

**Company Registration No. 12645819**

**Pharos Energy Israel Limited**

**Report and Financial Statements**

**31 December 2020**



# **Pharos Energy Israel Limited**

## **Report and financial statements 2020**

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# Pharos Energy Israel Limited

## Directors' report

The Directors present their annual report and the audited financial statements for the period ended 31 December 2020.

### 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 2020, as part of the minimum work commitment, a contract for seismic processing was awarded and seismic processing is ongoing.

### 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.

### 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.

### Managing the risks presented by the outbreak of Coronavirus (COVID-19)

The spread of coronavirus (COVID-19) disease caused significant volatility throughout the global economy and oil and gas industry throughout 2020 and into 2021, with new, more aggressive variants of the disease appearing. Throughout the COVID-19 crisis, the Pharos group continued to focus on two challenges:

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

The appropriate precautionary measures, including social distancing continue to be implemented at all locations. This strategy has been successful so far, with no major disruption through ill-health of the workforce. Pharos embarked on a cash-conservation project given the uncertainty around the recovery of Brent crude oil price, by deferring its discretionary capital spending and cutting operational and corporate costs for the rest of 2020/21.

### Climate change and TCFD

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

# **Pharos Energy Israel Limited**

## **Directors' report**

### **Climate change and TCFD (continued)**

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

### **Results and dividends**

The Company is in the exploration phase and has not traded during the period ended 31 December 2020, so no income statement has been presented. The Directors do not recommend the payment of a dividend for the period.

### **Directors**

Janice Brown (appointed 4 June 2020)  
Susan Rivett (appointed 1 July 2021)  
Dr Michael Watts (appointed 4 June 2020)

### **Company secretary**

The Secretary of the Company as at 31 December 2020 was Nautilus Management Limited.

### **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.

### **Disclosure of information to the auditor**

Each director has taken steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditor is aware of that information. The directors confirm that there is no relevant information that they know of and of which they know the auditors are unaware.

### **Re-appointment of auditor**

In accordance with Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and Deloitte LLP will therefore continue in office.

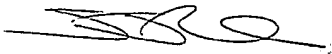
# **Pharos Energy Israel Limited**

## **Directors' report**

### **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  
22 December 2021

## **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**

## **Independent auditor's report to the members of Pharos Energy Israel Limited**

### **Report on the audit of the financial statements**

#### **Opinion**

In our opinion the financial statements of Pharos Energy Israel Limited (the 'company'):

- give a true and fair view of the state of the company's affairs as at 31 December 2020;
- have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the balance sheet;
- the statement of changes in equity; and
- the related notes 1 to 12.

The financial reporting framework that has been applied in their preparation is applicable law and international accounting standards in conformity with the requirements of the Companies Act 2006 and IFRSs as issued by the IASB.

#### **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 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, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### **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.

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 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.

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

#### **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.

## **Pharos Energy Israel Limited**

### **Independent auditor's report to the members of Pharos Energy Israel Limited**

#### **Other information (continued)**

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.

#### **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 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 company or to cease operations, or have no realistic alternative but to do so.

#### **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](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

#### **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.

We considered the nature of the company's industry and its control environment, and reviewed the company's documentation of their policies and procedures relating to fraud and compliance with laws and regulations. We also enquired of management about their own identification and assessment of the risks of irregularities.

## **Pharos Energy Israel Limited**

### **Independent auditor's report to the members of Pharos Energy Israel Limited**

#### **Extent to which the audit was considered capable of detecting irregularities, including fraud (continued)**

We obtained an understanding of the legal and regulatory frameworks that the company operates in, and identified the key laws and regulations that:

- had a direct effect on the determination of material amounts and disclosures in the financial statements. These included UK Companies Act and tax legislation; and
- do not have a direct effect on the financial statements but compliance with which may be fundamental to the company's ability to operate or to avoid a material penalty. These included the terms of the company's operating licence.

We discussed among the audit engagement team regarding the opportunities and incentives that may exist within the organisation for fraud and how and where fraud might occur in the financial statements.

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override. In addressing the risk of fraud through management override of controls, we tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluated the business rationale of any significant transactions that are unusual or outside the normal course of business.

In addition to the above, our procedures to respond to the risks identified included the following:

- reviewing financial statement disclosures by testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- enquiring of management and in-house legal counsel concerning actual and potential litigation and claims, and instances of non-compliance with laws and regulations; and
- reading minutes of meetings of those charged with governance.

#### **Report on other legal and regulatory requirements**

##### **Opinions on other matters prescribed by the Companies Act 2006**

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the directors' report has been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the directors' report.

##### **Matters on which we are required to report by exception**

Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or

## **Pharos Energy Israel Limited**

### **Independent auditor's report to the members of Pharos Energy Israel Limited**

#### **Matters on which we are required to report by exception (continued)**

- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- the directors were not entitled to take advantage of the small companies' exemption from the requirement to prepare a strategic report.

We have nothing to report in respect of these matters.

#### **Use of our report**

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.



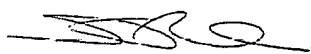
David Paterson ACA (Senior statutory auditor)  
For and on behalf of Deloitte LLP  
Statutory Auditor  
London, United Kingdom  
Date: 22 December 2021

## Pharos Energy Israel Limited

### Balance sheet as at 31 December 2020

	Notes	2020 US\$
<b>Assets</b>		
<b>Non-current assets</b>		
Intangible assets	6	<u>1,212,502</u>
		<u>1,212,502</u>
<b>Current assets</b>		
Trade and other receivables	7	<u>100</u>
		<u>100</u>
<b>Total assets</b>		<u>1,212,602</u>
<b>Current liabilities</b>		
Trade and other payables	8	<u>(1,212,502)</u>
<b>Total liabilities</b>		<u>(1,212,502)</u>
<b>Net assets</b>		<u>100</u>
<b>Equity</b>		
Called up share capital	9	100
Retained earnings		<u>-</u>
<b>Total equity</b>		<u>100</u>

These financial statements were approved by the Board of Directors on 22 December 2021.  
Signed on behalf of the Board of Directors



Susan Rivett

Company Number: 12645819

## **Pharos Energy Israel Limited**

### **Statement of changes in equity for the period ended 31 December 2020**

	<b>Share capital US\$</b>	<b>Retained earnings US\$</b>	<b>Total US\$</b>
As at 4 June 2020	-	-	-
Issue of share capital	100	-	100
As at 31 December 2020	<u>100</u>	<u>-</u>	<u>100</u>

# Pharos Energy Israel Limited

## Notes to the financial statements for the period ended 31 December 2020

### 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

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

#### **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 period 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 and in light of the above, together with the Company's results and financial position, the Directors have reasonable expectation that the Company has adequate resources to continue operations for the foreseeable future. The Company has received a letter of support 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.

The company has not traded during the period ended 31 December 2020 or entered into any cash transactions and, accordingly, has not presented an income statement or cash flow statement.

#### **Adoption of new and revised accounting standards**

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

#### **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 period ended 31 December 2020**

### **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. 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 7 and 8.

#### **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 period ended 31 December 2020

### 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 “Exploration for and Evaluation of Mineral Resources.” Note 6 discloses the carrying value of intangible exploration and evaluation assets along with details of any impairment charges that arose during the period. There were no recognised impairments in the period ended 31 December 2020.

### 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 profit and net assets for the period ended 31 December 2020 would not have been material.

#### **Interest rate risk**

The Company does not hold cash at bank or other short term highly liquid investments and is not therefore 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 period. Staff costs, including pension contributions, of all group employees who provide services to the company are borne by Pharos Energy plc.

The 2 directors who held office during the period 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 period ended 31 December 2020

#### 5. Auditor's remuneration

	2020 US\$
<i>Auditor's remuneration</i>	
Audit of these financial statements	38,400
	<u>38,400</u>

The auditor's remuneration is borne by Pharos Energy plc, the immediate parent undertaking and the cost will not be recharged to the Company.

All fees payable to the Company's auditor include amounts in respect of expenses.

#### 6. Intangible assets

	2020 US\$
<i>Exploration and evaluation expenditure</i>	
As at 4 June	-
Additions	1,212,502
	<u>1,212,502</u>
As at 31 December	<u>1,212,502</u>

During 2020, additions comprise expenditure on geoscience and geophysical studies.

#### 7. Trade and other receivables

	2020 US\$
Amounts owed by group companies (see Note 12)	100
	<u>100</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.

## Pharos Energy Israel Limited

### Notes to the financial statements for the period ended 31 December 2020

#### 8. Trade and other payables

	2020 US\$
Accruals and deferred income	1,148,626
Amounts owed to group undertakings	63,876
	<u>1,212,502</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.

#### 9. Share capital

	2020 US\$
<b>Authorised</b>	
100 ordinary shares of US\$1 each	100
	<u>100</u>
<b>Allotted, issued and called up</b>	
100 ordinary shares of US\$1 each	100
	<u>100</u>

#### 10. 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](http://www.pharos.energy).

#### 11. Capital commitments

As at 31 December 2020, the Company had exploration licence commitments not accrued of approximately \$0.4m.

#### 12. Related party transactions

Pharos Energy plc provided technical, accounting and administration services for the Company. The Company recorded costs of US\$nil relating to those services for the period. The Company has short-term receivables due from Group companies totalling US\$100, reflecting the nominal value of share capital issued at the date of incorporation. The Directors of the Company, who represent its key management and sole employees, did not receive any remuneration in respect of services provided to the Company during the period.