Capricorn - 2022 Interim Results

Tuesday 6th September 2022

Transcript

Simon Thomson: Good morning, everyone. Welcome to Capricorn's results presentation. I'm Simon Thomson, CEO. And with me are James Smith, CFO, Paul Mayland, COO, and Eric Hathon, Exploration Director. As in the usual way, we've got a presentation to run through with you this morning, following which we would be very happy to take questions.

Before moving on to the slides, I'd like to take a few moments to update you on our proposed merger with Tullow. The board continues to believe that the proposed merger can deliver significant long-term value for shareholders through creating a leading Africa focused energy company. The board is also mindful of the impact of external factors and market conditions, and is, as always, assessing all options to maximise value for shareholders. The company is exploring a number of expressions of interest relating to alternative transactions and is engaging with those parties expressing interest to evaluate potential outcomes. Now, we will provide you further updates as appropriate, and in the meantime, as I'm sure you'll appreciate are limited in anything further we can say. And the focus of today's presentation will be on the company's current position and operational performance.

So, turning to the first slide, and in terms of the underlying business, as a team we remain focused on the consistent delivery of our long-term strategic goals of sustainability, returns and growth. In terms of sustainability, our balance sheet strength and continued fiscal discipline affords us the financial flexibility to deliver our growth strategy. We have demonstrable milestones and targets mapping out a clear pathway to net zero by 2040, and Paul will touch on that more in this presentation. And continuing our track record of safe and responsible operations remains at the heart of our business activities.

Looking at returns, in the first half of this year, we returned a further US$500 million through a tender offer plus additional buybacks, bringing total shareholder returns to in excess of US$5 billion over the last 15 years, an amount considerably in excess of any of our peer companies and clearly differentiating our investment proposition.

And in terms of growth, I've already touched on our proposed merger, which as we have previously outlined in our view offers significant organic growth potential alongside further inorganic consolidation opportunities. In the meantime, as the business sits today, we are focused on progressing organic growth in Egypt through a combination of near field and in field production opportunities and an expansive exploration programme.

Now, like other companies active in the region, we have experienced some delays in securing people and equipment, which has had an impact on the pace of our planned production ramp up. But as Paul will outline, we have a redefined plan to target that production growth point forward and into 2023.

In summary therefore, our intention and focus is to ensure that we retain the financial flexibility to balance the responsible delivery of sustainable growth with the generation of further shareholder returns, as we seek to create further value for shareholders. With that, I'll hand over to James.

James Smith: Thank you, Simon. And good morning. So, in the next few slides, I'll take you through the half year cash flows and current balance sheet position, then an overview of the current financial and operational performance and an update on the near-term outlook.

The headline numbers in the mid-year financials reflect the major milestone that we reached earlier this year. Receipt of the US$1.06 billion tax refund in India marked the conclusion of a long running chapter in the company's history and it enabled us to make further substantial cash return to shareholders of more than half a billion dollars. And it also leaves us still in a strong net cash position with the financial flexibility to enable us to continue to deliver value growth for our shareholders.

Looking at cash flows over the first half of the year, we started with net cash of US$133 million. The India tax refund was received and approximately half of those proceeds were returned to shareholders. Cash inflow from the UK North Sea earn out was US$77 million and operating cash inflows in Egypt were US$50 million, and I'll talk more about both of those in the next couple of slides.

Contingent consideration payable to Shell together with working capital adjustments in respect to the Egypt acquisition, total US$35 million. Producing asset capex in Egypt was US$23 million in cash terms and total exploration capex across the portfolio was US$58 million. And I'll provide an update of the full year capital programme in a moment.

So, adjusting for admin and other costs, that took us to a 30 June net cash position of US$631 million, being US$809 million gross cash and US$178 million drawings on the Egyptian reserve based lending facility.

Looking now at operational performance. Production in the first half averaged 35,500 barrels of oil equivalent a day. This is below expectations for the period, principally due to logistical delays in getting new rigs in the field and operational. However, we have been able to prioritise higher margin liquids targets for those wells drilled to date. And as a consequence, liquids production has grown about 6% from levels at the time of acquiring the assets, although this has been offset by declining gas production of around about 7% over the period due to that slower operational ramp up and underlying natural decline rates.

So, as a consequence of that, liquids now represents over 40% of total production and therefore revenues in the period were US$137 million off average realised prices of US$111 a barrel for liquids and US$2.90 in MCF for gas. Gross profits for Egypt in the first half, ie that's just revenue less opex, were US$105 million whilst actual operating cash inflows during the period were US$50 million due to an increase in receivables of approximately US$50 million.

The total receivables position in Egypt at mid-year stood at US$114 million, of which US$61 million was due for payment. We have had good engagement with the state oil company, EGPC on the receivables issue and plans to stabilise it. And obviously, we continue to monitor that very closely. Looking to the full year, that operational delay in being able to accelerate the pace of drilling has led to a revision to the full year production guidance to a range of 33,000 to 36,000 barrels of all equivalent per day, and we expect full year opex to be approximately US$6 a BOE, partly because of the reduced volumes, but partly because of the increased percentage of liquids production, which has higher processing costs than gas, but obviously also higher margins.

This slide is somewhat by way of a reminder and just sets out the value that sits in various contingent payments, both due to us and payable by us. So firstly, in the UK, we completed the sale last year of our 20% stake in the Catcher field and 29.5% stake in the Kraken field to Waldorf Production. As part of the terms of that transaction, further consideration is potentially due to us for each of the years, 2021 to 2025, linked to oil price and production levels. The detailed terms of that are set out on the slide. They're already in the public domain, but just by way of reminder, and the consideration of US$77 million in respect of 2021 was received in the first half of this year.

In Senegal, we completed the sale of our interest in the Sangomar project to Woodside in late 2020, and under the terms of that sale up to a US$100 million will be payable to us six months following first oil from the project if startup is in 2023, reducing to US$50 million if project startup is in 2024. Woodside is currently still targeting first oil within 2023.

And then in Egypt, as part of the acquisition terms, we agreed to pay Shell up to US$25 million a year over 2021 to '24, linked to oil price with a maximum payout due when Brent averages over US$75 a barrel in any year. And further consideration of 20 cents a barrel is also due on any discovered commercial reserves in the first nine exploration wells.

So then finally, just an update on capex expectations for this year. As I mentioned, our central case production guidance is down about 15% for the year due to a slower ramp up in drilling activity. As a result, some drilling spend originally scheduled for this year will be deferred into next year, so the producing asset capex guidance for 2022 is also reduced by about 15%.

Exploration capex in aggregate terms remains in line with our prior guidance. With UK drilling now complete, one well remaining in Mexico and exploration drilling expected to commence in Egypt later this year. And on that note, I'll hand over to Paul to provide more detail on the operational update.

Paul Mayland: Thank you, James. Good morning, everyone. We are pleased to report three key elements of our production investment plans in Egypt during the first half of 2022. Firstly, we fully transitioned the asset base from Shell and started to increase the investment in Egypt in our first full year as asset owners. Secondly, we've kept safety and environmental performance at the forefront of our minds. And thirdly, we've refined our investment plans to direct capital to the best value opportunities in light of the prevailing prices and available rig capacity, recognising some challenges have emerged.

On the first point, Cheiron are now firmly in the seat as operator. We both have secondees within the operating company Bapetco, and we are working together with Cheiron and Bapetco, including their new Chairperson to best develop the forward investment plan for the benefit of our companies and EGPC, the national oil company.

On oil and condensate working interest production, we are up approximately 6% at 14,600 barrels of oil per day in the first half, versus the fourth-quarter of 2021, but we're down around 7% on gas to 117,000,000 standard cubic feet a day. July and August monthly average working interest liquids have grown further to 15,500 barrels of oil per day as we continue to divert capital to our liquids rich opportunities.

Secondly, as you can see, we've had no lost time injuries or tier one process safety events at either of the two main oil and gas processing facilities. And finally, we faced some challenges associated with the delivery of the overall investment programme, which other operators have also faced in Egypt and reported in some of their earnings calls, most notably Apache.

Specifically, we've experienced some delays and inefficiencies as we scale our rig count from two to five or potentially six. These include longer expected times to import staff and commission rigs, extended times for new rigs, particularly rig moves between locations, and increased tie-in times for new well drilling and completion. We believe these are mostly short-term and we should have them overcome by the year end.

The consequence, however, is that we've been unable to deploy capital at the pace we had hoped in 2022. And therefore, we are revising both our capital and production guidance downwards by approximately 15% as already outlined by James

Paul Mayland: However, the Egypt development and production opportunity set remains strong, is growing and our decarbonisation plans remain on track. Both of which I will describe in the following slides.

In terms of new investments, during the first half we have drilled 14 new wells, 10 are producing or injecting, two were awaiting hookup, and two were plugged and abandoned. Well results have generally been within expectation, with stronger results on the oil front, particularly at BED and

Sitra. This has been offset by a couple of below expectation gas wells at the Karam and BTE fields and the higher natural decline at the Assil field.

The combination of the latter has resulted in a deficit of around 3,000 barrels of oil per day equivalent of gas production versus planned. Which we are looking to better understand and address with further investment, possibly reperforating, fracking, or sidetracking those wells. The outlook remains positive, however. Hookup times are improving and with the additional rig capacity becoming available in the second half of the year, we expect an increase in well count and total well tie-ins.

We are currently drilling several water injectors to improve pressure support and waterflood recovery, and the benefit of those wells won't be truly seen in production terms until into 2023. Five workover rigs remain active on completing new wells and optimising the existing well stock. And the BED additional compression should become operational by year-end. And the Teen gas condensate project is underway.

Additional compression is being evaluated for the Obaiyed area as part of a wider enhancement plan for the field, which potentially includes further drilling and deployment of new well technology to access flanks of the field. We've not forgotten about the large gas potential, and we're building an opportunity set in and around the Obaiyed and Teen gas condensate fields with possible execution in 2023.

At present, however, the drilling capacity we have is being deployed at BED and Sitra light oil and water flood opportunities, Karam light oil reservoirs, and oil and water flood optimisation at Bagha and NEAG. And two opportunities recently executed, give an illustration of our field extension well results. The BED 15 C2-1 well, shown in the middle plot here, was drilled and completed in approximately 30 days, hooked up within a month at a total cost of around three and a half million dollars, and brought online at rates in excess of 1,000 barrels of oil a day, giving an expected payback of less than 12 months and a rate of return in excess of 50%.

The well Sitra C33.1 on the right was drilled in 24 days, hooked up within 16 days at a total cost of US$3 million and brought online at rates in excess of 10 million standard cubic feet a day, and 1,000 barrels of condensate. Giving an expected payback of less than 18 months and a rate of return in excess of 50%. And our team continues to identify and high grade opportunities in conjunction with Cheiron and Bapetco.

We recognise that we have a role to play in meeting the energy needs in Egypt. And this includes both oil and gas. And we will therefore work constructively with EGPC and the Ministry to help deliver an investment plan that benefits all stakeholders. We have been particularly encouraged by recent modernisation initiatives in Egypt that has seen simplified and consolidated concessions, improved PSC terms, and a recognition that fixed gas prices may not unlock the full potential of the Western Desert basins.

Last but not least, are decarbonisation plans which are ongoing in 2022. And wherever possible, we will help contribute towards Egypt's 2030 vision. We inherited a baseline from 2019 conducted by Shell, but there is further work to do to reflect how the plant is operated today. And consequently, we aim to complete a new and improved baseline survey for greenhouse gas emissions in 2022, our first year as full asset owners.

This has not however, held us back from making immediate improvements and building on the good work that Shell and Bapetco had already put in place. Energy consumption is forecast to be down slightly year on year across the fields, and our fuel substitution, power centralisation and electrification project has already resulted in change out of 30 diesel generators. This helps cut operating costs longer term, reduces greenhouse gas emissions and provides improved power reliability with the likelihood of prolonged ESP run times.

We are also looking to integrate solar power into the mix, particularly for remote well sites where extending the power grid may not be economically viable. And with these initiatives underway, we expect to cut current levels of emissions by at least 15% by 2025. Longer term, we remain committed to eliminating routine flaring in our flare gas to power project. And we are also trying to tackle process emissions through CO2 storage.

Success on these fronts would take a further 15% out and potentially more depending on scale, by 2030 or earlier. And for our more difficult to abate emissions we have and will look to invest in the highest qualified, verified carbon offsets, especially where they have a broader societal benefit. And on this positive note, with an exciting set of investment opportunities ahead of us, I'll hand over to Eric to talk through our exploration activity and results.

Eric Hathon: Thank you, Paul. Good morning, everyone. In exploration, we're focused on high grading and maturing our portfolio through seismic acquisition and reprocessing, drilling and other technical workflows. First to Egypt, where we're assessing our operated exploration drilling schedule while we focus on near term production, as Paul noted, and in conjunction with the late arrival of additions to our rig fleet as already discussed.

We've emphasised the acquisition of our broadband 3D seismic programmes in order to further enhance the expiration opportunity set. And you can see those 3D areas are shown on the map in pink in each concession area. The 3D acquisition in North Um Baraka to the far upper left was completed in Q2, and we expect interpretable products in Q1 2023. We have entered into the second exploration phase here with a two well commitment.

And in our operated 3D acquisition programmes, the first will be in South East Horus starting this month. And you can see that on the map. And upon completion of that, the seismic crew will move to West El Fayum for our final acquisition programme around the beginning of November. And we expect products from both towards the latter half of 2023.

Now, if we move on to the UK, the Capricorn-operated Diadem well was completed at the end of August. Jurassic Fulmar Sands, which were the target, were penetrated, but are found to be water wet. And the well is currently being P&A'd. Now on our acreage in the southern North Sea Basin, we received the final products from our 2021 3D acquisition and are in the midst of interpretation.

Now, if you look to the right of the slide in offshore Mexico, the Eni-operated Yatzil well in Block seven is expected to spud in the fourth quarter. This is our last commitment well in Mexico, targeting Upper Miocene Turbidites, the same stratigraphy, which was hydrocarbon bearing in both the Saasken and Sayulita wells.

And elsewhere in our portfolio, in Mauritania, we've completed our environmental baseline survey and are in discussion with potential partners. We have a drill decision there in Q2 of next year. And in the Eastern Mediterranean we're relinquishing our eight concessions offshore Israel, having completed our review utilising the newly reprocessed 3D data. The opportunities identified did not meet our investment criteria.

And finally, in block 61 offshore Suriname, we continue to discuss our plans for 3D seismic acquisition, with interested parties, in an area where Shell, Petronas, Apache and others are planning additional exploration and appraisal drilling. And on that, I'll hand back to you, Simon.

Simon Thomson: Okay. Thank you, Eric. In summary, our long-term strategy consistently delivered, utilises our financial flexibility to balance the responsible delivery of sustainable growth and further shareholder returns. As I noted at the start of this presentation, we are working hard to ensure that we can deliver best value for shareholders. And we look forward to updating you on our progress in due course.

In the meantime, having moved forward from initial equipment and people delays in Egypt, we are focused on delivering production ramp up. And as Eric has just outlined, an expansive forward exploration plan in an area of strong, local and regional demand growth. Thank you. That concludes today's presentation and I'd like to hand back to the operator for questions.

Operator: Thank you. If you would like to ask a telephone question, please signal by pressing star one on your telephone keypad. Please ensure that your mute function is turned off to allow your signal to reach our equipment. Again, that is star one to pose a question. Our first question today will come from Matt Smith from Bank of America. Please go ahead.

Matt Smith: Hi there. Morning. Thanks for the presentation. And thanks for taking my questions this morning. First one would be to touching upon the fiscal modernisation process in Egypt. Of course, a lot of your peers there have been successful in the Western Desert, specifically, securing improved terms. I just wanted to double check if there's any reason, I appreciate these things take time and the exact details might be somewhat uncertain, but is there any reason for us to not expect that you might be able to achieve a positive outcome there in future?

And I did want to link that into your comment on the gas side as well, which I appreciate is somewhat separate, but somewhat related. In that I appreciate, of course it's much more economical for you to prioritise the oil volumes at the moment, but I guess Egypt as a country is quite desperate for gas. Just interested if there could be any changes on the gas side, as you alluded to.

Matt Smith: And then the second question would be around... I appreciate you, perhaps you're not going to go into the details of the alternative transactions that you're exploring at the moment, but just in principle, based upon the interaction and engagement you've had with shareholders, could you outline in principle what these transactions, what these alternatives might be able to deliver for shareholders which perhaps the Tullow transaction does not in the opinion of, I guess, some of those shareholders that have publicly came out against the deal. So thanks very much.

Simon Thomson: Okay, thanks for that Matt. I'll let Paul answer the first part of your question about the fiscal modern modernisation and gas. Just on the second part, you're right. I mean, obviously we can't go into details given the limitations and public disclosure in terms of confidentiality agreements, but we are looking at various alternative transactions. We're of course evaluating them all on a relative and absolute basis. And ultimately we're looking to create best value for shareholders. So that will be the focus in relation to these ongoing discussions. And of course, yes, we do listen to the views of all shareholders in relation to our strategy, and we do obviously take that into consideration as we consider the best value route that we're trying to create. Paul.

Paul Mayland: Yes, good morning. Egypt's obviously a new journey for us and we're just understanding what the opportunities are there. I think it's fair to say we've seen changes, obviously, in the PSC terms, which has been encouraging. That has taken time. I think we have to recognise that for a change in terms there has to be value seen on both sides of the equation by the respective parties, and therefore that's a negotiation that we'll need to look at carefully to see what the benefits potentially are across the concessions that we hold. And I guess it's a similar story on gas. Obviously, some of the gas is commercially viable today. Others we'll need to make the economic case for some of the other gas resources that we hold in the contingent resources development unclarified category. So that's very much work in progress, I would say, and it's difficult to put a timetable on it other than it will take time.

Matt Smith: Perfect. Well, thanks for your answers, guys. Much appreciated. I'll pass it on.

Simon Thomson: Thanks.

Operator: We will take our next question from Rachel Fletcher of Morgan Stanley. Please go ahead.

Rachel Fletcher: Good morning. Thanks for taking my questions. I have two, please. So, the first is on the lower production guidance. You've revised your full year production guidance to 33 to 36,000 barrels per day. I was wondering how this impacts production growth in 2023 and beyond? Does it affect your longer- term target of working interest production growing to 50,000 barrel of oil equivalent day? I think that's by 2026. So that's my first question. And the second question is on the merger with Tullow. The documentation is expected to be issued in Q4, and you're targeting completion before year end. I was hoping you could give a brief overview of the steps that would be needed to be taken before we get to completion. For example, what regulatory approvals would be needed and when we can expect these to happen, please. Thanks.

Simon Thomson: Okay. Thanks. I'll let Paul deal with the first one and James the second.

Paul Mayland: Yeah, I mean, I think on the production ramp up, I mean, a lot of it is naturally anchored to the performance of the units in terms of how effectively and efficiently we can drill and tie in new wells. Obviously, we're making improvements on that front, and as I said, we've had some issues, like some other operators, particularly from the end of the first quarter due to global circumstances. And I think we just have to see how the performance goes for the rest of this year. Obviously, we're striving to make improvements and drive performance, and we'll see where we turn out in the end of 2022, and obviously we'll issue our normal guidance in January.

James Smith: And on the timetable for the merger, I think as we said at the time of the announcement, we would go through the regulatory or the government consent process first and then issue the documentation for shareholder vote and the UK completion process. So, we're still in the process of obtaining government consents in key jurisdictions. I would say that we've made very good progress on that, and the reception has been positive, but it's not yet concluded. When that is concluded we'll issue the relevant documentation, which is a prospectus for the combined entity, and the court scheme documentation and shareholder vote documentation on both sides. If we're on track with government consents, that would happen in the October, November timeframe for that documentation and shareholder vote process. And then the final step is the court sanction, given it's a scheme of arrangement in our case, which should happen pretty swiftly after shareholder votes.

Rachel Fletcher: Very clear. Thank you.

Operator: We will take our next question from Mark Wilson of Jefferies. Please go ahead.

Mark Wilson: Okay, thank you. Good morning, gents. First is a housekeeping point. The payment from the UK North Sea earn out, just to confirm, is that subject to EPL taxation or not?

James Smith: Hi Mark, it's James. I could take that first. No, it's not. The earn out terms are purely on a revenue basis. So, as was set out on the slide, they're just calculated as being production from those assets multiplied by the oil price in excess of US$52 Brent for the average in each year, multiplied by a percentage which is on a sliding scale over that period. And that's it.

Mark Wilson: Okay, thanks James. Then the second question is regarding the Egypt operating cash flow, the slide seven and the US$50 million you talked to. You said that there's receivables of another US$50 million as well we should consider. So, I'm just trying to understand, on a like for like basis, full year results, you talked about Egypt having the potential for US$150 million of operating cash flow a year at US$60 a barrel. Are we looking at a like for like therefore with that US$50 million or do we have to have the receivables? How does that compare?

James Smith: So, the US$50 million was the actual cash received in the half year. The gross profit number I gave, is just revenue from production, i.e. the production times realised prices in the period, less opex. So, if you like, that's the cash flow on a produced barrels basis of US$105m in the half year. It's just that only US$50m of cash was received because of an increase in the working capital position. So if you're thinking of it purely on a producing basis, the gross profit was US$105m for the half year. With similar production the second half and similar realised prices, you'd expect about the same in the second half. But the actual cash received is obviously dependent on the development of that working capital receivables position.

Mark Wilson: Sorry. So, we look at that gross profit number as being equivalent to that US$60 bbl guidance at the beginning of the year?

James Smith: Yeah. That's the right comparison, yeah.

Mark Wilson: Okay. Thank you. I'm not sure I heard that, but maybe my line's not very good, but just last point then, you spoke about the country approvals. Just to check if any of the countries have given their approval yet. And then the final point is, simply put, the Cairn (sic) (Capricorn) shares are trading at quite a premium to the implied transaction price with Tullow, so I just wondered if you could speak to that, Simon, at all. Thank you.

Simon Thomson: Yeah, I'll speak to that. I mean basically we're obviously aware of where the shares are currently trading, and as we've indicated today, we're very much focused on establishing the best route to value creation for shareholders. We take that into consideration as we consider, obviously, the transaction with Tullow and also the other expressions of interest that we've received. As I said, we're working hard to create the best possible outcome for shareholders. James.

James Smith: And on the country approvals. My comment earlier that we're making good progress, we'll announce when they're concluded in aggregate rather than individually.

Simon Thomson: And Mark, sorry, the other thing is... That you didn't hear is James, the answer was yes to your point in earlier question relation to the comparison with the full year results.

Mark Wilson: Thanks for that clarity both and I'll hand it over.

Simon Thomson: Thanks.

Operator: We will take our next question from James Thompson of JP Morgan. Please go ahead.

James Thompson: Great. Good morning, gents. Thanks very much for the presentation so far. Just a few questions on Egypt if I may. Obviously there's some delay in getting the assets to location and you articulated a number of, I guess, smaller bottlenecks, which have caused the production downgrade. What gives you the confidence that these are really going to ease, and to go back to an earlier question, maybe not necessarily in the medium term, but can you talk about your ability to ramp up production as we head into 2023? I know you've obviously brought down guidance for this year, but just thinking about the delivery of wells. How many wells do you need to be drilling to get back up to the 40, mid 40s-type level in the relatively near term?

Simon Thomson: Yeah, Paul.

Paul Mayland: I mean, just on the drilling, I think I explained we've only drilled 14 wells in the first half of this year. We were hoping to outturn over 20. I think we previously guided for full year over 40. Clearly that's where we're trying to get to, not just this year, but obviously in subsequent years. And that may well include adding to the current rig capacity to do that.

James Thompson: And just in terms of the other bottlenecks, you talked about tying wells in, moving people around, just generally getting things through customs, for example. What gives you the confidence that these are really going to ease?

Paul Mayland: Well, so yeah, on the specifics of importing the two rigs, they're obviously both now in-country. One is commissioned, accepted and operating on its first well, and the second one is undergoing final acceptance. So, both of those rigs should be operating on wells during this quarter. And we'd certainly expect by the end of the year that they'll be performing fully to our satisfaction, in terms of delivering performance on a par with the other three units that are operating.

The third one, it's had some issues in terms of just basically performance between moves. It doesn't actually add to the cost, because most of the rig moves are fixed price, but actually it's a sort of opportunity loss, so it basically drills fewer wells than you would expect in the period. But we're making progress on that as the crew is more familiar, in terms of obviously demobilising and rebuilding the rig, and putting it back into operation between locations.

James Thompson: Okay, thanks Paul. Just one more. You talked about one field experienced slightly faster natural decline. I missed a name of it, was it AS ...

Paul Mayland: Yeah, it's-

James Thompson: Or AESW?

Paul Mayland: It's the Assil field, which yeah, basically is within that AESW concession. Obviously that field, but particularly the Karam-11 well that was drilled just at the back end of Shell's tenure, they're the two main contributors, along with a suspended well, BTE-4, which is in the NAES concession, which has resulted in that deficit of gas production which I mentioned earlier in the presentation.

James Thompson: Okay, thanks Paul. Just shifting to exploration, obviously the UK's been a bit of a disappointment this year. Just generally reading your commentary on exploration, seems like a little bit of risk off the table, Simon. Could you maybe talk about what's in the hopper as you head into 2023? Or should we expect it to be a relatively less active year, all else being equal?

Simon Thomson: Yeah, sure. Let me hand you over to Eric for that.

Eric Hathon: Yeah, thank you. Good morning. Well, our focus for 2023 will be Egypt obviously. We'll have three new 500 square kilometre 3D surveys to evaluate, and then a rig programme to get started. So that'll be our focus for 2023.

And then the other things we have are optionality, obviously in Mauritania where we're coming up on a drill decision early part of next year, and we're talking to potential partners. And the same in Suriname, where we're talking to partners with the idea of acquiring 3D over our Block 61.

So while those aren't firm commitments, they're options that we have in front of us. And then of course we continue to look at other opportunities across the spectrum, primarily in our current areas of the Eastern Med and Africa.

James Thompson: Okay thanks, Eric. I'll hand over.

Operator: We will take our last question today from Chris Wheaton of Stifel. Please go ahead.

Chris Wheaton: Thanks very much indeed. Two questions from me, if I may guys. Firstly, can I come back to the last question on working capital, please? I'm slightly unclear about your answer, James. Are you saying that you think the US$50 million working capital build in Egypt you can see in Note 3.3 in the results, reverses in the second half? Or should we think about that as actually more like the ongoing natural delay in getting paid within Egypt? That actually there is a sort of US$50 million effectively working capital float now in the business, that we should just assume doesn't reverse, but it doesn't get any worse from this point, not withstanding you will be growing production, hopefully a bit in the future. That's my first question.

James Smith: Yeah, hi. No sorry, I think the specific question that Mark was asking is, if we just think about operating cashflow on a kind of production basis, aside from working capital, where we'd kind of guided to a steady state, what's the right comparator to that? And I was drawing attention to the gross profit number revenue, less OPEX, of US$105m for the first half.

Obviously as you've noted, cash inflow in the period was only US$50m, as a result of a roughly US$50 million build in the receivables position. I think I would say in terms of the near term outlook, we've had good engagement with EGPC and other stakeholders, to try to ensure that we stabilise that. I wouldn't necessarily forecast a significant reduction in that receivables position over the rest of this year, but clearly it's a focus for us to look to ways to bring that down over time.

Chris Wheaton: Okay, brilliant. That's very clear, James. Thank you very much, and apologies for mixing up the topic of the question.

My next question was just going back to the production guidance change, just trying to understand what's rigs and what's field performance. I noted Paul's comments earlier about three kboepd of gas versus that, or would lower production versus plan. So given that oil is up, I would've thought that therefore that means something like a one to one and a half kboepd net impact from fewer .. from worse performance from the field. So that suggests the rig delays about another one and a half to two kboepd. Is that a reasonable split of that guidance change between the rigs, and the actual field performance?

Paul Mayland: I think I followed that, Chris. But the 3,000 I mentioned is sort of on a working interest basis. So if particularly those two wells had performed as per expectation, we would be probably closer up to sort of 37- 38,000 barrels of oil equivalent per day, with an increase obviously production on gas in the first half. And then the further delay is probably about where you suggested.

Chris Wheaton: Okay, so it's about two kboepd of field performance, either 35 versus your of 37 - 38. And then the other one to one and a half kboepd of guidance, that's rigs.

Paul Mayland: Yeah.

Chris Wheaton: That's kind of the implication from the answer.

Paul Mayland: yeah.

Chris Wheaton: That's reasonable, isn't it, Paul?

Paul Mayland: That's probably reasonable. Just to clarify though, it's not actually field performance. So there's two wells. There's the Karam-11 well, which we think was a very good well that we've drilled. For some reason, it hasn't produced at the levels we had hoped. And as I've said, we are considering options to remediate that.

And it's a similar story at BTE-4, which was a suspended gas well that was drilled by Shell. The offset well came on pretty strong and had produced for a number of years. We reactivated BTE-4 with an expectation that we'd get similar performance, and that hasn't happened. So again, we're looking at it to see, what can we do to remediate that deficit in production performance? But it's not a sort of underlying field performance, it's very much at those two specific wells.

Chris Wheaton: Okay. That's helpful clarification. Brilliant Paul, thank you very much indeed.

Paul Mayland: Thanks.

Chris Wheaton: That's it for me guys. Thank you.

Simon Thomson: Thank you.

Operator: This will conclude today's question and answer session. I would now like to hand the conference back to our speakers for any additional or closing remarks.

Simon Thomson: Well just to say thanks very much indeed for your time and for your questions. As ever, we're available for any further questions that might come up. And in the meantime, we look forward to coming back and reporting further progress to you in due course. Thanks for your time.