

# Financial Review



# Financial Review

For the year ended 31 December 2020

## Operational and financial highlights

In accordance with industry practice, production volumes and revenues are reported on a Company interest basis, before the deduction of royalties.

US\$'000s	Quarter ended 31 December		Year ended 31 December	
	2020	2019	2020	2019
West Gharib production service fee revenues	1,855	3,289	7,328	14,390
South Disouq gas sales revenue <sup>(1)</sup>	6,009	3,735	26,891	3,735
Royalties	(2,026)	(1,270)	(9,115)	(1,270)
Net South Disouq gas revenue	3,983	2,465	17,776	2,465
Morocco gas sales revenue	6,402	5,207	19,246	18,258
Royalties	(278)	(241)	(730)	(736)
Net Morocco gas sales revenue	6,124	4,966	18,516	17,522
Net other products revenue	570	445	2,448	445
<b>Total net revenue<sup>(2)</sup></b>	<b>12,532</b>	<b>11,165</b>	<b>46,068</b>	<b>34,822</b>
Direct operating expense	(2,817)	(1,881)	(9,535)	(6,595)
Netback: West Gharib	1,037	2,037	3,642	9,889
Netback: South Disouq gas <sup>(3)</sup>	2,820	2,281	13,740	2,281
Netback: Morocco gas	5,288	4,522	16,703	15,612
Netback: Other products	570	444	2,448	445
<b>Netback (pre-tax)<sup>(2)</sup></b>	<b>9,715</b>	<b>9,284</b>	<b>36,533</b>	<b>28,227</b>
<b>EBITDAX<sup>(2)</sup></b>	<b>8,745</b>	<b>8,405</b>	<b>32,874</b>	<b>23,550</b>
NW Gemsa sales (boe/d)	-	1,601	382	1,836
West Gharib production service fee (bbl/d)	589	738	626	795
South Disouq gas sales (boe/d)	3,790	2,375	4,286	599
Morocco gas sales (boe/d)	1,038	890	812	802
Other products sales (boe/d)	242	117	291	30
<b>Total sales volumes (boe/d)<sup>(4)</sup></b>	<b>5,659</b>	<b>5,721</b>	<b>6,397</b>	<b>4,062</b>
NW Gemsa sales (boe)	-	147,296	139,949	670,141
West Gharib production service fees (bbls)	54,159	67,855	229,275	290,091
South Disouq gas sales (boe)	348,698	218,535	1,568,735	218,535
Morocco gas sales (boe)	95,508	81,887	297,026	292,741
Other products sales (boe)	22,308	10,808	106,623	10,808
<b>Total sales volumes (boe)<sup>(4)</sup></b>	<b>520,673</b>	<b>526,381</b>	<b>2,341,608</b>	<b>1,482,316</b>
Brent oil price (US\$/bbl)	\$44.24	\$63.41	\$40.88	\$64.33
West Gharib oil price (\$US/bbl)	\$40.38	\$57.04	\$37.46	\$58.39
Realised West Gharib service fee (US\$/bbl)	\$34.25	\$48.47	\$31.96	\$49.61
Realised Morocco gas price (US\$/mcf)	\$11.17	\$10.60	\$10.80	\$10.39
Royalties (US\$/boe) <sup>(2)</sup>	\$4.87	\$4.50	\$4.94	\$2.71
Operating costs (US\$/boe) <sup>(2)</sup>	\$5.44	\$4.96	\$4.35	\$8.12
<b>Netback (US\$/boe)<sup>(2)</sup></b>	<b>\$18.75</b>	<b>\$24.49</b>	<b>\$16.73</b>	<b>\$34.75</b>
Capital expenditures	3,033	16,444	24,733	42,989

(1) South Disouq gas is sold to the Egyptian State at a fixed price of US\$2.65MMbtu, which equates to approximately US\$2.85/Mcf.

(2) The NW Gemsa and South Ramadan concessions have been recognised as a discontinued operations. All revenues, costs and taxation from these assets have been consolidated into a single line item "profit/(loss) from discontinued operations" in both periods reported and are not included in this table. Royalties/boe, operating costs/boe and netback/boe also exclude NW Gemsa and South Ramadan.

(3) When calculating netback for South Disouq gas and other products (condensate), all South Disouq operating costs are allocated to gas, as associated products have assumed nil incremental operating costs.

(4) NW Gemsa and South Ramadan sales volumes included to show Group's entitlement interest production

## Production service fees (relates to West Gharib only)

### Production service fee volumes

The Company recorded service fee revenue relating to the oil production that is delivered to the State Oil Company (“GPC”) from the Meseda and Rabul fields within Block H. The Company is entitled to a service fee of between 19.0% and 19.25% of the delivered volumes and has a 50% working interest. The service fee revenue is based on the current market price of West Gharib crude oil, adjusted for a quality differential.

### Production service fee pricing

For the 12 months ended 31 December 2020, the Company received an average service fee per barrel of oil of US\$31.96, compared to the average West Gharib price for the period of US\$37.46, representing a discount of US\$5.50 (15%) per barrel. The Company receives a discount on the West Gharib price because of the quality of the oil produced.

### Production service fee variance from prior year

For the 12 months ended 31 December 2020 (compared to the 12 months ended 31 December 2019), the decrease in production service fee revenue by US\$7.1 million, 49%, to US\$7.3 million, was prompted by a decrease in price of US\$4.0 million, 28%, in 2020 as the result of a declining oil price environment and a 21% decrease in production of US\$3.0 million. The lower production reflects an increase in water cut across several wells, which was partly offset by a full 12 months’ contribution from a new well that came into production in the second half of 2019 (MSD-19) and a further well drilled and put into production in April 2020 (RB-3). During the year, there was no COVID-19 impact on production operations.

US\$'000s

Year ended 31 December 2019	14,390
Price variance	(4,046)
Production variance	(3,016)
<b>Year ended 31 December 2020</b>	<b>7,328</b>

### Production service fee quarterly variance from prior year

For the 3 months ended 31 December 2020 (compared to the 3 months ended 31 December 2019), the decrease in production service fee revenue by US\$1.4 million, 42%, to US\$1.9 million, was due to a 30% decrease in price and a 20% production decline, driven by increased water cut.

## South Disouq gas sales revenue

The Company sells gas production from the South Disouq concession to the Egyptian national gas company, EGAS, at a fixed price of US\$2.65/MMBtu (approximately US\$2.85/Mcf). The Government of Egypt’s entitlement share of gross production from the asset equates to approximately 51%.

Having commenced production in November 2019, during the 12 months ended 31 December 2020, production averaged 49.5MMscfe/d (gross). Wells flowed ahead of expected rates and the Central Processing Facility achieved higher than planned levels of uptime during the first half of the year. However, during Q3 and into Q4 2020, increased water and sand production at SD-4X resulted in lower gas volumes from this well. In late December 2020, the SD-12X well, which was announced as a discovery in April 2020, was brought on to production. The Company has a 100% working interest in this well. During the year, there was no COVID-19 impact on production operations.

## Morocco gas sales revenue

The Company currently sells natural gas to eight industrial customers in Kenitra, northern Morocco. During the second half of March 2020 and into April 2020, COVID-19 containment restrictions in Morocco had a temporary impact on our operations, with three customers being required to close their operations. In early May, these same customers were able to resume production, and consumption steadily increased such that all customers had returned to pre-COVID consumption levels in Q4. The Company’s Moroccan business remains extremely resilient and can break even with customer consumption levels at 20% of pre-COVID-19 2020 levels.

In December an existing customer brought its second factory online, which is expected to contribute to sales volumes in 2021.

### Morocco gas sales variance from prior year

For the year ended 31 December 2020 (compared to the period ended 31 December 2019), the increase in Morocco gas sales revenue of US\$1.0 million, 5%, was primarily driven by increased sales realisations (US\$0.7 million, 4%) due to a strengthening of the Moroccan dirham and increased sales to higher-priced contracts. In addition, production increased period on period (US\$0.3 million, 1%), as COVID-19 shutdowns at three customer sites early in the year were compensated for by a strong recovery in demand and an existing customer’s additional factory coming online in Q4 2020.

US\$'000s

Year ended 31 December 2019	18,258
Price variance	721
Production variance	267
<b>Year ended 31 December 2020</b>	<b>19,246</b>

### Morocco gas sales quarterly variance from prior year

For the 3 months ended 31 December 2020 (compared to the 3 months ended 31 December 2019), the increase Morocco gas sales revenue by US\$1.2 million, 23%, to US\$6.4 million, was due to a 6% decrease in price due to a stronger Moroccan dirham and sales to higher-priced contracts and a 17% production increase driven by strong customer demand following COVID-19 shutdowns earlier in 2020.

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### Morocco gas sales revenue (continued)

#### Royalties

Royalties fluctuate in Egypt from quarter to quarter because of changes in production and the impact of commodity prices on the amount of cost oil or gas allocated to the contractors. In turn, there is an impact on the amount of profit oil or gas from which royalties are calculated.

In Morocco, sales-based royalties become payable when certain inception-to-date production thresholds are reached, according to the terms of each exploitation concession.

#### Direct operating costs

Direct operating costs for the year ended 31 December 2020 were US\$9.5 million compared to US\$6.6 million for the prior year. The direct operating costs per concession were:

US\$'000s	Year ended 31 December	
	2020	2019
West Gharib	3,686	4,501
South Disouq	4,036	184
Morocco	1,813	1,910
<b>Total direct operating expense</b>	<b>9,535</b>	<b>6,595</b>

The direct operating costs per boe per concession were:

US\$/boe	Year ended 31 December	
	2020	2019
West Gharib	16.08	15.52
South Disouq	2.43	0.80
Morocco	6.10	6.52
<b>Total direct operating costs per boe</b>	<b>4.35</b>	<b>8.12</b>

#### West Gharib

Direct operating costs for the 12 months ended 31 December 2020 for West Gharib were lower by US\$0.8 million compared to the prior year, at US\$3.7 million due to lower field operational costs and lower workover activity. For the period ended 31 December 2020, the direct operating costs per bbl were higher at US\$16.08/bbl compared to US\$15.52/bbl in the previous year due to fixed costs remaining unchanged against lower production, partly offset by savings achieved on variable costs in the lower price environment.

#### South Disouq

Direct operating costs for South Disouq for the year ended 31 December 2020 were US\$4.0 million. These costs included the Company's US\$0.6 million share of a one-off production bonus. The production bonus was payable following sustained gross production of 5,000+ boe/d as per the terms of the PSC.

#### Morocco

Direct operating costs for the year ended 31 December 2020 for Morocco were US\$0.1 million lower than in the prior year. The variance is the result of lower field operational costs due to cost saving initiatives in the second half of the year.

#### Discontinued operations

During the year ended 31 December 2020, the Company disposed of its interests in the NW Gemsa and South Ramadan oil concessions in Egypt. These assets have been classified as discontinued operations and contributed a net profit of US\$1.8 million in 2020 (2019: net loss of US\$0.4 million). Neither disposal has had an impact on continuing operations.

## General and administrative expenses

US\$'000s	Year ended 31 December	
	2020	2019
Wages and employee costs	6,527	7,678
Consultants-inc. PR/IR	514	517
Legal fees	225	387
Audit, tax and accounting services	767	684
Public company fees	576	652
Travel	156	240
Office expenses	492	383
IT expenses	360	546
Service recharges	(5,645)	(6,506)
Ongoing general and administrative expenses	3,972	4,581
Transaction costs	152	1,079
<b>Total net G&amp;A</b>	<b>4,124</b>	<b>5,660</b>

Ongoing general and administrative ("G&A") costs for the period ended 31 December 2020 were US\$4.0 million compared to US\$4.6 million for the same period of the prior year. Ongoing G&A costs in 2020 were lower primarily as the result of lower wages and employee costs due to the departure of the former CEO and Head of BD in Q2 2019 which also included associated severance payments.

Transaction costs in 2020 related to professional services in support of the disposal of NW Gemsa and South Ramadan. 2019 transaction costs related to the re-domicile of the Group from Canada to the UK, the Group's capital reduction, and previous business development initiatives.

## Capital expenditures

The following table shows the capital expenditure for the Company. It agrees with notes 9 and 10 to the Consolidated Financial Statements for the period ended 31 December 2020, which include discussion therein.

US\$'000s	Year ended 31 December	
	2020	2019
Property, plant and equipment expenditures ("PP&E")	14,438	5,387
Exploration and evaluation expenditures ("E&E")	10,192	37,403
Office furniture and fixtures	103	199
<b>Total capital expenditures</b>	<b>24,733</b>	<b>42,989</b>

The Company has future capital commitments associated with its oil & gas assets, details of which can be found in note 21 to the Consolidated Financial Statements.

## Exploration and evaluation expense

For the 12 months ended 31 December 2020, exploration and evaluation expenses stood at US\$5.8 million, compared to US\$11.4 million in the prior year. The current period expense relates mainly to:

- The US\$2.3 million write-off of a non-commercial well, SD-6X (Salah), including associated seismic costs, which was drilled during the 2020 Egypt exploration drilling campaign; and
- the write-off of US\$2.2 million for a non-commercial well, SAH-5, which was drilled during the period as part of the Morocco drilling campaign

The remaining expense of US\$1.3 million relates to new business evaluation activities that occurred during the year ended 2020, and predominantly relates to internal management costs.

In the prior year, US\$5.1 million of expense related to the write-off of capitalised expenditure on the South Ramadan asset, US\$3.7 million of expenditure on the 2018/19 South Disouq 3D seismic was written off, and US\$1.5 million of dry-hole costs for the CGD-15 well in Morocco were expensed. The remaining expense of US\$1.1 million was for new business evaluation activities.

## Depletion, depreciation and amortisation

For the period ended 31 December 2020, depletion, depreciation, and amortisation ("DD&A") amounted to US\$25.2 million, compared to US\$18.7 million in the comparative period of the previous year. The variance is primarily the result of South Disouq coming on production from Q4 2019. Lower Morocco DD&A was the result of an increase in reserves from the successful wells drilled in 2019 and early 2020.

US\$'000s	Year ended 31 December	
	2020	2019
West Gharib	2,314	2,437
South Disouq	11,963	1,356
Morocco	10,147	13,752
Right of use assets	636	697
Other	132	435
<b>Total DD&amp;A</b>	<b>25,192</b>	<b>18,677</b>

Please refer to note 9 in the Consolidated Financial Statements. The DD&A for right of use assets was recorded in line with IFRS 16. Please refer to note 22 in the Consolidated Financial Statements.

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### Sources and uses of cash

The Company reported a cash position of US\$10.1 million as at 31 December 2020, with an undrawn facility with EBRD amounting to US\$2.5 million. Agreement has been reached over a new facility with EBRD that will have a five-year term and US\$10 million of availability once conditions precedent are met. The existing facility will not be cancelled until this is the case.

The following table sets out the Company's sources and uses of cash for the period ended 31 December 2020 and 2019:

US\$'000s	Year ended 31 December	
	2020	2019
<b>Sources</b>		
Operating cash flow of continuing operations before working capital movements	25,735	19,283
Operating cash flow from discontinued operations	2,445	12,957
Net proceeds from sale of assets	3,500	-
Dividends received	773	639
Effect of foreign exchange on cash and cash equivalents	369	381
<b>Total sources</b>	<b>32,822</b>	<b>33,260</b>
<b>Uses</b>		
Changes in non-cash working capital	(3,273)	(5,867)
Property, plant and equipment expenditures	(18,188)	(24,777)
Property, plant and equipment expenditures on discontinued operations	-	(2,892)
Exploration and evaluation expenditures	(10,333)	(3,647)
Payments of lease liabilities	(636)	(795)
Finance costs paid	(269)	(267)
Income taxes paid	(1,121)	(1,306)
<b>Total uses</b>	<b>(33,820)</b>	<b>(39,551)</b>
<b>Decrease in cash</b>	<b>(998)</b>	<b>(6,291)</b>
Cash and cash equivalents at beginning of period	11,054	17,345
<b>Cash and cash equivalents at end of period</b>	<b>10,056</b>	<b>11,054</b>

### Non-IFRS measures

The Financial Review contains the terms "netback" and "EBITDAX", which are not recognised measures under IFRS. The Company uses these measures to help evaluate its performance.

#### Netback

Netback is a non-IFRS measure that represents sales net of all operating expenses and government royalties. Management believes netback to be a useful supplemental measure to analyse operating performance and provide an indication of the results generated by the Company's principal business activities prior to the consideration of other income and expenses. Management considers netback an important measure because it demonstrates the Company's profitability relative to current commodity prices. Netback may not be comparable to similar measures other companies use.

#### EBITDAX

EBITDAX is a non-IFRS measure that represents earnings before interest, tax, depreciation, amortisation, exploration expense, and impairment, which is operating income/(loss) adjusted for the add-back of depreciation and amortisation, exploration expense, and impairment of property, plant, and equipment (if applicable). EBITDAX is presented so that users of the financial statements can understand the cash profitability of the Company, excluding the impact of costs attributable to exploration activity, which tend to be one-off in nature, and the non-cash costs relating to depreciation, amortisation, and impairments. EBITDAX may not be comparable to similar measures other companies use.

## Summary of quarterly results

Fiscal year	2020				2019			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
<b>Financial US\$'000s</b>								
Cash, beginning of period	11,054	9,275	8,807	11,054	12,587	11,195	11,354	17,345
Cash, end of period	10,056	11,054	9,275	8,807	11,054	12,587	11,195	11,354
Net revenue	12,532	11,586	9,163	12,787	11,163	7,740	8,356	7,563
Comprehensive income/(loss)	149	1,747	(801)	(3,153)	(18,162)	333	(489)	132
Net income/(loss) per share-basic	0.001	0.009	(0.004)	(0.015)	(0.089)	0.002	(0.002)	0.001
Capital expenditure	2,672	2,689	3,840	15,533	16,444	4,728	8,777	13,041
Total assets	124,603	127,611	129,231	135,648	133,018	139,542	140,122	137,630
Shareholders' equity	96,342	96,452	94,390	95,123	98,031	115,806	115,346	116,491
Common shares outstanding (000's)	205,378	205,378	204,723	204,723	204,723	204,723	204,723	204,723

Fiscal year	2020				2019			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
<b>Operational</b>								
NW Gemsa sales (bbl/d) <sup>(1)</sup>	-	-	-	1,538	1,216	1,354	1,326	1,586
West Gharib production service fee (bbl/d)	589	623	628	666	738	798	818	826
South Disouq gas sales (boe/d)	3,790	4,246	4,401	4,713	2,375	-	-	-
Morocco gas sales (boe/d)	1,038	792	551	863	890	827	729	761
Other products sales (boe/d)	242	323	318	282	502	448	493	542
Total boe/d	5,659	5,984	5,898	8,062	5,721	3,427	3,366	3,715
NW Gemsa sales volumes (bbls) <sup>b(1)</sup>	-	-	-	139,949	111,902	124,576	120,624	142,768
West Gharib production service fee volumes (bbls)	54,159	57,309	57,166	60,641	67,855	73,445	74,475	74,315
South Disouq gas sales (boe)	348,698	390,609	400,525	428,903	218,535	-	-	-
Morocco gas sales volumes (boe)	95,508	72,877	50,116	78,525	81,887	76,039	66,358	68,458
Other products sales volumes (boe)	22,308	29,722	28,935	25,658	46,202	41,212	44,875	48,791
Total sales and service fee volumes (boe)	520,673	550,517	536,742	733,676	526,381	315,272	306,332	334,332

(1) Until 31 December 2019, NW Gemsa sales of gas, condensate and NGLs were reported in other product sales. Sales of these products made in Q1 2020 were reported with NW Gemsa sales.

## Selected annual information

US\$'000s	Year ended 31 December		
	2020	2019	2018
Total net revenue	46,068	34,822	28,465
(Loss)/profit and total comprehensive (loss)/income for the year ended	(2,058)	(18,186)	112
Net (loss)/income per share			
Basic	\$(0.010)	\$(0.089)	\$(0.001)
Diluted	\$(0.010)	\$(0.089)	\$(0.001)
Total assets	124,603	133,018	138,107
Total non-current liabilities	7,112	6,698	4,572

**Nicholas Box**  
 Chief Financial Officer and Director  
 19 March 2021