

LEVIATHAN BOND LTD

CONDENSED INTERIM FINANCIAL STATEMENTS AS OF SEPTEMBER 30, 2020

EXPRESSED IN US\$ THOUSANDS

UNAUDITED

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TABLE OF CONTENTS

	<u>Page</u>
Auditors' Report	1
Condensed Interim Statement of Financial Position	2
Condensed Interim Statements of Comprehensive Income	3
Condensed Interim Statements of Changes in Equity	4
Notes to the Condensed Interim Financial Statement	5-20



Auditors' Review Report to the Shareholders of Leviathan Bond Ltd

Introduction

We have reviewed the accompanying financial information of Leviathan Bond Ltd ("**Company**"), which comprises the condensed interim statements of financial position as of September 30, 2020 and the related condensed statements of comprehensive income, changes in equity for the period that start at 15 of July 2020 until 30 of September 2020. The Company's Board of Directors' and management are responsible for the preparation and presentation of Interim financial information this interim periods, in accordance with International Accounting Standard 34, "Interim Financial Reporting" ("**IAS 34**"). Our responsibility is to express a conclusion on this Interim financial information based on our review.


Scope of Review

We conducted our review in accordance with Review Standard (Israel) 2410, issued by the Institute of Certified Public Accountants in Israel, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards in Israel, and consequently accordingly does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the aforementioned interim financial information is not prepared, in all material respects, in accordance with IAS 34

Tel Aviv, November 17, 2020


**Kost, Forer, Gabbay &
Kasierer
Certified Public Accountants
(Israel)**


**Ziv Haft
Certified Public Accountants
(Israel)**

Condensed Interim Statements of Financial Position (Expressed in US\$ Thousands)

	<u>30.9.2020</u>	<u>*15.7.2020</u>
	<u>Unaudited</u>	<u>Audited</u>
Assets:		
Current Assets:		
Short term Bank deposits	4	-
Related parties	-	**
Interest receivable	16,685	-
	<u>16,689</u>	<u>**</u>
Noncurrent Assets:		
Loans to shareholders	2,247,814	-
Long term bank deposits	100,000	-
	<u>2,347,814</u>	<u>-</u>
	<u>2,364,503</u>	<u>**</u>
Liabilities and Equity:		
Current Liabilities:		
Interest payable	16,685	-
Related parties	4	-
	<u>16,689</u>	<u>-</u>
Noncurrent Liabilities:		
Bonds	2,250,000	-
Loans from shareholders	100,000	-
	<u>2,350,000</u>	<u>-</u>
Equity (Deficit)	<u>(2,186)</u>	<u>**</u>
	<u>2,364,503</u>	<u>**</u>

* Date of incorporation


** Less than \$1,000

The accompanying notes are an integral part of the financial statements.

November 17, 2020
Date of Financial Statement
Approval



Yossi Gvura,
Director



Yossi Abu,
Director

Delek and Avner (Tamar Bond) Limited
Condensed Interim Statements of Comprehensive Income (Expressed in US\$ Thousands)

	For the Period Ended 30.09.2020
	Unaudited
Financial expenses	18,873
Financial income	(16,687)
Total comprehensive expenses (income)	2,186

The accompanying notes are an integral part of the financial statements.

Leviathan Bond Limited.

Condensed Interim Statements of Changes in Equity (Deficit) (Expressed in US\$ thousands)

	The Company equity	Retained earnings	Total
	Unaudited		
For the period ended September 30, 2020:			
Balance as of July 15, 2020 (audited)	*	-	-
Total comprehensive income	-	(2,186)	(2,186)
Balance as of September 30, 2020	*	(2,186)	(2,186)

* Less than \$1,000

The accompanying notes are an integral part of the financial statements.

Leviathan Bond Ltd

Notes to the Condensed Interim Financial Statements as of September 30, 2020 (Expressed in US \$ Thousands)

Note 1 - General:

A. Delek Drilling-Limited Partnership ("**Delek Drilling**"/"**The Partnership**"), incorporated Leviathan Bond Limited ("**the Company**") on July 15, 2020. Delek Drilling holds 100% of the shares of the Company. The sole purpose of the Company is to issue bonds under Rule 144A to qualified investors and to provide the funds raised as loans, under the same conditions ("back-to-back"), to Delek Drilling (see also note 3 below).

B. The Statements of Cash Flow have not been presented, as the Company has not started its operation and as such those statements do not add any significant information.

C. The spread of COVID-19 and the possible effect thereof on the Partnership's business:

1. Further to the Offering memorandum dated August 4 2020, regarding the spread of COVID-19 and its possible impact on the Partnership's business, during Q1/2020 the international markets have recorded steep drops in the prices of oil and natural gas, which, in the Partnership's estimation, are attributable to the COVID-19 crisis, as well as additional causes and factors that affect the demand for and supply of energy products.

From mid-March 2020 until the end of Q2/2020, a drop in demand was recorded with a corresponding decrease in the sales of natural gas produced from the Leviathan reservoir (the "**Reservoir**"), relative to previous forecasts of the Partnership which were updated in July 2020. As of the date of approval of the Condensed Interim Financial Statements, the scope and duration of the COVID-19 crisis cannot be estimated, and it is therefore difficult at this stage to assess its impact on the demand and the sales from the Reservoir in the coming years.

However, it is noted that in Q3/2020 the pace of sales from the reservoir was high relative to the average pace of sales in each one of the first two quarters of 2020 (from the Leviathan Reservoir, approx. 2.25 BCM relative to the average pace of sales in each one of the first two quarters of 2020 of approx. 1.54 BCM). In the Partnership's estimation, the said increase derived, *inter alia*, from the weather conditions.

Insofar as the COVID-19 crisis endures, it may have an adverse effect on the Partnership and harm various aspects of its business, and *inter alia*, cause a decrease in the demand for energy products and a decrease in the prices of oil and natural gas in the international and domestic markets, reduce the demand for natural gas in the markets relevant to the Partnership and negatively affect the Partnership's revenues from the Reservoirs, as well as negatively affect the financial soundness of the Partnership's customers and partners.

It is noted that, as of the date of approval of the Condensed Interim Financial Statements, the operation of the reservoirs has not been adversely affected.

2. It is noted that the review report of the auditors of the control holder of the Partnership, Delek Group Ltd. (the "**Control Holder**"), which is attached to its condensed interim financial statements as of June 30, 2020, includes a "going concern" note. To the best of the Partnership's knowledge, the Control Holder of the Partnership entered into arrangements with its main creditors during the report period, and the vast majority of the Partnership's participation units held thereby are pledged in favor of its creditors. Insofar as Delek Group does not meet its liabilities, its creditors may accelerate the debts and act for disposal of the pledged participation units.

Leviathan Bond Ltd

Notes to the Condensed Interim Financial Statements as of September 30, 2020 (Expressed in US \$ Thousands)

Note 1 – General (Cont.):

It is clarified that the terms and conditions of the bonds of Leviathan Bond (see Note 3) include no stipulation pertaining to the percentage of Delek Group's holdings in the Partnership.

Note 2 - Significant Accounting Principles:

A. Declaration of Compliance with International Financial Reporting Standards ("IFRS"):

These financial statements are in full accordance with International Financial Reporting Standards.

B. Principles of Preparation of the Financial Statements:

The financial statements are in accordance with the Company's presentation currency, that is, in US Dollars. All values are rounded to the nearest thousand, unless otherwise stated. The financial statements were prepared while applying the cost principle.

C. Functional and Presentation Currency:

- 1. Functional currency:** the currency, which faithfully reflects, in the best manner possible, the economic effects of transactions, events, and circumstances, is the US Dollar.
- 2. Presentation currency:** The Company's financial statements are reported in US Dollars. Any Company transaction in a currency other than its functional currency is considered a foreign currency transaction.

D. Financial instruments:

The accounting policy that is applied with respect to financial instruments, is as follows:

1. Financial assets:

Financial assets are measured upon initial recognition at their fair value, together with transaction costs which may be directly attributed to the purchase of the financial asset, except in respect of financial assets that are measured at fair value through profit or loss, in respect of which transaction costs are carried to profit or loss.

The Company classifies and measures the debt instruments in its financial statements based on the following criteria:

- (a) The Company's business model for management of the financial assets, and
- (b) The characteristics of the contractual cash flow of the financial asset.

The Company measures debt instruments at amortized cost, when:

The Company's business model is holding the financial assets in order to collect contractual cash flows; and the contractual terms and conditions of the financial asset

Note 2 - Significant Accounting Principles (Continued):

provide entitlement on set dates to cash flows that are solely principal and interest payments for the outstanding principal amount. All other debt instruments are measured at fair value.

b) Impairment of financial assets:

The Company evaluates at the end of each reporting period the loss allowance for financial debt instruments which are not measured at fair value through profit or loss.

The Company distinguishes between two types of loss allowances:

1. Debt instruments whose credit risk has not increased significantly since initial recognition, or whose credit risk is low - the loss allowance recognized in respect of this debt instrument is measured at an amount equal to the expected credit losses within 12 months from the reporting date (12-month ECLs); or
2. Debt instruments whose credit risk has increased significantly since initial recognition, and whose credit risk is not low - the loss allowance recognized is measured at an amount equal to the expected credit losses over the instrument's remaining term (lifetime ECLs).

An impairment loss on debt instruments measured at amortized cost is recognized in profit or loss with a corresponding loss allowance that is offset from the carrying amount of the financial asset.

c) Derecognition of financial assets:

The Company derecognizes a financial asset when, and only when:

- (a) The contractual rights to the cash flows from the financial asset expired, or
- (b) The Company materially transfers all of the risks and benefits that derive from the contractual rights to receive the cash flows from the financial asset or when part of the risks and benefits upon transfer of the financial asset remain in the hands of the Company but it can be said that it transferred control over the asset, or
- (c) The Company retains the contractual rights to receive the cash flows that derive from the financial asset, but assumes a contractual obligation to pay such cash flows in full to a third party, without substantial delay.

(d) Financial liabilities:

On the date of initial recognition, the Company measures the financial liabilities at fair value, less transaction costs that can be directly attributed to the issuance of the financial liability.

Subsequently to the date of initial recognition, the Company measures all of the financial liabilities at amortized cost according to the effective interest rate method.

(e) Derecognition of financial liabilities:

An entity shall remove a financial liability (or a part of a financial liability) from its statement of financial position when, and only when, it is extinguished—ie when the obligation specified in the contract is discharged or cancelled or expires.

Leviathan Bond Ltd.

Notes to the Condensed Interim Financial Statements of September 30, 2020 (Expressed in US \$ Thousands)

Note 2 - Significant Accounting Principles (Continued):

d) Setoff of financial instruments:

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position if there is a legally enforceable right to offset the amounts recognized, and there is an intention to retire the asset and the liability on a net basis or to dispose of the asset and settle the liability simultaneously.

Note 3 - Bonds:

On August 18, 2020, the issuance of bonds that were offered by Leviathan Bond Ltd. (the “**Issuer**”), pursuant to which bonds were issued in the total amount of \$2.25 billion in accordance with Rule 144A and Regulation S, was completed.

The bonds were issued in four series (the “**Series**”), as follows:

	Par value, \$ in millions	Book value in \$ in millions	Fixed Interest Rate	Maturity
Series 1	500	496.3	5.750%	30.6.2023
Series 2	600	592.8	6.125%	30.6.2025
Series 3	600	590.5	6.500%	30.6.2027
Series 4	550	538.6	6.750%	30.6.2030
	<u>2,250</u>	<u>2,218.2</u>		

The bond principal and interest are in dollars. The interest on each one of the bond Series will be paid twice a year, on June 30 and on December 30.

On August 3, 2020, the Issuer received the approval of the Tel Aviv Stock Exchange Ltd. (“**TASE**”) for the listing of the bonds on the TACT-Institutional system of TASE (“**TACT-Institutional**”).

The full Issue proceeds were provided by the Issuer as a loan to the Partnership on terms and conditions identical to those of the bonds (back-to-back), and according to a loan agreement that was signed between the Issuer and the Partnership (the “**Loan**”).

The Loan money was used by the Partnership for repayment of loans from banking corporations in the sum of approx. \$2 billion (for details on the loans from banking corporations, see Notes 10C and 10E to the Annual Financial Statements), the deposit of a safety cushion in the sum of \$100 million in accordance with the terms and conditions of the bonds, payment of the Issue costs in the estimated sum of approx. \$30 million, and the balance of the proceeds will be used for other uses according to the terms and conditions of the Commissioner’s approval as described below (the “**Commissioner’s Approval**”).

Leviathan Bond Ltd.

Notes to the Condensed Interim Financial Statements of September 30, 2020 (Expressed in US \$ Thousands)

Note 3 – Bonds (Cont.):

To secure the bonds and the Loan, in the context of the indenture for the bonds and the other documents according to which the bonds will be issued (collectively: the “**Financing Documents**”), the Partnership has undertaken to pledge in favor of the trustee for the bonds (the “**Trustee**”), in a first-ranking fixed charge, its interests in the Leviathan project (45.34%), including its interests in the I/14 Leviathan South and I/15 Leviathan North leases (the “**Leases**”), the operating approvals of the production system and the export approvals (collectively: the “**Pledge of the Leases**”), the Partnership’s rights and the revenues from agreements for the sale of gas and condensate from the Leviathan project (the “**Gas Agreements**”), the Partnership’s rights in the joint operating agreement (JOA) for the Leases, the Partnership’s share in the project’s assets (including the platform, wells, facilities, and systems for production and transmission to shore), the Partnership’s rights in dedicated bank accounts, certain insurance policies and various licenses in connection with the Leviathan project. The Partnership shall also pledge the shares held thereby in the Issuer, in NBL Jordan Marketing Limited and in Leviathan Transportation System Ltd.

In addition, the Issuer undertook to pledge in favor of the Trustee, in a first-ranking floating charge, its rights in all of its existing and future assets and will pledge in favor of the Trustee its rights in the loan agreement and in its bank accounts (collectively: the “**Pledges**” and the “**Pledged Assets**”, as the case may be).

According to the Financing Documents, the Partnership’s undertakings to the Trustee and the bondholders are limited to the Pledged Assets, with no guarantee or additional collateral.

It is noted that the Pledges that the Partnership shall create in favor of the Trustee are subject, *inter alia*, to the State’s royalties according to the Petroleum Law and to the rights of the parties entitled to royalties in respect of the Partnership’s revenues from the Leviathan project, including the holder of the controlling interest in the Partnership.

As is standard in financing transactions of this type, in the Financing Documents the Partnership assumed stipulations, restrictions, covenants and grounds for acceleration of the bonds and enforcement of the Pledges that include, *inter alia*, the following undertakings:

Leviathan Bond Ltd.

Notes to the Condensed Interim Financial Statements of September 30, 2020 (Expressed in US \$ Thousands)

Note 3 – Bonds (Cont.):

The Partnership and the Issuer, as the case may be, undertook, *inter alia*, to fulfill undertakings and conditions that were determined in government licenses and approvals, including in relation to the operator of the project, and including the conditions of the Commissioner’s Approval; to fulfill the terms and conditions of the Leases and the JOA (jointly: the “**Leviathan Agreements**”); to protect their rights in the Pledged Assets and to ensure the validity of the Pledges and the rights of the Trustee and the holders according thereto; not to change or discontinue the Issuer’s activity, and not to change the incorporation documents of the Issuer; not to create additional pledges on the Pledged Assets (aside from certain exceptions); to fulfill the provisions of the law that apply to their activity; to pay the taxes that apply thereto; to give the Trustee and the holders certain reports, notices and information that were specified; to act to maintain the listing of the bonds on TACT-Institutional; to act for the continued proper operation of the Leviathan project in accordance with the Leviathan Agreements; to take any action possible under the JOA so as to ensure that the operator fulfills its undertakings according to the JOA; to make all of the payments that apply thereto and to bear all of the Trustee’s expenses that apply thereto according to the Financing Documents; to purchase and maintain certain insurance policies; to refrain from modifying or amending the Leviathan Agreements or material Gas Agreements, as defined in the Financing Documents (“**Material Gas Agreements**”), or the royalty agreements or engage in a new royalty agreement; to refrain from approval of certain acts in the context of the JOA; etc.

The Issuer undertook not to take additional financial debt, with the exception of the issue of additional bonds or other secured debt *pari passu*, subject to conditions that were specified, including (i) the sum of the secured debt of the Issuer (including the bonds) does not exceed, at any time, \$2.5 billion; (ii) certain financial ratios that were specified in the Financing Documents are maintained.

In addition, the Partnership undertook not to take any additional financial debt which is secured by the Pledged Assets, with the exception of an additional loan that it shall receive from the Issuer on terms and conditions back-to-back to additional debt that the Issuer shall raise subject to the restrictions set forth therefor in the Financing Documents.

The Partnership undertook not to make any merger transaction or change its business in a manner which would likely cause an MAE, or enter dissolution proceedings or other defined restructurings, and not to sell, transfer, pledge or make any other disposition of all or substantially all of its assets, other than permitted transactions, as defined in the Financing Documents, including sale of interests in the Leviathan project subject to mandatory early redemption or a tender offer to the bondholders in certain cases, or permitted restructurings, as defined, including a transfer of the Partnership’s interests in the Leviathan project to a new subsidiary and/or other actions, including the outline under consideration for a split of the Partnership’s assets, provided that the holders’ rights are not prejudiced by such actions and additional terms and conditions as defined.

In addition, provisions were determined regarding early redemption of the bonds, including (1) early redemption at the Issuer’s initiative, subject to payment of a Make Whole premium, and (2) mandatory early redemption in certain cases that were defined, including by way of a buyback of the bonds and/or performance of a tender offer to all the bondholders, including upon a sale of all or some of the interests in the Leviathan project.

Leviathan Bond Ltd.

Notes to the Condensed Interim Financial Statements of September 30, 2020 (Expressed in US \$ Thousands)

Note 3 – Bonds (Cont.):

The Issuer and the Partnership undertook that if a tax withholding duty shall apply to the payments due under the terms and conditions of the bonds to a foreign resident then, subject to certain exceptions as defined, the Issuer and/or the Partnership, as the case may be, shall pay additional amounts as required for the net amounts to be received by the foreign resident to be equal to the amounts such foreign resident would have received, but for the withholding tax duty. In this context, it is noted that on July 27, 2020 the Partnership received a ruling from the Tax Authority stating, *inter alia*, that the bonds to be traded on the TACT-Institutional system of the TASE are bonds traded on a stock exchange in Israel for purposes of Section 9(15D) of the Income Tax Ordinance (for purposes of exemption from tax on interest paid to a foreign resident on bonds traded on the stock exchange), and Section 97(B2) of the Ordinance (for purposes of exemption from tax for a foreign resident on capital gains in the sale of the bonds traded on the stock exchange), all subject to the terms and conditions specified in the Tax Authority's ruling and the provisions of the Income Tax Ordinance and the regulations promulgated thereunder.

The Financing Documents include a payment waterfall mechanism, whereby the Partnership's entire revenues from the Leviathan project is transferred to an account that is pledged in favor of the Trustee (the "**Revenues Account**"), which is used to make various payments in connection with the project and the bonds, including payment of royalties to the State and to the royalty interests owners; payments to the Trustee; taxes and the levy under the Taxation of Profits from Natural Resources Law, 5771-2011 (in this section: the "**Law**"); capital expenses and operating expenses in connection with the Leviathan project; principal and interest payments; deposits into safety cushions; and balancing payments in connection with tax payments under Section 19 of the Law. The transfer of the amounts remaining in the Revenues Account after the making of the said payments to a non-pledged account of the Partnership is subject to conditions determined, including fulfillment of an NPV Coverage Ratio of at least 1.5¹.

The Financing Documents define Events of Default, upon occurrence of which, subject to certain determined curing periods, exceptions and conditions, the Trustee for the bonds shall be entitled (or required – upon the demand of one quarter of the bondholders) to accelerate the outstanding balance of the bonds and shall be entitled to act to enforce the Pledges.

¹ The NPV Coverage Ratio was defined as the ratio between the net current value of the discounted cash flow expected from proved and probable (2P) reserves, at a cap rate of 10%, from the Partnership's interests in the Leviathan project (the "**Discounted Cash Flow**"), and the debt balance net of cash accrued in the accounts as of the measurement date. According to the Financing Documents, the Discounted Cash Flow shall be calculated according to the same assumptions to be used by the Partnership in the resource reports to be released thereby under the provisions of the Securities Law, other than assumptions on the Brent barrel price, which shall be based on the prices of futures traded on ICE, as defined in the Financing Documents.

Leviathan Bond Ltd.

Notes to the Condensed Interim Financial Statements of September 30, 2020 (Expressed in US \$ Thousands)

Note 3 – Bonds (Cont.):

The main events are as follows: (1) Default on payment of principal, interest or other payments mandated by the Financing Documents; (2) Breach of representations; (3) Breach of the Covenants or Negative Covenants determined in the Financing Documents; (4) An event or entry into proceedings for insolvency of the Issuer, and an insolvency event as aforesaid or of a party to a Material Gas Agreement (as defined in the Financing Documents), the operator in the Leviathan project or the Partnership, if likely to cause an MAE (as defined in the agreement), subject to certain conditions and qualifications; (5) premature termination of any of the Leviathan Agreements or Material Gas Agreements, if likely to cause an MAE, subject to certain conditions and qualifications; (6) If a party to a Material Gas Agreement breaches the agreement with a likely MAE, subject to certain conditions and qualifications; (7) In the event of abandonment or cessation of the Leviathan project operations for more than 15 consecutive days, if likely to cause an MAE; (8) If damage is caused to the Leviathan project (including physical damage, revocation of license or transfer of the Partnership's rights therein by a government authority), with a likely MAE, which was not cured; (9) In the event of denial or revocation of a government approval granted in connection with the Leviathan project, with a likely MAE; (10) If any of the Financing Documents to which the Issuer or the Partnership are a party, or pledges provided under the Financing Documents, with an aggregate value of more than \$35 million, cease to be in effect; (11) If a non-appealable judgment is issued against the Issuer for payment of an amount in excess of \$35 million which was not paid; (12) If there is a breach of an undertaking in an agreement for the provision of other *pari passu* secured debt of the Issuer worth over \$35 million; (13) If an undertaking to perform mandatory early redemption is breached; (14) If the provisions regarding expenditures from the Revenues Account are breached; etc.

The bonds were rated by international rating agencies and an Israeli rating agency.

On August 3, 2020, the Commissioner's Approval was received for the Pledge of the Leases in favor of the Trustee, for the bondholders. The Commissioner's Approval provides that, *inter alia*, the pledge is given to secure payment of the bonds whose proceeds are intended for the granting of credit to the Partnership in the sum of up to \$2.5 billion in total, for payment of the Existing Loans in the sum of approx. \$2 billion, the deposit of a safety cushion in the sum of \$100 million, investments in the Leviathan project only and the financing of the construction of a pipeline for the export of gas from the Leviathan and Tamar reservoirs.

It is noted that as of the date of the condensed interim financial statements the cash in the Revenue account amounted to approx. \$52.7 million USD\$.

Note 4 - Other Information regarding Ratio Yam Joint Venture ("Leviathan" Leaseholds):

A. Further to the information included in an Offering Memorandum dated August 4 2020 ("**the Offering Memorandum**"), with respect to the gradual ramp-up of the production capacity from the Leviathan project (100%) up to approx. 1,200 MMCF per day by putting the turbo expanders into action, it is noted that on October 26, 2020, the approval of the Ministry of Energy was received for the running-in of the turbo expander systems, subject to certain conditions. As of the date of approval of the Condensed Interim Financial Statements, the total production capacity from the Leviathan project is approx. 1,160 MMCF per day (100%), and in accordance with the approval of the Ministry of Energy, the running-in of the turbo expander systems has begun is expected to begin [sic] during Q4/2020. In the estimation of Noble Energy Mediterranean Ltd. ("**Noble**"), upon completion of the running-in of the systems as aforesaid, the operation thereof is expected to begin during Q1/2021, subject to receipt of the approval of the Ministry of Energy.

Leviathan Bond Ltd.

Notes to the Condensed Interim Financial Statements of September 30, 2020 (Expressed in US \$ Thousands)

Note 4 - Other Information regarding Ratio Yam Joint Venture ("Leviathan" Leaseholds)

(Continued):

- B. Further to the Offering Memorandum, the establishment of the condensate storage system at the Hagit site has been completed, and upon receipt of all the permits required for its operation, the said storage system will be put into action.
- C. On November 10, 2020, maintenance work on the Leviathan platform was completed on schedule after around five days, during which the piping of gas from the Leviathan platform was halted.
- D. In July 2020, a report on evaluation of reserves and contingent resources in the Leviathan leases was received from Netherland Sewell & Associates Inc. ("NSAI"), according to the SPE-PRMS guidelines, updated as of June 30, 2020. According to the report, the total quantity of resources is estimated at approx. 646.1 BCM and approx. 40.9 million barrels, and is divided into categories of resources classified as reserves and resources classified as contingent.

The quantity of Proved Developed Producing reserves is approx. 322.2 BCM and the quantity of Proved + Probable reserves is approx. 376.1 BCM.

In addition, the Proved Developed Producing condensate reserves are approx. 20.4 million barrels, and the quantity of Proved + Probable reserves is approx. 23.9 million barrels.

In the contingent resource report, the contingent resources were divided into two categories, which relate to each of the phases of development of the reservoir, as follows:

Phase 1A (Phase I - First Stage) – contingent resources which are classified at the Development Pending stage. These resources are contingent on decisions to drill additional wells, on the construction of related infrastructures and on the signing of additional agreements for the sale of natural gas.

Future Development – resources contingent on the adoption of another investment decision, in accordance with Phase 1B of the development plan and with an additional stage (insofar as the development plan is updated) and on the signing of additional agreements for the sale of natural gas, range between approx. 379.6 BCM (the high estimate) and approx. 155.6 BCM (the low estimate) and the contingent resources of condensate range between approx. 24.1 million barrels (the high estimate) and approx. 9.9 million barrels (the low estimate).

The above appraisals regarding the reserves of natural gas, condensate, and contingent and prospective resources of natural gas and oil in the rights of the Partnership in the leases, licenses and franchise for oil and gas exploration are based, *inter alia*, on geological, geophysical, engineering and other information received from the wells and from the Operator in the said rights. The above appraisals constitute professional hypotheses and appraisals of NSAI, which are uncertain. The quantities of natural gas and/or condensate that will actually be produced may be different to the said appraisals and hypotheses, *inter alia* as a result of operating and technical conditions and/or regulatory changes and/or supply and demand conditions in the natural gas and/or condensate market and/or commercial terms and/or the actual performance of the reservoirs. The above appraisals and hypotheses may be updated insofar as additional information accrues and/or as a result of a gamut of factors relating to the oil and natural gas exploration and production projects.

Leviathan Bond Ltd.

Notes to the Condensed Interim Financial Statements of September 30, 2020 (Expressed in US \$ Thousands)

**Note 4 - Other Information regarding Ratio Yam Joint Venture ("Leviathan" Leaseholds)
(Continued):**

- E. On September 23, 2020, an agreement for the supply of natural gas was signed between the Leviathan partners and Ramat Hovav Power Plant – Limited Partnership (the “**Buyer**”), whereby the Buyer would purchase natural gas from the Leviathan partners for the purpose of operating the Buyer’s facilities in the power plant at the Ramat Hovav site (the “**Supply Agreement**”). To the best of the Partnership’s knowledge, the Buyer is a partnership owned by Edeltech Group and Shikun & Binui, which was declared the winner of a tender issued by Israel Electric Corporation Ltd. for the sale of the Ramat Hovav power plant.

The term of the Supply Agreement shall commence on the date of signing of the Supply Agreement (with actual supply scheduled to commence in early December 2020) and shall end upon the earlier of:

- (a) 30 months after the aforesaid signing date; and (b) the date of commercial operation of the gas reservoirs in the I/16 “Tanin” and I/17 “Karish” leases.

The taking effect of the Supply Agreement is contingent on approval by the banks that finance the Buyer’s operations and on the transfer of the Ramat Hovav power plant to the Buyer.

The Buyer is expected to buy from the Leviathan partners natural gas in the total volume of approx. 1.3 BCM. The Buyer has undertaken to buy or pay for (“Take or Pay”) a minimum annual quantity of gas in the volume and in accordance with the mechanism as specified in the Supply Agreement. The Supply Agreement provides that the gas price shall not be linked to any index.

- F. On May 3, 2020, an agreement for the supply of natural gas was signed between the Partnership, Noble, Delek Group Ltd. and Ratio Oil Exploration (1992), Limited Partnership (“**Ratio**”) (the “**Agreement**”), under which the supply of gas to customers that had signed earlier agreements with each of the Yam Tethys partners will be carried out from the Leviathan reservoir. Accordingly, the Yam Tethys partners that are Leviathan partners (i.e., the Partnership and Noble) will take from the gas available to them (according to the rate of their holdings in Yam Tethys) whereas the remainder of the gas required to be supplied by each of the Yam Tethys partners will be purchased from Ratio according to the consideration determined in such Agreement, which is the average monthly price determined in the agreements signed between the Leviathan partners and their customers in the domestic market.
- G. In the report period, the Partnership signed several more agreements for the sale of natural gas with various customers in the Israeli market, from the Leviathan project, for non-material volumes.

Leviathan Bond Ltd.

Notes to the Condensed Interim Financial Statements of September 30, 2020 (Expressed in US \$ Thousands)

Note 4 - Other Information regarding Ratio Yam Joint Venture ("Leviathan" Leaseholds)

(Continued):

H. Since the date of commencement of the gas supply from the Leviathan reservoir, the Leviathan partners have been paying the State advance payments on account of the State's royalties in respect of revenues from the Leviathan project at a rate of 11.26% according to a demand letter received from the Ministry of Energy in January 2020. It is noted that the position of the Partnership is that the calculation of the actual rate of the State's royalties for income from the Leviathan project should reflect the complexity of the project, the risks involved therein and the size of investments in the project. According to a calculation based on the principles of the "English formula", which is based, *inter alia*, on the principles of the directives stated in Section M below and on the agreement signed with the State in the Yam Tethys project, the actual rate of royalties to the State, on which the Partnership was based in its financial statements, is 10.93%.

I. During October 2020, the draft Income Tax Regulations (Rules for the Calculation of Tax due to the Holding and Sale of Participation Units in Oil Exploration Partnerships) (Amendment), 5781-2020 (the "**Draft Regulations**"), were published for public comment.

According to the Draft Regulations, it is proposed to determine, *inter alia*, that from the tax year 2021, oil partnerships whose units are listed on TASE will be taxed as a company, using the two-stage method, from the tax year in which it generated taxable income or distributed profits.

As of the date of release of these statements, the Partnership is examining the potential implications of the Draft Regulations on its operations. In accordance with the Partnership's initial estimate according to the data as of the date of the statement, approval of the Draft Regulations in the current format thereof may create for the Partnership, *inter alia*, a one-time accounting obligation to record a reserve for deferred taxes in the sum of approx. \$240 million (out of total equity of approx. \$1,007 million as of September 30, 2020) which will affect the Partnership's results and reduce its distributable profits, and later, to record current and deferred tax expenses on an ongoing basis.

It is noted that on November 4, 2020, the Partnership submitted its comments on the Draft Regulations to the Tax Authority.

J. Further to the Offering Memorandum regarding an appeal that was filed by some of the Tamar partners (in this section, the "**Appellants**") with the Supreme Court from the judgment of the Tel Aviv District Court which denies the administrative petition that they filed against the IEC and the Leviathan partners in connection with the election of the Leviathan partners' bid as the winner of the competitive process for the supply of natural gas to the IEC (in this section, the "**Appeal**"). On April 23, 2020 the Leviathan partners and the IEC filed the summary of their arguments and the Appellants filed the responding summations on May 7, 2020.

A hearing on the appeal was held on May 21, 2020, in the context of which the parties notified the Court that advanced negotiations are being held between them towards a settlement and at the request of the parties, the Court decided to grant an extension in order to reach agreements, and ruled that insofar as the parties do not reach an agreement, a judgment shall be issued thereby.

Leviathan Bond Ltd.

Notes to the Condensed Interim Financial Statements of September 30, 2020 (Expressed in US \$ Thousands)

Note 4 - Other Information regarding Ratio Yam Joint Venture ("Leviathan" Leaseholds)

(Continued):

The Court further ruled that if an agreement will not be reached, a judgment shall be issued, based on the written summations, without supplemental oral arguments. On August 24, 2020, the Supreme Court's judgment was issued, according to which the appeal was denied.

- K. Further to the Offering Memorandum regarding the intention of the Ministry of Environmental Protection (in this section: the "**Ministry**") to impose administrative financial penalties on the operator of the Leviathan project for alleged noncompliance with the conditions of the platform's sea discharge permit, on April 27, 2020, the operator of the Leviathan project received a notice from the Ministry of the intention to impose four administrative financial penalties for alleged violations of the Prevention of Sea Pollution from Land-Based Sources Law, 5748-1988 and the sea discharge permit granted to the Leviathan platform, with some of the alleged violations relating to the running-in period. On July 26, 2020, Noble submitted written arguments in response to the notice regarding the intention to impose a penalty. On November 12, 2020, the Ministry announced its decision to cancel two of the four penalties which the Ministry had intended to impose on the Leviathan partners, and to partially reduce the amount of the remaining two penalties.

On May 20, 2020, the operator of the Leviathan project received a notice from the Ministry of the intention to impose an administrative financial penalty for alleged violations of the emission permit granted to the Leviathan platform and the Clean Air Law, 5768-2008 and the Commissioner's order issued thereunder in relation to the ongoing monitoring systems on the Leviathan platform.

The operator requested information about the claims made in the said penalty notice, due to which the date for filing of the arguments was deferred for 30 days after receipt of the information. Furthermore, on July 1, 2020, the operator received another notice from the Ministry of the intention to impose a financial penalty, for alleged violations of the conditions of the emission permit of the Leviathan platform and of the provisions of the Clean Air Law, with respect to the activation of flares on the production platform. On August 16, 2020, Noble filed with the Ministry its arguments regarding the aforesaid penalty. As of the date of approval of the Condensed Interim Financial Statements, the decision of the Ministry on the matter has yet to be received.

- L. Further to the Offering Memorandum regarding a class action and a motion for the certification thereof as a class action suit against the Partnership and against Noble and against the other holders of the Tamar project and the Leviathan project (as parties against which no remedy is sought), in connection with the competitive process for the supply of natural gas conducted by IEC and in connection with a possible amendment to the agreement for the supply of gas from the Tamar project to IEC, as agreed by the other holders of the Tamar project, with no involvement on the part of the Partnership and Noble, it is noted that according to the court's decision of September 14, 2020, all of the respondents are required to file their responses to the certification motion by December 15, 2020. In the Partnership's estimation, based on the opinion of its legal counsel, the chances of the certification motion's being granted are lower than 50%.

Leviathan Bond Ltd.

Notes to the Condensed Interim Financial Statements of September 30, 2020 (Expressed in US \$ Thousands)

Note 4 - Other Information regarding Ratio Yam Joint Venture ("Leviathan" Leaseholds)

(Continued):

- M. Further to the Offering Memorandum, regarding an appeal of the Homeland Guards association (the "**Petitioner**") to the Supreme Court from the District Court's judgment in connection with the emission permit for the Leviathan platform, the Supreme Court scheduled the appeal for a hearing on March 18, 2021, and on October 26, 2020, the Petitioner filed summations and Noble's summations are due by January 27, 2021. In the estimation of the Partnership's legal counsel, the chances of the appeal's being dismissed are greater than its chances of being granted.
- N. Further to the Offering Memorandum, regarding the judgment at the District Court denying the petition which was filed by the Zichron Yaakov Local Council, Zalul Environmental Association, the Jisr az-Zarqa Local Council, the Megiddo Regional Council, the Pardes Hanna-Karkur Local Council and the Hefer Valley Regional Council (in this section: the "**Petition**" and the "**Judgment**") against the Head of the Air Quality Division at the Ministry of Environmental Protection and against Noble in a motion moving the court to order the nullity of Leviathan's emission permit, and to rule that no activity entailing the emission of gases shall be carried out on the Leviathan platform. It is noted that on June 22, 2020, an appeal was filed from the Judgment with the Supreme Court (in this section: the "**Appeal**"). The Appeal seeks amendment of the emission permit and an order that monitoring of the pollutants emitted from the platform not be performed by Noble or an entity with which it has engaged, but rather by the Head of the Air Quality Division at the Ministry of Environmental Protection or an entity chosen by him; as well as amendment of the emission permit such that all of the instructions pertaining to maintenance, environmental management, environmental protection and identification and handling of leaks shall be determined in the emission permit itself and not in an external plan. The Appeal is pending before the Supreme Court, and meanwhile a hearing was scheduled for June 30, 2021. It is noted that in November 2020, the petitioners filed a motion to bring the hearing forward, and that no decision has yet been issued on the motion.
- The Partnership's legal counsel estimate that the chances of the Appeal being denied are greater than its chances of being granted.
- O. On October 5, 2020, Chevron Corporation ("**Chevron**") announced the closing of a merger transaction, according to which Noble Energy International Inc., Noble's parent company, is a wholly owned company of Chevron.

Leviathan Bond Ltd.

Notes to the Condensed Interim Financial Statements of September 30, 2020 (Expressed in US \$ Thousands)

Note 4 - Other Information regarding Ratio Yam Joint Venture ("Leviathan" Leaseholds)

(Continued):

- P. Further to the Offering Memorandum regarding amendments to the agreement with Israel Electric Corp. Ltd. ("IEC"), which were proposed in the course of 2019 by the Partnership and some of the Tamar partners, on April 13, 2020, a notice was released by representatives of the Ministry of Energy, the Economic Unit at the Department of Counseling and Legislation at the Ministry of Justice, the Ministry of Finance and the Competition Authority (the "**Regulators**"), whereby, *inter alia*, the Tamar partners have been given a short period of time to amend the arrangements that apply between them in a manner which shall ensure that the Partnership, Noble and Isramco Negev 2 - Limited Partnership do not hold a right to veto decisions on the marketing of natural gas from the Tamar reservoir.

On May 27, 2020, the partners in the Tamar project submitted for the Regulators' approval agreed principles for joint marketing from the Tamar reservoir (the "**Principles**"), which determine that the partners in the Tamar reservoir will continue the joint marketing of natural gas from the Tamar reservoir. The Principles include various arrangements and mechanisms in connection with securing the parties' interests and improvement of the competitive position of the Tamar reservoir in the marketing of natural gas to customers in the domestic market. Such arrangements and mechanisms determine, *inter alia*, the manner of and parameters for the conduct of negotiations with customers in the domestic market on certain commercial matters pertaining to price, price linkage and Take or Pay levels standard in the domestic market, with no participation on the part of the partners in the reservoir that hold other producing petroleum assets, as well as the parameters and conditions for engagements with customers in the domestic market in agreements for the sale of natural gas.

Further to the aforesaid, the Tamar Partners held discussions between them and with the Regulators in connection with an update to the Principles. In this context, on September 6, 2020, a notice was received from the Competition Authority, whereby, *inter alia*, the Partnership's holding of the right and power to prevent the other holders of the Tamar reservoir from making decisions or taking actions for the marketing of gas from the Tamar reservoir contrary to the terms and conditions of the "decision pursuant to Section 14 of the Restrictive Trade Practices Law, 5748-1988 regarding the granting of an exemption from approval of a restrictive arrangement – agreement between Delek Group and Isramco Negev 2, Noble Energy and others" of August 22, 2006, is a violation of the provisions of Section 4 of the Economic Competition Law, 5748-1988, and therefore the Partnership is required to act within one month to nullify the veto right held thereby. Until the date of nullification of the veto right, the Partnership may hold its rights as being until today and make new contracts, although in the conduct of negotiations for contracts in the said period, the Partnership shall not exercise its veto right alone. To the best of the Partnership's knowledge, a similar notice was also received by Isramco Negev 2.

The opinion of the Deputy Attorney General (economic law) was also released regarding Noble's veto right in the Tamar reservoir, according to which each one of the holders of the Tamar reservoir holds a veto right, including Noble, which is entitled to hold such veto right until the date of the sale of holdings in the Tamar reservoir to a third party that is not affiliated with the Partnership or Noble, or until December 17, 2021, whichever is earlier.

Leviathan Bond Ltd.

Notes to the Condensed Interim Financial Statements of September 30, 2020 (Expressed in US \$ Thousands)

Note 4 - Other Information regarding Ratio Yam Joint Venture ("Leviathan" Leaseholds)

(Continued):

It is noted that on October 13, 2020, the Partnership notified the Competition Authority as follows:

1. The Partnership will not object alone to decisions or acts regarding the marketing of natural gas to be produced from Tamar. The Partnership, in its own independent decision, will be able to join, *ad hoc*, a consent or refusal of one of the partners with respect to a decision or act in the Tamar project, provided that such joining is not made under a framework agreement, an agreed collaboration or for consideration. It is further clarified that the Partnership will not be able to join a demand of a Tamar partner to receive a price which is higher than the other partners for marketing its share in Tamar.
2. The Partnership will not be able to demand or receive compensation (in advance or post factum) for its consent to a decision or act for gas marketing, whether the demand is made thereby or made by another. Even if there is a decision, in the context of which a partner receives compensation, the Partnership will neither be able to demand such compensation, nor condition its consent to an act or decision by demanding such compensation.

It is noted that the Partnership, as well as each one of the partners in the Tamar reservoir, has the right, pursuant to the Joint Operation Agreement (JOA) to notify the other partners, at any time, of its wish to transition to a mechanism of separate marketing of natural gas from the reservoir. In view of the above and further to the aforesaid, the Partnership contacted the other partners in a request to start, as soon as practicable, with discussions for formulating principles for separate marketing of natural gas from the Tamar reservoir, in accordance with the mechanisms set forth in the JOA. As of the date of approval of the Condensed Interim Financial Statements, the Tamar partners have not yet reached agreements on the matter.

In this context, on October 4, 2020, some of the Tamar partners notified the Partnership and Noble that they had signed a supplement to the agreement for the supply of natural gas from the Tamar reservoir to the IEC (the "**Supplement to the Tamar Agreement**" or the "**Agreement**"), and that the Partnership and Noble were being given the possibility of joining the Supplement to the Tamar Agreement within 60 days from the date of the signing thereof. It is clarified that it is the Partnership's position, based on its legal counsel, that the Agreement does not constitute a supplement to or part of the agreement for the supply of natural gas from the Tamar reservoir to the IEC, but rather a new agreement that constitutes a breach of the agreement for the supply of natural gas from the Leviathan reservoir to the IEC. Accordingly, the Partnership and Noble have informed the other partners that they will not be joining the Agreement.

It is noted that it is the Partnership's position, based on its legal counsel, as of the date of approval of the Condensed Interim Financial Statements, that the IEC is acting in breach of the agreement for the supply of natural gas from the Leviathan reservoir to the IEC.

It is noted that the Partnership is exploring the legal and commercial options with respect to the said agreement and their potential impact. As of the date of approval of the Condensed Interim Financial Statements, the parties have not yet reached agreements on the matter. In this context it is noted that on October 22, 2020, a demand was received at the Partnership's offices from the Competition Authority for information and documents in connection with the said agreement.

Note 5 - Related Parties:

As part of the issuance of bond as stated in note 3, Delek Drilling will reimburse the Company for all costs paid and payable by the Company with respect to the bonds, including fees, commissions and any other expenses related to the operation of the Company (preparing financial statements, registration fees, filing fees, etc.).

Note 6 - Equity:

As of the date of its establishment and as of the statement date, the Company's issued and paid-up capital is 1,000 NIS.

FORM OF SPONSOR FINANCIAL DATA REPORT

		Quarter Ended
		30.09.2020
	<u>Item</u>	<u>Quantity/Actual Amount (in USD\$,000)</u>
A.	Total Offtake (BCM)	2.3 ¹
B.	Leviathan Revenues	399,114 ²
C.	Loss Proceeds, if any, paid to Revenue Account	-
D.	Sponsor Deposits, if any, into Revenue Account	-
E.	Gross Revenues (before Royalties)	69,027 ³
F.	Overriding Royalties	
	(a) Statutory Royalties	(11,860)
	(b) Third Party Royalties	(4,474)
G.	Net Revenues	52,693
H.	<u>Costs and Expenses:</u>	
	(a) Fees Under the Financing Documents (Interest Income)	1
	(b) Taxes	-
	(c) Operation and Maintenance Expenses	- ⁴
	(d) Capital Expenditures	- ⁵
	(e) Insurance	-
I.	Total Costs and Expenses (sum of Items H(a), (b), (c), (d) and (e))	52,694
J.	Total Cash Flows Available for Debt Service (Item G <i>minus</i> Item H)	52,694
K.	Total Cash Flow from operation (Item G minus Items H(c) and H(e))	52,693
L.	Total Debt Service	-
M.	Total Distribution to the Sponsor	-

¹ Gas sales from July 1st 2020 until September 30th 2020 for 100% of the Leviathan partners on an accrual basis.

² Gas sales from July 1st 2020 until September 30th 2020 for 100% of the Leviathan partners on an accrual basis.

³ Section C-M are based on Delek Drilling Share in Leviathan (45.34%) and on actual cash flow of the Sponsor Accounts as part of the Leviathan Bond indenture from the Issuance Date (August 18, 2020) until September 30, 2020

⁴ As of the Issuance Date (August 18, 2020) until September 30, 2020 a sum of 12,946\$ USD Thousands was paid by the Sponsor from its own sources.

⁵ As of the Issuance Date (August 18, 2020) until September 30, 2020 a sum of 13,689\$ USD Thousands was paid by the Sponsor from its own sources.