access affordable sources of funding Return to shareholders 	Target <ul style="list-style-type: none"> Net debt/EDITDAX of <2 All Bank Covenants met Funding plan in place for all activities covered by cash/available debt plus headroom of \$20m Funding for commitments in 2022/23 	Performance <ul style="list-style-type: none"> Net debt/EDITDAX of 0.23 All bank covenants have been met Renewed the NBE facility and have sufficient headroom for commitments plus headroom of \$20m 	Outcome <ul style="list-style-type: none"> Achieved Achieved Achieved
GOVERNANCE/LICENCE TO OPERATE	15%		13.5%
Review of Board structure	5%		5%
Link to strategy <ul style="list-style-type: none"> Develop talent throughout our business 	Target <ul style="list-style-type: none"> Streamline Board structure 	Performance <ul style="list-style-type: none"> Board reduced from 9 to 6 	Outcome <ul style="list-style-type: none"> Achieved
Compliance review	5%		5%
Link to strategy <ul style="list-style-type: none"> Strong governance and personal codes of conduct 	Target <ul style="list-style-type: none"> Complete independent review of key policy compliance across the Group 	Performance <ul style="list-style-type: none"> Two audits on Treasury and Corporate Modelling 	Outcome <ul style="list-style-type: none"> Achieved

DIRECTORS' REMUNERATION COMMITTEE REPORT - CONTINUED

Metric	Weight	Performance	Bonus awarded
Social Investment	5%		3.5%
Link to strategy	Target	Performance	Outcome
<ul style="list-style-type: none"> Strong governance and personal codes of conduct 	<ul style="list-style-type: none"> Social investment plan approved and implemented 	<ul style="list-style-type: none"> 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. 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 2022, in addition to the aforementioned training levy funds (which totals to \$500,000), a further \$198,600 was invested in 9 community and charitable partnerships and investment projects. 	<ul style="list-style-type: none"> Part achieved
Overall	100%	Total assessment	66.1%

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 2022 was sufficiently recognised in the formulaic outcome and therefore no discretion was considered necessary.

Executive Directors receive a third of any bonus as awards under the Deferred Share Bonus Plan. This ensures their interests remain closely aligned with shareholders. For 2022, the total Directors' bonuses include the following: a) Cash bonus paid in December 2022 of £624k and b) Deferred bonus of £312k to be granted under the Deferred Share Bonus Scheme.

	Paid Bonus £000s	Deferred Bonus £000s	Total Bonus £000s	% of max
E Story	73	37	110	66.1%
M Watts	75	37	112	66.1%
J Brown	294	147	441	66.1%
S Rivett	182	91	273	66.1%

The bonus amounts for Ed Story and Dr Mike Watts are pro-rated to reflect time served as a Director during the period.

LTIP vesting in respect of May 2020 awards

The LTIP awards granted in May 2020, which would have vested in May 2023, are not expected to vest as they are currently not achieving the threshold level of vesting and are therefore expected to lapse. 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 Quartile (25th percentile)
Actual expected vesting	0%	Greater than 50th percentile

In all material respects, the same performance targets apply to awards granted in 2021.

LTIP award grants made in 2022

The LTIP awards are usually made in March. For Jann Brown and Sue Rivett this represented 200% of contractual salary at the time the award was made. It is anticipated that future grants, including the grants to be made in 2023, will be made following the announcement of the preliminary 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' REMUNERATION COMMITTEE REPORT - CONTINUED

	Date of grant	No. of shares	Face value of award	Award as % of salary
J Brown	25 March 2022	3,049,001	£840,000	200%
S Rivett	25 March 2022	2,032,667	£560,000	200%

Face value based on share price at the time of awards were determined on 24 March 2022 (being £0.2755)

The performance measures for the 2022 awards are set out below, with 25% vesting for Threshold rising on a straight-line basis to full vesting at Maximum:

Metric	Weight	Targets
TSR – Relative vs bespoke peer group	40%	Median to Upper Quartile ranking
TSR – Absolute	15%	20% to 30% absolute growth
ESG medium term measures	15%	10% to 15% reduction in emissions.
Cash flow from operations	15%	\$150m to \$200m over the 3 year period
Return on Capital Employed	15%	6% to 10% average for the 3 year period

Deferred Share Bonus Plan awards granted in 2022

The DSBP awards were granted in March 2022 in relation to the 2021 annual bonus outcome.

	Date of grant	No. of shares	Face value of award
J Brown	25 March 2022	563,157	£155,150
S Rivett	25 March 2022	136,842	£37,700
E Story	25 March 2022	560,529	£154,426
M Watts	25 March 2022	563,157	£155,150

Face value based on share price at the time of awards were determined on 24 March 2022 (being £0.2755)

Directors' interests as at 31 December 2022

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 2022 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 2022	Beneficially owned shares as at the date of this report	Awards subject to performance conditions as at 31 December 2022 ^{1,2}	Awards subject to Option Price 120 pence as at 31 December 2022	Awards subject to service conditions as at 31 December 2022 ¹
	(% of salary)	Achieved (Yes/No)					
Executive							
J Brown ³	200%	No	1,841,587	1,894,593	6,150,711	–	563,157
S Rivett ³	200%	No	66,293	74,188	3,209,763	90,000	136,842
Non-Executive							
J Martin	–	–	237,000	237,000	–	–	–
M Daryabegui	–	–	36,757	36,757	–	–	–
G Green	–	–	95,000	95,000	–	–	–
L Mitchell ²	–	–	51,958	51,958	–	–	–

1) Figures include accrued dividend equivalents.

2) These shares are held by Alexander Barblett (husband of Lisa Mitchell), and a closely associated person to Lisa Mitchell.

3) At the date of this report, J Brown and S Rivett are yet to reach the 200% shareholding requirement.

DIRECTORS' REMUNERATION COMMITTEE REPORT - CONTINUED

While the Executive Directors, as potential beneficiaries, are technically deemed to have an interest in all ordinary shares held by the Company's 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 2022 other than as set out above and as described in the notes to the table above.

Share awards outstanding at 31 December 2022

	Type of award ⁷	As at 1 Jan 2022	Granted/awarded	Adjusted ¹	Lapsed ⁸	Released ⁴	As at 31 Dec 2022	Date potentially vested ^{4,5}	Expiry date
J Brown ^{4,5,6}	LTIP	1,417,797	–	–	1,417,797	–	–	–	–
	LTIP	1,550,855	–	–	–	–	1,550,855	12.05.23	12.05.30
	LTIP	1,550,855	–	–	–	–	1,550,855	06.10.24	06.10.31
	LTIP	–	3,049,001	–	–	–	3,049,001	25.03.25	25.03.32
	DSBP	235,469	–	–	–	235,469	–	03.01.21	–
	DSBP	202,702	–	–	–	202,702	–	09.01.22	–
	DSBP	–	563,157	–	–	–	563,157	25.03.24	25.03.32
S Rivett ^{2,5,6,8}	LTIP	496,229	–	–	496,229	–	–	–	–
	LTIP	267,779	–	–	–	–	267,779	12.05.23	12.05.30
	LTIP	909,317	–	–	–	–	909,317	06.10.24	06.10.31
	LTIP	–	2,032,667	–	–	–	2,032,667	25.03.25	25.03.32
	DSOP	25,000	–	–	–	–	25,000	31.05.19	31.05.26
	DSOP	65,000	–	–	–	–	65,000	31.05.19	31.05.26
	DSBP	–	136,842	–	–	–	136,842	25.03.24	25.03.32

- 1) Outstanding awards under the Company's share schemes were adjusted for dividend equivalents in accordance with plan rules (see Note 31 to the Financial Statements).
- 2) LTIP awards granted in 2020 and 2021 vest subject to Pharos's relative TSR performance against a group of comparator companies and subject to a further holding requirement. The performance measures for the 2022 LTIP are set out on pages 140 and 141. DSBP awards vest subject to continued service over a two-year vesting period. S Rivett's 2020 LTIP award prior to being appointed to the Board is not subject to TSR performance, but is instead based on continuous employment and effective performance ratings for the vesting period.
- 3) LTIP awards with a potential vest date of 7 March 2022 did not achieve the performance threshold and lapsed.
- 4) DSBP Awards granted in 2020 to J Brown were structured as conditional awards.
- 5) DSBP Awards granted in 2019 and 2022 to J Brown and to S Rivett in 2022 were structured as nil-cost options.
- 6) LTIP Awards to J Brown and S Rivett were structured as nil cost options.
- 7) LTIP awards vest at 25% when the threshold is met.
- 8) DSOP awards have an exercise price of 120 pence and do not have any performance conditions.

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.

As originally announced on 13 January 2022, Ed Story and Dr Mike Watts stepped down from the Board following completion of the farm-out of the Egyptian assets to IPR in March 2022. Ed Story has remained employed as President of the Vietnam business and remuneration arrangements have been adjusted to reflect this role.

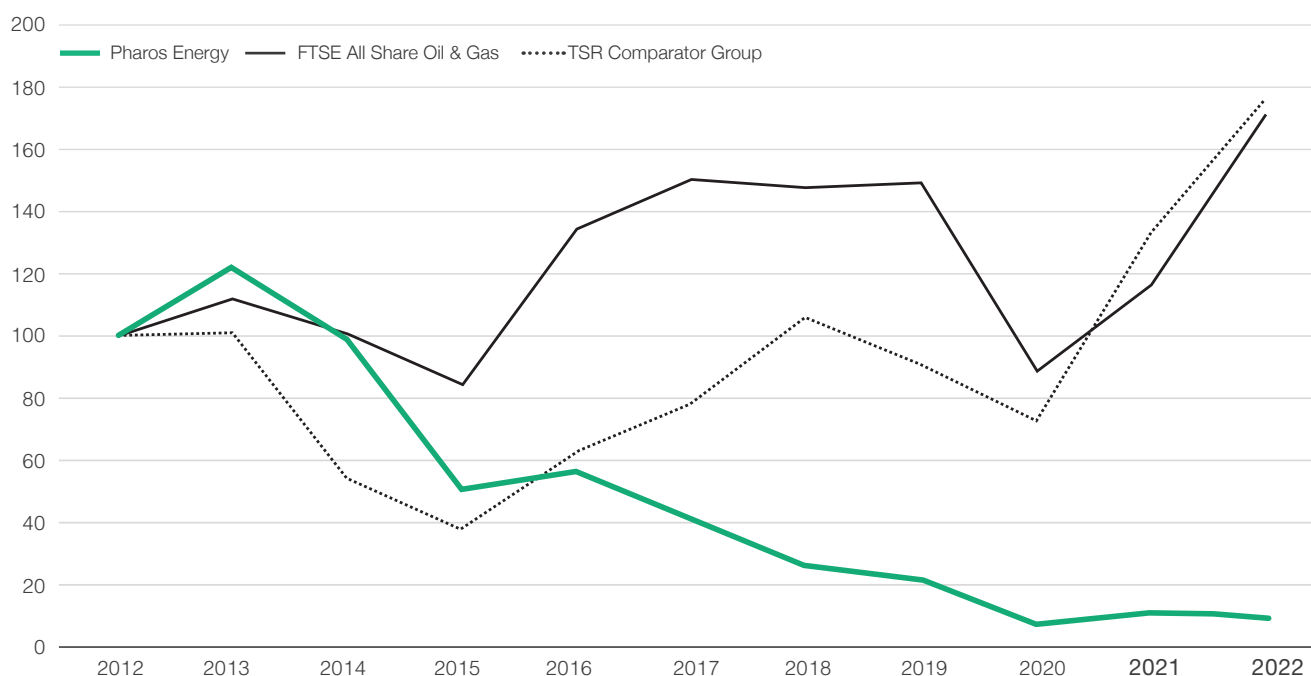
Dr Mike Watts has continued to work for the Company and be paid base salary (on a pre-waiver level), benefits and pension provision for his contractual notice period, which expires on 21 March 2023. He remained eligible for a bonus in relation to 2022 for the period actively worked. The bonus outcome for his period as a director is set out on page 136. He was not eligible for any 2022 LTIP awards and he will be treated as a good leaver for the purposes of his outstanding LTIP awards, which shall remain subject to the original performance conditions and time pro-rating. He remains subject to the post-cessation shareholding requirement whereby he 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). The vesting and release of these awards will be set out in the respective Directors' Remuneration Report.

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 2020 LTIP award. Note that this does not represent the time period against which performance is assessed under the LTIP is assessed in relation to the performance period ending in May 2023.



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:

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022 ²
CEO single figure of remuneration (£000s) ¹	2,551	2,959	2,325	1,632	1,716	1,829	1,567	669	894	909
Annual bonus pay-out (% of maximum)	100%	80%	75%	35%	65%	105%	50%	0%	58%	66%
LTIP vesting (% of maximum)	66%	100%	96%	46%	0%	0%	0%	0%	0%	0%

- 1) The current year average exchange rate for 2022 has been applied to convert US dollars to GB dollars for all periods to ensure consistency between periods.
- 2) 2022 includes the total remuneration of Ed Story for 1 January 2022 to 22 March 2022, reflecting the period he served on the Board as CEO. Jann Brown's total remuneration is then presented for the period 23 March 2023 to 31 December 2022.

DIRECTORS' REMUNERATION COMMITTEE REPORT - CONTINUED

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 (2022/2021) ³	% change in salary (2021/2020) ³	% change in salary (2020/2019)	% change in benefits (2022/2021)	% change in benefits (2021/2020)	% change in benefits (2020/2019)	% change in annual bonus (2022/2021)	% change in annual bonus (2021/2020) ¹	% change in annual bonus (2020/2019)
E Story ²	N/A	-32.1%	-39.9%	N/A	-67.8%	4.4%	N/A	100.0%	-100.0%
M Watts ²	N/A	-32.1%	-5.9%	N/A	26.4%	4.5%	N/A	100.0%	-100.0%
J Brown	35.1%	-32.1%	-5.9%	-0.8%	5.5%	3.3%	-5.4%	100.0%	-100.0%
S Rivett ⁴	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
J Martin	26.7%	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
M Daryabegui	26.7%	-10.0%	5.2%	N/A	N/A	N/A	N/A	N/A	N/A
R Gray	N/A	-11.2%	-16.7%	N/A	-100.0%	-31.1%	N/A	N/A	N/A
L Mitchell	26.7%	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
G Green	40.6%	N/A	N/A	100.0%	N/A	N/A	N/A	N/A	N/A
All other employees	29.5%	7.0%	-4.4%	15.5%	-25.8%	10.0%	24.1%	100%	-100.0%

1) Bonuses are normally awarded in respect of the calendar year. No bonuses were awarded in relation to 2020.

2) E Story and M Watts resigned from the Board on 23 March 2022.

3) The figures detailed above reflect the salary reductions that have been taken by the Directors. The Executive Directors took a reduction of 35% of their salaries for the first quarter of 2021 and then further reduced this by another 15% (to a total reduction of 50%) from 1 April 2021 for the Executive Directors in office at that date. These reductions stayed in place for the remainder of 2021 and through to 20 March 2022. The Chair, who had reduced his fee by 25% on assuming the role in March 2020, also took an additional 25% reduction along with the other Non-Executive Directors from 1 May 2021 which continued through the full year 2021 and up until 20 March 2022.

4) S Rivett was appointed to the Board on 1 July 2021.

Chief Executive Officer's pay ratio

The Company currently has 17 UK employees and therefore has no statutory requirement to publish a CEO pay ratio. Given the relatively few employees, the Committee is aware of pay levels and does not feel the need to produce a ratio. 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.

Shareholder Distribution (\$m)

0
0

Wages and Salaries (\$m)



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:

- Jann Brown serves on the boards of Troy Income and Growth Trust and RHI Magnesita, for which she retained associated fees for 2022 in the amounts of £1,538 (2021: £28,625) and €97,977 (2021: €52,566) respectively; and
- Ed Story served on the boards of Vedanta Resources PLC and Essar Exploration and Production Limited Mauritius in 2021, for which he retained associated fees in the amounts of \$35,932 and \$23,757 respectively. Ed did not receive any associated fees for the period 1 January 2022 to 23 March 2022, when he resigned from the Board.

Implementation for 2023

Base salary

The following table shows the Executive Director base contractual salary levels.

	2023 Base salary 000s	2022 Base salary 000s	Increase from 2022 %
J Brown	£420	£420 (reduced on 21 March 2022 from her pre-waiver salary of £535)	0%
S Rivett	£280	£280 (increased on 21 March 2022 from £260)	0%

There will be no salary increases for the Executive Directors for 2023. The average salary increase across the workforce is 10%. Jann voluntarily invests a third of her after tax salary into buying shares in the Company, subject to share dealing restrictions. Furthermore, Sue Rivett voluntarily invests an after tax salary equivalent to £20,000 gross pay into buying shares, subject to the same share dealing restrictions.

Benefits

For 2023, benefits available to Executive Directors will be consistent with those set out in the Directors' Remuneration Policy to be approved at the 2023 AGM.

Pension

For 2023, a pension benefit at 15% of salary will be provided to each Executive Director through contributions to the Company's 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 2023. 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 2023, and identifies the link from each of these measures to our core strategy of:

2023 KPI's

Metric	Weight	Performance criteria which will be considered
Safety & environment / Sustainability	27%	
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.		<ul style="list-style-type: none"> • Zero LTIs • TRIR target • Zero environment spills • Crisis response training • Publication of Net Zero roadmap • Carbon footprint improvements / GHG emissions lower than baseline 2020 • TCFD compliance • Social investment plan implemented
Operational & Business Plan	38%	
Strategic objectives: to replace produced reserves and add to the reserve base in a way which value and/or cashflow accretive.		<ul style="list-style-type: none"> • Production volumes for all producing assets • Operational uptime • Achieve agreed work plan • Secure licence extensions • Secure funding partner for 125
Financial & Capital Structure	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.		<ul style="list-style-type: none"> • Underlying Operating Costs • All bank covenants met • Reduce debtor days

DIRECTORS' REMUNERATION COMMITTEE REPORT - CONTINUED

Metric	Weight	Performance criteria which will be considered
Culture & Governance	5%	
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.		<ul style="list-style-type: none"> • Training and development • Key policy compliance

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

The LTIP grant level for 2020 and 2021 was reduced substantially and the Committee will take this and all other relevant circumstances into account in considering the appropriate grant level for 2023.

The performance conditions for the 2023 awards are expected to be a mixed weighting as follows: of TSR (35%) relative and (20%) absolute and 15% weighting to each of cash flow from operations, return on capital employed, and emission reduction targets

Metric	Weight	Targets
TSR – Relative	35%	Median to Upper Quartile ranking
TSR – Absolute Achieve 20% growth over the 3 year period, sliding scale to 30% for the full 15%	20%	20% to 30%
ESG medium term measures (base 2022) Achieve 10% reduction over a 3 year period, sliding scale to 15% for the full 15%.	15%	10% to 15% reduction in emissions.
Cash flow from operations Achieve \$150m cash flow from operations over the 3 year period, sliding scale to \$200m for the full 15%	15%	\$150m to \$200m
Return on Capital Employed Achieve over 6% average per year for the 3 year period, sliding scale to 10% for the full 15%	15%	6% to 10%

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.

DIRECTORS' REMUNERATION COMMITTEE REPORT - CONTINUED

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 2023	Fee from 1 January 2022
Chair of the Company	£150,000	£150,000
Deputy Chair & Senior Independent Director ^{1,2}	–	£120,000
Non-Executive Director	£60,000	£60,000
Additional fee: Senior Independent Director ³	£12,500	–
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

1) Includes fees for any Committee role

2) Shows fees for the combined role of Deputy Chair and Senior Independent Director to 19 May 2022 - the role of Deputy Chair was not continued following Rob Gray stepping down from the Board on this date.

3) Geoffrey Green was appointed to the role of Senior Independent Director on 19 May 2022 and the additional fees for this are shown in the table.

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 2023, benefits available to Non-Executive Directors will be consistent with those set out in the Policy approved at the 2023 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 157)

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 (until 19 May 2022), Marianne Daryabegui, Lisa Mitchell (from 15 March 2022) and Geoffrey Green as Remuneration Committee Chair.

The Committee received assistance from Jann Brown and Sue Rivett, except when matters relating to their own remuneration were being discussed. The Committee additionally received assistance from other Non-Executives Directors when required.

The Committee has appointed FIT Remuneration Consultants LLP ("FIT") as its remuneration advisers, and fees of £23,702 were paid in 2022 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 most recent binding resolution on the Directors' Remuneration Policy was passed at 2020 AGM. The advisory vote on the Directors' Remuneration Report was approved at last years' AGM. The table below shows votes from shareholders on the relevant resolutions:

	Directors' Remuneration Report (2022 AGM)		Directors' Remuneration Policy (2020 AGM)	
	Votes	%	Votes	%
Votes in favour	266,253,779	97.15%	217,778,159	92.62%
Votes against	7,810,866	2.85%	17,354,025	7.38%
Total votes	274,064,645	100.00%	235,132,184	100.00%
Votes withheld	41,368	–	3,773	–

DIRECTORS' REMUNERATION COMMITTEE REPORT - CONTINUED

Policy Report

This Remuneration Policy will be effective from the date of the 2023 AGM, subject to shareholder approval at that meeting.

The Policy is intended to apply for a period of three years. However, the Committee monitors the Remuneration Policy on a continuing basis including consideration of evolving market practice and relevant guidance; shareholder views and results of previous voting; policies applied to the wider employee base; and with due regard to the current economic climate. Should the Committee resolve that the Remuneration Policy should be revised, such revisions will be subject to a binding shareholder vote.

The overarching aim is to operate a Remuneration Policy which rewards senior Executives at an appropriate level for delivering against the Company's annual and longer-term strategic objectives. The Policy is intended to create strong alignment between Executive Directors and shareholders through a heavy focus on the use of equity. The Committee is comfortable that the structure and operation of the Policy does not create any environmental, social and corporate governance matters and is managed within an acceptable risk profile.

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 considering feedback provided from shareholders and proxy agencies who were consulted at an early stage.

When considering the development of the new Policy, the Committee was mindful of how it would address the six factors set out in the UK Corporate Governance Code and which are explained in more detail below:

Clarity

- The proposed Policy has a clear objective: to enable the Company to recruit, retain and motivate high calibre individuals to deliver long-term sustainable performance which benefits all stakeholders
- The Policy itself is in line with standard UK market practice, and is an update of the current Policy, so should be well understood by shareholders and participants
- The Policy is fully embedded into the business, so it is well understood by participants and is managed efficiently from an administrative perspective
- The terms of the Policy are clearly described in this Report, including full disclosure on limits, measures and discretions. There should be no ambiguity on how it is intended to be operated
- Full retrospective disclosure of the relevant performance assessments and outcomes is provided for shareholders to consider
- Full prospective disclosure is provided in relation to LTIP awards, including the award levels, performance measures and targets

Simplicity

- The Policy includes a standard annual bonus plan and a single LTIP so the incentive arrangements are considered easy to communicate
- Payments are made either in cash or via Company shares. No artificial or complex structures are used to facilitate the operation of the incentive plans
- The rationale for each element of the Policy is clearly explained in the Policy table and links to the overall Company strategy

Risk

- Relevant individual and plan limits prevent excessive outcomes under the annual bonus or LTIP
- Regular interaction with the Audit and Risk Committee ensures relevant risk implications are understood when setting or assessing performance targets
- Periodic risk reviews to ensure the Policy remains within an acceptable risk profile and that the performance measures used do not incentivise or reward for inappropriate behaviour
- Any unintended consequences of a particular performance metric are considered when assessing its appropriateness
- Comprehensive clawback and malus provisions are in place across all incentive plans and the Committee's ability to use its discretion to override formulaic outcomes is considered an important control to prevent inappropriate reward outcomes
- Flight risk and succession issues are considered as part of the wider remit of the Remuneration Committee and the Nominations Committee, and are considered on at least an annual basis, generally as part of the annual pay review

Predictability

- The possible reward outcomes are quantified and reviewed at the outset of the performance period. The illustrations provided in the Policy section of the DRR clearly show the potential scenarios of performance and the resulting pay outcomes which could be expected
- Relevant individual and plan limits prevent excessive outcomes
- Regular monitoring of performance by the Committee ensures that there are "no surprises" at the end of period assessment

Proportionality

- Incentives only pay-out if strong performance has been delivered by the Executive Directors
- The performance measures used have a direct link to the KPIs of the business and there is a clear separation between those used in the annual bonus and LTIP
- Appropriate underpins can be (and have been) used to ensure that any pay-outs are affordable based on financial performance
- The Committee has the discretion to override formulaic outcomes if they are deemed inappropriate in light of the wider performance of the Company and considering the experience of stakeholders

Alignment to culture

- Incentive structures incentivise and reward for strong performance
- They do not reward poor performance
- The Policy seeks to retain Executives to deliver long-term, sustainable performance which benefits all stakeholders
- The relevant discretions in the Policy are intended to ensure that performance is assessed on a "like for like basis" and that participants are rewarded for "doing the right thing" for the Company, not for themselves

Policy table for Executive Directors

The table below summarises our Policy for each component of Executive Directors' Remuneration:

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
<p>Contractual fixed cash amount paid monthly.</p> <p>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.</p> <p>The Committee takes into account a number of factors when setting salaries, including (but not limited to):</p> <ul style="list-style-type: none"> • 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 <p>Base salaries are normally reviewed annually.</p> <p>Results of benchmarking exercises are monitored for indications of potential unwarranted upward ratcheting.</p>	<p>Any salary adjustments will normally be in line with those of the wider workforce.</p> <p>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 previous CEO's unadjusted salary of \$924,000.</p>	N/A

Benefits

Purpose and link to strategy

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

Operation	Maximum	Performance criteria
<p>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.</p> <p>Reasonable business related expenses will be reimbursed (including any tax payable thereon).</p>	<p>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.</p> <p>In addition to the above cap, the Company may contribute to relocation expenses up to 100% of salary.</p>	N/A

Pension

Purpose and link to strategy

- To provide retirement benefits consistent with the role

Operation	Maximum	Performance criteria
<p>Pension benefits are delivered through contributions to Pharos' money purchase plan up to relevant plan limits and/or a cash supplement.</p>	<p>15% of base salary per annum which remains aligned with the wider workforce.</p>	N/A

DIRECTORS' REMUNERATION COMMITTEE REPORT - CONTINUED

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
<p>Payments are based on performance in the relevant financial year.</p> <p>At the beginning of the year, the Committee sets objectives which it considers are critical to the delivery of the business strategy.</p> <p>Performance against these key strategic objectives is assessed by the Committee at the end of the year.</p> <p>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.</p> <p>One-third of any bonus payout is subject to deferral into Pharos shares under the Deferred Share Bonus Plan.</p>	<p>150% of base salary per annum, including cash and deferred components at the discretion of the Committee.</p>	<p>The annual bonus is based on individual and corporate performance during the year.</p> <p>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.</p> <p>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.</p> <p>The Committee determines the appropriate weighting of the metrics each year.</p>

LTIP**Purpose and link to strategy**

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

Operation	Maximum	Performance criteria
<p>Typically a conditional award of shares or a nil price option is made annually, normally in March/April, following the year end close period.</p> <p>Vesting of the awards is dependent on the achievement of performance targets, which are typically measured over a three-year performance period.</p> <p>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).</p>	<p>Usually 200% of base salary per annum.</p>	<p>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.</p> <p>No less than 50% of the award will be based on share price measures. The remainder will be based on financial, operational, or strategic measures.</p> <p>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.</p> <p>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.</p>

Shareholding guidelines

Purpose and link to strategy

- Further increases alignment between Executive Directors and shareholders.

Operation	Maximum	Performance criteria
<p>The Board has a policy of requiring Executive Directors to build a minimum shareholding in Pharos shares equivalent to 200% of salary.</p> <p>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 a two year 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.</p>	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.

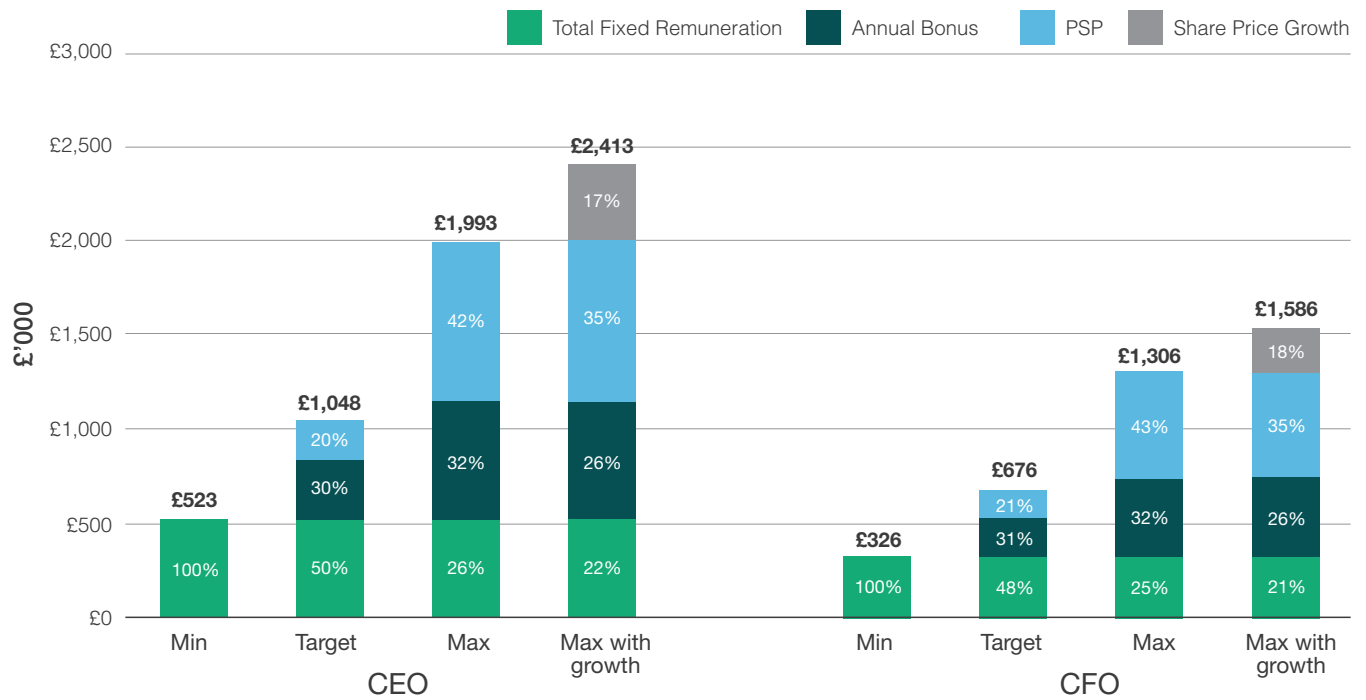
Performance measures and target setting

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.

DIRECTORS' REMUNERATION COMMITTEE REPORT - CONTINUED

Illustration of Policy

The charts below show the illustration of Policy



Levels of performance	Assumptions	Performance criteria
Fixed pay	All scenarios	<ul style="list-style-type: none"> Total fixed pay comprises base salary, benefits and pension Base salary – effective as at 1 January 2023 Benefits – £9,000 car allowance received by each Director Pension – 15% of salary, the benefit currently set for all Executive Directors
Variable pay	Minimum performance	<ul style="list-style-type: none"> No payout under the annual bonus and no vesting under the LTIP
	Performance in line with expectations	<ul style="list-style-type: none"> 50% of the maximum payout under the annual bonus (i.e. 75% of salary) 25% vesting under the LTIP (i.e. 50% of salary)
	Maximum performance	<ul style="list-style-type: none"> 100% of maximum payout under the annual bonus (i.e. 150% of salary) 100% of maximum vesting under the LTIP (i.e. 200% of salary)
	Maximum performance with growth	<ul style="list-style-type: none"> As above but with 50% share price growth assumed on the LTIP vesting

Policy table for Non-Executive Directors

Component	Pharos' approach
Chairman fees	<ul style="list-style-type: none"> Comprises an all-inclusive fee for Board and Committee positions Determined by the Remuneration Committee and approved by the Board
Non- Executive Director	<ul style="list-style-type: none"> 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	<ul style="list-style-type: none"> 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.

Recruitment Principles

On the appointment of a new Executive Director, we seek to apply the following principles when determining the remuneration arrangements:

- The package should be competitive to facilitate the recruitment of individuals of the calibre needed to shape and execute Pharos' strategy and build shareholder value
- The Committee reserves the right not to apply the caps contained within the Policy table for fixed pay, either on joining or for any subsequent review within the Policy period, although, in practice, the Committee does not envisage exceeding these caps
- The Committee will consider all relevant factors as appropriate. This may include, but is not limited to, the calibre and experience of the individual, market practice and the current Directors' 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.

DIRECTORS' REMUNERATION COMMITTEE REPORT - CONTINUED

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	<ul style="list-style-type: none"> • Death • Ill-health, injury or disability • Redundancy • Retirement with agreement of the employer • Any other reason as determined at the discretion of the Committee 	<ul style="list-style-type: none"> • 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 	<ul style="list-style-type: none"> • Awards will normally lapse in full (unless otherwise determined by the Committee)
LTIP and share option plan	<ul style="list-style-type: none"> • Death • Ill-health, injury or disability • Redundancy • Retirement with agreement of the employer • Any other reason as determined at the discretion of the Committee 	<ul style="list-style-type: none"> • 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 	<ul style="list-style-type: none"> • 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 Directors' Remuneration Policy 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 LTIP scheme.

The Committee does not formally consult with employees when formulating the Directors' Remuneration Policy, 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.



GEOFFREY GREEN

Remuneration Committee Chair

21 March 2023

DIRECTORS' REPORT

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 2022.

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

	Page(s)
Strategic report	2-107
Board of Directors	113-114
UK Corporate Governance report	115-121
ESG Committee report	122-124
Nominations Committee report	125-126
Audit and Risk Committee report	127-133
Directors' Remuneration report	134-155
Financial Statements	171-202
Additional Information	203-211

Developments during the 2022 reporting period

An indication of the likely future developments in the business of the Group is included in the Strategic Report on pages 2 to 107.

On 13 January 2022, the Company announced Directorate Changes as mentioned in Chair's Introduction to Governance on pages 109 to 110.

On 19 January 2022, the Third Amendment to the El Fayum Concession Agreement was signed by His Excellency Eng. Tarek El Molla (Minister of Petroleum & Mineral Resources of the Arab Republic of Egypt), EGPC and the Company. Signature of the Third Amendment was a key Condition Precedent for the transfer of a 55% participating interest (and operatorship) in the El Fayum and North Beni Suef Concessions to IPR Lake Qarun. The net assets of El Fayum and North Beni Suef associated with the 55% participating interest have been reclassified as assets held for sale at 31 December 2021.

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 waive its rights to recover a portion of the past costs pool (\$115 million) and reduce its share of Excess Cost Recovery Petroleum from 15% to 7.5%. While in full cost recovery mode, Contractor's share of revenue increases from 42.6% to 50.8% as from November 2020 (corresponding to additional net revenues to Contractor of \$7.0m to the date of signature).

Assuming conditions at 31 December 2021, the discounted cash flows from the remaining 45% share held and calculated for impairment purposes would increase from \$49.2m to \$77.4m.

Dividends

After a period of dividend suspension, in 2023, the Company plans to recommence regular dividend payments, the first to be a proposed final dividend for the financial year to 31 December 2022, based on 2022 Operating Cash Flow.

The Board has recommended a final dividend of 1 pence per Ordinary Share, which amounts to approximately \$53.4m and which, if approved at the 2023 Annual General Meeting ("AGM"), will be paid on 12 July 2023 to shareholders on the register at the close of business on 16 June 2023. Total dividends for the year therefore amount to 1 pence per Ordinary Share.

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 up to the date of signing this Annual Report, 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 by either party on notice at any time. 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 2023 AGM and, being eligible, offer themselves for reappointment. Relevant details of the Directors, which include their Committee memberships, are set out in the section headed 'Board of Directors' on pages 113 to 114.

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 134.

Table A: Directors holding office during 2022 and up to the date of signing of this report

Director	Date of contract
John Martin - Chair*	23 August 2021
Jann Brown Chief Executive Officer (following completion of the transaction with IPR)	6 December 2017
Sue Rivett , Chief Financial Officer	21 September 2021
Marianne Daryabegui *	15 March 2019
Geoffrey Green *	16 April 2020
Lisa Mitchell *	10 March 2020
Edward Story President and Chief Executive Officer (retired from Board March 2022)	14 May 1997
Mike Watts Managing Director (retired from Board March 2022)	6 December 2017
Rob Gray * Deputy Chair and Senior Independent Director (retired from Board May 2022)	9 December 2013

* Denotes those determined by the Board to be Independent Non-Executive Directors as described in the Corporate Governance report on page 111. The Chair was determined to be independent on appointment.

Contributions

The Group's policies prohibit political donations.

AGM

An explanation of the resolutions to be proposed at the 2023 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 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 EBT are not exercised. The Articles may only be amended by a special 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 2023 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 the recently updated Statement of Principles published by the Pre-Emption Group in November 2022 (the "Pre-Emption Principles"). The authority sought for disapplication of pre-emption rights will be in two parts: (a) 10% of the issued ordinary share capital, which may be issued on an unrestricted basis; and (b) an additional 10%, which may be used in connection with an acquisition, or a specified capital investment, in either case announced with the issue or which has taken place in the preceding 12 months and is disclosed in the announcement. In addition, both legs of the disapplication resolution will seek up to a further 2% authority (4% in total) to disapply pre-emption rights in making 'follow-on' offers to retail investors and existing shareholders who are not allocated shares as part of the placing. Further information regarding these resolutions, which are based on the template resolutions published by the Pre-Emption Group, is set out in the circular to shareholders containing the notice of the AGM. A resolution will also be proposed at the 2023 AGM, as is 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.

DIRECTORS' REPORT - CONTINUED

Auditor

A resolution to reappoint Deloitte LLP as the Company's auditor will be proposed by the Directors at the 2023 AGM. Deloitte also provide non-audit services to the Group, and details of the non-audit services provided in the year to 31 December 2022 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 127 to 133.

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 and the Energy and Carbon Report Regulations 2018, is included in the Corporate Responsibility report on pages 71 to 76.

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 47 to 60 details how we manage and mitigate these risks.

Substantial shareholdings

As at the date of this report, 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

As at the date of this report, the Company had been notified, in accordance with Chapter 5 of the Disclosure and Transparency Rules, or is aware of, the voting rights as a shareholder of the Company shown in Table B of this report.

	No of Ordinary Shares held	as % of voting rights ¹	Nature of holding
Aberforth Partners LLP	33,311,989	7.72	Direct
Ettore Contini	32,613,577	7.56	Direct and indirect
Blue Albacore Business Ltd	31,617,359	7.32	Direct
Bradley Radoff ²	30,275,000	7.01	Direct
Lombard Odier Asset Management (Europe) Limited	30,220,530	7.00	Direct
Globe Deals Ltd	27,444,382	6.36	Direct
Chemsa Ltd	24,426,925	5.66	Direct
Yorktown Energy Partners VII, LP	19,726,495	4.57	Direct
Ed Story	16,271,613	3.77	Direct and indirect

1) As at 21 March 2023, the total voting rights attached to the issued share capital of the Company comprised 440,795,126 Ordinary shares each of £0.05 nominal value, being 431,672,858 Ordinary shares in issue less 9,122,268 Ordinary shares currently held in treasury.

2) As at 31 December 2022: Bradley Radoff held 21,850,000 Shares representing 5.029% of the voting rights in the Company at that time.

During the period between 31 December 2022 and the date of this report, the Company did not receive any notifications under chapter 5 of the Disclosure and Transparency Rules indicating a different whole percentage holding than as at 31 December 2022 other than as shown in the footnotes to the table above. For further information on Directors' interests, please see page 141.

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 134 to 155
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 199
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 196

Whistleblowing procedure

The Board has reviewed, and is satisfied with, the Group's Whistleblowing Policy and associated procedures, 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 a dedicated, confidential and anonymous 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 or termination.

We strive to work constructively with all our suppliers, customers and other business partners to build and maintain productive relationships.

Going concern

It should be recognised that any consideration of the foreseeable future involves making a judgement, at a particular point in time, about future events which are inherently uncertain. Nevertheless, at the time of preparation of these accounts and after making enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue operating for the foreseeable future. For this reason, and taking into consideration the additional factors in the Strategic Report on pages 2 to 107 including the Going Concern section of the Chief Financial Officer's statement on pages 39 to 46, they continue to adopt the going concern basis in preparing the accounts.



DIRECTORS' REPORT - CONTINUED

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 171 to 202, 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 47 to 60; 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.



SUE RIVETT

Chief Financial Officer

21 March 2023



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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 2022 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with United Kingdom adopted international accounting standards and International Financial Reporting Standards (IFRSs) as issued by the International Standards Board (IASB);
- the parent company financial statements have been properly prepared in accordance with United Kingdom adopted international accounting standards and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

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 cash flow statement; and
- the related notes 1 to 37.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom adopted international accounting standards and IFRSs 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 United Kingdom adopted international accounting standards and as applied in accordance with the provisions of the Companies Act 2006.





2. Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. The non-audit services provided to the group and parent company for the year are disclosed in note 10 to the financial statements. We confirm that we have not provided any non-audit services prohibited by the FRC's Ethical Standard 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	<p>The key audit matter that we identified in the current year was:</p> <ul style="list-style-type: none"> • Impairment and impairment reversal of producing oil & gas assets <p>Within this report, key audit matters are identified as follows:</p> <ul style="list-style-type: none">  Newly identified  Increased level of risk  Similar level of risk  Decreased level of risk
Materiality	<p>The materiality that we used for the group financial statements was \$3.4m which was determined on the basis of 4% of 3-year average earnings from continuing activities before interest, tax, Depreciation, Depletion & Amortisation "DD&A", impairment of Property, Plant & Equipment "PP&E" and intangibles, exploration other/expenditure and Other/restructuring expense "EBITDAX".</p>
Scoping	<p>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, 100% of the group's revenue and 100% of the group's profit before tax from loss making entities.</p>
Significant changes in our approach	<p>No changes were noted to the key audit matters or our overall audit approach as compared to the prior year.</p>

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 included:

- 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 and 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 publicly 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 reserve based lending (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 (after considering hedging arrangements) 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.

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.

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

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 and impairment reversal of producing oil and 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 2022 was \$381.3 million (2021: \$399.4 million). Impairment and impairment reversal of producing oil & gas assets is considered a key audit matter due to the significant judgements and estimates involved in assessing whether any impairment charges or reversals have arisen at year-end, and in quantifying any such impairment charges or reversals. 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 oil and gas assets to the group and the judgemental nature of the inputs used in determining the recoverable amounts, we also considered there to be a potential for fraud in this area.

Management reviewed its two producing assets in Vietnam, being Te Giac Trang ('TGT') and Ca Ngu Vang ('CNV'), and its one producing asset in Egypt, being El Fayum, for indicators of impairment. As a result of volatility in oil prices in 2022 compared to 2021, Management revised their oil price assumptions upwards during 2022 compared to the prior year assumptions, as set out in note 16 of the financial statements. Given the significance of the revision, together with changes to estimates of oil and gas reserves and the changes in discount rates resulting from the current economic uncertainty, Management concluded that there were indicators of impairment reversals for all three of those fields. Management have estimated the recoverable amount of each field, being its Value-in-Use "VIU", and compared this to its balance sheet carrying amount.

Management recorded pre-tax impairment reversal of \$3.6 million on CNV (2021: \$3.8 million), pre-tax impairment reversal of \$19.7 million on TGT (2021: \$49.1 million) and pre-tax impairment reversal of \$3.8 million on El Fayum (2021: \$1.7 million).

Management's recoverable amount estimates were based on key assumptions which included:

- oil price forecasts, being \$88.3/bbl in 2023, \$84.8/bbl in 2024, \$79.4/bbl in 2025, \$74.5/bbl in 2026 plus inflation of 2% thereafter;
- reserves estimates and production profiles; and,
- post-tax nominal discount rates of 13.3% for TGT and CNV, and 15.9% for El Fayum

For the purpose of Impairment of producing oil & gas assets, management is required under IAS 36 to apply its current "best estimate" of future oil prices.

In relation to reserves estimates and production profiles, 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(b) to the financial statements.

As referenced in note 4(b) 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 127 to 133. The disclosures in note 16 include the sensitivity of the impairment reversals to changes in key assumptions, including the impact to reach net zero by 2050 (the "Net Zero price scenario").

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 relevant controls related to the valuation of each producing oil and gas asset. We evaluated management's assessment of whether or not impairment reversals or charges indicators were present in respect of each producing oil and gas asset, and thus the completeness of management's impairment tests.

Where indicators were identified, we assessed the methods and models used for consistency with the requirements of IAS 36 "Impairment of Assets".

We evaluated the key assumptions made by management in the measurement of recoverable amounts by performing the following substantive procedures:

Oil Prices:

We assessed group's forecast oil price assumptions by:

- Independently developing a reasonable range of forecasts based on a variety of reputable external forecasts, peer information and market data, against which we compared the group's future oil price assumptions in order to challenge whether they are reasonable;
- In developing our range, we also considered a certain scenario that was described as focussed on the risk of climate change which aligns with the goals to limit temperature rises to well below 2°C; and
- We assessed management's current 'best estimate' of future oil prices including consideration of third party forecasts under scenarios that we interpreted to be consistent with this measurement objective.

Reserve estimates and production profiles:

Through working with our internal oil and gas reserve specialists, 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 external third party reserve experts;
- Assessed the competence, capability and objectivity of the company's internal and external third party reserve experts, through obtaining their relevant professional qualifications and experience;
- Reviewed the external 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;
- Communicated directly with the external third party reserves experts to discuss their scope of work and assess their methodologies used and outputs;
- Compared the production forecasts used in the impairment tests with management's approved reserves and resources estimates;
- Assessed the cash flow forecasts to determine the significant assumptions to which the impairment outcome was most sensitive;
- Substantively tested the hydrocarbon production and cost forecasts used in the impairment tests, including challenging the significant assumptions;
- Compared the production and cost forecasts with similar forecasts from the prior year and challenged significant changes;
- Assessed the reasonableness of the production and cost forecasts relative to each other;
- Performed a retrospective review to check for indications of estimation bias over time; and
- Where relevant, assessed the company's historical forecasting accuracy and whether the estimates had been determined and applied on a consistent basis.

Discount rates:

We assessed the Group's discount rates by working with our internal valuation specialists to develop independent range estimates using independent third party information for TGT, CNV and El-Fayum and comparing those assumptions to management's assumptions.

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 whether the Group's 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.

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

Key observations

Oil Prices

We observed that throughout, the Group's oil price assumptions sit within our reasonable range, albeit towards the higher end. Accordingly, we found the Group's oil price assumptions to be within our reasonable range, and therefore we determined that the Group's "best estimate" oil price assumptions are reasonable.

We also observe that the forecast oil price assumptions aligned with the Paris goals to be lower than the Group's oil price assumptions. The disclosures in note 16 to the financial statements includes the impact of adopting an oil price described as being compliant with achieving the Paris agreement goal to limit temperature rises to well below 2°C ("Paris 2°C Goal").

Reserves estimates and production profiles:

We found that the reserves estimates and production profiles used in the impairment tests to have been appropriately prepared, and found the underlying assumptions we tested to be reasonable.

Discount rates:

The Group's discount rate used for impairment testing, was materially consistent with our independent range estimates and therefore considered appropriate.

Other procedures:

We concluded that the impairment reversals 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.

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	\$3.4m (2021: \$3.2m)	\$3m (2021: \$2.8m)
Basis for determining materiality	4% of the 3-year average of EBITDAX (2021: 4% of the 3-year average of EBITDAX)	Parent company materiality equates to 1.5% of net assets, which is capped at 90% of group materiality (2021: 1.5% of net assets capped at 90% of group materiality)
Rationale for the benchmark applied	We consider a 3-year average of EBITDAX as the most relevant benchmark given the volatility in oil prices, the majority of the group's oil & gas assets are now at the producing stage and the group is in its second full year of operations in Egypt. This reflects the group's performance, noting that EBITDAX is also an input to one of the covenants under the group's Reserve Based Lending 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% (2021: 70%) of group materiality	70% (2021: 70%) of parent company materiality
Basis and rationale for determining performance materiality	In determining performance materiality, we considered the following factors: <ol style="list-style-type: none"> the controls environment within which the group operates, including that related to IT, is not considered to be complex; the responsibility for all key accounting judgements and critical sources of estimation uncertainty is centralised and conducted in the head office in London; the limited number of changes to the business during the year; and 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 Committee that we would report to the Committee all audit differences in excess of \$0.17 million (2021: \$0.16 million), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit 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 100% (2021: 100%) of the group's total assets, 100% (2021: 100%) of the group's revenue and 100% (2021: 100%) of the group's profit before tax.

The Vietnamese component materiality was \$2.1 million (2021: \$2.0 million) and the Egyptian component materiality was \$1.2 million (2021: \$1.1 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.

7.2. Our consideration of the control environment

Reflecting the non-complex controls environment, we did not plan to take a controls reliance approach over financial or IT controls in the current year and we therefore adopted a non-controls reliance approach for our testing. We understood both the IT and financial control environment, and considered the design and implementation of controls over key audit matters set out in section 5.1 above along with revenue and management override of controls to assist and inform the fully substantive audit approach adopted. The Group's consideration of controls is set out in the section 'Internal controls and risk management systems' on page 129 in the Audit, Risk and Internal Control Committee report of the 2022 Annual Report

7.3. Our consideration of climate-related risks

Climate change is considered a principal risk to the Group and its business by Management. Further details are disclosed in the Strategic report of the 2022 Annual Report pages 2 to 107. Through our audit procedures, we:

- Obtained an understanding of management's process for considering the impact of climate-related risks and relevant controls through enquiries performed with the Audit & Risk committee, enquiries and observations of relevant documentation with the ESG committee as well as regular meetings with management;
- To assess the completeness of climate related risks identified by management, we read the minutes of meeting of the ESG committee and specifically inquired management of any climate-related litigations or claims involving the group.
- As disclosed in note 4(b) to the financial statements, Management identified that the group's producing oil & gas properties are short-term in nature are likely to be fully depreciated within 12 years, during which timeframe it is expected that global demand for oil will remain robust. Therefore, due to the relatively short-time frame, Management concluded that the impact of climate change on the group's oil & gas properties depletion, economic useful lives and decommissioning not to be material. Management further identified that the impact of climate change on the group's Exploration & Evaluation assets is similar to the group's producing oil & gas properties, but the potential longevity of those assets has not yet been determined for further consideration. Accordingly, the related risk of material misstatement that we have identified for our audit is the forecast oil assumptions used in the fair value estimates of group's producing oil & gas properties may not appropriately reflect changes in supply and demand, or policy changes such as carbon tax/pricing due to climate change and the energy transition (see the key audit matter in section '5.1 Impairment of producing oil & gas assets' above).

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

In order to address the risk identified, we performed the following procedures:

- With the involvement of our climate change specialists, we read the climate change related disclosures presented in the Strategic Report to consider whether they are materially consistent with the financial statements and our knowledge obtained in the audit, including the disclosure of sensitivities showing the impact on impairment of producing oil & gas assets included in note 16 of the financial statements. We also evaluated management's Task Force on Climate-Related Disclosures in line with the latest guidance, and;
- We challenged management's forecast oil price assumptions to assess whether they are reasonable and present management's current 'best estimate' in accordance with IAS 36 (see the key audit matter in section '5.1 Impairment of producing oil & gas assets' above).

7.4. 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, 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;
- results of our enquiries of management, the directors and the audit committee about their own identification and assessment of the risks of irregularities including those that are specific to the group's sector;
- 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, valuations, and reserves 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 and impairment reversal 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 frameworks 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, 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 licence and environmental regulations.

11.2. Audit response to risks identified

As a result of performing the above, we identified impairment and impairment reversal 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 committee and risk committee and in-house legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance; and
- 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.

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

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 (as set out on page 118);
- 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 page 118);
- the directors' statement on fair, balanced and understandable (set out on page 118);
- the board's confirmation that it has carried out a robust assessment of the emerging and principal risks (set out on page 119);
- the section of the annual report that describes the review of effectiveness of risk management and internal control systems (set out on page 119); and
- the section describing the work of the audit committee (set out on page 127).

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.

14.2. Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made or the part of the directors' remuneration report to be audited is not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

15. Other matters which we are required to address

15.1. Auditor tenure

Following the recommendation of the audit committee, we were appointed by directors on 01 August 2002 to audit the financial statements for the year ending 31 December 2023 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 21 years, covering the years ending 31 December 2002 to 31 December 2022.

15.2. Consistency of the audit report with the additional report to the audit committee

Our audit opinion is consistent with the additional report to the audit 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.

As required by the Financial Conduct Authority (FCA) Disclosure Guidance and Transparency Rule (DTR) 4.1.14R, these financial statements form part of the European Single Electronic Format (ESEF) prepared Annual Financial Report filed on the National Storage Mechanism of the UK FCA in accordance with the ESEF Regulatory Technical Standard ('ESEF RTS'). This auditor's report provides no assurance over whether the annual financial report has been prepared using the single electronic format specified in the ESEF RTS.



ANTHONY MATTHEWS, FCA (SENIOR STATUTORY AUDITOR)

For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom
21 March 2023

Consolidated Income Statement

for the year to 31 December 2022

	Notes	2022 \$ million	2021 \$ million
Continuing operations			
Revenue	5, 6	199.1	134.1
Cost of sales	7	(116.8)	(114.6)
Gross profit		82.3	19.5
Administrative expenses		(10.0)	(13.2)
Impairment reversal/(charge) – Intangible assets	6, 15	0.8	(2.2)
Impairment reversal – Property, plant and equipment	6, 16	27.1	54.6
Impairment charge – Assets classified as held for sale	6, 37	–	(10.4)
Operating profit		100.2	48.3
Other/restructuring expense	8	(0.8)	(3.3)
Loss on disposal	37	(6.3)	–
Investment revenue	5	0.2	–
Finance costs	9	(12.7)	(6.4)
Profit before tax	6	80.6	38.6
Income tax charge	6, 12	(56.2)	(43.3)
Profit/(Loss) for the year	30	24.4	(4.7)
Profit/(Loss) per share (cents)			
	14		
Basic		5.6	(1.1)
Diluted		5.4	(1.1)

Consolidated Statement of Comprehensive Income

for the year to 31 December 2022

	Notes	2022 \$ million	2021 \$ million
Profit/(Loss) for the year	30	24.4	(4.7)
Items that may be subsequently reclassified to profit or loss:			
Fair value loss arising on hedging instruments during the year	25	(18.9)	(27.7)
Less: Loss arising on hedging Instruments reclassified to profit or loss	25	22.5	29.7
Total comprehensive gain/(loss) for the year		28.0	(2.7)

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

CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

Balance Sheets

		Group		Company	
		2022 \$ million	2021 \$ million	2022 \$ million	2021 \$ million
as at 31 December 2022					
	Notes				
Non-current assets					
Intangible assets	15	16.5	12.4	–	–
Property, plant and equipment	16	381.0	399.8	–	–
Right-of-use assets	16, 33	0.8	–	–	–
Investments	17	–	–	335.5	278.7
Loan to subsidiaries		–	–	23.0	27.4
Other assets	18	59.1	48.1	–	–
		457.4	460.3	358.5	306.1
Current assets					
Inventories	19	7.2	10.7	–	–
Trade and other receivables	20	60.9	28.1	0.4	1.4
Tax receivables		2.1	1.5	0.1	0.4
Cash and cash equivalents	21	45.3	27.1	8.8	5.3
Assets classified as held for sale	37	–	62.0	–	–
		115.5	129.4	9.3	7.1
Total assets		572.9	589.7	367.8	313.2
Current liabilities					
Trade and other payables	22	(14.0)	(30.6)	(1.9)	(4.3)
Borrowings	24	(39.6)	(33.3)	–	–
Lease liabilities	33	(0.3)	–	–	–
Tax payable		(5.2)	(5.4)	(1.2)	(1.0)
Liabilities directly associated with assets classified as held for sale	37	–	(8.5)	–	–
		(59.1)	(77.8)	(3.1)	(5.3)
Non-current liabilities					
Other payables	22	(0.9)	–	–	–
Deferred tax liabilities	23	(92.9)	(91.2)	–	–
Borrowings	24	(34.6)	(47.2)	–	–
Lease liabilities	33	(0.5)	–	–	–
Long term provisions	26	(54.3)	(69.1)	–	–
		(183.2)	(207.5)	–	–
Total liabilities		(242.3)	(285.3)	(3.1)	(5.3)
Net assets		330.6	304.4	364.7	307.9
Equity					
Share capital	27	34.3	34.9	34.3	34.9
Share premium	27	58.0	58.0	58.0	58.0
Other reserves	28	253.6	250.5	199.7	202.4
Retained (deficit)/earnings	30	(15.3)	(39.0)	72.7	12.6
Total equity		330.6	304.4	364.7	307.9

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

The profit for the financial year in the accounts of the Company (Co number 3300821) was \$60.7m inclusive of dividends from subsidiary undertakings (2021: \$1.9m 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 21 March 2023 and signed on its behalf by:



JOHN MARTIN Chair



SUE RIVETT Director

Statements of Changes in Equity

for the year to 31 December 2022

	Notes	Group				Total \$ million
		Called up share capital (see Note 27) \$ million	Share premium (see Note 27) \$ million	Other reserves (see Note 28) \$ million	Retained earnings/(deficit) (see Note 30) \$ million	
As at 1 January 2021		31.9	55.4	243.0	(36.6)	293.7
Loss for the year	30	–	–	–	(4.7)	(4.7)
Other comprehensive income	28	–	–	2.0	–	2.0
Shares issued	27, 28	3.0	2.6	5.3	–	10.9
Share-based payments	28	–	–	2.5	–	2.5
Transfer relating to share-based payments	28, 30	–	–	(2.3)	2.3	–
As at 1 January 2022		34.9	58.0	250.5	(39.0)	304.4
Profit for the year	30	–	–	–	24.4	24.4
Other comprehensive income	28	–	–	3.6	–	3.6
Share buy back	27, 28	(0.6)	–	0.6	(2.9)	(2.9)
Treasury shares repurchased	28	–	–	(0.6)	–	(0.6)
Share-based payments	28	–	–	1.7	–	1.7
Transfer relating to share-based payments	28, 30	–	–	(2.2)	2.2	–
As at 31 December 2022		34.3	58.0	253.6	(15.3)	330.6

	Notes	Company				Total \$ million
		Called up share capital (see Note 27) \$ million	Share premium (see Note 27) \$ million	Other reserves (see Note 28) \$ million	Retained earnings/(deficit) (see Note 30) \$ million	
As at 1 January 2021		31.9	55.4	197.6	6.9	291.8
Profit for the year	13, 30	–	–	–	1.9	1.9
Shares issued	27,28	3.0	2.6	5.3	–	10.9
Currency exchange translation differences	28,30	–	–	0.1	1.5	1.6
Share-based payments	28	–	–	2.5	–	2.5
Transfer relating to share-based payments	28, 30	–	–	(3.1)	2.3	(0.8)
As at 1 January 2022		34.9	58.0	202.4	12.6	307.9
Profit for the year	13, 30	–	–	–	60.7	60.7
Share buy back	27, 28	(0.6)	–	0.6	(2.9)	(2.9)
Share-based payments	28	–	–	1.7	–	1.7
Transfer relating to share-based payments	28, 30	–	–	(5.0)	2.3	(2.7)
As at 31 December 2022		34.3	58.0	199.7	72.7	364.7

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

CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

Cash Flow Statements

for the year to 31 December 2022

	Notes	Group		Company	
		2022 \$ million	2021 \$ million	2022 \$ million	2021 \$ million
Net cash from (used in) operating activities	32	53.4	10.8	(11.6)	(7.1)
Investing activities					
Purchase of intangible assets		(4.4)	(15.2)	-	-
Purchase of property, plant and equipment		(25.4)	(24.4)	-	-
Payment to abandonment fund	18	(2.1)	(2.2)	-	-
Consideration in relation to farm out of Egyptian assets ¹		18.4	2.0	-	-
Assignment fee in relation to farm out of Egyptian assets		(0.5)	-	-	-
Other investment in subsidiary undertakings		-	-	-	(8.4)
Dividends received from subsidiary undertakings		-	-	19.0	6.1
Net cash (used in) from investing activities		(14.0)	(39.8)	19.0	(2.3)
Financing activities					
Share based payments		(0.4)	-	-	-
Repayment of borrowings	24	(27.1)	(12.5)	-	-
Proceeds from borrowings	24	16.7	39.9	-	-
Interest paid on borrowings	24	(6.0)	(6.8)	-	-
Lease payments	33	(0.1)	(0.4)	-	-
Net proceeds from issue of share capital		-	10.9	-	10.9
Share buy back	30	(2.9)	-	(2.9)	-
Funding movements with subsidiaries		-	-	(1.0)	-
Net cash (used in) from financing activities		(19.8)	31.1	(3.9)	10.9
Net increase in cash and cash equivalents		19.6	2.1	3.5	1.5
Cash and cash equivalents at beginning of year		27.1	24.6	5.3	3.5
Effect of foreign exchange rate changes		(1.4)	0.4	-	0.3
Cash and cash equivalents at end of year	21	45.3	27.1	8.8	5.3

1) During the year IPR, acting as operator and agent, was authorised to settle its operating liabilities of \$6.6m and investing liabilities of \$8.8m against the consideration due from the associated carry debtor (Note 37) amounting to \$15.4m. The Company has disclosed the underlying cash flows as operating, investing or financing according to their nature on the basis that, as a principal, the entity has the right to the cash inflows and/or the obligation to settle the liability and ensure clarity of disclosure of the operating cash costs of the business.

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 Operational Review and CFO's statement on pages 28 to 34 and 39 to 46, 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 as issued by the International Accounting Standard Board (IASB).

The Financial Statements have also been prepared on a going concern basis of accounting for the reasons set out in the Directors' Report on page 160 and in the CFO's Statement on page 46.

The Financial Statements have been prepared under the historical cost basis, except for the valuation of hydrocarbon inventories (Note 19) and the revaluation of certain financial instruments (Note 25). 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.

- Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16
- Onerous Contracts – Cost of Fulfilling a Contract – Amendments to IAS 37
- Annual Improvements to IFRS Standards 2018-2020
- Reference to the Conceptual Framework – Amendments to IFRS 3

c) New standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2022 year end 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 Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the elements of control. The results of subsidiaries acquired or sold are consolidated for the periods from or to the date on which control passed.

Where necessary, adjustments are made at the Group level to align the accounting policies of the subsidiaries to the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between the members of the Group are eliminated on consolidation.

e) Assets held for sale

Non-current assets are classified as held-for-sale if it is highly probable that they will be recovered primarily through sale rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification as held-for-sale, and actions required to complete the plan of sale should indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn.

Such assets are measured at the lower of their carrying amount and fair value less costs to sell. Impairment losses on initial classification as held for sale and subsequent gains or losses on remeasurement are recognised in profit and loss.

Once classified as held for sale, intangible assets and property, plant and equipment are no longer amortised or depreciated.

f) Investments

Non-current investments in subsidiaries of the Company are shown at cost less provision for impairment. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. Short-term investments with maturities of three to six months are classified as liquid investments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

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 lifting 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/restructuring items

Other/restructuring items represent 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 with a similar economic lives 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/credited 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. Cost is determined on a weighted average cost basis and comprises direct purchase costs. Net realisable value is determined by reference to prices existing at the balance sheet date.

Physical inventories of hydrocarbons are valued at net realisable value in line with well-established industry practices. 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.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, less any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses. The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Group uses its incremental borrowing rate.

The lease liability is presented as a separate line in the consolidated statement of financial position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

n) Share-based payments

Equity-settled awards under share-based incentive plans are measured at fair value at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of the number of equity instruments that will eventually vest. At each reporting date, the Group revises its estimate of the number of equity instruments expected to vest as a result of the effect of non-market-based vesting conditions. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to reserves.

For cash-settled share-based payments, a liability is recognised and 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. Taxable profit differs from net profit as reported in profit or loss because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. 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 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, 33 and 36.

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 2022 and 2021 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 expected credit losses provision, when required.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

Other financial assets

The amount booked as abandonment fund is the share of the fair value of the fund net assets. Cash is contributed into the abandonment funds for both our Vietnam producing fields TGT and CNV. These abandonment funds are controlled by PetroVietnam and, as Pharos retains the rights to the full amount funded, pending commencement of abandonment operations, they are treated as other non-current assets.

The abandonment fund is measured at the lower of the amount of the decommissioning obligation recognised and the Pharos' share of the fair value of the net assets of the fund available to contributors.

Loans to subsidiaries

Loans to subsidiaries are recognised at amortised cost, less expected credit losses provision, when required.

Impairment of financial assets

The Group recognises a loss allowance for expected credit losses on trade receivables and loans to subsidiaries. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The expected credit losses on these financial assets are estimated using the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

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 treatment 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 and zero cost collar) 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 and zero cost collars 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.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and transaction costs) through the expected life of the financial liability to the amortised cost of a financial liability.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

When the Group exchanges with the existing lender one debt instrument into another one with substantially different terms, such exchange is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, the Group accounts for substantial modification of terms of an existing liability or part of it as an extinguishment of the original financial liability and the recognition of a new liability. It is assumed that the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability. If the modification is not substantial, the difference between: (1) the carrying amount of the liability before the modification; and (2) the present value of the cash flows after modification is recognised in profit or loss as the modification gain or loss within other gains and losses.

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.

Decommissioning provisions

Provisions for the costs to decommission oil & gas properties are recognised when the Group has an obligation under the terms and conditions of the agreements and when a reliable estimate can be made.

The abandonment security fund is measured at the lower of the amount of the decommissioning obligation recognised and the contributor's share of the fair value of the net assets of the fund available to contributors.

The provision for the costs of decommissioning oil & gas properties at the end of their economic lives is estimated based on technology, future prices, the expected timing of the activity, and is discounted using the nominal discount rate. The estimates are regularly reviewed and adjusted as appropriate for new circumstances.

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 are translated 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 47 to 60.

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 prices, 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 Ukraine war with increased uncertainties and volatilities on world commodity markets. 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 Directors' Report on page 160 and in the CFO's Statement on page 46.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

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 pages 32 to 34.

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 32, 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 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, particularly 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 value in use, 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 and the relevant fiscal terms. Further information relating to the specific assumptions and uncertainties relevant to impairment tests performed in the year is discussed in Note 16.

Climate change and the energy transition

In preparing the consolidated financial statements, the Directors have considered the impact of climate change and the transition to a low carbon economy, particularly in the context of the risks identified in the TCFD disclosure on pages 79 to 106. The Directors have also considered the impact of climate change in respect of going concern and viability of the Group over the next three years. 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 but was adjusted upwards in 2021 and 2022, partly 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 goal to reach Net Zero by 2050 and aligning with COP26 (the "Net Zero price scenario"). 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 12 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, the impact of climate change will be taken into consideration when the field is transferred from exploration to development stage; (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 8-9 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.

The Directors are aware of the ever-changing risks attached to climate change and will regularly assess these risks against judgements and estimates made in preparation of the Group's financial statements.

5. Total revenue

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

	2022 \$ million	2021 \$ million
Oil and gas sales (see Note 6)	221.6	163.8
Realised losses on commodity hedges (see Note 6 and Note 25)	(22.5)	(29.7)
Investment revenue	0.2	–
	199.3	134.1

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

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

	2022			
	SE Asia \$ million	Egypt \$ million	Unallocated \$ million	Group \$ million
Oil and gas sales (see Note 5)	184.8	36.8	–	221.6
Realised loss on commodity hedges (see Note 5 and Note 25)	–	–	(22.5)	(22.5)
Total revenue	184.8	36.8	(22.5)	199.1
Depreciation, depletion and amortisation - Oil and gas (see Note 7 and Note 16)	(51.0)	(4.1)	–	(55.1)
Depreciation, depletion and amortisation - Other (see Note 16)	–	(0.1)	–	(0.1)
Impairment reversal/(charge) – Intangibles (see Note 15) ²	1.0	–	(0.2)	0.8
Impairment reversal – PP&E (see Note 16)	23.3	3.8	–	27.1
Loss on disposal (see Note 37)	–	(6.3)	–	(6.3)
Profit/(loss) before tax¹	108.3	16.9	(44.6)	80.6
Tax charge on operations (see Note 12)	(47.9)	–	–	(47.9)
Tax charge on impairment reversal (see Note 12)	(8.3)	–	–	(8.3)

	2021			
	SE Asia \$ million	Egypt \$ million	Unallocated \$ million	Group \$ million
Oil and gas sales (see Note 5)	131.0	32.8	–	163.8
Realised loss on commodity hedges (see Note 5 and Note 25)	–	–	(29.7)	(29.7)
Total revenue	131.0	32.8	(29.7)	134.1
Depreciation, depletion and amortisation - Oil and gas (see Note 7 and Note 16)	(43.0)	(8.0)	–	(51.0)
Depreciation, depletion and amortisation - Other (see Note 16)	–	(0.4)	–	(0.4)
Impairment charge – Intangibles (see Note 15)	–	–	(2.2)	(2.2)
Impairment reversal – PP&E (see Note 16)	52.9	1.7	–	54.6
Impairment charge – Assets classified as held for sale (see Note 37)	–	(10.4)	–	(10.4)
Profit/(loss) before tax¹	98.8	(10.1)	(50.1)	38.6
Tax charge on operations (see Note 12)	(24.8)	–	–	(24.8)
Tax charge on impairment reversal (see Note 12)	(18.5)	–	–	(18.5)

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) Includes \$1.0m reversal of impairment of Block 125&126 tax receivable (other receivable – current), offset by \$(0.2)m write-off of seismic costs relating to Israel exploration Zones A and C.

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 \$182.5m and \$36.8m which arose from the Group's three largest customers, who contributed more than 10% to the Group's oil and gas revenue (2021: \$128.3m and \$32.8m in South East Asia and Egypt from the Group's two largest customers).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

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.

	2022 \$ million	2021 \$ million
Vietnam	97.1	131.0
Egypt	36.8	32.8
China	87.7	-
	221.6	163.8

Non-current assets

	2022 \$ million	2021 \$ million
Vietnam	332.5	360.8
Egypt	65.8	51.4
	398.3	412.2

Excludes other assets.

7. Cost of sales

	2022 \$ million	2021 \$ million
Depreciation, depletion and amortisation (see Note 16)	55.1	51.0
Production based taxes	14.7	10.1
Export duty	3.2	-
Production operating costs	45.6	53.6
Inventories	(1.8)	(0.1)
	116.8	114.6

8. Other/restructuring expense

	2022 \$ million	2021 \$ million
Redundancy costs	0.1	3.0
Premium – lease transfer ¹	0.7	0.3
	0.8	3.3

1) Relates to the transfer of the London office lease to a third party, at which point the Company derecognised the right-of-use asset and associated lease liability. In 2020, \$1.2m was transferred to an escrow account held by a third party (recorded within prepayments). The amount was released to the income statement over 21 months on the condition the new tenant paid the rent to the landlord. In 2022, the remaining balance of \$0.7m (2021: \$0.3m) was released from the escrow account and paid to the new tenant.

9. Finance costs

	2022 \$ million	2021 \$ million
Unwinding of discount on provisions (see Note 26)	1.3	0.8
Interest expense payable and similar fees (see Note 24)	6.0	3.8
Interest on lease liabilities (see Note 33)	-	-
Amortisation of capitalised borrowing costs (see Note 24)	4.1	2.4
Net foreign exchange losses/(gains)	1.3	(0.6)
	12.7	6.4

In 2022, \$1.3m relates to the unwinding of discount on the provisions for decommissioning (2021: \$0.8m). 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 8-9 years) in the removal and decommissioning of the facilities currently in place (see Note 26).

Following the June and December 2022 redeterminations 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 loss of \$2.6m and amortised cost of \$1.5m have been recognised in profit or loss.

10. Auditor's remuneration

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

	2022 \$ million	2021 \$ million
Fees payable to the Company's auditor and their associates for the audit of the Company's annual accounts	418	385
Fees payable to the Company's auditor and their associates for other services to the Group:		
Audit of the Company's subsidiaries	100	101
Audit of the Company's subsidiaries relating to the prior year	36	63
Total audit fees	554	549
Audit related assurance services – half year review	127	130
Other assurance services	40	134
Total non-audit fees	167	264

The non-audit fees during 2022 included the half year review and other assurance services associated primarily with agreed upon procedures relating to Vietnam (2021: associated primarily with the reporting accountant work in relation to the farm-out of the Egypt concessions, of which \$27,400 are required by UK law or regulation, and the 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

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 page 133.

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 52 (2021: 74), of which 47 (2021: 69) were administrative personnel and 5 (2021: 5) were operations personnel. Their aggregate remuneration comprised:

	Group	
	2022 \$ million	2021 \$ million
Wages and salaries	8.0	9.1
Social security costs	0.8	0.8
Share-based payment expense (see Note 31)	1.7	2.7
Other pension costs under money purchase schemes	0.5	0.9
Other benefits	0.6	0.7
	11.6	14.2

In accordance with the Group's accounting policy \$2.4m (2021: \$1.2m) of the Group's staff costs above have been capitalised, of which \$1.8m (2021: \$1.0m) relates to our Vietnam assets and \$0.6m (2021: \$0.2m) relates to our Egypt assets.

In 2022, total staff costs were \$11.6m (2021: \$14.2m) and includes the costs of head office and Pharos' subsidiary employees. Excluding the impact of IFRS 2 share-based payment expense and bonuses paid to staff, the underlying costs have fallen 15% year on year - \$7.2m (2021: \$8.5m).

Redundancy costs of \$0.1m (2021: \$3.0m) for both the head office in London and the Egypt office in Cairo are disclosed in other/restructuring expense in the Income Statement (Note 8).

12. Tax

	2022 \$ million	2021 \$ million
Current tax charge	54.5	37.6
Deferred tax credit on operations (see Note 23)	(6.6)	(12.8)
Deferred tax charge on impairment reversals (see Note 16 and 23)	8.3	18.5
Total tax charge	56.2	43.3

The Group's corporation tax is calculated at 50% (2021: 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 2022 and 2021, both current and deferred taxation have arisen in overseas jurisdictions only.

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

	2022 \$ million	2021 \$ million
Profit before tax	80.6	38.6
Profit before tax at 50% (2021: 50%)	40.3	19.3
Effects of:		
Non-taxable income	(3.3)	(8.0)
Non-deductible expenses	5.6	4.5
Tax losses not recognised	13.8	28.7
Adjustments to tax charge in respect of previous periods	(0.2)	(1.2)
Tax charge for the year	56.2	43.3

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 back of \$(0.5)m in 2022 related to the partial reversal of an impairment of exploration assets in Vietnam.

Non-taxable income principally relates to Vietnam impairment reversal of \$(3.3)m (2021: \$(8.0)m). Non-deductible expenses primarily relate to Vietnam DD&A charges for costs previously capitalised, which are non-deductible for Vietnamese tax purposes of \$5.6m (2021: \$1.8m). A further \$nil (2021: \$2.7m) 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 historic 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. For 2021, it also includes losses arising in Egypt for which no future benefit can be obtained under the terms of the concession agreement. During 2022, Egypt concessions recorded a net profit before tax of \$16.9m (profit after tax impact of \$8.5m) which has been offset against tax losses not recognised, as Egypt is in a historic loss making position. The group did not recognise deferred tax assets in relation to historical tax losses available to offset future taxable profits of \$28m on the basis that there will be no future benefits arising from these losses as any taxes in the future will be paid by EGPC on behalf of the group.

13. Profit/(loss) attributable to Pharos Energy Plc

The profit for the financial year in the accounts of the Company was \$60.7m inclusive of dividends from subsidiary undertakings (2021: profit of \$1.9m). As provided by section 408 of the Companies Act 2006, no income statement or statement of comprehensive income is presented in respect of the Company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

14. Earnings per share

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

	Group	
	2022 \$ million	2021 \$ million
Gain/(Loss) for the purposes of basic profit/(loss) per share	24.4	(4.7)
Effect of dilutive potential ordinary shares – Cash settled share awards and options	(0.3)	–
Gain/(Loss) for the purposes of diluted profit/(loss) per share	24.1	(4.7)

	Number of shares (million)	
	2022	2021
Weighted average number of ordinary shares	439.3	437.8
Effect of dilutive potential ordinary shares – Share awards and options	0.9	–
Weighted average number of ordinary shares for the purpose of diluted profit/(loss) per share	440.2	452.0

In accordance with IAS 33 “Earnings per Share”, the effects of 14.2m antidilutive potential shares have not been included when calculating dilutive earnings per share for the year ended 31 December 2021, as the Group was loss making.

15. Intangible assets

	Group		Company	
	2022 \$ million	2021 \$ million	2022 \$ million	2021 \$ million
Exploration and evaluation expenditure				
As at 1 January	12.4	1.5	–	–
Additions	4.3	15.2	–	–
Impairment – Intangibles ¹	(0.2)	(2.2)	–	–
Reclassified as assets held for sale (see Note 37)	–	(2.1)	–	–
As at 31 December	16.5	12.4	–	–

1) 2022 excludes \$1.0m impairment reversal of Block 125&126 tax receivable (other receivable – current) which was dependent on the E&E being developed.

Intangible assets at 2022 year-end comprise the Group’s exploration and evaluation projects which are pending determination. Included in the additions is Blocks 125 & 126 in Vietnam \$3.1m (2021: \$10.6m), Egypt \$1.0m (2021: \$3.9m) of which \$0.9m (2021: \$0.6m) relates to North Beni Suef, and \$0.2m (2021: \$0.7m) for Israel.

During 2022, \$0.2m was spent in Israel on geoscience and geophysical studies (2021: \$0.7m). Following completion of the seismic processing in order to mature prospectivity ahead of a drilling decision, Capricorn as the operator and along with the Company and other JV partners, informed the Ministry of Energy

of the JV’s intention to relinquish the licences. The bank guarantee of \$2.7m held, as at 31 December 2021, for the Israeli offshore exploration licenses, was released accordingly. At 31 December 2022, the Group has therefore decided to write off the \$0.2m in Israel as no substantive expenditure has been identified as indicated in IFRS 6.

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 was either budgeted or planned in the near future.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

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.

At 31 December 2021, interpretation of the seismic data in relation to Blocks 125 and 126 in Vietnam was ongoing and the carrying value of Egypt exploration and evaluation expenditure was to be reviewed following completion of the farm out of the Egypt concessions.

At 31 December 2022, on Block 125, the 3D seismic processing was complete and the ongoing interpretation of the data resulted in the mapping of a variety of Prospects in the relatively unexplored deep water basin. A commitment well was planned for 2023 with an estimated cost of \$15m, but the focus on deep water means that a drillship is needed and the Company has been unable to source one for 2023. An application has therefore been

submitted for an extension of the license and the Company now plans to drill a commitment well in 2024. In Egypt, as part of the planned work programme for 2023, two commitment wells are expected to be drilled in the El Fayum Concession. In order to meet a commitment on North Beni Suef, two exploration wells are expected to be drilled in calendar year 2023.

Whilst ongoing costs for exploration are therefore forecast and funds available for future exploration, there is insufficient certainty of full recovery to justify the reversal of the previous impairment charges in 2020. The accumulated impairment charges against exploration and evaluation expenditure at 31 December 2022 stands at \$25.6m (2021: \$25.4m). This will be kept under review as the exploration activity continues.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

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 2021	1,208.6	1.9	1,210.5	–
Additions	24.6	0.1	24.7	–
Revision in decommissioning asset	(1.9)	–	(1.9)	–
Reclassified as assets held for sale (see Note 37)	(139.4)	(1.1)	(140.5)	–
As at 1 January 2022	1,091.9	0.9	1,092.8	–
Additions	23.8	0.2	24.0	–
Revision in decommissioning asset (see Note 26)	(13.9)	–	(13.9)	–
As at 31 December 2022	1,101.8	1.1	1,102.9	–
Depreciation				
As at 1 January 2021	773.9	0.8	774.7	–
Charge for the year	51.0	0.4	51.4	–
Impairment (reversal)	(54.6)	–	(54.6)	–
Reclassified as assets held for sale (see Note 37)	(77.8)	(0.7)	(78.5)	–
As at 1 January 2022	692.5	0.5	693.0	–
Charge for the year	55.1	0.1	55.2	–
Impairment (reversal)	(27.1)	–	(27.1)	–
As at 31 December 2022	720.5	0.6	721.1	–
Carrying amount				
As at 31 December 2022	381.3	0.5	381.8	–
As at 31 December 2021	399.4	0.4	399.8	–
Property, plant and equipment	380.5	0.5	381.0	–
Right-of-use assets (see Note 33)	0.8	–	0.8	–
As at 31 December 2022	381.3	0.5	381.8	–
Property, plant and equipment	399.4	0.4	399.8	–
Right-of-use assets (see Note 33)	–	–	–	–
As at 31 December 2021	399.4	0.4	399.8	–

As a result of previously recognised impairment losses, combined with the ongoing oil price volatility, economic uncertainty leading to an increase in inflation and discount rates, 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 value in use 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

Summary of Impairments - Oil and Gas properties	TGT \$m	CNV \$m	Egypt \$m	Total \$m
2022				
Pre-tax impairment reversal	19.7	3.6	3.8	27.1
Deferred tax charge	(6.9)	(1.4)	–	(8.3)
Post-tax impairment reversal	12.8	2.2	3.8	18.8
Reconciliation of carrying amount:¹				
As at 1 Jan 2022	266.0	84.2	49.2	399.4
Additions	7.0	3.2	13.6	23.8
Changes in decommissioning asset ²	(11.1)	(2.8)	–	(13.9)
DD&A	(39.2)	(11.8)	(4.1)	(55.1)
Impairment reversal	19.7	3.6	3.8	27.1
As at 31 Dec 2022	242.4	76.4	62.5	381.3
2021				
Pre-tax impairment reversal	49.1	3.8	1.7	54.6
Deferred tax charge	(17.1)	(1.4)	–	(18.5)
Post-tax impairment reversal	32.0	2.4	1.7	36.1
Reconciliation of carrying amount:¹				
As at 1 Jan 2021	239.3	91.2	104.2	434.7
Additions	11.4	0.3	12.9	24.6
Reclassified as assets held for sale	–	–	(1.4)	(1.4)
Changes in decommissioning asset ²	(1.0)	(0.9)	–	(1.9)
DD&A	(32.8)	(10.2)	(8.0)	(51.0)
Impairment reversal	49.1	3.8	1.7	54.6
Sub-total	266.0	84.2	109.4	459.6
Reclassified as assets held for sale	–	–	(60.2)	(60.2)
As at 31 Dec 2021	266.0	84.2	49.2	399.4

1) Egypt carrying value reflects 45% share (2021: 100%).

2) Changes in decommissioning asset for TGT is due to changes in discount rate and the field abandonment plan, whereas CNV reflects the change in discount rate only (2021: change in discount rate only for both TGT and CNV).

Vietnam

The key assumptions to which the fair value measurement is most sensitive are oil price, discount rate and 2P reserves (2021: oil price, discount rate and 2P reserves). As at 31 December 2022, the fair value of the assets are estimated based on a post-tax nominal discount rate of 13.3% (2021: 11.4%) and a Brent oil price of \$88.3/bbl in 2023, \$84.8/bbl in 2024, \$79.4/bbl in 2025, \$74.5/bbl in 2026 plus inflation of 2.0% thereafter (2021: an oil price of \$73.9/bbl in 2022, \$70.2/bbl in 2023, \$67.8/bbl in 2024, \$68.0/bbl in 2025 plus inflation of 2.0% thereafter).

Testing of sensitivity cases indicated that a \$5/bbl reduction in long-term oil price used when determining the value in use method would result in post-tax impairments charge (compare to new NBV) of \$11.8m on TGT and \$3.7m on CNV. A 1% increase in discount rate would result in post-tax impairments of \$4.0m on TGT and \$1.0m on CNV.

We have also run sensitivities utilising the IEA (International Energy Agency) scenarios described as being consistent with achieving the COP26 agreement goal to reach net zero by 2050 (the "Net Zero price scenario"). The nominal Brent prices used in this scenario were as follows; \$88.3/bbl in 2023, \$84.8/bbl in 2024, \$79.4/bbl in 2025, \$72.7/bbl in 2026, \$65.6/bbl in 2027, \$58.3/bbl in 2028, \$50.7/bbl in 2029 and \$42.7/bbl in 2030. Using these prices and an 13.3% discount rate would result in additional post-tax impairments of \$13.8m on TGT and \$5.0m on CNV.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

Egypt

The key assumptions to which the fair value measurement is most sensitive are oil price, discount rate, capital spend and 2P reserves (2021: oil price, discount rate, capital spend and 2P reserves). As at 31 December 2022, the fair value of the assets are estimated based on a post-tax nominal discount rate of 15.9% (2021: 14%) and a Brent oil price of \$88.3/bbl in 2023, \$84.8/bbl in 2024, \$79.4/bbl in 2025, \$74.5/bbl in 2026 plus inflation of 2.0% thereafter (2021: an oil price of \$73.9/bbl in 2022, \$70.2/bbl in 2023, \$67.8/bbl in 2024, \$68.0/bbl in 2025 plus inflation of 2.0% thereafter).

Testing of sensitivity cases indicated that a \$5/bbl reduction in long term oil price used would result in an impairment of \$7.8m (compare to new NBV). A 1% increase in discount rate would result in an impairment charge of \$2.8m. We have also run a sensitivity using a 15.9% discount rate and the Net Zero price scenario which would result in an additional impairment of \$25.5m.

Other considerations

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

The Company and the Group had investments in the following subsidiary undertakings as at 31 December 2022.

	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	2,4	e
SOCO Vietnam Ltd	Cayman Islands	Vietnam	Oil and gas development and production	100	2,3	d
Pharos Exploration Limited	Jersey	–	Investment holding	100	1	a
Pharos SEA Limited	Jersey	–	Investment holding	100	1	a
SOCO Exploration (Vietnam) Limited	Cayman Islands	Vietnam	Oil and gas exploration	100	2,5	d
OPECO, Inc	USA	–	Investment holding	100	2,4	c
Pharos El Fayum	Cayman Islands	Egypt	Oil and gas development and production	100	1,6	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

Footnotes:

Group investments

- Investments held directly by Pharos Energy Plc.
- Investments held indirectly by Pharos Energy Plc.

Joint operations

- 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.
- 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.
- 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.
- Pharos El Fayum holds a 45% working interest in the El Fayum Concession and a 45% working interest in the North Beni Suef Concession. The Field operational base for the El Fayum Concession

is development/production. The remaining 55% working interest in the El Fayum Concession is held by IPR Lake Qarun Petroleum Co ("IPR Lake Qarun"), a wholly owned subsidiary of IPR Energy AG. IPR Lake Qarun is nominally the operator of the El Fayum Concession, but development and production operations on the Concession are undertaken through the joint operating company Petrosilah, an Egyptian joint stock company owned jointly by IPR Lake Qarun, Pharos El Fayum and the Egyptian state oil and gas company Egyptian General Petroleum Corporation (EGPC). The North Beni Suef Concession is in the exploration phase and is operated by IPR Lake Qarun, which holds the remaining 55% working interest.

Registered addresses

- 47 Esplanade, St Helier, Jersey, JE1 0BD, Channel Islands
- Eastcastle House, 27/28 Eastcastle Street, London W1W 8DH, United Kingdom
- Corporation Trust Center, 1209 Orange Street, Wilmington, DE 19801, USA
- c/o The offices of Trident Trust Company (Cayman) Limited, One Capital Place, P.O. Box 847, Grand Cayman, KY1-1103, Cayman Islands
- c/o Portcullis (Cook Islands) Ltd, Portcullis Chambers, Tutakimoa Road, Avarua, Rarotonga, Cook Islands

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

Divestments:

The following subsidiary undertaking was dissolved during the year:

Pharos Energy NBS

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.

	Investments	
	2022 \$ million	2021 \$ million
Subsidiary undertakings		
As at 1 January	278.7	268.1
Additions to investments	0.6	2.7
Impairment reversal	56.2	7.9
As at 31 December	335.5	278.7

The Directors believe that the carrying value of the investments is supported by their underlying net assets.

At each year end, the carrying value of investments in subsidiaries is compared against recoverable amount determined using the value in use method. During 2022, the Company recorded a net impairment reversal of \$56.2m in investments in subsidiaries in relation to the underlying net asset values of Vietnam and Egypt operations.

Loans to subsidiary undertakings are unsecured and payable on demand. The carrying value of the loans is compared to liquid assets held by the subsidiary and an assessment is made on the ability of the entity to settle the liability. For 2022, a loss allowance of \$2.3m was recognised in relation to loans to subsidiary undertakings during the year.

Audit exemptions for subsidiary company

The Group has elected to take advantage of the exemption from audit available under section 479A of the Companies Act 2006 in respect of its wholly owned subsidiary, Pharos Energy Israel Limited (incorporated in England and Wales with company number 12645819), for the year ended 31 December 2022. The exemption is available for qualifying subsidiaries that fulfil a set of conditions. As a result, statutory financial statements will not be audited for Pharos Energy Israel Limited. In accordance with section 479C of the Companies Act 2006, the Company will guarantee the liabilities and commitments of Pharos Energy Israel Limited. As at 31 December 2022, the total sum of these liabilities and commitments is \$0.1m (2021: \$0.8m).

18. Other non-current assets

	Group		Company	
	2022 \$ million	2021 \$ million	2022 \$ million	2021 \$ million
Amounts falling due after one year:				
Abandonment security fund	50.2	48.1	–	–
Contingent consideration on Egypt farm-out (see Note 37)	8.9	–	–	–
	59.1	48.1	–	–

Other non-current assets mainly 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 controlled 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 2022, the Group has contributed \$2.1m (2021: \$2.2m). As at 31 December 2022, the Group's total contribution to the funds was \$50.2m (2021: \$48.1m).

A further \$8.9m (2021: \$nil) relates to Egypt and non-current contingent consideration due from farm-out with IPR. The Group is entitled to contingent consideration depending on the average Brent Price each year from 2022 to the end of 2025 (with floor and cap at \$62/bbl and c.\$90/bbl respectively). The contingent consideration is calculated yearly and is capped at a maximum total payment of \$20.0m (see Note 37).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

19. Inventories

	Group		Company	
	2022 \$ million	2021 \$ million	2022 \$ million	2021 \$ million
Crude oil and condensate	7.2	5.9	–	–
Warehouse stocks and materials	–	11.1	–	–
Reclassified as assets held for sale (see Note 37)	–	(6.3)	–	–
	7.2	10.7	–	–

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 \$nil (2021: \$11.1m) all relates to Egypt.

20. Trade and other receivables

	Group		Company	
	2022 \$ million	2021 \$ million	2022 \$ million	2021 \$ million
Amounts falling due within one year				
Trade receivables	33.2	23.8	–	–
Other receivables	27.0	1.0	–	0.9
Prepayments and accrued income	0.7	5.3	0.4	0.5
Reclassified as assets held for sale (see Note 37)	–	(2.0)	–	–
	60.9	28.1	0.4	1.4

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 2022 are trade receivables of \$10.3m and \$22.4m (after risk factor provision of \$1.8m) respectively, which arose from the Group's two largest customers (2021: \$16.3m and \$7.1m 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 (2021: nil). In Egypt, the average credit period on sales is 194 days (2021: 78 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, 99% (2021: 98%) 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 2022, an ECL provision of \$1.8m has been recorded against trade receivables in Egypt due to collection delays caused by the devaluation of EGP and ongoing restrictions on outgoing USD transfers by the Central Bank of Egypt. At 31 December 2021, it was concluded that the ECL related to trade receivables was immaterial.

Included in other receivables is \$20.9m (2021: \$nil) of carry, the remaining balance of disproportionate funding contribution from IPR following completion of the farm-out transaction of Egyptian assets, as disclosed in Note 37.

Included in prepayments is \$nil (2021: \$0.9m) held by Sheppard & Wedderburn LLP on a 'quasi escrow' basis to be released to the 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 2022, cash and cash equivalents was \$45.3m (2021: \$27.1m). Of this balance, \$7.4m (2021: \$0.7m) 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.

At 31 December 2021, Pharos held \$2.7m cash in relation to bank guarantees for the Israeli offshore exploration licenses. In 2022, Capricorn, Ratio and Pharos reached agreement to relinquish the Israeli licences, and Capricorn as operator has informed the Israeli Ministry of Energy of the parties' intention. The bank guarantees were no longer required and released accordingly.

22. Trade and other payables

	Group		Company	
	2022 \$ million	2021 \$ million	2022 \$ million	2021 \$ million
Amounts falling due within one year:				
Trade payables	–	7.9	–	–
Other payables	6.3	8.0	1.1	1.2
Derivative financial instruments (see Note 25)	1.1	6.5	–	–
Accruals and deferred income	6.6	16.7	0.8	3.1
Reclassified as liabilities associated with assets held for sale (see Note 37)	–	(8.5)	–	–
	14.0	30.6	1.9	4.3
Amounts falling due after one year:				
Other payables	0.9	–	–	–
	0.9	–	–	–

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.

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 47 to 60.

Accruals and deferred income include \$2.5m (2021: \$3.4m) in respect of a royalty provision for Egypt and reflects the amount payable in the next year. 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.

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 2021	82.6	2.9	85.5
Charge to income (see Note 12)	5.7	–	5.7
As at 1 January 2022	88.3	2.9	91.2
Charge to income (see Note 12)	0.9	0.8	1.7
As at 31 December 2022	89.2	3.7	92.9

The charge to income includes a deferred tax charge of \$8.3m (2021: \$18.5m charge) 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 \$143.2m (2021: \$129.0m). The gross losses have no expiry date.

A UK entity in the Group has entered into commodity swaps designated as cash flow hedges. In accordance with IAS 12, a deferred tax asset has not been recognised in relation to the hedging losses of \$22.5m recorded in the year as it is unlikely that the UK tax group will generate sufficient taxable profit in the future, against which the deductible temporary differences can be utilised.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

24. Borrowings

	2022 \$ million	Group 2021 \$ million
Borrowings:		
Uncommitted Revolving credit facility	9.2	6.5
Reserve Based Lending Facility	65.0	78.1
Less one-off adjustments and amortisation of capitalised borrowing costs	-	(4.1)
Carrying value of total debt	74.2	80.5
Current		
Current	39.6	33.3
Non-current		
Non-current	34.6	47.2
Carrying value of total debt	74.2	80.5

	less than 1 year \$ million	1-2 years \$ million	2-5 years \$ million	Group \$ million
Maturity - borrowings:				
Uncommitted Revolving credit facility	9.2	-	-	9.2
Reserve Based Lending Facility	30.4	24.6	10.0	65.0
	39.6	24.6	10.0	74.2

The maturity analysis for borrowings details the Group's remaining contractual maturity for its borrowings with agreed repayment periods. The tables have been drawn up based on the undiscounted cash flows of borrowings based on the earliest date on which the Group can be required to pay. The reserve based lending facility is based on December 2022 redetermination.

Changes in liabilities arising from financing activities:

	2022 \$ million	2022 \$ million	2022 \$ million	2021 \$ million
	Credit facility	RBL	Total Borrowings	Total Borrowings
Carrying value as of 1 January	6.5	74.0	80.5	53.7
Proceeds from Uncommitted Revolving credit facility	16.7	-	16.7	18.1
Proceeds from RBL	-	-	-	21.8
Repayments of borrowings	(14.0)	(13.1)	(27.1)	(12.5)
Amortisation of capitalised borrowing costs (see Note 9)	-	4.1	4.1	2.4
Interest payable and similar fees (see Note 9)	0.6	5.4	6.0	3.8
Interest paid during the year	(0.6)	(5.4)	(6.0)	(6.8)
Carrying value as of 31 December	9.2	65.0	74.2	80.5

See Note 33 for movements in lease liabilities which, together with borrowings, represent the Group's financing related liabilities.

Reserve Based Lending facility (RBL)

In September 2018, the Group signed a \$125m Reserve Based Lending facility (RBL) secured against the Group's producing assets in Vietnam. The RBL had a five-year term and was due to mature in September 2023. In July 2021, the Group completed the refinancing of its RBL. The new RBL provides access to up to a committed US\$100m with a further US\$50m available on an uncommitted "accordion" basis, has a four-year term that matures in July 2025 and bears a per annum interest rate of 4.75% plus USD LIBOR until July 2023 and then 5.25% plus LIBOR until the final maturity date.

Extending the tenor of the facility by 22 months in June 2021, allowed for a re-phasing of the repayment schedule and the provision of additional funds available for general corporate purposes. Immediately prior to the refinancing the outstanding loan balance on the original RBL stood at \$56.3m, following the refinancing this was increased to \$78.1m.

As the terms of the refinanced RBL did not result in a substantially different discounted present value of cash flows from the original facility (less than 10%), the refinancing of the RBL was considered as a modification rather than an extinguishment of the original facility. Accordingly, the refinancing of the RBL was accounted for as a non-substantial modification and the fees paid to the lenders together with legal fees, totalling \$2.9m, related to the refinancing will be amortised over the remaining term of the modified liability along with the remaining unamortised costs associated with the original facility.

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. For the year 2022, the principal repayment made amounted to \$13.1m (2021: \$0.9m).

The \$30.4m, categorised as current, is based on the outcome of the December 2022 RBL redetermination criteria and will likely change following the June 2023 redetermination.

Discussions are ongoing with the RBL banking group to amend the reference benchmark interest rate of USD LIBOR to the Secured Overnight Financing Rate (SOFR). The Group anticipates finalising this amendment in the first half of 2023.

The RBL is subject to a number of financial covenants, all of which have been complied with during the 2022 and 2021 reporting periods.

Uncommitted revolving credit facility - National Bank of Egypt

Pharos El Fayum signed an uncommitted revolving credit facility for discounting (with recourse) of up to \$18m with the National Bank of Egypt (UK). In January 2023, another addendum was signed extending the availability of the facility to 31 March 2024. This facility has been put in place to mitigate the risk of late payment of our debtors. Under this arrangement, Pharos is able to access cash from the facility, of up to 60% of the value of each El Fayum oil sales invoice, presenting the invoices as evidence to support its ability to repay the facility. The oil sales invoices remain due to Pharos and it retains the credit risk. The Group therefore continues to recognise the receivables in their entirety in its balance sheet.

Loans are available for up to one year from the date of utilisation and bear a per annum interest rate of USD LIBOR plus 3.00% for initial advances and 3.50% for any extensions beyond 180 days from the date of the utilisation. Discussions are ongoing with

the National Bank of Egypt to amend the reference benchmark interest rate of USD LIBOR to the Secured Overnight Financing Rate (SOFR). The Group anticipates finalising this amendment in the first half of 2023. The amount repayable under the agreement at 31 December 2022 was \$9.2m (2021: \$6.5m) and it is presented as borrowing under current liabilities. Performance under the facility agreement is subject to a parent company guarantee from Pharos Energy plc.

25. Hedge transactions

During 2022, Pharos entered into different commodity (swap and zero cost collar) hedges to protect the Brent component of forecast oil sales and to ensure future compliance with its obligations under the reserve based lending facility (RBL) over the producing assets in Vietnam. Pharos was hedged more than required under the conditions of the RBL and higher than the Company would normally commit to in order to support stress testing for going concern and the working capital test required for the prospectus for the Egypt farm down. As a result, the majority of hedged production volumes (61%) were in H1 2022, leading to realised losses of \$17.3m out of total realised losses of \$22.5m for the year in order to meet these requirements.

The commodity hedges run until December 2023 and are settled monthly. For 2022, 30% of the Group's total production was hedged, securing a minimum price for the hedged volumes of \$67.9/bbl. The Group's RBL requires the Company to hedge at least 35% of Vietnam RBL production volumes and the current hedging programme meets this requirement through to December 2023, leaving 71% of Group production unhedged (2021: cover was 23% of the Group's forecast production until December 2022, securing a minimum price for this hedged volume of \$68.2 per barrel).

A summary of hedges outstanding as at 31 December 2022 is presented below, which are all zero cost collar.

	1Q23	2Q23	3Q23	4Q23
Production hedge per quarter - 000/bbls	180	180	180	45
Min. Average value of hedge - \$/bbl	65.33	65.33	63.33	63.33
Max. Average value of hedge - \$/bbl	102.88	102.88	102.23	107.80

Pharos has designated the swaps and zero cost collars 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 2022 a loss of \$22.5m was realised (2021: loss of \$29.7m). The outstanding unrealised loss on open position as at 31 December 2022 amounts to \$0.7m (2021: loss of \$4.3m).

The carrying amount of the swaps and zero cost collars 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 2022 was \$1.1m (2021: liability position \$6.5m).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

26. Long-term provisions

	Group		Company	
	2022 \$ million	2021 \$ million	2022 \$ million	2021 \$ million
Decommissioning provision	54.3	66.9	–	–
Royalty provision	–	2.2	–	–
	54.3	69.1	–	–

	Group	
	2022 \$ million	2021 \$ million
Movement in decommissioning		
As at 1 January	66.9	68.0
New provisions and changes in estimates	(13.9)	(1.9)
Unwinding of discount (see Note 9)	1.3	0.8
As at 31 December	54.3	66.9

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 8-9 years) in the removal and decommissioning of the facilities currently in place. The provision is calculated using an inflation rate of 2.0% (2021: 2.0%) and a discount rate of 3.8% (2021: 1.5%). The \$13.9m decrease in provision in 2022 was driven by the increase in discount rate compared to prior year and also a revision to the TGT field abandonment plan, partially offset by the increase in abandonment costs relating to the TGT infill wells drilling programme completed during the year. The \$1.9m decrease in provision in 2021 was also driven by an increase in discount rate compared to prior year, partially offset by the increase in abandonment costs relating to the TGT infill wells drilling programme completed during the year. No decommissioning obligations exist in Egypt under the terms of the concession agreement.

The royalty provision in 2021 related to a historical arrangement granting a 3% royalty on Pharos's share of profit oil and excess cost recovery from El Fayum in Egypt. The balance as at 31 December 2022 of \$2.5m falls due for payment in 2023 and has therefore been disclosed in current trade and other payables in Note 22.

27. Share capital and Share premium

Share capital

Ordinary Shares of £0.05 each

	Group and Company			
	2022 Shares	2021 Shares	2022 \$ million	2021 \$ million
Issued and fully paid	441,795,126	451,684,869	34.3	34.9

	Group and Company		Group and Company	
	2022 \$ million	2021 \$ million	2022 \$ million	2021 \$ million
Share capital				
As at 1 January	34.9	31.9		
Shares issued	–	3.0		
Share buy back	(0.6)	–		
Issued and fully paid	34.3	34.9		
Share premium				
As at 1 January			58.0	55.4
Premium arising on issue of equity shares			–	3.4
Share issue costs			–	(0.8)
As at 31 December			58.0	58.0

As at 31 December 2022, authorised share capital comprised 600 million (2021: 600 million) ordinary shares of £0.05 each with a total nominal value of £30m (2021: £30m).

In July 2022, in order to deliver increased value to shareholders through share price accretion, the Company initiated a share buyback programme to purchase \$3m (excluding stamp duty and expenses) of the Company's ordinary shares and this programme successfully completed by year end. A total of 10.3 million shares were bought, at a daily average price of 24.4p.

The Board strongly believes that the Company's shares are still trading at a material discount to their underlying net asset value, despite the performance across the Group's asset base, and the Board remains of the view that a continuation of share buybacks is an appropriate means of returning value to shareholders. Therefore, the Company plans to continue with the share buyback programme in 2023 and has pledged a further \$3m commitment (excluding stamp duty and expenses).

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 2021	100.3	188.7	(45.3)	(6.3)	5.6	243.0
Other comprehensive income	–	–	–	2.0	–	2.0
Shares issued	–	5.3	–	–	–	5.3
Share-based payments	–	–	–	–	2.5	2.5
Transfer relating to share-based payments	–	–	1.0	–	(3.3)	(2.3)
As at 1 January 2022	100.3	194.0	(44.3)	(4.3)	4.8	250.5
Other comprehensive income	–	–	–	3.6	–	3.6
Share buy back	0.6	–	–	–	–	0.6
Treasury shares repurchased	–	–	(0.6)	–	–	(0.6)
Share-based payments	–	–	–	–	1.7	1.7
Transfer relating to share-based payments	–	–	2.2	–	(4.4)	(2.2)
As at 31 December 2022	100.9	194.0	(42.7)	(0.7)	2.1	253.6

	Company				
	Capital redemption reserve \$ million	Merger reserve \$ million	Own shares \$ million	Share-based payments \$ million	Total \$ million
As at 1 January 2021	100.3	131.8	(40.3)	5.8	197.6
Shares issued	–	5.3	–	–	5.3
Currency exchange translation differences	–	–	–	0.1	0.1
Share-based payments	–	–	–	2.5	2.5
Transfer relating to share-based payments	–	–	–	(3.1)	(3.1)
As at 1 January 2022	100.3	137.1	(40.3)	5.3	202.4
Share buy back	0.6	–	–	–	0.6
Share-based payments	–	–	–	1.7	1.7
Transfer relating to share-based payments	–	–	–	(5.0)	(5.0)
As at 31 December 2022	100.9	137.1	(40.3)	2.0	199.7

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 2022 was 9,122,268 (2021: 9,122,268) and 2,126,857 (2021: 1,764,757) respectively. The market price of the shares at 31 December 2022 was £0.2330 (2021: £0.2600). 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 134 to 155.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

29. Distribution to shareholders

The Board have recommended a final dividend of 1.00 pence per share (equivalent to \$5.46m at the average rate of exchange for 2022) subject to approval of the shareholders at the Company's 2023 AGM. This reflects a return to shareholders of at least 10% of Operating Cash Flow (OCF), consistent with the revised dividend policy after the Company withdrew dividend payments in 2021 and 2020 due to ongoing uncertainty in the macro environment. The final dividend will be paid in full on 12 July 2023 in Pounds Sterling to ordinary shareholders on the register at the close of business on 16 June 2023.

30. Retained (deficit) / earnings

	Group		
	Retained (loss)/profit \$ million	Unrealised currency translation differences \$ million	Total \$ million
As at 1 January 2021	(41.7)	5.1	(36.6)
Loss for the year	(4.7)	–	(4.7)
Transfer relating to share-based payments	2.3	–	2.3
As at 1 January 2022	(44.1)	5.1	(39.0)
Profit for the year	24.4	–	24.4
Share buy back	(2.9)	–	(2.9)
Transfer relating to share-based payments	2.2	–	2.2
As at 31 December 2022	(20.4)	5.1	(15.3)

	Company		
	Retained (loss)/profit \$ million	Unrealised currency translation differences \$ million	Total \$ million
As at 1 January 2021	230.5	(223.6)	6.9
Profit for the year	1.9	–	1.9
Currency exchange translation differences	–	1.5	1.5
Transfer relating to share-based payments	2.3	–	2.3
As at 1 January 2022	234.7	(222.1)	12.6
Profit for the year	60.7	–	60.7
Share buy back	(2.9)	–	(2.9)
Transfer relating to share-based payments	2.3	–	2.3
As at 31 December 2022	294.8	(222.1)	72.7

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

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 134 to 155. The Group recognised total expenses of \$1.7m (2021: \$2.7m) 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. 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. 392,779 awards were exercised during 2022. 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:

	2022 No. of share awards	2021 No. of share awards
As at 1 January	18,985,754	17,996,007
Granted	5,991,668	6,220,882
Exercised	(392,779)	(385,427)
Forfeited during the year	(6,942,431)	(4,845,708)
As at 31 December	17,642,212	18,985,754
Exercisable as at 31 December	–	–

Awards outstanding at the end of the year have a weighted average remaining contractual life of 1.4 (2021: 1.4) years. The weighted average market price and estimated fair value of the 2022 grants (at grant date) were £0.28 and £0.20, respectively.

The fair value of the LTIPs granted during 2022 has been provided by a Remuneration Consultant, which estimates the Company's performance against the targets using a Stochastic and Black Scholes model. The future vesting proportion in 2022 was 72%.

Previously, the fair value of awards at the date of grant had been estimated using Black Scholes model, based on the market price at date of grant and a nil exercise price. The future vesting proportion in 2021 was 64%.

The main assumptions for the calculation are as follows:

	2022	2021
Volatility	43.89%	34.46%
Risk free rate of interest	1.51%	1.30%
Correlation with comparator group	n/a	n/a

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

	2022		2021	
	No. of share awards	Weighted average exercise price £	No. of share awards	Weighted average exercise price £
As at 1 January	2,618,182	0.43	3,176,395	0.46
Granted	2,273,685	-	-	-
Forfeited during the year	(570,967)	-	-	-
Exercised	(1,434,043)	0.33	(558,213)	-
As at 31 December	2,886,857	0.40	2,618,182	0.43
Exercisable as at 31 December	578,172	0.41	1,245,077	0.67

The weighted average market price at the date of exercise during 2022 was £0.25 (2021: £0.21). Awards outstanding at the end of the year have a weighted average remaining contractual life of 6.5 (2021: 6.4) years.

The fair value of the awards granted during 2022 and 2021 have been estimated using Black Scholes model, based on the market price at date of grant and a nil exercise price. The main assumptions for the calculation are as follows:

	2022	2021
Volatility	n/a	n/a

32. Reconciliation of operating profit/(loss) to operating cash flows

	Group		Company	
	2022 \$ million	2021 \$ million	2022 \$ million	2021 \$ million
Operating profit/(loss)	100.2	48.3	44.2	(3.6)
Share-based payments	1.3	2.4	1.3	2.4
Depletion, depreciation and amortisation	55.2	51.4	-	-
Impairment reversal	(27.9)	(42.0)	(53.9)	(7.9)
Operating cash flows before movements in working capital	128.8	60.1	(8.4)	(9.1)
(Increase)/decrease in inventories	(0.9)	0.8	-	-
(Increase)/decrease in receivables ¹	(7.7)	(7.2)	1.2	0.4
(Decrease)/increase in payables	(9.5)	(2.2)	(1.8)	2.2
Cash generated by (used in) operations	110.7	51.5	(9.0)	(6.5)
Interest received/(paid)	0.1	(0.1)	0.1	-
Other/restructuring expense outflow	(2.7)	(0.7)	(2.7)	(0.6)
Income taxes paid	(54.7)	(39.9)	-	-
Net cash from (used in) operating activities	53.4	10.8	(11.6)	(7.1)

1) Includes \$1.5m (2021: \$0.1m) increase in risk factor provision in respect of Egypt trade receivables.

During the year a total of \$4.6m (2021: \$8.3m) of trade receivables due from EGPC in Egypt were settled by way of non-cash offset, out of which \$1.0m relates to 3rd Amendment signature bonus (2021: \$nil), \$1.1m was set against trade payables (2021: \$8.3m), \$2.0m Assignment bonus settled on behalf of the Farm out partner, IPR, and \$0.5m Group's share of NBS Concession assignment bonus (see Note 37).

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.

	2022 \$ million	2021 \$ million
Lease liability recognised as at 1 January	–	0.4
New leases	0.9	–
Interest expense (see Note 9)	–	–
Principal repayments	(0.1)	(0.4)
Lease liability recognised as at 31 December	0.8	–
Of which are:		
Current lease liabilities	0.3	–
Non-current lease liabilities	0.5	–
Right-of-use assets recognised as at 1 January	–	0.1
New leases	0.9	–
Depreciation	(0.1)	(0.1)
Right-of-use assets recognised as at 31 December	0.8	–
Of which are:		
Oil & Gas properties	0.8	–

During 2022, Pharos signed a new agreement for rental of gas generators in Egypt, the agreement is effective from August 2022 to October 2025 and is accounted for as a lease under IFRS 16. Pharos 45% share of the asset and liability which is applicable post completion of the Farm out (21 March 2022) has been recognised accordingly. The lease was measured at the present value of the lease payments, discounted using the incremental borrowing rate at the start of the lease, 6.3%.

The following table presents the amounts reported in the income statement for short-term leases:

Operating lease expenses by segment	2022 \$ million	2021 \$ million
SE Asia	13.1	13.6
Egypt	1.4	2.6
	14.5	16.2

At 31 December 2022, the Group is committed to its share of \$10.9m for short-term leases of less than 12 months and accordingly not included in the above. Certain short-term leases contain discretionary options to extend the lease period. These future periods are only included in the assessment of the lease term only after consideration of the economic incentives and if it is reasonably certain that the option will be exercised.

34. Capital commitments

At 31 December 2022, the Group had exploration licence commitments not accrued of approximately \$26.6m (2021: \$36.2m).

35. Related party transactions

During the year, the Company recorded a net cost of \$0.01m (2021: net cost of \$0.01m) 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 136 to 142.

	2022 \$ million	2021 \$ million
Short-term employee benefits	3.0	4.5
Post-employment benefits	0.1	0.2
Share-based payments	1.0	3.1
	4.1	7.8

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. Financial instruments

Financial Risk Management: Objectives and Policies

The main risks arising from the Group's financial instruments are commodity price risk, liquidity risk, credit risk, foreign currency risk and interest rate risk. The Board of Pharos regularly 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 Risk Committee. The management of these risks is carried out by monitoring of cash flows, investment and funding requirements using a variety of techniques. These potential exposures are managed while ensuring that the Company and the Group have adequate liquidity at all times in order to meet their immediate cash requirements. There are no significant concentrations of risks unless otherwise stated. The Group does not enter into or trade financial instruments, including derivatives, for speculative purposes.

The primary financial assets and liabilities comprise cash, short- and medium-term deposits, money market liquidity funds, intra group loans, trade receivables and other receivables and financial liabilities held at amortised cost. The Group's strategy has been to finance its operations through a mixture of retained profits and bank borrowings. Other alternatives such as equity issues are reviewed by the Board, when appropriate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

Commodity Price Risk

Commodity price risk arises principally from the Group's Vietnam and Egypt production, which could adversely affect revenue and debt availability due to changes in commodity prices.

The Group measures commodity price risk through an analysis of the potential impact of changing commodity prices. Based on this analysis and considering materiality and the potential business impact, the Group may choose to hedge.

During 2022, Pharos entered into different commodity (swap and zero collar) hedges to protect the Brent component of forecast oil sales and to ensure future compliance with its obligations under the RBL over the producing assets in Vietnam. The commodity hedges run until December 2023 and are settled monthly. Details of current hedging arrangements and the categorisation of the swaps in the fair value hierarchy can be found in Note 25.

Transacted derivatives are designated as cash flow hedge relationships to minimise accounting income statement volatility. The Group is required to assess the likely effectiveness of any proposed cash flow hedging relationship and demonstrate that the hedging relationship is expected to be highly effective prior to entering into a hedging instrument and at subsequent reporting dates.

Liquidity Risk

Pharos closely monitors and manages its liquidity risk using both short- and long-term cash flow projections, supplemented by debt and equity financing plans and active portfolio management. Cash forecasts are regularly produced and sensitivities run for different scenarios including, but not limited to, changes in asset production profiles and cost schedules.

Details of the Group's borrowings and debt facilities can be found in Note 24. The Group is subject to half-yearly forecast liquidity tests as part of the redetermination process for the RBL facility agreement. The Group has complied with the liquidity requirements of this test at all times during the year.

The Group invests cash in a combination of money market liquidity funds and term deposits with a number of international and UK financial institutions, ensuring sufficient liquidity to enable the Group to meet its short and medium-term expenditure requirements.

Credit Risk

Credit risk arises from cash and cash equivalents, investments with banks and financial institutions, trade and other receivables and joint operation receivables.

Customers and joint operation partners are subject to a risk assessment using publicly available information and credit reference agencies, with follow-up due diligence and monitoring if required.

Investment credit risk for investments with banks and other financial institutions is managed by the Group Treasury function in accordance with the Board-approved policies of the Group. These policies limit counterparty exposure, maturity, collateral and take account of published ratings, market measures and other market information.

The Company's policy is to invest with banks or other financial institutions that, firstly, offer the greatest degree of security in the view of the Group and, secondly, the most competitive interest rates. The Board continually re-assesses the Group's policy and updates as required.

The maximum credit risk exposure relating to financial assets is represented by the carrying value as at the balance sheet date. The Group's trade receivables in Note 20, although 99% (2021: 98%) concentrated with two customers across both Vietnam and Egypt producing assets, are predominantly with a major oil & gas company and the subsidiary of a government regulated entity. The credit risk is therefore deemed to be negligible, despite the significant devaluation of the Egyptian Pound against US Dollar documented in the following section.

Foreign Currency Risk

Pharos manages exposures that arise from non-functional currency receipts and payments by matching receipts and payments in the same currency and actively managing the residual net position. The Group does not hedge any foreign exchange exposure.

The Group also aims where possible to hold surplus cash, debt and working capital balances in the functional currency of the subsidiary, thereby matching the reporting currency and functional currency of most companies in the Group. This minimises the impact of foreign exchange movements on the Group's Balance Sheet. Oil and gas sales in Vietnam are raised and settled through a combination of Vietnamese Dong (VND) and US Dollars (USD), along with associated tax and royalty payments. The Group holds a number of VND and USD bank accounts that provide a natural hedge against foreign exchange movements.

In the Egypt business, the recent global macroeconomic volatility has seen both a significant devaluation of the Egyptian Pound and continued restrictions on outgoing US Dollar transfers by the Central Bank of Egypt. The Company has opted not to accept the payment of trade receivables balance in Egyptian Pounds unless required for operations. The progressive devaluation of EGP against USD means that it is preferable to continue to hold USD denominated receivables. As a result, Pharos' receivables have increased to \$24.2m at 31 December 2022, inclusive of c.\$7m catch-up invoice for improved fiscal terms and stated prior to a risk factor provision of \$1.8m (2021: \$7.4m receivables).

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

The Group's UK head office contributes the majority of administrative costs which are denominated in GBP. The level of monetary working capital balances denominated in GBP is relatively low and therefore the Group's exposure to foreign currency changes for all currencies is not considered to be material.

Interest Rate Risk

The replacement of benchmark interest rates such as LIBOR and other IBORs has been a priority for global regulators. The Group has closely monitored the market and the output from the various industry working groups managing the transition to new benchmark interest rates. This includes announcements made by LIBOR regulators (including the Financial Conduct Authority (FCA) and the US Commodity Futures Trading Commission) regarding the transition away from LIBOR (including GBP LIBOR and USD LIBOR). In addition, the current global high-inflationary economic environment means that interest rates could potentially rise in the short to medium-term, thus increasing the cost of borrowing.

As at 31 December 2022, Pharos had total borrowings of \$74.2m (2021: \$80.5m) as described in Note 24. If interest rates increased by 100 basis points, assuming the principal loans stayed constant, the annualised interest payable by the company would increase by \$0.7m (2021: \$0.8m) which would translate through to profits and net assets. The Group's interest received on cash and cash equivalents is immaterial.

37. Disposal of 55% interest in Egypt Concessions

In December 2021, the company classified 55% of the Group's operated interest in each of our Egyptian Concessions, El Fayum and North Beni Suef, as Assets classified as held for sale (Net assets classified as held for sale as 31 December 2021: \$53.5m).

An impairment of \$10.4m was recognised to bring the value of the net assets classified as held for sale down to the fair value less costs to sell calculated as at 31 December 2021.

Following the completion of the farm-out transaction of Egyptian assets to IPR, the accounting for the assets reflect the following:

The economic date of the transaction was 1 July 2020, with completion on 21 March 2022.

Pharos owned and managed the business up to completion. On completion, an adjustment to compensate for net cash flows since the economic date has been adjusted for in the level of carry to be provided by IPR to Pharos.

In the financial statements, for the period post completion, Pharos 45% share of field costs – capex, opex and G&A – are accounted for as incurred by Pharos, although all such costs are paid by IPR and set off against the carry.

All revenues earned are paid direct to Pharos.

The following assets and liabilities were reclassified as held for sale in relation to the discontinued operation as at 31 December 2021:

	2021 \$ million
Intangible assets	2.1
Property, plant and equipment – oil and gas properties - NBV	61.6
Impairment charge – Assets classified as held for sale	(10.4)
Property, plant and equipment – oil and gas properties – after impairment	51.2
Property, plant and equipment – other - NBV	0.4
Inventories	6.3
Trade and other receivables	2.0
Assets classified as held for sale	62.0
Trade and other payables	(8.5)
Liabilities directly associated with assets classified as held for sale	(8.5)
Net assets classified as held for sale	53.5

	2022 \$ million
Disposal of asset held for sale:	
Intangible assets	(2.3)
Property, plant and equipment	(54.4)
Inventories	(5.9)
Trade and other receivables	(2.3)
Trade and other payables	8.3
Disposal of 55% of El Fayum and NBS	(56.6)
Firm consideration received - IPR Cash Receipts	5.0
Other receivable – Carry	36.3
Other receivable - contingent consideration	13.9
Other receivable with IPR	0.5
Consideration received and to be received	55.7
Assignment fees payable to EGPC	(3.7)
Success fees paid on completion	(1.7)
Loss on disposal	(6.3)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

The firm consideration was received in two tranches, \$2.0m in September 2021 and \$3.0m on 30 March 2022.

The carry of \$36.3m is disproportionate funding contribution from IPR adjusted for working capital and interim period adjustments from the effective economic date of 1 July 2020 and completion date.

The carry decreases every month against the cash calls received from IPR. The total amount utilised as at 31 December 2022 amounts to \$15.4m, which has been disclosed in "Consideration received on farm out of Egyptian assets" in the cash flow as part of investing activities (combined with \$3.0m firm consideration received on 30 March 2022). No cash outflow is required until we utilise the whole amount.

The Group is entitled to contingent consideration depending on the average Brent Price each year from 2022 to the end of 2025 (with floor and cap at \$62/bbl and c.\$90/bbl respectively). The contingent consideration is calculated yearly and is capped at a maximum total payment of \$20.0m. As at 31 December 2022, the contingent consideration amounts to \$13.9m (\$5.0m current and \$8.9m non-current). Testing of sensitivity for a \$5/bbl reduction in long term oil price used would result in \$1.3m decrease in contingent consideration to \$12.6m.

The loss on disposal has increased by \$0.5m from the position stated as at 30 June 2022 in the Company's interim financial statements. This is due primarily to a reduction of the amount classified as the carry element of the consideration from \$37.0m to \$36.3m following a change in the best estimate of the adjustment relating to the interim period between the economic date of 1 July 2020 and the completion date. The reduction in the carry is partially offset by an increase in the amount classified as contingent consideration from \$13.6m to \$13.9m, reflecting the Group's entitlement to the full \$5 million of the first tranche of the contingent consideration payable in respect of average Brent price during 2022.

As at 31 December 2022, \$3.7m relates to the assignment fee for the sale of 55% of the Group's operated interest in each of our Egyptian Concessions, El Fayum and North Beni Suef, to IPR. \$0.5m Group's share of NBS Concession assignment bonus was settled against Trade Receivables. Out of the remaining \$3.2m, \$2.3m is booked as current other payable and \$0.9m as non-current other payable.

The final consideration is still being finalised between IPR and Pharos. The financial exposure from finalising the consideration to Pharos, reflecting the remaining amounts still under discussion, is considered immaterial to the financial statements.



Non-IFRS Measures (Unaudited)

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, trade receivable risk factor provision 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.

	2022 \$ million	2021 \$ million
Cost of sales	116.8	114.6
Less:		
Depreciation, depletion and amortisation	(55.1)	(51.0)
Production based taxes	(14.7)	(10.1)
Export duty	(3.2)	–
Inventories	1.8	0.1
Trade receivable risk factor provision	(1.5)	–
Other cost of sales	(1.3)	(1.6)
Cash operating costs	42.8	52.0
Production (BOEPD)	7,166	8,878
Cash operating cost per BOE (\$)	16.36	16.05

Cash operating cost per barrel by segment (2022)

	Vietnam \$ million	Egypt \$ million	Total \$ million
Cost of sales	99.6	17.2	116.8
Depreciation, depletion and amortisation	(51.0)	(4.1)	(55.1)
Production based taxes	(14.5)	(0.2)	(14.7)
Export duty	(3.2)	–	(3.2)
Inventories	1.6	0.2	1.8
Trade receivable risk factor provision	–	(1.5)	(1.5)
Other cost of sales	(0.8)	(0.5)	(1.3)
Cash operating costs	31.7	11.1	42.8
Production (BOEPD)	5,418	1,748	7,166
Cash operating cost per BOE (\$)	16.03	17.40	16.36

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.

	2022 \$ million	2021 \$ million
Depreciation, depletion and amortisation	(55.1)	(51.0)
Production (BOEPD)	7,166	8,878
DD&A per BOE (\$)	21.07	15.74

DD&A per barrel by segment (2022)

	Vietnam \$ million	Egypt \$ million	Total \$ million
Depreciation, depletion and amortisation	(51.0)	(4.1)	(55.1)
Production (BOEPD)	5,418	1,748	7,166
DD&A per BOE (\$)	25.79	6.43	21.07

Net debt

Net debt comprises interest-bearing bank loans, less cash and cash equivalents.

	2022 \$ million	2021 \$ million
Cash and cash equivalents	45.3	27.1
Borrowings*	(74.2)	(84.6)
Net Debt	(28.9)	(57.5)

* Exclude unamortised capitalised set up costs

EBITDAX

EBITDAX is earnings from continuing activities before interest, tax, DD&A, impairment of PP&E and intangibles, exploration other/ expenditure and Other/restructuring expense items in the current year.

	2022 \$ million	2021 \$ million
Operating profit	100.2	48.3
Depreciation, depletion and amortisation	55.2	51.4
Impairment reversal	(27.9)	(42.0)
EBITDAX	127.5	57.7

NON-IFRS MEASURES - CONTINUED

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.

	2022 \$ million	2021 \$ million
Net Debt	(28.9)	(57.5)
EBITDAX	127.5	57.7
Net Debt/EBITDAX	(0.23)	(1.00)

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).

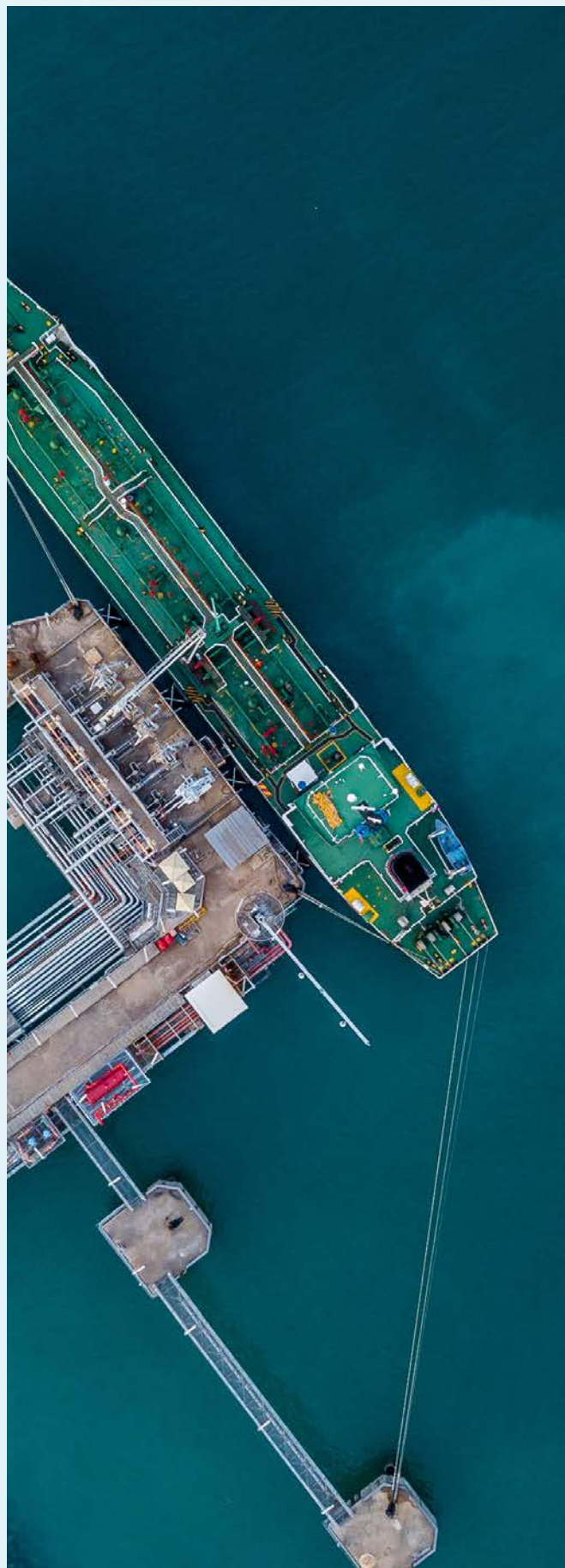
	2022 \$ million	2021 \$ million
Total Debt *	74.2	84.6
Total Equity	330.6	304.4
Debt to Equity	0.22	0.28

* Exclude unamortised capitalised set up costs

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.

	2022 \$ million	2021 \$ million
Net cash from operating activities	53.4	10.8
Weighted number of shares in the year	439,253,641	437,512,648
Operating cash per share	0.12	0.02



Five Year Summary (Unaudited)

	Year to 31 Dec 2022 \$ million	Year to 31 Dec 2021 \$ million	Year to 31 Dec 2020 \$ million	(Restated) Year to 31 Dec 2019 \$ million	Year to 31 Dec 2018 \$ million
Consolidated income statement					
Oil and gas revenues	221.6	163.8	118.3	189.9	175.1
Commodity hedge (losses)/gains	(22.5)	(29.7)	23.7	(0.2)	-
Gross profit	82.3	19.5	18.2	61.1	70.5
Operating profit/(loss)	100.2	48.3	(231.3)	38.0	79.9
Profit/(loss) for the year	24.4	(4.7)	(215.8)	(24.5)	27.7

	2022 \$ million	2021 \$ million	2020 \$ million	(Restated) 2019 \$ million	2018 \$ million
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Consolidated balance sheet

Non-current assets	457.4	460.3	483.2	740.9	553.6
Net current assets	56.4	51.6	10.4	45.6	236.3
Non-current liabilities	(183.2)	(207.5)	(199.9)	(276.4)	(289.1)
Net assets	330.6	304.4	293.7	510.1	500.8
Share capital	92.3	92.9	87.3	87.3	27.6
Other reserves	253.6	250.5	243.0	246.6	246.6
Retained earnings/(deficit)	(15.3)	(39.0)	(36.6)	176.2	226.6
Total equity	330.6	304.4	293.7	510.1	500.8

	Year to 31 Dec 2022 \$ million	Year to 31 Dec 2021 \$ million	Year to 31 Dec 2020 \$ million	(Restated) Year to 31 Dec 2019 \$ million	Year to 31 Dec 2018 \$ million
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Consolidated cash flow statement

Net cash from operating activities	53.4	10.8	56.4	72.3	54.2
Capital expenditure	31.9	41.8	41.3	63.4	22.4
Distributions	-	-	-	27.4	23.3

RESERVES STATISTICS (UNAUDITED)

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 2022	10.9	4.3	15.2	37.8	53.0
Production	(1.5)	(0.5)	(2.0)	(0.6)	(2.6)
Revision	(0.6)	(0.4)	(1.0)	(1.5)	(2.5)
Change in working interest ⁵	–	–	–	(20.7)	(20.7)
2P Commercial Reserves as at 31 December 2022	8.8	3.4	12.2	15.0	27.2
Oil and Gas 2C Contingent Resources^{1,2}					
As at 1 January 2022	7.6	3.8	11.4	18.6	30.0
Revision	(0.2)	(0.4)	(0.6)	0.5	(0.1)
Change in working interest ⁵	–	–	–	(10.2)	(10.2)
2C Contingent Resources as at 31 December 2022	7.4	3.4	10.8	8.9	19.7
Total of 2P Reserves and 2C Contingent Resources as at 31 December 2022	16.2	6.8	23.0	23.9	46.9

1) Reserves and Contingent Resources are categorised in line with 2018 SPE standards.

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 McDaniel.

5) Pharos Energy net working interest in El Fayum is 45% post completion of farm down transaction to IPR Energy on 21 March 2022

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 2022 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 2022.

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 2022 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 2022, 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 2022 (UNAUDITED)

Transparency Disclosure 2022 (Unaudited)

Licence/ Corporate/ Area	Production entitlements bbls (000)	Production entitlements \$ 000's	Income Taxes \$ 000's	Royalties \$ 000's	Dividends \$ 000's	Bonus Payments \$ 000's	Licence fees \$ 000's	UK Regulations		Voluntary Disclosure				
								Infrastructure improvement payments \$ 000's	Total EU Transparency Directive \$ 000's	Payroll Taxes \$ 000's	Export Duty \$ 000's	With- holding Tax \$ 000's	Other Taxes \$ 000's	Total \$ 000's
Vietnam*														
Block 16-1	1,101	110,616	42,251	12,231	-	-	78	-	165,176	-	3,183	-	-	3,183
Block 9.2	452	30,054	11,295	1,705	-	-	75	-	43,129	-	-	-	-	-
Total Vietnam	1,553	140,670	53,546	13,936	-	-	153	-	208,305	-	3,183	-	-	3,183
Egypt														
El Fayum	300	28,828	-	-	-	1,242	-	-	30,070	504	-	2	-	506
North Beni Suef	-	-	-	-	-	725	-	-	725	-	-	-	-	-
Total Egypt	300	28,828	-	-	-	1,967	-	-	30,795	504	-	2	-	506
United Kingdom (UK)														
Corporate	-	-	-	-	-	-	-	-	-	2,154	-	-	-	2,154
Total UK	-	-	-	-	-	-	-	-	-	2,154	-	-	-	2,154
United States of America (US)														
Corporate	-	-	-	-	-	-	-	-	-	338	-	-	-	338
Total US	-	-	-	-	-	-	-	-	-	338	-	-	-	338
Pharos Total	1,853	169,498	53,546	13,936	-	1,967	153	-	239,100	2,996	3,183	2	-	6,181

Country/ Government	Production entitlements bbls (000)	Production entitlements \$ 000's	Income Taxes \$ 000's	Royalties \$ 000's	Dividends \$ 000's	Bonus Payments \$ 000's	Licence fees \$ 000's	UK Regulations		Voluntary Disclosure				
								Infrastructure improvement payments \$ 000's	Total EU \$ 000's	Payroll Taxes \$ 000's	Export Duty \$ 000's	With- holding Tax \$ 000's	Other Taxes \$ 000's	Total \$ 000's
Vietnam*														
Ho Chi Minh City Tax Dept	-	-	53,546	13,936	-	-	-	-	67,482	-	-	-	-	-
Customs Office	-	-	-	-	-	-	-	-	-	-	3,183	-	-	3,183
PetroVietnam E&P Corp (PVEP)	1,553	140,670	-	-	-	-	153	-	140,823	-	-	-	-	-
Total Vietnam	1,553	140,670	53,546	13,936	-	-	153	-	208,305	-	3,183	-	-	3,183
Egypt														
Egyptian General Petroleum Corporation (EGPC)	300	28,828	-	-	-	1,967	-	-	30,795	-	-	-	-	-
Tax department	-	-	-	-	-	-	-	-	-	504	-	2	-	506
Total Egypt	300	28,828	-	-	-	1,967	-	-	30,795	504	-	2	-	506
United Kingdom (UK)														
Inland Revenue	-	-	-	-	-	-	-	-	-	2,154	-	-	-	2,154
Total UK	-	-	-	-	-	-	-	-	-	2,154	-	-	-	2,154
United States of America (US)														
Internal Revenue Service	-	-	-	-	-	-	-	-	-	338	-	-	-	338
Total US	-	-	-	-	-	-	-	-	-	338	-	-	-	338
Pharos Total	1,853	169,498	53,546	13,936	-	1,967	153	-	239,100	2,996	3,183	2	-	6,181

* Joint Operating Company Project's tax payments reported on Pharos Net Working Interest Basis.

GLOSSARY OF TERMS

A

ABC
Anti-Bribery and Corruption

AGM
Annual General Meeting

B

bbbl
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

CO₂
Carbon Dioxide

CO₂e
Carbon Dioxide Equivalent

Company or Pharos
Pharos Energy plc

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

Contractor
The party or parties identified as being, or forming part of, the “CONTRACTOR” as defined in the El Fayum Concession or, as the case may be, the North Beni Suef Concession

CR
Corporate Responsibility

D

DD&A
Depreciation, depletion and amortisation

DP Semi-Submersible
Dynamic positioning semi-submersible drilling rig

E

E&P
Exploration & Production

EBITDAX
Earnings from continuing activities before interest, tax, DD&A, impairment of PP&E and intangibles, exploration other/expenditure and other/restructuring expense items.

EBT
Employee benefit trust

E&E
Exploration and Evaluation

El Fayum or the El Fayum Concession
The concession agreement for petroleum exploration and exploitation entered into on 15 July 2004 between the Arab Republic of Egypt, EGPC and Pharos El Fayum in respect of the El Fayum area, Western Desert, as amended from time to time

EGP
Egyptian Pound

EGPC
Egyptian General Petroleum Corporation

EU
European Union

F

FFDP
Full Field Development Plan

Financial Statements
The preliminary financial statements of the Company and the Group for the year ended 31 December 2022

FPSO
Floating, Production, Storage and Offloading Vessel

FRC
Financial Reporting Council

FY
Full year

G

G&A
General and administration

GDP
Gross domestic product

GHG
Greenhouse gas

Group
Pharos and its direct and indirect subsidiary undertakings

H

HLHVJOC
Hoang Long and Hoan Vu Joint Operating Companies

HLJOC
Hoang Long Joint Operating Company

HSES
Health, Safety, Environmental and Security

HVJOC
Hoan Vu Joint Operating Company

I

IAS
International Accounting Standards

IFRS
International Financial Reporting Standards

IMF
International Monetary Fund

IOGP
The International Association of Oil & Gas Producers

IPIECA
The global oil and gas industry association for environmental and social issues

IPR or IPR Energy Group
The IPR Energy group of companies, including IPR Lake Qarun and IPR Energy AG, or such of them as the context may require

IPR Lake Qarun
IPR Lake Qarun Petroleum Co, an exempted company with limited liability organised and existing under the laws of the Cayman Islands (registration number 379306), a wholly owned subsidiary of IPR Energy AG

IRR

Internal Rate of Return

J

JOC
Joint Operating Company

JV
Joint venture

K

k
thousands

kbopd
Thousand barrels of oil per day

Km
Kilometre

km²
Square kilometre

L

LTI
Lost Time Injury

LTIF
Lost Time Injury Frequency

LTIP
Long Term Incentive Plan

M

m
million

M&A

Mergers and Acquisitions

McDaniel

McDaniel & Associates Consultants Ltd

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**NAV**

Net asset value

NBE

The National Bank of Egypt, the largest Egyptian commercial bank and owned by the state of Egypt

NBS, North Beni Suef or the North Beni Suef Concession

The concession agreement for petroleum exploration and exploitation entered into on 24 December 2019 between the Arab Republic of Egypt, EGPC and Pharos El Fayum in respect of the North Beni Suef area, Nile Valley

NPV

Net Present Value

O**OCF**

Operating cash flow

OOIP

Original Oil in Place

OPECO Vietnam

OPECO Vietnam Limited

Opex

Operational expenditure

P**PEF**

Pharos El Fayum, a wholly owned subsidiary of the Company holding the Group's participating interest in El Fayum and North Beni Suef

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

PP&E

Property, plant and equipment

Prospect or prospect

An identified trap that may contain hydrocarbons. A potential hydrocarbon accumulation may be described as a lead or prospect depending on the degree of certainty in that accumulation. A prospect generally is mature enough to be considered for drilling

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

SPA

Sales and Purchase Agreement

STOIIIP

Stock Tank Oil Initially In Place

T**TOR**

Terms of Reference

TCFD

Task Force on Climate-Related Financial Disclosures established by the G20 Financial Stability Board

TGT

Te Giac Trang field located in Block 16-1, Vietnam

TSR

Total shareholder return

TIA

Tie-in Agreement

U**UK**

United Kingdom

US

United States of America

W**WHP**

Wellhead Platform

WFH

Work from home

WTI

West Texas Intermediate

Y**YTD**

Year-to-date

\$

United States Dollar

£

UK Pound Sterling

1C

Low estimate scenario of Contingent Resources

1H

First half

1P

Equivalent to Proved Reserves; denotes low estimate scenario of Reserves

2018 Code

The 2018 UK Corporate Governance Code of the Financial Reporting Council

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

COMPANY INFORMATION

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Company No. 3300821
www.pharos.energy

Company Secretary

Tony Hunter

Financial Calendar

Group results for the year to 31 December are announced in March. The Annual General Meeting is held during the second quarter. Interim Results to 30 June are announced in September.

Advisers Auditor:

Deloitte LLP

London, United Kingdom

Bankers:

J.P. Morgan

25 Bank Street, Canary Wharf, London
E14 5JP, 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:

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100 Bishopsgate London, EC2N 4JL
United Kingdom

Peel Hunt

120 London Wall, London EC2Y 5ET
United Kingdom

Registrar:

RD:IR Limited

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United Kingdom

Solicitors:

Shepherd and Wedderburn LLP

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