

Company Registration No. 12645819

Pharos Energy Israel Limited

Report and Financial Statements

31 December 2022

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Pharos Energy Israel Limited

Report and financial statements 2022

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Pharos Energy Israel Limited

Directors' report

The Directors present their annual report and the unaudited financial statements for the year ended 31 December 2022.

Principal activities

Pharos Energy Israel Limited (the "Company") was incorporated on 4 June 2020 and its principal activity is the exploration of oil and gas reserves. The Company has 33.33% interest in eight Israel offshore licences over two contiguous zones (Zone A & Zone C), neighbouring several giant gas fields.

During 2022, following completion of the seismic processing in order to mature prospectivity ahead a drilling decision, Capricorn as the operator and along with the Company and other JV partners, informed the Ministry of Energy of the joint venture's intention to relinquish the licences.

Business review and strategic report

The Company has taken advantage of the exemption under Section 414B of the Companies Act 2006 from preparing a strategic report as it would have been entitled to the small companies exemption, but for being a member of an ineligible group.

Audit Exemption

Pharos Energy plc has elected to take advantage of the exemption from audit available under section 479A of the Companies Act 2006 in respect of the Company, a wholly owned subsidiary, for the year ended 31 December 2022. The exemption is available for qualifying subsidiaries that fulfil a set of conditions. In accordance with section 479C of the Companies Act 2006, Pharos Energy plc, the immediate parent undertaking, has guaranteed 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).

Going concern

The directors have adopted the going concern basis in preparing the annual report and financial statements and the assessment of this approach, together with the financial risks affecting the business, can be found in Note 2: Accounting policies and Note 3: Financial risk management respectively.

Ongoing monitoring and precautionary/preventative measures under COVID-19

The health, safety and welfare of Pharos staff, contractors and host communities across the 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 the areas of operation. For the office workforce at all locations, Pharos has continued to apply a hybridworking mode and will do so for the foreseeable future.

Climate change 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.

Pharos Energy Israel Limited

Directors' report

Climate change risk and resilience (continued)

In Q1 2022, Pharos advanced its alignment with the four Task Force on Climate Related Financial Disclosures (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, 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.

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.

Results and dividends

The Company's loss for the year was \$236,059 (2021: \$2,252,516 loss) as a result of an impairment charge recorded against intangible assets (see Note 5: Intangible assets). The Company is in the exploration phase and has not traded during the current and prior year. The Directors do not recommend the payment of a dividend for the year.

Directors

Janice Brown
Susan Rivett
Dr Michael Watts (resigned 19 May 2022)

Company secretary

The Secretary of the Company as at 31 December 2022 was Nautilus Management Limited.

Pharos Energy Israel Limited

Directors' report

Directors' liabilities

Pharos Energy plc, the immediate parent undertaking, has taken out indemnity insurance for all the directors of the company in connection with their roles and responsibilities as Director and in accordance with the requirements and limitations of Section 234 of the Companies Act 2006. *This indemnity is in force at the date of signing these financial statements.*

Registered Office

27/28 Eastcastle Street, London, United Kingdom, W1W 8DH.

Approved by the Board of Directors
and signed on behalf of the Board



Susan Rivett
26 September 2023

Pharos Energy Israel Limited

Statement of Directors' responsibilities

The Directors acknowledge their responsibilities for preparing the Directors' Report and the Company's financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare financial statements in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board. The financial statements are required to give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable the users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Company's ability to continue as a going concern.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Pharos Energy Israel Limited

Income statement for the year ended 31 December 2022

	Notes	Year ended 31 Dec 2022 US\$	Year ended 31 Dec 2021 US\$
Impairment charge – Intangible assets	5	<u>(207,792)</u>	<u>(2,246,389)</u>
Loss before tax		(207,792)	(2,246,389)
Finance costs		<u>(28,267)</u>	<u>(6,127)</u>
Loss for the year		<u>(236,059)</u>	<u>(2,252,516)</u>

All results are derived from continuing operations. The loss for the year is equal to the total comprehensive income and accordingly a statement of comprehensive income has not been presented.

Pharos Energy Israel Limited

Statement of changes in equity for the year ended 31 December 2022

	Notes	2022 US\$	2021 US\$
Assets			
Non-current assets			
Intangible assets	5	-	-
		<u>-</u>	<u>-</u>
Current assets			
Trade and other receivables	6	100	52,512
Tax receivables		-	319,669
Cash		324,440	6,111
		<u>324,540</u>	<u>378,292</u>
Total assets		<u>324,540</u>	<u>378,292</u>
Current liabilities			
Trade and other payables	7	(2,813,015)	(2,630,708)
Total liabilities		<u>(2,813,015)</u>	<u>(2,630,708)</u>
Net liabilities		<u>(2,488,475)</u>	<u>(2,252,416)</u>
Equity			
Called up share capital	8	100	100
Retained loss		(2,488,575)	(2,252,516)
		<u>100</u>	<u>100</u>
Total equity		<u>(2,488,475)</u>	<u>(2,252,416)</u>

For the year period ending 31 December 2022, the company was entitled to exemption from audit under section 479A of the Companies Act 2006.

The members have not required the company to obtain an audit of its accounts for the year in question in accordance with section 476.

The directors acknowledge their responsibilities for complying with the requirements of the Act with respect to accounting records and the preparation of accounts.

These accounts have been prepared in accordance with the provisions applicable to companies subject to the small companies' regime.

These financial statements were approved by the Board of Directors on 26 September 2023.

Signed on behalf of the Board of Directors



Susan Rivett

Company Number: 12645819

Pharos Energy Israel Limited

Statement of changes in equity for the year ended 31 December 2022

	Share capital US\$	Retained earnings US\$	Total US\$
As at 1 January 2021	100	-	100
Loss for the year	-	(2,252,516)	(2,252,516)
As at 31 December 2021	100	(2,252,516)	(2,252,416)
Loss for the year	-	(236,059)	(236,059)
As at 31 December 2022	100	(2,488,575)	(2,488,475)

Pharos Energy Israel Limited

Cash flow statement for the year ended 31 December 2022

	2022 US\$	2021 US\$
Operating activities		
Operating loss	(207,792)	(2,246,389)
Impairment charge	207,792	2,246,389
Operating cash flow before movements in working capital	-	-
Decrease/(increase) in receivables	372,081	(372,081)
Increase/(decrease) in payables	3,392	(1,148,443)
Bank charges paid	(7,261)	(6,127)
Net cash from (used in) operating activities	368,212	(1,526,651)
Investing activities		
Purchase of intangible assets	(207,792)	(1,033,887)
Net cash used in investing activities	(207,792)	(1,033,887)
Financing activities		
Intercompany loans	178,915	2,566,649
Net cash from financing activities	178,915	2,566,649
Net increase in cash and cash equivalents	339,335	6,111
Cash and cash equivalents at beginning of year	6,111	-
Effect of foreign exchange rate changes	(21,006)	-
Cash and cash equivalents at end of year	324,440	6,111

Pharos Energy Israel Limited

Notes to the financial statements for the year ended 31 December 2022

1. General Information

Pharos Energy Israel Limited is a private company limited by share capital incorporated in England and Wales. The address of its registered office is given in the Directors' Report. The nature of the Company's operations and its principal activities are set out in the Directors' Report.

The immediate parent undertaking is Pharos Energy plc.

2. Accounting policies

Basis of accounting

The financial statements of the Company have been prepared on a going concern basis in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), and applicable requirements of the Companies Act 2006.

The Company is part of the Pharos Energy plc Group ("the Group"). The Group monitors its capital and liquidity positions regularly throughout the year to ensure that it has sufficient funds to meet forecast cash requirements. Further details of the Group liquidity position are included in the Group's Annual Report which does not form part of this report.

After making enquiries, taking into account the Company's retained loss and net liabilities as at 31 December 2022 and in light of the above, the Directors have reasonable expectation that the Company has adequate resources to continue operations for the foreseeable future. The Company has received guarantees from the immediate parent undertaking, Pharos Energy plc, to provide financial support for a period of not less than 12 months from the date of approval of the Company's financial statements. The going concern basis for these financial statements has therefore been adopted.

The financial statements of the Company are prepared in US dollars because that is the currency of the primary economic environment in which the Company operates and is the functional currency of the Company.

Adoption of new and revised accounting standards

A number of new IFRS have been adopted in the current year. Their adoption has not had any significant impact on the amounts reported in these financial statements.

A summary of the principal accounting policies, all of which have been consistently applied throughout the year are set out below:

Intangible and tangible non-current assets

Oil and gas exploration, evaluation and development expenditure.

The Company 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.

Pharos Energy Israel Limited

Notes to the financial statements for the year ended 31 December 2022

2. Accounting policies (continued)

Intangible and tangible non-current assets (continued)

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 "Exploration for and Evaluation of Mineral Resources." 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.

Financial instruments

Financial assets and financial liabilities are recognised on the Company's balance sheet when the Company becomes party to the contractual provisions of the instrument. The Company does not currently utilise derivative financial instruments.

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 6 and 7.

Receivables

Receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method.

Payables

Payables are stated at their nominal value.

Foreign currency translation

Foreign currency transactions during the period are translated into US dollars at the exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into US dollars at the foreign exchange rates ruling at the balance sheet date. Any resulting gains or losses are included in net profit or loss for the period.

Segmental Analysis

No segmental analysis is provided because the Company operates one class of business, oil and gas exploration, and undertakes that class of business in one geographical area, Israel.

Pharos Energy Israel Limited

Notes to the financial statements for the year ended 31 December 2022

2. Accounting policies (continued)

Critical accounting judgements and key sources of estimation uncertainty

The preparation of financial statements may require management to make estimates and judgements that affect the amounts reported in the financial statements and accompanying notes. In such cases, management believes that the estimates and judgements utilised in preparing its financial statements are reasonable, but actual results could differ from estimates.

Oil and gas assets – Management considers intangible exploration and evaluation assets for impairment at least annually with reference to indicators in IFRS 6. Note 5 discloses the carrying value of intangible exploration and evaluation assets along with details of any impairment charges that arose during the year.

3. Financial risk management

Credit risk

The Company's financial assets comprise Group receivables and are therefore deemed to have a low credit risk.

Foreign Currency Risk

The Company primarily conducts and manages its business in US dollars. The impact of a 10% movement in foreign exchange rates on the Company's loss and net liabilities for the year ended 31 December 2022 would not have been material.

Interest rate risk

The Company does not hold significant cash balances or other short term highly liquid investments and is not therefore materially exposed to interest rate risk.

Liquidity risk

As a subsidiary of Pharos Energy plc and a member of the Pharos Group, the Company's cash requirements and balances are projected with those of the Group as a whole and for each country in which operations and capital expenditures are conducted. The Group meets these requirements through an appropriate mix of available funds, equity instruments and debt financing. The Group seeks to minimise the impact that any debt financings have on its balance sheet by negotiating borrowings in matching currencies. The Group further mitigates liquidity risk by entering into arrangements with industry partners thereby sharing costs and risks, and by maintaining an insurance programme to minimise exposure to insurable losses.

Capital risk management

The Company's capital is managed as part of the capital of the Group to ensure that entities in the Group will be able to continue as going concerns while maximising the return to stakeholders through the optimisation of the debt and equity balance. The capital structure of the Company consists of equity in the form of issued share capital attributable to the equity holders of its parent, Pharos Energy plc.

4. Directors' remuneration and staff costs

There were no employees of the company during the year. Staff costs, including pension contributions, of all group employees who provide services to the company are borne by Pharos Energy plc.

The 3 directors who held office during the year received no remuneration from the company. All directors' remuneration is borne by Pharos Energy plc and the proportion of directors' remuneration relating to services provided to the company is not able to be reliably separately identified. Therefore, no recharge has been made to the company.

Pharos Energy Israel Limited

Notes to the financial statements for the year ended 31 December 2022

5. Intangible assets

	2022	2021
	US\$	US\$
<i>Exploration and evaluation expenditure</i>		
As at 1 January	-	1,212,502
Additions	207,792	1,033,887
Impairment - Intangibles	(207,792)	(2,246,389)
	<u>-</u>	<u>-</u>
As at 31 December	<u>-</u>	<u>-</u>

During 2022, additions comprise \$0.2m expenditure on geoscience and geophysical studies (2021: total expenditure of \$1.0m; \$0.7m on geoscience and geophysical studies and \$0.3m signing bonus). At 31 December 2022, the Company decided to write-off \$0.2m (2021: \$2.2m) as no substantive expenditure has been identified as indicated in IFRS 6.

6. Trade and other receivables

	2022	2021
	US\$	US\$
Amounts owed by group companies	100	100
Other receivables	-	52,412
	<u>100</u>	<u>52,512</u>

There are no amounts overdue or allowances for doubtful debts in respect of receivables. There is no material difference between the carrying amount of receivables and their fair value. The above financial assets are held at amortised cost and are not discounted as the impact would not be material.

Amounts owed by group undertakings are unsecured, interest free and repayable on demand.

7. Trade and other payables

	2022	2021
	US\$	US\$
Accruals and deferred income	-	183
Other payables	3,574	-
Amounts owed to group undertakings	2,809,441	2,630,525
	<u>2,813,015</u>	<u>2,630,708</u>

There is no material difference between the carrying value of trade and other payables and their fair value. The above financial liabilities are held at amortised cost and are not discounted as the impact would not be material.

Amounts owed to group undertakings are unsecured, interest free and repayable on demand.

Pharos Energy Israel Limited

Notes to the financial statements for the year ended 31 December 2022

8. Share capital

	2022	2021
	US\$	US\$
Authorised		
100 ordinary shares of US\$1 each	100	100
	<hr/>	<hr/>
Allotted, issued and called up		
100 ordinary shares of US\$1 each	100	100
	<hr/>	<hr/>

9. Ownership

The Company is a wholly owned subsidiary undertaking of Pharos Energy plc. The smallest and largest group in which the results of the Company are consolidated is headed by Pharos Energy plc, registered in England, whose principal place of business is at 27/28 Eastcastle Street, London W1W 8DH, United Kingdom.

The consolidated financial statements of this group are available to the public and may be obtained from the above address or from the website www.pharos.energy.

10. Capital commitments

As at 31 December 2022, the Company had exploration licence commitments not accrued of \$0.1m (2021: \$0.8m).